LOOK OUT FOR
More business news p26
Land and property market update p73

At last, DEFRA takes food security seriously
David Richardson Opinion p31

RINGSIDE AT... Bentham auction mart
Turn to page 127 for our report on last week's sheep sale

As dairy farmers continue to leave the industry and milk prices head south, how are the main players reacting to the challenges that confont them

Dairy survival plan under the spotlight

By Philip Clarke
Economics and world editor

Six months ago the NFU launched its so-called *Survival Plan for British Dairying*.

The document contained 35 different challenges and recommendations for the whole industry – including the NFU and dairy farmers – which it said were needed to "prevent an erosion of critical mass from the British dairy sector".

Its ultimate aim was to see UK milk production back on the increase in the 2010/11 milk year.

So how have things been going and is the sector on track to achieve that important objective?

FOR PROCESSORS/ MANUFACTURERS

The key challenges for milk processors and dairy manufacturers were to:

- **Offer farmers new milk contracts in line with the NFU template**
- **Improve efficiency and cut costs**
- **Maintain/increase advertising expenditure**

✱ The response with regards to changing milk contracts has been mixed. The dairy trade is, in the main, still fiercely protective of the contracts that exist and some milk buyers told us that they would not be "held against the wall by the NFU or anyone else".

Co-ops, such as Milk Link, argue that they are owned by their farmers, so contracts are freely negotiated with members and there is no great desire to change them. Arla Foods UK, a wholly-owned subsidiary of Scandinavian co-op Arla Foods Amba, agrees that its contract is fit for purpose, having been agreed with farmer representatives in the Arla Foods Milk Partnership.

Private companies, like Robert Wiseman Dairies, say they also work closely with their farmers to provide "stability and flexibility". The Wiseman contract only requires three-to-four months' notice from a farmer, compared with two years from the buyer. They also point to their position in the league tables, arguing that their contracts are delivering the best prices around.

But there are some signs of change. Co-operative First Milk says it is reviewing its contracts after what it describes as "constructive discussions" with the NFU. "We will consult within our business and develop a revised contract that better suits the needs of our members and our business," said a spokesman.

Dairy Crest is also looking at its contracts with farmers. It plans to introduce more flexibility with regards to notice periods, change profile payments and place less emphasis on butterfat. And Wyke Farms is reviewing its contracts, "using the NFU template as a basis for discussion". It wants to improve clarity, revisit notice periods and introduce new pricing systems that can cope better with market volatility. Both companies share many of the NFU's objectives, but insist it is work they would be doing anyway.

With regards to efficiency, there are plenty of examples of milk buyers investing in 2009. Wiseman continues to expand facilities at its massive Bridgwater site and is poised to open a new distribution facility at Amesbury. Arla is investing £70m at its flagship dairy at Stourton, Leeds, and has launched a "war on waste" across the supply chain. Dairy Crest has brought a new cheese packing facility at Nuneaton into operation. Milk Link is implementing energy efficiency programmes at Lockerbie Creamery and Crediton Dairy, while First Milk has reduced staff costs. Dairy UK has also completed its Manufacturing Excellence Programme, including 11 masterclasses in processing techniques.

As for advertising, there is evidence that the sector is reining in the amount it spends on promoting its products. Total expenditure in the past milk year came to £119m, according to Nielsen Media Research, compared with £126m the year before. And so far this milk year, the dairy industry has spent £8.5m a month compared with £11.7m a month in the same period last year – a 27% decline.

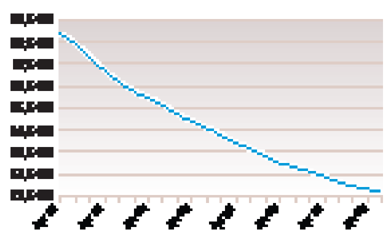
Many milk buyers believe their contracts are already delivering for farmers.

British Dairying - an industry in danger of losing critical mass

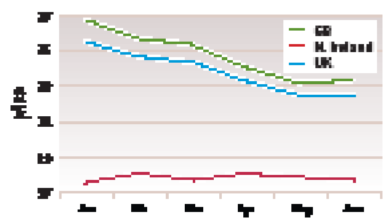
Utilisation of milk by UK dairies – 2008/09

GRAPHIC: AL GRANT

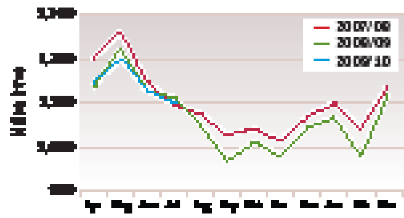
Producer numbers – England & Wales



Average farmgate prices – 2009



UK milk production



Source: *Dairy Co*

> "Action must be taken now to prevent an erosion of critical mass in the dairy sector. Dairy farming rests on the edge of a precipice and we all – farmers, consumers, government, processors, retailers and representatives – have a role to play in ensuring its survival."
> *NFU Survival Plan for British Dairying, February 2009*

OUR VERDICT

➘ Two years after its initial launch, it is clear that many in the dairy trade have rejected the NFU's template contract. To some extent that's understandable, as there does not seem to be a massive clamour either from grassroots farmers or their supplier group representatives for change. But the NFU's objectives to bring more clarity, flexibility and a fairer balance are still valid and it is encouraging that some players are now revisiting the issue. With increasing market volatility, the end of quotas in sight and the ongoing shrinkage of the UK milk pool, it is clear contracts will have to adapt.

With regards to efficiency, the record is better, with many processors continuing to upgrade facilities and Dairy UK orchestrating efficiency improvement programmes. A full processor benchmarking scheme would be a welcome next step.

On advertising, it is disappointing to see spending being cut, especially as the rate of decline is accelerating. In a recession, advertising budgets are one of the first things to go, but that is a short-term response that risks long-term damage.

FOR RETAILERS

The key challenges for retailers were to:

- **Increase the proportion of British dairy produce on sale**
- **Use the Red Tractor logo on all own-label dairy products**
- **Set up dedicated supply chains for cheese**

✱ The response in relation to selling more British dairy produce has been less than convincing. All of the retailers talk about their commitment to domestic produce. Tesco, for example, says 100% of its fresh and UHT milk is British, as is 90% of its Cheddar. Imported Cheddar only goes into its Value range, it adds, to cater for more cash-strapped customers. Asda and Morrisons also claim over 90% "British" for their Cheddar, while Sainsbury's says "98% of dairy products that could be sourced from the UK do come from UK milk". Next week Sainsbury's will also move its entire own-label yogurt range to British milk, except for things like French set yogurt and fromage frais, which will stay French for provenance reasons.

But doubts remain. Overall, imports of Cheddar to the UK are 23% up this year, after last year's 30% increase, and most supermarkets have been aggressive with their price promotions, putting real pressure on cheesemakers and, in turn, on dairy farmers. If retailers say they are not taking imported cheese, where is it all going?

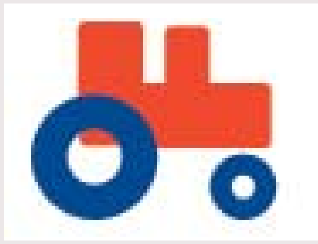
As for use of the Red Tractor logo, there has been some good progress. There is already almost 100% coverage on drinking milk, and Asda, Sainsbury's and Tesco say 100% of their own-label British cheese also has the logo. Last week Morrisons started to roll out the Red Tractor on all 113 lines of its own-label cheese. This, it says, has been a direct response to the NFU's *Survival Plan*. But, again, getting detailed data is hard. Even Assured Food Standards, which runs the Red Tractor scheme, only carries out an annual audit by food category. Of the £8bn of British food carrying a Red Tractor last April, about 25% was dairy.

With regards to dedicated supply chains for cheese, only Sainsbury's has made a move, setting up its Cheese Development Group with Milk Link last February.

OUR VERDICT

➘ The dairy sector is better than many in terms of British sourcing, especially for hard cheese, butter and liquid milk. But there is always room for improvement, especially for fresh products and speciality cheeses. There is also pretty good uptake of the Red Tractor logo by most of the big players.

The move by Sainsbury's to set up a dedicated supply chain for cheese is welcome, but needs to go further by offering farmers involved a premium price. Others should follow suit.



The Red Tractor is widely used, but often hidden on the backs of packs.

FOR FARMERS

The key challenges for dairy farmers were to:

- **Do more benchmarking of their businesses**
- **Use the NFU/*Farmers Weekly* Inputs Price Monitor and seek out best deals on inputs**
- **Engage in knowledge transfer**

✱ The response has been varied. DairyCo informs us that it is ahead of its target to get 150 farmers using its Milkbench+ system this year and has recently allocated £500,000 towards delivering 500 Milkbench+ accounts by the end of next milk year. Kingshay says it has seen about a 5% increase in the number of farmers using its full costings service this year, and a more significant increase in the number of organic farmers monitoring margin over purchased feed.

On the inputs side, it's hard to know what action farmers are taking in tracking down the best deals. But we do know that there has been a relatively poor uptake of the Inputs Price Monitor by dairy farmers, with arable farmers much more active in using the service.

But when it comes to knowledge transfer, the uptake seems more positive. DairyCo is on target for 120 discussion groups by its extension officers this year, compared with just five three years ago. Two recent events on cross-breeding attracted more than 50 farmers each, while three spring walks with the British Grassland Society and the Royal Association of British Dairy Farmers had an attendance of over 500 dairy farmers.

OUR VERDICT

➘ From the information available, dairy farmers are becoming more businesslike, though there is still a long way to go when it comes to making best use of all the tools available.

➔p24

FOR GOVERNMENT

The key challenges for government were to:

* **Establish a TB eradication plan by end of April**
* **Increase procurement of British dairy produce in government departments**
* **Reduce the burden of dairy hygiene inspections for "farm assured" dairy farms**

✱ The response with regards to TB eradication has been for DEFRA to submit its draft eradication plan to Brussels on 29 April. But it will not complete the full plan until the end of September. This will outline the measures the UK is taking to control bovine TB, including DEFRA's badger vaccination trials.

On public procurement, DEFRA says it is working with other departments and public bodies to get them to "promote UK or equivalent animal welfare standards". But it insists it must "comply with the legal framework governing public procurement", which effectively means imports are OK so long as UK standards are met.

With regards to dairy inspections, the Food Standards Agency is to launch a second consultation later this year looking at the potential to reduce the frequency of dairy hygiene inspections for farm assured units, as is already the case for arable and livestock farms.

OUR VERDICT

On all three challenges to government, there have been some steps forward. But, as ever, they are very small and cautious steps, which are unlikely to make any immediate difference to dairy farmers.

FOR BANKS

The key challenge for banks was to:

* **Pass on base rate cuts in full and support dairy farmer investments**

✱ The response has been mainly positive. While the banks have been widely criticised over the past year for not passing on interest rate cuts, a recent NFU survey found that they have at least been continuing to lend to farmers, with most overdrafts charged at less than 5%.

OUR VERDICT

The banks have been generally supportive of British dairying, especially after the demise of Dairy Farmers of Britain, where affected farmers have received sympathetic treatment.

FOR DAIRYCO

The key challenges for DairyCo were to:

* **Increase the uptake of benchmarking**
* **Produce a "company progress report" monitoring processor performance**

✱ The response on benchmarking, as explained previously, has been positive, with the DairyCo board in May agreeing to pump more money into a new team to deliver 500 Milkbench+ accounts by March 2011. It has also put out to tender a planned new Company Strategy and Performance report, looking into seven big buyers and assessing things like efficiency, product portfolios and long-term aims. This must be delivered by the end of November.

OUR VERDICT

DairyCo has acted on the suggestions made in the *Survival Plan*, though much of what it is doing was already scheduled.

FOR THE NFU

The key challenges the NFU set itself were to:

* **Continue lobbying to improve milk contracts**
* **Lobby DEFRA to increase NVZ implementation to four years**
* **Intensify lobbying of the FSA to reduce the hygiene inspection burden on dairy farms**

✱ The response so far has been pretty mixed. The NFU has certainly been working hard to encourage buyers to adopt its template. But while this has triggered a high level debate, so far no big buyers have significantly changed their contracts. The NFU will be launching a new campaign on contracts at the Dairy Event in September.

On NVZ implementation, the NFU has written to DEFRA calling for a one-year extension for meeting the new rules, to reduce the burden of legislation on hard-pressed dairy farmers, especially after the collapse of Dairy Farmers of Britain. So far it has had no response.

It has also requested a meeting with the Food Standards Agency to press the need to reduce the inspection burden for farmers.

OUR VERDICT

The challenges the NFU set itself seemed carefully worded. "Work with", "call for", "continue lobbying", "maintain scrutiny" are things it does on a daily basis anyway. Much of its time has also been taken up with the fall-out from the collapse of Dairy Farmers of Britain. Yes, it has worked hard over the past six months on its *Survival Plan*, but in terms of actual delivery its successes so far are limited.

FOR DAIRY UK

The key challenges for Dairy UK were:

* **Support the call for a supermarket ombudsman**
* **Encourage UK members to develop proper contracts between processors and farmers.**

✱ The response with regards to the supermarket ombudsman has been broadly supportive, though Dairy UK sees this as a relatively minor factor in delivering better prices.

But on contracts, Dairy UK believes existing contracts are more than adequate, especially in the liquid sector, "offering the highest degree of evolution and diversity in the EU". Current contracts also encourage specialisation along the supply chain, it argues, insulating the sector from commodity markets. The key to better prices, Dairy UK suggests, is for farmers to secure all the bonuses on offer rather than to alter the terms of business.

OUR VERDICT

A supermarket ombudsman is on the way anyway and is an important factor in enforcing an effective code of practice. On contracts, we believe there is still plenty of room for improvement, especially in terms of giving farmers more transparency, greater stability and better opportunities to negotiate prices with buyers.

OVERALL *FARMERS WEEKLY* VERDICT

A lot has changed in UK dairying over the past six months, but much has stayed the same.

Latest figures from DairyCo show that the exodus of dairy farmers goes on, while milk prices have also continued to slide. Against these measures alone, it would be easy to conclude that the NFU's Survival Plan has failed.

That would be a mistake. If nothing else, the document has raised awareness across the industry of the serious plight dairy farmers are in. Over the past six months, most key players have done something to try to address the issues.

Of course, there is more to be done if the sector is to have any chance of reversing the decline in milk production by 2011 (see Editorial, p3). But there does seem to be a genuine effort going on to make the best of a bad job and the Survival Plan has been an important stimulus.