



A Review of the Dairy Sector in Wales

Andy Richardson

Acknowledgements

I would like to thank all those who gave their time during the evidence-gathering phase of this review. Their insight, commitment and openness have been greatly valued.

In particular, I would like to thank Ken Stebbings of the Welsh Government for his expert support and advice in helping me research and write this report.

I commend The Deputy Minister, Rebecca Evans AM, for commissioning the review and for her commitment to the Welsh dairy industry.

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PRIORITY

Priority recommendation

WG

Welsh Government Action

IN

Industry Action

Foreword



For those of you who know me you will understand that I have a real passion for the dairy industry and that I have high expectations for the impact dairy can have in the UK and on the Global stage.

I genuinely believe that the Welsh dairy industry has the potential to become one of the most iconic and efficient dairying countries in the World and after interviewing over one hundred stakeholders as part of this review I am in no doubt there are many others who share this view. The Welsh dairy industry is not broken and there is great pride in the industry, but I do appreciate that we are currently facing some significant challenges that are having a profound impact on the lives of many in dairy farming.

So, what did this review set out to achieve?

The review was commissioned by Rebecca Evans AM, Deputy Minister for Farming and Food, to make recommendations for a package of measures that would deliver competitiveness, resilience and economic growth and create additional jobs within the industry. It also aimed to provide a strategic direction for the dairy sector and the associated supply chain in Wales that will help inform the Welsh Government's Agriculture Strategy for Wales. The full Terms of Reference are contained in Appendix A.

What did I conclude through the review process?

Without strong leadership, the industry lacks direction, cohesiveness and the development of those who influence and support others to achieve the industry's shared tasks. For this reason, the recommendations will establish a sound leadership framework on which we can base the future. At the same time, there is a real imperative for action to address the needs of a diverse Welsh dairy industry and so the report clearly identifies key actions that Government and industry should take now.

The report is not solely an action list for Government but instead, it should be seen as a tool by which the Welsh dairy industry can help itself, supported by Government, on the journey to a prosperous and sustainable future. It is important that we focus on achievable outcomes and that we delegate responsibilities for achieving these outcomes to people who have the drive, knowledge, skills and determination to make things happen.

I am honoured to have chaired this review and play my part in securing the future of the Welsh dairy industry.

Andy Richardson

February 2015

Five Point Plan

To enable the Welsh dairy industry to excel on the world stage, we need to ensure that we have strong leadership that unites and energises the supply chain and ensures we collaborate effectively to achieve priority outcomes. The Wales Dairy Task Force has been a good example of how Government and industry can work well together to achieve a shared vision.

There are several important agendas to consider within the context of this review. These include the new joint Industry and Welsh Government Agricultural Strategy, Common Agriculture Policy (CAP) Reform process and the development of a Wales Rural Development Programme. It was therefore important to reflect on how the future vision for the Welsh Dairy sector should be taken forward.

To compete in the world market the industry needs to focus obsessively on what the future market needs and deliver this in a way that matches the most efficient in the world whilst focusing on innovation and respecting the natural environment. None of these things will be possible unless we have the correct people with the best knowledge and skills.

The review therefore recommends a five point plan which combines strategic recommendations with actions.

The five areas are;

- Leadership
- Market Focus
- Efficiency
- Knowledge and Skills
- Environment

Leadership

✓ Desired outcome

A highly organised and united Welsh dairy industry and Government structure that operates within the new Welsh Agriculture Strategy and enables the combined energy, passion, knowledge and business acumen within the industry to achieve agreed outcomes.

★ Recommendations

IN

PRIORITY

Establish an energetic 'Welsh Dairy Leadership Board' that integrates the Dairy Task Force for Wales by May 2015. The Board should be chaired by the industry and build on the existing Welsh Dairy Task Force to achieve a balance of experience, youth and knowledge. It is accountable for;

- Prioritising work streams, clarifying outcomes and allocating accountabilities to deliver the Welsh Dairy Review recommendations
- Driving the future industry strategy
- Coordinating and leveraging activities with the Welsh Food and Drink Board
- Collaborating across the UK to ensure efforts are not duplicated
- Capturing, resourcing and delivering innovation through the 'Welsh Dairy Innovations Think Tank' (see page 5)
- Identifying knowledge and skills gaps and coordinating solutions through the 'Welsh Dairy Knowledge and Skills Group' (see page 7)
- Owning and driving the 'Next Generation Engagement Project' (see page 5)

Key

PRIORITY

Priority Recommendation

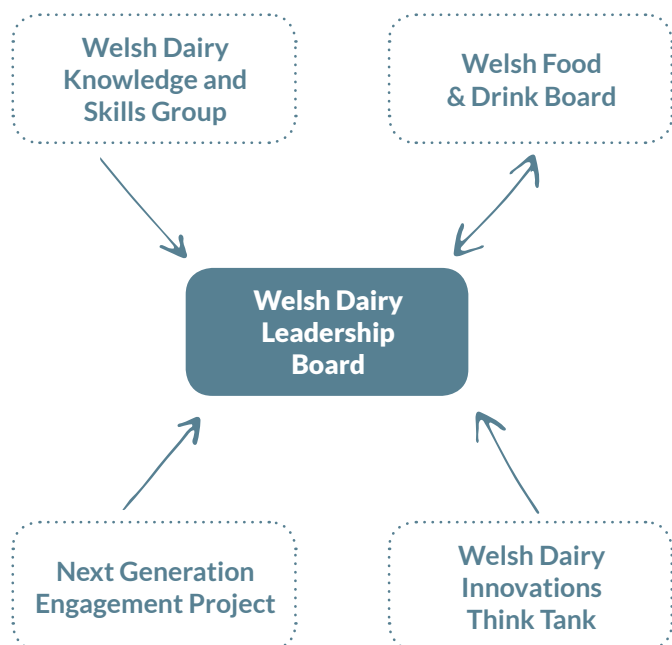
WG

Welsh Government Action

IN

Industry Action




WG **PRIORITY**

Appoint a 'Welsh Dairy Champion' sponsored by the Welsh Government by June 2015 to;

- Be a member of the 'Welsh Dairy Leadership Board' and facilitate the effective and efficient operation of this group
- Provide a day to day focal point to coordinate activities and identify industry needs
- Act as a communications focal point for the Welsh dairy industry

IN **PRIORITY**

Instigate an annual 'Welsh Dairy Farming Awards' in 2015 as part of the Welsh Farming Conference to celebrate excellence in the dairy industry in Wales and recognise best practice in the following five strategic areas;

- Leadership
- Market Focus
- Efficiency
- Knowledge and skills
- Environment

The Welsh Dairy Leadership Board will select category winners.

IN

Identify potential Welsh dairy industry leadership talent across the supply chain and implement a mentoring and training scheme by end October 2015 to ensure these leaders achieve their potential for the benefit of the industry.

It is recommended that the industry works within the proposed 2014-2020 RDP programme and consider a project bid in the next Rural Development Programme (RDP) to fund these activities.

IN **WG**

Integrate existing Welsh dairy 'steering' groups and the Dairy Task Force into the Welsh Dairy Leadership Board where it is agreed that this simplifies and improves efficiency.

? Why are these recommendations necessary?

Without strong leadership, the industry lacks direction, cohesiveness and the development of those who influence and support others to achieve our shared tasks. These leadership recommendations will establish a sound leadership framework on which we can base tactical recommendations and the future.


Key

PRIORITY Priority Recommendation

WG Welsh Government Action

IN Industry Action

Market Focus

✓ Desired outcome

A Welsh dairy industry that focuses on adding value through innovation based on a deep understanding of the unique and differential needs of domestic and international markets.

★ Recommendations

WG PRIORITY

Complete a feasibility study by December 2015 to evaluate the potential of a market driven dairy processing facility in South West Wales to provide a secure added value market for the anticipated additional 400m litres of annual Welsh milk produced by 2020.

IN PRIORITY

Establish a Welsh 'Dairy Innovations Think Tank' by June 2015 which is accountable to the Welsh Dairy Leadership Board and run by the industry with the purpose of;

- Identifying existing innovative ideas across the supply chain and transferring them to new users
- Capturing 'blue sky' innovations across the supply chain and leveraging them through focused solutions
- Ensuring innovation is focused on efficiency and the market

WG PRIORITY

Ensure that the next round of European Structural Funds, including the future RDP, is used to encourage and facilitate improved primary milk production, dairy processing, product marketing and innovation in Wales.

IN PRIORITY

Collaborate with the new Welsh Food and Drink Board to;

- Influence Board Terms of Reference to ensure Welsh dairy interests are fully represented
- Understand the value of the Welsh brand to food consumers in local and international markets both as a standalone brand and in association with the British brand
- Understand the benefits of tightening country of origin labelling (COOL)
- Enhance the Welsh procurement and promotional website to ensure sellers and buyers of all types are represented

IN PRIORITY

Establish a 'Next Generation Engagement Project' by August 2015 which is accountable to the Welsh Dairy Leadership Board to connect school children to dairy farming and dairy products with the following intended outcomes;

- Children understand the value of dairy foods and farming
- Parents understand and value dairy through child activities and behaviours

WG

Work with the Government public procurement service to ensure Welsh dairy products are included in tenders to supply Welsh schools and hospitals and the wider public sector.

? Why are these recommendations necessary?

An obsessive focus on the needs of customers will ensure the industry looks ahead and takes full advantage of added value market opportunities.

Efficiency

✓ Desired outcome

A Welsh dairy supply chain that is amongst the most efficient in the world allowing it to compete in the world market and provide an attractive place for business to invest.

★ Recommendations

WG **PRIORITY**

The Welsh Dairy Leadership Board, working with the Welsh Government, should understand and quantify by March 2016 how improved logistical collaboration could remove cost from the Welsh dairy supply chain.

WG **PRIORITY**

Ensure that knowledge transfer activities such as those delivered by the new Farming Connect programme and DairyCo are joined up and are focused on the priorities of the 5 point plan with particular focus on efficiency gains in the following areas;

- Improved grass utilisation
- Enhanced silage quality
- Improved utilisation of slurry and soil nutrients (including use of anaerobic digesters)

WG **PRIORITY**

Welsh Government should seek to influence HM Treasury to look urgently at whether the current taxation regime hinders future investment in the dairy sector and to act accordingly.

WG **PRIORITY**

Evaluate the potential for Welsh dairy share farming schemes by October 2015 in line with recommendations by Malcolm Thomas to;

- Ensure land, buildings and machinery are used efficiently
- Facilitate new entrants to dairy farming
- Retain and share knowledge and skills

WG

Ensure RDP payments focus on improving dairy farm productivity, animal health and welfare.

IN

Benchmark the cost and environmental impact of energy used by Welsh dairy farmers and processors against global competitors by October 2015 to understand international competitiveness and comparative environmental impact. Identify areas for cost reductions and viable options for alternative fuel sources to reduce environmental impact.

WG

Evaluate a dairy farmer exit scheme by October 2015 through funded professional advice which has the potential to;

- Retain knowledge and respect lifestyles of retiring farmers
- Ensure land, buildings and machinery are used more efficiently
- Facilitate new entrants to dairy farming

? Why are these recommendations necessary?

The matching of dedicated market focus with leading levels of efficiency will ensure that the Welsh dairy industry is a World leader and an attractive place for companies to invest.



Knowledge and Skills

✓ Desired outcome

A Welsh dairy industry that attracts, develops and retains the best, most knowledgeable and motivated talent across the supply chain in line with current and future industry requirements.

★ Recommendations

IN

PRIORITY

Develop a common strategy and funding plan to improve knowledge transfer, business skills and leadership for dairy farmers by October 2015 which;

- Coordinates and makes most effective use of Welsh Colleges, DairyCo, Dairy Innovation Centres and Farming Connect
- Establishes a dairy centre of excellence to rival Moorepark in Ireland
- Collaborates with English and Scottish Agricultural colleges to pool resources / expertise and avoid duplication
- Develops and leverages study tours, farm visits, benchmarking, farmer exchange days and discussion groups

WG

PRIORITY

Ensure that commissioned consultants within the new Farming Connect programme provide a consistent and effective service by December 2015, possibly through an accredited charter for relevant consultants.

WG

PRIORITY

Develop farmer understanding of how global, UK and Welsh dairy markets operate to assist decision making, contract selection and collaborative discussion.

IN

PRIORITY

Establish a 'Welsh Dairy Knowledge and Skills Group' which is accountable to the Welsh Dairy Leadership Board with the purpose of developing a long term strategy by December 2015 to forge links with business and improve the quality, number and motivation of the following key industry skills;

- Farm labour
- Farm management
- New Product Development and innovation
- Marketing
- Food science
- Engineering
- Processing (linking to existing Wales Dairy Industry Skills partnership)

? Why are these recommendations necessary?

Having an efficient market focused industry is not possible without having the correct people with the best knowledge, skills and motivation.



Key

PRIORITY

Priority Recommendation

WG

Welsh Government Action

IN

Industry Action

Environment

✓ Desired outcome

Welsh dairy farming is able to meet future market demands for the care of natural capital (air, soil, water and biodiversity) and be promoted as having a low carbon footprint.

★ Recommendations

WG

PRIORITY

Develop a strategy by June 2016 to reduce greenhouse gas emissions on Welsh dairy farms.

IN

PRIORITY

Develop specific plans by June 2016 to improve the impact of dairy on natural capital (air, soil, water and biodiversity).

WG

Improve the uptake of Glastir (Welsh sustainable land management) by making the scheme more attractive to dairy farmers.

IN

Develop plans by June 2016 to ensure the long term water needs of the dairy processing industry are met.

? Why are these recommendations necessary?

Dairy industries of the future will need to demonstrate that they have a net positive impact on natural capital in line with consumer expectations.

Key

PRIORITY

Priority Recommendation

WG

Welsh Government Action

IN

Industry Action

Additional Recommendations

The terms of reference required commentary in the following four areas based on feedback and insight gained during the stakeholder interviews.

Voluntary Code

During the course of the review, it became clear that there was a range of expectations relating to what the code was set up to achieve. For some there was the incorrect expectation that the code would influence the absolute level or volatility of milk prices.

The vast majority of interviewees felt that the code is preferable to legislation and that it has improved communication, information and understanding in the farmer / processor commercial relationship. It is recognised as being broadly helpful in establishing dialogue between farmers and milk buyers and as having stopped milk price changes being introduced retrospectively.

It is felt by many that to be fully effective the code needs to ensure a level playing field between all processors, particularly over notice periods, and that more processors should sign up to the code. Likewise the code needs to develop to allow farmers to supply more than one buyer.

It is recommended that the code continues to be reviewed annually to ensure it is 'fit for purpose' and that any corrective actions are identified.

EU Dairy Package

The dairy package made provision for Dairy Producer Organisations (DPOs) to be established to improve the bargaining power of farmer producers.

So far, no DPOs have been set up in Wales and therefore it is difficult to comment on their effectiveness. There is some concern that the establishment of DPOs could actually harm the competitiveness of the Welsh dairy industry.

It is recommended that the Welsh Government undertake a study to assess how DPOs have benefited or disadvantaged other EU countries and whether they would benefit the supply chain in Wales.

Welsh Dairy Strategy

The review considered the effectiveness of the Welsh dairy strategy.

Most people believed there is no overall strategy for the Welsh dairy sector, other than an aspiration to increase production from 1.6 billion litres to 2.0 billion litres per annum by 2020.

Many believe that the Welsh dairy industry should work within the UK 'Leading the Way' dairy growth plan with the aim of negating the £1.3 billion trade deficit.

The recommended strategic way forward for the Welsh dairy industry is to;

- Work within the UK 'Leading the Way' growth plan
- Deliver the recommendations contained within this review for the benefit of the Welsh dairy industry



Milk Price Volatility

The review was asked to consider milk price volatility.

The current milk price situation is largely due to the 'perfect storm' of above average global production due to favourable production conditions at a time of reduced demand due primarily to the Chinese market and Russian trade sanctions. Mitigation interventions by Government could only have a very limited effect on milk prices under these circumstances.

This review does recommend further investigation of the effectiveness and operation of the following mitigation options although the impact of these would be limited given the global trade of dairy commodities;

- Five year profits averaging for the purpose of taxation
- Futures market for dairy products
- Greater use of retailer aligned contracts in Wales (currently only 4% of Welsh dairy farmers are on a retailer aligned contract versus 25% across the UK)
- Raised dairy intervention prices
- Farm profit deposit scheme to set aside profits in good years to draw down in poorer years



Background

The review has taken place during a period of low farm gate and commodity dairy prices. These low prices have impacted on profitability across the sector and reduced the confidence needed for new investment.

Before the autumn of 2014 there had been a period of higher milk prices, good weather and lower input costs which combined to support an increase in milk production across the UK. This good weather was also experienced across the World which resulted in an increase in global milk production and a global imbalance between supply and demand. The recent EFRA report on milk prices summarised the situation: “...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. 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 then, 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.”¹

In time, the global market will adjust restoring the supply demand balance and dairy markets will continue to expand. The long term outlook for dairy is good with the global population increasing and consumers growing in affluence resulting in a greater demand for milk and dairy products.

The UK market has been constrained by the EU quota system since 1984 and there is currently a significant trade deficit in dairy products. The UK dairy industry growth plan “Leading the Way,” which was launched in the summer of 2014, suggests the UK adopts the strategic aim “... to eliminate the UK dairy trade deficit ² value by 2025.” This initiative has been widely endorsed and, as an example, will require an increase in output for the whole supply chain of around 4 billion extra litres of milk and at least half a million more cows.

The increase proposed in “Leading the Way” suggests the UK displaces the current level of cheese imports (287,000 tonnes) and butter imports (66,300 tonnes) by 2025. This is a significant and unifying challenge for the UK dairy industry particularly when considered within the context of an additional aspiration to increase dairy exports. A shift towards exports of value-added and/or branded products would increase the value of trade, minimising the trade deficit.

Leading the Way is a UK strategy but there are indications that Wales will make a significant contribution to achieving the strategic aim of a 4 billion litre increase (about 30%) over ten years. The Welsh Dairy Farmers Survey Report (Promar 2014) suggests Welsh dairy farmers will expand production by 20% by 2019 and Wales is well placed to displace UK imports of cheese and butter, subject to production being competitive with import prices and an increase in processing capacity.

There is an opportunity to consider how the dairy sector can be supported by the new Rural Development Programme 2014-2020. The RDP will continue to offer a comprehensive package of advisory services, knowledge transfer activities and supply chain development, but will also offer funding to support capital investment to improve dairy sector infrastructure, on farm and in processing.

It is likely that the dairy sector in Wales will continue to be subjected to milk price volatility, with periods of high and low milk price. The review considers possible mechanisms to reduce volatility but also accepts that the sector must adapt to survive through tough periods and build assets and invest when milk price is high.

¹ DEFRA report on Milk Prices. <http://www.parliament.uk/business/committees/committees-a-z/commons-select/environment-food-and-rural-affairs-committee/news/dairy-prices-report/>

² £1,27 billion 2012 source UKTI/Defra

Strengths

- Grass based production
- All year calving pattern
- Good image
- Temperate climate
- Large market on doorstep
- Reasonable skills set
- Good scale on some farms
- Traditional farms
- Dense milk fields SW & North
- YFC very strong

Weaknesses

- Knowledge to exploit grass could be improved
- Dairy farmers are price takers who have little control over price
- Poor road infrastructure
- Lack of processing capacity
- Milk sold as a loss leader
- Fallen behind on innovation
- Farm worker skills could be better
- Transport infrastructure
- Small population cannot support dairy industry alone
- Dependent on English market
- Range in farm production efficiencies
- Disconnected with how market works
- Few options for contracts

SWOT

Opportunities

- Fantastic location for milk production and processing investment
- Competitive raw material and efficient processing
- Increasing world demand
- Quotas ending in 2015
- Industry can grow
- Development of Welsh brand
- Feasibility study for milk processing in South Wales
- Direct RDP funding based on outcomes
- Encourage innovation
- Identify the right people to lead the industry
- Educate farmers on markets, trends and forecasts
- Room for some seasonal milk supply
- Develop discussion groups
- Export market
- Develop PDOs, PGIs and Food Tourism

Threats

- Failure of a major milk buyer could have a big impact
- Costs to access English market
- Failure to tackle bio security and animal disease (Johnes, TB, BVD, etc)
- Price volatility
- Extreme weather events
- Rising input costs
- Disease management
- Lack of quality staff
- Quotas ending in 2015
- South Wales could become a “buffer” for UK milk production requirements
- Challenge of moving niche to large scale – small manufacturers find it difficult to expand
- SW welsh milk only needed when it suits
- Poor market understanding could lead to bad investment decisions

Evidence

Leadership

During my interviews, I was impressed with the energy, passion, knowledge and business acumen that exists within the industry and with the real desire for the Welsh dairy sector to become increasingly efficient and market focused. There is no reason why Wales cannot become a world leader in milk production and processing. To achieve this there is a need to unite, organise & cultivate the whole supply chain behind a shared vision for growing a profitable and sustainable industry.

In a number of my interviews, the strategy being followed in the Republic of Ireland was advocated for Wales. Their ambitious growth plan with a clear target, based on a spring calving grass system is appropriate for them, but the farming systems and the processing sector in Wales are different. Simply applying the Irish model would not be appropriate for Wales but we can learn from their approach. Their industry has clear leadership and everyone is focused on a single plan.

My recommendation is therefore that the Welsh dairy industry should first establish an energetic “Welsh Dairy Leadership Board” to provide clear and focused leadership. The Leadership Board should unify and motivate the supply chain to take responsibility for its own destiny with the Welsh Government facilitating the process and setting the environment for dairy industry growth.

During my interviews, I became aware of a number of Welsh dairy “coordination groups” with various roles that operate independently. My recommendation is that where appropriate these should be integrated into the Welsh Dairy Leadership Board to improve focus, co-ordination, efficiency and effectiveness. I am recommending that a “Welsh Dairy Champion” within the Welsh Government should be appointed to facilitate the effective and efficient operation of the “Welsh Dairy Leadership Board” and to provide a day to day focal point in the industry to coordinate activities and meet the needs of the industry.

It is crucial that the Leadership Board should work within a close and integrated two-way process with the Welsh Food & Drink Board. The Leadership Board should ensure that dairy challenges, opportunities and issues are represented at the Food and Drink Board which in turn needs to be confident that opportunities and actions are leveraged in the dairy industry where appropriate. There are a number of dairy issues which apply to the whole food chain, for example the issues around consumer understanding of the food chain, the importance of a balanced healthy diet and the value of the Welsh brand. These were frequent messages from my interviews.

Success should be celebrated and we should publically reinforce the desired direction of the industry. I therefore recommend that the industry develops an annual “Welsh Dairy Farming Awards” with the following categories: Leadership, Market Focus, Efficiency, Environment and Knowledge & skills. These awards could fit into the Welsh Farming calendar forming part of the annual Welsh Farming Conference.

Market Focus

Many I met during the course of the review held strong views on the branding and marketing of Welsh dairy. It was felt that Wales should seek ways to add value to the dairy industry by focusing on the unique and differential needs of domestic and international markets. Both Welsh milk producers and processors were extremely proud of their Welsh heritage and many of those interviewed suggested that Wales should market Welsh food under a Welsh brand, using the “green/natural” credentials already established for Welsh Beef and Welsh Lamb. There could be some opportunity to add value through the Welsh brand but I would heed caution. My advice is to ensure the true value of the Welsh brand with or without the association with the British brand be considered in both domestic and export markets before committing to investing in the Welsh brand. Welsh food branding is an issue for all food and drink

products and therefore it is something I recommend that the Welsh Food & Drink Board take forward, with input from the Welsh Dairy Leadership Board.

The benefits of a Welsh “products” database to include the raw materials, feed commodities and consumer products it produces should be explored. Wales is a small country and it can use this as a positive to link the farming and food manufacturing industries to potential customers.

Currently about half of milk produced in Wales is transported to England to satisfy the liquid market, with the other half processed in Wales, mainly into cheese. This situation poses some strategic long term risk. Welsh dairy farmers depend on large England based liquid processors continuing to source milk in Wales and the indigenous production of cheddar type cheeses leaves them exposed to global cheese prices. Very few Welsh dairy farmers have retailer aligned liquid milk contracts compared to England which results in a disproportionate exposure to world prices during market troughs.

With current levels of production, processing capacity has not been limiting but the expected future expansion in Welsh milk production will require further processing capacity. The milk field in north Wales has a number of milk buyers and is relatively close to large population centres. The milk field in Pembrokeshire, Carmarthenshire and Cardiganshire is large and the First Milk cheese processing plant at Haverfordwest is the only significant processing site. Welsh processing capacity was an area of great concern during many of my interviews with Welsh stakeholders. For this reason, I recommend that a feasibility study should be undertaken to evaluate the potential of developing a market driven milk processing facility in South West Wales. This study should “think smart” to evaluate how secure added value markets can be created for Welsh milk. This issue is urgent as milk production could soon exceed processing capacity and there is considerable lead time for this type of project.

Any Welsh processing initiative should focus on the market and be capable of reacting to market change and opportunities. It should look to add value to all milk fractions, be reactive to production shortages and excesses and focus on innovation. It is for this reason I recommend the establishment of a Welsh “Dairy Innovations Think Tank,” accountable to the Welsh Dairy Leadership Board. This “Think Tank” should contribute to the processing plant feasibility study.

There is a perception that Welsh Government could help the industry by increasing public procurement of dairy products. I am aware that the National Procurement Service (NPS) for Wales was launched in November 2013 and is hosted by the Welsh Government. It is possible there has not been sufficient time to exert influence, but it should strive to ensure that the entire public sector in Wales sources dairy products from Wales.

Children are the consumers of tomorrow, but also exert considerable influence over parental spend and thinking! For this reason I am recommending that a “Next Generation Engagement Project” be taken forward. It would help re-establish the link between children, farming and food production, to give a better understanding of the value of food, including dairy, and the farming systems used to produce the food we eat. The intended outcome of this project would see children and their parents having greater value for the contribution dairy can make to a healthy, nutritious and tasty diet.

Efficiency

I am aware of the sensitivities that exist within some parts of the supply chain about being asked to become more and more efficient. I understand this sentiment but I passionately believe that any industry that does not look to constantly drive improvements in efficiency will not thrive in the long term. Our industry is increasingly subject to global trade and without a constant drive towards increased efficiency our markets could simply be lost to those that do.

To compete in the World market, the Welsh dairy supply chain needs to be amongst the most efficient in the world. To be the most efficient there must be investment on farm and in processing. There is an opportunity to focus future RDP Pillar 2 payments on improving dairy farm efficiency and productivity and RDP funding is important to increase the efficiency of the processing sector. With efficient and productive farmers, capable of reacting to changing markets, Wales can be seen as an attractive place for business to invest.

Any changes to Pillar 1 and RDP payments must not disadvantage dairy farmers. Changes which results in much lower direct payments could have an adverse effect on industry confidence and reduce the investment needed in infrastructure to drive further efficiency. Dairy farmers must be able to gain the full benefit of support from the capital funding measures included in the next RDP programme. The specification for the Sustainable Production Grant (SPG) should be set so that dairy farmers can fully benefit. The maximum size of eligible projects should be large (up to £500,000 at 40% funding) so that dairy farming businesses can make the significant investments needed to increase business efficiency. A business plan, which looks to the medium term (at least five years), would be required to receive funding. This plan should include a sensitivity analysis making clear at what milk price the business will move between a profit / loss position. It is likely that future milk prices will be subject to increasing volatility and dairy farmers must plan to survive trough periods and ready to invest when prices recover.

Benchmarking is a very powerful tool, but not adopted widely amongst Welsh dairy farmers. During my meetings with farmer groups, they estimated that only 10% of Welsh dairy farmers are engaged in benchmarking. I am aware that considerable effort has been put into benchmarking programmes in the past, but I remain convinced that the tool has much to offer and should be more widely adopted. Perhaps a requirement to benchmark should be integrated

into business planning and become an integral part of qualification for capital funding. I am impressed with the approach taken by the European Dairy Farmers (EDF) club, benchmarking dairy farms across 17 European countries. Participation in this club should be facilitated and encouraged so that more farmers appreciate their cost base compared to their European and global competitors.

During my banking discussions, I was reassured that banks would continue to invest in dairy farms with viable business plans. Access to capital is therefore possible but there is an issue for those farms with a limited asset base. There are loan guarantee schemes in other sectors and such a scheme for dairy farmers may attract the entrepreneurs that could add energy and vital capital to the sector. Dairy farming is capital intensive and a prerequisite of ambitious expansion plans is capital investment. New entrants to dairy farming and tenant farmers may have a viable plan but may not have sufficient assets to borrow against. New forms of lending need to be investigated including, peer to peer lending, loan guarantee and retiree to new entrant to allow more mobility and new entrants into the industry.

There were other financial issues raised by farmers currently dealing with cashflow problems. Their cash flow problems were made worse by the requirement to pay tax from the previous year, which is further compounded if they had also made a capital investment in buildings that would not attract significant relief. I realise tax regulation is with HMRC and is not devolved, but these issues apply across all UK dairy farmers. A longer-term tax averaging system and the ability to write off capital invested into buildings would merit further investigation. Independent schemes to insure against a future loss of margin and a futures market for milk were also suggested as such schemes operate in other countries. Their merits and possible application to a UK situation is worth further investigation.

Milk production in Wales is mainly distant from the final consumer. Raw milk has a short storage life, is heavy, and bulky relative to value. Milk is therefore difficult and expensive to transport and adds to the costs, ultimately paid by producers. There are many milk buyers and milk transport contractors operating in the milk fields across Wales. Many farms have relatively low volumes to collect and farms may not have any access for larger tankers. These factors combine to make milk transport inefficient, with many road miles travelled either empty or with part loads. A better understanding of milk transport in Wales is needed to quantify how improved logistical collaboration could remove cost from the Welsh milk supply chain.

Knowledge and Skills

The industry, both on farm and in processing, has concerns over the availability of “talent.” Wales needs to create an environment where existing talent can be identified and developed, and to look to attract new talent from outside Wales and outside the industry. For Wales to be globally competitive, it must attract, develop and retain the best, most knowledgeable and motivated people across the dairy supply chain.

I acknowledge the success of the “Agri-Academy” initiative and the work of the “Future Farmers of Wales” but I suggest this can be built on and to give a dairy focus, with the implementation of further mentoring and training. I am aware of the energy and potential of the next generation and of their frustration in not being able to get a foot hold into an industry they are passionate about. The YESS scheme is a useful first step but does not facilitate new entrants into dairy farming. There are new ways in, via joint ventures (JVs), peer support and partnership arrangements.

I was impressed with the range and extent of dairy farm support services available to Welsh farmers. To some extent this creates its own problem. I formed the impression that efforts were not completely

aligned and that co-ordination could be better and I recommend that the future RDP programme effectively joins up the activities of Farming Connect, AHDB DairyCo and any other funded programmes that may be made available to farmers. The core technical areas for dairy farmers remain the same. The programme should continue to focus on grass utilisation, both by grazing and silage making, and on the use of slurry and on animal health. These need to be linked in with the delivery of improved understanding of business planning and management.

The delivery of support for dairy farmers for knowledge transfer, developing business skills and leadership skills is complex and involves a number of delivery partners. A single strategic approach is needed and a mechanism found to ensure delivery is co-ordinated. There is much on offer and generally the quality of support is good, but my meetings indicated that not all farmers completely understand what is available and there are some issues around the quality of delivery by consultants and facilitators. The new contract with Farming Connect providers offers an opportunity to consider the effective co-ordination of Farming Connect delivery with AHDB DairyCo, the Dairy Development Centre and Welsh Agricultural colleges. Collaboration with English and Scottish Agricultural colleges with dairy expertise should be explored to pool resources and expertise and avoid duplication.

There was also a view that Wales needs a “dairy centre of excellence” and the example of Moorepark was quoted. The use of commercial farms to demonstrate short term projects is accepted but demonstration of systems, with long term recording, with access to research staff and experts was seen by many as a necessary component of the knowledge transfer delivery mix.

The Welsh dairy industry can only be efficient if the cows in the Welsh herd are healthy. There are a number of challenges, not least of which is bovine TB, that challenges the industry and reduces

competitiveness. Herd breakdowns and cattle slaughtered are currently reducing, but bovine TB continues to be one of the biggest problems facing dairy farming in Wales. The eradication programme which relies on a high level of co-operation between Government, the veterinary profession and the industry remains the best way forward.

Welsh dairy farmers are striving to improve the health status and the welfare of their dairy herds. In the meetings I had with farmers, there was a real appetite to tackle other disease problems, both on their farms and across the Welsh herd. It is accepted that poor cow health is a major cost to the industry and improvement leads to higher margins.

Dairy farms need support, but also leadership by Government, to improve herd health planning and to implement more effective farm biosecurity. The whole cattle industry would benefit from the increased use of herd health schemes that could include eradication or reduction in the incidence of BVD, IBR, Johnes disease, Leptospirosis and liver fluke.

Environment

I have no doubt that the Welsh dairy sector will grow but it is important to do this at the same time as delivering a net positive impact on natural capital (air, soil, water and bio diversity) and continuing to reduce the carbon footprint across the supply chain. The Dairy Roadmap is the dairy supply chain plan that sets time limited targets for environmental improvements for the industry, for farmers and processors and has already delivered significant change. However, this roadmap alone is not enough. There is a real need to understand the impact dairy has on natural capital and set relevant targets and

delivery systems for incremental improvements in the wider aspects of natural capital.

Some dairy farms have calculated their carbon footprint and are considering how they can reduce emissions by improving cow nutrition and management, better resource management and energy generation. These measures are win-win, as efficient resource use inevitably increases profit.

Dairy farms have already made significant investment in wind and PV generation and further expansion is an opportunity. The issues associated with the wider adoption of Anaerobic Digestion need further investigation.

The new RDP offers an opportunity to build on the progress that has already begun. My feedback from dairy farmers on the Glastir scheme was mixed. Some appreciated the funding that had enabled them to reduce their energy consumption or improve their slurry management, while others were dismissive and saw it as a scheme that was not applicable in their business. This is another area of RDP spending where dairy farmers must not be disadvantaged and Glastir options that offer all dairy farmers possible access funding for environmental improvement should be explored.

Appendix A

Terms of Reference – Review of the Welsh Dairy Sector.

Appointment:

The independent reviewer will be Andy Richardson who is currently employed by Volac, a dairy nutrition business.

The review;

The review will consider all elements of the Welsh dairy supply chain, drawing on the work and evidence already available from the report of the Dairy Task Force for Wales (DTFW). The review will provide strategic direction for actions by the Welsh Government and other stakeholders, to enhance the competitiveness, resilience and sustainability of the Welsh industry. The review will also consider the effectiveness of the Plan for Milk and the industry Voluntary Code on milk contractual arrangements; both have now been in place for two years. The independent report on the Voluntary Code undertaken by Alex Ferguson MSP (October 2014) will also be considered in the context of the Welsh perspective. The actions from the review will support the delivery of the Welsh Food Strategy.

Evidence will be gathered at a series of consultation meetings with the DTFW, individually and collectively, and also with other industry representatives and farmer stakeholders able to inform the review and its recommendations.

The review will commence in November 2014 and be completed by the end of February 2015.

Terms of Reference;

- To review and interpret existing evidence from the DTFW and any other independent reviews and evaluations that have a bearing on the Welsh dairy supply chain
- Explore the specific issues that relate to milk price volatility and consider whether there are mechanisms which could mitigate

(legal and voluntary) volatility and give a more stable farm gate milk price.

- Consider how the processing and retail sectors, as well as wider global trade influence Welsh and UK markets, and impact on sector profitability.
- To consider what support under the RDP 2014 – 2020 might be relevant to dairy farmers and the milk processing sector in Wales
- Comment on the effectiveness of the Voluntary Code and the possible use of regulation under the EU Dairy Package on milk pricing and milk contracts in Wales
- Consider the current support and guidance on product development and added value in the supply chain, to give dairy products access to a wider market place, particularly import substitution
- Consider the capacity, product mix and geographical distribution of the Welsh dairy processing industry, and what measures are needed to draw investment into milk processing in Wales

The final report is expected to;

- Make recommendations on the above, to include a package of measures, which would deliver competitiveness, resilience, economic growth, and the creation of additional jobs within the industry
- Provide a strategic direction for the dairy sector and the associated supply chain in Wales that will help inform the Welsh Government's Agriculture Strategy for Wales
- Make recommendations that can be implemented, allocate responsibility and indicate a timescale

The scope and timetable for the review can be revised with prior agreement if in the course of the review other areas of relevance are identified which might have a bearing on the findings of this review.

Working Terms and Conditions;

The reviewer will be provided with secretariat support (Ken Stebbings and others as appropriate)

from the Agriculture and Rural Affairs Division of the Welsh Government.

The review work will involve attendances at meetings across Wales and engagement with groups of individuals/bodies that will be arranged in order to meet the reviewer's and Welsh Government's timetable.

Engagement will be required with (not exhaustive);

1. Members of the Dairy Task Force for Wales.
2. Industry Stakeholders including industry representative bodies and leading farmers.
3. Dairy UK and representatives of the processing sector buying milk from Welsh farms.
4. Internal Welsh Government Staff and Regulators, to include RDP delivery, funding schemes for farmers and processors and farmer support under Farming Connect.

It is anticipated that the reviewer will devote up to twenty days to undertake research and deliver the completed review report to the Deputy Minister for Farming and Food. Welsh Government will compensate for the days spent working on the review. Travel and subsistence costs will be paid based on the standard Welsh Government rate for consultants.

Appendix B

List of Contributors

In compiling this report, evidence was gathered from the following:

Farmers and farmer stakeholders	Role/organisation
Aled Jones	Dairy Task Force/NFU milk committee
Mansel Raymond	Copa Milk Chairman
Rob Harrison and Sian Davies	NFU
Kevin Owen and milk committee members	NFU Welsh Milk Committee
Stephen James and eight dairy farmers at farmer meeting	President , NFU Cymru
Abi Reader	Dairy Farmer
Peter Kendall	AHDB
Gwyn Jones	DairyCo
Chris James, Delyth Davies and Duncan Pullar	Dairy Co
Sarah Price and Prof Wynne Jones	YFC
Joy Smith and six Future Farmer members	Future Farmers of Wales
Wil Williams, Dafydd Wynn-Finch, Ken Rowlands and Gareth Jenkins	Farmer group, north Wales
Steven Bradley and farmer discussion group: 11 Dairy farmers	Grazing Celts
Peredur Hughes	Chair, Animal Health and Welfare Strategy
Consultants	
Eifion Williams and Andrew McLay	Promar
Neil Blackburn	Kite Consulting
Mark Shephard	Laurence Gould
Jim Williams	National Farm Research Unit
David Lloyd	Food Industry Centre and DTFW
Einir Davies	Mentor a Busnes/Farming Connect
Peter Rees and John Griffiths	Dairy Development Centre
Tors Hemme	IFCN
David Edwards	DWE Consulting
Politicians	
Lord Curry	Lords
Lord Selborne	Lords
Simon Hart MP	Westminster MP
Albert Owen MP	Westminster MP
Huw Irranca-Davies MP	Westminster MP - Shadow Minister of State for the Rural Economy, Food and Farming
Roger Williams MP	Westminster MP
Processors/milk buyers	
Lee Truelove and Mike Smith	First Milk
Paul Vernon	Glanbia
Alan Wyn-Jones	South Caernarfon Creameries
Martin Armstrong	Muller Wiseman
Mark Morgan	Arla
Mike Sheldon	Dairy Crest
Sue Evans	Llanboidy Cheese
Alan Armstrong, Jonathan Hogg and James Neville	Volac

Retailers	Role/organisation
Tom Hind	Tesco
Sue Lockhart and Damian Drumm	Sainsburys
Sara Jones and Andrew Opie	British Retail Consortium
Supply Trade/Banks	
David Caffall and George Perrott	Agricultural Industries Confederation (AIC)
Michael Jack and Euryrn Jones	HSBC
Neil Richardson and Richard Gibb	For Farmers
Ken Greetham	Wynnstay
Andrew Jackson	Mole Valley Farmers
Keith Gosney and Phil Evans	Clynderwen and Cardiganshire Farmers
'Other'	
Ann Jones and Mary Lynn	National Federation of Women Institutes
Government Officials	
Andrew Slade	Director, Agriculture, Food and Marine
Christianne Glossop	Chief Veterinary Officer
Keith Smyton and Andrew Thomas	Food Division
Gary Douch and Dorian Davies	Farming Connect
Helen Minnice-Smith	Agriculture and Rural Affairs Division
Mark Filley and Brendon Lancaster	Defra