DUNCAN MAUGHAN

DAIRY TALK

TUESDAY 27TH JANUARY, BRUSSELS

My name is Duncan Maughan, I'm a 3rd generation dairy farmer from Cumrew in Cumbria. We have farmed at Gateshaw Mill Farm since 1945. The farm is 106 ha and we grow grass and 20ha arable

In 2007 as decision was made to get out of milking cows and we sold the herd, but after a 3year break I was determined to restart the dairy herd because my own interest/passion was dairy particularly breeding and feeding. Through local and international purchases of dairy cows I built the herd up to 240 cows, however a batch of heifers imported from the EU I believe introduced mycoplasma bovis into my herd. Since 2012 we have had to cull batch after batch of cows that fell sick as a result of the disease, and at the end of 2014 I have just had to cull my remaining cows and calves.

I have, however, decided to return to milking cows despite the horrors of what mycoplasma bovis has inflicted on my farm and my family. I have secured a good milk contract through First Milk, a UK farmers cooperative, to supply milk to Nestle, which will pay us based on the constituents of our milk rather than on volume we produce. This allows me to maximise my return on farm and allows the milk buyer to secure a product that suits their manufacturing process. I will be paid 0.47p for every additional 0.1% of protein in the milk that we supply and I am able to increase the protein content of the milk that I produce through careful breed selection and nutrition. This means that I can have a much greater level of control over my income and returns from my milk contract.

This contract with Nestle has been essential for us in securing the financial backing from the bank to re-stock our farm. This time we will restock with an alternative breed that gives better butterfat and protein, and we will also have a strict restocking policy, so that we only source animals from accredited sources with high herd health status. We have learnt many lessons from our experience with mycoplasma bovis, and so increased on farm biosecurity will be another aspect we will focus on in the future. Access to credit would have been extremely difficult without the support of a milk buyer that is interested in traceability and quality from the farm to the end user.

I know that the Milk Package encourages the use of compulsory written contracts. In the UK, we have a voluntary code covering the terms of written contracts. However, in my area in particular some farmers are not able to secure a contract with a processor and are instead selling their milk at spot prices. This worked well for them at the top of the market last year, but they are suffering now. The terms of the contract are irrelevant if there is not a contract available.

The way my contract with Nestle works I believe is a good model for returning value from manufacturers and retailers through the supply chain. Farmers will invest in their businesses whether they are large or small if they have confidence that there will be a fair return for their product. Investment is not just in getting bigger though or producing more milk. It can be in becoming more efficient or producing better quality milk or in technology that enables a better quality of life or improved animal welfare. An intervention price does not support investment for these reasons as it will only encourage investment to produce more milk. I think it also discourages consumers of milk and milk products from investing in their supply base, as they know the farm subsidy system will act as a safety net. It is only manufacturers such as Nestle who are beginning to take more responsibility for the supply chain that are seeing beyond the system.

I believe that retailers, manufacturers and consumers of milk are in the best position to support a fair return for farmers. By encouraging more end users to invest in their supply base, they will be more engaged in the production process and so the benefit of returning more value to farmers. Manufacturers and retailers need a security of supply, guarantee of a quality of production, traceability of supply and increasingly are interested in environmental reasons, including measuring and taking steps to reduce the carbon impact of milk production and best practice guidelines of antibiotic usage to secure supply chain bonus payments.

At the moment, retailers in the UK in particular are drastically undervaluing milk, using it as a loss leader to encourage shoppers to visit their supermarkets. Current retail prices are as low as 89p for 4pints (about 1.16 euros for 2.2 litres). Milk is cheaper than bottled water and this is a disgrace given all of the hard work that goes into producing a quality food product that is so beneficial to consumers. Milk is a super-food and nutritionally one of the best sources of vitamins and minerals available. A glass of milk is a source of protein, calcium, potassium, phosphorus, iodine, vitamin B2, B1 and B12, it contributes 19% of calcium intake in the diets of UK adults. For our body to get the same amount of calcium as that obtained from a glass of milk, we would have to eat 63 brussel sprouts, 11 servings of spinach, or 4 servings of broccoli. Yet what most farmers are paid reflects none of this and that is a disgrace.

One thing that could be done to improve this situation and improve consumer understanding of the benefits of milk is better branding. The work that Coca-Cola is doing on this in the US could be a lesson here. EU consumers are very used to buying branded products and have a huge amount of trust in brands, which adds great value to the basic product. More could be done to encourage multinationals to invest in retailing and promoting milk as a consumer product and in developing variations on the core product such as 1% fat milk, grass-fed milk, milk high in Omega-3 or with other specific nutritional features. Multinationals have vast experience of consumer product branding and are much better at doing it than industry bodies.

Encouraging milk to be better promoted and branded means that retailers and promoters will be better engaged in their supply base and have incentive to invest in the security and consistency of supply. There may also be additional benefits, such as in supply chain efficiency. Through proper functioning supply chain relationships, farmers can be paid a fair price and investments made on farm that benefit the whole supply chain and wider community too. For example, we will be working with Nestle to monitor our greenhouse gas emissions on farm and reduce them where we can through supply chain bonus payments

I do not believe that farmers working collaboratively together to market their milk, as encouraged to by the Milk Package, is the right answer for the UK. We do not have any Producer Organisations here, but we have a history of producer cooperatives. First Milk is an example of this. However, even as a farmer-owned cooperative, it is suffering from volatility in the markets from its competitors and global actions as much as any other. Farmers in the UK had a lot of trust in the Milk Marketing Board. Large farmer owner cooperatives likes Dairy Farmers of Britain have failed at considerable cost to British dairy farmers. It will be very difficult to get UK farmers to trust again that working cooperatively will improve their situation, so different solutions will work more effectively here.

There is a lot of talk in the UK at the moment over whether a futures market for dairy produce would work. It is an interesting option and mirrors what is available in other commodity markets, but I think that it could introduce more volatility, not less, and it does not work to return value back to farmers. Another idea is an A+B quota contract, similar to how sugar beet contracts work in the UK. This guarantees a higher price for a certain proportion of fresh milk (as we have a very large domestic liquid milk market in the UK that generally has a more stable rate of return than commodities markets). The 'B' portion then reflects world market prices. This could work well in the liquid-dominated UK market.

I have already said that intervention prices I think work against milk producers ultimately, but an insurance-style system as in the US could be attractive. If the difference between the farmgate price and the price of feed became too small, then an insurance subsidy kicks in to protect the farmer's margin. Such a system could be set up so that it does not discriminate between different cost of production models, which is important.

Overall, however, I believe that an effective supply chain contract with an engaged end-user such as the one that I have with Nestle is perhaps the best long-term answer. It does not rely on costly or distorting market interventions and it delivers value along the whole supply chain.

Supply chain investment as I have described it will also act as an incentive to answer the infrastructure problems we have of producing milk in a disadvantaged region like Cumbria. Price intervention will not help if valuable markets cannot be accessed through the lack of milk processing facilities and also the logistics of moving large quantities of milk quickly and cost effectively to where it is required. Solving the problem of connecting consumer markets with prime dairying areas requires joined up thinking by local and regional agencies, producer representatives, manufacturers and retailers; large-scale businesses such as supermarkets and manufacturers like Nestle have the skills and experience in logistics to be able to make a real difference here.

In conclusion, as a producer of milk I face daily challenges in taking care of my animals and managing feed, fertility and hygiene. I don't believe that my taking on additional responsibilities in marketing my milk is desirable - there are experts in this who are better placed to do this for us and my p. I believe market distorting intervention should be avoided and that the current support system acts as a disincentive for supply chain investment. I would like to envisage a future where more manufacturers and retailers take responsibility for their security of supply and environmental impact, and consequently invest in alternative milk products with strong branding that returns value to the farmers. A strong, effective and properly functioning supply chain would offer value and security for everyone from primary producer to end consumer.