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The dairy sector in Scotland, in line with dairy farmers worldwide, has experienced the worst two years anyone can recall. AHDB Dairy says that 86% of UK dairy farmers are not covering cash costs.

In Scotland only around 900 dairy farmers remain from the 5000 we had 20 years ago. The herds are bigger, yields higher and production astonishingly remains at 1.4 billion litres, but with low and non-existent margins, even the ablest are at risk. Price transmission remains a big issue as asymmetric pricing continues to harm primary producers.

Processing has also evolved. In Scotland, Muller from Germany, the Scandinavian co-op Arla, and the French global cheese company Lactalis have increased significance alongside the UK co-op First Milk and Grahams dairy. Major processing capacity in Scotland is concentrated in the two major cheese plants either side of Dumfries and Galloway (Lactalis and Muller), two small plants in Orkney and Kintyre, and liquid processing at Muller's Bellshill, Arla's Lockerbie, and Grahams plant in Bridge of Allan. More capacity and variety is needed as milk is now 'exported' for processing in England.

The Scottish dairy sector is in challenging times as farmers find it difficult to see a future. The reasons are too complex to cover in detail in this article, but there are headline issues, some we can control or at least influence, others like the weather and geo political 'madness' we can't.

The 'experts' such as the FOA, OECD, EU Commission, IFCN and Rabobank remain convinced that dairy will see demand growth reacting to growing populations, developing economies and a growing middle class. The challenges are considerable, if not insurmountable, and include globalisation, volatility and price transmission throughout the supply chain.

Historically, there have been key events; the Milk Marketing Board was set up in 1933 to address poor returns for producers, due to lack of farmer leverage, perishable product and competition from Commonwealth imports, in 1984 the introduction of Quotas as part of the support and intervention policy of the EU, then the end of the MMB in 1994, a consequence of the Conservative 'privatisation' policies, followed by the move from direct EU market

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support, to a liberalised policy (MacSharry in the late 90s and Fischler reforms started in 2003), then in 2015 the end of quotas in the EU.

The most relevant to the current dairy sector challenges is the market liberalisation reforms. The dairy sector in Scotland is now fully exposed to the global market, competing for market share within the UK and the world, particularly since 2007 when intervention was reduced to a nominal 'floor'. We are now exposed to the risk and opportunity of global dairy markets, with very few market support mechanisms to smooth the bumps.

The 'experts' tell us that the future should be bright if not without its challenges. The Scottish Dairy Review 'Ambition 2025' paints an ambitious positive scenario based on growing demand in global markets for added value Scottish products, leading to inward investment in processing and production in that order, which is credible given the efficiency of Scottish dairy farmers, the climate and image of Scotland.

The challenge is to adapt to severe volatility and competition. Although the UK is far from self-sufficient, the global market has a direct influence on our prices as we import significant product, particularly cheese (62%) and butter (51%), on price and quality. Global dairy exports are only around 8% of production, but due to the scale of dairy products and the relatively low stocks, 'events' will swing supply and demand quickly and significantly at short and unpredictable notice, which has a serious consequence on UK prices.

The Scottish Dairy Review ambitions can be met, but producers must receive a reasonable share of the value chain, either through greater leverage through collaboration or through compulsory contracts with minimum terms. The supply chain must become globally competitive in production, processing and marketing which again will need a greater degree collaboration to a common goal, matching supply with demand, and increasing demand and value in a structured way. In a relay race, it takes only one runner to drop the baton to lose the race.

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