



ABN 87 023 582 096

AMALGAMATED MILK VENDORS ASSOCIATION INC.

(Incorporated under the Associations Incorporated Act, 1984)

The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
economics.sen@aph.gov.au

Dear Sir,

**Inquiry into the Impacts of Supermarket Price Decisions on the Dairy Industry –
Public Hearing Wednesday, 9 March 2011.**

We refer to the public hearing held on Wednesday, 9 March 2011 and questions raised by Senator Xenophon. These questions relate to the study tour of the United Kingdom (UK) Dairy industry and our perspective of the UK market and what impact that had on the equivalent industry in the UK.

In June/July 2008 the NSW Dairy Industry Conference (DIC) and Milk Marketing (NSW) Pty Ltd jointly sponsored a study tour of the UK Dairy Industry. Participants included senior representatives from the NSW Food Authority, NSW Department of Primary Industries, processor representatives, farmer and milk vendor representatives. The Amalgamated Milk Vendors Association (AMVA) was represented by our President, Mr Robert Young.

At the conclusion of the study tour a report on the UK industry was compiled by Mr Young for both the DIC and the AMVA. This report is attached and noted as Attachment 1. This report gives a good overview of the UK market as it was observed by members of the DIC study group in 2008.

It would seem that the current situation in the dairy industry within Australia is following an identical path to that of the UK. Our observations of the information that flows from the UK suggests that the dairy industry struggles to cope because of the supermarket dominance where the retailers have the total power to determine margins that are applied all participants in the industry.

In the UK, DairyCo is a levy-funded organisation working on behalf of Britain's dairy farmers. In their recent publication titled, *Dairy Supply Chain Margins 2009/10*, it states that "... retailers had a gross margin of 34% on liquid milk in 2009/10, up from 29% in 2008/09 and from 20% ten years ago". The report also indicates that gross

margins for the processor sector were down as well as a lower farmgate price of 2.0 pence per litre was paid to dairy farmers for the 2009/10 season (Source: DairyCo Library & Resources, Dairy Supply Chain Reports, accessed at <http://www.dairyco.org.uk/library/market-information/dairy-supply-chain-reports/dairy-supply-chain-margins-200910.aspx>).

Over the years the DIC has fostered dairy industry relationships from the UK. It is from contact with these representatives that our knowledge of the UK market is based. In this regard we attach some information from various UK news sources that may assist the Senate Inquiry.

Yours sincerely,

Bob Paton
Secretary

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25 March 2011

“ATTACHMENT 1”

STUDY TOUR OF THE UNITED KINGDOM DAIRY INDUSTRY

CONFERENCE ON CLIMATE CHANGE - EDINBURGH 25-27 JUNE 2008

Forty countries were represented and a video of the different levels of dairy farming was presented. Holland and Germany were the most sophisticated, utilizing hi-tech equipment including Bio-Digesters.

Most farmers at the conference believed climate change was a reality, but were not convinced that global industries were the cause.

Greenhouse gases caused by the dairy industry are taken very seriously and legislation is planned to be introduced later this year. The plan is to reduce greenhouse gases by 80% by 2050.

It is estimated that 18% of greenhouse gas is attributable to the world dairy industry.

Professor Maggie Gill, who is the Chief Science Advisor for Rural Affairs to the Scottish Government indicated that European Union Member states have signed up to reduce greenhouse gas by 20% by 2020. Professor Gill wholeheartedly endorses the “Stern Report”.

Carbon labeling on food packages has already begun in the UK. One example was Walkers Crisps, owned by Coca Cola. Other products will follow, including dairy products.

New Zealand is planning a carbon trading scheme for 2018.

China was a very interesting study. Dairying is very small but is growing. As the middle class increases in size, then the market will grow. In 2000, all the milk was fresh, but is now almost 100% UHT. The change was brought about by European supermarkets.

The conference was well organized and well attended. It is planned to hold these dairy conferences on a regular basis in different countries. No date was announced for the next round.

UNITED KINGDOM MARKET

Dairying in the United Kingdom has many of the problems experienced here in Australia. Production is falling, and will continue to trend downwards, due to the lack of “new blood” entering the industry.

Farm gate price has been depressed due to the power of the supermarkets.

Tesco, the largest supermarket chain, have recognized the problem of future supply and have entered into contracts with the farmers. Not all farmers, just a select few. These happen to be the largest and most influential producers. The contract allows for

the input costs (feed, fertilizer, fuel, labour) plus a profit margin. They then contract a processor to process, package and deliver the milk to their stores.

Tesco also sell a “*Local Choice*” brand and pay the farmers a premium for this milk. However, the farmers only receive the premium for the *Local Choice* milk that is actually sold. In the store, the *Local Choice* brand occupies the least favourable position in the dairy section, and is the slowest to be restocked.

All milk is delivered by the processor in dollies and is wheeled into a dairy space, where cold air is directed upwards from vents in the floor. The processor owns the trucks and employs the drivers. There is no central warehouse system as Tesco consider it too difficult and unnecessary.

The contracts are long-term. They described them as “evergreen”. They are reviewed every six months by an independent accounting firm.

The supermarkets carry very little branded product. There are only three types of milk - full fat, semi-skim, and skim. Each of the milk types is available in three sizes with the most popular being the 2 litre (half gallon) size.

There is almost a complete absence of flavoured milk. The products that are available are all UHT and do not taste very good.

The farmers are not really happy with the Tesco deal. They are suspicious that, as time goes on, they may have to adhere to conditions that are not present at this time. Furthermore, the farmers are expecting Tesco to wield their buying power to cut the costs of inputs, which will, in turn, reduce the farm-gate price.

Sample prices at Tesco are:

Tesco Full Cream	62.2 pence per litre
Tesco Local Choice	65.6 pence per litre

All supermarkets have a new milk product called ESL (extended shelf life). This is achieved by filtering the milk through a ceramic filter and it is claimed that it tastes better than conventional fresh milk. When I examined this product on Sunday, 29 June 2008, the “Use By” was:

Organic	04 July 08
Fresh	06 July 08
ESL	21 July 08

Tesco are also very aware of the coming government regulations on carbon emissions. When entering the car park, one cannot help but notice a huge windmill, which, purportedly generates electricity. No one could tell me exactly how much power was generated by the monster. There is also a recycle depot, which awards “greenpoints” to your “greencard “ every time a customer drops off plastic and paper.

Tesco are also in the process of introducing Self-Serve Checkouts. They have a member of their staff permanently stationed at the Self-Serve Checkouts to instruct customers how to use the system.

Tesco are now very much involved in home delivery of groceries, including chilled products such as milk. They claim that the system is rapidly growing in popularity at the rate of 30% per annum. They own a fleet of trucks and employ drivers to deliver six days a week. Each delivery has a **one hour window**, according to the customer requirement, and costs **five pounds**. Tesco claim a spike in their on-line shopping since the hike in fuel prices.

MILK PROCESSING

On 1 July 2008, I visited the Robert Wiseman Dairy Processing Plant, Bridgewater, Somerset.

The management claim that this plant, which was commissioned in 2007, is the best in the world. I believe them. They seemed very relaxed about their position as a “toll” processor. 60% of their throughput is for Tesco. My impression was that they were happy (and relieved) to let someone else deal with the producers, while they got on with the job of processing.

The plant was very impressive - super clean and hygienic. There were viewing galleries for every part of the process. The water used is treated to such a point, that it is of drinking quality at the end. They run 1500 vehicles and are currently trialling them on bio-diesel and liquid natural gas. I spoke to one of the operators about **ESL Filtered milk**. Apparently, the process is:

- Separate milk into cream and skim.
- Pasteurize skim in the normal manner.
- Cream is pasteurized at a higher temperature for a longer period.
- Then re-combine and voila! You have ESL.

Their vehicles are very distinctive as they are painted black and white to emulate a dairy cow hide.

BIO-GAS

On Thursday 3 July, somewhere in the south of England, I actually stood in a bio-gasometer, which was due for commissioning in two weeks. It resembled a huge circus tent from the outside. The process which was spoken of at length during the Edinburgh conference, is as follows:

- Outside the “tent” is a giant hopper, with enormous stainless steel teeth.
- Cow slurry (a fancy name for animal waste) is fed into the hopper with other organics.
- After mastication, the brew is fed via pipe into the “big top” tank.
- In the tank, screws continually move the mass, allowing microbes to eat.
- The microbes expel (fart) methane.
- The methane is gathered at the top of the tent, and piped to storage.
- The gas, in turn, drives a massive MAN Engine.
- The engine (internal combustion) drives a turbine.
- The turbine produces electricity.

The cost of the German built Bio-digester is 800,000 pounds (\$1.7mil).

The farmer who installed this system claims that the Digester will pay for itself within three to four years.

DEPARTMENT OF ENVIRONMENT FOOD AND RURAL AFFAIRS (DEFRA)

Created in 2001, this govt. body could be a farmer's worst nightmare. In liaison with Brussels, they are about to commence linking farmers rebates with their performance as far as pollution is concerned. In short, if a cow shits in a stream, the farmer will be fined. (Quote...“Water issues are not yet linked to cross compliance, but, in the future, polluters will have their European Union Payment reduced or stopped”).

In addition, DEFRA plan to make the public “aware” that cheese has too much salt and too much saturated fat.

They have introduced the “**Traffic Lights**” markings on all foodstuffs. So far, labeling has been voluntary, however, with some delight, they pointed out that this is about to change. I expressed my disappointment that the milk that our kids have been thriving on for years could not get a green light. They did not seem to give a flying one, that I was disappointed. To date, Tesco have not introduced the “Traffic Lights” and have chosen to stick with the more complex system of labeling each ingredient and their proportions, viz; calories, sugar, salt, fat, etc.

George Davey (Director General, NSW Food Authority) was of the opinion that we shall be confronted with this in the near future.

Wherever possible, the NSW Dairy Industry Conference must advise against single issue propaganda. Instead, a balanced approach to a balanced diet will serve the public, and our industry, much better.

IRELAND

I found the Irish dairy industry to be confusing, but their Guinness was superb. Basically, they have the same “European” problems as the mainland. The main points of difference were:

- They are mostly co-operatives, therefore, they do not envision the Tesco model of contracting individual farmers to be implemented.
- They take a sadistic delight in the mainland's declining production, as they see this as an opportunity for them.

The Irish Dairy Board was an interesting Dublin experience. They shared with our group what was going to occur in the International dairy industry between 2009 and 2011. For example:

- Europe will increase production by 1% (mainly Ireland).
- USA will decrease production by 2%.

- Australia will decrease production by 5%.
- New Zealand will decrease production by 4%.
- China and India will decrease production by 7%.

The Irish Dairy Board was founded in 1961 and is the major exporter of Irish milk. They consider themselves as a “second tier co-op”, whereby farmers pay a levy of 0.6 pence per litre. They own the **Kerrygold** brand. They also issue shares to members.

The final (almost) farewell was at the airport, where we were to catch an Aerlingus flight to Brussels. The radar was not working, so they cancelled all flights. We then had to arrange accommodation. We never got to Brussels.

GENERAL INFORMATION

In every major city I visited, I sought out a person who either, delivered milk, or received a commercial delivery. What I discovered was:

Doorstep delivery is all but gone. There are pockets of it but mainly in the country. Where it does exist, it is run by the processor, who charges a delivery fee.

Every city has independent milk vendors who are attached to the processors. They do not have any formal contract and are known as **re-sellers**. Their numbers are shrinking.

The majority of the dairy route trade, is serviced by food service trucks. The customers, as is the case in Australian cities, are mostly part of a group or franchise. The food service delivers three or four days per week. The truck setup is racks and baskets. The orders are made up at a central warehouse by specialty pickers, then delivered by a driver who is an employee of the distribution company.

The trip was very educational from both a macro and micro point of view of the UK Dairy industry. They face the same challenges in the market place as we do. The giant retailers, Tesco, Azda (Walmart), Sainsbury’s, Morrisons, have an even greater stranglehold on the industry than Woolies and Coles have in Australia. But, thank God, what we don’t have is 27 different countries, centred in Brussels, telling us what to do.

If there is another similar trip, I would strongly suggest that the minimum stay at each hotel, should be two days. In 21 days, we stayed at 15 different places. Too much stuffing about.

A full version of the trip will be available shortly on CD and will include powerpoint presentations from most of the organizations we visited. In closing, may I say that everyone we met in the UK could not have treated our group better. Furthermore, the travelling companions were the best. I sincerely thank them for their consideration, friendship and assistance, not to mention their fellowship at the bar.

Robert Young
Mount Keira, NSW
31 July 2008

“ATTACHMENT 2”

BBC NEWS BERKSHIRE

15 September 2010 Last updated at 12:06 GMT

Berkshire dairy farmers drop by a third, figures show

The National Farmers' Union said supermarket profits were not filtering down to dairy farmers

Low milk prices from supermarkets and the cost of investing in new equipment are being blamed for the drop in the number of dairy farmers in Berkshire.

Figures from DairyCo, a milk trade body, show about a third of the county's milk producers have left the industry in the past five years.

In August 2005, there were 35 dairy farmers compared with 24 this year.

Nigel Stacey, from the National Farmers' Union, said supermarket profits were not getting to farmers.

Struggling to survive

"The profits that supermarkets and retailers are making are not being passed back down the line to dairy farmers," Mr Stacey said.

"Dairy farmers are not receiving the reward from the market place that they ought to," he added.

Mike Bowden, a dairy and arable farmer at Brimpton in West Berkshire, said he was struggling financially.

"I am reviewing the situation all the time.

"I don't want to get rid of my cows and do something else but the financial side of it is pushing [me] towards that way and a lot of other people have done that."

Meanwhile, Ken Boyns, director of DairyCo which represents the interests of milk producers, believes people need to buy locally to help farmers.

"Over 40% of our cheese comes from abroad so the price it's coming in at from other countries is absolutely key in all of this," he said.

"Dairy farming is a tough job, probably one of the toughest in farming, its 365 days a year.

"The cows need milking, looking after every single day. It's a tough job where you need good return."

Source: <http://www.bbc.co.uk/news/uk-england-berkshire-11312561>

“ATTACHMENT 3”

BBC NEWS

Dairy farmers stage Tesco protest

Dairy farmers have protested outside Tesco supermarkets, calling for a greater share of milk's retail price.

Pressure group Farm, which estimates about 40 dairy farms close each week, held Saturday's Just Milk protests in London and five counties.

Farm urged Tesco to use its "market power to ensure dairy farmers receive a fair share of the retail price".

Tesco said it bought its milk from processors, not farmers, and could not dictate what farmers were paid.

A spokeswoman for the supermarket said: "We are one step removed from the arrangements farmers have with their processors."

Processors are the middlemen who buy and process the milk before it reaches the supermarket, and also pay the farmers.

Tesco says it uses processors that give more favourable terms to farmers.

“ We had to stop dairy production because of the appalling prices we received ”
John Sherrell, farmer

Tamasin Cave, of the Just Milk campaign, said: "We want Tesco to publicly acknowledge that a sustainable dairy industry relies on a high number and diversity of farms - not just industrial farms, but small ones.

"We targeted Tesco because they are the UK's biggest retailer."

Small demonstrations were held in London and outside supermarkets in Devon, Pembrokeshire, Dumfries, Hove and Gloucestershire.

Protesters approached shoppers outside branches, distributing leaflets highlighting their grievances.

Shoppers were encouraged to back their campaign by posting pre-written postcards calling for changes to be made and addressed to the chief executive of Tesco.

Robert Alderson of the Just Milk Campaign said around seven to eight people participated in each protest.

Actress Vanessa Redgrave, a supporter of the campaign, also attended the Covent Garden protest in London.

Mr Alderson said the demonstrations achieved positive results.

"We received a lot of support from Tesco customers," he said.

"Consumers want assurance from Tesco that the milk has been fairly traded."

He said this could be done without increasing the shelf price of milk.

"There is more than enough money in the milk chain, it's just that it's not being distributed fairly."

'Appalling prices'

A Tesco spokeswoman said: "Tesco is British agriculture's number one customer and a strong supporter of the UK milk industry.

"Our aim is to work with our suppliers to create sustainable relationships with dairy farmers.

"We believe the most positive thing we can do is to continue to work with the supply chain to grow the amount of UK dairy products that we sell and develop new opportunities."

John Sherrell, 27, recently stopped dairy production at his Devon farm.

He said: "We had to stop dairy production because of the appalling prices we received - It was impossible to carry on."

Making a loss

A litre of milk costs around 50p in shops on average.

This year a parliamentary committee found that around 18p of every 50p was unaccounted for - lost in the supply chain.

Mr Sherrell said within a decade, his farm went from receiving 25 pence per litre to 16 pence.

On average, it had cost him around 22 pence to produce a litre of milk by the time he halted his dairy trade.

The farmer, who has continued with beef, arable and chicken farming, added: "We have a small, family-run farm and the dairy was our main focus for over 50 years.

"This pricing pressure has been going on for the last five years. By the time we ceased dairy production we were running at a loss."

Story from BBC NEWS:

http://news.bbc.co.uk/go/pr/fr/-/2/hi/uk_news/4065917.stm

Published: 2004/12/04 16:42:30 GMT

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Source: http://news.bbc.co.uk/2/hi/uk_news/4065917.stm

“ATTACHMENT 4”

FARMERS GUARDIAN

Fury as farmers blockade Tesco depot

22 October 2010 | By [William Surman](#)

FARMERS formed a blockade outside a Tesco depot near Southampton last night (Thursday, October 21) to protest against poor returns from all the major supermarkets.

Around 100 farmers warned they would continue to cut off supplies to the top retailers until there was a commitment to give farmers a ‘fair’ return for their produce.

The action, they said, could cause havoc in the run up to Christmas.

Nine tractors and several other vehicles were used last night to block the entrance to the Tesco depot in Nursling which sends food to stores all over the south. The blockade lasted 4 hours.

David Handley, chairman of Farmers For Action (FFA), said the action was long overdue.

“There has been too much talk about what farmers need but nothing practical taking place. We decided we needed to launch this action to provoke retailers and the Government to look more seriously at this situation.

“We are not demanding more money from customers but we want to get the message across that the supply chain has plenty of money to pass down a fair price to the primary producer.

“We will continue to blockade supermarkets in the run up to Christmas if we need to.”

Mr Handley said Sainsbury’s, Morrisons and Asda depots would be targeted alongside Tesco and other bargain retailers over the coming weeks and months.

Jim McLaren, [NFU Scotland](#) president, said dairy farmers were particularly justified in their demands.

“Faced with a winter of spiralling costs and unsustainable milk prices, frustration amongst dairy farmers is reaching boiling point. That anger is justifiably focussed on a dairy supply chain that continues to poorly serve those at the milk production end.

He added: “Major retailers have it within their gift to ensure that a fair share of that profitability is available to go back down the chain to those who are milking cows, day in day out, without the need to ask the consumers to pay any more for their food,” he said.

However, a spokesman for Tesco said they were ‘somewhat confused’ by the protest, given that those involved ‘were not Tesco suppliers’.

“We remain committed to ensuring British dairy farmers receive a fair price for the milk they supply to Tesco,” he said, adding Tesco had recently confirmed a new price of up to 28.18ppl from October 1, for Tesco Sustainable Dairy Group farmer members - an increase of 1.28ppl for the next six months

“We have a very good relationship with our producers. We are paying more than other supermarkets and are doing some great work. If the protestors are looking for some serious action to be taken on their concerns, it would be better to protest against someone who can make decisions to help them.”

Source: <http://www.farmersguardian.com/home/business/fury-as-farmers-blockade-tesco-depot/35172.article>

“ATTACHMENT 5”



Will farm exodus see the end of fresh milk?

By Anna Browning
BBC News

The UK is haemorrhaging dairy farmers as they struggle to make ends meet with thousands more expected to sell their herds in 2005. So does this spell the end of fresh milk on our cornflakes and will the Great British cuppa ever be the same again?

A recent report by the Milk Development Council - the public body charged with overseeing dairy farmers - reveals 11% left in 2003 while 30% of those remaining plan to leave in the next two years.

There are now 16,000 dairy farmers left in England and Wales.

Farmers say they are losing money hand over fist because they are not paid enough to cover production costs.

Ask why they are not paid enough and you move into a grey area.

This year a parliamentary committee discovered that while the average litre of milk costs around 50p, roughly 18p of every 50p was unaccounted for - it was simply vanishing in the often-murky supply chain.

Supermarket profits

Other reasons include the strength of sterling, which affects the "lower end" market of unbranded cheddar cheese, condensed milk, milk powder and other dairy products, all of which use 30% of what is produced in the UK.

These products are more often than not sold in euros, with the exchange rate making it hard to compete worldwide - which in turn sets the "tone" of the UK dairy market and brings down the market price of raw milk with it.

But the overriding culprits - for most farmers anyway - are the supermarkets.

The way we buy milk has altered radically over the last decade. When once it was delivered daily by the milkman, now we buy sporadically, more often than not from the supermarkets.

“ Supermarkets are locked in a price battle but are using farmers as pawns and the countryside as cannon fodder ”

Peter Lundgren

Indeed, according to the MDC, since the 1994 deregulation with the end of the Milk Marketing Board, the farm gate price has fallen and dairy processors' margins have remained constant, while the supermarkets have increased their profits.

After around five years of crippling prices, it has led to a mass exodus of farmers - and those left have had to expand to survive.

As a result the UK has maintained its quota limit of 14 billion litres a year so far - but there is real worry this might not last.

Consider the reforms of the Common Agricultural Policy due to be implemented next year, and many are feeling shaky about the future.

Tom Hind, milk adviser for the National Farmers' Union, said if they could do some crystal ball-gazing, they would.

But, he argued the supermarkets needed to prove their commitment to British agriculture for a "sustainable future" - while farmers needed to work "co-operatively".

Foreign milk?

He said: "Milk is always going to come from this country, that goes without saying, but farmers, producers and supermarkets must work more co-operatively and get closer to consumers and give them what they want.

"The days of people drinking a pint of milk are over, whereas soft cheese is an area of the marketplace that has grown

"There should be a positive future provided we get our act together and get it all right."

But Robert Alderson, project co-ordinator for campaigning group Farm is more pessimistic.

He said: "It is quite hard to know what is going to happen, but it's likely more and more milk will come from abroad.

'Food scares'

"We are already seeing an influx of brand milk which has a longer life, so can be brought from abroad and fresh milk is just going to be in the hands of a few processors, which will lead to lots of food scares and a lack of diversity in the countryside."

The group has launched a Just Milk campaign to bring its message home.

Farm member and ex-dairy farmer Peter Lundgren said there was enough money in milk for everyone to make a profit, but farmers were just not getting their share.

He said: "Supermarkets are screwing the farmers and conning the customers.

"Supermarkets are locked in their own price war with each other but using farmers as pawns and using the countryside and rural communities as cannon fodder."

Asda solution

As for John Sherrell it is already too late. The 27-year-old Devon farmer sold the 40-strong dairy herd his father spent a life-time building up in January.

He is now restructuring the business and selling beef straight to customers in and around his village, Newton Ferrers.

Mr Sherrell said: "It's a lot simpler. The control the supermarkets have got is too much - they are killing the golden goose."

One supermarket, Asda, is finding its own solution to the problem. Since last week it has been using its own 600 farmers who solely supply Asda.

It means, says the supermarket, it can trace not only the milk itself but it can also make sure any price rises are traced right back to farmers.

Tesco also said it was not only committed to sourcing its milk in the UK but had increased the amount it was buying in recent years.

"We recognise we all have to work together," said a spokeswoman.

Story from BBC NEWS:

http://news.bbc.co.uk/go/pr/fr/-/2/hi/uk_news/4015503.stm

Published: 2004/11/17 00:25:24 GMT

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Source: http://news.bbc.co.uk/go/pr/fr/-/2/hi/uk_news/4015503.stm

“ATTACHMENT 6”



Who makes money from a pint of milk?

Dairy farmers warn they are struggling to survive on what they are paid for milk. So who gets the money when you buy a pint?

HOW FARMERS LOSE MONEY

61p - cost to farmer to produce four pints

58p - paid to farmer by processor

3p - farmer's loss

£1.07 - paid to processor by supermarket

£1.45 - cost to customer to buy four pints from supermarket *Source: DairyCo*

Times are not good for many dairy farmers. The gap between how much it costs to produce milk, and how much they are paid for it, is being squeezed ever tighter. And one of the industry's biggest cooperatives has gone into receivership, leaving hundreds unable to sell what they are producing.

Milk is a staple of the average Briton's daily diet. According to industry figures, 98% of households in the UK buy the white stuff, and on average we each consume over two-and-a-half pints a week.

We pay on average 39p for a pint, according to the milk trade body, DairyCo. It comes to this figure by dividing the average cost of a four-pint carton in the supermarkets. So where does that money go?

Getting milk from a cow to the chiller cabinet involves the farmer, the processor and the supermarket. The first produces the milk, the second collects, pasteurises, bottles and distributes it, and the third sells it.

Each has costs and overheads to cover, from feed and vet bills for a farmer, to staffing and electricity bills for the supermarkets. When all these costs are taken into account, it's the farmers who are missing out.

Farmers made a loss of 1p for every pint they sold last year, according to DairyCo figures for 2007/2008. Obviously, this is an average across the industry. Some farmers, with more cost-effective operations, will be making money.

But no one disputes that times are hard, with the farm-gate price of milk - what the processor pays the producer - falling month on month. In May, it was down to just 23p a litre, on average.

"Prices are simply unsustainable. The average farmer is losing money on each litre of milk produced, leaving no room for reinvestment on the farm," says a spokesman for the Royal Association of British Dairy Farmers (RABDF).

Processors on average make money from each pint they sell, but the story isn't straightforward here either. The Dairy Farmers of Britain cooperative (DFOB), responsible for 10% of UK milk production, went into receivership earlier this month.

The co-op had been struggling to pay its 1,800 member farmers a competitive price for their milk, and large numbers were leaving. It also lost the milk contract for Co-operative supermarkets.

The supermarkets' margin on fresh milk has increased steadily over the years, according to DairyCo figures. The big few enjoy considerable bargaining power with many of their suppliers, so can keep prices competitive for customers.

"Farmers have been placed under extreme pressure by retailers and the service sector for far too long to produce milk at the lowest price possible, and they continue to make a loss," says the RABDF's spokesman.

But retailers say paying farmers a fair price is important. While Tesco, the UK's largest supermarket group, will not discuss margins - "it's commercially sensitive," says a spokeswoman - in 2007 it signed up its own group of dairy farmers, paying above the market rate for their milk.

"We were credited with bringing up farm-gate prices," she says.

Story from BBC NEWS:

http://news.bbc.co.uk/go/pr/fr/-/2/hi/uk_news/magazine/8103119.stm

Published: 2009/06/19 13:52:39 GMT

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