

The EU's Impact on UK Dairy Farming

The current dairy crisis has a number of aggravating factors, but the simple cause is an imbalance of supply and demand. Dairy farmers throughout Europe have simply been responding to positive market signals, coinciding with the removal of quota restrictions for Member States that have been producing below capacity. Global impacts from Russia and China have had a major impact on this positive outlook and production in all the other international dairy exporters has increased over the same period. A small increase in supply (2% globally) has resulted in a dramatic reduction in farm gate prices.

The EU has ended milk quotas without any clear plan on how the dairy market is to regulate supply management. Domestic producers are increasing production without a confirmed market for their produce. Dairy processors are fighting for market share in supermarkets, the catering food sector and manufacturing, and with a surplus of production globally of course the farm gate price will decrease. However, low prices on the supermarket shelves should encourage consumption, and the British dairy farmer is fortunate that 48% of fresh milk produced here is consumed in this way. There is no correlation between the price on the shelf and the farm gate price, and it is for the processors and retailers to seek to add value to the retail product through better nutritional and value labelling. It is the 52% of liquid milk destined for manufacturing that competes with surplus milk produced in other Member States which brings the price down.

From a political point of view UKIP does not believe that taxpayers money should be spent propping up a viable industry. Tough as it sounds, farmers should not expect handouts to support production and the public purse should never be the first market for production above what the market demands. At EU level our near neighbours, particularly Ireland and Holland, have dramatically increased dairy production following the end of quotas and it is simply not right that UK taxpayers money lines the pockets of these farmers. UKIP notes the recent Commission activity in this area, from the September 2015 super-levy re-distribution to the April 2016 proposal to allow voluntary supply restriction via art 222 of the Common Market Organisation Regulation (CMO). These measures are simply a placatory reaction to the petulant protests of cosseted French farmers and do not address the structural problems caused by the Common Agricultural Policy and the long legacy of market interventions.

That is not, however, to say that there is nothing that can be done to help the industry in the UK and to create the right trading environment for all actors in the supply chain to thrive. First and foremost, the manufacturing and retail dairy supply chains need to take responsibility for their security of supply base. Examples can be found in the pig and poultry sectors of supply chains that went through crisis and have now reformed, with increased vertical integration, to manage supply and secure margins.

Competition law could be better used here, and not just via the bureaucratic and unsuitable producer organisation structure exemptions in the CMO Regulation. Ironically, the EU considers that the UK Groceries Code Adjudicator is the best example of control of unfair trading practices in the EU. We well know that the role of the GCA could be made much more effective with proper scope and powers of enforcement across the whole supply chain, rather than just direct suppliers to supermarkets.

Crucially, without control over country of origin labelling the UK dairy sector will remain vulnerable to unfair competition from “hidden” imports. UKIP continues to work for reform of country of origin labelling rules and for full implementation of the obligation to declare the origin of manufacturing ingredients. Of course independence from the EU will allow us full control of this sensitive issue. Independence would allow the UK to determine its own rules for operating a futures market in milk powder and dairy products, without new EU regulations on Futures trading making it incredibly difficult for small scale traders to benefit. We would also be able to review NVZ regulations with the hope of removing the raft of record keeping this arbitrary target system entails. It could also become easier to import GM soya, which the EU is becoming increasingly critical of, and even potentially to use advanced plant breeding techniques to develop plant protein sources capable of being grown in the UK. This is unlikely in the foreseeable future within the EU. Alternative protein sources such as from insects could also be more rapidly taken up independently of EU legislative bureaucracy. Tighter rules on veterinary medicines (including treatment following vet diagnosis and under prescription only, at substantial increased cost to the industry) in order to combat antimicrobial resistance are close to being passed, and full animal traceability (again at substantial cost to the industry) to enforce the forthcoming Cloning Regulation are envisaged. Brexit would provide an opportunity to review all of this legislation, from the burial of fallen stock to TB strategy.

Ultimately, an industry led dairy supply chain forum needs to come together, to develop a strategy for UK dairy and provide the discipline that farmers are desperately in need of following the demise of the Milk Marketing Board and milk quotas. Responsible supply management is crucial for long term sustainability of the sector and all its supporting and allied industries. Please rest assured that we will continue to work at European and national level to ensure that common sense is spoken in debates about the future of the dairy industry, and that we will stand by the industry as it evolves to meet the new market conditions.

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