House of Commons:

ENVIRONMENT, FOOD AND RURAL AFFAIRS SELECT COMMITTEE

Government support to the dairy sector during the COVID-19 pandemic

Call for written evidence:

Submission from the Agriculture and Horticulture Development Board (AHDB)

15 July 2020

Executive summary

AHDB's inquiry submission details:

- The challenges faced by the dairy sector as a result of the COVID-19 pandemic
- The wider significance of impact on the production cycle
- The collaborative approach taken by Government and industry to meet these challenges
  - Marketing
  - AHDB's-evidence-base role in regularly updating UK Governments on supply/demand issues and potential wider implications for the industry
- Implications for milk production for 2020/21
- Comparing COVID-19 impact on UK dairy sector with US and EU
- Future prospects and the outlook for the dairy sector

AHDB

We are a levy funded organisation and the independent go-to source within British agriculture of trustworthy information and evidence-based research.

Our vision is to deliver world class evidence, analysis and services that enable our farmers, growers & industry to succeed in a rapidly changing world. We equip the industry with easy to use, practical know-how which they can apply straight away to make better decisions and improve their performance. Through deepening our technical, commercial and market insight, and making this available where, when and how the industry needs it, we aim to enable British agriculture to become truly world class

Please note: As an evidence-based non-departmental public body (NDPB) AHDB is not in a position to comment/speculate on all questions relating to this inquiry.

AHDB welcomes the opportunity to provide written evidence to the committee and would be happy to provide a witness to give further information at future oral evidence sessions.

Inquiry questions and AHDB’s response

1. ***How has the pandemic affected the dairy industry and dairy farmers, and why did it need extra support compared to other agricultural sectors?***

2. **Challenges faced**

3. Like every aspect of agriculture, dairy farmers and processors have been facing the new challenge of fallout from the coronavirus pandemic. At the end of March the closure of cafes, tea rooms, restaurants and pubs and other foodservice outlets, which normally consume oceans of milk and other dairy products, resulted in thousands of litres of milk being poured away and some farmers facing a financial crisis. Dairy is a perishable product and there was some urgency to take measures to meet the challenges.

4. In April, AHDB analysis showed several dairy processors reacted to the impact of COVID-19 disrupting the markets by announcing various measures such as reducing the milk price and/or requesting that farmers supplying them reduce milk production levels for a period of time. The fact that this all happened in the run-up to the Spring milk flush meant that we faced the very real risk that as an industry we simply would not have the capacity to process all the milk coming off farm.

5. Our analysis showed that across April, May and June, the financial impact on GB Dairy farmers as a result of COVID-19 was £41.08m. Out of an estimated 8,580 farmers in GB, 4,565 suffered a milk price reduction this spring. Price cuts ranged from 0.5ppl to 4ppl and higher. Additionally, 455 had milk collections cancelled, 450 had payments deferred, 2,150 were asked to reduce milk output and 610 have had the volume they get paid a full price on reduced. A number of farmers have suffered more than one of these impacts.

6. The largest financial impact to farmers would have been as a result of the reduction in milk price (all else being the same). A 2ppl drop in price over three months would translate to a £38 to £45 loss per cow depending on the system. Further analysis on the financial impacts is detailed in *‘The financial impact of COVID-19 market disruption and production reduction measures on dairy farmers’*, published on the AHDB website.

7. **Government and Industry – a collaborative approach:**

8. On 17 April, the AHDB and Dairy UK were asked by Government to lead work, bringing the industry together to identify spare processing capacity, how to stimulate demand and how production could be temporarily reduced.

9. From the end of April until early June AHDB provided hard evidence on what was happening in the sector through weekly updates to Defra, the Welsh Government and the Scottish Government on several areas including retail sales; milk volumes off farm, spot and commodity market prices and number of farmers impacted by the closure of foodservice and the direct financial impact.

10. In addition to the action taken by the industry to temporarily reduce milk production, measures were considered by the industry and with Government in order to stimulate consumer demand for milk and other dairy products.

11. AHDB committed £200,000 for a consumer marketing campaign and this was rapidly followed by £300,000 being contributed by Dairy UK members. Following discussions with the UK Governments, they agreed to jointly contribute £500,000 to this consumer campaign to drive milk consumption and boost sales.

12. As a result, AHDB and Dairy UK launched a £1 million marketing campaign, supported financially by Defra and devolved government partners, with the theme of ‘Milk Your Moments’. The campaign encouraged consumers to reconnect with loved ones and family and remind them of the role liquid milk

plays in these moments, whether it’s a cup of tea over the fence, or a milkshake in the garden with the kids.

13. The dairy campaign illustrated coming together in times of adversity – a partnership between the dairy industry, processors, farmers and government to help drive consumption of milk and other dairy products in these difficult times, as well as helping to bring people together.

14. The 12-week campaign that runs until the end of July builds on the work AHDB has undertaken over the last three years to deliver a strong focus on the reputation of dairy, which is such an integral part of all our lives.

15. From a supply perspective, some processors instituted activity with farmers in April and May to curb production volumes, coinciding with the Spring flush. This was undertaken to avoid too much milk being produced with insufficient processing capability putting even greater pressure on prices. The collaborative approach taken helped steer the industry through this situation. For example, our estimates suggested in May GB production was 36 million litres lower than if a portion of farmers had not curbed their production.

16. Additionally, AHDB ran a series of webinars for farmers that were considering reducing milk production and also set up a dedicated section on our website to support dairy farmers that answered commonly asked questions and gave detailed advice on how to manage cashflow, advice on keeping good mental health and personal resilience and keeping employees healthy and motivated during the pandemic https://ahdb.org.uk/coronavirusdairy

17. **Coronavirus impacts - global dairy markets:**

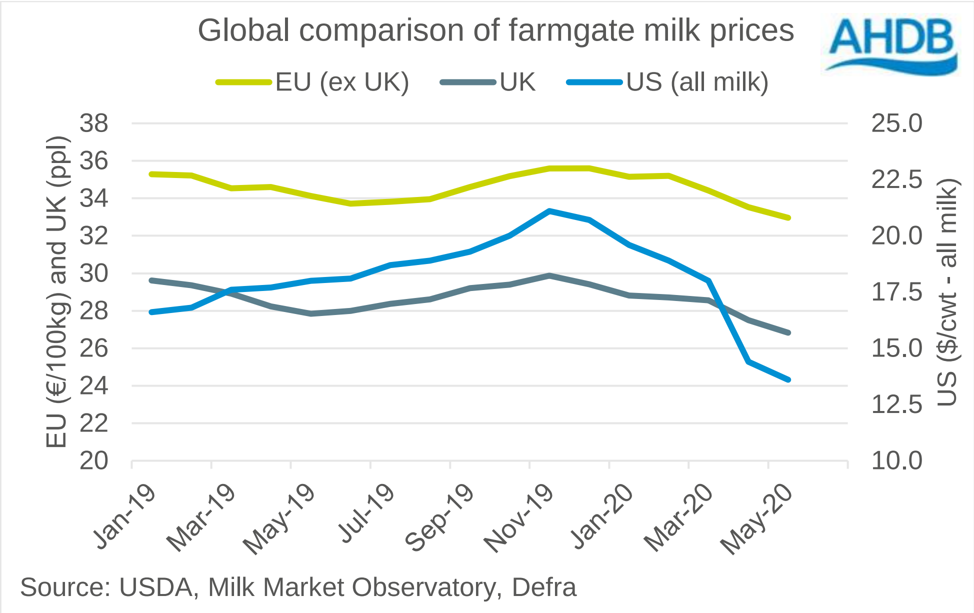
18. ***Wholesale price trends***

- dairy product prices fell significantly in April, with similar trends seen in all three northern hemisphere regions (UK, EU and US)
- US saw a more significant downturn in cheddar cheese prices, linked to the proportionally higher reliance on foodservice markets than in the EU or UK. This is estimated to be as high as 60% in the US according to GIRA in comparison to 30-35% in the EU

month on month change in average wholesale price ($/tonne)			
	US	EU	UK
Butter			
April	-28%	-29%	-18%
May	4%	-3%	8%
June	31%	18%	17%
Skimmed milk powder			
April	-14%	-28%	-13%
May	-11%	1%	0%
June	7%	14%	19%
Cheddar cheese			
April	-18%	-1%	-1%
May	-7%	0%	0%
June	71%	2%	0%

19. ***Farmgate price trends***

- Average farmgate prices (in local currencies) had been declining prior to the lockdown in Europe and the US. However, the rate of decline accelerated from March as export and consumer demand began to be affected by lockdowns
- The US saw the sharpest drop as measured by the 'All milk' announced prices. Class III prices (cheese) have seen huge volatility due to the reopening of restaurants in some states and strong export orders
- Price adjustments varied across EU member states. In the main producing regions, the average May price is between 2% and 12% lower than the average in February
- In the UK, the average price across all milk fell by 6.5% between February and May. However, prices paid by some milk buyers saw larger decreases, particularly by those reliant on foodservice markets



20. ***Support Packages***

21. European Union

- PSA opened for May and June
- Intervention opened, although not utilised
- increase advances of direct payments and Rural Development payments
- increased flexibility in use of Rural Development funds
- temporary derogation of competition rules
- national campaign to support cheese demand in France
- France provided €10m compensation to farmers who limited production (established through CNIEL and approved by EU)

22. United States

- $3bn for food purchase and distribution ($100m/month for dairy)
- $19bn direct support across all agricultural sectors (based on actual losses)
- $1.5bn for additional support to food banks

23. United Kingdom

- direct support for dairy farmers (max £10k per qualifying farmer)
- temporary derogation of competition rules
- campaign to support dairy consumption

24. **<u>Sector Outlook:</u>**

25. The impact of the coronavirus and lockdown on GB milk production has brought our 2020/21 forecast back by 83 million litres, compared to our March forecast update. Our June forecast sets production expectations for the season at 12,437 million litres, down 0.7% on 2019/20. Further analysis can be found in the article on the AHDB website *Spring milk curbing reduces production forecast*.

26. While the COVID-19 pandemic has caused widespread disruption and has hit trade, apart from some initial short-term challenges, dairy markets have been relatively resilient. AHDB has examined longer term prospects for the sector on its website in its analysis *'Dairy – looking beyond coronavirus'*.

27. Additionally, AHDB's latest bi-annual Agri Market Outlook accounts for the added uncertainty presented by the COVID-19 pandemic and the potential impact it will have on the sectors covered by AHDB's remit. We have developed three scenarios for recovery, covering a range of possible routes out of lockdown ('Bounceback', 'Stronger Headwinds' and 'Prolonged Restrictions'). It explores how these scenarios will impact demand for food in retail, restaurants, takeaways and in public sector catering, to estimate what the impact on total demand will be.

28. Further detailed analysis can be found in the Agri Market Outlook section of the AHDB website https://ahdb.org.uk/agri-market-outlook which reviews sector prospects for the coming 12-18 months and explores the longer term impact of economic and policy drivers on our industry.

29. ***Further information***

30. Any queries relating to this submission should, in the first instance, be directed to Andy Hutson, AHDB Public Affairs Manager, Agriculture and Horticulture Development Board, Stoneleigh Park, Kenilworth, Warwickshire CV8 2TL. T: 024 7647 8822 E: andy.hutson@ahdb.org.uk