

# Press Briefing

## Farmers speak out over the impact of low milk prices

### Summary

A new survey by Friends of the Earth highlights the environmental and business impacts of the low prices being paid to dairy farmers. Current prices do not cover production costs, let alone allow farmers to investment in their business, raising concern over the future of the dairy sector in the UK. Although prices paid to farmers have risen since the survey took place, the highest prices being paid are still only equal to prices farmers received ten years ago and their costs are also rising sharply.

The dairy sector is currently under investigation by the Competition Commission (CC). In a recent working paper on the grocery supply chain the CC noted that “the number of dairy farmers had declined significantly, indicating that many individual dairy farmers may have experienced difficulties”.

Despite evidence to the contrary, the CC cites a number of reasons for declining farm incomes and has not yet concluded that supermarket buyer power is responsible. Friends of the Earth wants the CC to acknowledge the supermarkets' role in pushing down prices and then to take action to redress the balance of power in the dairy supply chain.

As part of its research Friends of the Earth carried out an in-depth survey of dairy farmers in April-May 2007. The results provide a disturbing snapshot of the impacts of low prices in the dairy sector.

Key findings include:

- **Most dairy farmers responding to the survey are not covering their cost of production**
- **The overwhelming majority of respondents think supermarkets exert the most influence over the price they receive**
- **Most farmers responding to the survey do not expect to be farming in 10 years**
- **Low prices are hindering farm investment, including environmental measures on the farm including pollution control or conservation work.**

Friends of the Earth also carried out a review of research and data relating to the dairy industry which indicates that our results, though from a small sample of farmers, are an accurate reflection of the state of the dairy industry.

# Background

## Dairy Farming in the UK

In the past decade the profitability of farming has been adversely affected by a number of events and factors. BSE and the Foot and Mouth Disease outbreak of 2001 damaged the dairy sector in particular. However, running alongside these problems has been the drop in the farm gate price for liquid milk which has driven thousands of dairy farmers out of business.

*“Farmers are paid an average of 18 pence per litre (ppl) today, compared with 24.5ppl ten years ago. The cost of production has risen in those ten years, so that the average dairy farmer is now making a loss of more than 3p on every litre of milk that leaves the farm. During the same period, retail margins have risen from 3ppl to around 16ppl.*

*In 1995, there were over 28,000 dairy farms in England and Wales. By the end of 2006 there were 13,000. A recent survey conducted by the Milk Development Council of dairy farmers’ intentions found that a further 16% of dairy farmers plan to leave within the next two years and that production could fall by as much as 900 million litres, or 7%”*

National Federation of Women’s Institute Great Milk Debate in 2007: <http://www.womens-institute.co.uk/viewNews.aspx?id=7179I>,

## Relevance to the Competition Commission Groceries Market Inquiry

The Competition Commission’s Groceries Market Investigation Statement of Issues includes supply chain viability and suppliers’ ability to invest and innovate. This survey provides evidence for both areas of investigation. Furthermore, the CC must assess whether consumers are benefiting from the way in which the grocery market is operating. Friends of the Earth’s research highlights the likelihood of increased imports of milk; a reluctance among farmers to convert to organic production, and several other environmental impacts, all of which would be of concern to shoppers.

## Research methodology

This briefing is informed by the first hand experience of 37 farmers, as told to a consultant working for Friends of the Earth, and by a desk based study of national data and trends in the dairy industry carried out by a second consultant. The full results are available from Friends of the Earth.

The survey of farmers involved an in-depth questionnaire completed either by interview over the phone or by the farmers themselves, depending on the farmer’s preference. The farmers were selected at random from a commercial data base of dairy farmers in England. The respondents represented different types of dairy farms in the UK in terms of farmer age, farm size, geographical distribution, and herd size. Liquid milk was the most common outlet for the farmers followed by cheese production. Collectively, the respondents supply most of the major milk processing companies servicing the supermarket trade plus some local dairies and specialist producers. Over half of respondents said that their product went for sale via supermarkets.

## Research Findings

### Viability of dairy farming

Friends of the Earth's survey highlights difficulties around the future viability of the dairy sector. Most disturbing is the fact that **the majority of respondents (78%) said that the current payments for their milk did not generate a surplus over the cost of production.** This is directly relevant to the CC's investigation into the issue of supply chain viability. Although production costs varied significantly, the average cost of production was 18.95 pence per litre (ppl) compared to an average received price of 16.58 ppl. Based on these survey results the price farmers received per litre of milk has barely increased since 1988. These findings are similar to those of the National Federation of Women's Institutes' Great Milk Debate. The NFWI concluded that, since the cost of production has increased over the last decade, the average dairy farmer is now making a loss of more than 3 pence on every litre of milk.

All respondents were asked to rate how their wages compared with other parts of the food chain. All but one replied. **26% thought dairy farm wages compared "very poorly" with the rest of the food industry while 24% people replied "poorly."** The overwhelming view was therefore that milk production does not remunerate adequately compared to other parts of the food chain. Eight farmers said they had lost staff over the last five years while only eight had taken on extra staff.

Friends of the Earth's survey revealed pessimism about the future of dairy farming in the UK. This is reflected in farmers' comments throughout the survey and in response to a question specifically about their own future prospects. **Nearly three quarters (73%) of farmers asked were not confident that they would be farming in 10 years time** (46% said "no" and 27% were "not sure"). There was pessimism about handing on businesses to sons or daughters. Even the farmer with the largest herd (400 cows) said he was not sure if he would be farming in 10 years time. These results are not surprising considering many farms are run as one person operations with farmers working long hours and 7 day weeks. Again these findings echo other research. The Milk Development Council (Fourth Annual Farmer Intentions Survey, 2007) found that 16% of dairy farmers intended to leave dairying within 2 years, continuing trends for the previous two years when over 2,000 dairy farmers left each year. The likely exodus of dairy farmers leads to serious concerns about increasing imports of milk for dairy products (see below).

### Who Influences Milk Prices Most?

Farmers were asked who they thought had greatest influence on the milk prices they receive. **The overwhelming majority (94%) named the supermarkets as most influential although a sizeable minority (41%) felt that milk processors were equally influential.**

Comments from farmers included:

*"The only way we can make the farm pay is not to have any paid full-time farm worker and work twice as hard ourselves from 5.30am to 8.30pm and we still only make a poor living compared with other people".*

*"They are the economics of madman. Long hours, hard work, no financial return. We are used and abused by an unfair market and greedy supermarkets".*

### Farmer's ability to invest

The ability of suppliers to invest in their business is one of the key supply chain issues identified in the CC's Statement of Issues. The survey indicates that low prices are affecting farmers' ability to invest in a range of key improvements to their business.

Area of investment	Percentage of farmers answering "yes" if their investment had been affected by current milk prices

Milking Parlour	76%
New or enlarged slurry tanks	59%
Yards and roadways	76%
Drainage of buildings and paved areas	57%
Re-seeding pastures	41%
Wall and hedge repair and maintenance	57%
Farm conservation work	62%
Forage harvesting and other equipment	65%
Silage clamps and drainage	32%

As well as investments in areas fundamental to a dairy business such as the milking parlour, investment has been curtailed in pollution prevention and conservation measures (see below).

Friends of the Earth's findings on investment are in line with industry data. The Royal Association of British Dairy Farmers (RABDF) recently concluded (British Milk – What Price?, 2007) that increases in the cost of milk production from 2002/3 to 2006/7 was so high that 'there was no scope for re-investment'. RABDF found that average investment in infrastructure and machinery for specialist dairy farms is €10 per tonne compared with the EU average of €25. The Milk Development Council's most recent survey of farmers' intentions (see above) found that the number of surveyed farmers intending to invest £100,000 or more in their farm had fallen from 9% in the previous year to 3% with the majority of farmers (77%) intending to invest less than £25,000.

### Environmental Implications

Friends of the Earth's survey highlighted some important environmental impacts including the prevention of the release of climate change gases and the management of wildlife habitats.

Low prices are clearly preventing investment (see table 2). This will impact not only on farmers' overall efficiency, but also their ability to prevent environmental damage. For example, improved slurry storage is necessary to reduce pollution, and the release of potent climate change gases into the air (Environment Agency, 2006, Environmental Plan for Dairy Farming) especially as herd sizes increases. Friends of the Earth survey indicates that over half (51%) of farmers had increased their herd in response to falling prices. If implemented, new DEFRA proposals to cut nitrate pollution from farming would mean that slurry storage facilities on dairy farms will have to be improved significantly. This would cost farmers thousands of pounds (Farmers Weekly 22/08/2007). Over half the farmers surveyed (59%) said that investment in improved storage has been affected by current milk prices, raising serious doubts about whether farmers can afford the measures needed to comply with forthcoming environmental regulations.

Farmers were asked to rate their farms in terms of pollution prevention and habitat improvements. Although farmers, understandably, scored themselves highly on both counts, some of their comments suggest that financial pressure and labour shortages may already be impacting on wildlife management

Farmers' comments included:

*"Given our low level of income it is impossible to invest in conservation work or to pay labour to do this job"*

*"I have fenced ponds and planted hedges but nothing for 10 ten years due to staff shortages"*

*"To undertake any improvement large or small takes both time and money. When under financial pressure only the important things get done".*

Over a third of farmers in our survey used maize silage. The use of maize as a fodder crop is an economical way for farmers to increase milk yield so it is unsurprising that it is being used more and more at a time of financial pressure. DEFRA data confirms that the total area of maize grown for stock feed is increasing. The increase in maize fodder has been linked to farm biodiversity loss (DEFRA, CAP reform – Implications of Farm Level Change for Environmental Outcomes). DEFRA also predicts an increase in phosphate use as fodder maize production increases, which could lead to more pollution incidents.

Some farmers responding to our survey reported higher than average stocking densities (two farms had densities of 3 cows per hectare or over). While there was no clear indication that stocking densities have increased in response to falling prices, they may still be too high for the land in certain parts of the country. According to the Environment Agency (reported in Farmers' Weekly), low dairy prices in the South West are leading to an unsustainable rise in densities, directly resulting in soil compaction and increased pollution run off from the land.

Organic farming is environmentally beneficial but our survey highlights difficulties in converting to organic methods (see below).

### **Effects on consumers**

Consumer concern over the origin of food products is increasing with a high level of interest in local food. For example an IGD survey in 2006 (IGD consumer research 2006) found that almost half of respondents wanted to buy more local food. Friends of the Earth's survey and analysis of wider data suggests that if current trends continue there may be an exodus from the dairy industry which would result in an increase in milk imports particularly for processed dairy products. A report by Kite Consultancy predicts that by November 2011 milk supply may dip below demand (demand for liquid milk includes milk needed for territorial and specialist cheese production).

There is also increasing demand for organic food; demand for organic dairy products in the UK exceeds supply (OMSCo, the organic milk market report, 2007). Friends of the Earth's survey clearly demonstrates that dairy farmers are unsure of the benefits of converting to organic at present: less than one third (30%) of respondents had considered converting to organic. Some were unsure whether they could make an organic system work for them, whilst others were cautious because of the fluctuations in organic milk prices over the last seven years. Given the current state of dairy farm incomes, few were prepared to enter this uncertain market at present. If farmers are reluctant to convert to organic it may become harder for shoppers to find organic milk.

Environmental issues rank high on the list of shoppers' reasons for buying organic produce, but there is evidence of concern about environmental impact amongst all consumers. When the British Market Research Bureau carried out its first food miles survey it concluded that "the majority of British shoppers perceive environmental issues to be more important than breadth of choice and price" (The Grocer, 4 August 2007). And in the recent NFWI Great Milk Debate in which a total of 15,000 people were involved, members of the public raised concerns that the pressure on dairy farmers may lead to impacts on the environment: "there was an overwhelming concern that dairy farming would become large concrete enterprises which would ruin the aesthetic appeal of the British countryside millions enjoy year round. An additional concern was the fact that the countryside is home to birds and other wildlife that would suffer as well".

Shoppers' desire for milk that is produced without harm to the environment has led to the emergence of new niche products such as 'Wildcare' milk. Available from Waitrose, shoppers pay a premium to help fund creation of wildlife habitats. Friends of the Earth believes that consumers should be able to buy any pint of milk knowing that farmers have been paid enough to invest in fundamental environmental protection measures and conservation work on their farms. This survey and other research indicates that farmers need to be confident of sustained higher prices before shoppers can

expect that farmers will be able to make the investments needed.

### ***Action Needed***

The current Competition Commission investigation into the grocery market is a unique opportunity to redress the balance of power in food supply chains and to ensure that farmers are protected from unfair trading practices. The inquiry is therefore Friends of the Earth's main campaign focus.

Friends of the Earth is calling on the CC to appoint a watchdog to oversee the grocery market and to ensure fair trading between supermarkets and their suppliers. The watchdog would proactively monitor relationships between retailers and their suppliers and would have the power to resolve any abuse of power by retailers.