

# Dairy Action Plan

March 2015



The Scottish  
Government  
Riaghaltas na h-Alba



## Foreword

The dairy sector is vital to Scotland's farming and food sector and the wider rural economy. Our 900 dairy farms and 2000 processing employees generate well over £400m of output, 15% of all our farming output. The sector's future is of real importance to Scotland.

The Scottish Government has been working closely with the sector for a number of years to ensure its continuing success. In response to Ambition 2025, a hard-hitting vision for the sector's future, we established the Dairy Growth Board and Dairy Hub to drive forward moves towards a thriving dairy industry.

Today our dairy sector is, however, enduring another period of volatility and poor market returns. The causes are widely acknowledged as being twofold: world supply and demand is out of balance for a variety of geo-political reasons and the profile of milk and dairy products on the home market has been devalued as milk and milk products are used as a loss leader to gain market share.

The action plan aims to improve the resilience of the Scottish dairy sector and provide the right platform to ensure the entire sector can thrive in the context of volatile market prices. This plan amalgamates new and existing activities that the Scottish Government, its agencies and others will take forward together to underpin that aim. It also takes account of the recommendations made by the Scottish Parliament's Rural Affairs, Climate Change and Environment Committee following its own enquiry into the Scottish Dairy Industry.

The themes set out in this plan build upon the pathway set out in Ambition 2025. The task before us is not to change tack but to accelerate and intensify the steps we are already taking to create a prosperous future for our dairy sector.

I look forward to working with all our partners to deliver this plan.

A handwritten signature in black ink that reads "Richard Lochhead". The signature is written in a cursive, slightly slanted style.

**Richard Lochhead**  
**Cabinet Secretary for Rural Affairs, Food and the Environment**

## 1. Market development

The Scottish dairy sector boasts a wide range of high quality products and benefits from its position as core to Scotland's booming food and drink industry. It has the potential to grow significantly its market share at home and abroad but achieving this will require focussed and energetic market development activity. The actions already underway, and those that we will pursue are:

### 1.1: Developing a strong Scottish dairy brand at home and, especially, abroad:

- SG has given additional funding to the Dairy Growth Board to develop a Scottish dairy brand and range of products.
- Work has begun on the brand, to be presented at the Royal Highland Show in June, and launched for the export market at the Anuga Food Expo in Cologne in October. (DGB)
- The brand will feature strongly in the Showcasing Scotland meet-the-buyer event with retailers, food service and overseas buyers in October. (SDI/SFD)

### 1.2: Getting more Scottish dairy products on retail shelves, in food service and in export markets

- We will engage actively with retailers on dairy products, agreeing the steps needed to encourage a viable local supply base, including wherever possible backing Scottish products in Scottish stores. Target: May (SG/SFD/SRC)
- We will prioritise access to UK retail with public support for a new UK supplier development programme. Target: June (SG/SFD/SRC).
- We will open discussions with food service and catering companies to ensure widespread adoption of the food charter and of best practice on labelling, in both cases starting with dairy. Target: June (SG/SFD)
- We will ensure that promotion campaigns give prominence to dairy, in particular supporting the Year of Food and Drink's Delicious Dairy theme in August. (SG)
- We will promote exports, tasking the newly appointed food and drink in-market experts, especially in Japan and Canada, to prioritise dairy opportunities and helping companies maximise the overseas potential of Showcasing Scotland. Target: March/October (SFD/SDI)
- We will work with local authorities to increase the consumption in schools of Scottish cheese, butter, yogurt and other dairy products. Target: June(SG)

## 2. Promoting best practice in dairy farming

Dairy farmers are the bedrock of the sector. The Review of the Scottish Dairy Industry (Ambition 2025) looked at the efficiency and competitiveness of all parts of the Scottish supply chain, including the opportunities for greater collaboration among primary producers. There is clearly scope to spread better best practice in the many areas which contribute to world class dairy farming. Achieving that will require effective measures to provide information services bespoke to dairy farmers and to make it easier for ordinary farmers to benefit from practical advice from both advisers and, crucially, peers. We will therefore:

### 2.1: Spreading best practice

- Give priority access to the dairy sector to whole farm reviews and the new SRDP advisory services and actively encourage farmer uptake. Ongoing (SG/SDS/NFUS)
- Enhance the role of dairy Monitor farms. Target: July (SG/SDS/NFUS)
- We will continue to support the new Dairy Hub as an effective one-stop shop for advice. Ongoing (DH)

### 2.2: Tax Averaging

- We have successfully lobbied UK Government to extend the tax averaging provisions from the current 2 years to 5 years for Scottish Dairy farmers. The Chancellor announced in his recent budget that he would allow dairy farmers to average their incomes for tax purposes over 5 years. This will take effect in April 2016.

## 3. Promoting a transparent and efficient supply chain

As with every part of the economy, it is important that the dairy sector in Scotland has a thriving supply chain. That implies a need for efficient, confident players at every level of the chain and transparency as to the interaction between those different levels. Achieving that will require focused efforts in a number of areas: a). Ensuring sufficient processing capacity in Scotland

### 3.1: Ensuring sufficient processing capacity in Scotland

- We will actively encourage and support investment in new and diverse capacity in dairy processing. Target: December (SG/SDI/SE/HIE)

### 3.2: Safeguarding the transparency of the market

- We will discuss with the Grocery Code Adjudicator how best to ensure it can perform its role effectively in respect of the Scottish market. Target: July (SG)
- We will agree on the steps needed to be taken in response to the report on the voluntary dairy code, including possible extensions to the scope and substance of the code. Target: June (NFUS/DairyUK).

### 3.3: Encouraging supply chain efficiency

- We will assist all parts of the supply chain to remain operationally efficient, competitive and adequately skilled. Ongoing (SE, HIE, SMAS, ZWS, SAOS, SDS)

## **4. Supporting First Milk in transforming its operation in Scotland**

First Milk is a cooperative enterprise whose HQ is in Scotland and which involves a large number of Scottish dairy farmers, many in remote areas. Securing a thriving future for the company is important for the sector as a whole. Achieving that will require actions, not only by the company itself, but by several other players in the chain, such as:

### **4.1: Supporting business change**

- Working together with First Milk to ensure streamlined and effective public sector support for the company's plans to transform its business. This will include implementation of an 8 point strategy as laid out by the RACCE Committee. Target June (SAOS, SE, HIE, SG)
- Provide support for First Milk's revised capital investment plans in Campbeltown. Ongoing (SG/FM)
- Integrating First Milk products fully into the development of the Scottish dairy brand. October (DGB)

### **4.2: Mitigating ferry costs**

- We will ensure the ongoing comprehensive review of freight fares across Scotland's ferry network takes account of impact on dairy transport costs. Target: October (SG)

## **5. Getting the international rules right**

Conditions in the dairy sector in Scotland are strongly affected by international events of various sorts. These range from dramatic changes in market prices to EU rules which impact – for good or ill – on market opportunities. It is important that such issues are debated openly with due account taken of the circumstances in the Scottish sector. Achieving this will require activity in a range of forums.

### **5.1: European engagement:**

- We ensured that the issue was discussed at the EU Agriculture Council in January – and will do so again, as necessary, at future Councils, in particular so as to monitor actively world markets and the impact of the ending of quotas. (SG)
- We will explore the scope for EU recognition of local products – in particular from remote areas – as Protected Geographic Names. Target: June (SG/SRUC)

### **5.2: UK Government:**

- We will press Defra to accelerate the timetable for extending Country of Origin Labelling to dairy. This will include holding Defra to the agreement in the Smith Commission to argue for EU recognition of “Made in Scotland”. Target: July (SG)
- We will work with Defra and others on exploring the potential role for sole form of hedging to help mitigate price volatility. Target July (SG/ NFUS)

## Timelines of key dates:

### May:

- Agree steps with retailers to seek to encourage a visible local supply base and greater support for Scottish products

### June:

- Take forward discussions with the food service industry to promote the use of the Food Charter
- Engage with local authorities on the prospect of increasing the consumption in schools of Scottish dairy products
- Facilitate discussions on the next steps for the Voluntary Code of Practice

### July:

- Engage with the Grocery Code Adjudicator on how it can best use its role to support the Scottish Dairy sector
- Engage with DEFRA to accelerate the timetable for extending Country of Origin labelling to dairy products

### August:

- Support the Delicious Dairy campaign as part of the Year of Food and Drink

### October:

- Host a Showcasing Scotland Meet the Buyer event
- Launch the Scottish Dairy Brand
- Consider the implications for the dairy sector as part of the wider review of freight fares on Scotland's ferry network

### December:

- Seek to encourage new investment in processing capacity

## Acronyms

<b>Defra</b>	Department of Environment, Food and Rural Affairs
<b>DH</b>	Dairy Hub
<b>HIE</b>	Highland and Islands Enterprise
<b>NFUS</b>	National Farm Union Scotland
<b>SAOS</b>	Scottish Agricultural Organisation Society Ltd
<b>SDI</b>	Scottish Development International
<b>SDS</b>	Skills Development Scotland
<b>SE</b>	Scottish Enterprise
<b>SF&amp;D</b>	Scotland Food and Drink
<b>SG</b>	Scottish Government
<b>SMAS</b>	Scottish Manufacturing Advisory Service
<b>SRC</b>	Scottish Retail Consortium
<b>SRUC</b>	Scottish Rural College
<b>ZWS</b>	Zero Waste Scotland



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Any enquiries regarding this publication should be sent to us at  
The Scottish Government  
St Andrew's House  
Edinburgh  
EH1 3DG

ISBN: 978-1-78544-249-0

Published by The Scottish Government, March 2015

Produced for The Scottish Government by APS Group Scotland, 21 Tennant Street, Edinburgh EH6 5NA  
PPDAS47003 (03/15)

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