

Milk and dairy industry uk economics essay

[Environment](#), [Air](#)



The area of Great Britain and Northern Ireland (commonly known as the United Kingdom) is the sovereign state located near northwest coast of continental Europe. It is an island country spanning with an archipelago, accumulated with the northeast part of Ireland, and many small islands. Northern Ireland is the only part of the UK with a land border, sharing it with the Republic of Ireland. Apart from this land border, the UK is surrounded by the Atlantic Ocean, the North Sea, the English Channel and the Irish Sea. The largest island, Great Britain, is linked to France by the Channel Tunnel. (Wikipedia Information. net)

SOME POLITICAL FACTS ABOUT THE COUNTRY

The United Kingdom is a constitutional monarchy and unitary state consisting of four countries: England, Northern Ireland, Scotland and Wales. It is governed by a parliamentary system with its seat of government in London, the capital, but with three different national administrations in Belfast, Cardiff and Edinburgh, the capitals of Northern Ireland, Wales and Scotland respectively.

SOME ECONOMICAL FACTS ABOUT THE COUNTRY

The UK is a developed country, with the world's sixth largest economy by nominal GDP and the seventh largest in purchasing power parity. It was the world's first industrialized country and the world's foremost power during the 19th and early 20th centuries, but the economic cost of two world wars and the decline of its empire in the latter half of the 20th century diminished its leading role in global affairs. The UK nevertheless remains a major power with strong economic, cultural, military, scientific and political

influence. It is a nuclear power and has the fourth highest defense in the world. It is a Member State of the European Union, holds a permanent seat on the United Nations Security Council, and is a member of the Commonwealth of Nations, G8, OECD, NATO, and the World Trade Organization. (Wikipedia Information. net)

The Dairy industry contributes £6. 8 Billion which is about 10% of GB GDP. The contribution has been steadily rising over many years. The industry contains many different specialist sub-sectors and, increasingly, changes in technology have led to changes in the nature of jobs within the industry. The trend towards fewer, more skilled and better-paid employees , necessitates a significant further investment in education and training.

United Kingdom of Great Britain and Northern Ireland

Flag

Royal coat of arms

Anthem: " God Save the Queen"[1]

The United Kingdom (dark green) shown in relation to the European Union (light green) and other areas of Europe(dark grey)

Capital

(and largest city)

London

51°30′N 0°7′W

Official languages

English (de facto)

Recognized regional languages

Irish, Ulster Scots, Scottish Gaelic , Scots, Welsh, Cornish

(wikiPEDIA INFO. NET)

REVIEW OF THE MILK AND DAIRY INDUSTRY

INTRODUCTION

The dairy industry represents around 18% of the gross agricultural output of the UK, and dairy farmers are an important and sizeable part of the National Farmers Union NFU's farming membership. Dairy farmers have endured difficult times in recent years, notably with regard to farm gate profitability. Soaring prices on the world dairy commodity markets in 2007 resulted in rises in farm gate prices, totaling an average increase of 8ppl by the autumn. This has created optimism in the dairy industry and allowed most farmers to start breaking into a profit. However, there are ten years of underinvestment and debt to make up for and farmers now need a sustained period of higher prices to enable some long-overdue investments in their businesses. While the outlook of the British dairy industry is broadly positive, the confidence of dairy farmers remains fragile. Production costs have risen massively in the last twelve months. Higher feed, fertilizer and fuel costs are eroding the benefits of higher prices. In addition to this are the substantial infrastructure costs that dairy farmers face under the proposed revisions to the NVZ (Nitrate Vulnerable Zones) Action Program. With these issues in mind, this

document provides a background briefing to the dairy farming sector and looks at the future challenges and prospects.

Britain's Dairy Farmers

Dairy farmers in the UK are amongst the largest and most competitive in the European Union. Dairy farms are situated across the UK, but are concentrated mostly in areas where the climate encourages favorable conditions for grassland farming. In recent years milk production has gravitated towards the West and South West of England, West Wales and Northern Ireland. The number of dairy farmers in the UK has fallen dramatically, and continues to decline. In 2001 there were 26, 110 registered production holdings in England and Wales. By February 2009 this had fallen to 12, 465. This figure represents a 5% fall on February 2008 figures, and therefore reflects the continuing pattern of decline. Until recently, for every farmer leaving the industry another farmer was willing to expand.

Consequently, the average size of dairy herds in the UK has increased from 72 cows in 1999 to 95 in 2010. At the same time, genetic and management improvements in dairy cattle have seen the average cow increase milk production from 5, 000 litres a year in 1993 to 9609 liters in 2011. In recent years however, the industry has seen a decrease in production, suggesting that either larger milk producing herds are leaving or the number of herds expanding has decreased. (Wikipedia Information. net , The Dairysite. com)

A Brief History of the British Dairy Industry

Since the 1920s- 1994, the market for raw milk was managed by four statutory milk marketing boards (MMBs). One Board bought and sold all

wholesale milk from farms in England and Wales. The MMBs were wound-up in the early 1990s allowing existing farmers to sell milk either to new farmer co-operatives created in their place or directly to dairy processing companies. The co-op, Milk Marque, was created for broker milk sales in England and Wales.

In the early days following the abolition of the Boards, dairy farmers enjoyed a relatively prosperous time as milk prices had increased to 27 pence per litre (ppl). However, the rise in milk price coincided with a unique set of economic circumstances driven by 'Black Wednesday' and the UK pulling out of the Exchange Rate Mechanism, which devalued the Pound against major EU currencies that had increased the value of EU market support and the competitiveness of UK dairy produce. Prices started to slide in 1998/9 and more and more producers opted to leave Milk Marque to supply dairy companies directly who offered a higher price as an incentive to join. Around the same time, a legal case was brought against Milk Marque by milk processors through the then Dairy Trades Federation, who argued that MM was operating as a complex monopoly and was abusing its dominant position in the raw milk market. In 1999, the Monopolies and Mergers Commission produced a report supporting the case brought to the Office of Fair trading by the DTF. The result of this case led to the break-up of Milk Marque. In its place, three daughter co-ops - Milk Link, Axis and Zenith were set up in 2000. In recent years these businesses have consolidated, Axis brands merging with Scottish Milk brands to form First Milk and Zenith with a small milk co-op, the Milk Group to form Dairy Farmers of Britain.

The Dairy Industry in modern times

The dairy industry had seen remarkable consolidation at all levels in the last decade. While there were over 100 milk buyers in the country, six large dairy companies dominate the GB market. The largest dairy companies are:

Dairy Crest - The Company buys approximately 2.4 billion litres every year from 1,400 direct supplying dairy farmers, the majority of whom are located in southern, central England and South Wales (as well as some milk brokered from milk co-operatives, especially FirstMilk). Dairy Crest manufactures liquid milk and a range of dairy products, including cheese, milk powder, desserts, butter, and cream. Its best known brands are Cathedral City and Country Life.

Arla Foods - Swedish/ Danish farmers' co-operative of approx 9,400 members, operating as a wholly-owned subsidiary in the UK. The company focuses on supplying fresh milk to retailers as well as managing dairy imports from Scandinavia and New Zealand. UK has a workforce of 6,300 and processes 2.3 billion liters milk at 13 plants, supplied mostly by the Arla Foods Milk Partnership, a farmer group of around 1,600 members.

Dairy Farmers of Britain - Farmer co-operative with around 2,600 farmer members, predominately located in the North of England and Wales. DFB makes a broad range of products including liquid milk, cheese, butter, ingredients and desserts, both for supermarkets and own brand. DFB also supplies milk to other dairy companies and runs eight separate processing sites and sixty distribution depots.

Robert Wiseman Dairies - Private dairy company that specializes in processing and delivering fresh liquid milk throughout Great Britain. It operates from 6 major processing dairies in Aberdeen, East Kilbride, Glasgow, Manchester and Droitwich Spa and a new dairy in Bridgwater, Somerset. The company has developed relationships with a number of major supermarket groups, resulting in more than 70% of its sales to multiple retailers.

Milk Link - Farmer co-operative essentially making cheese, ingredients and desserts. Milk Link supplies all the UK's major food retailers, many of its largest food processors, and food services organizations. It is the UK's largest cheese producer, with the bulk of its members being located in the South and South West of England.

First Milk - Farmer-owned business, with 2600 farmer members, formed in 2001, from the merger of two leading dairy groups. As well as supplying other dairy companies (notably Robert Wiseman Dairies in which it has a 15% stake and Dairy Crest) with milk, the company owns creameries in Cumbria, West Wales and the Scottish islands. There are also a large number of small to medium sized local or specialist processors such as Lactalis/ McLelland, Belton cheese, J Heler, Muller Dairies, Fresh ways, Medina Dairies and a small number of milk buyers that operate largely as intermediaries, supplying milk to a range of different markets.

(<http://www.ipaquotas.com/dairyfarmer.htm>)

The Current Dairy Market- The UK

The British dairy market is observed as a domestic market. The UK is around 90% self-sufficient in milk and dairy produce and half of all raw milk is sold as fresh liquid milk. In the past, much of this would have been sold on doorstep rounds. Now the highest proportion is sold through major multiple retailers. Cheese takes up a further 28% of the market. Consumption of liquid milk had been declining until recently where statistics indicate stabilization in consumption, with increasing demand for low fat milks.

Utilization of milk by UK dairies 2010/11 (million litres)

The concentration of the industry on liquid milk and failure to add value has had important consequences for British dairying. The industry has, to some extent, become more commoditized and struggled to capitalize on real growth markets. It has also seen the value of imports increase compared to the value of exports with recent estimations that the deficit.

OBJECTIVES OF THE REPORT

The following objectives will be covered in the report in detail:

To study the Milk production in U. K.

To study the reasons for decline in milk production

Pricing factors for the industry

Challenges faced within the industry

To analyze the milk and its products consumption in the British families (Via Survey Method)

Milk production in U. K.

Deliveries to dairies in the 2010/11 milk year totaled 15, 212 million litres.

Adjusting this figure for the presence of a leap year gives total milk deliveries of 16, 176 million liters, the lowest cumulative figure since deregulation and around 500 million liters (4. 2%) down on the five year average.

5 year average daily 2010/11 average daily

Looking at average daily deliveries by month shows the milk year started off relatively well with April deliveries only 0. 9 million liters per day less than the five year average. This was a result of a mild spring encouraging good grass growth and early turn out.

The three months from May to July were the wettest on record which was one of the factors that led milk deliveries in July to fall to an average of 35. 4 million litres per day. That was three million liters per day (7. 8%) lower than the average for the month. This deficit decreased towards November with better weather and prices.

However the effect of the earlier poor weather on silage quality and rising feed prices appears to have impacted on milk deliveries in the final four months of the milk year with daily deliveries averaging 3. 5% lower than the five year average.

The UK dairy industry employs more than 23, 800 across 600 workplaces nationwide. It includes the operation of dairies and the manufacture of dairy products, such as ice cream. There are many well known companies,

<https://assignbuster.com/milk-and-dairy-industry-uk-economics-essay/>

such as Yeo Valley Farms, Danone, Dairy Crest Ltd., Unilever ice cream and Wensleydale Dairy Products.

2009/10 2010/11 2011/12

Key facts:

There are 23, 800 people working in the dairy industry, of which:

87% of the workforce is in the operation of dairies and cheese 14% in the manufacture of ice cream

The industry represents 6% of those employed in Great Britain's food and drink manufacturing sector.

36% of the workforce is 45 years or older.

45% of the current workforce will be eligible for retirement within the next 20 years.

13% of the workforce has a degree or equivalent qualification

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The highest qualification for much of the workforce is GCSE grades A-C (20%) or A Levels (13%).

19% of the workforce has no qualifications.

Workforce statistics

Number of UK employees:

23, 800

Number of UK employers:

600

Gender:

76% male

24% female

Ethnicity:

92% of the workforce is white, 5% Asian/British Asian and 3% Black/Black British 2, 300 migrant workers (non-UK nationals) are estimated to be working in the industry

Age:

26% of the workforce is aged 16-30 years

14% is 30-34 years

15% is 35-39 years

13% is 40-44 years

22% is 45-49 years

Disability:

7% of the workforce has some form of work limited disability.

[N. B. Data derived from Labour Force Survey, 2010 and Annual Business Inquiry, 2009.]

Reasons for decline in milk production

In most instances in the dairy industry, increases in production costs have offset/negated any efficiency gains made by expanding producers. More recently, this logic has been tested as milk production has gradually fallen over the last 5 years. 2011 was an exceptionally bad year due to the additional effects of poor weather on grazing conditions and winter forage quality. Cumulative production to March 2011 stood at just 13, 215 million liters, which was 2% lower than last year and represents a production figure not seen since the 1974/5 milk production year. In addition, in the 2010/11 milk production year, the UK was a massive 986m liter (7%) under quota. Research suggests that the falling trend of milk production in the UK will most certainly continue in the short term. The low level of confidence has led to reductions in producer numbers and a reduction in the number of farmers willing and able to expand further. Coupled with this, the industry has suffered many years of underinvestment due to a sustained period of low milk price. In light of the challenges ahead in the form of environmental regulation, coping with the impacts of disease and higher variable production costs it is likely that we will see further contraction in the industry in the immediate future. Recent price increases have however brought some confidence back to some producers in increasing milk production on their holdings. The 2010 Farmer Intentions Survey from

Dairy Co revealed that 37% of dairy farmers intend to increase milk production, yet 7% of dairy farmers intend to exit the industry in the next two years. This forecasted increase in production on some farms, coupled

with a reduction in the number of dairy farmers will result in a further fall in milk production by 2012/13 in Britain of 0.6%.

Pricing factors for the industry

Milk pricing and profitability are the biggest issues affecting dairy farmers. The average farm gate milk price for 2007 was 20.66 ppl with a February 2008 average milk price of 25.62 ppl. This reflects a much needed 8ppl increase on the average farm gate price of just 18ppl in 2006 which has increased drastically in 2011/12 by 48ppl. Since the mid 1990s, the industry has seen a general decline in dairy farm profitability and massive restructuring has taken place at farm level. To cope with

Low Prices, farmers have sought efficiency gains to remain profitable largely through increasing herd size and cutting costs where feasible. In the past a combination of factors has driven farm gate milk prices including:

- Prices for internationally traded commodity dairy products
- EU market support
- Exchange rates
- The balance between the supply of raw milk and the level of demand for milk products
- Weak negotiation, due to structure of industry
- The costs of manufacturing milk

EU and world commodity markets have been seen historically as the biggest driver in raw milk prices. They are still influential and are the biggest reason behind the well documented increases in milk prices in the UK and elsewhere in 2011. However, the British dairy market is essentially domestic, which should limit the exposure to commodity market forces. The British retail market for dairy products is fiercely competitive. In respect of the cheese market, for example, regular tendering is the norm and with large quantities of cheese imported from Ireland and other EU member states, there is fierce competition to secure supply contracts.

Costs of Milk Production

It is notoriously difficult to establish average production costs, however over the last three years production costs have increased dramatically as a result of oil, fertilizer and feed price increases and the escalating cost of farm labor. The First Milk/Promar report of March 2009 suggests that the true cost of production for UK dairy farmers is estimated to rise to 36.64ppl in the next year, not accounting for any profit margin.

Challenges faced within the industry

Access to raw material is key to global position

Milk production is highly regulated by quotas and mobility of raw material is difficult

Raw milk is perishable and can't be transported long distances

Milk production is challenging: no compromises on food safety, labour intensive and milk is collected daily

Seasonality of production leads to overcapacity

Requires long term investments on farm and industry level

Competitiveness of the dairy processors is increasingly decisive for the pricing of raw material milk to farmers

Better regulation and simplification

Flaws are identified, but results are not satisfactory

Slow decision-making process

Lack of predictability

Horizontal regulations concerning feed, hygiene, claims and labelling

New regulations for animal welfare and quality labelling?

Milk specific regulation: drinking milk, spreads and preserved milk

Route to market – Access to world market

Global players include different geographical regions in their business strategies, but SME's have difficulties in approach. Specific support mechanisms could be helpful

Industrial policy is made too much on terms of agricultural policy

Technical and sanitary measures are barriers to trade: animal disease outbreaks, divergent analysis and sampling methods, zero tolerances, milk products and animal health standards

Innovations

Innovations have been and are essential in improving the global competitiveness of dairy industry and creating value added products

Innovations in the future are more and more linked to the health and well-being of consumers. This means that more scientific evidence is needed for marketing of these products

EU should create and improve platforms to support such development in research. The Technology Platform on food research, called “ Food for Life” is a good example of such development and creating science based innovations

Claims are essential and needed for marketing and consumer communication of these new products. This means that approval of claims should not prevent or slowdown this development

European level programs in science and research (7th framework program) are essential in boosting the science-based innovations in open environment. Probiotic dairy products are good examples of commercial success in this area

SME's should have easier access to these programs

Environmental Challenges

Among the biggest challenges facing UK dairy farming is how the industry interacts with the environment. The industry is working hard to ensure that any environmental risks associated with milk production are minimized and

to deliver positive environmental improvements. Some notable achievements include a 13.5% reduction in methane emissions from livestock since 1990 and a reduction in overall fertilizer usage in dairy farming by 46% since 1997. Over 35% of farmland managed for dairy farming in the UK is now in an ELS environmental stewardship agreement. Action on farm is being co-ordinate through the Environmental Plan for Dairy Farming (EPDF). The EPDF promotes integrated solutions to tackling the sector's environmental problems, i. e. solutions that tackle more than one environmental issue and are easy for farmers to implement such as nutrient management plans. In addition to the EPDF, the development of an industry 'Roadmap' for the dairy sector in England identifies the environmental impacts of producing and consuming milk across the supply chain and sets targets for mitigating and reducing those impacts. Critically, the Roadmap promotes better understanding of the social, economic and environmental benefits of milk and aims to achieve a balance between productivity and environmental improvement, thus securing the long term sustainability of dairying.

Other Challenges

Animal health and welfare continue to be high priorities for the dairy industry. The UK dairy industry adopts the highest standards of animal health and welfare, monitored primarily through the Assured Dairy Farms (ADF) scheme, of which 95% of UK dairy farmers are registered. The England Cattle Health and Welfare Group (ECHAWG) also provide a forum for the veterinary profession, farmers, industry bodies and government to work together to tackle health and welfare issues such as Johne's Disease,

mastitis , lameness, bovine Tuberculosis, an increasingly serious issue for many dairy farmers and, most recently, Bluetongue.

FINDINGS

Analysis via survey method to detect the rise and fall in the consumption of milk and its products!

This analysis was carried forward by using the survey method thereby utilizing the questions given in the form of a questionnaire to assess the participants on the total consumption of the milk and its products in the uk. A sample of 50 participants was drawn from the population for further analysis. A sample figure of the questionnaire is given below-

The procedure of the experiment that adopted the survey method as a means of reaching its destination has drew the following findings.

According to the survey, 38% of the individual's preferred first milk as a brand over other milk brands and least no of people preferred milk link as a brand. This difference between the preferences must have existed due to pricing of the products, its quality, advertising and its availability.

Another interesting fact that emerged was preferences of individuals for choosing the type of milk and it was found out that 42% of people preferred whole milk over other milk types followed by least preference for skimmed milk with only 24%. This difference obviously existed due to quality difference and tastes of the milk types.

Another fact that was found out was individual's preferences for powdered and bottled milk that showed a positive percentage for bottled milk with 78%

and very little preference for powdered milk. This must be existent due to quality reasons of the milk and the freshness (preservatives vs. fresh milk).

The end part of the survey dealt with the family preferences for milk consumption in the UK. It was noticed that maximum no of individuals purchased the milk on alternate basis resulting in 46% from the total.

And the numbers of individuals consuming milk within the families are also ranked as high as 42% which reflected that all of the family members drink milk and its products almost on daily basis.

It was interesting to note that most of the individuals went by the price of the milk compared to the quality of milk which meant that they usually compromised over the quality over the price thereby resulting in gains for companies that provided milk at a cheaper cost compared to others.

Lastly it was asked as to which product of milk apart from its pure form was preferred the most and it was noticed that 46% of the British families preferred cheese product of milk and least preferred the butter 12% which shows the British preference of dairy products depending on their cuisines and dishes made in their homes.

By the end of survey finally it was found that most of the individuals preferred milk as an essential nutrient for their daily breakfast needs (64%) compared to any other meal of the day which reflects the energy source and dietary supplements provided by the milk maximize the most over other food supplements.

RECOMMENDATIONS

FARMERS

- Know your cost of production and Add value by maximizing your contract.
- Make use of the NFU's inputs monitor and challenge suppliers to seek out best deals.
- Offer farmers proper milk contracts, in line with the NFU template, that provide long term stability and transparency on terms and price.
- Be transparent about costs, markets and milk prices. Show how you are improving efficiency and cutting costs at the factory.
- Promote the Red Tractor prominently, on front of pack, on all branded dairy products.

RETAILERS AND FOOD SERVICE

- Food service sector to extend commitments to sourcing assured, British products to all dairy products and promote the Red Tractor to clients.
- All major retailers to increase the number of British, Farm Assured dairy product lines offered to consumers.
- Retailers to promote the Red Tractor prominently, on front of pack, on all own label dairy products.
- Retailers to establish direct, dedicated relationships with dairy farmers supplying British, own label cheese lines.

GOVERNMENT

- All government departments to adopt the NFU model clause and specify use of Red Tractor in its procurement contracts.
- Establish a milk production taskforce to examine the reasons behind, and the solutions to, our falling milk production trend.
- Make farmers aware of the support and funding streams that are available to them through the RDPE. RDAs to ensure that these funds are easily accessible.

BANKS

- Banks to honor long term, established relationships with clients. Pass on base rate cuts in full and support farmers – including tenants – to invest for the future.

NFU (NATIONAL FARMERS UNION)

- Maintain the call for an independent body to take the politics out of animal disease and resist any attempt by Defra to transfer costs onto the industry.
- Continue lobbying to improve milk contracts offered to farmers by milk buyers.
- Maintain scrutiny on input costs to ensure that changes in prices are being passed down to farmers.
- Lead a positive campaign to promote the benefits of dairy farming and the importance of productive British agriculture.

CONCLUSION

The outlook for the British dairy industry is broadly positive. Despite the irrefutable pressures that farmers continue to face, the future prospects for British dairy farmers is bright. Milk producers are efficient and operate in a prosperous, well-populated country, with strong traditions of consuming dairy products. Demand for many dairy products, worldwide, is increasing as a result of economic and population growth. Climatic factors appear to be pegging production in traditional export areas and the EU may be well placed to capitalize on world market growth in the long run. But there remain many significant short-term challenges.