

CUMBRIA LOCAL AND FAIR

Dedicated Supply Chains for Milk

Fairtrade works through dedicated supply chains and there is already a dedicated supply contract sector in other parts of the country, notably for liquid milk.

Headline question:

How could a dedicated supply sector for Cumbrian dairy farmers be introduced and would the concept of 'Fair milk' be helpful to that introduction?

Context:

Cumbria now boasts the largest and densest milk field in the entire country. Since market deregulation of the dairy industry in 1994 the producer base in the county has become increasingly fragmented with up to eight different milk buyers actively buying Cumbrian milk. Following the failure of one of the farmer owned coops (Dairy Farmers of Britain) in 2009 this producer base has become even more fragmented.

The majority of the milk produced in Cumbria is manufactured into cheese either within the county or just over the border in the South of Scotland. Some milk leaves the county destined for the food ingredients industry and also butter manufacturing. Even with strong competition and numerous buyers the county's milk price has failed to reach the levels gained by the liquid dairies further south in the country. Many dairy farmers elsewhere in the country have enjoyed premium contracts linked to retailers for liquid milk and have received a higher milk price for many years.

Currently there are no liquid premium contracts in the county. This workshop will look at the possibility of a 'Fair Milk' concept and the NFU Scotland pricing formula as well as the possibility of dedicated supply contracts for manufacturing milk.

Questions for discussion:

The workshop aims to answer the following questions and in the process will establish some clear proposals to move the dairy industry forward in Cumbria to a more sustainable and profitable future:

1. *Both of the farmer-owned milk cooperatives are making substantial investments in local factories. How can Cumbrian dairy farmers be persuaded to join and strengthen these co-ops?*

It was felt by the majority of the dairy group that farmer cooperation was the way forward for Cumbrian dairy farmers, even though some of the farmers present were not presently supplying a coop all agreed that collective strength would work if given a chance. The recent experience of Dairy Farmers of Britain going bankrupt had on its members and their attitude whether to cooperating ever again, it was agreed that the remaining two coops First Milk and Milk Link had to try even harder now to sell themselves to farmers. It was also agreed that both of the coops are in a much better position in respect of their own finances and their place in the milk price league than they were up until reasonably recently and had to get that message across loud and clear to potential members. Some of the group found it difficult to advise farmers to supply one of the coops when they have been historical lower on price it was

agreed that this is now changing. Paul Flanagan explained how First Milk was increasing the value of its members milk by adding value with high value products such as cheese from the county and Pembrokeshire.

2. *Would retail-linked dedicated supply contracts for manufacturing milk and cheese enable a fair return from the market for milk producers in the county?*

Adam Briggs from the NFU explained the current situation regarding the super market dedicated supply contracts. These contracts account for about 20% of total milk sales and cover a wide range of prices from the best paying 31.29ppl to the worst paying 25.75ppl. The main reason we have not yet got any retailer alienated contracts in the county is largely due to population density and the lack of a major liquid plant. Given the recent changes in the dairy commodity prices it was felt by most in the group that the supermarket contracts were not now the highest priced milk and that the export market for dairy products was returning an increasingly better price. The discussion repeatedly returned to the Lakeland Cheese brand marketed by First Milk and manufactured in Aspatia. First milk also was leading the market with an export contract that was attracting a growing number of producers. The general consensus was that dedicated supply contracts weren't the total answer to the county's dairy problems.

3. *Is the time right to brand milk 'Local and Fair' and would consumers buy it?*

Doris Robertson explained the Fair Milk brand its history and how it was being launched in Europe, many of the group were sceptical at first and although were impressed by the sample milk cartons Doris displayed didn't really believe the consumer would make the conscious decision to buy Fair Milk. The feeling was that local fair milk might have place in the market in Cumbria but consumers in the intercity areas wouldn't identify with the local theme and therefore it wouldn't work on a large enough scale to be a success. Dairy Farmers of Britain did try a similar brand with Tesco's and this failed so some of the group felt this might well happen again. It is fair to say that the group was evenly split over the fair milk question.

4. *Would a standardised pricing formula across the industry ensure a fair return from the market for milk?*

Doris also talked about the NFU 'Scotland's milk pricing formula and how it might work for the industry. The current UK price is approximately 5pp below where it should be if it was a reflection of the world market. She said it was all about industry preparing for the future and that unlike the supermarket contracts the NFU's proposals would be pricing from the bottom up not the top down. This would generate a base price that could then be added to. The standard price would be a market related (fair) price. Contracts and their present inflexibility were also discussed. Most of the group agreed that shorter leaving terms would put more pressure on the buyers to perform better to retain/attract more milk. Concern was also expressed that the coops need to look at their seasonal pricing that was deterring many seasonal producers from becoming members. Paul Flanagan took these concerns on board. The discussion was reasonably constructive while realising that every buyer would have to apply

the same pricing base or contract unless no retailer/processor one would ever be brave enough to go it alone. First Milk was supportive of the idea.

5. *Who will take forward proposals coming from this workshop, how and over what time span?*

This was the most disappointing question that never really got answered during the discussion. There was a really good discussion in the dairy work shop and a real sense that we were all relatively optimistic about the future of milk in the county. Paul Flanagan expressed an interest to help in the future and take some of the conference ideas forward and also Kevin Beaty who chaired the session was keen to be involved in the future.

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