Dairy industry: milk prices

Current reductions of up to 30% in the prices dairy farmers receive for milk are of considerable concern to the Committee.

We have taken a close interest in the dairy industry over the course of this Parliament, and our 2011 report, *EU proposals for the dairy sector and the future of the dairy industry*, made a number of recommendations for action to support the UK dairy industry. These included addressing the structural imbalances that result in low farmgate prices; encouraging increased investment in processing, particularly in value-added products; and exerting influence on retailers to establish dedicated supply chains for processed dairy products, such as butter and cheese. We also recommended action to improve access by the dairy industry, particularly SMEs, to funding for growth and investment. The Committee would be grateful for an urgent update on Government action to ensure stability in the dairy industry since it is in no-one’s interest to see farmers who have no certainty that they can cover their costs pulling out of milk production. We urge the Government to ensure that it implements our report recommendations as a matter of priority.

A specific concern raised in our report was farmers’ uncertainties over contracts, and we returned to that issue in 2012. Following submission to us of written and oral evidence, I wrote to Ministers to express the Committee’s strong support for the rapid introduction of a code for dairy contracts to give farmers greater certainty over contracts with processors.

The Dairy Industry Code of Best Practice for Contractual Relations has been in place for a short time, and we welcome the review undertaken by Alex Fergusson of its effectiveness. We note that his review has concluded that the code, while being a “positive tool” where in use, has not been embraced by more producers, producers’ representatives and purchasers. Mr
Fergusson also considers there to be potential for the code to apply further up the supply chain. We would be grateful for your response to the review's findings on these and wider points such as Mr Fergusson’s support for continuation of the code, in spite of this weakness, to remain a voluntary one.

The Committee would also be grateful for your views on the potential for the statutory framework provided by the Grocery Code Adjudicators Act 2013 to be extended to help alleviate the current problems in the dairy industry. The Business, Industry and Skills Committee’s pre-legislative scrutiny report on that Act recommended, in line with my Committee’s submission to the BIS Committee inquiry, that legislation should include indirect suppliers within the scope of those whose information may initiate an investigation under the Grocery Supplies Code of Practice (GSCOP). The Adjudicator’s remit under the Act does not, however, extend to the relationship between indirect suppliers (such as farmers) and retailers; nor does it apply to price setting. It would be helpful to have your response to those who argue for an extension of the Act to enable farmers to prompt investigation into the retailing of milk by supermarkets.

I would be grateful for your urgent response on these important matters at a time of great concern for many in the dairy industry. The Committee is likely to wish to publish this letter and your response.

Anne McIntosh MP
Chair of the Committee