

Written submission from NFUS Scotland

Supplementary evidence – update on future of Bute milk production

1. Bute is a very fertile, well farmed island comprising c.50 farms. There are currently 13 active dairy farms, with some room for expansion. The vast majority of farms are tenants of the Bute Estate. The milk field on the island is very compact with all producers within a 10 mile radius, and every dairy farm is a viable size producing consistent quality milk.
2. Bute produces c.15 million litres of milk per year, which roughly averages out at 40,000 litres per day which is shipped out in approximately 10 articulated tanker loads per week. In a normal commodity market, this is a commercially useful volume of milk. The island is served by two separate ferry crossings to Wemyss bay and Colintrave. Over the past three years, the milk has never failed to get off the island.
3. First Milk, the farmer-owned co-operative, has been forced to cut prices for its members due to falling commodity values on a number of occasions in recent months. The co-operative's turnaround plan, published on 1 May, detailed a raft of steps that will be taken over the coming weeks in the hope of bringing a better return for First Milk members.
4. The milk pricing changes proposed in the turnaround plan will see First Milk move away from a liquid or manufacturing price paid to members depending on its end use, regardless of where the member was located in the UK. Instead, a member will now be allocated to one of seven milk pools and their price based on the net commercial returns from First Milk's own manufacturing sites and its customers.
5. As a result, First Milk members supplying Haverfordwest in Wales or the Lake District creamery in Cumbria will receive a standard litre price before any deductions of 21.17p while the standard litre price before deductions for Scottish First Milk producers will be as follows:
 - Mainland Scotland – 20.3p
 - Campbeltown – 20.67p
 - Arran – 20.67p
 - Bute – 19.3p.
6. The majority of Scottish suppliers to First Milk are to see prices cut by a further 0.2p per litre for June while those on the Island of Bute will see prices cut by 1.2p per litre. For those on Bute, it is likely that – after deductions are made for capital contributions to First Milk – their milk price will be around 16p per litre.
7. Whilst the saving to First Milk spread across their 1 billion litres will be 0.00001 pence per litre, the 1p per litre cut will knock £150,000 out of the island economy over the next 12 months. NFUS considers that this cut will have significant

ramifications for the (already fragile) island economy whilst making little or no difference to First Milk's financial performance as a company.

8. It is understood that the price for producers on Bute has been most severely affected due to the costs associated with transporting milk off the island, which has led to the members (their owners) being penalised rather than pressurising their service provider (Bibbys haulage contractors). NFUS suggests that First Milk have not fully explored alternative measures to deliver these savings, e.g. competitive tender for the haulage, or contracting the Bute milk to another company.
9. Dairy farmers from Bute and Gigha met with the Minister for Transport and Islands, Derek Mackay MSP, on Monday 18 May to discuss the significant difference that subsidised ferry transport for milk tankers might make to the future of the dairy industry on these islands. During this meeting, the Minister outlined his support in principle for putting temporary measures in place to provide half of the cost of ferry fares for First Milk tankers coming off Bute and Gigha until the planned review period in September/October, which is extremely welcome.
10. However, it is clear that the stumbling block will be finding the required funding in order to bridge this gap, believed to be in the region of £35,000. NFUS will therefore continue correspondence with Mr Mackay and the Cabinet Secretary for Rural Affairs, as well as the Rural Affairs, Climate Change and Environment Committee on this matter.
11. Indeed, First Milk has written to members on Bute outlining that any discount secured on these transport costs will be reflected in milk prices. It is therefore clear to NFUS that this funding is vital to part-remedy the increasingly desperate situation for dairy producers in these fragile areas.