



## **Dairy All-Party Parliamentary Group**

# **The Sustainable Competitiveness of the UK Dairy Industry**

**March 2015**

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## About the Dairy All-Party Parliamentary Group

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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.

### **Officers**

Neil Parish MP (Chairman)

Jim Fitzpatrick MP (Vice-Chairman)

Roger Williams MP (Vice-Chairman)

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Heather Wheeler MP (Secretary)

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.

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

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The Dairy All-Party Parliamentary Group was revived in 2014 with the purpose of promoting informed debates on the British dairy industry in Parliament and supporting the development of a sustainable and profitable industry in the UK.

With difficult times arising in the global dairy market in the summer of 2014, it seemed appropriate for the APPG to launch a thorough enquiry on how to support and ensure the sustainable competitiveness of the industry. The scope of the enquiry was kept deliberately wide in order to obtain as much information as possible on current and future prospects for the industry.

Volatility has been an inherent feature of the dairy market for a number of years. It is one of the greatest challenges facing the dairy industry. Therefore, it is vital that the whole supply chain works together to try and manage volatility as efficiently as possible. The extreme volatility seen over the last few months is affecting the whole supply chain but the industry is confident of an upturn during the course of the year.

It is important to remember that long-term prospects for the industry are positive. Global demand for dairy is growing and the UK will have a key role to play to help meet this demand.

In the meantime, we must not be complacent and we must consider every tool in the box to alleviate the current pressure on the industry. Through measures such as encouraging public sector procurement of British dairy products and reviewing the powers of the Groceries Code Adjudicator, we can help foster profitability and growth in a sustainable way.

We held six productive evidence sessions and I would like to thank all the witnesses who agreed to share their views and expertise with members of the APPG. I would also like to thank Dairy UK and the Royal Association of British Dairy Farmers for their work as secretariat to the APPG.

A handwritten signature in blue ink, appearing to read 'Neil', followed by a stylized flourish consisting of several overlapping loops and a long horizontal stroke extending to the right.

Neil Parish MP  
Chairman

## Executive Summary

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The dairy industry plays a significant role in the UK economy and has faced serious challenges since the summer of 2014. A combination of global events in 2014 and an increased milk supply led to drops in milk prices.

Volatility has been an inherent feature of the dairy market for a number of years and it is one of the greatest challenges facing the dairy industry. The dairy industry will need support from the Government to manage volatility in the short and long term, through measures including the development of futures markets and intervention purchasing at EU level. Looking forward, with a global population growing fast and demand for dairy on the rise, the UK has a key role to play. The development of new Free-Trade Agreements across the world and opening up new export markets for the dairy industry must be a priority to help the UK strengthen its position in the global market.

Developing the economic sustainability of the British dairy industry also requires ensuring the right people are available at the right time. This means a strong focus on recruiting, training and retaining a skilled workforce at every stage of the supply chain. Thanks to a short and simple supply chain, the dairy industry can deliver wholesome and nutritious dairy products in a sustainable way. The industry has made significant strides in terms of animal health and welfare, environmental initiatives and supply chain integrity. From farm to fork, the dairy sector is working hand in hand to guarantee an efficient and safe supply chain.

Addressing misconceptions about dairy and promoting great British dairy products is paramount to ensuring bright prospects for the industry. It is crucial to encourage dairy consumption from a young age and to explain the nutritional benefits of milk and dairy as nutrient-rich foods. Other ways to promote dairy include strong support for Country of Origin Labelling, favouring British products in public procurement guidelines and working with health authorities to promote dairy products as part of a healthy and balanced diet.

## Introduction

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Sustainability is not just about the environment. It is a complex concept which encompasses several aspects including productivity, profitability, environmental issues and social sciences. A sustainable industry is one that manages to find the right balance between all these pillars.

According to the Dairy Sustainability Framework, the dairy industry should be “a vibrant dairy sector committed to continuously improving its ability to provide safe and nutritious products from healthy cattle, while preserving natural resources and ensuring decent livelihoods across the industry”<sup>1</sup>.

The enquiry tried to analyse most key areas of the industry including dairy economics, trade and regulations, environmental initiatives, farming and processing issues, public health and nutrition challenges, all underpinned by the need for a skilled workforce. This report aims to identify current achievements, priorities and issues in the industry and provide recommendations on how to ensure a sustainable and competitive future for British dairy.

Over the course of this enquiry, the Group has gathered evidence from a wide range of experts. We intend that the findings from this enquiry will help Parliament and Government support the sustainable competitiveness of the dairy industry in the UK.

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<sup>1</sup> Brian Lindsay, Dairy Sustainability Framework, Session 3 Farming and supply chain integrity, 19<sup>th</sup> November 2015

# Part 1 – Economic Sustainability

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## Current Situation

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### The dairy industry in the UK

The dairy industry plays a significant role in the UK economy. The sector employs around 80,000 people across the farming and processing sectors. It is a mostly rural sector with a significant economic contribution at micro-level. The level of expenditure at farm level is high and a dairy farm will generate turnover which is then spent in local economies.

The indirect impact of a dairy farm is important. Not only can a farm provide employment to full time farm staff and contractors but it also generates value through procurement of inputs, goods and services. These include veterinary services, milk haulage, agricultural engineering and feed manufacturing. At any point in time, a dairy farm can provide direct and indirect employment for up to twenty other companies.

Some farmers find it hard to invest in new infrastructure or new technologies because of small margins and high input costs. However, these input costs can be managed through improved business efficiency. Benchmarking against other farms can also be productive and help identify areas of improvement and improve on-farm efficiency<sup>2</sup>. By checking them regularly, dairy farmers can analyse and try to reduce water, feed, energy and other input costs.

Dairy farmers need to be efficient and identify what's crucial, beneficial and detrimental to business. Profitability comes from identifying strengths and it is a challenge farmers must seize. It is also important to note that from the time of conception, it is three years before a heifer comes into milk production. Milk production cannot be turned on and off overnight, which is why the dairy industry is a special case.

The UK plays a major role in international trade, especially in terms of exports, with £1.3bn worth of dairy products exported to EU and non-EU countries out of £13bn for the whole UK food and drink sector. UHT liquid milk accounts for a small portion of exports with the lion's share comprising cheese, butter, skimmed milk powder and whole milk powder.

However, despite its role as a major dairy producing country, the UK is not currently self-sufficient in dairy products. Dairy imports are worth £2bn, mostly for cheese, yogurt and butter. The main providers are Ireland, the Netherlands, France, Italy and other EU countries. With no trade barriers and high brand recognition in the UK for products from Ireland, the Netherlands and France, protectionism against these countries is incompatible with the EU single market.

### The UK industry in a globalised market

From mid-2014, milk prices at the farm gate started coming down gradually from an all-time high average of 35 pence per litre at the end of 2013. The high prices of 2013 were helped by excellent weather conditions and high demand for production. However, the New Zealand price barometer started falling progressively in early 2014. At the time of drafting this report, milk prices ranged from 22 to 33 pence per litre across the country.

The drops in milk prices are the result of rising milk production and a combination of global events in 2014 including a slump in demand from China. The Chinese dairy industry boomed from 2000 to 2006, with significant partnerships with and investments from New Zealand and other

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<sup>2</sup> David Christensen, dairy farmer, Session 1 Trade and the economy, 29<sup>th</sup> October 2014

countries. The emergence of a new Chinese middle-class meant a growing demand for milk and dairy and as it struggled to keep up with demand, especially after the 2008 melamine scandal, the Chinese industry relied heavily on imports. However, China is now building up its own industry and therefore becoming less reliant on imports.

The Russian ban on dairy product imports from the EU compounded a worsening situation. Although the volume of UK exports to Russia is small and mostly focused on cheese and powders, its impact was undeniable on the domestic market. The UK and all other EU countries exporting to Russia have to find new homes for their products, further saturating the European market. Although market experts think it is likely that Russia will resume its commercial activities with the EU, largely owing to the recognition and appetite for European dairy products from Russian consumers, they also warn that EU producers will have to compete with new suppliers and that the market might be slow to catch up<sup>3</sup>.

It is important to note that no domestic markets are insulated from global pressure, including liquid milk. In the last thirty years, an overwhelming shift in consumption to skimmed and semi-skimmed milk in the UK has led to increasing volumes of cream available both on the domestic market and for exports. As a result, any alterations in cream prices have a direct impact on milk prices.

Variations of milk prices at the farm gate can also be linked to farm management, with margins and production costs varying according to business efficiency.

Global demand for dairy is expected to grow by 2% per annum with 80bn litres traded internationally in powder form and with large markets such as Russia, China and India strengthening their industries. However, in spite of its predicted growth, the global market is also prone to volatility. Should countries overshoot in terms of domestic production, it can be easy to dispose of the surplus by resorting to exports and as a result, flooding the market.

However, whole milk powder value is starting to rise with a 19.2% increase at the Fonterra Global Dairy Trade auction on 3<sup>rd</sup> February 2015 which accounted for the majority of volumes sold at the auction. This is a positive indication for the dairy market's future.

## Managing Volatility

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### The EU Milk Package

The EU Milk Package was passed in 2012 and its provisions integrated into the CAP base regulation as a way to stabilise the market and help the European dairy industry. The Milk Package is a temporary measure until 2020 and includes two reporting stages in 2014 and 2018.

The Milk Package has four main provisions covering a) the creation of Producer Organisations (POs), b) the creation of Inter-Professional Organisations, c) supply management for PDO/PGI cheese and d) the regulation of contracts with a series of key elements in compulsory contracts. Although allowing the creation of POs is mandatory in all EU Members States, the other three measures are optional.

The UK dairy industry showed little interest in developing Inter-Professional Organisations due to the structure of the industry as it was felt that existing trade bodies already filled that role. In addition, Defra's Dairy Supply Chain Forum already offered a mechanism for whole supply chain

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<sup>3</sup> John Giles & Andrew McLay, Promar International, Session 1 Trade and the economy, 29<sup>th</sup> October 2014

engagement. Supply chain management of PDO/PGI was considered to have limited benefit by the British dairy industry.

Until now there hasn't been a significant move to establish registered Producer Organisations (POs) in the UK. This may be as a result of the administrative complexities of setting these up. Currently, there are a number of groups looking at PO status. It was noted that, in EU Member States where POs were in place, there was little evidence that POs could play a significant role to protect farmers against volatility. Nevertheless, Defra has dedicated some of the Dairy Fund to educating farmers on the initiative via the Rural Payments Agency as POs could encourage collaboration and discussion between farmers, not just in terms of price negotiations but also in terms of marketing, promotion and farming standards<sup>4</sup>.

The UK opted against compulsory contracts and instead developed a voluntary Code of Practice on contractual relations for the dairy industry as an alternative to regulation. It was believed that a voluntary code would allow greater flexibility in contracts. Defra were clear that should contracts be made compulsory, the Government could not legislate on prices as the Government cannot decide what prices should be in a free market. Defra have also explained that under existing EU regulations on contracts, as set out in the EU Milk Package, this area of legislation was an "occupied field" and it would not be possible to turn the voluntary Code into a statutory instrument<sup>5</sup>.

There is a broad consensus in the industry that the Code has been beneficial for the industry and has improved relationships, transparency and trust between farmers and purchasers. The recent review of the Code by independent Chair Alex Fergusson MSP also underlined the Code's overall benefit to producers. However, it was noted that the Code was never set up to address milk prices and should not be expected to do so.

**The Dairy APGG has welcomed the Government's announcement to lay a statutory instrument before Parliament to allow the Grocery Code Adjudicator to levy substantial fines on any retailer that is found to be in violation of the Grocery Supply Code of Practice. To give confidence to farmers that they are receiving a fair deal the UK Government should examine the practicality of extending the Adjudicator's remit down the supply chain.**

### **A toolkit to manage volatility**

All involved in the British dairy sector agree that the industry's future lies largely in its own hands and that mitigating price volatility is a top priority to ensure a sustainable future for the industry. The development of mechanisms or a "toolkit" to manage volatility and help deliver greater stability for farmers is a long-term effort that will require industry-wide involvement.

One of the long-term measures could be the development of futures markets. The futures market is more developed in New Zealand and the USA than in Europe. Opponents to futures point out that in countries where the mechanism is in place, farmers lose the opportunity to benefit from price peaks. However, proponents of futures argue that prices are more stable, with fewer variations from low to high, and that stability outweighs occasional higher prices.

**The Dairy APPG encourages support for industry efforts to explore new ways to mitigate the impact of volatility, including the development of futures markets. Futures markets could help deliver greater stability for farmers as prices can become more stable, with fewer variations from low to high.**

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<sup>4</sup> Sian Davies, NFU, Session 6 The EU Milk Package, 14<sup>th</sup> January 2015

<sup>5</sup> Mark Filley, Defra, Session 6 The EU Milk Package, 14<sup>th</sup> January 2015

As private mechanisms to help address volatility are not yet well developed in the UK, short-term measures are required to help stabilise the market and alleviate pressure on dairy farmers. Exceptional circumstances call for exceptional measures and everybody must be realistic about the current situation.

**In the short-term, the Dairy APPG believes the European Union must play a residual role in minimising extreme downward price volatility, through intervention purchasing at a higher reference price. The current intervention price is too low to prevent destructive and needless loss of production capacity. This would send a strong signal to the market, encourage buyers back in the market and help stabilise prices.**

The industry is not asking the Commission to set an artificially high support price but rather to use its emergency resources as a temporary and effective safety net to moderate the bottom of the price cycle and ease the pressure on farmers and processors. In time, the industry will be able to manage the effects of price volatility and will not require Commission measures at the next market downturn.

Intervention purchasing is a swift process that can be implemented quickly. The use of intervention should be budget neutral as costs would be recovered when products are released and sold at a better time. It is important to remember that the Commission made a profit last time it resorted to intervention.

There is a unanimous consensus within the European Dairy Association on the need to raise the price of intervention purchasing. Additionally, the Dairy APPG has written to Phil Hogan, EU Commissioner for Agriculture and Rural Development, on behalf of the UK industry to ask for higher intervention prices<sup>6</sup>.

Although export refunds were discussed during the enquiry, their reintroduction was ruled out.

### **Developing industry prospects globally**

In the medium and long term, international trade is paramount to the development and growth of the British dairy sector. In a growing global market with emerging dairy countries, the UK has a key role to play. Although the UK is “a bit late to the party”, there are still some significant development opportunities, especially in Africa, Asia and India.

Major producing countries sometimes misunderstand expectations from importing countries. Today, most of the foreign markets are made of sophisticated buyers who know exactly what they are after and the UK can help meet that global demand for high quality dairy products. Defra is working closely with UKTI and other Government branches to promote British dairy products abroad and open new markets.

**The Dairy APPG recognises the Government’s ongoing commitment to develop export opportunities for the dairy industry but believes that more can be done to explore new markets to promote great British dairy products.**

However, more can be done to support and develop exports. European processors are struggling to find new market opportunities and are deterred by high tariffs and trade barriers<sup>7</sup>. This puts European dairy companies at a disadvantage compared to countries such as the US or New Zealand. The European Commission should help create new FTAs to remove trade barriers. In the UK, removing trade barriers would particularly help Northern Ireland whose dairy industry relies

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<sup>6</sup> See Appendix 1

<sup>7</sup> Dr Judith Bryans, Dairy UK, Session 6 The EU Milk Package, 14<sup>th</sup> January 2015

heavily on exports. Of course, any free-trade agreement should be negotiated cautiously and thoroughly to avoid any risk of unbalance.

**The Dairy APPG asks the Government to work with the European Commission to develop new free-trade agreements and help the UK overcome high tariffs and trade barriers.**

## A Skilled Industry

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Developing the economic sustainability of the British dairy industry also requires ensuring the right people are available at the right time. This means a strong focus on recruiting, training and retaining a skilled workforce at every stage of the dairy supply chain. By 2020, 147,000 replacement people needed across the whole of the land-based sector. This includes all levels of qualifications, from technical qualifications to higher levels of management. Additionally, many positions available in the dairy sector now require both technical and management skills for staff to reach their full potential<sup>8</sup>.

Recruiting new entrants is a challenge. Farming and processing are not always perceived as good career paths. Although the Government has focused on apprenticeships in the last few years, the uptake in agriculture has not been as high as expected. All agricultural sectors combined, there were only 532 apprentices in 2014 down from 756 in 2013. The culture of apprenticeships in land-based industries is also losing momentum as active farmers are sometimes reluctant to take on new apprentices for different reasons: health and safety concerns, isolation of the workplace, time invested in training, need for housing and transportation.

It is also crucial for the industry to focus on translating knowledge, i.e. adapting research into skills and training, from science to manufacturing. Research and development in the dairy industry is growing fast, companies evolve quickly and there is a concern that colleges and training bodies might lag behind. Industry and colleges need to work closely together so that colleges can keep up with, and incorporate, the latest R&D in their curriculum. Some colleges have invested heavily in robotics to give the new generation all the tools and abilities needed to master new herd management techniques.

In order to retain a skilled workforce, the dairy industry must also focus on Continuing Professional Development (CPD) and maintaining high levels of health and safety in the workplace. Dairy Pro, the professional development register for the dairy industry, was set up in 2012 to help dairy industry staff develop their careers. It offers individual records of training, a database of events, discussion forums and partnerships with a wide range of companies. In two years, 800 members have signed up, a third of which are under 30 years old.

Sharing knowledge and best practice has proven extremely effective within the industry. Research undertaken by Dairy Pro on the benefits of engagement and discussion among 119 members has shown that 45% had managed to lower their production costs thanks to new ideas<sup>9</sup>. The industry is also developing mentoring networks to help the transfer of knowledge from current to new generations.

The dairy industry also set up a foundation degree in dairy technology at Reaseheath College called Project Eden. The programme covers all aspects of dairy technology including practical hands-on craft skills, key science principles associated with dairy and the process improvement techniques required to run an efficient modern dairy operation. Many dairy companies are involved in the project offering work placements and partnerships.

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<sup>8</sup> Madge Moore, Lantra, Session 5 Training and skills, 3<sup>rd</sup> December 2015

<sup>9</sup> David Cotton, Dairy Pro, Session 5 Training and skills, 3<sup>rd</sup> December 2015

Last but not least, an economically sustainable industry must rely on high standards of health and safety in the workplace, from farm to fork. The Health & Safety Executive estimates the cost of poor health and safety to UK business to be between £11bn and £14bn. Understanding and managing risks can not only save companies millions of pounds but can, above all, prevent injuries and save lives. The dairy processing sector has higher risks than other food and drink sectors as it involves many distribution activities including collection and delivery, manual handling and lorry driving. Therefore, good health and safety intertwines with good business performance. The Dairy UK Occupational Health and Safety Committee has developed a wide range of guidelines outlining best practice in dairy plants<sup>10</sup>.

The industry faces an additional challenge with a diverse migrant workforce. With sometimes more than ten different languages spoken at a single processing plant and fairly poor levels of spoken English, it is crucial that the industry should have the resources to train workers adequately. Therefore, many training resources are available in DVD format or pictures rather than written words.

Migrant workers are also a significant part of the farming sector with one third of producers having employed foreign labour according to the Royal Association of British Dairy Farmers<sup>11</sup>. 57% of migrant workers were from Poland, along with a significant number from the Baltic States, particularly Latvia and with a range of other countries outside the EU, from the Philippines to New Zealand. Almost 56% of farmers indicated they expected them to stay for two years or more; very few regarded them as transient or temporary.

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<sup>10</sup> Andy Melachrino, Dairy UK Occupational Health and Safety Committee, Session 5 Training and skills, 3<sup>rd</sup> December 2015

<sup>11</sup> Royal Society of British Dairy Farmers, written evidence

## Part 2 – A Sustainable Supply Chain

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### Defining Sustainability

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Sustainability is not just about the environment. It is a complex concept which encompasses several aspects including productivity, profitability, environmental issues and social sciences. A sustainable industry is one that manages to find the right balance between all pillars. According to the Dairy Sustainability Framework, a sustainable industry is a “vibrant dairy sector committed to continuously improving its ability to provide safe and nutritious products from healthy cattle, while preserving natural resources and ensuring decent livelihoods across the industry”. Sustainability should be embedded in everything the dairy industry and other food and drink industries do<sup>12</sup>.

At present, the UK is leading global sustainability efforts. It is useful to benchmark the industry’s performance against other national industries. The Dairy Sustainability Framework is a global platform which allows members from across the world to compare and contrast, share and learn from each other. It also allows an analysis of on-going improvements and overall changes globally. It also helps members identify their own sustainability priorities according to their specific characteristics; e.g. with a high self-sufficiency in animal feed production, the US does not have the same goals as the UK which may have to import more.

### From healthy animals to healthy humans

There have been huge improvements in the health and welfare of dairy cows in the past thirty years due to a combination of improved feeding, breeding and on-farm management coupled with an improving bond between farmers and their veterinary surgeon<sup>13</sup>. However 30-50% of dairy cows are still affected by some form of metabolic disease often sub-clinical at calving.

There is now a clear delineation between high-output herds where often cows are housed on a fairly permanent basis and where milk yields are around 7,000 to 8,000 litres and pasture based systems where milk yields are typically around 5000 litres. Pasture based systems often have a much lower cost of production as they rely heavily on grass and grass products.

The veterinary requirements for both systems vary enormously but dairy farming can generally be characterised by good farmer knowledge and skill. However, mastitis, lameness and fertility are still the three most common issues affecting the ‘bottom line’ for farmers. Although there have been significant attempts by the dairy sector to address these issues, progress has been slow.

Anti-Microbial Resistance (AMR) is an important area of work for the industry, with dry cow therapy being a key area of concern. It is important that farmers keep accurate medicine book records with the help of suitable frameworks set up by Red Tractor and other assurance schemes. Part of the issue is the size of veterinary medicine packaging can often be larger than needed and therefore means that the amount of product sold does not always reflect actual usage.

The devastating and on-going presence of bTB continues to be a cause of great concern. Farmers also need to control endemic diseases such as Bovine Viral Diarrhoea (BVD) or Johne’s disease.

Veterinary science is becoming increasingly specialised and the need for robust scientifically proven evidence is key. A balanced approach is needed to ensure that appropriate farm health

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<sup>12</sup> Brian Lindsay, Dairy Sustainability Framework, Session 3 Farming and supply chain integrity, 19<sup>th</sup> November 2015

<sup>13</sup> Peter Jinman, veterinarian, Session 3 Farming and supply chain integrity, 19<sup>th</sup> November 2015

planning via a good farmer/vet relationship leads to continuing improvement in dairy cow health and welfare.

### **A robust supply chain**

The dairy industry does not stop at the farm gate. The dairy supply chain in the UK is short and efficient and a lot of work is dedicated to ensuring the highest standards of food safety and hygiene throughout the chain. If one side of the supply chain fails, all other sides are impacted. The industry needs to prevent issues and protect consumers from potential issues while managing their expectations.

The dairy industry has a robust approach to food safety and the potential for fraud or contamination is extremely low. However, the industry is not complacent and makes every effort to prevent potential risks. Therefore, a Due Diligence Scheme was set up through which stringent tests are conducted on milk and dairy products in accredited labs. These tests include surveillance for key contaminants in milk such as lead or pesticides. The Scheme also monitors sample testing results effectively.

The industry also tests thoroughly for any contamination by antibiotics to ensure milk containing antimicrobial residues does not enter the food chain. Testing methods have evolved greatly recently and allow for much more precise results; samples are now traced directly to the cows rather than the milk silos.

Following the Elliott Review on the integrity of the food supply chain, Dairy UK launched an industry Risk Register<sup>14</sup>. The register contains common risks that any dairy company can be open to, including both fraud and contamination issues. The register adds an extra level of protection to what is already a safe supply chain. The register can be taken further by individual companies by taking into account additional ingredients or supply chain complexities specific to each company.

In terms of food safety, it is important to protect industry information as raw data can easily be misunderstood or misinterpreted by the public and the media, sometimes leading to scare stories with a strong and negative impact on the sector. It was pointed out that the dairy industry believes all milk should be pasteurised and sales of raw drinking milk should not be allowed as health risks due to consumption of unsafe raw drinking milk are high.

## **An Environment Conscious Industry**

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### **Collaborative approach from farm to fork**

From farm to fork, the dairy industry is working hard to mitigate its impact on the environment. Environmental stewardship schemes can help increase the overall profitability of a dairy farm significantly and mitigate its environmental cost. The Dairy Roadmap is a supply chain initiative, setting challenging targets and covering all aspects of the environment. It is a leading example not only in the UK but globally and progress on-farm and in the processing sector has been significant. It is a living document which takes into account new developments and can adapt targets accordingly.

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<sup>14</sup> Calum McGregor, Dairy UK Science & Technology Committee, Session 3 Farming and supply chain integrity, 19<sup>th</sup> November 2015

Dairy farmers in the UK are actively involved in environmental initiatives and measures at farm level. The proportion of dairy holdings with a nutrient management plan has reached 79%, up from 60% in 2009. Nutrient Management plans help farmers and growers to plan the use of fertilisers and manure, meet regulatory demands and protect the environment.

70% are actively reducing greenhouse gas emissions. The latest Roadmap report highlighted an increase in the number of farmers calculating carbon footprints and implementing carbon reduction plans. Dairy producers are also focusing on water re-use at farm level and 100% of British dairy farmers actively recycle, with recycling efforts driven through the Red Tractor scheme<sup>15</sup>.

The report also shows increased investments in renewable energies such as windmill, solar panels or anaerobic digesters, mainly thanks to incentives from the Government. Investing in renewable energies can have a tangible impact on input costs as farmers can insulate themselves from future energy price increases. It provides them with a consistent income other than the income from milk. It also brings energy usage down to sensible levels and enables them to ride out periods of low milk prices.

In order to track its achievements, the processing sector has set up an Environment Benchmarking tool which allows processors to track their performance and identify areas for improvement. Preliminary results have shown that the industry has made significant environmental strides over the last six years.

The Climate Change Agreements have had a significant impact on the dairy processing sector. In terms of energy use, processors have achieved an 8% increase in energy efficiency since 2008, meaning they are on track to meet the Climate Change Agreements and Dairy Roadmap 2020 targets of 13.6% and 15% respectively.

Processors also attained a 74% reduction in the amount of waste sent to landfill per tonne of milk input and demonstrated a staggering 176% increase in the amount of waste recycled or recovered per tonne of milk input<sup>16</sup>.

Improving the industry's environmental impact can have a direct impact on profitability. For example, recycled waste becomes a secondary resource and becomes an income instead of a cost. Recycling strategies also allow for more predictability in terms of expenditure, with the ability to plan ahead and establish long term contracts with recycling companies.

### **Waste prevention across the supply chain**

Waste prevention is a key aspect of a sustainable industry. Leading members of the dairy industry are active signatories of WRAP's Courtauld Commitment, a long-term plan originally focused on household waste reduction and which now includes manufacturing waste. Preliminary results showed significant progress across the food and drink sector with savings up to £5bn and a 12% reduction in post farm gate waste between 2007 and 2012. The 3<sup>rd</sup> phase of the commitment projects £1.6bn in savings.

On the processing side, optimising packaging is an important part of waste prevention. This includes recycling plastic materials, reducing the carbon footprint through higher quality packaging, increasing the recycled content of dairy packaging and reducing the pigmentation in milk bottle caps.

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<sup>15</sup> Rob Harrison, Dairy Roadmap, Session 4 Environment, 26<sup>th</sup> November 2014

<sup>16</sup> Richard Laxton, Dairy UK Sustainability & Environment Committee, Session 4 Environment, 26<sup>th</sup> November 2014

Consumers also have a role to play in the industry's sustainability efforts. Although avoidable household food waste went down by 21% between 2007 and 2012, WRAP data on household waste shows that an average British family still throws away around £700 worth of food per year. The dairy-specific figures are cause for concern: 50% of all wasted yogurt is thrown out unopened and half of the cheese which isn't eaten is thrown away in packs that are more than half full.

Household food waste is often linked to consumer concern around shelf life and storage of fresh foods. Therefore, a number of options can be explored to address these concerns. Resealable cheese packs have proven popular with consumers as well as smaller yogurt pots, and the dairy industry has improved its use of date labels.

One challenge is to find the right balance between efforts to reduce household waste and optimised packaging. Smaller yogurt pots might reduce food waste at home but might lead to more packaging. The key is to optimise dairy packaging through lightweighting or increasing the recycled content to offset the cost of packaging.

Collaborative work between the retail sector and the dairy industry should be encouraged to try and identify successful methods to prevent food waste at home through innovation and new technologies. It is crucial that there should be no restriction on the industry's ability to innovate and be competitive.

Half of the reduction in household food waste from 2007 to 2012 is attributed to the action of the Courtauld signatories and other partners in Love Food Hate Waste. Local authorities communicating with their residents have also been instrumental. Creating awareness around the issue is crucial. Consumer understanding in terms of waste is lacking and needs to be improved upon. Greater clarity for consumers on what 'use by' or 'best before' dates mean and how to use them will help in this respect.

## Part 3 – Understanding Dairy

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### The Role of Dairy in Nutrition and Health

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Milk, cheese, yogurt and all dairy products have an important role to play as part of a healthy and balanced diet. A vast number of studies across the world have demonstrated how milk and dairy can help prevent diseases, protect one's wellbeing and contribute to healthy ageing.

Looking at disease prevention, a study published in 2014 and covering 2,500 test subjects showed that milk consumption could help reduce the occurrence of heart disease, strokes and diabetes<sup>17</sup>. This study was followed by an overview of all available published data, i.e. 30 observational studies in which 1,132,000 subjects were followed from four to 28 years. This overview showed that the fifth of subjects with the highest milk intakes had a reduction of around 8% in incident heart disease, almost 20% fewer strokes and around 20% fewer developed diabetes.

Recent studies are also reconsidering the supposed links between fat and heart disease. In 2014, a case-control study of 16,000 test subjects across Europe focused on the relationship between individual saturated fatty acids and type 2 diabetes. Odd-chain fatty acids, including fatty acids 15:0 and 17:0 associated to dairy consumption, were negatively associated with diabetes. These results are the latest in a series of studies that have indicated a protective effect against type 2 diabetes from dairy fats.

Dairy is the main provider of calcium in the UK diet. In addition it also supplies a number of other nutrients important for bone health and development including protein, phosphorus and magnesium. As a result, dairy also plays a key role in developing and maintaining healthy bones. Calcium found in milk and dairy is important in helping to develop bone strength and quality, especially in children whose growth and skeletal development can be negatively impacted by a lack of calcium. As the majority of skeletal development takes place during childhood and adolescence, low calcium intake in children and teenagers is a cause of concern. Similarly, dairy is crucial to maintaining bone strength as we get older. Dairy may also contribute to healthy ageing by providing an excellent source of protein and other nutrients at a time of life when people tend to eat a little less.

Milk also has sporting benefits. Milk has been found to be amongst the most efficient recovery drinks after exercising thanks to its wide range of natural nutrients<sup>18</sup>. Indeed, dairy products contain carbohydrates which can be used as fuel by the body and good quality protein which is important for muscle strength and recovery. Milk also naturally contains electrolytes, i.e. sodium and potassium, which makes it an excellent post exercise rehydration source.

Many people cite lactose intolerance as a reason for not consuming dairy foods<sup>19</sup>. However, the APPG noted that this is a commonly misunderstood condition. Studies have shown that even people who have lactose intolerance, i.e. do not produce enough of the enzyme needed to break down lactose, can consume yogurt and cheese without symptoms. Milk protein allergy and lactose intolerance are entirely different conditions but people confuse the two. People diagnosed with milk protein allergy need to remove dairy from the diet but many children who are diagnosed with this allergy grow out of it by the time they reach school age.

The dairy industry is taking measures to bring some of the latest science to the fore through a series of projects being run jointly by The Dairy Council and DairyCo.

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<sup>17</sup> Prof Peter Elwood, Cardiff University, Session 2 Public health and nutrition, 5th November 2014

<sup>18</sup> Dr Thomas Hill, Newcastle University, Session 2 Public health and nutrition, 5th November 2014

<sup>19</sup> Catherine Collins, St George's Hospital NHS Trust, Session 2 Public health and nutrition, 5th November 2014

## Addressing Misconceptions

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Perceptions of food and nutrition evolve regularly. Today, people tend to wonder what food can do for them beyond the simple act of eating. In the last thirty years, dietary trends and milk consumption in the UK shifted dramatically from whole milk to skimmed and semi-skimmed milk. This can be explained by a number of public reports singling out fat, sugar and salt as the source of health issues. These views are often relayed in alarmist consumer media reports, often misunderstanding the scientific background and lacking expert analysis by dietitians.

Although it is easy to focus on individual components such as salt or fat, the reality is much more complex. Natural foods should not be considered as a juxtaposition of separate components. It is crucial to understand the broader food matrix and its effect on health and diet. Understanding the food matrix means understanding what and how people eat, the links and the impact of food combinations and lifestyle on their health. For example, a regular milk drinker might tend to have cereals with the milk while eating cheese is often linked to bread or fruit. It is simplistic and unrealistic to isolate one food category from others as their impact are linked.

Going further, natural foods like dairy products are more than just a list of individual nutrients. Dairy products are nutrient-rich foods, with a combination of several nutrients including calcium protein, potassium, and much more. Although calcium is usually the main nutrient associated to dairy, the amount and quality of protein contained in dairy is often under-appreciated. All the different nutrients interact with each other and play key roles in a healthy diet.

It is high time that we try to grasp the complexity and richness of natural dairy products rather than focus on unrealistic reduction targets for specific nutrients which ignore the bigger picture.

Therefore, most recommendations to isolate nutrients and focus on specific components can be counterproductive. A large number of nutritionists, dietitians and scientists do not support traffic light labelling on natural foods<sup>20</sup>. A block of cheese might tick all the wrong boxes according to a profiling model based on fat and salt and as a result carry red flags on its label but that ignores all of the other nutrients it contains. However, incorporating adequate portions of cheese in a balanced diet is one of the many ways to meet recommended intakes of nutrients such as calcium and potassium.

## Promoting Milk and Dairy Products

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A recent survey by The Dairy Council and DairyCo showed that milk and dairy products could be found in 98% of households in the UK. Dairy has always been a staple of the British diet and its popularity stems not only from the diversity of products available but also consumer confidence in natural and wholesome British foods. The British dairy industry's standards of quality, food safety and hygiene are among the most robust in the world, thanks to a short and efficient supply chain.

Milk and dairy products are well rounded, wholesome and natural products that meet consumer expectations and nutritional requirements. The promotion of milk and dairy as nutrient-rich foods should underpin every positive message about dairy.

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<sup>20</sup> Catherine Collins, St George's Hospital NHS Trust, Session 2 Public health and nutrition, 5th November 2014

**The Dairy APPG recommends that Parliament and Government support industry efforts to promote British milk and dairy products across the country and that the nutritional value of dairy products to the UK diet should be recognised by the Department of Health.**

**The Dairy APPG believes that encouraging dairy consumption from a young age should be a priority. Milk and dairy are paramount to children's health, growth and wellbeing and positive messages about dairy consumption in school food standards should be a priority.**

As milk and dairy supply nutrients which are important to children's health and growth, encouraging dairy consumption from a young age should be a priority. The ever popular Nursery Milk Scheme provides 1/3 pint of milk per day to every child under 5 years old attending childcare facilities in the UK. A recent review of the school food standards added several recommendations to include milk and dairy products to school menus. The dairy industry is working hard to encourage consumption from a young age and needs the support of the Government to do so.

**A key message in the promotion of dairy focuses on provenance. It was noted that consumers have trust in British products and are likely to prefer easily identifiable British dairy products. The Dairy APPG strongly supports the introduction of mandatory Country of Origin Labelling. This would help the British dairy industry showcase its products and reassure consumers on their provenance.**

Another way to support British dairy is through public procurement of British goods. The Bonfield Report on public procurement published in July 2014 strongly urges local authorities, schools, hospitals and all other public bodies to prefer British milk and dairy rather than resort to imports<sup>21</sup>. There might be scope to go further and encourage dialogue between public structures and local suppliers to ensure new supply contracts are put in place.

**The Dairy APPG believes that public procurement guidelines should encourage the use of British milk and dairy products and urge local authorities, schools, hospitals and all other public bodies to prefer British milk and dairy.**

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<sup>21</sup> Mark Filley, Defra, Session 6 The EU Milk Package, 14<sup>th</sup> January 2015

## Recommendations

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1. The Dairy APPG believes that as private mechanisms to help smooth volatility are not yet well developed in the UK, short-term measures are required to help stabilise the market and alleviate pressure on dairy farmers. In the short-term, the EU must play a residual role in minimising extreme downward price volatility, through intervention purchasing at a higher reference price. This would send a strong signal to the market, encourage buyers back into the market and help stabilise prices.
2. The Dairy APPG encourages support for industry efforts to explore new ways to mitigate the impact of volatility, including the development of futures markets. Futures markets could help deliver greater stability for farmers as prices can become more stable, with fewer variations from low to high.
3. The Dairy APPG has welcomed the Government's announcement to lay a statutory instrument before Parliament to allow the Grocery Code Adjudicator to levy substantial fines on any retailer that is found to be in violation of the Grocery Supply Code of Practice. To give confidence to farmers that they are receiving a fair deal the UK Government should examine the practicality of extending the Adjudicator's remit down the supply chain.
4. The Dairy APPG recognises the Government's ongoing commitment to develop export opportunities for the dairy industry but believes that more can be done to explore new markets to promote great British dairy products.
5. The Dairy APPG asks the Government to work with the European Commission to develop new free-trade agreements and help the UK overcome high tariffs and trade barriers.
6. The Dairy APPG recommends that Parliament and Government support industry-wide efforts to promote British milk and dairy products across the country and that the nutritional value of dairy products to the UK diet should be recognised by the Department of Health.
7. The Dairy APPG believes that encouraging dairy consumption from a young age should be a priority. Milk and dairy are paramount to children's health, growth and wellbeing and positive messages about dairy consumption in school food standards should be a priority.
8. The Dairy APPG strongly supports the introduction of mandatory Country of Origin Labelling. This would help the British dairy industry showcase its products and reassure consumers on their provenance. Consumers have trust in British products and are likely to prefer easily identifiable British dairy products.
9. The Dairy APPG believes that public procurement guidelines should encourage the use of British milk and dairy products and urge local authorities, schools, hospitals and all other public bodies to prefer British milk and dairy.

## Witnesses

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

### Trade and the economy – 29<sup>th</sup> October 2014

**David Christensen**, Dairy farmer

**John Giles**, Promar International

**Andrew McLay**, Promar International

### Public health and nutrition – 5<sup>th</sup> November 2014

**Prof Peter Elwood**, Cardiff University

**Dr Thomas Hill**, Newcastle University

**Catherine Collins**, St George's Hospital NHS Trust

### Farming and supply chain integrity – 19<sup>th</sup> November 2014

**Peter Jinman**, Veterinarian

**Brian Lindsay**, Dairy Sustainability Framework

**Calum MacGregor**, Dairy UK Technical & Scientific Committee

### Environment – 26<sup>th</sup> November 2014

**Rob Harrison**, Dairy Roadmap

**Richard Laxton**, Dairy UK Sustainability & Environment Committee

**Dr David Moon**, WRAP

**Sophie Easteal**, WRAP

### Training and skills – 3<sup>rd</sup> December 2014

**Andy Melachrino**, Dairy UK Occupational Health & Safety Committee

**Madge Moore**, Lantra

**David Cotton**, Dairy Pro

### EU Milk Package – 14<sup>th</sup> January 2015

**Mark Filley**, Department for Environment, Food and Rural Affairs

**Sian Davies**, National Farmers Union

**Dr Judith Bryans**, Dairy UK

## Appendix – Letter to European Commissioner Phil Hogan



HOUSE OF COMMONS  
LONDON SW1A 0AA

### DAIRY ALL-PARTY PARLIAMENTARY GROUP

Mr Phil Hogan  
Commissioner for Agriculture and Rural Development  
Berlaymont Building  
Rue de la Loi 200  
B-1049 Brussels

15 January 2015

Dear Commissioner Hogan,

#### Support measures for the dairy industry

The Dairy All-Party Parliamentary Group (APPG) held its final evidence session this week as part of an enquiry on the sustainable competitiveness of the dairy industry in the UK. This session focused on the EU Milk Package and how to manage price volatility and the APPG received evidence from Dairy UK, the National Farmers Union and the Department for Environment, Food and Rural Affairs.

Although long term prospects are positive, all participants are acutely aware that the dairy industry is experiencing extremely difficult times, both in the UK and abroad. The dairy industry has a bright future and its goal is to be a market orientated sector with minimum public support. However, dairy markets are inherently volatile and private sector solutions to mitigate price volatility have yet to mature. Futures markets are developing but they are not effectively available to UK dairy farmers at the present time.

Exceptional circumstances call for exceptional measures and we must all be realistic about the current situation. Until futures markets have developed, the European Union must play a residual role in minimising extreme downward price volatility, through intervention purchasing at a higher reference price. This would send a strong signal to the market, encourage buyers back in the market and help stabilise prices.

The use of intervention should be budget neutral as costs would be recovered when products are released and sold. It is important to remember that the Commission made a profit last time it resorted to intervention.

We are not asking the Commission to set an artificially high support price. We are simply asking the Commission to use its emergency resources as an effective safety net to moderate the bottom of the price cycle and ease the pressure on farmers and processors. In time, the industry will be able to manage the effects of price volatility and will not require Commission measures at the next market downturn.

#### Secretariat

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HOUSE OF COMMONS  
LONDON SW1A 0AA

**DAIRY ALL-PARTY PARLIAMENTARY GROUP**

The current intervention price is too low to prevent destructive and needless loss of production capacity. We must act now if we want to ensure a sustainable future for our great British dairy industry.

I look forward to hearing back from you.

Yours sincerely,

Neil Parish MP  
Chairman  
Dairy All-Party Parliamentary Group

**Secretariat**

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**DAIRY ALL-PARTY PARLIAMENTARY GROUP**