Environment, Food and Rural Affairs Committee

Oral evidence: Farmgate prices, HC 474

Wednesday 4 November 2015

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Written evidence from witnesses:

– Tom Hind, Chief Strategy Officer, Agriculture and Horticulture Development Group

– Stephen Wyrill, National Chairman, Tenant Farmers Association

– Mr Paul Tompkins, South Acre Farm

– Afshin Amirahmadi, Vice President, Milk and Member Service, Arla Foods UK

Watch the meeting

Members present: Neil Parish (Chair); Chris Davies; Simon Hart; Dr Paul Monaghan; Rebecca Pow; Ms Margaret Ritchie; David Simpson; Rishi Sunak

Questions 96-202

Witnesses: **Tom Hind**, Chief Strategy Officer, Agriculture and Horticulture Development Board, **Stephen Wyrill**, National Chairman, Tenant Farmers Association and **Paul Tompkins**, South Acre Farm, York, gave evidence.

Q96 Chair: Gentlemen, I am glad you were able to join us a little early, because we have a chance to start. If you would like to introduce yourselves for the public record, we will then move on.

Tom Hind: I am Tom Hind. I am the Chief Strategy Officer at the Agriculture and Horticulture Development Board.

Paul Tompkins: My name is Paul Tompkins. I am a dairy farmer from Yorkshire.

Stephen Wyrill: I am Stephen Wyrill, National Chairman of the Tenant Farmers Association and a dairy farmer in Yorkshire.

Q97 Chair: Thank you very much for coming this afternoon. We are carrying on our investigation into farmgate prices and, of course, you know the very low prices that there have been over the last year or more. The first question is particularly to you, Paul. It was nice to see you last Friday in your home area. How have prices paid for your milk changed over the last five years? Can you remember that far back?

Paul Tompkins: Just about. Five years ago, in 2010, I was being paid around 25p for every litre of milk I produced. Between then and the summer of 2014, my milk prices fluctuated gently; they never went below 24p a litre and the general trend was upwards. During that time, from five years ago until summer of 2014, the average price I received for every litre of milk was 28p. The summer of 2014 hit and milk prices fell off a cliff. Today, I am just getting 20p a litre for every litre of milk I produce.

To put that into context, if you took the average amount I received during those previous four years and compared it to now, I have about £16,000 less per month. That represents about a 35% drop in income. M&S posted 0.4% today and it has hit the headlines, so compare those two and I think perhaps I am in bigger trouble. I am finding this financially crippling. I am struggling to pay bills and money worries are continually on our mind.

Q98 Chair: Naturally, we are inquiring into how we can stabilise milk prices, what Government can do to help generate more exports as well as generate a better market for the retailers in this country to pay back into farmers' pockets. Perhaps I cannot give you a total wish-list, but, if you had a wish of what you would like us to do, what would you like to see us do?

Paul Tompkins: The message that I am perhaps bringing here today is that I need Government help to take some of the burden of risk from the farmer's shoulders and share it through the supply chain, because, at the moment, I believe all the risk is on my shoulders and none on the processors' and retailers'.

Q99 Chair: You would like some people to take some of the pain—that is what you are saying—and help you with some of the price?

Paul Tompkins: Well, share the risk.

Q100 Chris Davies: We have had representatives of the NFU, etc, and Ministers sitting where you are sitting in past weeks. What do you, at the front end of the industry, feel is the root cause for such low prices?

Paul Tompkins: Like they have already told you, as you just mentioned, milk is now traded as an international commodity and therefore vulnerable to supply and demand, which right now are out of kilter. That is true. I get that. Perhaps farmers are only just beginning to learn it, but we get that. Here lies a problem. I milk cows. They are four-legged, independently minded, time-demanding, well looked-after. They are beginning to sound a bit like my wife now—not the four-legged part. They produce high-quality milk. What many people, and perhaps some representatives that have sat in front of you, fail to grasp is that I cannot simply turn a cow on and off again.

Q101 Chair: It is the long term. It is two and a half to three years from the time a heifer is conceived to the time it is milked, so that we are very much aware of. Also, some farmers are probably trying to produce more milk in order to produce more income. I can understand why they are doing it, but in some ways it is exacerbating the situation and it is putting us back. It is not just what we do in this country but what happens across the world, in America and New Zealand in particular.

Paul Tompkins: I would agree. It is not what my neighbours are doing any more; it is what the world is doing.

Q102 Ms Margaret Ritchie: This is to Mr Hind. Farmgate prices for dairy, pig meat and lamb have fallen consistently over the last couple of years, but production continues to rise. What steps are farmers taking to reduce production of products on which there is substantial price pressure because of the absence of demand?

Tom Hind: It is difficult to take a general situation and apply it at an individual level, simply because, for each individual farmer, the decision they take will depend on their own circumstances. If we take the dairy sector, for example, the price falls that we have experienced over the course of the last 18 months have been quite considerable, admittedly on the back of quite a significant rise in milk prices over the years.

For an individual dairy farmer, you face a number of choices. As Paul said, it is a long-term investment that you make in cows and the capital that you have. Therefore, there is some degree of residual commitment to manage the asset that you have invested in. Secondly, for many dairy farmers, the best way of being able to manage lower prices is to increase their output. In increasing the output, they increase the turnover over the same proportion of costs that they have.

It is also worth bearing in mind that, although farmgate prices have fallen quite dramatically, costs have as well. Some dairy farmers have been able to adjust to that, but perhaps not quite as much as might be the case under a different scenario. We do need to be mindful that, for an individual dairy farmer, the individual choice that he makes will be very much dependent on his business. If he believes that he is committed to the industry and sees a long-term future, then he is going to look to see what he can do to reduce his costs in order to compete and be resilient to the challenge that he faces in the short term, perhaps in the knowledge that, in the long term, the situation may well turn itself around as most people predict.

Q103 Chair: We need to talk about pig meat and lamb as well, because all these prices have dropped, haven't they?

Tom Hind: Yes, they have dropped. The individual circumstances for each sector are quite different. Some of the drivers are the same. You will have heard already about the commodity market moves. You will have heard already about exchange rates and the influence that they have. Again, each individual business will make an individual choice. It is probably fair to say that, in the sheep sector, some farmers are thinking, at least anecdotally from what we hear, that they may not keep as many ewes back on their farm. Over the last few years, we have seen an increase in breeding flock in terms of sheep, so we might see some adjustment, but it will take some time to feed through.

Q104 Ms Margaret Ritchie: Then, to Paul, is reducing the amount of dairy produced on your farm a realistic goal? Have you or your colleagues had any discussions with your processor about this, or have you given any thought to reducing the amount of produce? I suppose it comes back to the issue of supply and demand.

Paul Tompkins: Tom mentioned that costs have also fallen for farmers. In the same period that I talked about before, I have managed to reduce costs, but only by 6%. Compared to that 35% drop, it is a significant difference. The problem I have on my farm is that my fixed costs will remain the same if I milk the 200 cows that I milked this morning or even if I take 20% to 40% out of the herd. Is that necessarily a financially viable way of moving forward? In fact, some could argue, as the Chair mentioned earlier, and some farmers take the view that increasing supply—which is completely ironic, isn't it?—is the way forward. I would agree with Tom's initial answer, which was that it varies at each individual farm gate.

Q105 Ms Margaret Ritchie: I suppose many of the issues we are discussing are the result of unforeseen circumstances. You would not, two or three years ago, have foreseen that these things were going to happen in relation to supply and demand and the global commodity markets. Do you think that reducing production at this stage could have impacts that are currently unforeseen by the decision-makers in Government?

Paul Tompkins: I would come back to my answer earlier that I no longer compete with the farmer next door; I compete on a worldwide stage. Therefore, I do not believe that any changes, if I could have made them retrospectively, would alter the position that I am sat before you with today.

Q106 Chair: Quotas are going. Now, quotas have not been too much of a problem in this country because we have not met our overall quota for several years. If we move into an unquota'd system across the whole of Europe, is there going to be a need for the industry somehow to have a little more control over how much milk it produces? Bluntly, if you produce too much milk, you drive the price down; then, theoretically, if you drive it down low enough, it is very painful; then that should cut production and the price should go up again. It is a very crude method, but is there a better method than that that we could go for?

Paul Tompkins: I would not necessarily alter the supply; I do not think that is the way forward. The way forward is to have some mechanisms in place to control those markets that are being so cutthroat with us. As I said, I have a cow that cannot react to markets and I have markets that are extremely volatile. I need some sort of mechanisms in place in order that I can sell into marketplaces that are somewhat controlled.

Chair: We have the retailers in next week. We will give them a hard time; don't worry.

Q107 Dr Paul Monaghan: I have a question first for Mr Hind and Mr Wyrill. What might be the advantages of introducing or increasing the use of long-term contracts in the farming industry?

Stephen Wyrill: Long-term contracts are obviously going to give you a long-term approach, which is evident in what you have just said. What we have to get away from is the boom and bust that we have all experienced. We need some form of, I say, control that stops farmers—I am a farmer myself—producing far too much when there is no demand for it, whether it is an A and B system or something like that. If you processor does not want your milk and you are able to sell your portion of B quota, or whatever you like to call it, to somebody else who wishes for it, that is fine. If not, that milk will be sold at trade price. If that happens to be 7p, 10p, 13p, the decision is made for you.

Equally, on the other system, in turned-round circumstances where your country is short of milk through drought or through repercussions throughout the world, you have a position where a large percentage of milk is contracted to your supplier, and then the portion that is left could even be higher value, rather than being lower value in the other extreme.

Tom Hind: I do think it is important that we move more towards a contractualised industry. It will not be for everybody. Some farmers will always want to be able to take the highs of the market when they arise as well as accept the lows, and sometimes a model based on long-term contracts will not be as responsive to those changes. Equally, more and more, in a climate where volatility is a fact of life and is the new norm in the way that agricultural markets work and that British farmers will have to operate, having a model that at least gives you some degree of predictability and certainty over what you need to produce, when you need to produce it for, to what quality and the price you receive is really important.

Ironically, the dairy sector is probably one of the few sectors where we have seen some moves towards that kind of contractual model, largely because of the work that has been done by milk processors and retailers to put in place aligned supply chains, but, again, they cannot cover every dairy farmer in the country. Not every single litre of milk or every single sheep or lamb is sold through a retail outlet, and so there will always be some degree of exposure to wider commodity market forces.

Q108 Dr Paul Monaghan: Mr Tompkins, would you welcome long-term contracts in your business and do you find that long-term contracts are something that processors are happy to discuss with farmers?

Paul Tompkins: I believe in fair competition in the marketplace, and I want to compete with other dairy farmers on price, quality, animal welfare, management of our countryside, you name it. But we need an injection of fairness and transparency in the market, and futures markets could help us with this. I can forward-buy feed for my cows. I can forward-buy fuel for my tractors. I can forward-buy fertiliser for the fields. I can even forward-buy semen for my cows. But do you know what? I have absolutely no control or insight into how much income I will receive over the next week, month or year. That is the crux of it, and perhaps some more control over that could help us through these tougher times.

Chair: We are going to talk about the futures markets in a minute.

Q109 Dr Paul Monaghan: On that second part, do you found that processors are keen to discuss long-term contracts with farmers? Have you found that?

Paul Tompkins: I have not personally had any experience of that, no.

Q110 Rishi Sunak: I have a very quick question for Paul and Stephen. I welcome Stephen as a constituent of mine, whose dairy farm I have been privileged to visit. Following on from Paul's question about processors, and you have talked about competition, do you talk a little bit about the choice you have with processors, if indeed there is a choice for you, when you are selling your milk? What kind of competition is there for your milk? Are you limited in whom you can talk to and whom you can sell that milk to?

Stephen Wyrill: At the moment, I believe there is very little choice, unless the company that you are dealing with goes out of business; then you have to find a market. There will be some movement, but usually when a company falls by the wayside, as they have done in the past, you end up being preyed upon and the contracts that you are offered are not always the same as everybody else. It needs something in place that does not protect but just gives some assurance that you are not just blatantly taken for a ride, basically.

Paul Tompkins: I would echo Stephen's comments. We both farm in an area, as you will know, that is not as strong in dairy cows as perhaps the west side of the country, where there are a number of dairies and also, therefore, some competition. The fact is that, where Stephen and I both farm, in the north-east, in Yorkshire, there are very few dairies to compete for my milk. Therefore, my milk is traded in a marketplace, but I am not selling in a marketplace.

Rishi Sunak: Thank you. That is helpful.

Chair: I do understand that. There are certain parts where First Milk will be quite strong and then nobody else, and that can also be a problem.

Tom Hind: Just to add to this, it is clear that, in some parts of the country, not just dairy farmers but farmers in other sectors may face limited choices as to whom they can sell to, by virtue of geography. It is important to bear in mind that not only do we need a competitive farming industry that can compete with the best in the European Union—and that is not just about efficiency; it is also about value—but we also need a really competitive manufacturing sector as well. In order to be able to compete with the best in the European Union, we need manufacturers that also have scale.

That means we have seen, over the course of not just the last 10 years, but 15, 20 or 30 years, significant consolidation in terms of those processing facilities that we have in all sectors. Doubtless this will be something that you want to pick up in the second panel with Arla foods in terms of their own strategy.

Q111 Chair: On the lamb side and the pork side, is there any move to having similar A and B type quotas, so that you would supply so many lambs in at a certain price and then, if you over-supplied that, then the price would drop? Is there any talk of that?

Tom Hind: There are some limited moves towards contracting beef, lamb and pork, and a number of processors will operate contracts with producers, but it is generally the exception rather than the norm. It is partly because certainly the beef and lamb sectors, less so pork, are quite fragmented, with a large number of producers, and also quite extended from the customer end of the supply chain. But there is a need, and something we suggested in our written evidence is to introduce a clearer alignment of supply chain from a customer level back down to farmers, so that sheep farmers have more clarity, visibility, predictability about what the market wants, how many lambs it needs, when it needs them, the quality it needs, and then have a clear line of sight as to what they can produce and for whom they are producing it.

Q112 Rebecca Pow: Welcome, gentlemen. I met a load of farmers yesterday, and this was a point they put me. If you want contracts with the processors, maybe that is good because they are giving you the price and taking the product. I believe Arla, for example, farmers have some buy-in to. Is it part farmer-owned or something like that? I said, "Surely you must have lots of say and lots of control", but they said they feel completely out of control, so I am not sure having this contracts and tie-ups is helping you. Maybe you have to change that somehow. I said, "Why do you not get them to make more cheese?", which Liz Truss, the Secretary of State, is always telling us is what we all need to do. They said it is not that easy, because they are controlled by Arla and they do not get their say.

Chair: Let us leave that for Arla.

Rebecca Pow: It would be nice to hear what the farmers say, and then we could put it to Arla.

Stephen Wyrill: I used to sell to a big processor, which is probably sat behind me now. We did not fall out and, if I wanted to go back, I hope I would be accepted. Yes, you do buy your way into it, but increasingly, over the years—this is what my father did, not what I did—when the Milk Board was finished and history and all the rest of it, we went through the Express Dairies route; we went through Northern Foods; we went through the whole thing; and we ended up with Arla at the end of it, after about 18 years. Through the period of time, there were different people at the head of the milk partnership, which worked really well, and then the control started to come down.

This is my own view and that of quite a few other farmers who have been with Arla and other types of this system. You end up in a situation where you have groups of farmers going to meetings, not necessarily wanting to go to meetings, but feeling obliged to go to them. It is often said that you do not have to go to these meetings; it is to gain knowledge; it is to transfer knowledge. Maybe not so much now, but, in the past, if you did not attend, you would end up being blacklisted gently. Milk fields need altering, there are economies of scale and dairies cut back, so you can see where that leads.

That is one of the partial problems. You need to be in something that works. I changed to another company that does the Wallace & Gromit cheese, and now I can pick the phone up, speak to the person in charge, go right to his door and tell him what I think, and vice versa. I just think sometimes the big company gets too big. I am not saying it is totally wrong, but that is my view.

Chair: They do not necessarily listen enough at that stage.

Q113 Chris Davies: You have partly answered this, really. The voluntary code differentiates between co-operatives and non-co-operatives. What impact has this had on your business?

Paul Tompkins: Some may say that parts of the voluntary code are anti-competitive and discriminate against smaller produces, as Stephen was just mentioning, and that larger co-ops dodge parts of the code, although they can remain fully signed-up members. Those who do not sign are accused of being unfair to their farmers, and the NFU will sit here and tell you that, when really they fail to appreciate the reasons why they have not or indeed to engage with those processors to try to break down those barriers.

If you take a very small-scale processor, say with 10 suppliers, who needs to alter the price he pays for his milk, all his suppliers could withdraw their milk in one day, giving him three months' notice and leaving him, frankly, screwed. In comparison, the large co-op has no such risk, because they do not have to sign up to the resignation terms of the code. When they alter the price of their milk, the farmer supplier has to give a year's notice. It is a big difference, isn’t it? I am not suggesting one is better than the other. It is the way the code has been worked out, but to have such disparity does seem a bit nonsensical to me.

Q114 Chris Davies: How easy is it to swap between buyers?

Paul Tompkins: At the moment, impossible.

Q115 Chris Davies: Do you think you should be able to go out and deal with different buyers for your produce?

Paul Tompkins: I would like to engage with other buyers, but it is not necessarily a reason to change supplier. I would like to be able to engage with them, but, as I mentioned earlier, up in Yorkshire, very few come and pick up from my farm.

Q116 Chris Davies: I have one last question, if I may. We have two dairy farmers out of the three of you sitting on the table today. It is probably an unfair question, but do you think the dairy sector should be treated differently within the farming sector, or do you just stand and fall in exactly the same way as the other parts of the industry do?

Paul Tompkins: It is time for all farmers with mucky boots, and we all have the same muck on our boots, to stand up and be counted. I am prepared to have sheep muck on my boots as much as cow muck, so I feel it is one for all.

Chair: I expect that is Stephen’s view as well.

Stephen Wyrill: Yes.

Q117 Simon Hart: Coming back to the industry code, is it all of your views that this is fit for purpose? If it is not, what would you do with it and is it right—one question, three parts—that it is voluntary? Would you change that?

Stephen Wyrill: Voluntary is a great idea, but it gets abused. Voluntary needs to be in for certain period of time and, if the industry cannot work, then we need a more legislative way of bringing things tighter, because, at the moment, as Paul was saying in other questions, different companies with different systems can alter and change and they do not come under the same rules. If you are buying or selling, there should be a tighter net just to manage what is going on. I am not saying everybody has to be treated 100% the same, but, at the moment, it seems like 60/40, where it could do to be 80% rule and 20% flexibility. Where you draw the line is a different matter.

Paul Tompkins: I agree with what Stephen is saying. I spluttered over my glass of milk when I listened to the evidence provided to this Committee by EFRA and Dairy UK, when they were talking about the voluntary code and saying that it was not put in place to increase milk prices. Okay, but it is worthwhile remembering when the voluntary code was written. It was written against the backdrop of falling prices in 2012, when farmers were outside protesting and there was a large rally here in London. There was huge political pressure for the industry to draft a code at the time, and those people who claim to represent me did. If they had said that the voluntary code was not being put in place to increase milk prices back in 2012, the farmers would have sent them back to the negotiating table.

Q118 Chair: Do you want to move from a voluntary code to a statutory code now or not? Voluntary codes work well when you have a rising market; they do not work quite so well when you have a falling market. Do you want the penny and the bun? Which do you want, really?

Paul Tompkins: It is true that, for legal reasons, you cannot introduce pricing to voluntary codes, so we are led to a bit of dead end there. It is a good framework. We have a good framework to build upon. I do not want to abandon the safeguards in it. It can remain voluntary, but we desperately need it to be reviewed and updated

Q119 Chair: Your argument would be that you would like a tighter voluntary code, rather than move to a statutory one. Is that what you are saying? I want that quite clear for the record, really.

Paul Tompkins: Yes.

Stephen Wyrill: It needs to be tighter than what it is.

Tom Hind: I think it is fair for me to say that AHDB's purpose is to help farmers and growers become more competitive. The rights and wrongs of the voluntary code are not really something that AHDB has a view on.

Rebecca Pow: It should be tightened to do what? You mentioned the length of time a supplier can give you to not take your product, and the length of notice you give them. Is that what you want tightened? What do you want tightened?

Q120 Chair: Before you answer that, there has been a review, last year, of the code, and I do not think that has been enacted, has it? Do we need to speed that up? Can you answer both of those questions?

Stephen Wyrill: There has been very little change at the farm gate. One of the problems that we as farmers face through the different companies and different selling mechanisms is when you get notification of when your milk price will go up or down. You can be given days or you can be given a month. It depends if you have agreed to the voluntary code or you have not. You could be given two days' notice that your milk price will drop. How on Earth can you manage a business in those sorts of circumstances?

Q121 Simon Hart: Stephen mentioned something interesting earlier on, when he said that the voluntary code tends to get abused. Who is abusing it and how are they abusing it?

Stephen Wyrill: I can possibly give you some evidence.

Simon Hart: Some other time?

Stephen Wyrill: Yes.

Simon Hart: I would be interested to know. If there are serial offenders, that is something the Committee might be interested in hearing.

Q122 Chair: That would be something useful that we could perhaps put to the Groceries Code Adjudicator. The issue is whether people are also prepared to come forward and say where the problem is. If you are in a company and are a processor or a farmer, you can be identified quite easily.

Stephen Wyrill: Our adjudicator is fairly tied up with what she can do. At a time like we have at the moment, when farmers are weeping and wailing, or whatever you like to call it, from different sides of the coin, she needs to be able to look across, dip in and find out what the state of play is at this moment in time; then a few months later—six months or a year—if things have not improved, she can go in like an Ofsted, look at everybody's situation, both sides of the coin, and move from there. At the moment, it is very limited.

Q123 Dr Paul Monaghan: Following up on some of the issues you have just highlighted, what do you think the UK Government should be doing now to help the agricultural sector?

Stephen Wyrill: You have a 25-year plan. I would say, at the moment, a 25-month plan would be better, because this is not just a little blip; this is reoccurring, and volatility does not help anybody. To have 25 years, in my own opinion, is kicking things into the long grass. A short-term plan that is then reviewed would be better. As far as what we have as an industry, we have a £100 billion farming and food industry and, if you want vibrant farming, it needs working with and looking after. I do not mean mollycoddled, but our Government could look at schools, procurement, right the way through Defra and the MOD—the whole lot.

One of the things that came out was the Bonfield report. What I would like to ask is how far that has got and how much is being bought through procurement of English products—not milk, everything—because, possibly, it might be imported. I would sincerely hope it is not.

Q124 Dr Paul Monaghan: To all of you, then, thinking about the 25-year strategy the Government has, what are your hopes for it?

Tom Hind: I have just a couple of remarks to make about the role of Government, and then on to the 25-year food and farming plan. We need to be really mindful that the reasons why prices across a range of agricultural commodities have fallen are to do with markets. We operate in a market economy. I do not see that changing. We need to be careful about what responsibility we can ascribe to Government in terms of addressing some of the challenges we face. Many of the challenges we face are for the industry itself to work on, address, understand and work through.

Coming to the 25-year food and farming plan, it is good that Government are taking the initiative to have a long-term view of the future of food and farming, and to identify what steps need to be taken by whom, where and when to ensure that we have a food and farming industry that is not only resilient now in the short term, but can thrive in the long term and be the most competitive in the European Union.

In order to do that, it is really important that Government adopt a collaborative approach to developing the plan. I know it is still early days. There have been some discussions over the course of the summer, through a series of regional meetings. We welcome further strategic discussion with Government about the content of the plan and the role that we can play as AHDB.

Q125 Rebecca Pow: We keep talking about our 25-year plan and saying we are going to rely on innovation, science and technology. I wanted to ask our tenant farmers' representative if you might make any comment on whether you think the four-year short-term tenancies are preventing innovation, investment and all those things.

Stephen Wyrill: We have had a promotion this year, to try to get attention brought to the farm business tenancies. What you find with short-term tenancies is that a young couple or an older person taking on a tenancy—a contract of time, basically—just get started and are at the stage where, after a couple of years, they have invested so much, but they cannot keep investing in something they may well lose at the end of the fourth year. They are not guaranteed to get it again, and no business can run like that successfully. That is why we as an organisation have asked to look at different ways of taxing.

A hot subject it can be, but, working sensibly, if you are renting land out for the long term, it should be less of a problem for you as a landlord and as a tenant. An FBT is an option. There are other forms of farming that could be adopted: contract farming, share farming. They are all options to start farming, to get people into it as young farmers. Then move on to a tenancy and then give them some form of structure. You try to work with volatility on a five-year or three-year FBT and tell me where you stand.

Q126 Chair: You are absolutely right. It is taxation, really, so there is something in it for the landlord and something in it for the tenant. We will have to be nice to George and see what he can do. Seriously, it is the taxation that would make a difference in access for tenanted land.

Stephen Wyrill: From my point of view with the organisation, it is not an attack on landlords. Those who are doing it correctly, in our view, should be rewarded. If you want to be short-term, a different financial discipline comes with it. That does not mean to say you should not, because, if you have an area of development on your farm, you should be able to sell it off. There may be parcels of land within estates or within businesses that need that option, but the tax rules are different.

Q127 Dr Paul Monaghan: I wanted to give Mr Tompkins the chance to express his views on the Government's 25-year strategy. What do you think it might achieve?

Paul Tompkins: From a farmer's point of view, at the moment it feels like a lot of people are playing the fiddle while the farm is burning down. We need Government—this is one thing that Government can do—to get together the people who claim to represent me, sat on each side, the NFU, the CLA, Defra, and bash their heads together repeatedly. Then they may get together and do something that will help us.

The 25-year strategy aside, we need them all to be singing from the same song sheet, not saying, "This bit is political. I do not deal with that." Instead of the NFU saying, "This bit is like this. I do not deal with that", they need to get together and all deal with it.

Chair: We will have to try to make Government act in the same way, because that is the trouble; Government Departments do exactly that, but we take your point very much.

Q128 Rishi Sunak: I have just a quick question for Mr Hind. There was some publicity about the delayed decision of the Cabinet Office to approve a promotional plan you had for lamb and beef cuts over the summer, and then it was finally approved in early autumn. It would be helpful for the Committee to hear your perspective on that situation. What led to the delay? What were the consequences of that delay in terms of securing privileged advertising slots? Lastly, what lessons have been learned from that entire episode?

> ***Tom Hind***: I am very happy to do that. First of all, I am pleased to say that the campaign to promote mini-roast started on time this week, so there are no consequences in terms of the actual promotional campaign taking place itself. That is the first thing. We have undertaken an internal review to understand what lessons could be learnt from what happened. That demonstrates that there were a number of factors that influenced the delay in the sign-off. Part of that was a change in the required process that I understand took effect after the general election. There were some shortcomings in our own project management that we have looked at and identified, and will address moving forward. Also, we identified the need for a better partnership-working relationship between ourselves and Defra in understanding the requirements that we need to be able to fulfil in order to ensure that the promotional sign-off takes place.
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> The key recommendations coming out of that work that we are taking forward are: that we look to start the approvals process earlier, so that we are not short of time in terms of moving things forward; that we make sure we are clear with Defra what criteria for approval are required at the start of a campaign, so that we do that at the outset; and that, internally, we have a single point of entry for managing projects in terms of future promotional campaigns. With the change in the structure of the AHDB, we now have a market development director who is charged with managing all of our promotional activity. We have looked at what happened, learned some lessons, are moving forward and we will move forward positively with our sector boards to ensure that we work better in future.

Q129 Rishi Sunak: I have a quick follow-up. One thing I hear a lot from my farmers is a perception, rightly or wrongly, that their levy bodies are spending not enough of their budget on promotion and marketing, and too much on research. I would be interested to know who is responsible for that decision. Is it a decision that you or your colleagues make and then have approved by Cabinet Office? Is there a forum that farmers can feed into and have some view on the allocations? It would be helpful to hear how you come to a decision about that.

Then I have a specific question. We had this WHO study that came out last week. It got a lot of publicity and was not particularly helpful, necessarily, for some farmers. What happens? If it was a business being attacked, let us say, in that sense, there would probably be some response and there would be meetings. What happens in the farming industry when you get something like that? Who is in charge of coming up out a response to say, "Actually, the study said 80 grams is fine. That equals this amount of meat, and no one is eating that much. Everyone should calm down."

> ***Tom Hind***: In relation to the first question, there are a couple of points that are really important in all this. The AHDB collects income of around £60 million to £65 million, most of which is from farmer levies across six different sectors—seven if you include lamb as a separate sector. Each of those levies is ring-fenced, in the sense that what we collect in each sector is spent in that sector, and each sector has quite similar but often

quite different priories as well. For some sectors, it is the promotional market development work, which is more than just promotion; it is about export market development, domestic market development, looking at new cuts to add more value to beef and lamb, etc, so it is broader than that. Each sector has slightly different priorities. Those priorities are set by our sector boards, so our sector boards determine the strategy. They agree the strategy; they sign it off; and our main AHDB board gives approval.

Q130 Chair: Have they the power to then deliver that, or is it overruled by the hierarchy?

Tom Hind: The delivery takes place by the hard-working colleagues who sit within our organisation, AHDB.

Q131 Rishi Sunak: I guess the question is: who is on the sector board?

Tom Hind: The sector boards are comprised of anywhere between 10 and 12 people, most of whom are farmers.

Q132 Rishi Sunak: Are they elected?

Tom Hind: They are appointed.

Rishi Sunak: By?

Tom Hind: It is important to bear in mind that the AHDB is not a representative organisation. We are an organisation that collects levies as a para-fiscal tax from farmers to carry out activities that will help them to become more completive. They decide the strategy, using the information, insight and knowledge they have to determine what they think are the right choices strategically for that industry.

For some of those sectors, they have determined—say in the case of beef and lamb—that around 50% of the levy income should be spent on market development in general terms. Of course, if you spend more on market development, it means you spend less on something else. If you spend less on something else, bearing in mind we need an industry that can not only compete in terms of added value but can compete on efficiency with the best in the European Union, we need to ensure that we are investing in R and D, in knowledge transfer and in the capability of our farming industry to compete.

Q133 Rishi Sunak: You used the word “representative”. Is it fair that, in a sense, they are not representative bodies? They are not accountable to the farmers who are paying the levy. That is just the way they have been set up. I am not making a judgment on that. Is that a fair description of the situation today?

Tom Hind: They have a responsibility to engage with the farming community. The organisation has a responsibility to engage with the farming community. It is fair to say that we do need to listen. We have to listen to levy payers, and that is why we are announcing right now that we are undertaking a major review of our activities, which will take place through the course of the autumn and winter, to listen to our levy payers and hear what they have to say. We do need to be really connected to our levy payers, but the people who are appointed to our boards are not appointed because they are representatives of an industry; they are appointed for their expertise, insight and knowledge.

Q134 Chair: I have one final point on this. I accept the point that the research needs to be done but, if you have farming prices dropping all summer, you have lambs dropping all the time and no promotions take place, those farmers are bound to be frustrated. Also, I have reason to believe that you have lost primetime slots as well, on television, because of the delay. We need to have answers to this, because the farmers and processors who pay it expect their product to be promoted. As prices dropped across the summer, there should have been promotions going on. We have been fiddling again, to quote Paul. We have been fiddling while the prices have been dropping.

Tom Hind: To the first point in terms of promotional slots, I do not have that information to hand. I am not aware that we have lost advertising slots, but, if the Committee would like some supplementary evidence in writing that confirms that or otherwise, I am very happy to take that and bring it back.

In terms of the wider point, though, Chair, we have to be really realistic in all of this. Yes, we hear from a lot of farmers who say they want us to promote more, but, at a time when the market is significantly over-supplied with lamb produced in the UK and demand has been systemically declining over a long period of time, simply promoting more on TV is not going to solve the industry's challenges.

Q135 Chair: Does it not stimulate demand? Then, when you stimulate demand, people eat more and they buy more lamb surely.

Tom Hind: No. It is important to bear in mind that the campaign we have underway now is not to stimulate demand in the short term; it is to help reposition mini-roasts as a midweek meal solution and, over a long time, create some more added value, as opposed to putting meat into mince. We have to bear in mind that the changes that have taken place to consumption are not because we are advertising more or less; they are because of demographic factors that we in this room see around us all the time. We need to understand how those demographic factors will influence the future and look at how, over the long term, we can put the right strategy in place that creates more value for the products.

Q136 Chair: I do not necessarily argue with any of those points, but I would argue with you completely on the fact that, if you have a lot of supply out there and lamb is not dropping in the shops as much as it should have from the wholesale price, there should be promotions going on out there, so there is a greater demand from the consumer, and that will help in the short term. Tom, it is no good talking about 25 years if you do not get through the next few years, because they will not be there to produce the lamb. Is that your strategy?

Tom Hind: I understand the frustration, but it would be cruel for us to lead to a belief that, if we just put in place a promotional campaign and spent all the levy on promotion, we would somehow solve the problem, because we would not. What leads to short-term moves in sales? There are a number of factors but, very often—and having had some experience working in a retailer I can see this myself as well—it comes on the back of price investment. That is not TV advertising. That is what you do in terms of reducing the price for customers to drive sales.

Chair: When a TV chef goes on the television and puts a whole load of ingredients into a dish, then the supermarkets will have their shelves utterly wiped clean of that product because it has been on television, so do not tell me that it does not promote the product. Anyway, before I lose it completely, let me move on.

Q137 Rishi Sunak: I just have a follow-up. I urge you to listen to the farmers and I welcome your comments in that regard, because I do feel that maybe it is not as accountable as they would like it to be, but it sounds like you are taking some of that on board, which I appreciate. On the specific question of this WHO report, what is happening? It would be a good case study for what is happening. That is quite a negative report that has come out, which is creating a negative perception in the consumer's mind about certain meats.

Tom Hind: I beg your pardon for missing that question. I am getting swamped in the debate about promotion.

Q138 Rishi Sunak: What is happening? If I am farmer, what is my body doing to help combat what was two days of very negative PR about what I am selling and producing?

Tom Hind: It is a really important piece of work that AHDB takes responsibility for. Most, if not all, of our sectors invest some of the levy in maintaining and defending the image of the products, and that includes red meat. I am pleased to say that our red meat communications team worked extensively with the national media and with experts in this country as well to ensure that some of the facts were presented. We will not always get to every single newspaper or every single TV channel, but, over the course of the week that the story was quite apparent, we did a pretty effective job in co-ordinating across the industry but also ensuring that more balanced messages about the WHO report were presented in the media. That is an important piece of our ongoing work and we will continue with that work.

Q139 Chris Davies: A couple of the main points in the question I was going to ask have already been answered, but can I come back on two things from previous questions? Rishi asked you whether members were elected and you said no, or you said that members were appointed, but he asked you by whom, and you did not actually say who appoints the members to your board.

Tom Hind: It would probably be appropriate if we came back with some written evidence to the Committee about the appointment process. I am not familiar with exactly how it works for each individual sector. You will have to forgive me: I have worked for the organisation for four weeks. I know it pretty well from experience internally and externally, but to say that I have got myself into every single piece of what the organisation does at this early stage would not be right.

Q140 Chair: We would like that in writing, because it is fundamental to know whether this board is actually representative of those who are funding it. I have yet to be convinced.

Paul Tompkins: I fund this board and I do not feel represented.

Chair: Thank you very much for clarifying that. Carry on.

Q141 Chris Davies: The other thing is: you completely baffled me, I am afraid. When my children see something on TV, they want it for Christmas. I know they want everything, but they can't have it. When I see Mars bars being advertised, it reminds me that I have not had a Mars bar for ages and I will probably go out and buy it. You gave a categoric no answer when the Chairman asked you, "Why is it not being advertised? Surely people, when it is in their mind, will go out and buy it." You said no. I find that baffling.

Tom Hind: Let me clarify first. I am not saying that marketing activity does not work. You are right: it clearly does, when it is targeted, when it is strategic, when it has a specific aim in mind. Simply going out there with an unconstructed, un-strategic, unfocused marketing campaign because there is a lot of noise in the industry is unlikely to lead to a solution that addresses a price situation. That is the point that I am trying to get across. Again, I reinforce the point that we do a lot of promotional work within AHDB, and the work that we do in AHDB aims to be strategic, focused, targeted and evaluated, so that we ensure the levy we take from farmers is carefully invested in a way that delivers value for money as well.

Chair: Can you also give us written evidence as to exactly how much is received in levies and how much is spent directly on promotion, not on running the organisation, not on the hierarchy, not on the tiers and tiers of bureaucracy in it, which we know are there? Let us find out how much is being done on promotion.

Q142 Chris Davies: You have evidently been in the job for four weeks, as you have just said, so I apologise for pushing you on these matters. Again, you said there are structured campaigns or structured forms of advertising. In my past life, when we have gone into advertising processes, if you are lucky to get a radio slot, it is usually 5,000 quid for a series of advertising, which can go to anywhere between 50,000 to 500,000. To me, that is real structured advertising. You are spending these gentlemen's money. You should know exactly what you are doing when you come to advertise products. Surely it is not just on a whim. It is a structure. It is these people's money you are spending.

Tom Hind: There is the point that I am making. Again, the reason why we have the campaign running now, in terms of beef and lamb, is because we know we have to find ways to bring more customers into the category. If you look at lamb sales over a 15-year period, they have been constantly declining. There is a range of factors behind that. We have to find ways of getting more customers interested and excited by lamb, so that is why we have put in place targeted, strategic campaigns to find ways of giving customers reasons to want to buy into the category.

Chair: It would be nice to know, like I said, the totals that are paid by the levy boards on beef and lamb in particular and how much is spent directly on promotions—not the cost of getting it together, but the actual promotions that are put out there. I do not think it is a fraction of what the processors and farmers are paying, and we need to get to the bottom of this.

Chris Davies: Sorry, Chairman, I have not asked my formal question.

Chair: Go on with it, then.

Q143 Chris Davies: I was enjoying myself so much. A recent survey said you should allocate more funding to consumer promotions. I am not sure if you know or can tell us how much you are spending, so you probably do not know how much more you should spend. Do I assume that may be the answer?

Tom Hind: You have asked for some specific evidence. We will come back with that. I know in terms of beef and lamb. The beef and lamb levy, off the top of my head—again, we will come back with specific figures—is around £15 million to £16 million in total, of which 50% is spent on market development activity, which includes promotion but not just promotion.

Q144 Chris Davies: This is something that really interests me. You currently receive a levy from my side of the border, from Wales, and from Scottish livestock slaughtered in England. First, do you think that is fair, and do you think that, if it is grown and produced in Wales, then the money should go back to HCC? Secondly, how much does this add to your national budget each year?

Tom Hind: The first point to make is that we have really good working relationships with our colleagues in HCC and QMS in Scotland. It is important that we do, because a number of the activities that AHDB carries out benefit farmers right the way across GB. Some of those activities are not paid for by HCC or QMS, and that is worth bearing in mind as well. The second thing is that some cattle and sheep move to the other side of the border, from England into Wales and Scotland, so we do need to take all that into account in the discussion about where things go in terms of levy. I do not have those figures to hand. Again, we can look into that.

Chair: I know that Angus cattle go from all parts of the country and then suddenly become Scottish, but we will not go into all those details.

Q145 Chris Davies: May I have a written answer on this? What representations have you received from HCC and QMS to change the process? Have you received any?

Tom Hind: There is an ongoing discussion with QMS about the right way of allocating levies. We have been doing some work, looking at how you can best go about that. Again, that discussion needs to take place in light of movements of cattle and sheep in both directions, plus the services in which AHDB invests and invests alone, primarily in the area of market development, export market development and so on, which benefit levy payers right the way across GB. It is important that that gets taken into account as well.

Q146 Chris Davies: Have you had any representations from HCC?

Tom Hind: Our Chief Executive is due to meet with her counterparts in HCC and QMS later on this month.

Q147 Ms Margaret Ritchie: This question is to all of you. The EU Agriculture Commissioner, Phil Hogan, has resisted calls for a change in the EU intervention price for milk. What do you think of that? What other EU measures might ease the pressure on dairy farmers? I will come to you first, Mr Tompkins.

Paul Tompkins: Commissioner Hogan and Tom Hind must talk a lot, because they seem to be talking completely against what all the farmers are trying to tell them, and perhaps we feel as underrepresented in the EU as we do by AHDB. I believe in fair competition, like I have said already before, and dairy cannot always keep pace with that volatile demand. There are already mechanisms in place, as we have said, like the intervention price. Nobody wants to see us return to milk lakes and butter mountains, but I believe that a rise in the intervention price by Commissioner Hogan is a huge missed opportunity. It would have put a floor in the market. I am not asking for a false one, but it would have put a floor in the market. But I think we have missed the boat.

Stephen Wyrill: One week, Commissioner Hogan says there is a crisis; the next week, he says there is not. He seems to float, depending on where he is going, in my own opinion. Eventually, he will get to the bottom of it and realise that we have a crisis and do need to implement some things. As for intervention, yes, we have seen products go into intervention and then, six months later, come back on to the marketplace, which devalues the market yet again. Basically, what you are doing is flooding the market with other produce. It has happened with olive oil. It has happened with butter. It has happened with all sorts.

Is there another way of dealing with this when we have an oversupply? Is there a way of putting this food into food banks or charitable resources, somewhere where it can be used? This is actually costing us a lot of money: intervention, out, dropping in cost. Take a hit once and pass it through and do some good. That may be a step too far for some people.

Tom Hind: If you raise intervention prices, you clearly lift the floor in the market. It would take quite a big lift in the intervention price to raise it to a level at which farmers would produce at the cost of production. The principle has been discussed, as Paul says. My assessment of the discussion taking place in Brussels and with the UK Government is that the measure has effectively been ruled out and, therefore, we have to look elsewhere for mechanisms that can help to manage and mitigate some of the risks that exist in volatile markets.

Q148 Ms Margaret Ritchie: Back in early September, around 7 September, Commissioner Hogan met the Defra Secretary of State and also devolved Ministers about this particular issue. Do you think that the EU Commissioner's attempts or his proclamation, shall we say, about payments and the Government's attempts to improve payment timescales via the Rural Payments Agency have been successful?

Paul Tompkins: Do I think they have been successful. One thing we have to remember when we talk about BPS payments and subsidies that my farm may receive is that they represent a very small amount of my total income. There seems to be this large public perception that I am propped up by EU grants. It is not true. Let us move on.

Stephen Wyrill: Quite right. You are dealing with 27, maybe 28, countries now. You lost count after a while. Not everybody is playing the same game. There is absolutely no level playing field. Our fertilisers are different prices across different countries. Our oil price is different. How can we have a common market, sustainable and level, when it is so independent?

Chair: We also have to remember that the Commission only has one lot of money to spend. The more money they spend on trying to intervene in the market, the less will come in single farm payments. In some respects, my view is: get the money out to the farmers in single farm payments to some degree. Some of the risk is then with the farmer, but of course it has to be shared as well. That is the point being made. Chris, did you want to make a point? I am conscious of time.

Q149 Chris Davies: It is a very quick one and one I asked last week. With a yes or no answer, is Europe good for farming or not?

Stephen Wyrill: My answer to that is: give me all the evidence for both sides, because nobody can tell me whether I will be better off or not. As stated in the last things, when you have different prices, we do not know. If our Government will support farming and work with us, then we stand a good chance. If the Government decide that farming is not the be all and end all, and defence is or whatever, then we are stuffed. One last point I would like to make is about loss leaders.

Chair: We are going to talk about retail now, so I am very happy for you to talk about that in a minute. I agree with you. What you have to remember is, if expenditure comes back to the British Exchequer, farming will have to take it with education, health, policing and all other issues. It is an interesting debate, but we had better not have it here; otherwise we will not finish this afternoon.

Q150 Rebecca Pow: My question is about labelling and I would like to put it to Mr Wyrill, first of all. How do you think country-of-origin labelling might be improved?

Stephen Wyrill: It could certainly be drastically improved. My thought is that imported food, processed in this country, called British, should be clearly signposted as "origin" and "processed", if you want to go that far. If it is Uruguayan beef or whatever, it must clearly state that, because otherwise you end up with a British flag or a phrase that says "fresh-farmed food", "country-style" or something like this, and the public are looking at these things and thinking, "It must be English. It has nice green fields. It is nice to look at." It is the British concept, but it is not. It needs to be what it is.

Q151 Rebecca Pow: Is it the same for us the other way round?

Stephen Wyrill: If we are going to dish it, take it.

Rebecca Pow: I understand there are some slightly confusing regulations. There are EU regulations, and then there are EU directives and UK legislation. Do you think the whole thing is very confusing?

Stephen Wyrill: It is very confusing. I will be honest with you: sat here today, I do not understand it all myself. What I am saying to you is that the consumer is at the end of all this. They need to know what they are actually buying, whether it is Scottish, English, Welsh or Northern Irish. They need to know.

Q152 Rebecca Pow: We do seem to have labels coming out of our ears, though. We have red tractors; we have food marques. Are there too many?

Stephen Wyrill: Red Tractor is the NFU marque and we support it. If we get too many of these marques and too many other things brought in, it confuses people so much. Keep one and turbo it. Give it go-faster stripes and make it work better.

Rebecca Pow: Would AHDB have anything to say on that?

Tom Hind: It is very hard to say. On Red Tractor, over a number of years, AHDB has invested considerable sums of money into the Red Tractor logo and farm assurance, and it does provide assurance to customers that a product has been produced to British standards and, for all intents and purposes, is from the UK. In terms of labelling more generally, I am not an expert in this, but my understanding is that there is pretty clear European legislation in terms of fresh meat, across all different sectors. There is an ongoing debate about dairy products and about processed meat products. It is in those areas where the Committee might want to do a little more investigation about some of the voluntary mechanisms that are put in place by retailers to ensure clear and consistent labelling.

Paul Tompkins: I am not sure there is ongoing work in dairy products, because the EU has already dictated that dairy products do not require country-of-origin labelling, like they have for the meat industry.

Chair: If you talk to the Secretary of State, she will say that Commissioner Hogan is happy with it on meat, but not on dairy products. Now, I could be blunt and say there is an awful lot of Irish product that comes into this country, dare I say it. Therefore, is there an interest there? We need to make sure that, in this country, we have our interests looked after. He is not looking after an Irish situation when he is an EU Commissioner.

Q153 Simon Hart: The week before last, when the Secretary of State was sat where you are, we asked her whether it was possible to buy a product that gave the impression of being UK-produced—it had either a Union Jack on or something that indicated it was British—and she was pretty forthright in her response to say that those days had gone. I hope I am not misquoting here. I may well be, but she said it was actually nigh-on impossible for a product to be found on a UK shelf that in any way misled a customer, as far as country of origin is concerned. I raised an eyebrow, but I have not been to a supermarket since then—it was only a week ago—to try to find ways of disproving that. I would be interested to know whether you have as much confidence in the labelling system as the Secretary of State does.

Chair: I think she was referring to meat at the time.

Simon Hart: She may have been, but I asked a question and I was referring to other products.

Stephen Wyrill: Sometimes when you look at the labelling it is of more than one origin. It can be a blend of milk or a blend of product, not necessarily milk but a blend of powders or a blend of eggs. It could be anything. How are you ever going to distinguish that 25% of it was Polish eggs and 1% was Hungarian? If you want to buy imported goods for whatever reason, whether it is where you have come from originally, whatever you want to buy as a consumer, you should be able to buy. Please do not mislead people into thinking that they are buying British when it is from different countries. It has to be clearly labelled.

Paul Tompkins: It is not unfair to accuse some people of being misleading or deceptive over some labelling. I would echo Stephen's thoughts. It is the public that are being deceived, not us as farmers, and that is whom the Government are here to represent.

Stephen Wyrill: As a Government, we could look at this and try to get some dividing lines to say, "These are the segments you fit in." In a few years' time, when we are sat around the table again and there is a problem, let us look at it again. We are not going to sort this out in two minutes.

Chair: I think we would probably all agree that there is some more work to be done, certainly on dairy products in particular. I am mindful of time, because I want to give Arla a chance as well.

Q154 David Simpson: As the Chairman has said, we are moving on to retail. Paul, it is good to see a dairy farmer with a smile on his face; it is not too often that happens, I have to say. On Stephen's comment in relation to the EU, I have said before in the Committee that the only thing common about the common market is its name. That is the bottom line and that is causing major difficulty. On retailers, some farmers have said that retailers and processors must pay more attention when it comes to their pricing policy throughout the supply chain. Do you believe that this is a realistic expectation, when retailers are trying to maximise profits for their shareholders?

Stephen Wyrill: That is the main problem; it is shareholders and profits. It is a different game. If my own business was run on profits and shares, and everything else, I am not here. The business does not exist. You are under so much pressure to maximise return that you will do just about anything you need to do to get what you need to safeguard your job. You are in these jobs as managing directors and everything else, and you have to get to where you need to be.

David Simpson: They have figures to produce or whatever.

Stephen Wyrill: The producer or the primary person at the end of it suffers.

Paul Tompkins: The relationship between producers and retailers is quite shockingly poor, to be honest with you. That is how I see it.

Q155 David Simpson: What improvements would you like to see in that?

Paul Tompkins: I believe it all comes down to the fact that the farmer is carrying the risk. That is what I brought to the Committee earlier. Sharing that risk through the supply chain is something that will make us all on a level playing field and enable us all to achieve a fair profit. There are some areas around the behaviour of supermarkets that are not always clear. When supermarket protests started recently, supermarkets were very quick to start saying, "We pay a fair price for our liquid milk", but very rarely did their press teams mention anything about cheese, yoghurt or cream, for which they buy their milk very cheaply. Now that we have highlighted that, Tesco and Sainsbury's have just recently highlighted that they are going to be paying a fair price for their cheese. That is great; I commend it. Did you read the small print that it is only until the spring time?

Q156 David Simpson: On the very point that you are making, Paul, recently in the Committee we heard evidence that Morrisons and others were going to put a special label brand on milk. It was going to go on the shelf at a certain price but, again, it is going to be alongside other products from other areas and all the rest of it. Has that paid any dividend for dairy? Are you seeing benefits coming back in the price for that?

Stephen Wyrill: In general, dairy farmers have not really seen any increase. My milk has not gone up on the back of anybody else paying any increase.

Q157 David Simpson: Are you saying it was a stunt?

Paul Tompkins: Maybe it is a question for them.

David Simpson: Is it a stunt?

Stephen Wyrill: You could maybe view it as a stunt. The minority of producers may well end up with more money in their pocket.

Paul Tompkins: Your question was about retailer and farmer relationships. Has that promotion campaign improved that relationship? Not at all, because it is not Morrisons putting their hands in their pockets. It is not Morrisons taking any more of the risk on their shoulders. They have just passed it on to somebody else. To bring it back to your original question, it has done nothing to improve my relationship with the supermarkets.

Q158 Chair: In fairness to Morrisons on this one—I am not always fair to retailers—I do not think it has had enough time yet to see what effect it has. I do not necessarily disagree with some of what you are saying, but we ought to give them a little more time to see whether it works.

Stephen Wyrill: One thing that is a major problem, which I touched on earlier, is the loss leader approach. When you are talking to different processors, retailers and advertising, and they turn around and say, "We moved 54,000 units of two-litre and then we dropped it down to 79p or 70-whatever pence, and then we shifted another 100,000 units of two-litre", it clearly states that it works, but it did nothing for the farming industry. It took it away from that supermarket and gave it to that supermarket, and it was footfall. Farming should not be in the position of being undervalued and undersold. Footfall is one thing, but use somebody else's product.

Paul Tompkins: You are right that it is absolutely abhorrently wrong that a product produced by a farmer in this country can be sold for less than the cost of production in the supermarket. That is plain wrong and that will do nothing to improve relations with the supermarkets.

Stephen Wyrill: That is why transparency needs to come in throughout the industry. Farmers need to be looked at, and processors and retailers, but why should there be any difference between them? It does not make any difference whether you employ thousands or two people; it is how your business is structured. I would argue that farmers look after the environment, which looks after tourism and we keep going. If we look after good healthy food, you have healthcare. I know we can stretch it as far as we want, but a retailer sells that.

Chair: Tom, you were probably going to make the same point. What can you do as an organisation to make sure, to a degree, that what retailers are buying a product for is being passed on to the consumer at the right price? We have seen lamb prices drop throughout the summer. We have not seen them drop the same in the supermarkets. Therefore, what can we do to make sure that the retailer is treating the farmer fairly and even the consumer fairly as well?

Q159 David Simpson: Tom, from your point of view and the organisation that you represent, is your organisation paying processors in Northern Ireland the same as you would pay in GB for the same product?

Tom Hind: That is probably a question to ask the retailers next week, although we collect levies from cereal growers in Northern Ireland.

David Simpson: You are not trying to duck the answer.

Tom Hind: I am not in a position to answer that question. On the question of what AHDB can do, we do some things already. On a fairly regular basis, we publish comparisons of retail and farmgate prices. They are very loose, so it is quite hard to aggregate an animal that gets disassembled in an abattoir, when only certain bits of it get sold in a retail market. It is quite difficult to precisely identify what happens where in the supply chain.

We also need to be mindful that not only is it a fiercely competitive market at the retail and at the manufacturing end, but it is also commercially confidential as well. The ability of an organisation like AHDB to understand what happens in each individual segment of the supply chain can only take place on the basis of information that is published and a lot of this information is not published.

Q160 David Simpson: Lastly, Paul, you have open days on your farm. I heard a number of the Committee members saying that they have been there, so hopefully we will get an invite. How educated are the general public who go through the gates of your farm to the food supply chain?

Paul Tompkins: You are right; open farm is a fantastic way for people to learn more about food and farming. The UK shopper deserves more credit for understanding where their food comes from. We hear far too often that people are distracted from what is going on at the farm gate but, in my experience, it is completely the opposite. People visit my farm and interact with dairy farming on social media and through the website, thisisdairyfarming.com. They are knowledgeable and educated people. They want to know more, but they want to provide the best for their families and know how food is produced. What we have to remember is that everybody needs a farmer three times a day, and society has developed this kind of agreement that the UK shopper or consumer is our voice. They are UK agriculture's voice and it is that voice that fills me with optimism for the future.

Chair: Thank you, gentlemen. We have had a robust session this afternoon. Thank you for some really good evidence. We will put it all into the report. There has to be optimism because we do need to eat, and there needs to be food. That we all agree on. Thank you all very much.

Examination of Witnesses

Witnesses: **Afshin Amirahmadi**, Vice President, Milk and Member Services, Arla Foods UK, and **David Christensen**, Member of the Board of Representatives, Arla Foods UK, gave evidence.

Q161 Chair: Good afternoon, gentlemen. Thank you very much for being patient. We have until about half past four, if we can, so we will keep going, but we are very keen to hear your evidence. Very quickly, please introduce yourselves and we will get straight on to business.

David Christensen: I am David Christensen. I am a tenant dairy farmer from Oxford. I milk 600 cows on one farm and, just last month, I started a second herd of 100 cows. I was a director of a co-operative called Milk Link, and we merged with Arla in 2012 and effectively brought Arla into the UK as a co-op at that point.

Afshin Amirahmadi: My name is Afshin Amirahmadi, but you can call me Ash—that is what people normally call me. I am the Vice President for Milk and Member Services, which basically means I am responsible for the farmer relationships in the UK for Arla. I sit on the leadership team of the UK business.

Q162 Chair: Thank you very much. There are a small number of processors now in the UK. Do you have an unfair advantage over farmers when negotiating a price? Linked to that, what was the mind set behind the link-up with Arla from the previous co-op?

David Christensen: What we found as a UK co-op was that we were caught in that dangerous ground of being too small. We had a turnover of £600 million, but we were just too small to be big and too big to be small, without sounding too clichéd about it. We did not have the money to develop brands. We did not have the money to develop export or to do it fast enough, and we recognised that and had to do something about it. We were adamant that we wanted to stay as a co-operative, because a co-operative is the key difference. It means all the money goes back to us as farmers and does not get lost in shareholders. The obvious tie-up was with Arla, so we approached Arla and put together a merger in 2012.

Can I just say that I do not view Arla as a processor? I view it as a co-operative and, actually, I view it further than that—as an extension of my business. I am quite frequently asked by my non-farming friends, "Why do you not diversify, David?" and my answer is, "Actually, I am diversified. I just do not do it at a farm level; I do it at an off-farm level." I employ people like Ash and his colleagues to do it, real professionals, which allows me to focus on my core business, which is milking cows.

Q163 Chair: Do you believe that Arla is a force for good as far as the price of milk is in this country is concerned, at the moment? Basically, it is a tough market out there. We all know it is a tough market out there, so what is your analysis?

David Christensen: If you take the decade prior to the merger, so before 2012, the UK was always receiving about 2p per litre less than our European colleagues. Sometimes we were just about near parity. At other times, it was 5p, but the average was 2p. The only reason for that was the lack of a strong co-operative to keep the market straight. Fundamentally, I believe, the presence of Arla in the UK has been a good thing for dairy farmers. Now, the current situation is miserable. We have heard that very eloquently from my colleagues before, but that is not a UK issue. That is a global issue of supply and demand. The reasons are well rehearsed—China, Russia, overproduction—and none of us can do anything about that on a micro level or on a country level. We just have to get through it. In terms of delivering best value back to farmers, I strongly believe that Arla is doing a good job there.

Q164 Chair: The second part of my question is how farmers decide which processors to sell their milk to. One of the problems for some farmers is that there are very few people to sell their milk to, physically, in that particular area. What can we do about that?

David Christensen: It is a difficult one. Right now, none of us are recruiting, because there is too much milk out there. Frankly, that is a pretty desperate situation; none of us is happy about that. We are seeing other companies struggling, and we would like to recruit, but we cannot do it, because my first responsibility is to our existing members and we have to make sure we look after our own business first. There is an acute situation right now and there is a longer-term situation. This will work its way through; I am absolutely confident about that, to the extent that, as you have heard, I have put my money where my mouth is and started a second business. I am very confident that the future for the UK dairy sector is terrific. It is how we get from where we are now to that point. Once global demand picks up again, recruitment will be less of an issue, but I do not have an easy answer for you right now.

Q165 Rebecca Pow: Last year, we saw changes almost by the month in the price paid to your farmers. I am just wondering why that was. In 2014, you received negative publicity for the amount of notice you gave, i.e. three days, I think, if you were going to reduce prices. Is that normal? Is that a typical way to treat your suppliers?

Afshin Amirahmadi: It is not the way that we treat our suppliers. David, as a democratic representative of Arla, chooses how the money is divided between the farmers. There is a very clear distinction in Arla that the management of the business does not set milk price. In quite simple terms, the management is responsible for increasing the turnover of the business and managing the costs. Whatever is left over is what is paid out.

Q166 Rebecca Pow: The farmer members set the price.

Afshin Amirahmadi: The farmers set the formula by which the price is set. To keep the management honest, the farmers want the milk price to equal the performance of the business and, therefore, the last thing the farmers want is for the managers to have any influence at all in the way that milk price is set, because that could hide poor performance. Our pricing mechanism is fully transparent; the formula is on our website for anyone to go and see. All of our owners on the secure area of the member website can see every single payment settlement period, so they can plan ahead and know when the settlements happen. After two or now nearly three years of being part of the European co-operative with British owners, British members are getting used to that. Of course, there is a quid pro quo that, when prices go up, they also go up monthly with the same level of notice.

Q167 Rebecca Pow: When we saw all the demos from the farmers recently, there obviously were no Arla farmers there, because they are happy to get three days' notice for a change of price. I thought that was what the demos were about.

David Christensen: There would have been some Arla farmers, I suspect. I will not try to pull the wool over your eyes and say there were no Arla farmers at those demos. I do a lot of member meetings because, at least twice a year, we formally meet our members. This year, we had an additional round of meetings in the summer. The notice period has genuinely never been raised with me. The bigger issue is the absolute price.

Q168 Rebecca Pow: It was raised just now, though, by one or two people on the panel.

David Christensen: There is a historic perspective here and there is a current perspective. Historically, Arla acted as a PLC in the UK and their role was to make as much money as they could and ship it back to their Scandinavian and European owners. There is nothing wrong with that; that was their ethos and rationale. The difference has come since we have been a co-operative in the UK. The formula works as Ash has explained and it is very simple. From the revenue that comes in each month, 3% is taken off and labelled "profit". I will come back to that in a minute. The costs are taken off the revenue and everything else drops off as milk price and is paid out on a monthly basis.

The 3% that is left, the profit figure, is treated the same as any of us could do with profit in our business, just as I would do at Kingston Hill Farm. Some of it will get reinvested and some of it will get paid out to farmers in a 13th payment, as a dividend at the end of the year. I vote on that formula and I take hearings from all the members at these meetings as to how I should vote. The process is open and transparent to all members. The farmer directors get that.

Q169 Rebecca Pow: That is interesting. You do not regard that the farmer always has to make 3% profit before you make your changes. It comes from the other end, the shareholders. The company gets the 3% profit.

Afshin Amirahmadi: The shareholders are the farmers.

David Christensen: We are one and the same.

Afshin Amirahmadi: There is no difference.

David Christensen: That money, the 3%, which is not paid out to the farmers goes back into the business for capital expenditure. It is not paying wages or anything like that. It is going to new cheese plants and new power plants. We have invested £500 million in the last decade in the UK. We talk about efficiency and trying to add value. I am not absolutely sure of my facts here, but I doubt many would have invested much more than that. I suspect that, by some margin, this is the leading amount of money invested, as a co-op, with all proceeds going back to farmers.

Q170 Rebecca Pow: The second part to my question is about the voluntary code, which does not apply to co-ops, so does not require you to give 30 days' notice of milk price changes. Do you think that gives you an advantage over other processors in the UK?

Afshin Amirahmadi: It depends what you mean by "advantage". If it is whether that allows us to pay less to our farmers versus everyone else, history would say that we are the top of the league table. I would rather be in the middle of the league table at 30p than at the top of the league table at 23p at the moment. There is no evidence that it gives us an advantage.

I would just say that co-ops are not exempt and it is a voluntary code anyway, so there is no: "Are you exempt or not?" Co-ops are covered. The reason why co-ops are treated differently in the code is that the code is looking at the relationship between the buyer and the seller, the processor and the farmer. With a co-op, they are the same thing. Who are you then looking at in terms of the relationship? It is important for the Committee to realise that co-ops are not exempt from the code. It is just that price determination is different in a co-op from a processor. In a processor, the farmer has absolutely no control over the setting of milk price. Therefore, when the farmer has no control over the setting of milk price, it is quite right that they should be treated differently. In Arla, David has 100% control of how the price is set and, therefore, co-ops are treated differently.

David Christensen: Chairman, very briefly if I may, again this has never been raised with me by a member. I am not lying—genuinely, it is never raised. My members are much more interested in what the market is doing and what we are investing in. All that stuff delivers the milk price. Those are the questions they are asking, because they know that that is going to come back to them ultimately.

Q171 Chair: In the 23p that you pay farmers, is there likely to be a dividend at the end of the year? What happens? Is that 1p or 2p, or what?

Afshin Amirahmadi: That dividend is forecast to be 0.75p this year, Mr Chairman. It is typically in that sort of ballpark. It does change, because again it is formulaic.

Chair: Did you say 5p?

Afshin Amirahmadi: 0.75p. It would be great if it was 5p, Mr Chairman, but it is not.

Q172 Rebecca Pow: At the end of October, your milk collection depot in Derbyshire was targeted by a group of dairy farmers, and they were arguing that processors have not substantially increased milk prices yet, despite concessions from supermarkets. Some of them have helped. How would you respond to that?

Afshin Amirahmadi: We actually increased our price in October. To explain that, you also have to ask the question of why it is that milk prices have gone from 18 months ago, when we were paying the highest milk price that we have ever paid in our history, at 35p, to paying 12p lower than that now, 23p. That is a fundamental question: why has that happened?

If you look at the mix of our business, approximately 30% goes into what we call commoditised or ingredients-type markets. Some 70% of our business is retail business, and it is that milk that goes into ingredients and commodities that has collapsed in price. The price of a litre of milk that goes into commodities has gone down by over 20p. If you divide that by the third of our milk that goes into that, you can see that the vast majority of our milk price reduction is because of those markets.

We welcome what the retailers did over the summer. Mr Simpson asked the question about Morrisons. We are fortunate enough to be the farmer co-op that is supplying that milk. I have to say that I was one of the cynical people when they announced they were going to do that, and I have had to eat a lot of humble pie over the last couple of weeks. It is in its fourth week and it is already selling at seven times what we forecast. We have an independent auditor tracking that money, and all of it is going back to dairy farmers. Over £5million will be passed from Morrisons back to us this year.

Q173 Rebecca Pow: That is very interesting. Does it not highlight that perhaps you could be encouraging more things like that?

Afshin Amirahmadi: The mission of the business we are in is to maximise the milk price. We welcome any retailer that wants to support an initiative. Indeed, Morrisons is just one of the customers that we have that are very interested in promoting the fact that they source milk or dairy products, because it is not just about milk, as one of the other panellists said earlier on; it is about the full dairy range. We are trying to promote to consumers by having much clearer labelling to say, when you buy this product, regardless of whether it is a branded product or a private-label supermarket product, you can have more information about where that product comes from and where the money flows. When consumers have that ability, they can then make a choice. I would not want to work in an industry where consumers did not have that choice, because they should have that choice. The world that I want to work in is more clear and transparent around the choice.

Q174 Rebecca Pow: Did we not say just now that you cannot have UK country-of-origin labelling on dairy products, though?

Afshin Amirahmadi: Country of origin is a different question.

Rebecca Pow: You do not mean that.

Chair: I think we can do it, but not on-product.

Q175 Rishi Sunak: I do not know if you are able to share this with us, but it was very heartening to hear your comments about the Morrisons farmers' milk. Do you have a sense of what share of their milk that is?

Afshin Amirahmadi: Yes, I do. It is commercially sensitive, but I will tell you that it is a significantly high teen-digit number, so between 10% and 20% already, and it is four weeks into launch.

Rishi Sunak: That is fantastic news.

Afshin Amirahmadi: We are being very careful, because it is very relevant at the moment. We have just conducted a piece of research with YouGov that demonstrates clearly that consumers have a clear desire to support dairy farmers. We think that is great. Therefore, as a consumer proposition, that is very much hitting what consumers buy into. We need to make sure that that proposition works over a long period of time, because we do not want it just while we are at the bottom of a market with our farmers. We want this to be every day.

Q176 Rishi Sunak: Is the research you have done with YouGov something you would be comfortable sharing with the Committee or is it commercially sensitive to you?

Afshin Amirahmadi: I would probably need to take some advice on that, Mr Sunak, but that is something that we will come back to.

Rishi Sunak: I understand if you do not want to but, if you are comfortable sharing it, we would appreciate it.

Afshin Amirahmadi: Thank you very much. I will consult with my legal team on that and come back to you.

Chair: It is good news, so anything you can give us, please do.

Q177 David Simpson: That is certainly welcome news from the Morrisons point of view, but you did hear the evidence prior to that when the others said that, at this stage, they did not see any benefit coming from the increase in pricing in the retailers. That is their opinion, but it is welcome news. There is no doubt about that.

David Christensen: The money has to flow through the chain first to get into the system.

Q178 David Simpson: Absolutely. It is certainly good news and I hope it will continue on that side. I want to deal with the volatility from the processor's point of view. How has the processing industry itself been coping with the volatility in the prices? When I talk to processors at home through powdered milk or whatever, there have been a number of issues there. How has the price you have been paid by the retailer changed in the last few years?

Afshin Amirahmadi: That is a very good question. If we just consider the Arla business in the UK, the sorts of developments we have seen over the last 10 years are retailers wanting to get more involved upstream of the supply chain. We have seen various different models and the co-op model is able to embrace all of those. Some retailers require direct pools of farmers and they are prepared to pay a formulaic price, and some of those prices are called cost-of-production-type prices. You have other retailers that also want to help, but they do not want to go down that route. We have been able, with those retailers, to develop a transparent model, which is again independently audited, but they do not want to commercially publicise what they are doing. That is what we have developed for them.

UK retailers are making strong efforts to be able to demonstrate to their consumers that they are behaving ethically upstream of the supply chain. Arla and other dairy companies have definitely benefited from that.

The challenge we have, as seen from the processing side of the business, is that, in times of downward cycle, what is happening, by rights, is that more products are being sold in commodity-type areas as a percentage, which is really driving down the price. This year, David and the board of representatives set the management a challenge in Arla to move 500 million litres of milk from commodity products into retail products. This is basically trying to hedge and de-risk, in a way. The way we do that is by providing offers on our branded products so, even on promotion, we are able to receive more money for David's milk by making sure we divert that milk into our branded retail products, rather than selling it into ingredients. That would be a practical thing we are trying to do to manage the bottom of the market.

Let us not make any bones about it. I echo the comments made earlier on: the milk price at the moment is unsustainable, even for the most efficient farmers, and we have some extremely efficient farmers. There is a lot of pain out there at the moment. However, what we have to be careful about as an industry is not portraying to consumers an industry that is lurching from crisis to crisis. What we need is consumers to buy into the positivity that there is in the industry.

Q179 Chair: While you are talking about promotions, do you believe that, if you promote your product, you will increase the consumption of that product?

Afshin Amirahmadi: Is that a rhetorical question, Mr Chairman?

Chair: I just want an answer from you.

Afshin Amirahmadi: Yes, absolutely. Promotion and marketing is a vital part of how we develop competition.

Chair: That is fine. I do not want to prolong it too long. It is on the record.

Q180 David Simpson: Maybe David could answer this part of the question. You represent the co-operative and you speak on behalf of a vast number of producers of milk. You would be open and transparent, in the sense that you would be told by your members how to vote or whatever the case may be. How do you react to some commentators who have said that there is not enough transparency, when it comes to the contracts between retailers and processors? How would you respond to that?

David Christensen: In a business like ours, I lay off my trust to those further up the chain from me, so the board of directors. I have complete confidence in that board of directors, who will get more involved in that commercial process. There are commercial sensitivities here obviously, and I would not expect Ash and his colleagues to share all those relationships with me. I put my trust in the guys higher up the food chain than me.

Q181 David Simpson: Are you saying that the sensitivities would be in the price and how contracts would be negotiated? In other words, if you were a dairy farmer milking 700 cows, you would get a better price than somebody else.

David Christensen: No, everyone within Arla gets the same price. Let me be absolutely fundamentally clear about that. That is the crux of successful co-operation, because differential prices are the enemy of co-operation. All of us within Europe, all 12,700 members, are getting paid on the same basis. We are not exactly there yet. We are working towards it, because we have come from a load of different backgrounds, but that is a key point of co-operation.

Q182 Chair: What about the transport, if you are picking up 1 billion litres or you are picking up 100,000 litres a year?

David Christensen: Historically, we have tried to incentivise larger production because, after the cost of the milk, the cost of transporting milk is one of our biggest costs. Again, our producers have broadly been happy with that. We always get some niggle. I get some niggle in particular, because I am a large producer and they say to me that I am getting benefit at their expense, but a lot of the smaller ones go, "No, I get this, David. You are actually benefiting the business, because you are picking up a lot of milk in one hit. That is going to benefit our cost base as well." As always, it is a balancing act for us.

Q183 David Simpson: Very quickly and briefly, are you able to tell us today what percentage of the price you receive from the supermarkets is passed on to the farmers?

Afshin Amirahmadi: 100% in Arla.

David Christensen: There is nowhere else for it to go. All the revenue comes back to us ultimately.

Afshin Amirahmadi: Clearly the business has costs. We have to run dairies, but everything goes back to the farmers.

David Simpson: Okay, you have been very clear. Thank you.

Q184 Chair: The profits go into the dividend and that is what makes up the 0.75p or whatever, at the end of the day.

Afshin Amirahmadi: Exactly, Mr Chairman, yes.

Q185 Rishi Sunak: This is a question about long-term contracts, just to get your thoughts on those. Have you discussed them with your farmers? Is there appetite? Obviously, given your scale, it is potentially something that you are in a position to offer more quickly and more so than other buyers.

David Christensen: From a farmer perspective, I am very comfortable with the model as it is right now, because I have confidence that the returns come back to me directly. In terms of longer-term contracts, I feel comfortable to ride it out at the moment, but I would understand if some of my colleagues wanted a further degree of security. For instance, if I had just gone and bought my tenant farm and had a huge debt, I might be quite happy then to lock into half my milk production or something like that, of a winter, so I could get some security. As I said earlier, I can lock into my food price for the winter, which is my single biggest cost, but I cannot lock my milk at the moment.

Again, it has not been raised with me at the moment, but that is not to say it will not be in the fullness of time. People are waiting to see how long this trough lasts and I suspect, when we come out of this trough, review what has happened and look at recent history, it will be a topic for then.

Afshin Amirahmadi: For the Committee to be clear, when someone becomes a member of Arla and a farmer that owns the business, Arla cannot serve notice on them, so the contract length is forever. If that farmer wants to leave, contractually that farmer can leave within a year. Actually, he can leave sooner than that if he wants to and some do, from time to time. The movement can happen one way, but the co-op does not work unless we have that relationship. The business is the farmer’s. There are no other stakeholders in the business.

David Christensen: That difference is fundamental in the UK, because we have not had that historically, and the fact that Arla buys all the milk you produce at one price. There is no A and B model within Arla, and that is really important too. Both of those two points are key.

Q186 Rishi Sunak: From a farming perspective, when you speak to the supermarket or whoever else you are selling to, do you talk about entering into some kind of long-term contract?

Afshin Amirahmadi: Yes, absolutely. I thought some really interesting points have been made about risk and where the risk lies in the supply chain. Every part of the supply chain, because we are now in a more globalised world, is trying to de-risk and the retailers are as well. Mr Simpson asked what has changed in the last 10 years with retailers. The general trend with our retailer contractual relationships is that they have become longer, so multiple years. As long as we stay within the competition law, which does not allow you go beyond a certain number of years, we are talking multiple years. Actually the trend has happened, and the benefit then for us as a business is to have more confidence, then, to be able to, on the processing side, invest in processing facilities and get behind brands, because we know we have the security of that contract. That is a trend that has come into the retailer—

Q187 Rishi Sunak: Have they expressed any interest in saying, "Fine, we will contract with you for the next five years at this fixed price, for this amount of supply, X% of our needs"? That would in turn enable you to say to your farmers, "Here it is. If we go up to 40p, tough luck, but it means that you are going to get this stability." Has that conversation happened with the supermarket, where you can say that this is something you would like to offer to farmers? I take it that they have not raised it yet, but people seem to raise it in these meetings and with us individually.

Afshin Amirahmadi: Actually—and I cannot discuss the details of the commercial relationships that I have—the unique nature of our business is that David allows us, as managers, to have the benefit of deciding what those commercial relationships should be. All I would say is that my commercial team has the full ability to negotiate what they believe. If that means putting in some smoothing mechanisms in the way that we sell products that is open, but I cannot discuss the exact details of that.

David Christensen: Right now, and I am not a commercial operator—I am a farmer—but historically in my life with milk income, prior to that, I can recall back to one of the commodity spikes before 2007, when the milk price was high and milk was short. I sat in a meeting one day with a buyer from Masterfoods, in charge of buying milk powder for Masterfoods. She was desperate to get fixed contracts. When the ingredient price is very high because milk is tight, they are very keen. Right now, they are not so keen, so this sort of thing is about timing. The more this cycle goes on, I suspect we will start to get some common sense, because it is going to burn both of us. It is going to burn farmers at the troughs and it is going to burn the supply trade higher up, which is going to want some common sense out of this.

Q188 Dr Paul Monaghan: Just developing that theme, gentlemen, what is your view of a futures market for the dairy industry?

David Christensen: My last answer probably covered a lot of that off. From a farmer's perspective, it is about managing risk. Each farmer will take a view according to his own personal situation. My view, with regards to coping with the volatility and thus the futures, is the Arla model, in that we have our fingers in lots of products in lots of markets in dairy. You mitigate risk to some extent by doing that. When you have a complete slump, like right now, you can never escape market forces. Futures would have offered it to some degree. The trouble that I always find with futures, and I am not a grain farmer so I do not currently do futures, is a) at some point you have to make a decision you have to fix, and b) there is a cost to fixing as well. It is an insurance policy, so there is always a premium. Each of us will take a decision ourselves.

To date, it has not been raised with me by members. It has not been a big issue. We have just started another round of member meetings. I have not done one yet, but am due to do a couple next week. I will get some feedback then. We had a round of member meetings in August. I did a couple of those meetings and it was not featured then, so I am taking my steer from my membership.

Afshin Amirahmadi: Arla as a business already hedges on a number of different inputs in the business, so the resources that we use. The one thing that we do not use financial hedges for is the output side, so the milk price, although we do have certain retailer relationships where some level of hedging is built in. There are two key challenges. Arla has looked at this strategically and actually worked on projects with some of the key organisations that operate in it to look at doing trials and how they work. The two key fundamental questions are liquidity, so the ability to have a hedge that is an accurate bet for hedging, and the second point is where the risk of that hedge sits.

When our farmers have democratically sat down and discussed it, what they have not wanted is the co-operative as a whole to take that risk, because they do not want that to happen on their behalf. If we ever enter into a world of futures, I would suggest that will probably have to be an individual farmer choice. If democratically the farmers decide that they want Arla to introduce the process for an individual farmer to be able to hedge, that will happen.

The challenge with all of these things is that the desire to be able to hedge and use futures is very prevalent when you are at the bottom of the market. It probably takes about three to four years to set something like that up. The time to work on it is probably as we come out of this trough, but I suspect that as we come out of this trough and go up, the interest for futures is going to go away again, and that is a shame. My personal view is that, over time, we will see these mechanisms in place.

Q189 Dr Paul Monaghan: I take your point about where the market is at this point in time. Going back slightly to your comment about choice, do you find or do you know if the views of your members across Europe differ in relation to futures markets?

David Christensen: Three times a year, I meet up with my equivalent positions in Denmark, Sweden, Germany, Holland and Belgium, and we have a meeting to discuss how the co-operative is going. It is more of an issue for some of those guys than it is for us here, because they have a higher production cost in Europe than we do here, so they are even more exposed to this than the UK dairy farmer right now. I suspect it is more of an issue for some of those, and that is another reason why I suspect this will end up being done on an individual farmer basis, rather than a whole co-op basis.

Q190 Chair: My next question is supply and demand. It is great that you offer everybody 23p. It could be more, naturally, but you are taking all production; you have no A and B quota. Therefore, what is stopping farmers from just trying to produce more and more milk? What are you doing about the situation regarding over-production because, playing devil's advocate, it could be argued that your process, while good in some ways for the farmer, is actually fuelling production, not reducing it?

David Christensen: I should answer that, because I was honest with you at the start and said I have just started the second unit. I was in Ireland yesterday and I was speaking at a conference of Irish co-operative organisations, and they wanted to know about the UK dairy experience. I knew this before, but what was abundantly clear yesterday was that they are very happy to come in and fill the gaps in our market. We can cut production here, but it will just get filled by other people and I do not think that is right. The two best countries in Europe for producing milk are Ireland and the UK. The biggest manufacturing sector in the UK is the food sector. I think we should be producing as much milk as we can here to fuel that growth.

Now, what we have to do as a business, and we have demonstrated we are doing it, is to go on developing export markets. Let me give you an example. When Milk Link was our small south-west-based business—that is not fair, UK but relatively small business—we had a fantastic cheddar made down in Taw Valley in Devon, called Tickler. It was really good. We only had sales of about £7 million or something like that, a very low turnover when you compare it to something like Cathedral City at £300 million. We did not have the resources to get it out there. Having joined Arla, we now have the resources to promote it, both within the UK but, more fundamentally, overseas. Growth is up 30% now and it is going up. It is the same with our stilton plant; we have much greater reach. I think the answer here is not to stop UK production, but to charge these guys.

Chair: Your argument is to produce as much milk in this country to try to stop, to a degree, some of the pressures from milk coming in.

David Christensen: It will just get filled in and those export markets will be filled by others. We can do that. We have the second-lowest production cost base in Europe after Ireland. We should be going out there and doing that, because we have some really good farmers, some great production assets and now we have a co-operative that delivers all that extra money back to farmers. We should be doing this.

Q191 Rebecca Pow: Mr Chairman, with respect, how are you going to get the retailers to buy the stuff, because they are the ones purchasing the imports? They are buying all the different cheeses, the butter and yoghurt? Is it because there is not enough British already? They are fuelling it, really. You have to convince them, so how are you doing that?

Afshin Amirahmadi: These are very relevant questions and very important questions to answer. The challenge of the UK dairy industry is that it comes from a history of being very inwardly focused, and therefore we are only 80% sufficient, in terms of meeting the needs, but that is only half the story. What has actually happened, in that period of time, is that countries like Ireland, Denmark, New Zealand and the Netherlands, which have had an external view and an expansionary policy on farm, have actually grabbed the growth of the demand for dairy products.

You are absolutely right; the demand for dairy products, not just in the UK but in Europe, is not increasing other than the slight population increase that we are getting. The demand for dairy products and the bright future of dairy is the ability for northern European farmers to be able to own the supply chain and to be able to have access to these global markets, where we are seeing the growth of the middle classes from 2billion probably to UN estimates of 5billion, over the next 20 years. What that means is that people are starting to introduce protein into their diet.

The key job that we need to do in the UK is being able to link into that because, if we do not link into that, there are other markets that are well placed to do that and are doing that at the moment. That is why the Arla policy, when it comes to David or our 3,000 British farmers, is that the choice for how much David produces is his choice. Our job is to be able to link that production. Of course, it is our job to forecast that growth, and David helps us in that process, but link that growth to a demand. The demand, you are absolutely right, is not a European demand. It is a global demand. If you look at the investments that we have made over the last five years, it is all about taking British and European milk, and converting it into products to sell in China, Africa and South America. That is really what we have to do over the next few years.

Q192 Chair: I am mindful of time. The last bit of my question is quotas across the whole of Europe. How will the rest of Europe react? The Netherlands will produce more milk. Possibly Denmark will produce more milk. How does that affect Arla directly? Is it your argument that those countries that can produce the milk most efficiently at the lowest price cost of production will fare well? Is that bluntly your view?

David Christensen: Absolutely. It is the business view provided you have a milk buyer that will pass back the benefits of those growth markets to you, and that is the crux of someone like Arla—you need someone to keep the market straight. That is why we are so important.

Q193 Rishi Sunak: We talked a little in Rebecca's question about the self-sufficiency deficit we have, when it comes to desserts, yoghurt, ice cream, butter and cheese. You talked about your role in that, which is great. What do you think Government ought to be doing, if anything, to promote increased investment in our processing capacity domestically, so we can start to correct some of that lack of self-sufficiency in dairy products?

Chair: Capital allowances for co-operatives is it, perhaps?

David Christensen: One of the topics that they were discussing in Ireland yesterday was using the European Investment Bank, and talking to them about very low-cost interest rate loans to co-ops, but also building in volatility protection. There were mechanisms so that, when the price did go down and the co-ops were struggling, there were payment holidays or some mechanism to cope with that. That sort of mechanism would help us, so there is validity in what you say.

Afshin Amirahmadi: It is difficult to answer it in a simple way, but I was quite struck by the answer that was given by one of the panellists earlier on about getting everyone in a room and banging their heads together. While I would not use those words, the sentiment behind that was very interesting. If you look at the industries that have been successful globally, New Zealand, Denmark and Ireland, what is common between all of them is that there is a very clear policy around how to develop that industry. That is where we are not in the UK, at the moment. Quite often we take delegations of producer organisations over to Denmark to demonstrate how joined-up the thinking is. When you have that sort of joined-up thinking, it gives confidence. Everyone is working in the same direction and, actually, you get a bit of positivity.

One of the key challenges—and Government can play a role in this—is that we have to make sure that the world knows that the UK is open for business when it comes to business. We have to make it really easy when countries like Brazil want to come over here, whatever countries want to import. Again, Government can play a very important role in that. There is a trade delegation going out to China next week. We fully supported that and will be part of that as well.

Chair: Thank you for that. I know the Secretary of State is quite keen on the European Investment Bank, so it is probably something that we can include in our report.

David Christensen: Just one very brief thing: we need to make sure we do not have any more animal health scares. TB would be my key horizon there, so we need to get that nailed, because we have a fantastic opportunity. It would be retched if it were derailed by health embargos.

Chair: Your message is heard loudly.

Q194 Rebecca Pow: We talked quite a bit about labelling and marketing earlier. I think you have introduced a new farmer-owned marque on your products. For British supermarkets with this stamp, will it be from just British farmers? I know you also have farmers who are members from across Europe, so how are we going to distinguish that?

Afshin Amirahmadi: That is a really good point. Part of the challenge that Arla has in the UK is that, yes, we have 3,000 British owners, but the truth about our business is we are a European business and we cannot hide from that. When we present ourselves to the consumer, we have to be transparent to the consumer and talk about who we are, as Arla. Yes, we can talk about the Britishness and we are very clear with our labelling. If it is British milk processed in British dairies or, for that matter, Scottish milk in Scottish dairies or Welsh milk in Welsh dairies, it is labelled that way. It is very, very clear.

What we are trying to do with the farmer-owned is not talk about particular provenance there or necessarily quality. We are fully supportive of the Red Tractor marque. What we are talking about with the farmer-owned is trying to raise public awareness. Even though we are a farmer-owned business, people do not know about us, and we believe it is quite motivating for consumers to know that the dairy products that they are buying are actually coming from farmers who own the business. That is the objective with that marketing campaign: to raise awareness of that.

Q195 Rebecca Pow: Even if some of the farmers are European, you are still saying you would completely distinguish if it is from your British farmers. Is it British farmer-owned and European farmer-owned?

Afshin Amirahmadi: We do not talk about British farmer-owned; we talk about farmer-owned. The labelling is not instead of; it is as well as the marques that are on the packaging.

Q196 Ms Margaret Ritchie: Export markets and strategy: do you believe that export markets have the potential to lift farmers out of their current difficulties? Secondary to that, do you think that Government are doing enough to identify and open markets for British goods? If not, where can they improve?

David Christensen: With respect, we have probably covered off a lot of the first part of the question. I fundamentally believe that the export market is the way to go because of, as Ash talked about earlier on, the limit in European population growth, so we need to go to the developing countries. That bit is nailed down for us.

Q197 Ms Margaret Ritchie: In that respect, what countries do you think the Secretary of State should be pursuing? For example, she is in China next week.

David Christensen: China is the first one on the list. The relaxation of the one-child policy is fantastic news. As a great Irishman said yesterday, "I wish they would hurry up and start breeding." That was the comment from my Irish dairy farmer colleagues.

Q198 Chair: They will certainly need milk powder, will they not?

David Christensen: That is what I mean. That was the point. India is another big potential. The Middle East and North Africa are a big market for us, South America potentially and even North America potentially. The big ones are those developing markets, China and India. Ash, you can explain more.

Afshin Amirahmadi: No, that is the perfect answer. The key here again is that Arla has had over 25 years' experience of selling into some of these markets. The key thing here is to be able to produce products here that people actually want to buy and use. If you are selling to African consumers, they want to buy powder, but they cannot afford to buy bulk powder. You need to produce small 7-gram sachets, and they want that milk to be fortified, so they want extra vitamins in that product. If you are selling to the Chinese market, they are quite happy to buy UHT milk, so the key to the export thing is about being able to produce what people actually want to buy, not force on them what we consume over here.

Q199 Ms Margaret Ritchie: How much have you given that message to the Defra department and, in particular, to the Secretary of State and her Ministers?

Afshin Amirahmadi: We are part of the delegation next week that is going to China and we are fully supportive of it. Not only do we think China is an opportunity; we have actually invested, so we are in a joint venture with a Chinese dairy company and we have interests in China because of that.

Q200 David Simpson: Very quickly, as I know time is very short, you will have heard previously that Commissioner Hogan has rejected or resisted a call to the changes in the intervention prices. What is your view on that and what other measures could be put in place to ease the burden for farmers?

David Christensen: My concern about putting more intervention in is that it would just delay the recovery because, at some stage, it has to come out again. It is a question of whether it is short and sharp, and hopefully the recovery is sharp and quick, or if we smooth and soften it. My personal view, as a farmer, is to get on with it. It also starts to mask market signals. If it means the milk price is higher, then we cannot produce it and it would then be counterproductive to what we need here. I know that everyone will not share that view, but that is a personal view. What else can any Government do? Are you specifically asking me about what Hogan can do or Governments generally?

David Simpson: What more can the EU do to assist or ease the burden?

David Christensen: Anything that can help us export and promote the business overseas and the general stuff—relaxation of red tape as much as possible, sensible red tape. We have to have it. It actually gives us a bit of a unique selling point when you go to China.

Much as we farmers hate it, they love our standards, but it is all about balance. In terms of what else Europe can do, they can get the basic payment out on time, although that is more of a UK issue right now. Ash?

Afshin Amirahmadi: I think David has answered the question very well.

Q201 Rishi Sunak: This is a broad question, but I would appreciate a specific answer to it. In terms of retailers, what would you like to see them do differently or better, which you think would be helpful for the industry? In your written evidence, you talk a little bit about transparency of sourcing of own-label products, but what would be the two or three things that you would like to see from the retail industry?

Chair: What is your wish list?

David Christensen: They are our customers and, at the end of the day, any successful business listens to and reacts to their customers, so we have to be cognisant of that. That is the fundamental thing. I, like my colleagues behind, hate the idea of milk being cheaper than water. It really hacks me off. What we have to do is find a solution to that, and the solution to that is adding value and making the customer appreciate a different product and pay more for it. That is about investing in marketing in the long term, and stuff like that. It is about different milks, differentiation, and we are doing that. We are on the case with that, but it is does not happen overnight. One of our brands, Cravendale, is a good answer to that: very long-life milk that differentiates. We have to do more of that. We are not looking for charity; we are looking for a good, sound commercial relationship.

Afshin Amirahmadi: I believe that retailers are actually part of the solution. As David said, they are definitely our route to market. Especially at the moment, we need those retailers because, if we are not selling products into retailers, we are selling into ingredients. If we look over a longer period of time as well, what we need retailers to do is to support dairy companies not just like us, but dairy companies like us that are innovating and producing products. We believe that dairy has a really vital role, because what you can do with milk is so versatile. It is fantastic.

Dairy has a vital role to the benefit of the health of the nation. This is a shocking number to share with you: in terms of how much milk that is actually drunk, 30% of the liquid milk drunk by consumers is drunk by children under the age of five. That drops down to almost zero after the age of five. Why? It is answering those sorts of issues. It is so relevant to children, probably because mum and dad are choosing. We need to be able to have products that are relevant to children when they go to school and so on and, therefore, what we need retailers to do, as we launch these sorts of products, is to support them and give them a prominent feature. I believe they will, because it is to their advantage to do that as well.

Q202 Chair: Just one very quick question on sport and sporting drinks, there is no doubt that dairy fats and proteins are very good for sportsmen and women. Can we get more of a product into the sports centres? Can it be something that lasts a little bit longer than milk? Are you doing any research into that?

Afshin Amirahmadi: We have actually launched a product that we are calling Protein. A very clever marketeer came up with that name. It is in yoghurts at the moment. We actually have the drink ready and I do not think it will be too long before you see it on the shelves. It is absolutely flying. Where we are selling it is the interesting point. We are not selling it in retail supermarkets. It is in gyms and places. Part of the answer is also about getting our products where consumers are when they want to buy our products but, yes, we have already launched a sports product.

Chair: Well done. Thank you very much. You have given us some very good evidence there to put on record and make part of our report, so it was very useful.

Afshin Amirahmadi: Thank you, Mr Chairman and the Committee.

David Christensen: Thank you for the invitation.