

To: Dairy UK Board
Farmers' Forum
Strategy Committee

Business Brief 098/12
27th February 2012

MEETING WITH WELSH FARMING MINISTER

On 22nd February Dairy UK met with Alun Davies, Deputy Minister for Agriculture, Food, Fisheries and European Programmes in the Welsh Government. This note summarises the meeting.

1. Points communicated by Dairy UK included:

- a. Dairy was preparing a document setting out the key areas where the Welsh Government could assist in the growth of the dairy industry (a draft copy was provided to the Minister).
- b. Dairy UK believed that voluntary contract arrangements were the best means for ensuring industry development. Dairy UK was therefore opposed to regulation of contracts under the Dairy Package. Dairy UK was seeking to develop a voluntary code of practice on contracts with the farming unions. This could provide greater benefits to farmers than regulation.
- c. Whilst there was no difficulty with the Producer Organisation model in principle, monopolistic POs could deter investment.
- d. Dairy UK was very active on a host of issues affecting the production and marketing of cheese, which was the principal product produced in Wales.
- e. Dairy farmers needed the option of being able to invest in large scale farming if that was appropriate to their operation.
- f. Communications by the Welsh Government on the dairy industry need to take account of supply chain issues.
- g. Dairy UK would like to be involved in the dairy industry summit being organised by the Welsh Government for June.

2. A summary of Dairy UK's concerns was left with the Minister (re-produced below) along with literature on Dairy UK and a possible article for inclusion in Welsh Government communications on supply chain issues affecting the cheese sector.

3. In response the Minister stated:

- a. As yet no view had been taken on Producer Organisations
- b. He shared the position of Jim Paice on regulation of contracts. A voluntary outcome was preferred but space in the legislative timetable was available for regulation. The Welsh Government would be undertaking a consultation.
- c. He would like to see more processing undertaken in Wales; in particular he was concerned about the volume of milk hauled out of Wales for processing and then sent back to Wales for sale. Current discussions with processors had not progressed very far.
- d. He had asked officials to examine how the impact on dairy farmers of any transition to flat rate payments as a result of CAP reform could be ameliorated. He was in a positive and constructive dialogue with the Agriculture Commissioner. He wanted agri-environment programmes recognised for the purposes of meeting green requirements.
- e. He agreed with Dairy UK sentiments on large scale farming.

4. As an outcome of the meeting Dairy UK:

- a. wrote to the Minister to reaffirm the key points made (see below)
- b. will seek to arrange further meetings with key Assembly Members

5. Dairy UK was represented at the meeting by Jim Begg and Peter Dawson.

Peter F Dawson
Policy Director

BRIEFING NOTE LEFT WITH ALUN DAVIES

The EU Dairy Package

1. The future of the dairy industry depends on collaboration across the supply chain in order to develop industry efficiency, restructure operations and pursue product differentiation.
2. This is best achieved through voluntary contractual arrangements freely determined by farmers and purchasers.
3. The imposition of mandatory contracts would contradict this approach.
4. Producer Organisations are to be welcomed, but if they are exempt from competition law there is a risk that they will deter investment.
5. Dairy UK is seeking to develop a voluntary code of practice with the farming unions to resolve the industry debate on contracts. Dairy UK is proposing changes that include:
 - a. Banning retrospective price changes,
 - b. Requiring non-co-op purchasers operating purchaser discretion to:
 - i. maintain a dialogue or consult with producers before changing prices,
 - ii. keep prices within a defined range of those prevailing within a milk field,
 - iii. provide 30 days notice of a price change,
 - iv. allow early termination,
 - c. Permitting non-exclusive contracts under certain circumstances,
 - d. Requiring purchasers to offer a variety of contracts producers can choose from,
 - e. Allowing producers to be released immediately a company becomes insolvent.

CAP Reform

6. The Commission's proposals need to be developed to ensure the sustainable development of the Welsh dairy industry:
 - a. Opportunities need to be found to exploit the flexibility within the CAP Reform proposals to mitigate the impact on Welsh dairy farmers of any transition away from historic payments.
 - b. Flexibility has to be given to allow greening measures to be adapted to national and regional circumstances. In particular the Commission proposal on crop diversification is not appropriate for smaller dairy farmers growing maize.

- c. The CAP should continue to provide an effective safety net against extremes of downward price volatility.

Cheese

- 7. As a food staple cheese is continuously subject to initiatives that impact on its marketability.
- 8. Dairy UK is working for:
 - a. Mandatory country of origin labelling to distinguish UK product from non-UK product. Labelling of the regional origin of UK product, such as product from Wales, should remain optional.
 - b. The maintenance of compositional standards for UK cheeses which safeguard the quality of UK cheeses for consumers. These standards are threatened by the Food Information Regulation.
 - c. Delivery of industry targets for the reduction of salt levels in cheese as part of the initiative undertaken by the Department of Health.

Farm Restructuring

- 9. Dairy farmers need to be able to restructure to ensure long term competitiveness. This includes being able to invest in large scale farms when appropriate.
 - a. Environmental impacts and animal welfare are determined by the quality of farm management. There is no correlation between farm size and environmental or animal welfare characteristics.
 - b. There is no one size fits all model for farm operation, but large scale farms can be the only profitable alternative in certain situations.
 - c. Public perceptions of acceptable farm management techniques need to be challenged.

Letter to Alun Davies

Dear Minister

Thank you for taking the time to meet with us on Wednesday 22nd February.

I hope we persuaded you that we have a unique perspective on dairy industry issues that should be taken into account in your policy making process. We are firmly of the view that the industry's problems can only be tackled by taking a supply chain perspective. Every part of the supply chain and their interaction has to be considered if the industry is to prosper. To that end we would welcome the opportunity to have our input formalised by representation on the Farming and Food Sector Panel. At present there is no representation on that forum covering the dairy processing sector.

I trust we made it clear that we wish to avoid regulation of contracts. The contract clauses in the Dairy Package could seriously de-stabilise industry relationships if they were brought into force. A much better and constructive outcome could be achieved through a voluntary approach which we are working towards.

We fully support your efforts in seeking to ameliorate the impact of the CAP Reform proposals on Welsh dairy farmers. We look forward to working closely with your officials on this point. We are also reassured that the need for farmers to be able to restructure their businesses to maintain competitiveness is recognised by you.

I hope that we can continue our dialogue on these issues in a variety of forums in the future. In particular we look forward to participating in the industry summit you are planning for June.

Yours sincerely

Jim Begg
Director General