Dairy UK – Written Evidence (UST0026)

Summary

- **The UK dairy sector plays a significant positive role in the UK economy and society.**

- **The sector is already faced with several challenges that will require it to accelerate improvements in competitiveness.**

- **Carefully managed agricultural trade liberalisation that secures a level playing field could provide opportunities to the UK dairy sector to increase its contribution to the economy.**

- **An FTA with the USA that includes agriculture would provide some further export opportunities for the dairy sector, but it would also pose a major competitive challenge.**

- **The industry will respond to any UK/US FTA through further investment in productivity and marketing measures.**

- **To assist the dairy sector the Government should:**
    - **Seek sensitive product status for dairy products with phased reductions in tariffs.**
    - **Ensure that a meaningful portion of the public support given to agriculture by Defra and the Devolved Administrations includes measures directed at raising productivity and meeting new regulatory obligations.**
    - **Legislate for clear and properly enforced country of origin labelling.**
    - **Commit to strongly communicating to UK consumers the higher standards used in the manufacture of UK dairy products.**
    - **Ban the importation of US dairy products made from animals treated with BST.**
    - **Rigorously defend UK dairy GIs.**

- **The sector will not allow its commitment to high and improving standards of animal health and welfare to be compromised by any FTA.**

Dairy UK

1. Dairy UK is a processor-led organisation representing farmer-owned co-ops and private dairy companies producing safe, nutritious and sustainable dairy foods. Our overarching mission is to promote the consumption of great tasting British dairy products at home and on the international market.

2. Our members collect and process about 85% of the milk produced in the UK.

Importance of UK Dairy

3. The dairy sector plays a significant positive role in the UK economy, the diets of consumers, rural communities, to the environment and to food security.

4. Over 70,000 people are employed directly by the dairy sector with 24,000 in processing and 50,000 on farms. With 12,000 dairy farmers producing over 14 billion litres of milk annually, dairy represents 16.2% of the value of agricultural produce in the UK and £9.2 billion of sales at wholesale level, with an aggregate of £27.8 billion once indirect and induced multiplier impacts are taken into account.

5. The dairy sector helps to feed the UK and is therefore an important part of the nation's food security. Last year the UK dairy sector produced 7.9 million tonnes of milk and dairy products of which 1.5 million tonnes was exported.

6. Dairy farmers are key to the stewardship of land, and the dairy sector plays a key role in the prosperity of rural communities. Dairy farmers are responsible for the management of around 8% of UK land area and the welfare of 1.9 million cows.

7. UK dairy processors deliver high quality, safe and nutritious foods to the UK consumer and both farmers and processors are committed to producing dairy foods sustainably. The sector provides a range of safe, nutritious and value for money foods that are consumed in 98% of UK households. On average dairy products account for 9% of a UK adult's calorie intake of which 6% is from domestically sourced production.

8. Almost all major dairy companies have highly developed export strategies. Last year the UK dairy industry exported dairy products to the value of £1.8bn.

Economic and Regulatory Challenges

9. The UK dairy sector is competitive in its current international trading environment. However, separate from trade policy, the sector faces several challenges that will require it to accelerate improvements in its competitiveness. These include:

    - Agricultural Policy: The Government wishes to re-orientate UK agricultural policy away from the provision of price support that exists under the CAP towards the provision of support for public goods. Direct payments currently play an important role in protecting the profitability of dairy farms.

Table 1: Average Direct Payment to Dairy farmers by UK Country

	Basic Payment Scheme	Farm Business Income	Percentage	Basic Payment Scheme	Farm Business Income	Percentage
	2017/18			2018/19		
England	28,700	118,500	24%	30,700	79,700	39%
Wales	16,700	82,400	20%	15,600	46,600	33%
Scotland	34,644	76,545	45%	36,268	65,994	55%
Northern Ireland	24,032	68,135	35%	23,698	57,798	41%

For England the main mechanism for providing public support in the future will be the Environmental Land Management Scheme. This is still under development along with similar schemes in the Devolved Administrations. It is still unclear to what extent these schemes can be used to enhance the competitiveness of dairy farms and the scale of funds that will be made available for this purpose.

- ***Clean Air Strategy***

Government proposals to regulate emissions from dairy farms includes extending the current system of environmental permitting operated for the pigs and poultry sectors. Coupled with a range of additional measures this could add significantly to the sector’s regulatory compliance costs through increased capital expenditure and operating costs.

- ***Access to Labour***

The availability of semi-skilled and skilled labour from the EU has been important to the sector at both the farm and processor level. The end of free movement could significantly affect the sector’s operating costs.

Government Trade Policy

10. Dairy UK recognises the Government’s aspiration to liberalise trade with the UK’s principle trading partners, including trade in agricultural products. Dairy UK wants to constructively engage in the development of UK Government trade policy. Carefully managed agricultural trade

liberalisation that secures a level playing field could provide opportunities to the UK dairy sector to increase its contribution to the UK economy.

11. The EU is the UK dairy sector's largest trading partner. By raw milk equivalent EU imports account for 36.3% of consumption and exports account for 21.9% of raw milk production. Failure to agree a tariff free agreement would cause significant disruption to the sector, through loss of the EU export market and destruction of domestic demand by a surge in prices, particularly for cheese. Conclusion of an agreement with the EU therefore remains Dairy UK's trade policy priority.

12. In conjunction with the USA the Government is seeking to conclude rapid Free Trade Agreements with Australia and New Zealand. All three of these countries have large exportable surpluses of dairy products. Australia and New Zealand also have the competitive advantage of generally lower milk production costs.

Table 2: Exportable Surplus

	Milk Production: bn	**Exports (milk equivalent)**	**%**
Australia	9.3	4.1	44
New Zealand	21.2	19.7	93
USA	115	11.5	10

Trade Agreement with the USA

Offensive Interests

13. The US dairy market is a large and still growing market sharing many elements of the UK's dairy food culture that could provide the UK dairy industry with significant commercial opportunities. UK dairy companies already export considerable quantities of dairy products to the USA.

Table 3: Value of UK dairy products exported to the USA - £000

	2014	**2015**	**2016**	**2017**	**2018**	**2019**
Cream	689	611	770	922	1,152	1,336
Cheese:	44,858	50,714	55,342	47,845	49,976	54,111
of which:						
Processed	91	687	283	56	2	1
Blue veined	4,850	4,790	5,790	3,750	4,181	5,985

Territorials*	8,893	10,036	9,196	6,915	6,222	6,784
Butter & Butteroil	417	1,315	3,902	1,224	2,258	5,310
Whole Milk Powder	…	2	3	…	10	…
Skim Milk Powder	16	132	22	2	2	15
Other	207	3,796	7,718	2,542	1,137	2,153
Total	46,187	56,569	67,757	52,535	54,534	62,925
Index 2011 = 100	156	191	229	177	184	212

14. US MFN dairy tariffs are significant, and the competitive position of UK dairy product would be considerably improved if they were removed.

Table 4: US Import Tariffs

Skimmed Milk Powder	$3.3c/kg
Whole Milk Powder	$6.8c/kg
Butter	$12.3c/kg
Yogurt	17% FOB
Cheese	
Stilton	17% FOB
Cheddar	16% FOB

Source: EU Market Access Database

15. The impediment to trade caused by tariffs has been worsened by the retaliatory tariffs put in place by the USA because of the Airbus dispute. The US has imposed 25% additional tariffs across a range of dairy products, including cheddar and stilton. This is eroding the position of UK exports in the US market.

16. Another tariff issue is the apportionment between the EU and the UK of the USA's Tariff Rate Quotas for EU cheeses that were introduced by the GATT Uruguay Round. These TRQs are utilised by several UK cheese exporters.

Table 5: US Tariff Rate Quotas: tonnes

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Butter			**Cheese**	
EU	96		**All Cheese**	

Any country	6,656		EU	77,388
			Any country	400
SMP			Of which	
Any country	4,441		**Blue Mold**	
			EU	2,829
WMP			**Cheddar**	
Any country	3,318		EU	1,313
			Any Country	100

17. US Grade A standards are a major impediment to exports of fresh dairy products to the USA. These standards prescribe in detail the production processes to be used to produce fresh dairy products in the USA. The standards are legislated for and implemented at the US state level. As there is no recognition of equivalence between the EU and Grade A standards then companies exporting to the USA would have to meet and be inspected by these standards.

Defensive Interests

18. An FTA with the US would pose a significant competitive challenge to the UK dairy sector.

US dairy operating costs

19. US dairy processors benefit from enormous economies of scale from operating processing plants vastly greater in size than those in the UK. This is supplemented by the distortions in raw milk pricing caused by the end-use pricing system operated under Federal Milk Marketing Orders. These link the price paid for raw milk directly to market returns for specific groups of products, effectively allowing the US industry to engage in differential pricing between markets. The system gives the US dairy industry the flexibility to be especially competitive on international commodity markets at certain points in the price cycle.

US Production Subsidies

20. US dairy farmers obtain very generous subsidised income insurance through the federal government's Dairy Margin Coverage Programme (see: https://www.fsa.usda.gov/programs-and-services/dairy-margin-coverage-program/index). By distorting economic incentives, the scheme encourages higher levels of dairy production with a consequential impact on world market prices (where US surplus dairy product is disposed of) and enables the US industry to increase market

share.

US Production Standards

21. The prospect of imports of dairy products from the USA into the UK market will create a significant challenge to consumer confidence in the wholesomeness and safety of dairy products.

22. Over 95% of UK dairy farmers are members of the Red Tractor farm assurance scheme. This sets and enforces high quality standards across the whole length of the food chain – from farm to pack. The scheme ensures that food is traceable, safe and farmed with care.

23. An independent international benchmarking study was conducted by BIRNIE Consulting on behalf of Red Tractor (see: Ihttps://www.redtractor.org.uk/press/red-tractor-leads-international-benchmarking-study/). This showed that the Red Tractor scheme is the strongest in terms of breadth and depth, including when compared against its US equivalent, the FARM Animal Care programme.

24. The USA permits the use of Bovine Somatotropin (BST) as a growth promoter. This is banned in the EU and the UK. The possible presence of dairy products on the UK market made using BST will be seized upon by anti-dairy NGOs to undermine consumer confidence in dairy in general.

PDO/PGI Products

25. A number of UK dairy products have been granted protected status under the EU's PDO/PGI scheme (listed below).

- Beacon Fell traditional Lancashire cheese
- Bonchester cheese
- Buxton Blue
- Dorset Blue cheese
- Dovedale cheese
- Exmoor Jersey Blue
- Orkney Scottish island cheddar
- Single Gloucester
- Staffordshire cheese
- Swaledale cheese
- Stilton — white cheese/Stilton — blue cheese
- Swaledale Ewes cheese
- Teviotdale cheese
- West Country farmhouse Cheddar cheese
- Yorkshire Wensleydale
- Cornish Clotted Cream

Questions on Agriculture and Foods

26. Given the focus of Dairy UK as a sectoral trade association we have confined our response to the questions raised by the Committee on Agriculture and Food.

Question: The new UK Global Tariff would maintain tariffs on agricultural products such as lamb, beef and poultry to protect UK industry. What provisions do you think the UK should seek to agree with the US on tariffs for agricultural goods imports to the UK? What economic consequences might there be for farmers and the agriculture and food industries of a US deal that diverged significantly from the new UK Global Tariff? We would be particularly interested in any detailed economic analyses on these points.

27. The US has stated that there will be no deal without agriculture. The UK will therefore have to make concessions on agricultural tariffs to conclude a deal.

28. The Government should seek sensitive product status for dairy products. Tariffs reductions for dairy should be phased in to give the UK dairy sector time to adapt to the competitive challenge posed by the US dairy sector. Dairy UK would propose a minimum transition period of seven years.

Question: How might the UK agriculture and food industries approach any new competition that might arise from a UK-US deal? What opportunities are there for UK companies that might wish to export more to the US under a new deal? We would again be particularly interested in any economic analyses on these points.

29. The UK dairy sector will respond by accelerating improvements in competitiveness. This will require higher levels of:

- investment in productivity measures (which will involve capital expenditure)
- focused expenditure on marketing to communicate to consumers the attributes of UK dairy products.

30. Undertaking additional expenditure in these areas will be a major challenge given the low levels of profitability in the sector, at both farm

and processor level, consequently the Government needs to play a role in both these areas to ensure the sector can maintain its potential.

31. In respect of productivity, Dairy UK believes that over an appropriate transition period it will be important that, in the post CAP agricultural policy currently under development, a meaningful portion of the public support given by Defra and the Devolved Administrations should include measures directed at raising productivity and meeting new regulatory obligations. If this support is not available, the sector may not be able to compete with US dairy imports with a consequential impact on its scale of operation.

32. In respect of marketing the Government needs to:

- Legislate for clear and properly enforced country of origin labelling, in both retail and food service, so consumers can identify the origin of dairy products and make an informed choice.

- The UK Government should also commit to strongly communicating to UK consumers the higher standards used in the manufacture of UK dairy products.

20. More broadly, what might be the consequences of a deal with the US that included agricultural goods for Sanitary and Phytosanitary Standards (SPS) and animal welfare standards domestically in the UK?

33. There are no concerns about the human safety of US dairy products. The US has an effective regulatory framework in place to ensure that this is the case. However, the use of BST is incompatible with UK standards of animal welfare and consumer expectations of acceptable farming practices. UK should seek to ban the importation of US dairy products made from animals treated with BST.

34. Any trade deal with the US will not impact on animal health and welfare standards in the UK dairy sector. Improvements in productivity will not be at the expense of animal health and welfare. This is because:

- Raising standards of animal health is recognised as one of the key opportunities for improving productivity as healthier animals managed with high standards of welfare are more productive.

- The UK dairy sector is committed to maintaining and improving standards of animal health and welfare as this is the basis for maintaining the trust of UK consumers in UK dairy products. Aside from individual company and supply chain initiatives, the coverage and effectiveness of the Red Tractor scheme ensures that the industry, as a whole, has the means to achieve rising standards.

21. What concessions will the US be seeking regarding indicators of geographical origins on food and drinks, and how do you think the UK Government should respond? What do you think is the right balance between ensuring that consumers "are not confused or misled" but also "have access to a competitive range of products"? What are the likely effects on producers of new arrangements on indicators of geographical origins, in particular small- and medium-sized businesses?

35. The US sees the EU system of geographical indications as a barrier to trade in US dairy products. The UK dairy industry has invested in a small number of GIs, the most significant of which is Stilton. The UK has not registered any generic cheeses under the GI scheme such as Cheddar. Maintaining the existing level of protection for UK dairy GIs would not be a meaningful impediment to the opportunities that will be offered to US dairy products from an FTA. The Government should rigorously defend UK dairy GIs.

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