House of Commons

Environment, Food and Rural Affairs Committee

Oral evidence: Dairy prices, HC 425

Tuesday 8 September 2015

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Watch the meeting

Members present: Neil Parish (Chair); Chris Davies; Jim Fitzpatrick; Harry Harpham; Simon Hart; Rebecca Pow; Ms Margaret Ritchie; David Simpson; Rishi Sunak

Questions 1-114

Witnesses: **Sian Davies**, Chief Dairy Adviser, and **Michael Oakes**, Dairy Board Vice Chairman, National Farmers Union (NFU), gave evidence.

Q1 Chair: Good afternoon. Thank you very much for coming this afternoon. We are delighted that you have been able to get here at short notice, because we very much know the seriousness of the situation with dairy prices. Thank you very much for coming this afternoon. Would you please like to introduce yourselves? Then we will get stuck straight in to the questions.

> ***Michael Oakes***: I am Michael Oakes. I am Vice Chairman of the NFU's National Dairy Board, and a farmer from Worcestershire. I am a dairy farmer, obviously.

> ***Sian Davies***: I am Sian Davies, the NFU's Chief Dairy Adviser.

Q2 Chair: Lovely. Thank you very much. I will kick off with the first question. The Government consistently tells us that the long-term future remains bright for the dairy industry. In your view, is it? I don't know who wants to kick off with that one.

> ***Michael Oakes***: I will kick off with that one. Yes, I think, if you look at all the predictions in the growth of the world population and the population within the UK and Europe, the future should be bright. It is a product that is always going to be in demand, but, at this moment in time, supply and demand are out of kilter. Whilst the NFU itself wrote quite a lot about volatility, and that we needed tools to manage volatility going forward after milk quotas disappeared, none of us probably saw that the milk price was going to fall off the cliff that it has.

> ***Sian Davies***: Yes, I would agree with Michael on that point. Annual demand for dairy is growing, at 2% year on year. Currently, we are producing more than that 2%, but, long term, we see demand for dairy growing. We see a place for UK dairy

farmers in supplying that demand. That demand is not going to come from the UK or the EU, though, and we need to look at products that we can produce to satisfy that demand going forward. We need to look at more innovative products and what those populations require in future.

Currently, though, we have heard this morning from an RABDF survey that is saying that around half of British dairy farmers are considering their future in the industry. Here and now, whilst the long term is positive, we need to look at measures that can help our farmers over the next six months, especially as they will be bringing in cattle for the winter period in the next few months and costs will increase quite drastically.

Q3 Jim Fitzpatrick: How long is "long term"? How long is it before the balance gets back in favour of the dairy farmer?

Michael Oakes: If I knew the answer to that, I would probably be quite rich. None of us actually saw, as I said earlier, that it was going to collapse as it has. It will be supply and demand. We are still having good weather for milk production in Europe. That is the same in the States and New Zealand, and the main milk production areas of the world.

Unfortunately, in the UK now, we are taking the foot off the pedal. If I look at my own business, we were milking three times a day. We were flying along as a business. We have knocked one milking off, which has taken 10% of yield off my overall output. We are looking at other ways of reducing cost, and every dairy farmer in the UK is doing the same, whether that is reducing labour or reducing inputs.

Q4 Chair: The lower prices have been going on now a year. If either of you had a crystal ball, when would you be relatively hopeful that we see a turn in the right direction—i.e. up—in prices?

Sian Davies: If we look back first before we look forward, we had a downturn in the dairy market in 2009 and 2011. Currently, we are probably at the lowest we have seen since around August 2009 in the average milk price in the UK, at just over 23 pence per litre. Prices have been dropping since November 2013, when we were at the highest. Going forward, it would be dangerous to predict when we will see an upturn. We have seen two positive GDT auctions, but that is at the lowest price the GDT has been; that is what global dairy products are traded on.

It would take a very brave person to predict when things will improve. We hope we are at the bottom, but no one can predict that. Again, as Michael refers to, it is linked to weather events elsewhere in the world, and what happens to producers in America, in New Zealand and elsewhere in the world, and in Ireland, just across the sea from us. In terms of looking forward, we know that things will improve, but we know that things will probably fall again when we see an imbalance of supply and demand.

What we are calling for, as the NFU, is that we have some risk-management tools in place that farmers and milk buyers can utilise to help manage this risk that we will see in future again. As much as we cannot predict when it will go up again, we cannot predict when it will go down again. We need to have some tools in the box to allow our supply chain to actually manage those ups and downs in the market.

Q5 Chair: Quickly, does that include futures markets, or what?

Sian Davies: That includes futures markets, most definitely. We referred to those back in our submission earlier this year. We and Dairy UK see a huge void in the European dairy market, in terms of a fully functioning futures market on dairy. If you look at the US, dairy farmers and co-operatives over there can utilise dairy futures. Not everyone does, I admit, but at least the ability is there for farmers and the co-ops to utilise them when they want to. In New Zealand, we have a guaranteed milk price programme in place, with Fonterra. In the US, we have a margin protection scheme. Even in Ireland, we have fixed-term, fixed-price contracts that are linked to end-use volumes of milk. There are ways and means of utilising risk-management tools, including futures, for the UK dairy industry.

Q6 Rishi Sunak: What do you think are the reasons we have not developed a proper functioning European futures market, and what needs to happen to make that a reality?

Michael Oakes: I can have a stab at that. In the UK, our processes have been, in the past, quite focused on the consumer and the retail marketplace, whereas, if you look at the Irish market or the US, and especially New Zealand, they have had to look overseas for markets. They have been more exposed to that volatility in the past, and their processes have perhaps been more innovative in their investments in processing and the spectrum of products that they produce.

We are in that world ourselves now, and I think it is necessity that will force us to look for them. We have created a working group within the NFU with other dairy organisations such as the FFA, RABDF and various others, which is looking at POs, contracts and futures markets, because all three are potentially tied up together.

Sian Davies: There is a dairy futures market in the EU—the Euronext, for example. There is futures trading going on in the Netherlands, in Germany and elsewhere. The main stumbling block is a lack of real-time data on production and prices. It is something that we and Dairy UK have called for.

At a European and a national level, we need better data. If you look at production figures, the official figures from Defra at the moment are probably three months out of date. It is the same for official milk price figures. If we were quoting milk price figures to you now, it would be July figures we quote, because again they are the official figures we have. That is not good enough to be looking at futures trading, and so we have called for possibly even more regulation on data collection, to ensure that we have the right data to have a better functioning futures market.

I think, from the announcements we have heard from Brussels yesterday, Commissioner Hogan, or the DG AGRI, has announced that they will be putting together a high-level group to look at the ability of collecting better data to develop a futures market.

Chair: We will probably also raise this question with Dairy UK in a minute.

Q7 Harry Harpham: How many farmers do you estimate have left the dairy industry in England and the wider UK this year because of price volatility?

Sian Davies: We know for August we have lost 30 farmers; that is one a day for August. Around 450 farmers have left the industry in England and Wales over the last 12 months, since last September. I have it right down here. It is 415 since September last year, in England and Wales.

Q8 Harry Harpham: You think that is down specifically to price volatility.

Sian Davies: There are a number of different reasons, and I could be here all day listing them. TB could be one, or family situation, or other options like retirement. There are a number of different issues. There is no exit questionnaire to those farmers, but a lot of them would have left because of the difficulty in the market. As we mentioned, the prices have been falling since November 2013. Looking ahead for the next month, when cows come in, costs will increase, and a lot will be questioning their future in the short term. They probably would have managed to keep on going through the summer, because costs are a little bit lower. Now that their feeding and bedding costs will increase, they will really be considering whether they can survive in the industry. This is across the UK. There is not one region that is suffering more than another.

Michael Oakes: Potentially, we are also losing some of the farmers we want for the future. It is not all farmers of retirement age; it is younger farmers that have invested. They are very much business-focused. The Defra average price for July was 23.35, but there were some farmers out there with some companies getting in the region of 17.9 pence. If your cost of production is somewhere between 28 and 30 pence, just from a business perspective, if you take out the emotion and everything else that goes with dairy farming, it does not add up.

Q9 Chair: It is not all about farmers that were perhaps retiring or going out, or have been struggling for years; it is very much those that have made big investments as well and cannot service them at the moment. That is the difference that we are seeing.

Sian Davies: There is also an issue of some farmers who are struggling to find a contract in some regions of the country. That is another reason why they are being forced out of the industry without it being their own choice, so that is also something to be aware of.

Q10 David Simpson: You are very welcome to the Committee. You have made the point that prices have consistently fallen from 2013. Would your view be that this is a bigger crisis than it was in 2009?

Michael Oakes: Personally, for me, in 30 years of dairy farming, it is the biggest crisis that I have run my business through. The question we get asked all the time is, "How low is it going to go, and when is it going to finish?"

Sian Davies: I think it is a longer and a deeper cut than we have seen. Obviously, the time the prices have been low has been much longer than anyone expected. That is because it has been driven by issues that are completely out of the control of farmers, in terms of—I am not going to repeat what we did back in December and January—the Russian ban, the purchase power in China, the weather events and also the retail price fall. All these have come together in a perfect storm to lead to the situation we are in today.

Q11 David Simpson: There were decisions made. China has a problem with the market; the euro is a problem; and, of course, the Russian ban was a lot of that. There was also quotas going, and the farmers had no say in all of that. The National Farmers Union, I understand, had a meeting with the Defra Minister a week or two ago. Were you part of that delegation?

Sian Davies: Our president was, yes, and our directors.

Q12 David Simpson: I know this is a controversial issue, but what was the attitude of the National Farmers Union in pushing forward for intervention to try to get a floor in the pricing?

Sian Davies: We would support a technical review of intervention. We believe the tool is not fit for purpose at the current time and there needs to be a review of that price. The current price of 21.7 euro cents I think translates to around 16 pence per litre, at the current time. We would see very few farmers surviving at those prices. The tool is there to create a floor in the market; it is not there to create a living for farmers, but I do not think 16 pence a litre would create a floor to any dairy farmer anywhere in Europe. We know that prices already in Lithuania and Latvia are at intervention or lower, and we know the product going in.

In that meeting a week or two ago, we called for a technical review of the intervention tool to make it more fit for purpose. In response to the announcement from the Commission yesterday, we again showed concern that the Commissioner had not considered a review of intervention in his announcement yesterday in Brussels.

Q13 David Simpson: Prices are low. In Northern Ireland, it is 17 pence for now, which could drop lower to 16 in September. For the Scottish price, reports out today show it at 18 pence. If that is the case, why are we still producing as much milk?

Michael Oakes: One response that always tends to happen in the dairy sector is that you try to spread your cost over more litres. As the price starts to come down, you try to keep your income at the same kind of level. However, we are getting to the point, and I have certainly got there in my business, that you can be a very busy fool.

David Simpson: At 16 pence, you are a busy fool.

Michael Oakes: Yes. A lot of us employ consultants, and we have to sit down and do business plans. You have a certain amount of money you expect to come into your business, and one way you can do it is to drive efficiency and try to get better. Ultimately, though, it has gone past that tipping point where it just does not add up.

Sian Davies: You also have the issue here in the UK at the moment that, even though the average milk price is 23.35 across the UK, we have farmers being paid 17 pence for their milk and others being paid 33 pence for their milk, so there is still a driver for increased production in some parts. Also, long term, we are saying the prospects are good, and we do not want to lose production capacity in the UK. We are only 81% self-sufficient in the UK, so there should be scope for us to be able to provide more milk for the domestic and export markets.

Q14 David Simpson: I will clarify one point very briefly, and I know this will come up later on in other questions. I mentioned intervention. Just for a point of clarification, are you saying that the National Farmers Union were in favour of proposing intervention, but a review of the price of it?

Sian Davies: Yes, a review of intervention price.

Q15 Chris Davies: Just going back to Harry's question regarding farmers leaving the industry, have you done a breakdown as to which part of the sector are leaving? As we know, there are various ways of dairying out there, whether it is our super-dairies, whether it is the New Zealand grass-fed system or whatever. Where in the dairy industry are we losing our farmers at the moment?

Sian Davies: We have not done a review of that point, but my understanding is there are farmers from all types of systems and all parts of the country deciding to leave for various reasons: if they have invested heavily in new facilities over the last year or so and, depending on where they are geographically, whether they can find a milk contract or a buyer. There are completely different reasons as to why farmers are leaving. I do not think it is linked to whether they have a retail-aligned contract or not. There are farmers leaving the industry, even on retail-aligned contracts, to pursue other avenues of income, or just leaving completely.

Chris Davies: Some, of course, will be higher input than others, even though the dairy industry is a very high-input industry.

Michael Oakes: Even low-input, lower-output guys that are really lean and mean are being really very hardly challenged at this kind of price.

Chair: Thank you. I think the argument is well made.

Q16 Ms Ritchie: You are very welcome. The EFRA Committee has previously supported the Government's view that opening new export markets offers long-term opportunities for dairy farmers. However, China's import of commodities has stalled. Russia is still banning EU dairy products. Northern Ireland's dairy industry exports around about 85% of its produce but seems, at best, in no better position than the rest of the UK industry. What is your view of the potential for exports to lift dairy farmers out of their current difficulties?

Michael Oakes: There are countries out there that have been exporting dairy products for a lot longer and a lot better than we have from the UK. As I said before, we have been very much focused on the domestic market. However, as Sian said earlier, we are only 80% to 85% self-sufficient, so there is a massive scope. Import displacement is something that we should well be focusing on, and our own domestic market. Exports are very nice, but there are other people who are in a much better place than us at this moment in time. It is part of the answer, I am sure, but it not might be the lowest hanging fruit to get us out of this hole.

Q17 Chair: Don't you think we could learn something from what others are doing, rather than say, "Let's give up on that."?

Michael Oakes: I did not say "give up", but I said there are possibly things we should do or focus on at the same time, if not before.

Sian Davies: I do not think anyone is under the illusion, either, that the export markets will pull us out of the situation we are in at the current time. Opening new export markets takes time and takes perseverance. We can learn from others. We have Ireland on our doorstep, which is obviously a huge exporter of dairy products, and there is a lot we can learn from Northern Ireland in England, Wales and Scotland, as well as from Denmark and others. We learnt from Commissioner Hogan yesterday that he is in China and Japan this year; he is in Mexico and Colombia next year. There is work being done.

I think there are points to be overcome here in the UK as to how we look into funding trade missions, inward and outward, on exports, and that is something that we need to work with Defra and others on. I do not think anyone is under the illusion that it will pull us out of where we are now. We need to be more active long term on exports.

Q18 Rebecca Pow: Can I pick up on that point? We have been talking about exports and making more cheese and more butter. One example in Somerset is that a cheese company has just gone out of business near Bridgwater. What are the dairy farmers going to do with their milk? There is nowhere else for them to send their milk. There are no more cheese people saying, "I'll take your milk. We are producing cheese; we are exporting it." There is a massive gap, isn't there, between supply and demand? The Government is saying they want to promote exports, but what are you doing to link them all together? It must not happen in five years' time. It has to happen now.

Michael Oakes: We still import a lot of cheese into the UK, and a lot of that is cheddar. There is scope to increase the amount of cheddar that does not come from outside the UK. That is not easy, because retailers have contracts and various other things, but we have had a few results recently. We are talking to the major retailers about how to support British. One of the things disadvantaging us at the moment is the strength of the pound, and that is drawing imports into the UK. Therefore, we need to flag up the Britishness of our products, almost, and get the retailers to work with us on that, because that is one of the things we have got.

We have the Red Tractor, and at the moment we are talking to the Red Tractor, as the NFU and various others, about how we can lift the profile and get an understanding of Red Tractor, because it creates that point of difference. We also need the country-of-origin labelling to be right and prominent as well. You are right in what you say. There does appear to be a lot of cheese around, but there is still a lot that is imported into the UK from overseas.

Chair: We had better keep going, because I am conscious of time and we have a lot of questions.

Q19 Ms Ritchie: For the purposes of clarification, do you think that efforts to diversify trade links help get around the difficulties that have emerged as a result of the Russian trade ban and the unanticipated drop in demand from China? How do you think that England and the rest of the UK can improve its dairy export performance?

Sian Davies: One point to make, I think, is to look at what the demand for exports is in. Historically, we produce liquid milk and cheese in England and Wales. Northern Ireland is very different, with a much more variable dairy package there. The demand for dairy that we are aware of is not in liquid milk and it is probably not in cheese either. We need to look at what products those countries we are looking at exporting to want and need, look at our processing capacity in the UK and what we are processing at the moment, and see whether it actually fits in.

Northern Ireland is very different. There has been a history there of exporting. The mainland UK is a different story. Our focus has been on the domestic market. Most of the investment over recent years has been on more efficient liquid milk processing, and probably more cheese production. Going forward, is that where the focus should be, on processing? Maybe there is a need for reviewing processing going forward and making it more fit for purpose for export, if that is what we want to push, in terms of our dairy industry here.

Q20 Ms Ritchie: The bottom line is: in terms of intervention, would we have, and do we have, the support of the NFU in requesting that review of intervention? As a result of yesterday's deliberations in Brussels, Commissioner Hogan has indicated at this stage that he is not prepared to go for that bottom-floor price, so to speak. What is the view of the NFU, and what is the NFU going to do, working with your appropriate organisations on a devolved basis, to achieve that with Commissioner Hogan?

Sian Davies: Following yesterday's announcement, we have put out a press release, referring to the early payment of single farm payment in the first instance, because that was one of the main elements of yesterday's announcement from the Commission, but also querying why there was no mention at all of intervention and reviewing of intervention.

We are working closely with the UFU, and NFU Scotland and NFU Cymru, to have a UK position on this. We have been lobbying the Minister and Secretary of State, in terms of a review of intervention. We are working with Copa, the European farmers' organisation, of which the NFU is a member, to call for a review of intervention at EU level, alongside other members of Copa. That is a clear Copa position on reviewing intervention as well. What we have called for is a technical review of intervention, with the aim, obviously, of showing that the current price is not fit for purpose.

Q21 Ms Ritchie: What impact has the ending of the EU milk quota system had on this issue to do with the intervention price, on the general volatility in prices and on the general dairy industry, in your opinion?

Sian Davies: We have mentioned that dairy prices were falling since November 2013. That is long before the ending of quotas this year. Countries in Europe were ramping up to the ending of quotas. We knew that the ending of quotas was on the cards for a long time before this year came along and the ending of quotas actually happened. I think the fundamentals of why the industry is where it is are not linked to the ending of quotas this year. That has probably had a part to play, but there were other issues that we need to resolve, and I do not think revisiting the quota or supply management question is the right one for the UK dairy industry at the current time.

Chair: It is not just the EU that is overproducing; it is the whole world. That has always been the argument about quota: that it restricts Europe but allows others to advance when there is capacity. At the moment, there is not, but it is an interesting argument over quotas, which I suspect we could have all day but we do not have time for.

Q22 Simon Hart: We move to supermarkets, which will always play a part in this debate. Certainly, the public exposure to this crisis over the last few months has been mainly about supermarkets, and protests and demonstrations and what have you, one consequence of which has been the Morrisons announcement about the 2.5 pence per litre generous gesture towards the farming industry to try to do their bit. Are you aware of any market research that the supermarkets have done which can give you any indication of what additional volume of milk this will actually result in selling, and what additional value this will add to the provider?

Sian Davies: Many of these announcements have happened over the last month, so as yet there has been no work done on the increased value that has been brought into the dairy sector, following the announcements by Asda, Lidl, Aldi and Morrisons last month, and Tesco and Morrisons this month on cheese. We do know, prior to that, around 10% of dairy farmers in the UK and 15% of milk was on a retail-aligned contract that was being paid on a cost-of-production basis, but that was 15% volume of UK milk. We will do some work, in terms of the money that is being found in the dairy chain to support dairy farmers.

Michael Oakes: You were specifically asking about the Morrisons "Milk for Farmers".

Q23 Simon Hart: We do not want to heap all the blame on Morrisons quite yet, but the point is that someone somewhere must have made a calculation as to what the consequence of this marketing gesture would produce. It seems to me odd that we welcomed it without knowing its significance or what the consequence would be.

Michael Oakes: I have been involved in the Morrisons discussions, and a lot of the discussions have moved on since then. The Morrisons one in particular, which is a point of difference, is that they are actually going to put a product on the shelf that is going to be called “Milk for Farmers” and “Cheese for Farmers”. It will have a premium that will transparently flow. Apparently, there is going to be a website, so you can see. We have been given assurance by Morrisons that they will put a lot of effort into marketing that and that they are at this moment in time getting a lot of questions from consumers asking when it is going to be on shelf. I believe that is at the beginning of October.

We have asked for all the assurances that this is not just smoke and mirrors—that this is something real—and we have been assured that it is. Over and above that, though, most of the major retailers have now moved to a sustainable price over the winter period, and that is through a lot of pressure from both the NFU and the FFA and various other organisations. Asda are going to be paying a sustainable price over the winter period.

Q24 Simon Hart: Given the fact, though, that it took people taking animals into a supermarket to produce this outcome, do you think that all of this marketing effort is designed to help you, or to help them? Is this brand protection, or is this helping farmers?

Michael Oakes: It is a bit of both there.

Sian Davies: We have to welcome the fact that retailers have recognised at last there needs to be a sustainable dairy supply chain and that farmers at the bottom end of that supply chain need to be paid fairly for their product that they produce. You asked earlier on why we welcomed these announcements. I think we have to welcome them because it is more money coming back to the primary producer along the dairy supply chain.

Q25 Simon Hart: I will finish on this point. I accept that you have to welcome them, and we all welcome them. However, one normally welcomes these things with some indication of what the consequence of them might be. It seems we are just welcoming them because we can’t not welcome them. I am just trying to get to the bottom of whether this is going to save my farmers in my patch, or whether this is a marketing gimmick. I need to know which it is.

Sian Davies: We have heard today from Dairy Crest Direct that they will be holding the price for October, on the back of some of the extra funding that is coming to them from retailers, as announced last month. The extra money that has come into the dairy pot from the retailers, following these announcements last month, will be shared amongst the few hundred non-aligned farmers at Müller Wiseman. There have been announcements that the milk price is going to improve for those farmers. We need more time to work that out. The retailers have made it quite clear that they want that money to go back to the primary producer, and we need to ensure that happens long term.

Michael Oakes: We do welcome these, and it is crucial. I think we have put somewhere between £30 million and £50 million back into the farmers' pot over the last few weeks, which is not insignificant. Actually, that money must have already been in the supply chain. We, as farmers, have almost done somebody else's job in getting it back to the farmer. I do not sell milk to the retailer, but we have been involved in discussions about a sustainable price, should we have to go there.

Chair: There are one or two supplementary questions. You had better ask them all together, because otherwise we are not going to have enough time.

Q26 Rishi Sunak: Very quickly, are there still any large supermarket chains that have not moved to a sustainable, cost-of-production price for their own-brand liquid milk?

Harry Harpham: My constituents will take some convincing to pay 10 pence extra for four pints of milk just on promotions from Morrisons. What is the NFU doing to drive home this initiative, by Morrisons in particular, to convince constituents of mine that it is worth them paying that 10 pence extra?

Chris Davies: Michael, you were involved, as you said, in negotiations with Morrisons or any of the other supermarkets. I would just like to know: is the 10 pence that they are talking about handing to the farmers gross or net? Are they taking out their administration costs? Are they taking out their marketing costs? Is it going to be a straight 10 pence that they hand over?

Chair: We have a series of questions there. The last one I want to ask is: are you going to name and shame those retailers that are not doing a good job for the farmers?

Sian Davies: If I start with the last question, if that is all right, currently on NFUonline, our website, we do have a table that shows what the retailers are doing on all products, but there has been a focus on dairy. It looks at what support is being given by the top 10 retailers on liquid milk, on cheese, on yoghurts, on butter and on any other dairy product that you want to think about.

In terms of liquid milk, which is the question I was asked first, we obviously know that Tesco, Sainsbury's, Waitrose, M&S and the Co-op have had a scheme in place to support their liquid-milk-supplying dairy farmers for a number of years. In August, we heard that Aldi, Lidl, Morrisons and Asda would have a minimum price that they would pay their liquid milk suppliers. That would not, obviously, be the farmers; that would be the milk processor. It would be left to the milk processor to share that amongst their suppliers. Those are the retailers that we have.

Chris Davies: Tesco have done it on cheese as well.

Sian Davies: That is on liquid milk, which is the question, yes. Booths, obviously, is another one that you may have forgotten. They have four dairy farmers that they supply in the north of the country, but again they would have a cost of production plus price. There have been moves on cheese as well.

Q27 Chair: How do we persuade Harry's consumers, and all of ours, that we are getting value for money if we pay this extra money?

Sian Davies: In our opinion, possibly, at the NFU, we do not believe the consumers probably need to pay 10 pence more to ensure that farmers get a fair price for their milk. The retail price is not the issue; the issue is the fair margin along the supply chain. What we would call for is a sustainable price for all. In terms of the Morrisons Milk for Farmers initiative, we will be supporting that. We will be encouraging consumers to show that they support dairy farmers. We have Mintel research that we have highlighted over the last few months showing that consumers tell us they are willing to pay more for milk, as long as we can guarantee that money is going back to the farmers.

Michael Oakes: We have also offered to get farmers to go and stand outside and inside store, and explain what is the point of difference to this milk. I think Morrisons are quite receptive to that, and that is something we will be working with them on.

Sian Davies: Next week, as well, is Red Tractor Week, so we will have farmers outside store, across the country, promoting the benefits of Red Tractor and why consumers should be looking for Red Tractor on dairy products. That is part of Red Tractor Week. There are initiatives throughout the year that we will be supporting to help.

Q28 Harry Harpham: You did a fantastic job in raising the issue, with the cows in supermarkets. You grabbed national attention. It is a good initiative from Morrisons, but I represent a constituency that is the 19th-highest in JSA claimants in the country out of 650: 10 pence to them for four pints of milk—

Michael Oakes: It is about giving the consumer the choice. We have focused a lot on liquid milk today. We have been in with the major retailers. If public procurement started to pay a sustainable price as well, that would probably make more difference than those retailers on their own. We are having those conversations. There is also the food service industry. The retailers are a small part of this, and they are moving in the right direction and giving us a good fighting chance of getting through this winter. I do not even know if I will be a dairy farmer at the end of this winter, is the reality of the situation. All we are after is trying to give farmers the opportunity to get to a better place.

Sian Davies: That is a fair point. It is a large proportion, but only a proportion of liquid milk is sold at retail. There are other avenues that we need to look into, where liquid milk and cheese and other dairy products end up. It is not all at retail. We need to focus on food service, on public procurement, on catering, on hospitality as well.

Chair: Chris, very quickly, remind us of your point again.

Q29 Chris Davies: Is the 10 pence gross or net?

Michael Oakes: It is gross.

Q30 Rishi Sunak: Do you mind giving us a quick update on why we have not seen more producer organisations created since that was suggested as a sensible solution for dairy farmers to negotiate together?

Sian Davies: You are right. We have one recommended producer organisation in the UK at the moment. That is Dairy Crest Direct, representing around 1,200 to 1,400 dairy farmers supplying Dairy Crest. There is interest from others. We hear that there are a few others who are considering at the moment, and there is a lot of interest on the ground, in terms of the first steps into becoming a producer organisation.

I think that is what is completely missing at the moment. There is interest within farmers supplying different milk processors, but the guidance is missing there from the Defra official guidance, in the minimum size of POs and the volume of milk that can be represented within a PO. On the link between the farmer and the guidance, there needs to be a bit more work done, possibly, in terms of providing more information, in terms of the benefits of POs, in terms of how simple it is, and in terms of allowing farmers to come together as a group. A number of our farmers who supply milk processors do not know who the farmers supplying those milk processors are. To bring those farmers together in itself is a task that is quite difficult at the current time.

Michael Oakes: I believe it is a good idea. I think one of the issues is that, when the POs became an issue and it was raised, the milk price started to go upwards. People took their focus off that, in effect. They were getting over 2012 and moving their businesses forward. Now, things are bad enough that the focus is very much back on POs. Sian is right. We need to make sure the information is there. DCD has formed itself into a PO. There is potentially another one that is partway there. We are getting a lot of questions. We have a working group, which I am part of and Sian is part of, with other organisations. It is not just the NFU that needs to drive this forward. We need to do it together.

Chair: POs want to be there in good times as well as bad. I think that is probably where we have made the mistake in the past.

Q31 Chris Davies: From the industry's perspective, if there was a possibility of going back to something like the old Milk Marketing Board—I know we cannot do it—would that be the choice of progress and direction for the industry?

Sian Davies: POs are not the modern MMB, but they are the tool we have today to help increase farmer representation with milk buyers. I think that is the tool that we need to harness.

Chris Davies: They cannot set prices, as such.

Sian Davies: A legally recognised PO, such as Dairy Crest Direct, can negotiate price and contract terms with their milk buyer. That is the case if they are a legally approved dairy PO.

Michael Oakes: Ultimately, we are never going to have another Milk Marketing Board, and POs are part of that solution. You are right in what you say. They will not actually get a good price in a bad market, but they will get the best price in a bad market, and a good price in a good market.

Chair: We must remember that when we move into better times as well.

Sian Davies: In Germany, for example, there is an association of POs that sits above smaller POs as an umbrella organisation, providing information and guidance to the smaller POs as to what is going on in the market, and providing guidance on where there are possibly demands for more milk, or less milk, and suchlike.

Q32 Jim Fitzpatrick: As part of our previous inquiry, we raised with Defra Ministers what they were doing to help farmers with cash-flow problems, recognising the difficulties the industry was facing. They said that they had been in communication with the banks and HMRC to request a more sensitive approach. Have you seen any evidence of that happening over the past 12 months?

Michael Oakes: Some of the banks are offering loans at favourable rates to cover the single farm payment, which farmers have not had yet. That, potentially, is a positive.

Jim Fitzpatrick: That is new.

Michael Oakes: That is relatively new, isn't it? It is only recently. They have not really done that in the past, but some are coming out and saying it is policy and part of their agricultural team.

Sian Davies: Short term, we are still in discussions with the banks. They are fully aware of the situation. They are understanding, where they can be, in supporting dairy farmers. I think our role is to ensure that dairy farmers actually speak to their banks early on, and that is the message we are putting across. In terms of the short term, the big one for us now is actually early payment of single farm payment, which, of course, is something you are fully aware of, and came out again in Phil Hogan's announcement yesterday. Obviously, the news from Brussels is that checks will have to be carried out before that payment can be done. Again, that is possibly an issue for us here in the UK. We will be calling on Defra to ensure checks are done as quickly as possible, to ensure early, or at least prompt, payment of single farm payments across all devolved regions.

Q33 Chair: We have got the Rural Payments Agency in to see us, so we will ask the question. On HMRC, have we got the tax averaging working yet, or not?

Sian Davies: There was a consultation over the summer, in terms of how that would work. I think there is work being done currently in ensuring how that would function going forward. It is still there, and is a move forward for us, we feel, over the last few months, and something that will benefit not just dairy farmers but the industry as a whole.

Q34 Rebecca Pow: My question is really about the voluntary code on contractual relationships that was created in 2012, with the idea that it was going to help ameliorate or address fluctuating milk prices: 85% of producers signed up to it. You yourselves were really supportive of it. In the light that this is all about supply, demand and price, would you say that it has been successful? Is it really doing anything at all in giving the farmers any teeth, or should we be using it in a different way? Don't you think the industry has actually got worse since we have had it?

> ***Sian Davies***: The voluntary code was not put in place to increase prices, or to manage the market, or any of those points. The voluntary code, agreed between Dairy UK, the NFU and NFU Scotland, was there to encourage fairer and more transparent conditions within contracts between milk buyer and farmer. I think it has achieved that. Those milk buyers and farmers that have signed up to the code have seen new ways of working. For example, there have been formulaic contracts put in place; there have been producer groups set up to negotiate contract terms with milk buyer. Some of those things are positives that would not have happened had the voluntary code not been developed in the first place.
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> The voluntary code was reviewed last year, in October 2014. I think there is unfinished work in terms of putting in place some of the recommendations of that review last year, as well as reviewing the code currently to see if it is fit for purpose. Over the last year, we have seen new types of contracts come to the fore—for example, A&B contracts—which were not part of the original code. We need to look at whether the code should be revisited and possibly strengthened in some areas.
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> ***Michael Oakes***: A&B pricing has come in at a time when farmers have been in a very weak position in an oversupplied market. A&B, where it works well in other parts of the world, is where the processor and the farmer share the risk. How A&B has been introduced in the UK at the moment is the farmers taking all the risk and all the downsides. In effect, the processor is balancing his business at the farmer's expense. That definitely needs to be brought into the code.
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> > **Chair:** We will put that to Dairy UK in a minute. They are waiting to give us evidence.
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> ***Sian Davies***: On contracts as well, I was aware that yesterday the Commission also announced they would be re-looking at the EU dairy package and looking at the contract stipulations that were put into the EU dairy package. That is something, again, that we can look at, and a European angle in terms of minimum conditions within milk contracts across Europe, possibly.

Q35 Rebecca Pow: Do the contracts help at all with farmers getting over that problem of finding out where their milk is going and whom it is going to, and what the contract is and what is the cost, before they actually produce milk? It still seems to me incredible that you can be a raw material producer of a product without necessarily knowing where it is going to be sold. That is, to me, the single most incredible thing about the dairy industry.

Sian Davies: That is going back to probably one of my first points, in terms of market information and the need for better and more up-to-date information of what is going on in the market. Farmers who are tied into A&B contracts should have information to satisfy them that they are being paid a fair and accurate B price. To a certain extent, that information is not there currently. Because the official data we have is, of course, a few months out of date, it is very difficult for farmers to question how their milk price is being calculated, in some respects. There is also the issue of communication between milk buyer and farmer. In some instances, it does not happen. A lot of farmers do not understand.

Q36 Rebecca Pow: Is the price fair? It is not, is it? The price is not fair, so has this not worked?

Michael Oakes: In some cases, you could say that the price is fair. It is all to do with relationships, and the contract is part of that. There have been times when farmers have been at fault, where they have suddenly doubled their production and not spoken to their processor. We have a job as an NFU both to fight on behalf of farmers but also to try to make them aware of the market and aware of the realities of the market.

Sian Davies: It has helped those farmers who are supplying the milk buyers who are signed up to the code. There are over 200 suppliers in the UK, the majority of which, probably, are not signed up to the code.

Rebecca Pow: That is what I was trying to get at, really.

Sian Davies: We need to encourage more take-up of the code.

Chair: Thank you very much, because I think we have had some really good evidence from you. We do realise the seriousness of the situation regarding the dairy farmers and the price at the moment, and we thank you very much for coming along this afternoon so quickly and giving us good evidence. We will now be able to put some of your questions to Dairy UK, and to the Minister in a minute when he comes before us. You are most welcome to stay if you wish. Thank you very much.

Examination of Witnesses

Witnesses: **Dr Judith Bryans**, Chief Executive Officer, and **Peter Dawson**, Policy and Sustainability Director, Dairy UK, gave evidence.

Q37 Chair: Thank you very much again for coming before us so quickly. If you would both like to introduce yourselves, with your name, rank and serial number, we will get on with it.

Dr Bryans: I am Judith Bryans. I am Chief Executive of Dairy UK.

Peter Dawson: I am Peter Dawson, the Policy and Sustainability Director of Dairy UK.

Q38 Chair: Thank you very much. I will kick off with the first question. The Government consistently tell us that the long-term future remains bright for dairy. What factors make that likely? When will farmers and others begin to see an upturn in prices, rather than a downturn in prices? It is an easy question.

Dr Bryans: I will kick that one off, then. We do certainly see a bright future for the dairy industry in the UK. We see global growth in population. We see increasing demand around the world. As people become more middle class, the demand for dairy and dairy ingredients, particularly dairy protein, seems to be increasing. It will require, based on predictions made by other organisations, milk and dairy products coming from Europe to help supply that dairy, and we certainly see the UK as being an important part of that. We have great conditions for farming here. Long term, and beyond what we have at the moment, which is a real crisis, we do see a bright future for dairy.

I wish I had a crystal ball. Unfortunately, I do not. Dairy UK does not make predictions, but we read the predictions made by others. We look at them these days with a certain amount of not scepticism, but adding caveats to them. We had hoped that, by this time of the year, or a little further into the year, we would have seen an upturn in prices. Unfortunately, as you have heard earlier, we still do not have China buying in too much stock. We have seen an extension to the Russian trade ban. Milk production around the world has been very high, particularly in places like the States. They are flying.

When we look at the predictions being made by organisations like Rabobank, they now seem to be suggesting that it will be into the spring of next year. That is a prediction made on the basis that, in the meantime, we do not have some major weather event, which would help us out in the UK, but obviously that is all we can base our assumptions on.

Q39 Chair: I think you naturally realise the seriousness of the situation as far as the producer is concerned, and there is only so long that they can go on taking these prices. What more do you think you can do, as Dairy UK, to try to move those prices upwards for the producer?

Dr Bryans: We certainly do. We see the issues that the producers are having at the moment. We have great sympathy with them, and coming into the winter, when they are bringing cows indoors, it will be even more of a problem. We would ask that people recognise that this is also a problem for processors, because they are out on a world market and they are trying to sell product that there is too much of. Whenever there is too much of anything, that is really difficult. When you have a supply and demand situation that is distorted as it is at the moment, it is very hard to give the good prices back to the producer that they would like to do.

We have recently seen, unfortunately, Cricketer Farm, a small processor, go to the wall, which is a terrible situation to be in for the people that it was employing and its supplying farmers. We are concerned that, if this continues longer term, it will also be an issue in terms of losing processor capacity in the UK. We certainly do not want to see that happen at any point.

In terms of what we have been doing, in the short term it is extremely difficult to find a solution to oversupply, but we have spent a very, very long time asking the Government, and we did again in the EFRA meeting last year, to push the Commission to raise the intervention price. We see that as essential, and unfortunately it is not happening. We were very disappointed that we did not see a call for that yesterday, and we still believe that there is an opportunity to push that forward in the meetings at the end of this week and the end of next week.

We have also spent quite a bit of time talking to the Commission on futures. We took a delegation with us of Rabobank, FCStone and also EEX to see Tom Tynan and the Commission approximately a month ago. We wanted to talk to them about what could be done in terms of futures, how the MMO needed to change and what the Commission could do there. Unfortunately, our assessment of that meeting was that perhaps it would take such a long time to get the Commission to do anything that we would be into the next crisis before that would be helpful. From the things that we have heard yesterday coming out of the Commission, we would hope that there is now more of a push on to get that done.

In terms of our own membership, they have been doing everything they can to give a lag period for a downturn in prices, to hold prices where they can potentially do so. Of course, they have been doing a lot of brand marketing of product to try to sell dairy product. Within Dairy UK, you have to remember that they also fund the Dairy Council, who are our promotional body, and the British Cheese Board. We have been running campaigns for the British Cheese Board over the last number of months. It has been a tough job, and I am not sure there is a magic wand that we have to put the prices up, but we are very concerned about where we are at the minute.

Chair: I want to bring Rebecca in now, please.

Rebecca Pow: You stole my question, actually, Mr Chairman.

Chair: Did I? You carry on. I am sure you will manage.

Q40 Rebecca Pow: It is the supply and demand thing again. How are you balancing up this whole issue? You say we are 81% self-sufficient in milk; that is in the UK. On the world market, there is more supply than there is demand, isn't there?

Dr Bryans: There is at the moment, yes.

Q41 Rebecca Pow: How do we, in Britain, get over that problem, on the ground, to help our dairy farmers? We have not got enough milk here, so we are importing it; is that right?

Dr Bryans: We are not importing milk. We certainly import quite a lot of yoghurt and a lot of cheese.

Q42 Rebecca Pow: We are importing milk for products, for yoghurt, cheese and butter, then? Is that what we are doing?

Peter Dawson: We import a lot of dairy products, such as cheddar, yoghurt and so forth.

Q43 Rebecca Pow: This sounds really basic, but you are the Dairy UK organisation. We have a milk surplus. Why are our liquid milk farmers selling it to people for not enough? Why do they not sell it to somebody for butter? This sounds so simplistic. Why are you not helping them sell it into the other markets, where we are importing milk?

Dr Bryans: It is really not that simple, I am afraid.

Q44 Rebecca Pow: I know it is not that simple. I speak after living my entire life on a dairy farm, which sold up four years ago because of all these problems, so I know absolutely what you are talking about. It is a very, very difficult issue, isn't it? How do we get to the root cause of that? We have got single dairy farmers working individually in isolated cases, which does not help them either, does it? What are you doing about that? That is where these producer groups come in, to try to get them to work together and approach the producers to take the products. What are you doing about that?

Dr Bryans: We do not have an issue in terms of liquid milk in this country. Cheese, butter and yoghurt are imported. Now, we cannot stop people importing product, particularly when the prices coming from abroad are far cheaper than the UK, because we have a strong pound. That is something that neither we nor you have any control over. We are certainly seeing a lot of our members who would like to substitute product. They are doing everything they can with the people that they deal with to do that.

Within Dairy UK, we have an Exporters Group, which is looking at trying to promote exports to other countries. Within that, we have repeatedly called for certain things to happen to help us to facilitate exports, so we can use some of the product that we have in the UK. Some of the things that we have called for, for example, are to look at how foreign inspection visits work in this country, how they are funded and how they are run.

We have a very recent example ourselves within Dairy UK, where we had to look after a Brazilian delegation who came to the UK. I am afraid I would not say that the UK was a shining example, in terms of organising that visit. The very same week in Ireland, our counterparts were running a fabulous visit with the Chinese. Certainly within Dairy UK, within our Exporters Group, there is a certain amount that we are trying to do to help get some of our great products to go abroad, which will help with some of the issues you are talking about. However, we would also need some more facilitation by Defra in making sure that those things work.

Rebecca Pow: Just very quickly, one of the things Defra and Liz Truss are speaking up about is to promote British products, with this Great British produce label, so it is much more of that, much more detail and much more attention to detail.

Chair: More could be done.

Q45 Rebecca Pow: That is very interesting about the foreign trips, isn't it? That is unforgiveable. We should be able to sort that out, shouldn't we?

Dr Bryans: Yes, it would be fantastic, because, if we are trying to open up new export markets, then we will need more foreign trade visits, so they will have to be organised slightly better. One of the things that we would also impress upon you today, and we have mentioned to Defra before, is that, for example, when you look at somewhere like China, who is not doing a lot of buying at the moment, even if it were, for our members to put product into China, they would have to be about 15% cheaper than New Zealand because of the tariff.

Q46 David Simpson: You are very welcome to the Committee. You have listened to a number of the questions when you were in the gallery there, so I am going to try not to be repetitive. Again, prices have fallen from 2013; we know that. Regarding sustainability for farmers, especially from a Northern Ireland perspective, the price is currently 17 pence. It could drop again to 16 pence for September. It is just not sustainable, and the Scotland is the same. The mainland here is 23 point whatever it is.

From your perspective, your organisation markets and helps processing and all the rest of it. The news coming out from Brussels at the meeting on Monday was that they are going to look at Colombia and they are going to look at different things, and all the rest of it. That is long-term stuff. Meeting the Minister, she suggested that somebody should open another cheese factory in the UK. That is not going to happen today.

Whilst we understand the sympathies there, let's forget about some of the claptrap that comes out of Europe and what the bureaucrats tell us we should do. As an organisation that represents the vast majority of the farmers marketing milk, you have a clean sheet of paper. How do we resolve the short to medium term, and the crisis? That is what it is. It is worse than it was in 2009. How do we resolve the crisis we are in now, in the short to medium term?

In the long term, yes, we do have developer markets. We understand that for prices and all the rest of it. However, we have to be competitive, and we have to get this level playing field. In my conversation with the Commissioner, when I asked him about the common market, he said, "The only thing common about it is the name." We have to look after ourselves. As an organisation who represent the body you represent, what is your answer for the short to medium term? That is what I would like to hear.

Peter Dawson: Perhaps I can take that one on. We are very clear that we now operate in a globalised economic environment, and that is where our underlying price trend comes from. It is from the supply/demand balance at the global level.

Unfortunately, we are currently in a situation as an industry where there simply are not available to us the private sector mechanisms that allow us to mitigate the impact of price volatility on the industry. Futures instruments, should they mature, would help us, but that is not available for this particular price cycle.

That is why we have been consistently arguing that there remains a role for the European Commission to use its residual market management instruments to try to take off the severe impact of extreme downward price volatility, and that is why we have been arguing that there should be a review of the intervention price. That is the policy recommendation that we have been arguing for for some considerable length of time. If that one cannot come to fruition, then can we have at least a decent private storage aid scheme that has the flexibility in storage period and sufficiently attractive rates that allow product to be taken off the market?

Q47 David Simpson: A storage aid scheme certainly causes a difficulty, because it ties up capital for the processors. That is the difficulty we have, isn't it?

Peter Dawson: It also does not have the same characteristic as the intervention system, which puts an explicit price floor in the marketplace. Our preference remains intervention purchasing as a means to stabilise the market.

Dr Bryans: At the moment, PSA, after 210 days, will be coming out at a time of peak production. If that needs to be looked at, it needs to be longer term.

Q48 Ms Ritchie: It is coming on to the issue of export markets and strategy. Obviously, we have looked at some of those issues already. What can dairy producers in England and the rest of the UK do to improve dairy export performance? I know you have already referred to the residual markets and the need for the review of intervention price.

Dr Bryans: I think we have relatively credible exports at the moment. Certainly, Northern Ireland pushes our credibility up, because you have been exporting for some time. One of the things you will know is that the promotional fund from the EU is used very well by Northern Ireland, in terms of going and doing third-party promotion on dairy products. You will know Mike Johnston, our regional director, who will say that that gives a very credible return, and they would surpass the KPIs on what they have seen using that EU fund.

In England, Scotland and Wales, we have not been very good at using that fund. That is one of the things that we need to do, and one of the things, when I was in the meeting with the Secretary of State, that I asked: should England, Scotland and Wales, or should the UK as a whole, go and make a request to Europe for funding to promote in third-party countries, would it be supported by Defra? That is one way to get that through. We have done a survey, which maybe Peter will talk about, in terms of markets where our processors feel they could go.

Peter Dawson: In order to assist Defra in their prioritisation of their activity, we did a survey of our members of preferred target markets. Not surprisingly, a lot of them came from the Anglo-Saxon food culture, such as North America, Australia and so forth, but also China was a market. What also came from that survey is that there is an enormous range of different targets for individual companies, stretching all over the world.

What came from that also is that dairy companies have their own tailored individual export strategies, depending on the nature of their product and their particular market where they think they can get the best return. I think that gives us confidence that, outside the fresh product sector, which is producing liquid milk, which you cannot realistically export any great distance, just about every major player in the manufacturing sector of the British dairy industry has in place a mature export strategy to which they are investing quite heavily. There is an awful lot of activity going in there already.

We, as Dairy UK, through our Exporters Group, try to provide a platform where they can interface with UKTI and Defra, and also find opportunities for collaborative action. I think we can be confident that the industry is working as hard as it can on exports, but, with a high sterling and low prices, this is a very difficult situation to actually push exports at this time.

Q49 Ms Ritchie: As a continuation, what products should we produce that we are not producing? Are changes necessary in the balance between liquid milk, cheese, milk powder production, skimmed milk powder production, for example? I know, from an NI perspective, that is where the concentration in terms of exports has been. There has also been some suggestion, in terms of export to markets, that, whilst China is now considered to be self-sufficient, the Chinese have a lactose intolerance.

Chair: Can I ask Rishi to ask a supplementary? Then you can answer those, please.

Rishi Sunak: It is a related question about import substitution. I think we are only 30% to 50% self-sufficient in products like butter, yoghurt and cheese. As we look to replace the imports with domestic produce, what do we need to do? Is it better food labelling about British products? Is it more domestic processing capacity that is required? If you could give us some ideas on that, that would be helpful.

Peter Dawson: Perhaps if I answer the question on exports, if you focus on the powder side of the equation, you tend to be into the commodity markets, where it is extremely volatile and very price-sensitive. That is where you get into problems like being subject to import tariffs in China that your competitors in New Zealand are not. There is a difficulty there. It also requires very considerable capital expenditure. As an industry, if we want to go into value-added markets, that is exploiting the assets we have, which is a much greater variety of cheese types. I think that is where the focus of attention is going to be with the industry at this point in time.

Going forward, other people may see that there will be opportunities for further investment in milk powders. As I said, in this particular point in the price cycle, it is not a very attractive proposition, but, in the Northern Ireland industry, they are heavily invested in powders. That is an area where there is a lot of export activity already.

Dr Bryans: In terms of import substitution, again, we have this issue around a strong currency. As a result, it is very attractive for people to bring in cheaper product from abroad. Now, one of the things that we have always said is we would like to see better country-of-origin labelling. We were one of the few countries in Europe calling for country-of-origin labelling. Certainly within the EDA, we were probably the lone voice asking for what we were asking for.

I am not sure if you are aware of this, but, in 2010, Dairy UK and the BRC came up with principles on voluntary origin labelling, which were basically shelved and not audited, as we understand it, by Defra because of the desire to see what was going to happen in Europe on mandatory. It is time to look at that again, but also it is very important that we promote, and we promote our own product. Our competitors are promoting their product, and they already have a ready-made market here for them. Through the British Cheese Board, we are doing what we can, and our members will certainly do what they can, from a branded perspective, but more promotion is needed.

Q50 Harry Harpham: In your view, what should the EU intervention price rise to?

Peter Dawson: We have not come up with a definitive calculation, but, at this point in time, the difficulty is in the protein market. The butter market is trading at a significant premium to the intervention price, and hopefully it will stay there, because there does seem to be some underlying change in consumption patterns. It is on the SMP side of the equation that there is an issue. If you wanted to safeguard the industry against prices falling to below 17 pence, then you would be looking at an adjustment to the SMP intervention price of over 20%.

Q51 Chair: I take it that is not the Scottish National Party. What do you mean by SNP? I do not like too many abbreviations.

Peter Dawson: It is skimmed milk powder, SMP, sorry.

Q52 David Simpson: The French have suggested 22 pence as a floor price. Would that be within reason?

Dr Bryans: Yes. CNIEL have done a calculation, which is, I believe, somewhere around 22 or 23 pence.

Q53 Harry Harpham: What impact would an increase in the intervention price have on production of milk and dairy products both in the UK and in other European member states? What has the impact been on UK producers to date of the ending of EU milk quota systems this year?

Peter Dawson: There is a question of balance, because you want an intervention price that puts a floor in a market that stops needless damage to the productive capacity of the industry, but at the same time sends a strong enough signal to producers across the European Union to curtail production growth. You are trying to find a right level to achieve those two objectives, because, at the moment, there is still just too much milk. Finding that right level is a calculation probably best left to the Commission, their assessment of budgetary resources and the likely progression of the price cycle. That is why we have not been too definitive in making statements as to what we would like to see.

In terms of the abolition of the quota regime, our analysis is not very different to the one coming from the NFU. There has been a surge in milk production from some EU member states, where production constraints have been taken off. This has brought more milk on the market, but, obviously, prices have responded, and you have to expect to see a curtailment in production growth going forward. The problem we have at the moment is that curtailment in growth has not been as rapid as we would like to see, so that is still leaving us with a very demanding market situation. Hopefully, we will eventually find a new equilibrium.

Q54 Simon Hart: You heard the earlier questions with the NFU about supermarkets, direct action and all that sort of thing. Do you think that the supermarkets would have made this generous gesture towards the agricultural industry if it had not been for direct action?

Dr Bryans: That is quite a difficult one for us, because we do not represent the supermarkets.

Q55 Simon Hart: You must have a view. Do you have a view?

Dr Bryans: I do have a view. Our view, I think, is that dairy products are highly nutritious, complex foods, and we would obviously love to see a little bit more paid for them. Certainly, though, some of our members from NI would say to you that, on the commodity markets, they are getting about half what the retailers are paying for them, so the retailers are also doing their bit. It is good to see some of the extra funding that has been found. Of course, we will see, long term, how that works out. I believe in the distant past there have been initiatives where products were put in place to try to help, and consumers, after a while, were not happy to pay the additional price. It will be interesting to see how that goes.

Q56 Simon Hart: I was just whispering to Chris earlier on that the Swiss seem to have got this absolutely right. I was in a Swiss cheese factory last week, and they simply say, “Our cheese is based on the price that we negotiate with our farmers. If the farmer charges more for milk, we have to charge more for cheese.” It works really well for the Swiss. Why can’t it work for us?

Peter Dawson: I think the arrangements operating in Switzerland would not pass scrutiny under EU competition law. That is my understanding of what is going on in Switzerland.

Q57 Chair: I have a supplementary on supermarkets, and it is probably quite a difficult question for you to answer. Where you have some supermarkets and big retailers that are more sympathetic than others to getting the price up that they pay to the farmers, what can you do to influence those retailers that do not give the same deal to farmers? Your problem is you have to represent everybody. How can you encourage those that are not being that good? I am being diplomatic here.

> ***Dr Bryans***: Actually, from our perspective, we do not go and talk to the retailers at all, because the retailers are the customers of our members. We, as an organisation, could not go and talk to supermarkets about prices.

Q58 Chair: There is nothing you can do to influence those others, then, that are not giving as good a deal.

> ***Dr Bryans***: I am afraid, as we are set up as an organisation, we could not do that.

Q59 Chris Davies: I thought, as a producer organisation, that was one of your roles: to represent your members with supermarkets.

> ***Dr Bryans***: We do not represent our members with supermarkets.

> > **Chris Davies:** You do not negotiate with supermarkets either.

> ***Dr Bryans***: We do not negotiate with supermarkets.

Q60 Chris Davies: That has taken my question away, then, really. Can I move on from that slightly? It was very interesting to hear from our witnesses earlier. We have talked a lot about supermarkets. We have talked a lot about exporting. We have not talked about your relationship with Government, with Government Departments, with local authorities, with the police, etc, who would all be big buyers of the dairy sector and dairy products. Where are we with that? Is there more that the Government and these organisations can do to help the dairy industry?

> ***Dr Bryans***: Yes, absolutely. We would like to see more procurement of British dairy products. We know that is difficult for you, because you cannot necessarily ask for British dairy products to be procured. We know that there has been some work done by Bonfield, but we do not think it necessarily goes far enough. We would say that there are some principles within the Bonfield work that are not helpful to the dairy industry.
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> For example, in a balanced scorecard, if you want to produce dairy products, it says that 50% of yellow cheese should have a fat content below 25g per 100g. This is not representative of the British cheese market; nor is it representative of the recent research that has been done on saturated fats. We would say that some of that work needs to be reviewed, and there needs to be more procurement of British dairy products into hospitals, Government Departments or anywhere that it can go. That would really help with demand.

Q61 Chris Davies: It is an interesting one, this. We have talked about long-term strategy, but, if we investigated this further, will that help the short-term strategy?

Dr Bryans: I think it would be very helpful. At the moment, we have seen some figures, I think, which say that public procurement is around £11 million. That is not an awful lot. I think that has come out of one of the press releases this week. We would not think that was a very high number. We would think, in terms of public procurement, there is more that could be done there to source British product.

Chair: The figures should be much higher than that, I would have thought.

Q62 Rebecca Pow: This is the same question that I asked the NFU guys just now, which was about the voluntary code, and that it was recommended that it remains in place, but it is voluntary. The NFU are obviously supportive of it. What do you think about how it is working? Is it beneficial? Does it need changing?

Dr Bryans: The voluntary code is something that we are asked about quite a lot, and we are asked if it is fit for purpose. Our response to that is always that it is fit for the purpose it was put in place for, which was around contractual relationships. It is not fit for a purpose which a lot of people think it is for, which is to affect prices and volatility. This period of time is the first time that the code has been tested. We would say that people supplying the major multiples are covered by the code.

If you make it a compulsory code, then it is a compulsory code; it is not a voluntary code any more. That is an extremely difficult position to be in, because, as we have said before, in terms of the dairy package, Defra have always interpreted that, if you have a price change, you have to change contract. Over this crisis period, if there had been regulation rather than a voluntary code, would we really want to have been seeing farmers having to give notice and be given new contracts? A lot more of them would have been in danger of not having anybody to pick their milk up, so we think the voluntary code has worked so far.

Q63 Chair: Do you think that most buyers have gone along with the voluntary code, and has it worked as well or better than a statutory code?

Peter Dawson: I think the point has just been made. It is far better than regulation, because it would interfere with the existing contractual model that exists in the industry, basically of evergreen contracts where purchasers have an open-ended commitment to purchase milk from their supplying farmers, but, at the same time, they are given flexibility on milk price. Regulation would interfere with that model, and that would require a new contract every time the price was changed. In a volatile market, you need price flexibility, so that would have been very, very disruptive. On that ground, it has been extremely effective.

Q64 Rishi Sunak: On a different topic, do you have a view on how AHDB spends its levy money? Specifically, I am asking with regard to promoting British dairy products. Do you think it does enough, or should do more, or different?

Dr Bryans: We have a number of projects that we do together with AHDB. One is around the Johne’s initiative, which we collectively work with them on. They also put some support into the Dairy Council, in terms of doing essential nutrition work to be able to answer some of the questions around dairy.

We always think that there is a greater need for promotion, and recently the Farmers Forum, which sits within Dairy UK, has conducted a large survey of producers in this country, to see whether they believe more promotion needs to be done, and, if so, how that needs to be funded. We are collating the results on that just at this moment in time, so I wish that question was coming next week, when we could actually give you an answer. We certainly have had hundreds of replies to the survey.

Rishi Sunak: I think we would be very grateful if you would share that with us when you publish the results. Thank you.

Q65 Chair: You feel that greater promotion of the product would help out, then.

Dr Bryans: Greater promotion is really important. Our members would spend about £150 million on brand promotion, but what you have got to understand is, although that is really important for the brand and therefore for the farmers and the processor, if you want to deal with the underlying integrity of the product, and if you want to deal with raising it to the public eye in its generic form, then it needs more promotion on that level.

Q66 Chair: There is also the health and wellbeing of the product, which seems to have been increased now to what the science or philosophy was before. Can we drive that?

Dr Bryans: Absolutely. Hopefully, we will touch on that within the APPG on dairy, which is covering that very topic over the next few months.

Chair: Thank you very much for your evidence. We have now got the Minister coming in, so I thank you both very much for that. It has given us some very good evidence this afternoon. Thank you very much.

Examination of Witnesses

Witnesses: **George Eustice MP**, Minister of State for Farming, Food and the Marine Environment, **Tim Mordan**, Deputy Director, Sustainable and Competitive Farming Strategy, and **Mark Filley**, Head of Livestock Policy Team, Department for Environment, Food and Rural Affairs (Defra), gave evidence.

Chair: Good afternoon, Minister, and welcome to the Select Committee. It is a great pleasure to have you here this afternoon. Thank you for coming in good time, because of the fact that we need to inquire very urgently into the price of milk. I do not think you need much introduction. Whether you introduce those with you, or what have you, please do.

George Eustice: Can I say, first of all, congratulations on your new elevation to the Chairman of this Committee that you have served on for so many years? It is great to see the Committee hitting the ground running so early on, with an inquiry on this very important issue. On my left is Tim Mordan, who is our head of farming sectors in Defra, and on my right is Mark Filley, who is our head of livestock.

Q67 Chair: Thank you, Minister. I am going to kick off with the first question. The Government consistently tells us that the long-term future remains bright for the dairy industry. Is it?

George Eustice: Yes, I think it is. If you look at the long-term trends, the projection is that demand for dairy products is going to go up by around 2.5% a year. We have a rising world population, set to go to around 9 billion by 2050. British dairy products are seen as a premium product internationally. One of the success stories that we have had, even in the last year, is actually a significant increase in our exports of cheeses in particular.

Q68 Chair: Last year, giving evidence to this Committee, you described the price issue faced by dairy farmers as a "short-term blip". At which stage is this short-term blip going to stop?

George Eustice: It is a very good question.

Chair: It is an answer that you gave, you see.

George Eustice: I am reluctant to predict, because it is not as short-term as we had hoped last time I gave evidence on this before the Committee. There had been something of a false dawn back in the early spring, when some of the projections from analysts like Rabobank were that prices might start to pick up during the summer, certainly by early autumn. There were some flickers of hope on the international spot prices run by Fonterra and others, who had shown a bit of a pick-up in prices.

I am not making any predictions. The latest projections that we have seen from Rabobank are now suggesting that it might see a pick-up towards the end of this year or early next year, but having seen once false dawn already I would be reluctant to project that that would be the case. I think in particular what happened is there was an expectation that China might re-enter the market. There have been two big global problems that have driven this sharp downward trend. One has been the substantial increases in production, which is up by around 10% in Europe and similar elsewhere in the world. The other big factor has been China buying far less skimmed milk powder than it was, withdrawing from the market. Of course, this has been aggravated as well by things like the Russian trade ban.

Q69 Chair: What progress has been made in replacing imports of products such as ice cream, yoghurt and cheese with home-produced varieties, since Defra outlined those home-based opportunities to the Committee in response six months ago? Are we now consuming more of our own product? Are we importing less? What is happening?

George Eustice: There have been a number of other things we should bear in mind. Obviously, the exchange rates have moved in a way that is not favourable to dairy producers. That has aggravated things. It has not so far been seen to hamper our success in export markets, but it has made, obviously, imported cheeses cheaper. I do not have the figures on me for whether there has been a change in six months, but I would say this. I have always been very clear, as has the Secretary of State, that we believe import substitution, increasing our domestic production of cheeses, yoghurts and other dairy products, is something that goes hand in hand with expanding processing capacity. That is obviously a longer-term objective; it is not something you can switch on overnight.

There is a lot further to go. We are still only around 37%, I think, self-sufficient in cheese. We are still importing even cheddar cheese in large quantities from countries like Ireland. There is a lot more we can do on other products such as yoghurt as well.

Q70 Chair: Are we using our levy board moneys enough to promote our product, in order to get more people to make that choice, when buying, to buy British rather than buying a foreign product?

George Eustice: Obviously, the different levy bodies have all got a different genesis. They are brought together under the umbrella of AHDB now. DairyCo, which was the dairy element of AHDB, if you like, has tended to focus most of its budget, historically, not on advertising but on research and development and developing productivity, in common with other parts like home-grown cereals. Like the HTC, they have prioritised research and market data over direct advertising, whereas some of the livestock sectors have got more, maybe, nostalgia, for the days of MLC, and some of those beef and lamb promotions. They have tended to put a greater share of their budget to marketing and advertising directly.

It depends whom you talk to. The general consensus is that we can do a lot at point of sale. We are very keen as a Government, and the Secretary of State outlined this yesterday, to develop the GREAT branding, not just as an international brand but as a domestic brand as well, to try to encourage people to purchase British products. When it comes to advertising, though, the supermarkets spend so much advertising in their own right to promote different products that, frankly, the means that the AHDB have to significantly alter the market is limited.

Q71 Chair: A lot of the health experts recently have considered dairy fats to be much healthier than they previously did. Is there a role there to promote, for want of a better expression, the "healthiness" of the dairy product? Perhaps that is something that Government can do, through the levy boards.

George Eustice: Yes. We in Defra obviously work closely with the Department of Health on these issues. I know that the industry sometimes raises concerns about some of the healthy living campaigns run, for instance, by the Department of Health. We, for our part, work quite closely to get the Department of Health to, for instance, set up a dairy partnership board, so that the dairy industry can be fully involved in contributing ideas to some of those campaigns. Let's not forget, as well, that the Department of Health spends around £63 million a year on milk for children at infant school.

Q72 Chair: That leads me very simply to the last part of my question. What progress has been made on the Secretary of State's commitment to create a working group to talk to supermarkets and other providers about better branding and labelling of British product?

> ***George Eustice***: This has been progressed by the AHDB. They are convening this. I understand they have had some early discussions already. They are looking very much at the transparency of contractual arrangements between farmers and processors, and even retailers. That is the piece of the work that they are leading. Defra, for its part, is taking the lead directly on talking to some of the supermarkets to see if we can encourage more country-of-origin labelling.
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> This is something we have pressed hard for. We wanted to see mandatory country of origin on dairy products, where it was possible to do that, particularly on some of the lightly processed cheeses, for instance. We have not been able to persuade the Commission to do that, but we are nevertheless of the view that there is more that could be done by way of some of the voluntary labelling schemes that we have already got established with supermarkets.

Q73 Chair: Do you see an urgency in this?

> ***George Eustice***: I do, yes. This is why we are developing these things, and will be over the coming weeks. This is something we would like to take forward. We have to be realistic that this is not going to change things overnight. A lot of these things are longer term. We are also making available grants through the rural development programme to help dairy farmers invest for the future. Of course, yesterday the European Commission announced plans for a £500 million crisis fund to help buffer farmers against the immediate short-term impacts. I am very conscious that, as well as trying to fix some of the structural problems long term, and improve competitiveness long term, we also have to recognise that some farmers are suffering very dire financial distress at the moment.

Q74 Harry Harpham: You said you based your quote of a "short-term blip" in the prices that are faced by dairy farmers on advice from people who were saying that it would be a short-term blip. Then you indicated that, presumably from those same advisers, there might be an upturn towards the end of the year or the beginning of next year. What gives you confidence, because they got it so wrong that it was a short-term blip, in their advice that the upturn is going to come towards the end of the year or next year? Have you got confidence in their predictions?

Chair: Rishi, come in with yours. Answer both of them, Minister, if you would not mind. It just speeds it up; that's all.

Rishi Sunak: Thank you for being here, Minister. This is just a follow-on from the Chairman's question about encouraging customers to buy British. Could you give us an update on your plans to encourage Government to buy British, both at a national level and at a local level, whether it is schools, hospitals, prisons, local government, etc?

> ***George Eustice***: On the first point, I hoped I had made it clear, but if I have not, let

me state it explicitly. Having seen one false dawn put forward already by the same analysts, the answer is that I think it is very difficult to say with any confidence that their projection this time would be right. So much of this, as well, depends on what happens in the Chinese market, and whether they do, indeed, re-enter the market and start buying substantial volumes of skimmed milk powder again. A lot also depends on what happens in the New Zealand season. You are about to see a further uplift in New Zealand production as they enter their main season of production and as grass starts to grow in New Zealand.

The answer is it is very difficult to project these things. Indeed, one of the other things that we have been promoting, and Dairy UK have actually done some very good work on, is trying to identify ways that we could improve the quality of the data that the Milk Marketing Observatory has, as part of the EU, to try to help facilitate more accurate market projections. That is absolutely the first staging post to getting a viable futures market in this country as well. I am afraid I cannot predict with any degree of confidence. Having hoped that the blip would be short-term, I do not intend to predict that it is going to end soon.

On the procurement issue, about a year ago we had the report by Peter Bonfield, which was a plan for Government procurement. We have made good progress there. All of the dairy products that we have in the Defra canteen are 100% British. We have had good uptake from Departments such as the Department for Education and DCLG. Anecdotally, around the country, some local authorities are doing quite well on this, and they are encouraging schools and hospitals in particular to take this up.

There is some good practice there, but there is further to go. In particular, when it comes to local authorities and individual schools, where obviously you have huge amounts being sold, there is further to go. That is why we have announced much more transparency. We are going to announce when Government contracts come up for renewal, and advertise that and make that much clearer, so that local firms can contract and bid to do that supply.

Q75 Harry Harpham: How many farmers do you estimate have left the dairy industry this year in England and the wider UK because of price volatility?

George Eustice: If you look at the trends, the latest figures that I had were that roughly 300 farmers have left the industry. One of my colleagues might find the precise number. That is around 2.2% of the total number of farmers that we have. It is actually slightly lower than the average has been each year over the last 15 years. Between 2004 and 2014, the average loss per year was around 4%. We have had a long-running trend, actually, of a small number of farms growing, average herd sizes growing, production being broadly static, but fewer producers and a gradual continual exit of dairy farmers. This has been a long-running trend for at least 15 years.

Q76 Chair: Can I just seek clarification? The NFU earlier on said 450 farmers. You do not have to correct it now. You may be right, but just correct by writing if you want.

George Eustice: I am going from memory, so it may be 450. It was in the hundreds, rather than the thousands.

Q77 Harry Harpham: Could you comment specifically on price volatility? The NFU had not got the data to break it down today.

Mark Filley: We probably do not have that with us either, I am afraid. I can tell you that the data of the Food Standards Agency, which holds all the registered details of dairy holdings, from August shows that there were 7,945 registered dairy production holdings in England at the beginning of August 2015. That was a reduction of 4.4%, compared to the year before.

Q78 Harry Harpham: How many fewer is that than there had been last year?

Mark Filley: I do not have the figures, sorry. We could obviously calculate that for you.

Chair: Doing my arithmetic roughly, it is probably the Minister's figure that he gave us. However, I think we ought to have a bit of clarification on that one.

George Eustice: We can. I am sure I read somewhere it was around 300, but I can double-check.

Harry Harpham: If you could clarify that would be great.

George Eustice: We will. To your wider point of how much of that is due to price volatility, it is quite difficult to divide that out, unless you were to literally run interviews with farmers who have exited and to explore the reasons for them getting out. Clearly, many of them are losing money at the moment. Prices are below the cost of production for large numbers of dairy farmers. That is undoubtedly going to be a driver.

Q79 Harry Harpham: Would there be anecdotal evidence?

George Eustice: Yes. Anecdotally, what I have come across in particular is a vulnerability with tenant farmers in particular. If you are having to go to the bank and ask for extended overdraft facilities to see you through this difficult period, if you own the farm and you have a farm worth several million pounds, it is easier to offer that as collateral to the bank to borrow that money. If your only real asset is your herd of cattle, and there is uncertainty about the industry and your place in it, it is much harder to borrow money to see you through the difficult times against that.

I have come across dairy farmers who frankly have said they are at the position where their cash flow means they have to sell cattle, and then they very quickly go to a position where they no longer have a herd size that is viable. I think there is a particular vulnerability with tenant farmers, given the fact that the only asset they have is their herd of cattle.

Q80 David Simpson: You are very welcome, Minister. You and I had a brief conversation at the beginning of July in relation to the dairy sector and the dairy prices. There was doom and gloom then, and it certainly has moved on even from that. From a selfish point of view, from a Northern Ireland perspective, you will know that Northern Ireland is sitting currently at 17 pence. It can drop to 16 pence in September, and Scotland is at 18 pence. We are at a very difficult situation with the dairy sector. We depend on 75% or 80% of export, so I believe that Northern Ireland is a special case in relation to that.

I know possibly Tory policy is that you do not interfere with the market price; it finds its own level, and all of that. Maybe with that, in a sense, there is going to be casualties, and maybe there is a natural erosion of what is going to happen to try to settle the market itself, but we are in a difficult situation in Northern Ireland. We have had these low prices now for nine months. The prediction is it could be for another nine months. That is the prediction, but there is no crystal ball and we cannot say that is what is going to happen. Northern Ireland is in a very, very difficult situation. We have a land border, and we do not have the same situation as the mainland with retail, where they do not depend on the export as much as we do.

What more can the Government do to alleviate the difficulties that Northern Ireland farmers are facing? I know there is a meeting on Friday. We had a meeting yesterday. I was rather disappointed with the package coming out of it, but we have a meeting on Friday, I understand, in Brussels, in relation to all the aspects with a number of member states—the Chairman will probably go for me at this stage—in relation to the intervention. Will the Government support short-to-medium-term intervention for the dairy sector?

George Eustice: I completely recognise we have real mixed fortunes in the dairy industry, in that we still have a significant number of dairy farmers who are on the so-called "aligned contracts"—contracts with supermarkets such as Tesco and Sainsbury's who are linked to cost of production, some of them still getting between 30 pence and 34 pence per litre here.

At the other end, you are right. In Northern Ireland, there is a particular problem, as you said. It is 17 pence or 18 pence. In Scotland, in Wales and in the north-west around Cumbria, again, because of their dependence on First Milk, which itself is very exposed to the international commodity markets because it is predominantly in processed cheese, they are all on very low prices of around 18 pence. You have a huge spread between those at the top, who are still making a margin and still making a profit, and those at the bottom, who are losing substantial amounts of money. We do recognise that.

There are a couple of things that we as the UK Government have called for that I am well aware that Northern Ireland are not enthusiastic about. One is that we have been reluctant to go down the route of intervention, and perhaps if it is the subject of another question I can explain why then. There is another area as well. I know that Northern Ireland is less enthusiastic than the rest of the UK about country-of-origin labelling. It is a case we have made. I know that, because of the cross-border trade, there is nervousness about that in Northern Ireland.

I would say this: the Commission have made it pretty clear that they do not intend to go down this route of mandatory country-of-origin labelling for the foreseeable future. That is why we have resorted to trying to develop further our existing voluntary labelling scheme, and obviously, if that did not work for Ireland, they would not have to adopt it there.

Q81 Chris Davies: I have a two-part question, Minister. Prices have fallen since 2013, virtually every month, but we are seeing milk production increasing rather than decreasing. What is your Department doing to discourage the overproduction? If I may, coupled with that, you mentioned a few minutes ago about the European crisis fund that was announced yesterday. How will that help British farmers? What is the process? How much of that fund will be allocated to Great Britain?

George Eustice: You are right. You put your finger on one of the difficult problems, I think, with this dairy crisis. Because the dairy industry requires long-term commitment, with investment that does not yield increased production for a year or 18 months. It is a long-term commitment. It is therefore quite difficult to switch production on and off quickly and overnight. It is one of the reasons why we have the cycle of almost boom and bust that has been going on now for a number of years. It is one of the reasons why we are very keen to develop a viable futures market that would help mitigate some of the risks that dairy farmers face.

In terms of why production has not gone down, I think one of the reasons, and one of the differences between this current crisis and the one that we had last time in 2012, which many of you will remember, is that in 2012 feed costs were much, much higher than they are now. The variable costs that a farmer had, linked to the total number of cows that he was milking, were significantly higher than they are now. The situation we have now is that farmers have very wafer-thin margins, but they have still got their overhead.

Because feed costs are lower, I think we are seeing a problem where you have almost got this vicious cycle that farmers, to try to cover their overheads, are actually producing more at a lower margin to try to break even. That is actually then counterproductive in terms of seeing recovery in the price.

Q82 Chair: I also think, Minister, that the climate and the weather have been so good this last year or 18 months that it has been ideal for producing milk relatively cheaply. Farmers have chased their own tails, but is that ultimately doing the farming industry any good? That is the question.

George Eustice: It certainly delays a recovery in the price, because, ultimately, if you are in a free-market situation, which is what we are now entering in dairy, and it is a global commodity, you do need farmers to read price signals and try to change their production accordingly. That is why we also, I think, do need a futures market, to help smooth out the peaks and troughs in their income.

Q83 Chair: What are you going to do to encourage the industry to have a futures market? You have walked nicely into that one, haven't you?

George Eustice: I have been pushing this very hard, actually, since the spring. What I am encouraged by is that I think there has been a bit of a sea change, from what I can see, in the mood coming from dairy processors. Six months ago, some of them were saying, "It's all well and good, but probably a futures market wouldn't work here." We are now starting to see the dairy processors—and I said earlier Dairy UK are doing a lot of good work in this area—really thinking constructively about how we can put in place the right kind of data and the quality of data necessary to make a futures market work.

This developed in the US. When they removed quotas 20 years ago, we saw quite quickly the emergence of a futures market for skimmed milk powder and for butter. Typically in the US, what a dairy farmer does is they go into the futures market and hedge their risk on around 40% of their production. They effectively have a fixed, predictable price for around 40% of their production. Then they take their chances in the market with the remaining 60%. It does not remove the volatility, but it certainly buffers them against the worst of it.

Q84 Chris Davies: What about the European crisis fund?

George Eustice: That is a very good point. There is a precedent for these funds, and the last time we had a crisis, the crisis before the last one, was in 2009. At that stage, the European Commission did something similar. They issued an envelope of funding to each national Government and they gave them some discretion about how to issue that. The UK Government, at that point in 2009, made a straightforward hardship fund to each dairy farmer and kept it as simple as possible. It is too early to tell, really, because we are awaiting further details. At the moment, they have just announced that there will be a €500 million crisis fund, and that it will be allocated as an envelope to national Governments. We are awaiting further details, which we expect probably during the course of the next week to 10 days.

Q85 David Simpson: Going back to 2009, can you remember how much the crisis fund was, and what each farm got? Was it €7,000?

George Eustice: I am afraid that was before I was even on this Committee, let alone Farming Minister.

Mark Filley: We will get you the precise figures, but it was in the order of £25 million, I think, the UK's allocation, and farmers received around £3,000 each.

David Simpson: That is really chicken feed, compared to the problem they have.

Mark Filley: Sure.

Chair: It would be quite good to get those figures in writing, please.

George Eustice: This would be a higher fund, in the sense that it is a €500 million fund, and, if they follow a similar type of allocation to last time—and it is too early to tell exactly how this will come out—we estimate that that crisis fund could be in the region of €40 million.

Q86 Rebecca Pow: Is it going to be so complicated they are going to have to employ an agent or a land agent and pay them £2,500 to apply, so they will not bother?

Chair: You ought to declare an interest, but never mind. We will not go there.

Rebecca Pow: I have an agricultural auctioneer husband.

George Eustice: This is a dilemma that we would face, and it is why we have to await further details; obviously this was only announced yesterday. The dilemma that you have got is this. If you wanted it brutally simple, you would do what you did in 2009 and just give a hardship fund to each dairy farmer. However, as I said earlier, we have a wide variance in terms of the fortunes of dairy farmers. I met a dairy farmer earlier this year who had Jersey cows and had a low cost of production of about 22 pence. He was selling his milk as Gold Top at 37 pence a litre. He was doing okay. Now, you would not want to give him necessarily a hardship fund. I am sure he would welcome it. At the other end, you have farmers who are losing money who need that hardship fund. We would have to think carefully, and there is a big trade-off between simplicity and targeting the resources where they are most needed.

Q87 Ms Ritchie: Moving on, Minister, to export markets and strategy, you and I had a discussion about this on the telephone back in August. We have supported, as an EFRA Committee, the Government's view that opening new export markets offers long-term opportunities for dairy farmers. However, China's import of commodities has stalled. Russia is still banning EU dairy products. What is your view of the potential for exports to lift dairy farmers out of their current difficulties? What other markets are you, the Secretary of State and your officials pursuing? I appreciate, and the Committee appreciate, that is a long-term role. There are short-term, mid-term and long-term roles here.

George Eustice: Short term, I do not think we should pretend that exports are going to give an overnight relief to the industry, for the reason I said earlier that exchange rates at the moment are not in favour of exporters. In fact, they have probably tilted slightly in favour of importers. We are constantly redoubling our efforts when it comes to dairy exports. Later this year, the Secretary of State plans to go to China. She is going to take a delegation of dairy producers with her to China.

I still think there is more we can do. We have seen a 10% increase in our dairy exports, to about £1.4 billion now, over the last 12 months, so we are making good progress. There are opportunities as well in markets such as Brazil, which is a big market where there is actually quite a demand for UK cheese. There are opportunities, if we could make the EU-US trade deal work, for British dairy products in the US market as well. They do not have a particularly sophisticated cheese market at the moment, but there is a big demand for British cheeses. In fact, co-operatives like OMSCo, which specialises in organic milk and organic dairy products, have been very successful at targeting the US market.

Q88 Ms Ritchie: When is that trade delegation to China anticipated?

George Eustice: I do not have a specific date, but it is going to happen later this year. Do we have it in the autumn?

Mark Filley: November.

Q89 Chair: It is this calendar year, is it?
Mark Filley: It is this calendar year.

Q90 Ms Ritchie: Will that delegation include dairy farmers from right throughout the UK?

George Eustice: I might ask Tim whether he knows. We will be taking dairy producers, obviously, specifically people who have a product to sell in those markets. It will not necessarily mean taking a delegation of dairy farmers, but it will mean taking people who have cheeses that they are ready to bring to market.

Q91 Ms Ritchie: Northern Ireland's dairy industry exports something like 85% of its milk product but seems, at best, in no better position than the rest of the UK industry as regards current price and income levels. That is why we would like to see, as an EFRA Committee, a review of that intervention price. It was therefore disappointing yesterday that Commissioner Hogan saw fit not to do so. As the UK Minister who negotiates for Northern Ireland at the EU Agriculture Council, what assessment have you made of particular factors affecting export-led prosperity?

George Eustice: Is this a good time to deal with the intervention price, given that it has been raised? Do you want to come back to it?

Chair: It is the next question.

George Eustice: I will delay the big message on intervention. The answer, when it comes to exports, is really about redoubling your efforts in as many key markets as you can. That is why we are taking this trade delegation to China. It is why we have tried to get a Brazilian delegation to come to the UK, to inspect plants here, so that we can open markets there for some of our producers. This is an area that we have really prioritised, and, both under the current Secretary of State and indeed under Owen Paterson previously, we have consistently promoted British exports abroad, and we have made some progress when it comes to dairy.

Q92 Ms Ritchie: Further to that, then, how can England and the devolved regions within the UK improve their dairy export performance? I appreciate it is a different way of getting at the same issue.

George Eustice: One of the issues that we do sometimes have is, when we have veterinary authorities visiting from other countries where we are trying to get export certificates, we always do have this slight issue, as you will be aware. With Northern Ireland, it is treated slightly separately. There is an island of Ireland approach on some of those things, whereas many of those veterinary organisations look at a GB approach for the purposes of disease and biosecurity. That does create a complication.

We are always very conscious of this, and we try very hard to get particularly the Chinese veterinary authorities to look at meat-cutting plants in Northern Ireland, because we are conscious that there is always that danger that Northern Ireland slightly falls between the stools, because of the way overseas veterinary authorities view things.

Q93 Rebecca Pow: I have a tiny, weeny question I was going to squeeze in before the big intervention question. This leads on from Margaret's question. It was a very interesting point raised by the Dairy UK delegation. Is enough professionalism and focus being put on our foreign visits here to promote our cheese or butter in order to secure these contracts? There was a certain criticism that actually they were not quite high-profile and professional enough. Perhaps that is something relatively straightforward we could be putting more attention into, to secure more of these sales.

George Eustice: We work very closely, as Defra, with, obviously, Dairy UK, and individual dairy companies, when it comes to overseas delegations coming here. We work with AHDB as well. In fact, AHDB are now funding a post in China. We have got a full-time counsellor there who is focused on trade in agriculture now, Karen Morgan, who is doing some good work. We are doing our bit on that.

There are sometimes issues, it has to be said, with some delegations that come here. We have had this in the case of both China and Brazil, where the incoming authority will try to change their plans quite last-minute. This can be counter-productive. We had one instance 18 months ago where there was a Chinese delegation and they suddenly decided they wanted to visit a cheese factory that had no intention of exporting cheese to China at all. There was something there that meant they did not like what they saw, and that set us back slightly. You have to be very careful in ensuring that, when we get these delegations, they are actually visiting the plants and the factories that want to export to these countries.

It can be difficult, if you have a big delegation coming from a country that then wants to change its programme at the last minute, and this can create challenges. It is one of the reasons why, earlier this year, a delegation from Brazil decided, in the end, to delay, because it was not possible to put together the programme they wanted at a few days' notice.

Q94 Rebecca Pow: We have some fantastic cheese producers, and I am sure they would put on a great show. I would put in our bid that we do as much as we can. Anyway, on to the intervention question, which was obviously raised yesterday with the European Agricultural

Commissioner, Mr Hogan, we called to raise the intervention price, and he resisted it. Does this Government remain sceptical about raising the intervention price? What would your view be?

George Eustice: Yes, and, in fact, we did not call for an increase, in the end, of the intervention price, notwithstanding the fact that I completely understand Northern Ireland's position on this, which was made clear to us at the time. The reason for that is a number of things.

First of all, we have been, over the last 15 years, moving away from old-style intervention into agricultural markets. We established the single farm payment as the right way, without distorting markets, to pay farmers for the public goods and benefits that they bring to the environment. Actually, I think it would be quite a retrograde step to go back to old-style intervention.

The second, more practical reason here is that Commissioner Hogan was very clear that to change the regulations to enable an increase in the intervention price would take the best part of a year. You might be at a position where, frankly, you would end up with the regulation to increase the intervention price when it was too late and actually prices had moved beyond even the new intervention level.

A further complication here is, whenever we have looked at this, the problem we have had is that, although prices are very, very low here in the UK, they are very much worse in some other European countries. Our average price is still above that in France, in the Netherlands, in Germany and in other Eastern European countries. The danger is that, if you increase the intervention price, you would have to fund that in some way. That would be likely to come out of what is called the crisis reserve, which is effectively top-slicing the single farm payment to fund a central reserve.

The danger is that British farmers would pay for the crisis reserve through cuts in their single farm payment, while other European countries would collect most of the benefit through whatever intervention price was put in place, so it is complicated. Despite having a rather principled objection to this, we did look quite closely at the dynamics of this and whether it could work. I think our conclusion in the end is that the kind of crisis package that the Commission came up with yesterday would be quicker, faster, more targeted and more of a short-term fix for what we hope is a short-term problem.

Q95 Chair: Can I press you on that? On this package of measures, how long is it going to take, actually getting money to dairy farmers in this country? Do you know?

George Eustice: No, and we will have to wait, obviously, until we get the details coming from the Commission in the next week or so. One of the things I think they did make clear yesterday, and Mark might correct me if I am wrong, is that they intend this to be funded from the super levy fines that those countries that exceeded their quota over the last 12 months have had to pay.

The UK over the last 12 months has resisted any softening or so-called "soft landing", as countries such as Germany and Austria called for, because they were producing well over their quota. That did mean that those countries have had to pay into a super levy. What the Commission seem to have accepted is that the fines paid into that super levy by those farmers who overproduced could now be used to try to soften the blow of the oversupply we have in the market.

Q96 Rebecca Pow: Minister, in the UK's situation, even if they raised the intervention price to 20p, say, or 19p, in my opinion it is not going to help our dairy farmers much. If they are being paid now 23p, but the cost of production is actually 30p, it is still really not going to solve the problem, is it, even if it came about?

George Eustice: It would not solve the problem, no. The other problem with intervention is, if you believe, as I do, that in the long term we need to develop a viable futures market to help farmers manage risk, the quickest way to kill a futures market is to have ad hoc Government political intervention all over the shop, because then the markets actually cannot plan for anything; they cannot predict anything; and they are not going to step in to offer that kind of effectively private insurance against big swings in prices.

Q97 Rebecca Pow: Just quickly, on the quota issue that was referred to, do you think that this current crisis has been stimulated by the final ending of the milk quota system?

George Eustice: I do not think it has. This is a global problem. Dairy farmers in New Zealand are going through a terrible time at the moment. Some of them are only getting 12 or 13 pence a litre, equivalent to us. US farmers are going through a difficult time. This is a global situation. It is an oversupply of a commodity and a weakening in demand from key markets such as China. That is the driver. Quotas have now come off. There has been an increase in production that might have contributed a little bit.

I do think that removing quotas is right for the long term for countries like the UK, because we actually do, on the fundamentals, have a competitive dairy industry, compared to other European countries. The average herd size in the UK at the moment is around 160 cows. In some of these Eastern European countries, you have average farms with five or 10 cows. We are actually well placed to do well internationally.

Q98 Simon Hart: Over the last few months, the debate has mostly been about the impact of the problem on farmers. Very little attention has been addressed to those who supply farmers. In my part of the world, there are a number of businesses that are going out of business, while we all stare in the direction of the actual milk producer. My question really is: what assessment has the Government made about the downstream consequential impact of the crisis? How can it help those people who are quietly going to the wall without anybody really noticing?

George Eustice: I am not aware we have done any specific detailed analysis on that particular element, the effect on the wider supply chain. Perhaps one of my colleagues can correct me if they are aware of some. Anecdotally, certainly, that is an issue. I think it is inevitable that, if you have farmers experiencing cash-flow difficulties, as many of them are, they are going to be delaying payments for some of their key inputs from agricultural suppliers, and that is obviously going to have a knock-on effect. If you get, in the worst-case scenarios, farmers actually going out of business, or going into receivership or administration, that obviously has a very direct impact on some of those suppliers.

Q99 Simon Hart: Is it not slightly the other way around? Suppliers are going to go bust first. They are the ones who are going to go out of business before the farmers, because the farmers are going to be cutting off what might be seen as non-essential, non-critical investment now, maybe on the creation of new buildings or replacing kit. That means kit suppliers are going to go to the wall this year. Farmers might not go to the wall for a bit yet, so the urgency is the other way around, I would suggest.

George Eustice: It is a bit of a debate. Which comes first—the chicken or the egg? I guess, if you are an agricultural supplier, you have a creditor owing you £100,000 for animal feed and they go into administration on you, that is not a great place to be. There is an interrelationship there between the two.

What I can say we are doing on this is that I am regularly meeting the agricultural directors of all of the key banks. We are working with them and encouraging them to show forbearance. Many of the banks have already moved dairy farmers who are in distress on to interest-only loan repayments, for instance. Many of them have given them even interest holidays, to try to help them through this difficult time. We are trying to get the AHDB to help farmers who need assistance in putting together management data, so that they can make the right case to their banks for that support.

Q100 Simon Hart: Is there something the Government can do, though? There was a welcome announcement a while back from the Treasury about enhanced capital allowances on agricultural machinery. It seemed to most of us to be sensible that those capital allowance advantages should be also extended to buildings, for the simple reason that, if you buy a German combine, most of the money goes to Germany, whereas, if you build a building, most of the money goes into your local rural economy. There are all sorts of benefits from providing the same tax conditions as far as capital injection for buildings as we currently provide for machinery.

I have never heard, apart from the fact that we can't, a decent argument for why we should not. I wonder if there is something your Department can do with the Treasury to persuade the Treasury to look a little bit wider at the things that we can do—they do not contravene any competition laws—and actually would make a significant difference to the suppliers that we are talking about who are suffering at the moment.

George Eustice: I do frequently get this call from farmers, because there used to be some capital allowance on some farm buildings, historically. This is a Treasury lead, and I do not pretend to be an expert on it. I know that the Treasury would argue that, obviously, on other capital allowances for machinery, they have quite generous allowances there that are helpful for farmers. When it comes to buildings, there is obviously allowance for things like depreciation that can count, I think, still.

There is another factor here, which I did see in one of the briefings some time ago. The UK had a special derogation when it had the previous capital allowance for buildings. Since Gordon Brown scrapped that capital allowance for buildings, I think it is very difficult to get it back, because he also lost a special derogation that was there to enable that to happen.

Q101 Jim Fitzpatrick: Minister, when we last raised this in the last Session of Parliament, Defra mentioned—and I assume it was probably yourself—that you had asked HMRC and the banks to take a sympathetic stance with dairy farmers. You just mentioned the regular meetings with the banks' agricultural executives. Mr Oakes from the NFU told us that some banks are offering loans at favourable rates, and you have mentioned about interest holidays and interest-only payments. However, he also said that fast payments of single farm payments are imperative to ease the burden. The Chairman mentioned about tax averaging as a Government initiative. Clearly, some progress has been made. Is there more to be done with banks and HMRC? Is it possible to do more on the faster payments of SFP?

George Eustice: Before the general election, in spring, there was lots of concern about dairy, and dairy farmers would have been having potentially quite significant tax bills, because of course the previous year was a good year, coming up in June and July this year. We did get agreement with the Treasury that they would show forbearance to those dairy farmers. Obviously, it is not automatic. You cannot just say, "I'm a dairy farmer, so let me off my tax this year." They still need some clarity that there is a genuine inability to pay, not least because there are quite mixed fortunes between farmers and the prices that they are getting. However, we did work closely to come up with a package under the time-to-pay scheme that the HMRC run.

When it comes to BPS payments, which I know are also high on farmers' concerns, we have been working very, very hard over this year. We have had some 200 additional staff put into the Rural Payments Agency to process the manual applications that we have had. The Secretary of State and I have been keeping a close eye on this on a weekly basis over the summer, and they have made good progress getting those on board.

We cannot make early payments until we have completed all of the validation and the verification that is necessary, otherwise we expose ourselves to substantial disallowance risk. However, we are doing everything we can to ensure we can pay the majority of farmers in December, and the vast majority at the front of that window.

The final thing I would say on this point is the Secretary of State did tell the Commission yesterday that, if there was any scope to show some forbearance on the checks, requirements and administrative checks that are needed, so that we could expedite payments to those dairy farmers and ensure we can pay them at the start of that payment window, we would like to explore that with the Commission. They have said they would look at it.

Chair: I wish you well with that.

Q102 Chris Davies: Minister, much of this summer's action has been focused on the idea that supermarkets were using their market position to pay far too little for milk. Whether that is correct or not, I do not know. What is the Government's view on this idea?

> ***George Eustice***: Views on the supermarkets have probably been a little unfair, because, as I said, if we are serious about addressing this problem, we have to recognise that at its root is a global oversupply and a dip in demand from countries like China. To be fair to the supermarkets, many of them are paying not all but significant numbers—around 20%—of their dairy farmers these aligned contracts, which have still been paying farmers around 32 pence to 34 pence per litre.
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> You have to separate out what the supermarkets are paying the farmers from what they might be charging on the supermarkets. The reality is that, when they are retailing milk at 89 pence for four litres, as some have been, or £1 for four litres, they are losing a lot of money on that quite often. They have absorbed that loss, because they see that as a way of drawing people into their stores. It does not particularly affect demand for milk. Demand for milk is pretty static, whatever price you put on it, but they do believe that it helps draw people into their stores.
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> The only caveat I would say is that it is true, if you have supermarkets discounting at that kind of rate, those smaller retailers, such as the corner shop who do not have the clout to cover such losses, are forced to follow that price down, and they will try to pass that price cut on to farmers. It is a complex picture. Generally, it would be a bit unfair to blame supermarkets for these current prices. In recent weeks, Aldi, Lidl and Asda have now said they will be paying their liquid milk suppliers 28 pence per litre. You have Morrisons saying they will pay 26 pence per litre, and you have Tesco starting to offer an aligned contract on some of their dairy products. To be fair to the supermarkets, they are not the cause of this crisis, and, in fact, in some ways, they have shown some understanding and have tried to help some of their farmer suppliers.

Q103 Chris Davies: As a supplementary to that, several supermarkets have now come out and said they will offer a different product for 10 pence extra, and the 10 pence will go directly to the farmer. Is that a gimmick by the supermarket? If ever I stand behind you in the supermarket counter, will you be buying 10-pence-extra litres of milk?

> ***George Eustice***: Yes, of course. If you stand behind me in the supermarket, you will find me buying the 10 pence extra for farmers. I know that Morrisons got some criticism for that, but obviously they have subsequently come out and said they will pay 26 pence a litre to all of their farmers. This is a very difficult time for everyone. In fact, some processors are finding it difficult trying to sell a product when there is an oversupply in the world market. Dairy farmers are certainly finding it very difficult.
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> There is always, I suppose, a desire to find an easy scapegoat. If we are serious about addressing this problem, we have to keep things in perspective and actually give a bit of credit where credit is due. I am somebody who used to supply supermarkets with strawberries, and had all sorts of problems doing that, so I am not somebody who is naturally sympathetic to supermarket buyers. However, where we do see them

making an effort and steps in this direction, we should actually give a bit of credit where it is due.

Q104 Chair: Many supermarkets are doing a reasonable job. What are you doing about the big retailers that are not doing a good job? How are you encouraging them to come in line with those that are helping the farmers more?

George Eustice: Obviously, most of the largest ones are either now offering this new guaranteed price, or some are, or, indeed, if you look at those that have not made similar commitments, such as Sainsbury's or Tesco, they actually have a very substantial proportion already on aligned contract when it comes to liquid milk. The irony is, although we keep saying we need more processed products to add value and to take on new markets, that the short-term position is that those in the liquid milk market, particularly on aligned contracts, are the ones that are doing okay, whereas the ones that are most exposed are the ones supplying the processors. There is a paradox here and an irony. There is a bit of a mismatch between the short-term pressures we have and where the long-term opportunities lie.

Q105 Simon Hart: Just quickly, going back to your comment about giving credit where credit is due, which is great, do you honestly think that the supermarkets would have made these magnanimous gestures to the agricultural industry had it not been for direct action over the summer, or was that entirely coincidental?

George Eustice: There was some direct action. There was a lot of consumer interest in this. There is a huge amount of consumer sympathy and support for British farmers. I think they are conscious of that, yes.

Q106 Simon Hart: Joking apart, is this the message to UK farmers now: "If you want to extract these enhanced deals with supermarkets, you have got to get on the street."? That is how it looks.

George Eustice: It may be how it looks, but I am not sure it is entirely fair, because, even before you had some of the more vocal protests that obviously took place, groups like the National Farmers Union had been working closely with the supermarkets to try to get moves in this direction. You are right; there might be a perception that you have had all these protests, and everybody has jumped. Actually, I think that is slightly unfair. I think there is a lot of groundwork that went in earlier by organisations such as the NFU.

Q107 Rishi Sunak: Across Europe, producer organisations seem to be a sensible means of increasing market strength for individual farmers versus large processors and retailers. I know you have been supportive of the one producer organisation we have in the UK. Do you have any thoughts on what we need to do to encourage more of these organisations? Is it more action by Government, or is it industry or anything else that needs to happen?

George Eustice: We actually set up a fund to try to encourage producer organisations to set up, and Dairy Crest Direct, which is the first one that we have had set up earlier this summer, is a model that I hope others will follow. It is not a model that lends itself naturally to some of the co-operatives. They would argue that the co-operative system is in many ways an alternative to having a producer organisation.

Certainly, though, I think it has been a great success for Dairy Crest farmers. Around 1,000 farmers are now not only collectively negotiating their price with Dairy Crest but also quite often collectively negotiating good deals on their inputs, on things like energy, electricity, feed costs and the like. I think there is raw potential here where you can get something quite refreshing. It is not quite the stifling co-operative model, but a model where farmers have complete freedom and control of their own business, but come together collectively both to buy their inputs and also to negotiate a better price.

I think it says something about Dairy Crest as well that they have the confidence to try to help support this. They actually see that, long term, making sure that the farmers have got a fair price and have got a commitment to them is important. Rather than trying to peel off farmers individually and beat the price down, I think it says something about their confidence that they have supported the establishment of this producer organisation.

Q108 Rishi Sunak: Is that fund there, Minister, to support further organisations, should they wish to form?

George Eustice: I might ask Mark to come in. We did set up, from memory, a £5 million fund under the last rural development programme, which was run through the RABDF to try to encourage the setting up of producer organisations. I am not sure what the state of that fund is now, whether that has concluded and whether that will be renewed.

Mark Filley: Yes, we have exhausted all the existing funds.

George Eustice: I think the crucial thing is spreading good practice. There is great potential particularly for those groups of farmers supplying the commercial operators, those that are not co-operatives, to follow the producer organisation model that Dairy Crest have pioneered. Other countries do this far better than we do. We have dozens of these producer organisations in countries like Germany. It is a really successful model.

Q109 Rebecca Pow: Talking about best practice, Minister, as I am sure you will know, the dairy industry code of best practice was set up three years ago. It is voluntary; 85% of farmers have joined up to it. Our predecessor Committee recommended that this should remain voluntary. I think the Government agreed with that, and that it was a code we should maintain. Do you think, with the difficulties the industry is in, that these contracts are working properly, or could be altered, or could help in any other way?

George Eustice: Alex Fergusson, a Member of the Scottish Parliament, not the football Alex Ferguson but the other one, led a review of this last September.

Chair: He was a very successful manager.

George Eustice: He was very successful.

He led a review of the supply chain code and concluded that it was working very well. The one thing that he did say is, to get the remaining 15% of processors to sign up, especially some of the smaller ones, he would like to see the supermarkets perhaps being more proactive, maybe starting to require, or chivvy and encourage, some of their suppliers to join that supply chain code, so that you get a greater sign-up. The ones that are not signed up tend to be the much smaller ones. It is complicated, because sometimes those small dairies who do cream or niche cheeses actually have a very, very good working relationship with a small number of farmers. It is not straightforward. However, I think his recommendation was right. If we could encourage more to sign up to this, it would be good.

The problem with the code, of course, is it works better in a tight market where prices are rising than it does in a market when you have oversupply. Giving farmers the ability to walk away from a contract at three months' notice is a very powerful means of keeping the processors on their toes when supply is tight. When the processors have more milk than they know what to do with, it is a less powerful incentive.

Q110 Rebecca Pow: An interesting point raised by one of our previous speakers was that perhaps these contracts are all onuses on farmers, and potentially perhaps a bit more of the risk should be put on the supermarkets and the takers.

George Eustice: Yes. I think the code, in essence, provides for two things. If you want farmers to sign up to a long-term contract, you have to offer them real clarity and transparency about how you calculate your price formula. Whether that is linked to production costs, or whether it is a hybrid that is linked partly to market, partly to production, you have to be absolutely transparent.

You cannot expect a farmer to sign up for 12 months or two years, and then say, "The price you get is what we give you." When I was on this Committee two years ago, we used to have dairy companies saying things like, "Well, it's not in our interests to kill off our dairy farmers." It is a paternalistic, "We will be good to them." I did not think that was good enough. What the code does is it gives a choice. You either have clear clarity and transparency about the way you calculate your formula, or you allow farmers to walk away at three months' notice. I think it has worked quite well, but it worked better when the market was tight than it does currently.

Q111 David Simpson: I am being selfish again, coming back to Northern Ireland. In my constituency, I have farmers losing somewhere from the region of £10,000 a month, with one farmer losing £30,000 milking 650 cows. The crisis fund that we are talking about, if it was £25 million *x* number of years ago, equated to £3,000. If it is €40 million this time, it will equate to about £5,000 or thereabouts. That would not pay some of their meal bills, when it comes on a monthly basis.

I am not saying it is, and I am not trying to be vindictive or smart when I say this, but is it the case, given that we are not getting any answers from Europe because Commissioner Hogan is not supporting any other initiatives, that the only way to resolve the issue in Northern Ireland with milk production is an erosion of milk farmers in order to get the level again? Is that really what it is coming down to? We depend on 75% to 80% of export.

> ***George Eustice***: I recognise the difficulties you have in Northern Ireland are particularly acute, because you have exposure to those markets. We hope that we are going to see a recovery in this market. All I would say is, even if we were to do something along the lines that you would hope—namely, intervention—that is not going to stop that farmer losing large sums of the money still. The crisis fund is, as I said earlier, I think a quicker and simpler way to get short-term funds to farmers that are most in need. We need to work out how we would handle such a fund, once we get the further details of it.
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> As I said at the beginning of this session, I think the long-term prospects for the industry remain good. I know that might be galling to farmers at the moment, many of whom I know, who are losing enormous amounts of money, suffering stress and financial difficulty, but the long-term prospects, I believe, for UK dairy remain good. We are competitive, by European standards. We have a premium product in the international market. The population is rising. Demand for dairy, long term, is set to go up on average by about 2.5% a year. I think the long-term prospects remain good, but I do not doubt for a minute that, in this current crisis, it is a desperate time for many, many producers.
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> The other thing I would say is that it is not simply the case that, "Oh, well, the inefficient ones will be the ones that go out of business." It is far more complex than that. In fact, quite often, some of the ones that are technically better and have invested more are the ones that have more debt, and the ones that have higher input costs and are more intensive. They technically might be better, but they are, in this current downturn, ironically, more exposed than farmers who technically might be less efficient.

Q112 Ms Ritchie: Following on from David's question, in the short term, dairy farmers are facing a difficult winter, notwithstanding you believe that the future for the industry is good and that recovery will come. What can be done in that interim period to assist those farmers? From what I can see, the Government's solution, and perhaps with the EU Commissioner, is to let the market decide. That is really not good enough for our agricultural industry and foreign industry that is dependent on exports.

> ***George Eustice***: In the short term, there is, obviously, the Commission's announcement yesterday of the €500 million crisis fund. The UK envelope for that, if it is allocated similar to the way it has been done previously, is likely to be in the region of €40 million. You are right. There are then medium-term things, I think, around looking at improving transparency on contracts, going further on that dairy code and improving country-of-origin labelling. Then there are longer-term things, which are around opening new export markets, import substitution, investing in processor capacity so that we can step up our production and take on new markets. There is a mixture of things, and the reality is that our ability to deal with what is a global oversupply problem is limited, but the Commission has announced this package yesterday that will give some respite to farmers.

Q113 Chair: It is probably too early days, but are you considering that you would look at the price that farmers are being paid for their milk, so, if you are on a contract that is at 17p or 18p, rather than a contract that is at 30p or 32p, you would actually get more support? Some farmers out there are still doing quite well, if they have got good liquid milk contracts with certain supermarkets.

> ***George Eustice***: Yes. As I alluded to earlier, it is far too early, really, to say, because this package was only announced yesterday. All we have been told so far is there will be a national envelope that is allocated to us, and we need to await further details of it before we can give further consideration to what we would do with such a fund. As I said, there is a trade-off between simplicity and targeting your resources where they are most needed. Also, as I said at the beginning, there is a wide spread of fortunes here, between those farmers who have lower cost of production, are still getting quite good prices and are still making actually reasonably good profits, and those at the other end of the spectrum who are losing large amounts of money and really, really struggling.

Q114 Chair: Minister, thank you. Is there anything you would like to add?

> ***George Eustice***: I think we have covered it, unless any of my colleagues think I have missed anything. No.

Chair: Thank you very much for your straightforward evidence this afternoon. I think we have had a very good session with NFU, Dairy UK and yourself. I think we all realise the crisis in dairy farming and the need to help farmers now through this period, so that there will be, hopefully, better times ahead, but it is getting those farmers through to it. I am certain you recognise it, but I think Government needs to recognise it. I am sure we will have you back very soon. We have the Rural Payments Agency coming soon, so we will question them on how quickly they can get the single farm payment to farmers. I think that is something Government can actually do. I do thank you very much for your time this afternoon.

> ***George Eustice***: Thank you.

Chair: There being no further business, I declare the meeting closed.