



Welsh Affairs Committee

Oral evidence: Dairy farming in Wales, HC 968

Tuesday 3 March 2015

Ordered by the House of Commons to be published on 3 March 2015.

[Watch the meeting](#)

Members present: David T.C. Davies (Chair); Guto Bebb; Geraint Davies; Glyn Davies; Jonathan Edwards; Nia Griffith; Simon Hart; Jessica Morden; Mr Mark Williams.

Questions 1-70

Witnesses: **David Handley**, Chairman, Farmers for Action, **Dr Hazel Wright**, Senior Policy Officer, Farmers Union of Wales, and **Aled Jones**, Dairy Board Chair, NFU Cymru, gave evidence.

Chair: Good morning. Mr Jones, Mr Handley and Dr Wright, thank you very much indeed for coming along here this morning. I will ask Glyn Davies to start off with a few questions, if I may.

Q1 Glyn Davies: Perhaps I am the only one on the Committee who has actually been a dairy farmer—I'm not sure—but I gave up 40 years ago. Welcome. All I want to do at the beginning is to set a general scene or allow you to set a general scene of just where we are. The first thing that would be useful for us would be to look at the position in Wales and the specific comparative position of Wales. Can you do that for us at the start?

Aled Jones: I will kick off if you like. We are a nation that probably exports half of our milk out of Wales, but the rest that we process in Wales—about 85%—will go into cheese. So we are predominantly a commodity cheese producer in Wales—and some butter as well. Of the volume that goes out of Wales, a lot will be liquid and powder.

Q2 Glyn Davies: As to the comparative position of Wales, what are the specific problems compared with, say, the rest of Britain or indeed the rest of Europe? That is for all three of you, to tell me your perspective on it.

Dr Wright: Welsh farmers, I would say, are more exposed to the commodities market than perhaps UK and GB farmers. One of the reasons I say that is due to retailer-aligned contracts. According to DairyCo statistics, about 4% of our producers are on retailer-aligned contracts, whereas in GB it is in the 20s and in the UK it is in the 20s as well. I would suggest that perhaps we are more exposed to that kind of market simply because we do not have the protection from better contracts.

Q3 Glyn Davies: What do you reckon, David?

David Handley: We are probably more comparable to the EU in the structure of farms—small or medium large. We are probably at a disadvantage especially in west Wales because of moving milk long distances. We have a lack of processing in Wales which is pretty disgusting, in my view, when you look at Pembrokeshire especially, a county with the number of cows it has, and why all processing has been allowed to go on the English side of the border. Because we are a commodity producer, we should have been at the forefront of what is available now. Global commodities are traded everywhere and we ought to have been in a position to be able to process the milk and get into those markets a lot easier and quicker than we are doing.

Q4 Glyn Davies: Looking at the current position—you must be looking at the outlook as well and what we might do to improve that—what is the general prognosis of where you think the dairy industry is going in Wales now?

Dr Wright: If I could jump on to the back of something David was talking about there, we are a low-value exporter and we import high-value products. That is something we need to re-address. David mentioned processing capacity and so on. I think we are in the situation where we produce things like cheddar and mozzarella, which are low-value cheese commodities, but we import very high-value ones. There is a dairy trade deficit, and in 2013 it was about £1.36 billion. That is quite scandalous given that we are good producers of dairy in this country. We need to be not just looking at export markets and saying, “This is what we produce. Just take it from us,” but looking to see what they want and working towards being attractive to our export communities.

David Handley: If you look at Scotland, they have basically pumped 40% grant aid into dairy farmers over the last 10 to 15 years, yet have done nothing to the processing sector. That is something that we all have to learn from, because we are in a supply chain, and a dairy farmer without a processor with modern, up-to-date, global commodity-producing facilities is always going to be on the back foot. If you look at the investment in Europe that is going into the global market, which is what we are being told all the time is one of our problems, then, from a governmental point of view, people have to be looking at how we can help in Wales to get that type of processing. If we do not, we are always going to be on the back foot.

Q5 Glyn Davies: Do you want to add anything, Aled?

Aled Jones: Yes. Let us think of some of the strengths that we have. David probably mentioned the concentration of dairy producers that we have in south-west Wales. It is probably one of the densest populations of dairy cows in Britain, which is a strength, and we should really attract processors. Historically, as well, they have been consistent producers. Granted we have lost a lot of producers since quotas have been with us for 30 years, but the core dairy-producing farms in south-west Wales and north-west Wales as well are consistent producers. So it should be attractive for processors to invest in our area.

Q6 Jonathan Edwards: I have a quick question. I think everybody would agree that we need to increase local processing, especially in south-west Wales. I know the demise of processing has had a huge impact on the wider economy, unfortunately, in south-west Wales. How would you go about increasing that capacity? Is there a role for Government or is it a matter for the industry itself?

Aled Jones: Processors would probably tell you that they invest in core sites, and they would probably look at the sites they have on the Welsh-English border and find the M4 corridor to be quite useful for transporting a lot of volume. But, there again, it does mean that all that milk is moving eastwards. The only large processing site that we have is in Haverfordwest. In north-east Wales you have a large liquid processor which has—and they would probably tell you—benefited hugely from support from the Welsh Government. Apart from those two, there is South Caernarfon Creameries in north-west Wales, a large cheese producer, and Glanbia on Anglesey. They are basically the main sites that you have.

Q7 Chair: I was at the opening of a processor on Friday, Abergavenny Fine Foods, which is exporting high-value cheese around the world. I have now got my plug in, I suppose, but it did strike me that it would be good if we could get a lot more processors like that around the place. I presume that in the scale of things it is probably quite small. How do we get more companies like Abergavenny Fine Foods building processors in Wales directly via the market? Can it be done without grant aid?

Aled Jones: I mentioned about Tomlinsons Dairies, for example. They have state-of-the-art liquid processing, which the Welsh Government have supported. The Dairy Task Force for Wales is trying to identify high-value niche products that can add value to Welsh milk and have it as a designated Welsh milk. There is quite a substantial amount of work involved in looking into these types of companies to set them up and to support them as well.

Q8 Geraint Davies: Can I ask Mr Jones whether he was implying that one of the constraints on investment was the fact that all the products were moving east in terms of logistics, the motorway system and all the rest of it? Is that a deterrent to investment and a reason for the need for extra Government support? In addition, do you think that the market is so weak in terms of prices and profitability that people simply do not want to invest in processing, or they do not have the money to invest in processing, and if times were better they might? What should be done?

Aled Jones: I would say that the main processors on the English-Welsh border are liquid processors. Of course, the volume of sales of those would be in England. But in terms of commodity markets, the big one in south-west Wales is Haverfordwest. First Milk, as you are probably well aware, has been in difficulties, but it is an area where they are obviously getting milk of a particular nature which is very favourable for producing commodities—high protein, high butterfat levels—which is what you require for that type of market.

Q9 Mr Williams: The two words I hear a lot when we are looking for longer-term solutions are efficiency and diversification. We all have meetings with farmers in our constituencies and there is a certain amount of scorn when those two words are bandied around. What do those words mean? What should farmers be looking to do, and I say that slightly tongue-in-cheek, knowing some of the obstacles particularly with the banks that a lot of the farmers in west Wales are facing? What should they be looking to do, and, critically, therefore, what are the obstacles to greater diversification and efficiency?

Dr Wright: Can I start that one? According to EDF—the European Dairy Farmers—UK farmers are about fifth in the UK for efficiency of production. We are not in any way at the bottom end of this league table for efficiency. We are not suggesting for a second that

efficiency is the crux of the problem that we have at the moment. I have to make that clear. Farmers already invest in quite a lot of new technologies when they can, and you have this cyclical problem whereby price volatility hinders investment, which can hinder more achievable things on farms. You have to take into consideration when you talk about efficiency that it is linked to profitability and also sustainability. But farmers do invest in things through Farming Connect—genetics, health and welfare, looking at taking value off grass and things like that. It is vital that those programmes continue under the next set of supports from the RDP. If you are asking what I think farmers should do, they should do some things that they are doing right now, which is to continue to progress with new technologies and so on. The caveat to that is that they are not always able to, simply because of volatility.

Q10 Mr Williams: Aled, would you like to add to that?

Aled Jones: Efficiency is a word for many things and efficiency of production is second to none. You are probably looking Europe-wide and there is a shift in processing northwards and westwards within Europe, trailing behind the grass-growing areas. Probably the strength that we have in Wales is the ability to grow natural grass. Our temperate climate brings consistent grass production, so we are able to keep our costs of production down. So efficiencies in those terms are really good.

When you talk about investment, it comes in large bites, and, historically, we have been suffering fairly low down the price leagues for many years. Unfortunately, when the time comes to invest, the costs come in large sums. In 2013-14, when we saw an increase in prices, farmers eventually took the decision to invest, but you are talking about £100,000 for slurry pits and another £100,000 for extensions to milking parlours.

Q11 Mr Williams: But a real impediment, is it not, is the fact that there are tax allowances on machinery but not on building infrastructure?

Aled Jones: Yes.

Q12 Mr Williams: Mr Handley, do you want to add to that?

David Handley: Yes; don't get me going on it.

Q13 Mr Williams: I want you to; please do.

David Handley: You have got to look at the supply chain in total in dairy. What is efficiency? It is a word that is bandied about by everybody. UK dairy farmers are probably some of the most efficient farmers in the world in the way they operate, but you have to look in the supply chain at what happens when you get that efficiency. What happens is that somebody comes after that efficiency in terms of money. Therefore, every time we have moved and become more efficient—whether it is producing grass, putting in modern infrastructure or whatever—as soon as we are there, somebody comes after the money within the supply chain. We have to look at the supply chain as a whole. If you look at the vegetable and salad growing industries, you can see it. Major companies have invested heavily because retailers have said they want more efficiency, but they have gone bankrupt because they have invested and then the retailer comes in and says they want some of that efficiency. So that is a word we have to be careful of.

The main thing in Wales that we have to recognise is that farmers have to do more as well. Dairy farmers have to become more responsible for what we are doing. It is no good thinking we can produce milk, somebody comes along with a lorry, takes it away and it is someone else's problem. That is where we are heading post-quota. If we carry on in the way we are, whether Governments or anyone get involved, if we keep producing milk and we do not have the right processing capacity and the markets to deliver that globally, we will be in big trouble. There is no joined-up thinking—none at all. You will hear no doubt from the Minister later on who will tell you that everything in the garden is rosy. I am an efficient dairy farmer and five years ago I spent over £150,000, but my cows go in April because I am a businessman as well. It is about time some reality came into the whole thing from producer, governmental and Welsh Assembly level.

Q14 Mr Williams: Following up in terms of possible remedial action to help in terms of the crisis the industry is facing—and I think you are right, certainly from talking to some of the farmers in my patch, that they really are operating on the margins—one of the things I was told by farmers the other week was about the way HMRC is acting and the possibilities for looking at delaying people's tax liabilities. It is not a solution, but they were saying that that could help them in the short term. What are your thoughts on that?

Aled Jones: I have some experience of this because I was told that I would have a sympathetic ear from HMRC. I rang them asking if I could spread payments over three months because cash flow was tight and there were quite substantial costs coming in the spring. I was told I needed a letter from the bank to say that I was refused an extension on my overdraft and they wanted a letter from my accountant to say that I had no personal savings that I could draw from. They were making things very difficult.

Q15 Mr Williams: Finally, my last question is to Mr Handley specifically. You have some strong views on the creation of producer organisations. Could you elaborate on those? That is another one of these phrases bandied around. I know the unions have been encouraging people, but others have different views and I think we might hear one of them in a minute.

David Handley: Anything that can bring dairy farmers together, to work together, has to be a good thing, but I am old enough and long enough in the tooth to know that the last time we got there a certain lady who was in charge of this establishment turned round and split us all up. I think you will find that, if we go down that route again, we have to be very careful that we don't allow ourselves to get pushed around like we did when there was the break-up of Milk Marque. We have a unique opportunity, I believe, at the minute. We have two co-ops in the UK: one is struggling, but if we could get First Milk and Arla talking, that is one group. We now have a situation where Müller Wiseman is going to take over Dairy Crest, subject to all competition issues. We have a unique opportunity there to form a PO. We are still well within EU regulation. We have an opportunity, but we have to seize that opportunity. As I said, at the moment, the problem is that there is no joined-up thinking.

Mr Williams: Thank you very much.

Q16 Nia Griffith: Could I pursue that? I was very interested in what you said about farmers needing to take action themselves to get the production units up where they should be. In other words, you will be suggesting that, as to the investment for getting you cheese

producing or secondary products producing, there should be a drive from farmers themselves to make that happen, are you?

David Handley: There has to be joined-up thinking. Farmers have to realise that, just because it leaves the farm under your terms of contract, it does not mean to say that you should lose total contact with that product. You need to find out what your processor is looking for within that year. I have just done a series of meetings around the country, the largest being 600 dairy farmers. They were asked the question how many of them in the last milk year, 2013-14, had spoken to their milk processor to find out what his requirement was. Six hands went up. That is no way to run an industry. If all we are going to do is produce milk and think it is someone else's problem, we are going to be at the behest of everybody else in the supply chain, which is what is being demonstrated at the moment. There is no need for them to reinvest in processing because all they do is send out an envelope to dairy farmers saying their milk price has been cut by a penny. They maintain their margin and our margin just gets squeezed.

Chair: Could I bring in Glyn, then you, Aled, and then Jonathan afterwards? A lot of people want to come in.

Q17 Glyn Davies: I was interested in listening to your comments about the producer organisations. Clearly, that is something the Government have been quite keen to promote and would like to see happen. Do people within the industry generally not agree with that? I am not quite sure from Mr Handley's comments whether you agree with him or not. It seems that you agree with it if it is very big organisations but not smaller producer organisations. What is the general view of the industry on that?

David Handley: The general view of the industry, from my perspective, is that farmers are looking for leadership and they are not getting it. We have to be able to explain what that will mean and what it will deliver to them. If you talk to any producer organisation around the world, they will tell you that in times of issues like we have at the moment, with low prices, being a producer organisation does not mean to say that you are going to get a better price. But, with a producer organisation, there is an ability to look at things like the futures market, to get us into positions where if there is volatility we have the ability to deal with it. We have professional people running the organisation trying to benefit the primary producer. That only comes in strength. I do not think a lot of small groups will achieve that. But, as I say, we have an opportunity, we have EU regulation that allows us to come together as a very large group, and we should be taking full advantage of it.

Q18 Glyn Davies: What about the unions on that?

Aled Jones: There are seven dairy farmers spread throughout Wales who have come together. It is a small group and we have been supported by the Welsh Government to investigate the possibility of setting up a Welsh producer organisation. So there are discussions going ahead, and, as David says, we are looking for leadership on this issue. But, in saying that, this will not be the saviour of the dairy industry in Wales. It may be one of them. It is a better way of communication, making sure that we are aware of the demands of the processors and have intelligence on the pattern of production of dairy farms in Wales. It is just one area that we can probably drive on.

Q19 Jonathan Edwards: Farmer-owned co-operatives have been very successful on the continent, so why have they been less successful in a Welsh and UK context? Why has it not worked here?

David Handley: Management—in one word. Put monkeys in charge of it and look what happens. Put professionals in charge of it and look at Arla.

Q20 Nia Griffith: If you take First Milk now, you have a former Minister there, have you not, who must have some knowledge? Are you saying that there are not enough farmers coming forward to be on that board, because it is supposed to be a producer-led group, or are you saying they do not have sufficient training? We want to be able to make a recommendation of something that could improve things. How would you improve that organisation? What is it that is lacking? You do not want to be dictated to from outside, from what you are saying, so how do we strengthen and empower, if you like, the people within the organisation?

David Handley: As I stated earlier, you have to get farmers to realise that they are responsible for the product. If you look at First Milk, a business that is in serious trouble, how many turned up at the AGM? I think it was about 150 out of 900. That tells you what the problem is. There seems to be this resistance to want to get involved with the running of the business, so then you get into a situation where you have a farmer board that cannot control the management. They continue down the road that they are on, until you get to a point where they have to go back to farmers again and ask for more money. But if farmers don't get involved—I do not think it is training or anything, but just education, "Look it's your product and you need to be responsible for it; you need to attend these meetings and make your voice heard—unless you get all that together, you are going to see First Milks springing up everywhere and you will have the same problem.

Q21 Nia Griffith: Excuse me: you did have 150 people there. Were you not able to find people from that group who could run things?

David Handley: No. If you took a major plc that was behaving in the same way as First Milk, I guarantee you there would be thousands of shareholders in London making a noise to the chief executive and the chairman. But when you have a chairman as smooth as Jim Paice, who can just come out and say everything in the garden is rosy and we are going to recover, and there is nobody there to question it, unfortunately we are where we are.

Q22 Chair: He says they are making a month-on-month profit now, David.

David Handley: Well, listen, I have been listening to that for the last 10 years and look where we are now. I met with them only a fortnight ago, and, basically, if they do not find a partner within the next three or four months who has the ability to take them on to the next level, there is only one place that they are going to finish up.

Q23 Chair: I am going to bring in Aled, who has been waiting patiently.

Aled Jones: There is probably a long history of collaboration within Europe, but in terms of co-ops it has not always been rosy. There have been numerous casualties within European co-operatives, but those that are left have amalgamated such that they now have core strength. It does not mean that they have been entirely successful in Europe, but those remaining, of course, have huge volumes and they do have core strength.

Q24 Simon Hart: The word “leadership” has come up a couple of times. There has been lots of dialogue about what needs to be done. I want to get to how you recommend it is done, because Mr Handley quite rightly mentioned the poor turn-out at a First Milk AGM and the lack of leadership within the industry. How do you rectify that? We could all sit here and talk about poor leadership, but what are we going to do about it? What can you, we, the UK Government, the Welsh Government and the farming unions do about it?

Dr Wright: Can I come in here? Obviously I have been listening to the conversations about leadership and I would like to answer that it is more about transparency, communication and relationships between producers and their processors, and between processors and retailers. We have an issue in that these relationships are quite fragmented and fractured within the supply chain and there is a lack of transparency in how things operate. For example, if I am a producer who wants to know the long-term business of my processor so that I can gauge my business accordingly and can get my profiles—my butterfat and protein, or whatever it is that they wish to do as a long-term process—for my stability, for my processor’s stability and for their long-term future, there is a lack of that kind of information transfer within the industry. I think sometimes we are in a situation where a producer is sidelined by a headline price on a contract. It is a bit like energy tariffs where you compare them on the headline, but if you get into the small print perhaps you are better off staying with the processor that you have. I am not suggesting we should have, necessarily, standardised contracts at all, but we need to get to the stage where contracts are easily understood so that a farmer knows what he is being asked for, what is being asked of him, so that his business can adjust accordingly. That is quite important.

Q25 Simon Hart: Who does it? That is the point. Who achieves what you have just set out?

Dr Wright: We have got it from the grocery supply chain. We have an adjudicator. I am not suggesting that her powers are anywhere near what they should be, but there needs to be—I feel personally, and I know that FUW does—some policing of dairy practices. We are in a situation where only those on direct supply can even engage in conversations about having investigations. Because there is no transparency, how are the indirect suppliers supposed to get involved in this? It is not fair to ask a producer, who really does not have any ability to gain that information, to instigate an investigation or to force the adjudicator to do that. It seems that we are missing something in this chain that says what is and is not a fair contract. I do not wish to get into who should do specifically what but it is really important that there is transparency.

Q26 Simon Hart: Do you agree with that, Aled or David?

Aled Jones: Yes, very much so. Trust is the big word. Let’s face it: without milk, these processors have nothing to process, have they? So they should really be more open with producers, as Hazel has said—you know, transparency—because we are in this for the long term, and if they are going to try and keep us in the dark it won’t be successful.

David Handley: I am probably going to differ, which won’t surprise you. I am sorry to sort of half disagree with my two compatriots, but the situation is that a farmer has a milk contract. If you look at, study and milk that contract to exactly what it says, you can maintain that maximum price. The problem that we have, as I said, is 600 people all producing milk and only six people talking to their processor. As Aled has rightly said: no milk, no processor. They need to know where their strengths lie, to look at their contract

and to run a business. There are far too many dairy farmers out there who basically think they have a right to produce milk. That is not the case, I'm afraid. We are in 2015 and we are going into post-quota, and we have to start addressing it from a grass-roots level. You don't hear BMW running around saying it is everybody else's fault because nobody has delivered the tyres. We have to get as sharp and business-like as that going forward. When you go to meetings of under-40-year-olds then you start to see a difference; then you start to see people who are thinking outside of the box. That is good news. That is what we all want because that is the next generation.

Q27 Chair: Is not the problem fundamentally—and this is what you are saying—that we are just producing too much milk, and no matter what we do at the side, no matter what the Government do or the unions say, if there is more milk being produced than the market will support, then the price is going to fall? Am I not correct in saying that?

David Handley: No. In the UK currently, if you look at quota, we are not going to reach quota again this year. We have exceeded quota over the last 10 years more times than we have not. We have always sold the milk. There has not been an issue with selling the milk. UK dairy farmers and Welsh dairy farmers are not over-producing. They are producing to the signals given to them, which are that No. 1 in the contract of most processors is a volume incentive. You have to ask the question of Dairy UK—and this is where maybe politicians could come in—why, in a situation where Müller Wiseman in the last three weeks has cut the milk price by a substantial amount of money, are they blaming it on UK over-supply, yet still operating a volume incentive for their producers to produce more milk? I do not think it is this over-supply thing at all. It is just the joined-up thinking that is needed in the industry.

Q28 Chair: What about you, Hazel?

Dr Wright: I would agree with David as to supply. Again, it goes back to the supply chain being fragmented; people have different aspects that they wish to promote at different times and maybe are not being particularly honest about why they are asking for a particular thing at a particular time. If farmers could understand the longer-term strategies of the processors, and even of the retailers, to understand where they want to go, there would be more questions asked about things such as volume bonuses in different periods or different times of the year. So I would agree with David on that.

Aled Jones: I don't think it is an over-supply of milk, basically, because we import something like 450,000 tonnes of cheese into this country and we only produce 400,000. So there is a big demand for dairy products. But worldwide we are quite conscious of the fact that the demand is growing. David pointed out too the under-40 type of producers in meetings. If anything, this crisis has probably been a wake-up call for all producers to make sure they understand their own businesses, the businesses of their processor and probably the retailer as well, if they are producing to a retailer. The general understanding of the industry is growing and is probably far better than we anticipate.

Q29 Chair: I must appeal to everyone to be quite quick because the Minister is due in at quarter-past 10 and I am sure you will be interested in making sure we ask him lots of questions as everyone else is. So I appeal for brevity now. Do you have a quick question, Geraint?

Q30 Geraint Davies: There is a view that the retailers, and in turn the processors, are crushing margins for the producers. Do you think, if there was intervention to allow more profitability through price or cost regulation or transparency of contracts, that that would enable more investment at the production end, to enable you to diversify into higher-value products and to pitch yourselves on to the global marketplace? In other words, turning it round, do you think the problem is that the money is not there to diversify because of the crushing coming down from the retailer?

David Handley: If you keep devaluing any commodity to the point of getting it to become a product that is sold at a throwaway price, you are taking money out of the supply chain. That money is not getting to where it needs to get to for investment, so the answer is yes. We have been shouting that, as the industry, all together for the last two or three years. That is one thing that politicians could get involved in. Why are we allowing retailers to take this product—which if you look at all the documented evidence is almost a complete food—and sell it below the cost of water? It is just absolutely ridiculous, but nobody seems to listen. If you keep taking money out of the supply chain, you have a problem.

Dr Wright: Something loads of producers feel strongly about is the fact of it being devalued at the supermarket shelf. When something is cheap you want it cheap, and when it becomes expensive you think, “I’ll hold off and wait until it’s cheap again.” We are devaluing the product simply by making it a loss leader. Whether or not the supermarkets say that the profit they make has been reduced as opposed to the farmers’ prices is almost in some respects—not being disrespectful—irrelevant in that they have still devalued the product. That is our concern.

Q31 Chair: Hazel, there is a lot of interest in this so I want to throw something back at you here and then ask everyone else. I have heard this argument before, but the people making it will say that the price does not affect whether or not people are buying milk and, therefore, if you put the price up it will not make any difference to sales. So, throwing that back at you, if that is the case, people are not going to be waiting for milk to come down in price either. I absolutely understand where you are coming from, but my worry is that, if you set a minimum price for milk at a reasonable level, then at some point you would destroy demand and therefore you might have some farmers who are on contracts benefiting, but those who are currently selling at 20p a litre or less would not be able to sell at all. That would be my concern. You would have milk just not being used. That is my own concern anyway, but I am sure you disagree.

David Handley: Look at consumption currently. We have milk being traded at 89p for 2 litres and consumption has not moved an inch. By devaluing it, they have not increased consumption. By increasing it, they won’t increase it and they won’t decrease it. I will point this out. With a major retailer last week, do you know how long it takes a person to select 2 litres of milk?

Q32 Chair: Is it seconds?

David Handley: Yes, two seconds. Do you know how they do it? They choose by green, blue or whatever the colour of the top is. This is where the whole thing becomes absolutely ridiculous. I’ll quote Iceland. The week before they dropped to 89p their sale of 2 litre units fell to 34,000. On the Saturday where they devalued to 89p, the following Saturday, their sales of 2 litre units went up to 138,000. They did not increase

consumption; they just took it away from Morrisons or Asda. That should not be going on. That should not be allowed with my product.

Dr Wright: I would agree. We forget about the alternative milks like soya, almond and rice. The growth in that market is 17% in the last year. So I would argue that consumers do have the money to spend if they value the product and I would argue that we have got to a stage where we are valuing something that is of less nutritional benefit and devaluing something that is very important.

Chair: Many want to come in on this so I will go round the room and then back to Aled.

Q33 Jessica Morden: The EFRA Select Committee has said that the Groceries Code Adjudicator should have more powers and be able to intervene with indirect suppliers as well as direct suppliers. Do you agree with that? What is your view on what they should look at?

Dr Wright: Absolutely, but I do feel that the adjudicator should be able to launch an investigation and should not have to wait for complaints. As I said, the lack of transparency means that a single producer would not possibly be able to gather the evidence that would be required to launch that investigation. I would like to see it expanded even further. So, yes, include indirect suppliers, but don't wait until someone has enough evidence.

Aled Jones: Hazel points to taking value out of the supply chain, and that is what is happening with these loss leaders and the promotions that they have. The Groceries Code Adjudicator could launch an investigation to study how divisive this promotion on milk is, taking value out of the whole supply chain, and invariably it comes down to the producers at the end.

Q34 Nia Griffith: Could I turn to the voluntary code of practice, of which I know Dr Wright has made some criticisms in terms of cherry-picking? I ask all three of you how you think it is working now and whether you think it should remain voluntary, or do you think there are ways it should be strengthened, as in the Fergusson review's suggestions?

David Handley: I think the voluntary code is as useless now as when it was brought into being.

Aled Jones: I would disagree because there is work to be done. There is evidence of a better contractual relationship already happening. At least some companies who are joined up on to the code are actually giving a month's notice, which they were not doing before. But, going forward, you have probably noticed that some companies are offering A + B-type contracts. If that is going to expand, then within the code there is the non-exclusivity, which Alex Fergusson pointed out, whereby the producer does have the option if there is not a volume or a price on that B, and there should be the ability, to move that milk elsewhere. That needs expanding on.

Dr Wright: Aled makes some good points, because the A + B pricing issue in some respects can work in favour of a producer but can also work against in certain circumstances. Aled touches on expansion and, of course, how long on the B price you should have: if you have had expansion two years ago, should you still be on the B price for that volume of milk? That needs to be looked at in the next review of the code, which I understand occurs in 2015.

We have had concerns about the code. I know the review said that it was functioning properly, but there are obviously things that it cannot do. It cannot affect price, so if you are talking about price volatility the code cannot function in that respect. All it can really do is work on contractual relations. I would say again that it goes back to transparency. Perhaps the code could look at the transparency of contracts alongside the relationships. There is work to be done on the code, but I certainly would not say that legislation should happen now. We have always said “the threat of” and “look at the benefits of”, as opposed to “that is definitely what should happen”, but I do think there is work for it still.

Q35 Jonathan Edwards: I have a quick question to broaden out the theme on this questioning. There is clearly a feeling in the farming community that the Government here are less inclined to take on the retailers when you compare them with some other countries or other member states within the European Union. Is that right, and, if it is, what would you like to see the UK Government doing in terms of challenging retailers?

Aled Jones: It is a very complex area and politicians would probably know better than us in terms of the powers that retailers have. As producers, we are probably unaware of what happens in contractual terms. There are obviously competition laws that you have to be wary of, so we are at the mercy of Government in terms of this issue.

Dr Wright: Government control the control of the supermarkets in certain respects; they control the powers of the adjudicator; they control the people who can influence those processes and procedures. It is incumbent on Government to say, “We need to look at whether this is really working. Does the adjudicator have enough powers?” My answer would be absolutely not. It took so long for her to be able to set the maximum fine level that we are in a situation where even the limited power she had she could not use for so long. That is a governmental responsibility. It is important we understand that this is something that the processor cannot control, cannot be in charge of, and it needs to be Government. There needs to be leadership there.

Chair: Could I go to Guto Bebb next, because we have already touched on some of the other issues that were in some of the previous questions and we may come back to them if there is time?

Q36 Guto Bebb: Can I first do a quick wrap-up on the discussion about price competition? This is not being provocative, but, when you look at the prices paid to milk farmers, Tesco’s First Milk contract is the best by some distance in terms of average price over the past year. Therefore, if Tesco can do a deal with farmers which is very good for farmers but they are also fully involved in this price war, isn’t concentrating on the price competition a mistake? Shouldn’t you be concentrating on getting a deal with the supermarkets? That is the question I am asking. As a layman looking at the situation, it does strike me that the concern about price competition is difficult to justify when the best price, on average, by far over the last year has been to those farmers involved in the Tesco supply chain.

Aled Jones: We have been concentrating this morning on the liquid side far more and the aligned contracts where you have these better contracts. We must accept that, of that 50%, only 30% of that volume is on aligned contracts for which you get these headline prices. So be careful with those headline prices. But we miss out on the cheese, butter and yoghurt side. That is the weakness that we have. There are very small volumes where they have developed dedicated supply contracts, on cheese, for example. That is an area which

I would like to see growing even greater, because obviously there is consumer appreciation of home-produced foods and we should regard that as a benefit that we have and develop on it as well.

Q37 Guto Bebb: I will move on to my questions. One of the questions we want to ask is to what extent can Government help? Obviously, with agriculture, in a Welsh context it is to a very large extent a devolved issue. In terms of the Dairy Task Force and the Welsh Dairy Industry Steering Group, to what extent do you think those initiatives from the Welsh Government are making a difference, or do you think there is much more to be done?

Dr Wright: There is much more to be done, but because those groups represent grass-roots opinions and processes it is important that Government listen to their opinions. Those groups are expert groups, people who farm day in, day out, who understand their businesses and understand the difficulties that they face in making their future sustainable. I would suggest that more credence be given to those groups than perhaps has been given in the past. I do appreciate that there has been a flow of information, but I would suggest that they are powerful groups for the Government to listen to.

Q38 Guto Bebb: Is there any evidence that the Government are listening to these groups? The complaint I get from farmers in my constituency is that the Welsh Government have been guilty of not listening for a very long time.

Aled Jones: I would probably disagree, but I think the reason is that farmers in general do not appreciate the volume of work that has been undertaken on their behalf. You mentioned the Dairy Task Force and the Dairy Industry Steering Group. There is quite a body of people working and influencing Government and, fair play to the Welsh Government, they have a fair appreciation of what happens on dairy farms in Wales.

Q39 Guto Bebb: Okay; fair enough. The other question is to what extent could the decision of the Welsh Government to move some of the money from direct payment to a more focused investment strategy for farmers—a more indirect form of support—respond to some of the issues that have been highlighted in terms of the need for investment within the sector?

Dr Wright: The CAP Reform is one of the two main issues. Price volatility and direct payments are the two issues that are going to have the strongest impact on farmers' finances. You have a situation where most dairy farms are DA and lowland—so previously high historic entitlement farms—and where, even before the moorland review, the €240-ish euro a hectare was still taking money away from dairy farms. If we move towards a flat rate of what has been proposed, €176, you can imagine the disruption to farm incomes at that point. There is a huge disruption to dairy farm incomes and a massive fall at a time when prices are indeed low, as they are at the moment. We were against the 15% transfer of money to Pillar 2 because it is the maximum that could be transferred. Obviously, other European countries did not and therefore now we are at a competitive disadvantage. The only thing we have said is that that money should be used for the benefit of the farms. It should not be lost in exorbitant consultancy fees and should be for the profitability and sustainability of dairy farms in particular, I would say, in this instance.

Q40 Guto Bebb: I am slightly confused by the response, though. We have just had a response to the first question that the Welsh Government understand fully and are working

very well with the industry, and then we have an answer which is saying basically they are leaving us in a situation where our financial support is not what it should be and there is a reduction in what has been done, despite the industry telling them that that is not the way to go. What we are getting, in effect, is: are they behaving well or are they behaving badly? I am not sure what the message is.

Dr Wright: It depends on the issue, to be honest. There is this transfer of money from Pillar 1 to Pillar 2, and the fact that a flat-rate payment is going to have the most detrimental impact on dairy farms is a huge issue. As I say, it is €176 per hectare when you had high historic entitlements and you are an intensive unit—you produce very intensively-produced high-quality products. Also, I think a DairyCo survey showed that dairy farms have 2.3 employees on average per farm. So there is a whole set of issues that we do not have time to go into on rurality, population and things like that. You have to appreciate that this is a bigger issue and has an economic impact, especially in high milk fields like Carmarthen.

Chair: Very quickly, Geraint first. We do not want to let the Minister off.

Q41 Geraint Davies: I will be very quick. There are all sorts of uncertainties in the future. Recently we have had the situation with Russia, for instance, taking fewer products from Europe and all this sort of stuff. What can be done in terms of a futures market, which was briefly mentioned, alongside things like formula pricing, to reduce the risk and increase the investment in the industry so that there is a sustainable future?

Aled Jones: Can I go on this? Futures markets and hedging is something that is fairly well developed in the American market, but not so on the European side. There are small volumes where a futures market is being used by some co-operatives in Europe, but as a tool it is probably something that needs to be investigated. I would not like to miss the opportunity, and I think it has come up before, where an intervention price has in the past been putting a realistic floor in the European market. That, today, is no use to anybody. It is set at a level where, basically, if you fall to that level, you are out of business anyway. If we are talking about smoothing out a little bit of the volatility, it is a tool that must be considered, and Commissioner Hogan has been very reluctant to move on this.

Dr Wright: I would agree with Aled. That discussion should happen as soon as possible given the abolition of quotas in April.

Q42 Simon Hart: I have a question for David Handley, but the others may wish to jump in. A lot of today's conversation has been about consumers, and you made an interesting point about the decision being made on the basis of red, blue or green top. I want to ask a question about direct action. Do you foresee a time when the only way we will ever get people to recognise the severity of this situation is when they go into a supermarket and there is no choice on the shelf at all? Then people will start asking the question about how milk is produced, what price they should pay and where it comes from. Do you feel that the lawful protests that you regularly organise are contributing to a greater public awareness and are effective in putting pressure on supermarkets?

David Handley: Certainly the protests have highlighted, alongside the work that all the organisations are doing, the crisis within the industry and we have kept it up there. For farmers to come out after a day's work and protest tells you that there is something

drastically wrong, but it is a sad indictment to the industry in 2015 when we are still having to protest over the issues. I believe the issues can be dealt with. I think, as I said, there has to be joined-up thinking. I have heard comments today from the other two organisations about A + B. We were the ones that brought A + B in. We trawled the world for 18 months, yet we have not been consulted by anybody, including the Welsh Assembly, on how it should operate. People are making comments on it and I am afraid they are talking through what they are sitting on, because A + B works, can be made to work for the benefit of the farmer above all—that is the criterion—and, secondly, it can work for the processor and can deliver a price. The whole issue here is that we all need to sit down, start talking to each other and have some joined-up thinking. If we are going to carry on beating each other over the heads with bats, going forward we are going to go nowhere and we will back here in 10 years' time having the same discussion.

Q43 Chair: Thank you. That just about brings things to an end. I have one very simple last question. Does the increasing amount of skimmed and semi-skimmed milk being sold have an impact on milk at all, because obviously it is using less milk? A litre of skimmed is using less milk, is it not, than a litre of full fat? Is it noticeable at all?

David Handley: I certainly do not think that has a great impact.

Aled Jones: Can I put one comment in, because there is a body of evidence available now which is showing the very substantial health benefits of the cream fraction of milk? We are losing those benefits—honestly now, there are huge benefits. If you ever have the chance of listening to Professor Peter Elwood from Cardiff university, do so, because it is quite refreshing hearing about the benefits.

Dr Wright: Very quickly, it brings up the whole issue of the traffic-light system, how it unfairly penalises dairy and the fact that we have got into a situation in this country where dairy is not being put forward as a health product; it is being put forward as something that is quite fattening. Whole milk is 3% fat, which in most foods is considered to be diet, so we really need to start getting back to looking at this and at the nutrition of milk.

David Handley: Can I say one thing on something that was raised earlier? We are dairy farmers who want to produce milk and make a profit from it. We are not dairy farmers who want support. I want that message to go back loud and clear to politicians. We do not want support and we should not be running businesses that need support. It can be done.

Chair: We have the Minister coming in next, and all I can say is that we could have spent another hour on this easily. I do not want to make any predictions about what might happen after an election, but I am sure the Welsh Affairs Select Committee will continue to be very interested in agricultural issues. If we have any further questions—and I think we had to skip a few—we might write to you all individually on that. In the meantime, thank you very much for coming in and we will ask the Minister to come in next.

Examination of Witness

Witness: George Eustice MP, Parliamentary Under-Secretary of State for Farming, Food and the Marine Environment, gave evidence.

Q44 Chair: Minister, thank you very much for coming in this morning. I understand that your associate is stuck in Brussels, which is fine. We have you as a Minister so that is good enough for us, I think. Can I start by asking you this? You have said that what is happening at the moment in the dairy industry is a “short-term blip”. How confident are you that things are going to start to recover, and how quickly do you think it might happen?

George Eustice: I am confident that things will recover, because if you look at the long-term trend we are seeing a growth in demand for dairy products of between 2% and 2.5% per year. There are many export opportunities for UK processors, particularly on things like cheese, and we have been doing quite a lot to try and open new markets in places like China and Brazil, which could be good markets for those products.

In terms of how quickly it will happen, you have to recognise as well how we got to where we were. We have seen a big increase globally in milk production. Milk production last year was up by about 18% in New Zealand and up by around 8% to 10% across Europe. So we have had a big increase in supply. That has had a major knock-on effect on the global commodity prices. That is why we have seen such sharp falls. However, farming being what it is—being exposed to the elements and the weather—we are already seeing drought conditions and production falling off sharply in New Zealand. If you look at the international auction prices—that is a spot price run by people like Fonterra for skim milk powder—since the new year we have seen a firming in those prices. They are now up by about 10% on the start of the year, and for the first time recently in the Netherlands we saw farm-gate prices just start to go up slightly. We are not out of the woods yet but the signs on the international auctions are starting to look more positive. It will take time for that to feed through into farm-gate prices. I am not an expert in these things, but most analysts are now predicting that farm-gate prices will start to recover from the summer onwards, or, at the very least, later this year—perhaps in the autumn.

Q45 Chair: I have read one report from Northern Ireland, I think, where there was a suggestion that HMRC ought to look at farmers’ incomes over—instead of one year—two, three or five years when calculating tax so that, if a farmer has a good year one year and a bad year the next, one year can be offset against another. I do not know if you have seen that report, but it seemed to make a lot of sense to me. Is it something you would be willing to take up with HMRC?

George Eustice: It is an interesting idea and something we are looking at. This is what happens in Ireland, apparently, that they can average their profits over five years. We have had representations—

Q46 Chair: Obviously that is within the EU rules, then.

George Eustice: No; there is nothing in the EU rules that would stop it. This would be an HMRC decision. Obviously it would be a decision for the Treasury and it is not for me to pre-judge or tell them what to do on a tax matter, but we have had representations from the NFU and other farming representatives on this and it is an area that we said we would look at.

Q47 Chair: Lastly from me, I have heard a lot of great things about what we are doing to help cheese manufacturers, for example, to export around the world, and I believe there is a general view that things will be done. I have a luxury cheese manufacturer, Abergavenny

Fine Foods, in my constituency, who have just opened up a processor. What can I tell them this afternoon that they could do to access that help? What practical steps are there out there for them and other organisations like them?

George Eustice: I would say get in touch with UKTI. Several times a year, each quarter, I regularly hold a meeting of the food export forum, where we have a range of people in the food sector, including dairy producers, and we are constantly looking at what we can do to help exporters. In the most recent export forum, which was just last week, we discussed that we want to try and help some of the small and medium-sized enterprises begin exporting, some of those who are not maybe exporting at all, and perhaps look at doing more work on near markets, such as Europe, because we have a big export market on our doorstep. The challenges in Europe are less than getting into new markets where we are trying to open up and where it is slightly more complicated. I would encourage them to get in touch with UKTI. They have a network of regional managers and support in place.

Chair: I know them well and will be interested to see what their experience is, so thank you for that.

Q48 Geraint Davies: You mentioned UKTI being a helping hand, but also the Chair mentioned that HMRC is not always a helping hand. In fact, one of our previous witnesses suggested when they appealed to have tax payments spread over a longer period that they were basically pursued and asked, “Can we check whether you have any assets yourselves? Can we confirm that your bank manager won’t give you an overdraft and that your accountant says you don’t have any more money?” That sort of attitude does not sit alongside the UKTI one as a coherent approach from Government supporting businesses which have volatile revenues and profitability. Is there anything you can do about that?

George Eustice: We have encouraged HMRC to show forbearance to dairy farmers, in particular, because there is a particular problem with them. Most of them had a very good year last year; prices were good during 2013 and the first part of 2014. We could have a situation where dairy farmers—and the Farm Business Survey bears this out in many cases—had almost a record year last year. That means they will have quite a large tax instalment to pay in June this year, at a time when some of them will be least able to afford it because they will have just weathered a difficult winter and seen a lot of pressure on their cash flow. So we have asked HMRC to show forbearance. Clearly, under their “time to pay” procedures, they cannot just give it automatically. They do have certain checks that they need to make. But I would say that, if any farmer feels that those checks and questions are too intrusive or make the process too difficult, do let us know because we are in dialogue with HMRC on this and I would be happy to take up individual cases.

Q49 Geraint Davies: So the signal to farmers is to go to you, George Eustice, and let you know—

Chair: Or go to their local MP.

Geraint Davies: —what is happening in HMRC so that we can have feedback on what is happening on the ground.

George Eustice: Go to your local MP, I would say, as Mr Davies says, and then I can take it up. But I completely understand that HMRC cannot automatically do this; otherwise

people will take it up and maybe abuse it. They do need to have those checks, but we have encouraged them to show forbearance because we recognise this is a difficult time for some dairy farmers.

Q50 Glyn Davies: I want you to tell us where we are on the Groceries Code Adjudicator. We have had an expectation that there will be an extension of their influence in different ways. Where are we on extending their remit on the ability to launch investigations and the ability to levy fines? What can you tell us about developing and strengthening the Groceries Code Adjudicator?

George Eustice: On the first point about the ability to carry out investigations, they already have that ability. They have done one recently in Tesco. They can rely on third party evidence. For instance, if the National Farmers Union feed back to the Groceries Code Adjudicator and say farmers are consistently telling them that a particular supermarket is doing something which they believe is in breach of the code, that in itself is sufficient for them to launch an investigation. So I think they have the investigatory powers they need.

In terms of the fines, the order several weeks ago was laid to enable them to fine a maximum of 1% of turnover. That has been laid and we can expect that to take effect. So we have put that one in place as well.

In terms of the scope, the Prime Minister said he wanted to look at this, and so officials are looking at the possibility of extending the scope of the Groceries Code Adjudicator further down the supply chain. However, it is important that I flag up some of the challenges. The reason we opted two years ago to go for a voluntary dairy supply chain code was that there are advantages to the voluntary code over a statutory code. Once you set up a statutory code—and I looked at this in detail last autumn when we had some concerns that the voluntary code might not survive because a number of processors were indicating they had concerns with it—the shortcoming is that you are then covered by what is called the “Milk Package”, which is an occupied field by the European Union, and that would not allow you to have the most valuable elements of the voluntary code, of which the most important one is that a farmer can walk away with three months’ notice. You would have a statutory code that was weaker than the voluntary code that we have. So there are difficulties, I think, with establishing a statutory code further up the supply chain.

Alex Fergusson, who did a review of the voluntary code and concluded it last September, said that he thought it was working well and that there were things we could do to try and improve it, such as getting the remaining 10% of production with some of those smaller processors also using, abiding by and signed up to the code. That is probably where we should start and look in the first instance to get some early improvements on that side. But we are looking at this issue of the supermarket adjudicator, while recognising the drawbacks in that approach.

Q51 Glyn Davies: Do you think there needs to be an example of one or two fines for the industry—on both sides of the industry—to show that it is for real? Only when there are one or two actual fines will people realise that this is not just words—it means something.

George Eustice: It was important to have that power there. I was on the Bill Committee as a Back Bencher at the time and was one of those who argued that they should have the

power to levy these fines where there were breaches. I am very pleased that we now have that order down and we can put those in place.

In terms of what will make a difference, I met Christine Tacon recently and talked about the code—this was before they did the investigation of Tesco—and why they had not felt the need to carry out investigations so far. She was quite interesting in that she said that the most powerful thing about this code would be to get the suppliers, whether they are processors or farmers supplying direct to supermarkets, using the code properly. What happens sometimes is that a supermarket will make a request of a supplier who is in breach of the code. Sometimes that supplier is a middle man, not the end producer, and rather than face down that demand, which is in breach of the code, it is a bit too easy for them to accept it and just pass the cost down the line. Her point was that if the negotiators representing the suppliers just calmly said to a supermarket, “You will appreciate I can’t accept that because it is in breach of the code,” that is the way you get this working. The ones who are doing this well are training their negotiators to use the code and not just caving in and accepting it, and then complaining that they are too scared to tell the adjudicator in case there are reprisals. We need them to show some guts and ensure that their buyers—the supermarkets—are abiding by the code.

Chair: Can I go round the table on this very point?

Q52 Simon Hart: Where can we find in the public domain a list of the actions that the Groceries Code Adjudicator has already taken, for what reasons, what sanctions they may have handed down and what the response of the particular offenders might have been? Is that a matter of public record, and, if so, where is it?

George Eustice: I saw myself the announcement on the “Six O’Clock News” that they were going to investigate Tesco. I remember seeing it, so that was very much in the public domain. In terms of other actions, I am afraid I would have to write to the Committee and confirm that. This obviously is a BIS lead. The supermarket adjudicator has a website. I am aware that they publish some information, but I am not sure—

Chair: Okay. To be fair, Nia was waiting, but that was a good point. Thank you.

Q53 Nia Griffith: On the issue of the investigations, we have heard this morning that our farming union friends are still concerned that there is not a proactive enough element there. Although you may dismiss fears by suppliers that they could be victimised, they are real fears, and it is quite clearly mentioned in the EFRA report on dairy prices that there is a need to try to strengthen or instigate that investigative, proactive approach. Would you look at that again?

George Eustice: I would come back to what I said at the start. They have the ability now to carry out an investigation even if they have just got anonymous feedback. It does not have to be a named individual who goes up in lights to say, “I am the one who has lodged this complaint.” They have the ability to investigate. The Tesco one is the first formal investigation that they have done. Christine Tacon has been clear that, for the first year or so of operation of the code, she wanted initially to focus on making sure everybody understood their responsibilities under it and to apply pressure in general terms rather than looking at individual cases, to make sure that there was compliance with the code. But the

fact that they have recently started this investigation of Tesco is proof that they are willing to do those investigations.

I would say this as well. Some companies are running training for negotiators who work for suppliers to train them in how to use the code to their advantage in a way that has not got to be difficult or threatening. The truth is that the supermarket buyers do understand the code. It is just that sometimes, like anyone, they will push their luck, and if the negotiators on the other side of the table just politely say, “You will understand that I am not able to accept those terms because it would be in breach of the code,” they know where they stand. The evidence is that those supermarket buyers don’t push their luck and don’t say, “Right, that’s it: we are going to tear this up and not have you as a supplier any more.” In fact, they recognise that they have been rumbled and will back off. So a lot of it is just about training the negotiators working for the supplier to do their job effectively. I think we can do more in this area.

Q54 Geraint Davies: On this relationship—and I had a background in Unilever in this sort of thing at some point in my distant past—the power of these retailers, even to massive established multinational manufacturers, is enormous and they can turn to certainly a commodity supplier of milk and say, “We are sorry, we just don’t want you. We will take someone else or go to the world market.” It is not a balanced picture. If the supplier turns round and says, “We will report you,” it is not a sensible move because they can lose everything and the retailer really does not have much to lose at all.

George Eustice: The situation you have described is precisely why we set up the supermarket adjudicator. We had the groceries code in place and it was precisely because of the imbalance of power that you described that we said, “Right; we need to have an adjudicator in place.” They are now in place. They have started their first investigation into Tesco. We are giving them the power to levy fines of up to 1% and we just need to see how this beds down. There will be a review anyway of the supermarket adjudicator in 2016. Now, having given them the powers both to do the investigations and levy the fines, it is right that we give it a year and see how it beds down.

Q55 Mr Williams: The last report this Committee undertook asked of DEFRA how they would manage the success of the code and the issue of setting a fixed Government review date for the operation of the code. There was resistance to that at DEFRA at the time. Does the resistance still exist? You mentioned a year in the assessment of the work of the adjudicator. Is there not a need for the code to have the same analysis?

George Eustice: I do not see any reason why they could not do both at the same time. If there was reticence on the part of DEFRA, it is because we are constantly recognising that this is a BIS lead. It is the Department for Business that hosts the adjudicator within the CMA, and it is right that they should lead on this and they will lead on that review. But given that the Prime Minister has said he wants to at least explore the possibility of having the supermarket adjudicator look at issues further up the supply chain, that in itself would require changing the code, since the relationship between a farmer and a processor has a different set of issues and challenges from that between a processor and a retailer.

Q56 Mr Williams: It is a changing picture and some of us would welcome that change in the future. How would you assess the success of the code to date as a Minister with responsibilities for these matters?

George Eustice: It has been successful. It is too early to tell, but I have met a number of large farming businesses who have been quite supportive of the work they have seen the supermarket adjudicator do to date. For instance, I met a large-scale vegetable producer that is in my own constituency. They said there had been issues with supermarkets, for instance, requiring them to purchase plastic packaging from a designated supplier and that designated supplier was not necessarily the supplier that would offer them the most competitive price and the best quality product; it was the supplier that had been approved by the supermarkets and quite often they had paid a concessionary fee to the supermarkets to be the approved supplier. The supermarket adjudicator got on to practices like that quite early and has been working quite hard to take some of that anti-competitive practice out of the supermarkets. So there has been progress on some of those fronts. We have had the first investigation under way. We need to see how it beds down in the next year once they have the ability to impose the fines as well.

Q57 Jonathan Edwards: There is a clear feeling in the farming community, Minister, that UK Governments of whatever colour are reluctant to take on the supermarkets when compared with the reactions perhaps of some other EU member states. Recognising the fact about the adjudicator, how would you respond to those criticisms that are alive in our communities today?

George Eustice: If we were reluctant to take on the vested interests such as the supermarkets, we would not have brought in the adjudicator at all and would not have given the ability to fine. Those lobbying on behalf of the supermarkets said, “We do not need an adjudicator. We’ve got this code. We don’t need it.” We, that is to say the Conservatives, and the Liberal Democrats and both parties in opposition said, “No, we are going to introduce an adjudicator to enforce the code.” When it came to the Bill being discussed, many of us, including those on the Bill Committee, said, “If we are going to do this job, let’s do it properly. Let’s give them the ability to levy fines where that is appropriate,” and we did that as well. I do not accept that analysis. The fact that we have introduced the adjudicator and given it the power to fine proves that we are willing to take proportionate action while not interfering in a market.

Q58 Jonathan Edwards: On that quickly, Minister, a Select Committee of this House says that the remit of the adjudicator should be expanded so that they should be more robust. That is the criticism.

George Eustice: If you are referring to the EFRA Select Committee, they did say we should look at the issue of whether the adjudicator should have a role further up the supply chain.

Coming back to the point that I made to Mr Davies at the beginning of this session, while we are looking at that—and we are looking closely at that—there are drawbacks to putting the dairy supply chain code on to a statutory footing, because you are then covered by the “Milk Package” and you could then potentially end up with a code that is weaker than what we have now. It is not a panacea or a perfect answer, but it was a recommendation from the EFRA Select Committee. The Prime Minister took that up and said, “Okay, we will look at this,” and so officials, both in BIS and DEFRA, are looking at this issue closely.

Q59 Mr Williams: I want to go back to the issue of investment in the dairy sector. The Secretary of State has made various references to appropriate capital grants being available and accessible for farmers. You have talked about making the application process for rural development funds as simple as possible. What progress is being made on the investment that most farmers I talk to would like to make, notwithstanding the economic challenges that they face at the moment? What support are they getting from Government?

George Eustice: We will be giving imminently some more specific details of the rural development programme, which obviously covers England; Wales has its own. In the English scheme—and bear in mind the Welsh Government will do their own—we are looking at grant aid to support various things from remote sensors to monitor the cattle and grazing habits, through to new ways and new approaches to deal with things like mastitis in cattle. We are using the rural development programme to fund a bespoke suite of grant aid to dairy farmers and we will be announcing details of that shortly. In the case of Wales, I know that there is a Dairy Task Force for Wales that Andy Richardson is currently carrying out. I understand that is also due to report imminently. They had expected it to come by the end of February but it is now delayed a little. I understand that is also going to look at how the rural development programme can be used in Wales to support dairy farmers.

Q60 Mr Williams: How often do you talk to your Welsh equivalent, Rebecca Evans?

George Eustice: I discussed this issue with Rebecca Evans most recently at the last European Council that we had when dairy issues were on the agenda, but we also have regular meetings with the devolved Ministers at a departmental level to talk about these concerns. There is a regular session between all the devolved Ministers and UK Ministers, but, informally, I also have plenty of opportunity to discuss with her at things like the European Council.

Q61 Geraint Davies: I previously asked about the power of retailers. I want to ask you about buying British and buying Welsh, countries of origin, and how that is going in terms of increasing the consumer leverage, if you like, on buying products. Indeed, alongside that, if Tesco buy milk, they just brand it Tesco. What opportunities are being encouraged to basically label milk and added value products as specific brands so that it gives them a bit more consumer leverage?

George Eustice: Yes. There are opportunities here. Obviously there are a lot of voluntary accreditation schemes, such as the Red Tractor logo and others out there, but as a Government we are aiming to get the Commission to have a proper look at compulsory “country of origin” labelling on dairy products. Anecdotally, quite a lot of farmers tell us they believe that Irish milk is sometimes crossing the border, being processed maybe in Northern Ireland and then marketed as a product of the UK, when it has been processed in the UK but the dairy—the milk that is used in the supply chain—is not from the UK. In many other areas—we have had it in beef for over a decade—we are about to introduce new regulations at a European level on sheep, poultry and pigs which have mandatory “country of origin” labelling and which distinguish between where animals were born, reared and slaughtered. We are very keen to investigate whether we do something similar with dairy so that in order to say “country of origin UK” the milk must have been produced in the UK as well as the cheese or other dairy product processed here. The Secretary of State wrote to Phil Hogan after he was appointed late last autumn and the

Commission are looking at this. They are doing a feasibility study on whether we could extend mandatory “country of origin” labelling to dairy products.

Q62 Geraint Davies: This will say UK as opposed to Britain or indeed Wales, will it? Is there an opportunity for Wales milk or cheese?

George Eustice: This would be UK, but the other point I make is that there are many good examples out there of using protected food names legislation. Again, it is an EU designation. You have it with Welsh lamb and you have Welsh beef. I know that in the case of milk you can get Jersey milk produced on the island of Jersey from Jersey cattle. So there are examples in the dairy sector of protected food names being used. Given that Wales has a protected food name on beef and lamb, I see no reason why it could not deliver and develop something similar in the dairy industry.

Q63 Jonathan Edwards: Under EU rules, member states must intervene to buy milk when it falls to 17p per litre, and in evidence to this inquiry this morning we have received strong representations that the intervention price should be increased. Is this something that the UK Government support, and will you push for it?

George Eustice: We generally have been very sceptical about increasing the intervention price beyond the current levels. It has been a long-standing stance in the UK Government that we should move towards an industry where there is less intervention and where the industry responds to market signals. So while we do have this floor price—or reference price, as it is sometimes called—which is there when there is a real crisis and when you really do need some sort of intervention and Governments can take that out of production, we do not want to set that level so high that it starts to distort the market. It can be quite costly. Last time when we intervened on cereals, for instance—I think in 2011—it cost the RPA a couple of million pounds in storage costs. So these intervention and storage schemes can be quite costly.

The other thing I have always argued is that we should try to foster the development of a futures market to help dairy farmers in particular manage risk and manage the peaks and troughs in the cycle of prices. All the evidence from people who understand futures markets shows that the quickest way to kill the development of such a market is to have political interference in an unpredictable way, willy-nilly, in the market. Basically, to get a futures market, you do not want to have too much political interference. So we are sceptical about it.

The final thing on this is that, although our milk prices are low, particularly for some farmers—I get that—our overall dairy prices are slightly higher than most other European countries, and quite often what tends to happen with these schemes is that we pick up the bill and the cost, and other countries get the benefit of intervention. That is why we are generally sceptical about it, both on a point of principle that we run a market-based system but also the history of these schemes is that we tend to pay while others benefit.

Q64 Jonathan Edwards: When we were out in Brussels at the beginning of this Parliament, representatives of the Irish Government told us they were encouraging their producers to vastly increase production in anticipation of the end of quotas, which is happening next month, I believe. How prepared do you think the industry is in Wales and the UK to deal with the end of milk quotas?

George Eustice: We are well placed. We have seen expanding production and that is partly because dairy farmers did what we would expect them to do. They had high prices last year. They responded to that by increasing production and we have a competitive industry here in the UK. We have a good climate for growing grass. We are well placed to do well internationally in a competitive way in the dairy industry. In the case of Ireland, you could argue that they have increased their production too quickly. They will now have super-levies because they have extended their quota ceiling. We do not have that problem in the UK. While production has been increasing, we are still within the quota limits for this final year. But Ireland and a number of other countries, such as Austria, Germany, Estonia and others, are going to face super-levies because they have increased production too quickly and gone over their quotas for this final year.

Q65 Geraint Davies: On that, you said you did not want to interfere with futures markets, but there are unpredictable shocks, like the coincidence of taking away quotas and the issue with Russia where they have stopped taking dairy products and other food products from Europe. How do you anticipate the Russian situation affecting the market, and do you not think there is a role for Government, at our level or EU level, to intervene to smooth the curve, if you like, of impact?

George Eustice: Yes, on your latter point. I would not describe the removal of quotas as an unpredictable shock; it has been talked about for many years.

Q66 Geraint Davies: No, not that, but the Russian issue on top of that and the Irish stuff, yes.

George Eustice: On top of that, we do. To finish the point, there has been lots of argument at the European Council over the last year about whether we should loosen the super-levy charge on those countries that are going to exceed their quota in this final year. The UK position has been very clear. We have had a plan that has been in place for many years, so let's stick to it, and those that have gone over will have to pay the super-levy penalty.

On the Russian ban, yes, there has been an impact particularly in the Baltics. That is why, while we are often sceptical about these interventions, we have not stood in the way of the Commission's plan to have storage aid, particularly for the Baltic countries. Latvia, Lithuania, Estonia and Finland have all been particularly impacted by the Russian ban because they do a lot of milk and dairy exports there. The Commission has put in place support there.

The EU Commission—and again we have supported this as part of the compromise—also has an EU Milk Market Observatory, which monitors market conditions and enables there to be interventions in extreme cases. The point you cite with Russia is a good one and there has been intervention in that instance.

Q67 Guto Bebb: To finish things off, you have responded to Mr Williams's question about the relationship with the Welsh Government with a very positive view of how that relationship is working. Can you give any examples of the way in which that positive relationship you described has been utilised in order to respond to this current crisis?

George Eustice: All I would say is that we have a dairy supply chain forum that meets twice a year, which met most recently in November, and we do have Welsh industry representatives on there.

Q68 Guto Bebb: I mean particularly now with the Welsh Government in mind.

George Eustice: There are certain things that we do collectively. The dairy supply chain code is something that covers the whole of the UK and that has been helpful, so we have engaged them on that. The best I can really say on this is that we agree with the Welsh Government the collective position that we take as a UK Government at the European Council. Before the European Council, Rebecca Evans and I have a meeting and we talk about the UK stance. When she is unable to make it—and she does not attend every Council—then official-level meetings take place between Welsh Government officials and DEFRA officials to ensure that they are content with the stance that we are taking.

Q69 Guto Bebb: Have you had any representations from the Welsh Government on the Groceries Code Adjudicator?

George Eustice: I cannot recall. I would have to check because I do get a lot of correspondence. It is not impossible, but I cannot recall that being raised with me at this point.

Q70 Guto Bebb: Could you possibly write to us just to confirm?

George Eustice: I can confirm, but I have no recollection of receiving a letter specifically on the point of the supermarket adjudicator from the Welsh Government.

Chair: If that is everything, I call this meeting to an end. Thank you very much indeed.