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Environment, Food and Rural
Affairs Committee

Dairy prices

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to the report*

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Environment, Food and Rural Affairs Committee

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Summary

Worldwide pressure on milk prices has resulted from a combination of rising supply and falling demand, partly because of reduced demand from China and a Russian trade ban with the EU. Rapid and wide fluctuations in milk price bring pressure to bear on the UK dairy industry, and farmers have been leaving it in significant numbers in recent years.

While there is no single solution to the problems created by these rapid changes in milk prices, it is incumbent on the Government, and Defra in particular, to promote UK dairy produce domestically and in growing export markets. Action to encourage the spread of Producer Organisations, a review of the EU intervention price for milk and clearer regulation on the labelling of dairy products could all assist a struggling industry.

The voluntary code of best practice in the dairy industry, introduced after similar price difficulties in 2012, has been adopted by about 85 per cent of dairy producers and welcomed in improving matters as far as it goes. Closer attention is required, however, to the sharpness and frequency of price changes in the dairy market, which affect investment and financial planning.

The Groceries Code Adjudicator's role, concerning the relationship between direct suppliers and major retailers, is too restricted to be of assistance to the vast majority of dairy producers, as they are indirect suppliers. The Government should urgently consider extending this role to provide more reassurance to farmers. The Adjudicator should also have the power to launch investigations instead of only responding to complaints, and the Government has been slow to provide the Adjudicator with the practical powers required to fine companies which break that code.

1 Introduction

Milk price volatility

1. During the summer and autumn of 2014, substantial drops in milk price led to calls for new support for dairy farmers, and some disruption as some farmers blockaded processing plants to protest against low price levels. This sharp reverse in dairy farming fortunes came less than 12 months after milk prices reached their highest level in recent years, but also after a similar sharp price decline in 2012. With milk prices altering weekly, any price we quote here will be out of date by the time we publish: the most recent figures from the Department for Environment, Food and Rural Affairs (Defra) are from September, when the UK average was 30.81 pence per litre (ppl), about 6.6% down on the September 2013 figure; media reports from December suggest prices around 23 or 24 ppl were being offered to farmers in some areas. Rob Harrison, the National Farmers Union dairy board chairman, told us prices had fallen about 30%, or about 8 ppl; milk prices had peaked at 34.55 ppl in November 2013.¹

2. While markets mean that prices rise and prices fall, the frequency, suddenness and sharpness of milk price fluctuations have brought new volatility to a sector in which long-term changes in methods of production have also left dairy farmers vulnerable: in 1995 there were 35,741 dairy producers in the UK, and it is widely believed that the number may dip below 10,000 for the first time in early 2015.

3. Dairy farmers face further uncertainty over the next 12 months, too, with unpredictable demand in global markets affecting worldwide prices for liquid milk and other dairy products. The EU quota system for milk production is due to end in April. The voluntary code of dairy practice introduced in response to the 2012 price drops has been welcomed for stabilising some contract terms for producers, but may not have done a great deal to stabilise prices.

4. None the less, the future picture is not all dark. There is a general expectation that worldwide demand for dairy products will continue to grow at around 2 to 3% a year: George Eustice MP, the Under-Secretary of State responsible for farming, believes the current price difficulties are a “short-term blip” resulting from production spikes caused by 2013’s strong prices and that the market will find a new equilibrium longer term.² Production in the UK rose by about 8 to 10% in the past year, and average farm business income for dairy farmers in England in 2013-14 was £87,800.³

1 Q2, and DairyCo Market Information, [UK, GB and NI Farmgate Prices](#), published 30 October 2014.

2 Q83

3 Defra ([DAI0016](#)), and Q78

2 The present situation

Supply and demand

Global conditions

5. Global milk production has been growing by approximately 5% a year while global milk demand has grown by about 2% a year, resulting in a rise in global stocks and downward pressure on worldwide prices.⁴ This has been exacerbated by China's demand being significantly lower than expected in 2013-14 and by the import ban introduced by Russia on EU dairy products in August. Since they, between them, account for around 30% of globally traded dairy products, the sharp reduction in demand at a time of high production is the most frequently cited proximate cause for the current price levels. The Russian ban, for example, has resulted in about 250,000 tonnes of cheese—that is, about 2.5 billion litres of milk, equivalent to about a fifth of UK annual milk production—not being traded into Russia. Milk intended for that cheese has instead been processed into milk powder and butter, with consequent effects on prices for those products.⁵ The Royal Association of British Dairy Farmers “conservatively” estimates that the ban has cost farmers 2 to 2.5 ppl, or about £350 million for UK dairy farming.⁶

UK production and prices

6. In June 2012 UK farm gate milk prices fell to 26 ppl.⁷ A year later they had risen to about 35p.⁸ This year they have returned to around 30p.⁹ The dairy industry has been on what the farming Minister, Mr Eustice, calls “something of a rollercoaster ride”.¹⁰ There is wide recognition that the strong prices obtained in 2013 resulted in a rise in UK milk production during the spring and summer of 2014, and that these coincided with both the drop in world demand and mild weather conditions that led to increased production in most parts of the world.¹¹

7. The NFU and its Scottish equivalent accept that 2013's price signals led farmers worldwide to raise production, and that, allied with good weather conditions for growing and grazing, led to overall milk supplies exceeding industry expectations.¹² With input costs for feed, fertiliser and fuel also falling, the NFU does not expect any short-term downturn in production, either: “Milk production is still increasing year on year, the dairy herd in England is 2.7% larger this year than last and the latest calf registration figures are

4 Arla Foods UK ([DAI0008](#))

5 Dairy Crest Direct ([DAI0005](#))

6 Royal Association of British Dairy Farmers ([DAI0007](#))

7 Q83

8 Defra ([DAI0016](#))

9 Defra ([DAI0016](#))

10 Q83

11 Royal Association of British Farmers ([DAI0007](#))

12 National Farmers Union ([DAI0009](#)) and NFU Scotland ([DAI0001](#))

also higher than normal”.¹³ Nor can the speed and variety of price changes in the dairy industry be matched by equally quick change in production capacity: supply reduction is usually too late as it is triggered by falling prices, and increases in supply to take advantage of higher prices may lag behind, as appears to be the case at present.

8. Price volatility of the type currently experienced complicates financial planning and investment decisions and reduces overall confidence in the dairy sector.¹⁴ Dairy Crest Direct cites heavily geared farms that invested during the past two years to take advantage of rising global demand and prices, but which now face difficulty.¹⁵ George Dunn of the Tenant Farmers Association noted the problems for tenant farmers who had rents set when prices were good and who must still pay them now.¹⁶

9. It is broadly accepted that fluctuations in milk price are largely a matter of market forces: prices rise and prices fall; they were higher than average last year, lower than average this. What appear to cause significant disruption for farmers are the volatility of the market, which means unusually frequent shifts in prices, and the extremity of the price rises and drops. The central issue arising, therefore, from our short inquiry into the recent fluctuations in milk price appears to be how best producers—farmers—can be protected, and can protect themselves, against what looks likely to be continuing volatility in a long-term growing market that none the less faces periodic short-term downturns.

13 National Farmers Union ([DAI0009](#))

14 Farmers Union Wales ([DAI0002](#))

15 Dairy Crest Direct ([DAI0005](#))

16 Q3

3 The way forward

The longer term

Global demand

10. In spite of the gloomy short-term picture, there is general agreement that long-term prospects remain positive for the dairy industry with worldwide demand expected to continue to grow. The NFU, the farming Minister, Dairy UK, processors such as Arla Foods, and trade organisations including the British Retail Consortium and the Provision Trade Federation all support that view. Arla, for example, cites rising middle classes in China, Russia and Africa, all seeking improved nutrition.¹⁷ Among other conditions supporting optimism, animal feed costs are currently 30% lower than they were during the 2012 price drop period.¹⁸ Russia's ban is currently expected to last until midsummer 2015.

Export potential

11. Most raw milk from Great Britain is processed into liquid milk, with about a quarter becoming cheese, and about 10% converted into powders and butter. The reverse position obtains in most EU countries, with about 30% of EU raw milk becoming fresh liquid milk and more going into cheese production. In consequence, Great Britain exports less than most EU countries in this area (Northern Ireland differs substantially, exporting 85% of its milk products¹⁹). GB also imports significant amounts of butter and cheese.

12. Given that the major opportunities to tap into increasing world demand for dairy will arise outside the EU in China, Russia and Africa, the need for a strategy for greater export is clear. Defra must explore with the industry practical steps to ensure that export opportunities are identified for the industry to tap into.

13. UK exports have risen in recent years. Defra reports exports of milk powder up 65% to £152 million in the last year, with cheese exports rising 12% to £234 million and milk and cream up 19% to £155 million. Overall, the total value of dairy exports has risen 39% since 2009, last year reaching £1.3 billion by value.²⁰ Defra has also worked to open new markets for processed dairy products, citing China and Brazil as particular targets.²¹ The Secretary of State, Rt. Hon. Elizabeth Truss MP, has also made clear her commitment to seeking wider markets for UK produce: "I think dairy has a great future. I think there is going to be a much bigger market out there, as we see growing middle classes in developing countries".²²

17 Arla Foods UK ([DAI0008](#))

18 Q82

19 Ulster Farmers Union ([DAI0018](#))

20 Defra ([DAI0016](#))

21 Q86 and Q110

22 Oral evidence taken on [26 November 2014](#), HC (2014-15) 802, Q 113 [Secretary of State]

14. Great Britain is, however, to some extent playing catch-up in this field. As Dr Judith Bryans, the chief executive of Dairy UK, told us, “Countries such as Denmark, Ireland and Northern Ireland, uniquely within the UK, have a culture where they have always exported more. They have opened those markets already, and they work very strongly to maintain those markets. [...] Export will come, but other countries have more of a culture of it”.²³

Futures market

15. The unpredictability resulting from volatile price shifts makes forward planning and investment difficult for individual farmers. The question has been raised whether a futures market, of the sort that operates for grain, for example, could ease matters by bringing some level of medium-term predictability to pricing structures. The Royal Association of British Dairy Farmers notes that markets in grain and sugar beet enable producers to hedge against risk by knowing prices about a year in advance.²⁴ The NFU has also expressed cautious interest, although smaller farmers are less persuaded: George Dunn was doubtful that even cereals futures markets had worked well, while David Handley of Farmers for Action thought only a very small percentage of dairy farmers themselves would want to “play” a futures market.²⁵ The farming Minister told us that two exchanges—Liffe and Eurex—have offered limited futures markets in skimmed milk powder since 2010.²⁶ The potential for more futures market trading, offering farmers mid-term price predictability for at least a proportion of their production, seems an idea worthy of further exploration.

Action at EU level

Producer Organisations

16. The Government told us it is keen to assist the setting up of Producer Organisations in the UK. At EU level, these are associations of farmers that must be recognised by their Member State; they differ from agricultural co-operatives in that farmer members of a co-operative transfer ownership of all their milk to the co-operative and become joint members of it. Producer Organisations have been set up in six EU Member states, allowing farmers to negotiate collectively over contract terms, conditions and milk prices.²⁷

17. No Producer Organisation exists in the UK, however, and there is some resistance among farmers to their creation: David Handley of Farmers for Action, for example, said: “Putting a bunch of farmers together and saying, ‘You have got to co-operatively work together, the volume of product will give you a better place in the marketplace’ has just been proven to fail, time after time.”²⁸ Nor, as Dr Judith Bryans told us, have milk prices

23 Q75

24 Royal Association of British Dairy Farmers ([DAI0007](#))

25 National Farmers Union ([DAI0009](#)), and Q16

26 Q85 and Q112

27 Defra ([DAI0016](#))

28 Royal Association of Dairy Farmers ([DAI0007](#)), and Q24

necessarily stabilised in the six Member States where 228 Producer Organisations currently exist.²⁹

18. None the less, the Government believes that forming a Producer Organisation could give dairy farmers “greater clout in the marketplace”.³⁰ The farming Minister suggested that Producer Organisations might help the imbalance in a market in which a small number of major retailers are the significant buyers but the majority of sellers are comparatively small-scale producers. The Secretary of State, also supports Producer Organisations and wants to explore their creation with the farming industry.³¹ It is, however, up to farmers themselves to choose to co-operate; as Mr Eustice put it: “Really, it is not for us to prescribe that farmers should work together. The role for us is to facilitate it and to remove any legal barriers to them coming together. We have done that. We have put in place some of that seedcorn funding to help them to work out how they can achieve these things, but we cannot actually do it for them”.³²

19. We welcome the commitment given by the Secretary of State to explore with farmers the creation of Producer Organisations. We agree with the Government that it is a matter for farmers themselves whether they see opportunity in combining to increase their collective bargaining power and influence. We note the reluctance that exists among farmers and their representative organisations, and recommend that the Government identify reasons for that caution and the barriers that may exist to prevent farmers taking this course.

Milk quota

20. Since 1984 the EU milk market has been regulated by a quota system. This is due to end from 1 April 2015. Since 2003-04, UK milk production has been consistently beneath the quota limit, and the final quota limit of 15.3 billion litres is nearly 12% higher than UK milk production last year.³³ The major farming and processing organisations generally welcome the ending of the quota system. The NFU in particular argues that it has both prevented some EU Member States from producing more and encouraged others to produce more than they would under freer market conditions.³⁴

21. None the less, the ending of the quota system will add a new element of unpredictability to EU production from next April: the Farmers Union Wales warns that any increase in production as an immediate result of quotas being lifted would mean more downward pressure on prices and the processor Arla agrees that greater exposure to the global market could bring new volatility to pricing.³⁵ Germany, already one of the big three

29 Q46

30 Defra ([DAI0016](#))

31 Letter to the Committee, [27 October 2014](#), from the Secretary of State for Environment, Food and Rural Affairs

32 Q109

33 National Farmers Union ([DAI0009](#))

34 National Farmers Union ([DAI0009](#))

35 Farmers Union Wales ([DAI0002](#)) and Arla Foods UK ([DAI0008](#))

EU milk producers (along with France and the UK), could produce above its quota level, with the Netherlands and Ireland also cited as countries where production might increase.

Intervention price

22. Under EU arrangements, Member States must intervene to buy products when they fall to a certain level. For milk, the intervention price is currently about 17 ppl (although exchange rate fluctuations may mean it is as low as 15 ppl), and a number of witnesses have suggested to us that that price is too low and should be raised. Dairy UK chief executive Dr Judith Bryans told us intervention might be necessary in the short term if milk prices continue to decline: “[The EU] really needs to look at the intervention price, because the intervention price is far too low at the moment”.³⁶ NFU Scotland, the Ulster Farmers Union (UFU) and the NFU would all support some increase in the level of the intervention price. As UFU points out, the end would already have come for many dairy farmers by the time prices fell to 17 ppl.³⁷

23. We recommend that Defra seek a commitment from the EU Agriculture Commissioner Phil Hogan that the current intervention price for milk of around 17 pence per litre be reviewed before the ending of milk quota arrangements in April 2015, and ask the Secretary of State to work with counterparts to keep under regular review thereafter.

Labelling

24. We were encouraged to hear the Secretary of State tell us that she had sought the support of new EU Agriculture Commissioner Phil Hogan in pressing for better labelling of dairy products. She added: “better labelling for dairy products is important, so that British consumers know when they are buying a British product and when they are not”.³⁸ For over a decade, beef labelled as ‘country of origin’ beef has had to be born, reared and slaughtered in that country. The same is not the case for dairy produce: butter or cheese, for example, may be labelled as products of the UK even if the raw milk has come from another EU country but processed here.

25. We strongly support the Secretary of State in seeking clearer EU regulation on labelling of ‘country-of-origin’ products. Country of origin should imply that the raw materials contained in a product were born or grown within that country, and not simply processed there.

36 Q48

37 Ulster Farmers Union ([DAI0018](#))

38 Oral evidence taken on [26 November 2014](#), HC (2014-15) 802, Q79 [Secretary of State]

4 The voluntary code

The dairy industry code of best practice on contractual arrangements

26. The dairy industry code of best practice on contractual arrangements—hereafter, the voluntary code—was created in Great Britain in 2012 in response to concern about fluctuating milk prices, among other things.³⁹ About 85% of producers have signed up to it. Among its provisions are: 30 days’ notice of a cut to a farmer’s price or other significant change to contractual terms; a farmer who disagrees with a proposed price change or significant change to contractual terms can exercise a right to terminate the contract on three months’ notice; and processors are encouraged to engage with producers via democratically accountable and representative producer groups. Three significant questions have arisen in this inquiry: whether the code adequately protects farmers against price changes; whether it should be statutory rather than voluntary; and whether, either way, it provides sufficient assurance for milk producers.

A compulsory code?

27. EU Member States may introduce compulsory contracts between milk producers and processors, and 12 have done so.⁴⁰ The UK Government has argued, however, that a voluntary code is preferable since it provides more flexibility, not least in permitting farmers the right to walk away from a contract on three months’ notice. Compulsory codes require closer adherence to the EU milk package. There is general acceptance that the code’s introduction has led to some improvement for milk producers, although concerns remain about its scope and applicability.

28. The recent annual review of the code’s operation conducted by Alex Fergusson, a Member of the Scottish Parliament, was broadly positive about its impact. Among other things, though, he recommended that the code could be extended to retailers (it currently applies only to producers and processors) to broaden adoption. He suggested that including retailers might encourage the 15% or so of current purchasers and producers who have not signed up to the code to do so, without removing its voluntary nature. Dr Judith Bryans, chief executive of Dairy UK, disagreed with this: “at the point where a retailer makes the code a condition of supply, it goes from being a voluntary code to a mandatory code [...] you are very often talking about small artisan or speciality cheese-makers. If the retailer requires somebody to be code-compliant in order to supply them, you could find an awful lot of those people losing their contracts and going out of business”.⁴¹

39 A separate code applies in Northern Ireland.

40 Defra ([DAI0016](#))

41 Q52 and Q53

Keeping the code voluntary

29. Farmers' organisations have raised concerns about the take-up of the code, but we detect little pressure for a move towards a compulsory code. Farmers Union Wales sees a "major weakness" in its being embraced by only 85% of producers, and fears that code-compliant producers may be at a competitive disadvantage against those who have not signed up.⁴² Dr Bryans, however, suggests that "a lot of [those not signed up] are very small family businesses who have been in relationships with their farmers for generations. A lot of those people would not have signed up to the code because they do not see that code as being relevant to them because they have known their farmers for so long".⁴³ Rob Harrison of the NFU praised the code's present flexibility; David Handley of Farmers for Action "certainly would not want to see the voluntary code made statutory".⁴⁴ Farming Minister George Eustice acknowledged that a significant number of smaller producers are not signed up, but argued: "What we have actually goes further and achieves more than the EU milk package. [...] If we were to put it on a statutory footing, we would actually lose what is really valuable about the voluntary code".⁴⁵

30. We recommend that the dairy industry code of best practice remain voluntary in order to retain the flexibility and scope it presently offers. The current crisis affecting dairy farmers is, however, a significant test for the arrangements introduced after the 2012 price crunch. The code is subject to annual review and we expect the 2015 review to take full account of the lessons learned from the present market conditions.

The code's scope

31. On the wider question of how far the code has helped farmers since 2012, there is cautious agreement that it has been beneficial within its limits. None the less, concerns remain about how far it protects farmers, not least because the code does not directly affect farm gate milk prices, concentrating instead on contractual relationships. NFU Scotland argues that fundamental weaknesses remain in bargaining power, in spite of the code's existence.⁴⁶ Farmers Union Wales notes that the ability to leave a contract and switch producers is "severely limited in many areas by the number of purchasers operating in those areas. Smaller producers and those in remote areas may therefore be left vulnerable, despite the introduction of the Dairy Code".⁴⁷ And Dairy Crest UK points out that even 100% compliance with the code would not necessarily "make any difference to current farmgate milk price dynamics which have been driven by global markets".⁴⁸

42 Farmers Union Wales ([DAI0002](#))

43 Q52

44 Q10 and Q11

45 Q89 and Q93

46 NFU Scotland ([DAI0001](#))

47 Farmers Union Wales ([DAI0002](#))

48 Dairy Crest ([DAI0014](#))

32. A perception none the less exists that the code does or should have an impact on prices. Rob Harrison, the NFU's dairy board chairman, calls this a misconception: the code "will not affect the market so there is a lot of misunderstanding throughout the supply chain about what the code is there to do and how it should work".⁴⁹ And, as Dairy UK chief executive Dr Judith Bryans told us, "it was not ever built to deliver a price and it cannot address pricing issues. I am not entirely sure that there is any code in a free market that can address a pricing issue".⁵⁰

33. Neither a statutory nor a voluntary code can set or regulate prices in an open market. None the less, the instability of current pricing within the dairy industry in general and for milk in particular implies that closer attention is needed in the next review of the code to the damage that sharp and rapid shifts in price do to the industry, not least in forcing the exit of producers for whom short-term market fluctuations may prove fatal. Greater guarantees of likely future income are required if farmers are not to continue to depart.

49 Q8

50 Q50

5 The Groceries Code Adjudicator

The role of the GCA

34. There has been considerable pressure to consider the role of the Groceries Code Adjudicator (GCA) and the Groceries Supply Code of Practice in relation to how supermarkets deal with suppliers, processors and producers. There has also been a good deal of misunderstanding of the GCA's role. The GCA was set up in 2013 to enforce compliance with the Groceries Code (after we had, ourselves, conducted pre-legislative scrutiny of the Act that created the post).⁵¹ She has no responsibilities in relation to the voluntary dairy code discussed in the previous chapter. She deals with the relationship between the top 10 UK retailers and their direct suppliers.

35. Confusion exists over what precisely the GCA can do in respect to dairy products: in fact, because of the structure of the milk supply sector, only about 3% of milk producers are direct suppliers to retailers and the vast majority are, therefore, not covered by the Groceries Code.⁵² The GCA has no role in influencing prices offered to farmers for milk and other dairy products. The GCA herself, Christine Tacon, told us: "I think very many farmers thought I was going to be there to get involved with price. I have been asked to get involved in the price of beef and milk and fleece. None of these can I get involved with: first, because I cannot get involved on price, and secondly they are very rarely direct suppliers themselves".⁵³

Review of the GCA

36. The GCA's role is not due to be reviewed before 2016, by its parent department, the Department for Business, Innovation and Skills. The farming Minister told us that, with the GCA being little over a year old, it made sense to give time for its operations to be judged before being reviewed.⁵⁴ We have heard calls for that role to be reviewed sooner, however, and for the GCA's remit to be extended to include relationships all the way down the supply chain, so that the relationships between milk producers, processors and the ultimate retailer could be considered. The NFU dairy board chairman Rob Harrison believes that extending the remit that way could clarify how supermarkets operate in relation to milk and other dairy products.⁵⁵ David Handley of Farmers for Action agrees: "Where we come adrift is we cannot track the money between the retailer and the processor, and that is where I think the adjudicator needs to be given the teeth to be able to

51 [Letter to the Chair of the Business, Innovation and Skills Committee](#) from Miss Anne McIntosh MP, Chair of the Environment, Food and Rural Affairs Committee, 22 June 2011 (Pre-legislative scrutiny of the Draft Groceries Code Adjudicator Bill)

52 Arla Foods UK ([DAI0008](#))

53 Q54

54 Q102

55 Q26

do that”.⁵⁶ The call for extension of the GCA’s remit also wins support from the Royal Association of British Dairy Farmers, Dairy Crest Direct and the Farmers Union Wales.⁵⁷

37. There is less support for any such change among producers, with Arla Foods, for example, noting that “a strong case has not been made for this, given that many of the practices the adjudicator seeks to eliminate are not typical in the supply of milk”.⁵⁸ The Secretary of State for Environment, Food and Rural Affairs has also ruled out a change: “It would not be appropriate to extend the statutory framework of the Groceries Code Adjudicator. [...] To extend the remit of the GCA to cover indirect suppliers would mean amending the 2013 Act setting it up and this would require evidence that its current remit was insufficient. In any case, the market and how it is influenced by overall production and demand volatility will always be the main factor for prices received”.⁵⁹

38. We believe that the terms under which the Groceries Code Adjudicator may operate are too restrictive and that a means must be found to protect suppliers of products to major retailers whether or not they are direct suppliers, as under the current arrangement. We note that the Government is committed to review the operation of the GCA in 2016 but we recommend urgent consideration of how the GCA remit can be extended to incorporate suppliers throughout the supply chain.

39. We repeat the recommendation we made when the Groceries Code Adjudicator was created that she should be able to accept complaints from indirect as well as direct suppliers.

40. We note that the GCA has not yet conducted an investigation. Following our own pre-legislative scrutiny of the Bill which created the Groceries Code Adjudicator, we recommended that she should have the power to launch pro-active investigations as well as respond to complaints, and we repeat that recommendation now.

The powers of the GCA

41. Although the GCA has no direct remit in relation to dairy prices, our inquiry has revealed that she is at present unable to use her power to fine a retailer in breach of the Groceries Code because the Government has spent more than a year failing to set a maximum level of fine. Christine Tacon told us that she made a recommendation to the Government last December, having previously consulted on whether a fine of up to 1% of an offending retailer’s turnover should be the appropriate level.⁶⁰ The Government, via the Department for Business, Innovation and Skills, is required to enact a statutory instrument to bring that level of fine into play, but has not yet done so. Cross-ministerial discussions are now under way, but there has been no guarantee as yet of whether the GCA will be

56 Q26

57 Royal Association of British Dairy Farmers ([DAI0007](#)), Dairy Crest Direct ([DAI0005](#)), Farmers Union Wales ([DAI0002](#))

58 Arla Foods UK ([DAI0008](#))

59 Letter to the Committee, [27 October 2014](#), from the Secretary of State for Environment, Food and Rural Affairs

60 Q63, Q68 and Q69

given the power necessary to conclude an investigation by fining a miscreant retailer within the present Parliament.

42. We find it extraordinary that the Government has left the Groceries Code Adjudicator for more than a year with no practical ability to use her legal powers. We recommend that a statutory instrument setting out the level of fine the Groceries Code Adjudicator may levy be laid within the remainder of the present Parliament. We seek a clear explanation of why the GCA has been left so long without the teeth she needs to do her job.

6 Conclusion

43. The immediacy of the present milk price crisis and the impending end of the current Parliament led us to undertake a quick inquiry which has provided a snapshot of difficulties facing the dairy industry rather than a detailed investigation of its long-term challenges and opportunities. The clear lessons emerge, none the less, that even in a global marketplace where prices rise and prices fall, dairy faces unusual uncertainty that makes forward planning difficult to the point of impossible for operators in an industry containing many small businesses. The farming Minister rightly told us that long-term opportunities remain to be exploited by the UK's dairy farmers, and we agree with Mr Eustice that while the Government can take steps to help, the dairy industry itself has a significant responsibility for its own future and is generally better placed than the Government is to lead change.⁶¹ We also agree with the NFU that the future of the industry is best served by driving on volume of production rather than price in promoting British dairy products.⁶² Nor is it the role of the Government, as Mr Eustice told us, to help individual businesses with cash-flow problems.⁶³

44. Having said that, we believe that dairy producers need greater certainty in their future and assurance that assistance will be provided when short-term, extreme price fluctuations threaten their viability. The measures proposed here are intended to assist in that direction; much more may be required if worldwide markets continue to create substantial instability.

61 Defra ([DAI0016](#))

62 National Farmers Union ([DAI0009](#))

63 Q120

Recommendations

The way forward

1. *Given that the major opportunities to tap into increasing world demand for dairy will arise outside the EU in China, Russia and Africa, the need for a strategy for greater export is clear. Defra must explore with the industry practical steps to ensure that export opportunities are identified for the industry to tap into. (Paragraph 12)*
2. *We welcome the commitment given by the Secretary of State to explore with farmers the creation of Producer Organisations. We agree with the Government that it is a matter for farmers themselves whether they see opportunity in combining to increase their collective bargaining power and influence. We note the reluctance that exists among farmers and their representative organisations, and recommend that the Government identify reasons for that caution and the barriers that may exist to prevent farmers taking this course. (Paragraph 19)*
3. *We recommend that Defra seek a commitment from the EU Agriculture Commissioner Phil Hogan that the current intervention price for milk of around 17 pence per litre be reviewed before the ending of milk quota arrangements in April 2015, and ask the Secretary of State to work with counterparts to keep under regular review thereafter. (Paragraph 23)*
4. *We strongly support the Secretary of State in seeking clearer EU regulation on labelling of 'country-of-origin' products. Country of origin should imply that the raw materials contained in a product were born or grown within that country, and not simply processed there. (Paragraph 25)*

The voluntary code

5. *We recommend that the dairy industry code of best practice remain voluntary in order to retain the flexibility and scope it presently offers. The current crisis affecting dairy farmers is, however, a significant test for the arrangements introduced after the 2012 price crunch. The code is subject to annual review and we expect the 2015 review to take full account of the lessons learned from the present market conditions. (Paragraph 30)*
6. *Neither a statutory nor a voluntary code can set or regulate prices in an open market. None the less, the instability of current pricing within the dairy industry in general and for milk in particular implies that closer attention is needed in the next review of the code to the damage that sharp and rapid shifts in price do to the industry, not least in forcing the exit of producers for whom short-term market fluctuations may prove fatal. Greater guarantees of likely future income are required if farmers are not to continue to depart. (Paragraph 33)*

The Groceries Code Adjudicator

7. *We believe that the terms under which the Groceries Code Adjudicator may operate are too restrictive and that a means must be found to protect suppliers of products to major retailers whether or not they are direct suppliers, as under the current arrangement. We note that the Government is committed to review the operation of the GCA in 2016 but we recommend urgent consideration of how the GCA remit can be extended to incorporate suppliers throughout the supply chain. (Paragraph 38)*
8. *We repeat the recommendation we made when the Groceries Code Adjudicator was created that she should be able to accept complaints from indirect as well as direct suppliers. (Paragraph 39)*
9. *We note that the GCA has not yet conducted an investigation. Following our own pre-legislative scrutiny of the Bill which created the Groceries Code Adjudicator, we recommended that she should have the power to launch pro-active investigations as well as respond to complaints, and we repeat that recommendation now. (Paragraph 40)*
10. *We find it extraordinary that the Government has left the Groceries Code Adjudicator for more than a year with no practical ability to use her legal powers. We recommend that a statutory instrument setting out the level of fine the Groceries Code Adjudicator may levy be laid within the remainder of the present Parliament. We seek a clear explanation of why the GCA has been left so long without the teeth she needs to do her job. (Paragraph 42)*

Formal Minutes

Wednesday 14 January 2015

Members present:

Miss Anne McIntosh, in the Chair

Mrs Mary Glendon

Neil Parish

Mrs Emma Lewell-Buck

Ms Margaret Ritchie

Sheryll Murray

Roger Williams

Draft Report (*Dairy prices*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 44 read and agreed to.

Summary read, amended, and agreed to.

Resolved, That the Report be the Fifth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 21 January at 2.30 pm

Published written evidence

The following written evidence was received and can be viewed on the Committee's inquiry web page at www.parliament.uk/efracom. DAI numbers are generated by the evidence processing system and so may not be complete.

- 1 Arla Foods UK ([DAI0008](#))
- 2 British Retail Consortium ([DAI0012](#))
- 3 Cool Milk ([DAI0006](#))
- 4 Cumbria Business Consultancy ([DAI0011](#))
- 5 Dairy Crest Direct Ltd (DCD) ([DAI0005](#))
- 6 Dairy Crest Ltd ([DAI0014](#))
- 7 Defra ([DAI0016](#))
- 8 Farmers' Union of Wales ([DAI0002](#))
- 9 Groceries Code Adjudicator ([DAI0013](#))
- 10 National Farmers Union (NFU) ([DAI0009](#))
- 11 Neil Adams ([DAI0004](#))
- 12 NFU Scotland ([DAI0001](#))
- 13 Provision Trade Federation ([DAI0010](#))
- 14 RABDF ([DAI0007](#))
- 15 Tenant Farmers Association ([DAI0015](#))
- 16 Ulster Farmers Union ([DAI0018](#))

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the Committee's website at www.parliament.uk/efracom.

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2014–15

| | | |
|---------------|--|-----------------|
| First Report | Winter Floods | HC 240 (HC 701) |
| Second Report | Food security | HC 243 (HC 702) |
| Third Report | Appointment hearing of the Chair of Environment Agency | HC 545 |
| Fourth Report | Waste Management in England | HC 241 (HC 921) |

Session 2013–14

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|-----------------|--|-----------------------------------|
| First Report | Draft Dangerous Dogs (Amendment) Bill | HC 95 (HC 637) |
| Second Report | Vaccination against bovine TB | HC 258 (HC 705) |
| Third Report | Managing Flood Risk | HC 330 (HC 706) |
| Fourth Report | Wild Animals in Circuses | HC 553 (HC 746) |
| Fifth Report | Food Contamination | HC 141 (HC 707) |
| Sixth Report | Rural Communities | HC 602 (HC 764) |
| Seventh Report | CAP implementation 2014–2020 | HC 745 (HC 1088) |
| Eighth Report | Appointment of Chairman of Natural England | HC 890 |
| Ninth Report | Departmental Annual Report 2012–13 | HC 741 (HC 1283) |
| Tenth Report | Tree health and plant biosecurity | HC 469 (HC (Session 2014–15) 242) |
| Eleventh Report | Primates as pets | HC 984 (HC (Session 2014–15) 656) |

Session 2012–13

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|----------------|---|------------------|
| First Report | Greening the Common Agricultural Policy | HC 170 (HC 654) |
| Second Report | The Water White Paper | HC 374 (HC 602) |
| Third Report | Pre-appointment hearing: Chair of the Water Services Regulation Authority (Ofwat) | HC 471-I & -II |
| Fourth Report | Natural Environment White Paper | HC 492 (HC 653) |
| Fifth Report | Desinewed Meat | HC 120 (Cm 8462) |
| Sixth Report | Draft Water Bill | HC 674 (Cm 8643) |
| Seventh Report | Dog Control and Welfare | HC 575 (HC 1092) |
| Eighth Report | Contamination of Beef Products | HC 946 (HC 1085) |

Session 2010–12

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| First Report | Future Flood and Water Management Legislation | HC 522 (HC 922) |
| Second Report | The Marine Policy Statement | HC 635 |
| Third Report | Farming in the Uplands | HC 556 (HC 953) |
| Fourth Report | The draft National Policy statement (NPS) on Waste Water | HC 736 |
| Fifth Report | The Common Agricultural Policy after 2013 | HC 671 (HC 1356) |
| Sixth Report | Implementation of the Common Fisheries Policy: Domestic Fisheries Management | HC 858 (HC 1485) |
| Seventh Report | Pre-appointment hearing: Chair of Gangmasters Licensing Authority | HC 1400-I & -II |
| Eighth Report | EU proposals for the dairy sector and the future of the dairy industry | HC 952 (HC 1548) |
| Ninth Report | The Welfare of Laying Hens Directive—Implications for the egg industry | HC 830 (HC 1664) |
| Tenth Report | The outcome of the independent Farming Regulation Task Force | HC 1266 (HC 1669) |
| Eleventh Report | The draft National Policy Statement for Hazardous Waste | HC 1465 (HC (Session 2012–13) 540) |
| Twelfth Report | EU proposals for reform of the Common Fisheries Policy | HC 1563-I & -II (HC (Session 2012–13) 108) |
| First Special Report | The National Forest: Government response to the Committee's Fourth Report of Session 2009–10 | HC 400 |
| Second Special Report | Dairy Farmers of Britain: Government response to the Committee's Fifth Report of Session 2009–10 | HC 401 |