



The Scottish Parliament  
Pàrlamaid na h-Alba

## **RURAL AFFAIRS, CLIMATE CHANGE AND ENVIRONMENT COMMITTEE**

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and Environment

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Dear Richard,

### **SCOTTISH DAIRY INDUSTRY AND MILK PRICES**

The Committee wrote to you on 20 February<sup>1</sup> following its inquiry into the on-going problems facing the dairy industry in Scotland and received your response<sup>2</sup> on 24 March, which included the Scottish Government Dairy Action Plan.

The on-going challenges facing the dairy industry continue to be of considerable concern to the Committee. The Committee took oral evidence again from First Milk in May and we are aware that recent price drops are further exacerbating producer's difficulties with many producers being paid a price that is less than the cost of production. Supermarket's recent approaches to milk pricing, and marketing, is also of grave concern to the Committee.

We note that the price reductions from First Milk have continued to create a situation in which it is the outlier at the bottom of the price per litre paid to Scottish suppliers and that this has produced particularly difficult conditions for producers who are contracted to First Milk. We believe there is a likelihood that many of these

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<sup>1</sup> Rural Affairs, Climate Change and Environment Committee. Letter to the Cabinet Secretary for Rural Affairs, Food and Environment (20 February 2015). Available at: [http://www.scottish.parliament.uk/S4\\_RuralAffairsClimateChangeandEnvironmentCommittee/General%20Documents/20150220\\_Convener\\_to\\_Cab\\_Sec\\_on\\_dairy\\_inquiry.pdf](http://www.scottish.parliament.uk/S4_RuralAffairsClimateChangeandEnvironmentCommittee/General%20Documents/20150220_Convener_to_Cab_Sec_on_dairy_inquiry.pdf).

<sup>2</sup> Cabinet Secretary for Rural Affairs, Food and Environment. Letter to the Rural Affairs, Climate Change and Environment Committee (24 March 2015). Available at: [http://www.scottish.parliament.uk/S4\\_RuralAffairsClimateChangeandEnvironmentCommittee/General%20Documents/20150324\\_Scottish\\_Government\\_Response\\_to\\_Dairy\\_Letter.pdf](http://www.scottish.parliament.uk/S4_RuralAffairsClimateChangeandEnvironmentCommittee/General%20Documents/20150324_Scottish_Government_Response_to_Dairy_Letter.pdf).

producers may decide to exit the industry unless the price per litre rises before the start of the winter when costs increase and we would be keen to know what discussions you have had with the European Union about intervention and what the Scottish Government might be considering in terms of direct help to producers and particularly those supplying to First Milk.

We would welcome an update from you on progress with the implementation of the Dairy Action Plan and on progress with the recommendations made by the Committee (some of which have been incorporated in the Action Plan) and are set out below.

- That you use the proposed eight point strategy as a framework for the Scottish Government's response to the situation at First Milk and provide an update on the action the Government is taking regarding First Milk and on the measures that can be put in place to prevent a similar situation occurring in the future.
- That you liaise with the Cabinet Secretary for Infrastructure, Investment and Cities and look sympathetically at ways of reducing the burden of transportation costs for our remote and island dairy farmers and we look forward to receiving an update on progress on the comprehensive review of ferry freight fares, taking particular account of the needs of those in Bute and Argyll.
- That the Scottish Government consider the merits of price hedging, and other such measures, in the Scottish dairy industry, and what advice and support may need to be provided to producers.
- That you examine the issue of the ring-fencing of milk quotas still operating in some parts of Scotland and provide an update on that issue.
- That the Scottish Government press the industry in Scotland, and encourage the UK Government to do the same in other parts of the UK, to formally consider and respond to the recommendations made to maximise the effectiveness of the voluntary code of practice.
- That the Scottish Government presses, and works with, the UK Government to examine the potential pros and cons of compulsory contracts in the UK and Scotland in more detail, and report back to the Committee
- That you press the UK Government and the EU to consider conducting an impact assessment of raising the intervention rate by different margins so that any future consideration of the matter can be evidence-based.
- That you provide the Committee with more detailed information the potential of Producer Organisations to address some of the issues being faced by the dairy sector in Scotland and provide information on the role which the Scottish Agricultural Organisation Society could play in this process and in the situation with First Milk and Campbeltown in particular.

- That the Scottish Government works with the NFUS and any appropriate others to fully examine the potential for establishing Producer Organisations in Scotland; consider what barriers may exist, including any set by the Rural Payments Agency; and consider what further support is required for the industry to assist with the process.
- That you provide further information on the launch of the Scottish dairy brand, and on the Scottish Government's strategy with regard to how the industry can add value Scottish dairy products sold in Scottish supermarkets, and
- That you outline what the Scottish Government is doing, and can do, to help create the right environment to stimulate innovation in the industry and update us on the Scottish Government's strategy for growing exports of Scottish Dairy Products.

We welcome the extension of the tax varying provisions from 2 – 5 years for Scottish dairy farmers, which takes effect from April 2016, and which should help producers maintain stronger balance sheets and increase confidence in the sector.

We also note your commitment, in the Parliamentary debate of 31 March<sup>3</sup>, to put in place effective measures to provide information services bespoke to dairy farmers and to enhance the role of dairy monitor farm initiatives

We would welcome a response from you on the implementation of the Dairy Action Plan, on progress with the additional recommendations outlined above and on any early impacts of the actions taken.

Yours sincerely



Rob Gibson MSP  
Convener

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<sup>3</sup> Scottish Parliament. *Official Report*, 31 March 2015. Available at:  
<http://www.scottish.parliament.uk/parliamentarybusiness/report.aspx?r=9888&i=90539#ScotParlOR>.