



Dairy All-Party Parliamentary Group

Inquiry Report

Supporting the Future of UK Dairy Exports

June 2019

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The Dairy All-Party Parliamentary Group

The Dairy All-Party Parliamentary Group is a cross-party group of MPs and Peers which aims to provide a forum for parliamentarians to discuss issues of interest for the dairy industry and ensure parliamentarians are fully briefed on developments in the dairy supply chain.

All-Party Groups are informal, cross-party, interest groups that have no official status within parliament and are not accorded any powers or funding by it.

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Dairy UK and the Royal Association of British Dairy Farmers act as the APPG's secretariat. The views expressed in this report are solely those of the APPG.

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Foreword

I was elected as Chair of the Dairy All-Party Parliamentary Group in 2018 and am delighted to be overseeing the publication of my first inquiry report as Chair of this group, looking at the export prospects for the dairy industry, post-Brexit.

As the biggest agricultural sector in the UK, a thriving and successful dairy industry is essential to our national prosperity. I know this first-hand; the dairy industry is part of the lifeblood of the local economy and the community in my constituency in North Cornwall. It's therefore in the interests of all to ensure that our domestic dairy industry remains prosperous and well-placed to export its products once we leave the EU.

Through the inquiry we sought to gather evidence from across the entire supply chain, from farmers through to processors, to representatives of the Government itself. The evidence sessions allowed both APPG members and myself the opportunity to meet business leaders and experts from the field of dairy, to have open and honest discussions about the future of the industry in a changing market, and the measures they'd like to see from Government to support their export strategies.

The evidence presented to the APPG broadly organised itself into five key areas; tariffs on trade, the continuity of our food standards, the export certification process and the current shortage of vets, our exporting potential and building relationships in new markets. Using the evidence received, we have formulated a set of recommendations. The Dairy APPG will put these to Government, to try and help direct effective support and the right resources to the dairy sector, to support and protect our export potential.

Like many other sectors, the dairy industry will face both challenges and changes as a result of leaving the EU. Of course these are not to be underplayed, but I was heartened to learn of the resilience and opportunity the dairy industry has. With the right support our dairy industry can continue to produce and export some of the world's favourite dairy foods, and expand its reach to consumers in new and growing markets elsewhere.

Both the members of the Dairy APPG and I would like to give thanks to the business representatives and experts who were generous in providing both their time and guidance to us as part of this inquiry.



Scott Mann MP

Chairman

Dairy All-Party Parliamentary Group



Scott Mann
Member of Parliament
North Cornwall

Executive Summary

The dairy industry is enormously important to the UK. Dairy farms are a vital part of our rural landscape and are a cornerstone of local communities, economies and prosperity. Dairy processors provide vital contribution to the national economy and in delivering safe and nutritious dairy products to consumers.

Not only is the dairy industry central to our economy, but it also provides many of our most cherished foods. The popularity of dairy and its role as a household staple is demonstrated by the fact that 96% of UK adults use milk of some kind¹. The popularity of dairy extends beyond liquid milk, with 78% of adults eating spoonable yogurt or fromage frais² and a staggering 94% of UK adults consuming cheese³.

Given the importance of the dairy industry in the UK it is vital to ensure the industry is supported before and after leaving EU membership. Exports are an important part of the UK dairy market, with many businesses operating detailed long-term export strategies to increase their share of trade outside the UK market.

UK dairy exporters have built a strong and successful trading relationship with the EU in the last few decades. Whilst they hope this relationship will be maintained post-Brexit, there is also the potential to look at expanding into new markets further afield, provided the right economic and trading conditions are in place.

Whilst there are opportunities, there are also a number of challenges the industry faces. The success of the sector in growing its export potential will rely on the successful management of these threats and opportunities, which will require Government support to address.

The Dairy APPG has with this inquiry sought evidence from industry on exports, looking to our future after EU membership to ask what support the sector requires to export post-Brexit, or even to increase it.

The evidence presented to the Dairy APPG highlighted five key areas of concern for dairy exporter's post-Brexit; tariffs on trade; continuity of standards; the animal health certification process and veterinary shortages; UK exporting potential and relationship building with new markets. The Dairy APPG have put forward a number of recommendations to Government, which would support the sector to export in the future.

¹ Mintel: Added Value in Dairy Drinks, Milk & Cream UK – May 2017

² Mintel: Yogurt & Yogurt Drinks – UK July 2017

³ Mintel: Cheese- UK - October 2016

Recommendations

The Dairy APPG, on the basis of evidence presented as part of this inquiry, would like to present the following recommendations to Government, to help support the dairy sector export its products:

- To maintain the current continuity and terms of trade with the EU, as far as is possible, avoiding the application of EU tariffs on UK dairy products;
- To seek interim trade arrangements with our non-EU trading partners, whilst pursuing full Free Trade Agreements;
- To gain listing as an importer to the EU27 market;
- To create an information system for industry to determine appropriate tariffs between the UK and its export markets;
- To ensure trade can continue between the Republic of Ireland and Northern Ireland unhindered;
- To ensure the continuity and protection of our animal welfare and farming standards;
- To ensure UK agricultural policy supports the productivity and competitiveness of the dairy sector;
- To ensure domestic dairy products are not undercut by lower quality products from other markets;
- To ensure the UK has a sufficient supply of trained veterinarians in the workforce post-Brexit, protecting the smooth administration of the export process;
- To consider reform of the current export system to improve cost-effectiveness and efficiency;
- To ensure ports and border entry points are equipped with the required resources and technology to check products of animal origin from the EU;
- To promote the Red Tractor standard and branding on UK products exported overseas;
- To promote and fund high-level trade visits from key trade delegations to open new markets;
- To create an export promotion scheme for UK products, akin to the 'Great' campaign;
- To enable UK businesses to access market intelligence to help in overseas marketing.

The Dairy Sector in the UK

Dairy is the UK's largest agricultural sector and has a huge part to play in the UK's long-term economic plan to bring growth, jobs and security to all parts of the country and all parts of the economy. In the UK 25,000 people are employed in the dairy processing sector⁴ and there are currently 50,000 employed on dairy farms⁵. Milk production takes place in all four countries of the UK, unlike some other agricultural sectors.

In 2017 the value of UK milk production totalled £4.34 billion, an increase of £1.04 billion (32%) from 2016. This represented approximately 16.5% of the value of UK agricultural production, an increase of 14.2% from 2016. This increase was driven by increased production and changes in the price of milk. The volume of milk production in 2017 was 14.95 billion litres, a 582 million (or 4.1%) increase from 2016, placing the UK third highest in the EU behind Germany and France⁶.

In 2017 the UK dairy herd totalled 1.9 million cattle, a figure unchanged from the previous year. The average yield per animal was 7,883 litres per annum, a 4.3% increase from 2016. In 2016/17 the average income of dairy farms increased 14% to £50,000. Firmer beef prices and a reduction in costs offset lower milk prices and reduced production of milk.

Provisional average farm business income for a dairy farm in 2017/18 was £99,000, the highest figure for any farm type. The near doubling of farm income was driven by increased production and higher milk prices. The UK's dairy market is unusual in that approximately 50% of production is sold as liquid milk, with around 25% of milk going into cheese production and 12% into powders and butter production. By contrast, throughout the rest of the EU approximately 30% of production is sold as liquid milk, with the remaining milk going on to further processing.

There are very specific challenges around the structure of the market; the dairy sector is unusually capital intensive, for example farmers put a lot of investment into their herds and maintaining or erecting farm buildings. This is rather different from the work needed in changing arable crops, based on the commodity market.

Prices and Market Volatility

Dairy farmers typically have volatile profits, often due to factors beyond their control such as global supply and demand, the weather, or fluctuating product prices. The dairy sector has been particularly volatile over the last few years, with a perfect storm of the abolition of EU export refunds, production quotas, and periodic global over-production of milk and demand shocks such as the Russian embargo. As a result, the last few years have seen many dairy farmers facing a challenging period of low prices and uncertainty.

Despite a recent cooling off, butter prices remain relatively strong. Prices are being sustained by a high demand, particularly in Asia. Skimmed milk powder (SMP), a co-product of butter, has remained below its historical average price because of the build-up of EU intervention stocks. At the start of 2018, market intervention led to the accumulation of around 380,000 tonnes of public stocks,

⁴ ONS, UK Non-Financial Business Economy (Annual Business Survey) 18 May 2018

⁵ Dairy UK, The White Paper – October 2017

⁶ Robin Manning, Defra, Session 1, The Dairy Industry, 19th June 2018

however since the second quarter of 2018 the market has been witnessing a recovery and the running down of EU stocks, with 99% of the stock released back on to the market since 2015⁷.

Furthermore the average SMP price has also continued to increase. This may reflect the fact that more recently EU prices have become globally competitive, with prices now lower than SMP from the US and Oceania.

The large intervention stocks that have held back the market are now being cleared. The product for sale is powder which has been accepted into store prior to 1 June 2016, this is in accordance with Commission Regulation (EU) 2018/765.

⁷ EU Commission, 2019

The Current Landscape of UK Dairy Exports

Exports are important to the UK dairy industry, and many dairy companies have long-established detailed export strategies in place, along with specialist staff, to maintain and grow their exports. Exports account for around 20%⁸ of the raw milk processed in the UK, a figure which demonstrates the willingness of the UK dairy industry to export and compete in the global marketplace. In 2017, the UK dairy market exported £1.5bn in dairy produce overseas, in 2018 we exported £1.6bn.

The vast majority of our dairy exports are sent to the EU, with 78% of UK exports by value and over 90% by volume destined for the EU market. There is also a 'carousel' market for products like soft cheese, which are exported to the EU for processing and packaging, before returning to the UK market for sale and consumption.

Exports in 2018 by value:

Country	Exports (Value £)	Percentage
EU	£1,290,679,301	78.09%
Asia and Oceania	£154,958,812	9.38%
Eastern Europe	£410,080	0.02%
Latin America	£18,527,931	1.12%
Middle East and North Africa	£74,518,253	4.51%
North America	£68,016,449	4.12%
Sub-Saharan Africa	£37,630,593	2.28%
Non EC European Nations	£8,063,972	0.49%
TOTAL:	£1,652,805,391	100.00%

Source: HMRC

Exports in 2018 by volume:

Country	Volume (Tonnes)	Percentage
EU	1,248,902	92.09%
Asia and Oceania	49,017	3.61%
Eastern Europe	136	0.01%
Latin America and Caribbean	5,697	0.42%
Middle East and North Africa	26,815	1.98%
North America	10,616	0.78%
Sub-Saharan Africa	13,053	0.96%
Non-EC European Nations	1,945	0.14%
TOTAL:	1,356,181	100.00%

Source: HMRC

⁸ Peter Dawson, Dairy UK, Evidence Session 2, Dairy Exports, 20th June 2018

Exports in 2018 to Non-EU countries by value:

Continent	Exports by Value	Percentage
Asia and Oceania	£154,958,812	42.79%
Eastern Europe (Non-EC)	£410,080	0.11%
Latin America and Caribbean	£18,527,931	5.12%
Middle East and North Africa	£74,518,253	20.58%
North America	£68,016,449	18.78%
Sub-Saharan Africa	£37,630,593	10.39%
Western Europe (Non-EC)	£8,063,972	2.23%
TOTAL:	£362,126,090	100.00%

Source: HMRC

UK Dairy Exports to Top 20 Non-EU Countries in 2018:

Country	Value of Exports
China	£81,401,900
United States	£54,534,374
UAE	£18,146,650
Lebanon	£14,883,863
Hong Kong	£14,345,761
Australia	£12,821,489
Canada	£11,472,749
Saudi Arabia	£9,820,534
Pakistan	£8,685,095
Ivory Coast	£8,107,062
Singapore	£7,756,924
Malaysia	£7,436,478
Algeria	£6,885,574
Dominican Rep.	£5,359,125
Egypt	£4,700,767
Philippines	£4,297,825
South Korea	£4,251,168
Guinea	£4,214,865
Angola	£3,972,617
Ghana	£3,240,127
All others:	£75,791,143

Source: HMRC

Imports

The UK is not self-sufficient in all dairy products. In 2018 the UK imported £2.8bn in dairy commodities, leaving a trade deficit of £1.1bn⁹. In particular the UK is reliant on imports of cheese, butter, cream and butteroil to satisfy its domestic demand. The EU provides for 99% of these imports, satisfying our trade deficit.

Imports in 2018 by value:

Country	Imports (£)	Percentage
EU	£2,785,525,433	99.447%
Asia and Oceania	£2,409,044	0.086%
Eastern Europe	£30,523	0.001%
Latin America and Caribbean	£42,418	0.002%
Middle East and North Africa	£52,162	0.002%
North America	£1,091,198	0.039%
Non-EC European Nations	£11,864,913	0.424%
TOTAL:	£2,801,015,691	100.000%

Source: HMRC

Imports in 2018 by volume:

Country	Volume (Tonnes)	Percentage
EU	1,371,231	99.771%
Asia and Oceania	745	0.054%
Eastern Europe	9	0.001%
Latin America and Caribbean	25	0.002%
Middle East and North Africa	19	0.001%
North America	134	0.010%
Western Europe Non-EC	2,218	0.161%
TOTAL:	1,374,381	100.000%

Source: HMRC

⁹ HMRC Data

Tariffs on Trade¹⁰

Our membership of the EU over the last 40 years has meant that products can flow freely throughout the single market, accompanied only by commercial documents. These products are checked at origin and move around without hindrance or hard border checks. Our departure from the EU means the way we export will have to change, and that future plans to increase our dairy exports must take into account any new applicable tariffs.

Tariffs on Trade with the EU

With over 90% of UK dairy exports destined for the EU market, it is by far our most important export market. The addition of any significant tariff barriers on UK products entering the single market would undermine our exports and reduce demand for our dairy products in this market. In the absence of equivalent UK tariffs on EU product entering the UK market then dairy products produced by EU27 members would by comparison be much more attractive, risking a shrinking in UK export potential and causing major disruption to our existing patterns of trade.

Our decision to leave EU membership, and in the absence of any agreement stating otherwise, means the UK will become a '3rd country' to this market. As a 3rd country the UK will need to gain listing with the EU to become an importer to the single market. Exports from 3rd nations to the single market are subject to high tariffs that our products have not been subject to historically, owing to membership.

Should UK products become subject to tariffs on entry to the single market there would be huge consequences, both in terms of the cost of trade and the competitiveness of our products. In the absence of sufficient advance contingency planning, changes to trade regulations and tariffs could create problems for 'goods on the water'; goods that have already left their respective countries and are mid-freight when the tariffs and trade regulation change.

Clarity on changes in applicable tariffs will be needed, and on the requirements of any transition period. Many dairy products require a longer lead time in production, and so advance confirmation of any regulatory changes will be key to continuing to export UK products successfully. Businesses will need detailed information as to the administrative procedure and tariffs relevant to their products, to ensure they can compile accurate and realistic export strategies.

Moving Outside of the Customs Union

As a member of the EU, the UK currently trades as part of the Customs Union. Moving outside of the Customs Union, and in the absence of any agreement otherwise, dairy exports to the EU will need to be accompanied by customs declarations. Given the volume of trade between the UK and the EU, adding this extra administrative step to the process of exporting will have consequences in terms of speed and ease of trade, which must be factored in to future export planning.

It has been estimated that every extra seven minutes of port check time as a result of customs and administration procedures could result in increased transportation time of up to 10 hours¹¹.

¹⁰ Evidence outlined represents that given in June 2018, prior to subsequent Government announcements on tariffs on dairy foods

¹¹ Nikhil Datta and Jan Bakker, 'The Impact of Brexit on the UK Dairy Sector', LSE Consulting, July 2018

Currently non-EU trade checks can take up to 20 minutes, demonstrating by comparison how much more time-intensive the process for exporting is outside of the Customs Union is. Increases in transportation times will impact labour costs, transportation costs such as fuel and maintenance in addition to creating issues transporting perishable goods, such as dairy.

Global Tariffs on Trade

Currently 15-20% of UK dairy exports go to non-EU countries, some of which is under EU bilateral trade agreements. This trade risks falling under the higher Most-Favoured-Nation (MFN) tariffs operated by those countries, unless the UK can negotiate a share of the EU's entitlement under these agreements before leaving.

The UK Government intends to adopt the EU tariff schedule as its own as a WTO member. Should the UK decide to apply EU tariffs on imports into the UK then it could add an estimated £1.8bn to the cost of importing food to the UK market. Econometric modelling has shown that taking into account the market effects, a WTO schedule would push up the price of cheese by one third, with retail prices rising by 20%, making UK exports uncompetitive on world markets¹².

Ideally the UK will also need an effective and robust information system to ensure that exporters can understand easily what applicable tariffs apply to dairy products to both EU and non-EU markets. Tariffs under the WTO are complex and exporting with the correct tariffs applied will rely on having access to this information easily and quickly.

The Irish Border

The border between Northern Ireland and the Republic of Ireland is also a key concern for the UK dairy industry. Maintaining a fluid border is extremely important due to the huge volume in trade in dairy produce between the two countries.

Any potential tariffs incurred on trade with the EU will drastically impact not only trade between these countries but the operation of the UK dairy sector as a whole. This would especially be seen on the island of Ireland, with large quantities of milk moving between the Republic of Ireland and Northern Ireland, crossing the border.

Supporting the Dairy Sector to Export Post-Brexit

There are a number of tariff and administrative barriers to address as a result of our departure from EU membership. Not only to continue our existing pattern of trade with EU and non-EU nations, but to ensure we have the ability to increase our dairy exports in the future. In order to do this, there are a number of things the Dairy APPG would recommend the UK Government do, in order to assist the dairy sector:

¹² Dairy UK, Written Evidence, July 2018

- Seek to maintain the current continuity and terms of trade with the EU, as far as possible, avoiding the application of EU tariffs on UK dairy products;
- Seek interim trade arrangements with our non-EU trading partners, whilst pursuing full Free Trade Agreements;
- To gain listing as an importer to the EU27 market;
- To create an information system for industry to determine the appropriate tariffs between the UK and other markets;
- To ensure trade can continue between the Republic of Ireland and Northern Ireland unhindered.

Maintaining the Continuity of Existing Standards

A necessary part of the UK's trading future will be negotiating trade agreements not just with the EU, but many other countries across the world. The chance to create new trading relationships presents the UK with much opportunity to expand its overseas trade, but comes with risks which must be carefully managed.

Protecting Animal Welfare

The UK currently benefits from some of the highest animal welfare standards in the world. These world-leading standards could come under pressure in trade negotiations with other countries whose welfare standards are lower than ours, who seek a competitive edge for their products. Any new trade agreement must as a minimum respect and protect our current standards of animal welfare, and ensure that they remain protected in the future.

In order to protect the UK dairy industry, it is vital that any new trade agreements do not result in the domestic market being flooded with cheaper, sub-standard dairy products from countries with poor welfare standards. Such flooding of the market would collapse the price of UK products by comparison, and subject consumers to lower quality produce.

Similarly, any Free Trade Agreement with another country must prohibit below-cost pricing to those importing dairy products to the UK. Failure to do so would compromise the domestic dairy market, to the benefit of exporting countries and complicate any export agreement we have with the EU. Confidence must be maintained in UK dairy products and stability in the UK dairy market if we are to continue and increase our dairy exporting capacity.

It is also crucial that the UK maintains parity on food and welfare standards with the EU, in order to maintain the ease of trade with our largest dairy export and import market. Should standards diverge with this crucial market, without finding a suitable alternative market(s), the subsequent trade friction would stifle and discourage dairy exports to the EU, harming the UK dairy industry's ability to trade its products.

Agricultural Policy

Once we have left the EU, in the absence of a commitment to maintain the existing UK support regime, UK dairy farmers will be competing with EU farmers benefitting from income subsidies. In order that we can continue to export products that are competitive in the EU27 market, it is essential that UK dairy farmers have similar resources with which to compete with their European counterparts.

Any removal of single payments risks causing a detrimental impact on the productivity and therefore exporting potential of the UK dairy industry. Moving beyond our membership of the EU and any transition period, it's crucial that the Government makes similar resources available to British dairy farmers as was previously enjoyed under the single payments system. Any reform to the scheme and allocation of funds should ensure that any reduction of payment to dairy farmers is counterbalanced with investment in the productivity and competitiveness of the sector as a whole, to ensure the industry remains well-placed to export successfully.

Supporting the dairy industry to export post-Brexit:

Increasing our exporting capacity post-Brexit will mean taking careful steps to protect our market at home in any future Free Trade Agreement, so that our exports remain competitive on the world market. To support the UK dairy industry's ability to increase exports of its products, the Dairy APPG recommends that the UK Government should;

- Ensure the continuity and protection of our animal welfare and farming standards;
- Ensure UK agricultural policy supports the productivity and competitiveness of the dairy sector;
- Ensure domestic dairy products are not undercut by lower quality products from other markets.

Animal Health Certification and Veterinary Shortages

The World Trade Organisation (WTO) are responsible for setting the global rules on trade. They regulate tariffs, subsidies and determine non-tariff barriers. At a global level there are three organisations which are responsible for setting standards on the trade of food and products of animal origin:

- The OIE (the World Organisation for Animal Health);
- The Codex Alimentarius and;
- The International Plant Protection Convention (IPPC) of the Food and Agriculture Organisation of the United Nations.

The OIE, Codex Alimentarius and IPPC are standard setters rather than regulators. The EU and its member states adopt these standards through legislation and create the required administrative and enforcement procedures.

The Sanitary and Phytosanitary Agreement (SPS) allow WTO member countries to use a set of permitted reasons to reduce trade with another nation for reasons relating to animal health, for example, an outbreak of disease. If an exporting nation systematically fails to abide by the standards set in these agreements and provide evidence of compliance for their products, an importing nation is entitled to de-list them as an exporter to that country.

When importing dairy products, these standards dictate that proof be provided that any product of animal origin be free from diseases or harmful microbes (for example, an exporter must demonstrate that their products have been made only using pasteurised milk). The mechanism by which exporting nations provide assurance to the importer of the safety of their products is through veterinary health certification.

Animal Health Certification

Products of animal origin require approval for export by a veterinarian before an Export Health Certificate can be issued by the Animal and Plant Health Agency (APHA) office in Carlisle. The APHA is an executive agency of Defra, providing scientific advice and operational delivery to the Government. It operates at a GB level with regard to matters of international trade policy.

This process requires a veterinarian to inspect a consignment of goods for export in order to check it adheres to the requirements of the destination market. If it does, an animal health export certificate is issued, and the goods are free to leave for their destination market. So for example, if a dairy wanted to export its Cheddar cheese to Australia, it would be required to obtain an animal and public health certificate from a vet, in order to do so. Once this has been granted the appropriate tariffs and conditions determined by the destination market are applied to the Cheddar consignment.

Currently, this administrative process is not applicable to UK exports to the EU27 market. Our membership of the EU means that all products of animal origin in the single market are required to be produced to the same standards. Regulations on processing techniques, medicine use or welfare are the same throughout the single market, meaning health certification is not required to export dairy products. Rather, products flow freely throughout the single market, accompanied only by commercial documents.

No longer a member of the EU, the UK will become a 'third country'. This means the UK will need to gain listing with the EU to become an importer, demonstrating our compliance with the necessary EU regulations in order to continue to trade with the single market. This means animal health certification will become a necessary part of exporting our products to the EU. Defra and its agencies have been compiling the required evidence and have made an application to be listed as an eligible third country importer to EU¹³.

The APHA is developing administrative capacity to issue certificates for exports to the EU, however dairy exporters will require clarity on any changes to export procedures. The dairy industry especially requires advance notification of any administrative changes, owing to the fact that many dairy products require a lead time for production. Any change in rules to export to Europe will need to be communicated with sufficient time to allow exporters to understand the administrative requirements of exporting their products.

Unless the UK negotiates a concession with the EU and receives privileged third country treatment, such as that which Norway and Switzerland receive, all products of animal origin exported into the EU market will be subject to animal health certification requirements.

Veterinary Shortages

The ongoing shortage of vets in the UK is also currently a pressing issue, with the UK losing vets from its workforce at what is a crucial time. In 2016 half of the UK's newly registered veterinarians were EU graduates, however immigration levels of veterinary professionals to the UK are set to decrease. Any increase in dairy exports would put pressure on the exports system, owing to the resourcing issues in finding qualified vets.

Many vets qualify abroad then come to work in the UK, however this may change drastically once we've left the EU, with changes to the system of immigration. Vets are currently the only authorised personnel who can sign off animal health export certificates, and so any shortage of vets will have an impact on the animal health certification process and therefore our ability to export dairy products. This could be a serious problem, given that the amount of goods requiring veterinary checks for export will increase an estimated 325% after leaving the EU, resulting in an increase in workload for veterinarians working at border checks of up to 372%¹⁴.

Optimising the Certification Process

Our departure from the EU will give us the opportunity to review the current certification process, and make efficiencies to the existing procedures. To increase our exporting capacity the Government could consider a move to a system of bulk-sign off of consignments, and consider inspecting plants as a whole.

Many veterinarians who sign off export consignments have little working knowledge of the industrial processes required to produce dairy products. Brexit may therefore provide an opportunity to address this and improve this system, moving away from reliance on veterinarians to issue certificates. Instead, a new system of highly trained officials could be created, complete with

¹³ Simon Hall, APHA, Evidence Session 4, 31st October 2018

¹⁴ Nikhil Datta and Jan Bakker, 'The Impact of Brexit on the UK Dairy Sector', LSE Consulting, July 2018

knowledge of food production processes, they could be better placed to ensure exports meet required standards and are fit for export.

Other changes which would improve efficiency could be to permit exporters to conduct required checks and export administration on site, expediting the exporting process. Such systems are already in existence within other countries, and such a move would create a cheaper system whilst still ensuring our products meet required standards. Any modifications to our export system must, at all costs, protect our domestic food standards and initiatives such as The Red Tractor.

Supporting the dairy industry to export post-Brexit:

Key to exporting more of our dairy products successfully means having both the knowledge and infrastructure in place to meet the requirements of trade of in animal product. In the absence of agreement otherwise, UK products will be subject to new and detailed rules to enter the single market. To ensure the UK dairy industry can continue to export to its biggest market, the Dairy APPG recommends the UK Government;

- Ensure the UK has a sufficient supply of trained veterinarians in the workforce post-Brexit to ensure the smooth administration of the export process;
- Consider reform of the current export system to improve cost-effectiveness and efficiency;
- Ensure that ports and border entry points are equipped with the required resources and technology to check products of animal origin to and from the EU.

Increasing the exporting potential of the UK dairy industry

Any move to increase exports of UK dairy products must be balanced with our current capability to produce milk, as the base ingredient of all dairy products. In order to expand our exporting capability without simultaneously increasing imports of milk, as a nation we will need to produce more milk.

Increasing Output

If all the milk produced in the UK were to be redirected to the domestic market, it would still not be enough to meet domestic demand, and as a result we would see product price inflation¹⁵. Therefore, in order to increase our dairy export potential whilst avoiding price inflation, the UK will need to expand its milk production capacity. Such growth will require time and investment, taking into account the necessary production cycles for animal-based products such as dairy. Likewise any import displacement of dairy products will require us to increase our production, in order to avoid product price inflation.

Increasing our domestic output will require a firm grasp on production costs, in order to best understand what markets we can and cannot compete in. Benchmarking initiatives will therefore be of great value to improve the efficiency of production and help make our dairy products competitive with those of other nations.

In order to grow our production capacity, it is essential that we create an environment that allows businesses the confidence and tools to expand into new markets, and ensure that our dairy producers and processors have certainty to forward plan and make strategic investment decisions. Part of this will be giving businesses adequate time to prepare for the new trading environment they'll face, allowing sufficient time to transition to any new rules and regulations for trade.

The Government could assist the sector in becoming more competitive, using the opportunity provided in the Health and Harmony consultation, to reform single payments in order to incentivise improvements in sector productivity and competitiveness generally.

Support the dairy industry to export post-Brexit:

Increasing our output whilst avoiding price inflation will be key to supporting the UK dairy industry to export in the future. To support this the Dairy APPG recommends the UK Government;

- Take steps to help the sector in improving its productivity, using reforms to the single payments system to help address inefficiencies.

¹⁵ Peter Dawson, Dairy UK – Evidence Session 2 – 20th June 2018

Building Relationships with new Markets

Expanding our potential to export - not just to our existing export markets but to new ones - will necessarily mean we will need to build on our trade relationships with other markets of strategic importance.

Promoting Our Products

The UK Government can support the dairy industry to successfully export by helping to build a positive environment in which UK dairy businesses can promote and sell their products to international consumers. Key to achieving this will be to build on perceptions of UK dairy products as being high quality and safe, as well as tasty. The UK has an excellent track record on food safety, animal welfare and environmental sustainability, which should provide the UK with an excellent basis on which to market its products. Product labelling such as the Red Tractor scheme would be an excellent way to convey the high standard of UK dairy products direct to consumers overseas.

The 'Great' campaign has yielded positive results for UK products, and helped in the marketing of UK produce. The Union Jack is widely recognised as being synonymous with both quality and excellent standards. Post-Brexit we will need to take steps to ensure this remains the case. One way the Government could support the dairy industry is by providing funding for promotional events, enabling the UK to effectively market its products abroad.

As part of the EU the UK has historically received financial support to promote and export dairy products, which it will no longer be eligible for post-Brexit. Our European counterparts will continue to receive such support for the promotion of their products, and so by comparison UK exports risk being at a disadvantage. In order to support the UK dairy industry the Government could therefore look to ensure that the provisions and benefits of EU promotional schemes are carried forward, in a domestic scheme.

Investing in Market Insight

Another key part of increasing UK export potential and facilitating access to new markets will be to provide dairy business access to market intelligence. Dairy businesses will require valuable market insights to find new entries to new markets, and ensure their products are positioned correctly, to suit different consumption patterns and cultures. The Government could take steps to ensure such insights are gathered and made available to the dairy industry to support export strategies.

Diplomatic Support

The Department of Trade can help support the dairy industry by taking a leading role in helping UK businesses access overseas markets. Building both our diplomatic and trade relationships with other nations has never been more important, and so the Department of Trade could look to conduct high-level political visits from trade delegations from key export markets, to assist moves towards new trade agreements.

Visits from overseas trade delegations would enable us to showcase our food safety, farming and animal welfare standards, as well as demonstrate the great taste and variety of our dairy products. Historic trade visits have taken place but have required industry funding for the travel of officials from other markets. The future funding of such visits may present a problem for some businesses

within the industry, and therefore Government could look to ensure adequate funding is made available to help facilitate such trade visits.

Supporting the dairy industry to export post-Brexit:

The UK dairy industry benefits from the positive perception of its products internationally. However increasing the flow of our dairy trade with new trading partners will require us to build on this, and explore new opportunities for marketing and promotion. To help facilitate this the Dairy APPG recommends the UK Government:

- Promote the Red Tractor standard and branding on UK products exported overseas;
- Promote and fund high-level trade visits from key trade delegations;
- Create an export promotion scheme for UK products, akin to the 'Great' campaign;
- Enable UK dairy businesses to access market intelligence, to help in marketing their products in other markets.

Witnesses

The Dairy All-Party Parliamentary Group would like to thank all witnesses who gave evidence as part of this enquiry:

Evidence Session 1 – 19th June 2018

Robin Manning, Defra

David Swales, The Agricultural and Horticultural Development Board

Evidence Session 2 – 20th June 2018

Peter Dawson, Dairy UK

Peter Alvis, Alvis Brothers, Royal Association of British Dairy Farmers

Evidence Session 3 – 31st October 2018

Simon Hall, Animal Plant and Health Agency

The Group would also like to thank the following companies for submitting supplementary written evidence:

Dairy UK

Nikhil Datta and Jan Bakker of LSE Consulting in association with Arla UK

The Royal Association of British Dairy Farmers

Somerdale International