

Written evidence submitted by Arla Foods UK (FFS00024)

Fairness in the food supply chain

Submission by Arla Foods UK

Introduction

1. Arla Foods is a cooperative owned by around 8,000 dairy farmers across seven northern European countries; 2,000 of them are based here in the UK. We are one of the top four food and drink businesses in this country, and the biggest dairy company: our farmers are responsible for between 25 and 30 percent of the British milk pool. We employ nearly 4,000 people at sites in England and Scotland, turning over around £2.5 billion in this country.
2. We welcome the Environment, Food and Rural Affairs Committee's on-going inquiry into *Fairness in the food supply chain*. The Committee has said that it will address topics such as food security, the proposed national food strategy, animal welfare standards, labelling, access to affordable and nutritious food, trade, and labour market shortages in the supply chain as its inquiry develops, and we look forward to contributing evidence in these areas in future. The evidence we are submitting today relates to the Committee's current focus on structural relationships in the food supply chain.

Our cooperative model

3. Arla can trace its roots back to cooperatives set up by farmers nearly 150 years ago. Since then, we have expanded to become one of the top five dairy companies in the world by bringing in other businesses and cooperatives, including Milk Link in the UK in 2012. At the heart of our cooperative model is a commitment to deliver the best possible return for our farmers by giving them ownership and control over processing of their milk, establishing fair and sustainable relationships with retailers, and creating products and brands that are highly valued by consumers.
4. Our model is democratic. The board of directors of Arla is made up of farmers who are elected by their peers from across the cooperative. Every strategic decision within Arla is made by the board; this includes the milk price as well as the level of reinvestment within the organisation and therefore the size of the so-called 13th payment that returns any excess profits to farmers. The board of directors is supported by a bigger board of representatives, also comprising elected farmers, and a series of district meetings held throughout the year.
5. Many of the areas of concern in our sector are addressed by the fact we are a democratic cooperative. For example, our farmers own their processor and can decide how it should behave, so concerns about the farmer-processor relationship do not resonate in our case. We are also able to engage with our customers in a way that is arguably more long-term, collaborative and fair.
6. We believe that our model finds the right balance between a highly competitive market and the needs of our farmers to make a reasonable return. This means we are able to deliver accessible, affordable and highly nutritious products to consumers.
7. Being a democratic cooperative also allows us to make decisions for the long-term benefit of our industry and society in a way that might not be true if we faced constant financial pressures from outside investors with little knowledge of or interest in dairying. Our farmers work in and inhabit the countryside, and they live and breathe the consequences of a changing climate every day. This has

undoubtedly played its part in our strong commitment to sustainable milk production, including Arla's pledge several years ago to achieve Net Zero by 2050.

8. As a cooperative we have been able to make significant progress on our sustainability journey. For example, the Science Based Target initiative (SBTi) has endorsed our targets and plans, confirming that they are consistent with what is required to meet the Paris Agreement target of limiting global warming to below 1.5 degrees. We have already reduced our Scope 1 and Scope 2 emissions by around a quarter compared to a 2015 baseline, and we have now adopted a target for cutting emissions from our operations to 63 percent by 2030.
9. We have also been able to introduce our industry-leading FarmAhead scheme to address our Scope 3 emissions. This supports and rewards our farmers to fully understand and then improve the climate efficiency of their farms.
10. One element of this is our FarmAhead Check, which compiles externally validate data at individual farm level about the animals, feed composition, crop production, use of fertilizer, manure handling, and energy usage, amongst other things. This data, which comprises the biggest climate database in the dairy sector globally, confirms that Arla farmers are already leading the way in implementing climate reduction, with 1.12 kg/FPCM of CO₂e per kilo (against a global dairy emissions average of 2.5kg).
11. The checks also present farmers with clear plans to improve their performance over coming years. The second element of the FarmAhead model involves financially rewarding farmers in their milk price both for conducting the climate checks and for taking action to improve the sustainability of their farms in a number of specified areas.
12. Our view is that the democratic cooperative model embodied by Arla should be viewed as a major contributor to greater fairness in the food supply chain. Whilst we acknowledge that other ownership models also work successfully for other processors and farmers, we would argue that expanding the role of farmer-owned and -controlled cooperatives would benefit the dairy industry and a number of other agricultural sectors too. We stand ready to share our experience and knowledge with Ministers and others if they want to pursue this objective.

Fair Dealings Obligations (Milk) Regulations 2024

13. As the Committee knows, the dairy sector is now subject to the Fair Dealings Obligations (Milk) Regulations 2024. These make various stipulations about contracts between farmers and processors. They have established an Agricultural Supply Chain Adjudicator (ASCA) to oversee any complaints and issues that arise under the Regulations. We have already engaged positively with the Adjudicator and look forward to the development of his role.
14. As we have said, the nature of the relationship between farmer and processor in a democratic cooperative is fundamentally different to that between two independent parties. Arla was therefore initially concerned that the proposed regulations could have unintended consequences, undermining the cooperative model and ultimately reducing fairness in the market. However, we are pleased that the Government and others have listened to and addressed our concerns and that we can and do support the Regulations now in place.

Groceries Code Adjudicator

15. The Committee has asked whether the Groceries Code Adjudicator's role should be expanded. Our view is that whilst there may be a case for the Code to cover more retailers, by lowering the qualifying turnover threshold, and to take in major foodservice businesses, it would not be appropriate for it to be responsible for other parts of the supply chain. Now that the Fair Dealings Obligations (Milk)

Regulations are in place – and are planned for further sectors – there are other mechanisms in place to regulate the relationship between processors and farmers that provide ample detail and a greater degree of granularity than the Groceries Code.

16. Legislating further in this area risks significant uncertainty for suppliers already adapting to the new Fair Dealings regulations. This is particularly true given that these organisations anyway face challenges given the relative power of their main customer base, which is the reason the Groceries Code exists in the first place.

Arla Foods UK
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