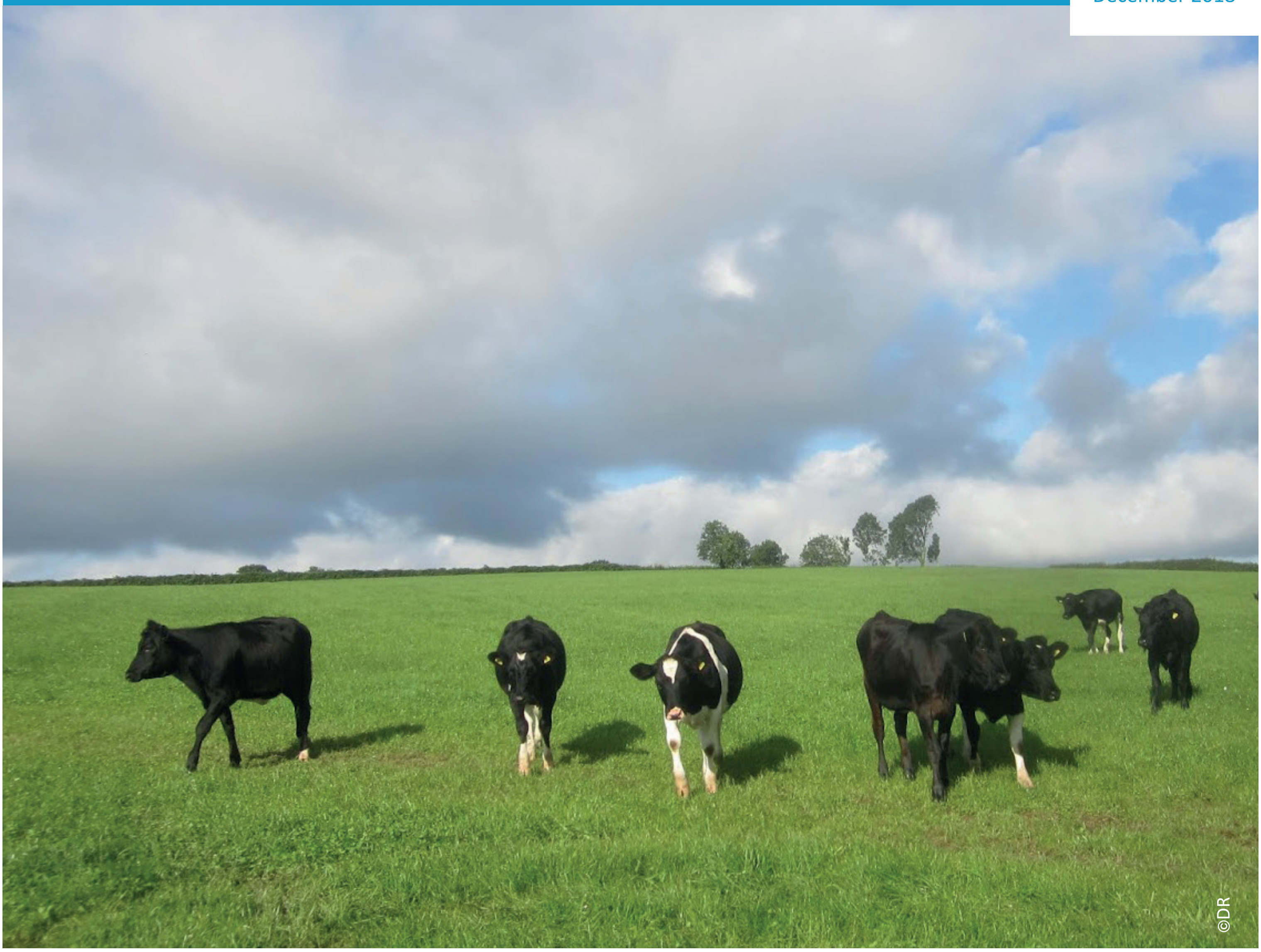
Dairy 4 future

WORK PACKAGE 4
DAIRY SECTOR ANALYSIS

Analysis of the Wales dairy sector: skills and dynamism

December 2018



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PART 1

PRODUCTION & STRUCTURE

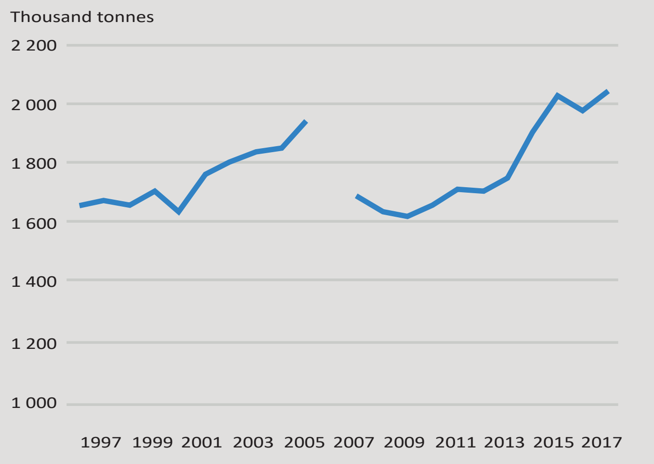
Production has been growing since 2009

Milk production in Wales has been growing since 2009 (Fig. 1). Overall, milk production in Wales increased by 21% between 2007 and 2017, to 2.05 million tonnes.

The rate of growth started increasing from 2013-2015, but was then hampered by the milk pricing crisis in 2015-16. Production dipped slightly in 2016 and then recovered in 2017, but we are yet to see whether Wales can return to the growth seen previously.

The tough situation in 2015-16 has had some impact on farmers intentions. A survey undertaken in 2017 showed that 49% of Welsh farmers were planning to expand production in the next five years – but this was down from 52% in 2014.

FIG.1: WALES ANNUAL MILK PRODUCTION
(Source: Eurostat) - *Note 2006 data is unavailable*



Most dairy farmers are specialists, but production systems vary

There were 1,729 registered dairy holdings in Wales in 2017. According to a 2017 survey by AHDB, slightly over half of Welsh farmers are specialist dairy farmers, defined as 100 per cent of their holding being dedicated to dairy farming (and youngstock). Those farms that do not completely specialise in dairying are still predominantly dairy businesses – two-thirds of farms reported that over 90 per cent of their land is used in the dairy farm. Furthermore, over 90 per cent of surveyed farmers dedicated at least half of their land area to dairying. Those with larger herds tend to be more specialised dairy farms, whereas those with smaller herds (e.g. 10-49 cows) are more likely to also have other enterprises on the farm.

The majority of Welsh dairy farms operate under an all-year-round calving pattern (81%), with the rest calving in a set block of time within the year.

Two-thirds of farms (and 56 per cent of cows) graze their cows for between 183 and 273 days per year. The animals will be brought inside for the winter when there is little grass growth and ground conditions are often unsuitable. Larger

KEY FIGURES – YEAR 2017 – WALES

DAIRY PRODUCTION

2 millionS tons of milk delivered (**+21%** in 10 years)

corresponding to:

13% **of UK deliveries**

4 main collectors

29% of the turnover of regional agriculture (excluding grants)

251 000 dairy cows including:

- **85%** in farms holding **more than 100 cows**
- **12%** in farms holding **less than 50 cows**

Organic milk represents **0%** of regional deliveries

LIVESTOCK AND FARMING

1 730 dairy farms

with in average: **145 cows/farm**

producing: **8 150 kg/cow/year**

3 tons of concentrate per cow/year

Animal stocking rate: **2 LSU/ha**

(Source: AHDB)

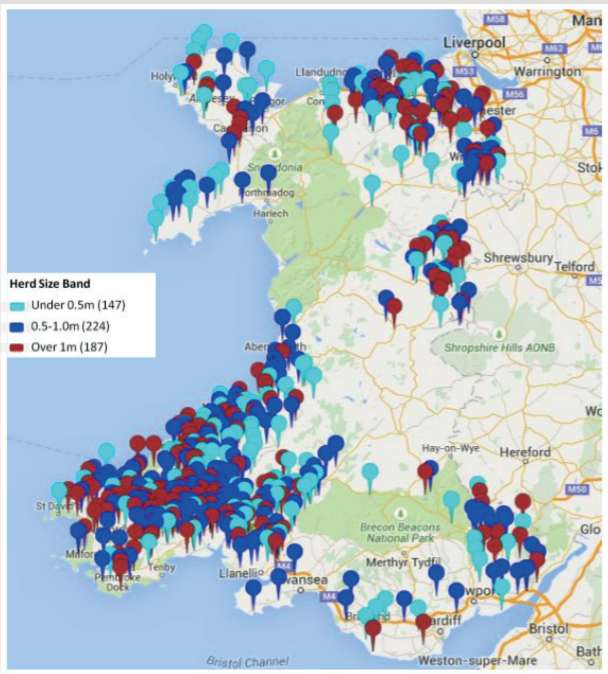
herds tend to either graze for longer, at over 273 days per year (seven per cent of farms and 12 per cent of cows), or not at all (five per cent of farms accounting for 10 per cent of cows).

Those at the extremes, that either graze for over nine months (273 days) or not at all, are making more money per litre than those in between. The feed cost per cow and per litre falls sharply from 10ppl to 4.5ppl as the number of grazing days increases from zero to over 274.

Production is based in the lowlands, especially the south-west

Milk production is concentrated in five main areas of Wales (Fig. 2). In order of volume produced, these are the South West, North East, North West, Welsh Borders and the South East. Hardly any milk is produced in Snowdonia and the upland areas of Brecon and in Central Wales. Herd sizes are evenly distributed, apart from the North West where herds tend to be slightly smaller.

FIG.2: MAPPING OF WELSH HERDS ACCORDING TO THE HERD SIZE



PART 2

WELSH PROCESSING FOCUSES ON DAIRY PRODUCTS

The Welsh dairy processing industry is made up of around 45 milk processing establishments. These range from small niche manufacturers to large globally competitive processors.

Almost 50% of these processors are primarily based around cheese manufacture. Ice cream and cream processors account for the next largest group of producers, with 10 plants operating in Wales. Wales also has two specialist yogurt processors, as well as seven liquid milk processors and one whey processor.

Despite having around 45 processors in Wales, the industry is dominated by four large processors, Glanbia Cheese, Dairy Crest, First Milk and Arla, which account for around 1 billion litres or 62% of milk produced in Wales (Fig. 3).

Liquid milk processing is supported by England

More milk is produced in Wales than is needed for consumption by the population or that can be physically processed into products. A study by Promar estimated that in 2013 around 45% of raw Welsh milk

FIG.3: WELSH DAIRY PROCESSORS

was exported, mainly into England. Most of the UK's major liquid milk processing dairies are in England, although there is one in north-east wales close to the border. Wales also imports a lot of its liquid milk, as in 2014 it processed 1.3% of UK liquid milk but accounted for 6% of the demand.

Over half of Welsh dairy farms are on a liquid milk contract

According to AHDB's conditional aid research survey, five per cent of Welsh farms have aligned milk contracts that pay according to costs of production (most likely for liquid milk) and another 48 per cent of farms are on a non-aligned liquid milk contract, 41 per cent are supplying milk solid contracts, five per cent on balancing contracts and six per cent with other arrangements. Farms in the top quartile of performance, measured by dairy profit per litre of milk, are more likely to have aligned milk contracts.

Welsh dairy processing focuses on cheese

Around 50% of milk produced in Wales was processed in Wales in 2014. Most of this (88%) was converted into cheese. Welsh cheese production is dominated by cheddar and mozzarella with a 60/40 split between the two. Roughly 8% of the milk processed in Wales in this year went into liquid milk, which as previously discussed accounts for just a fraction of the Welsh liquid milk market. Finally, approximately 4% of milk processed in Wales was converted into a wide range "other" dairy products, including yogurts, clotted creams, ice cream and butter.

An increased focus on processing in the last 4 years

Since 2014, the Welsh dairy industry has changed quite a bit. While there have been no large-scale closures, growth and investment at some dairies such as South Carmarthen Creamery and Dairy Partners has changed the proportions of milk contracts. The share of farmers on solids/manufacturing contracts has gone from 27% in 2014 to 41% in 2017, with liquid contracts declining as a result, according to AHDB surveys.

Cooperatives an established part of Welsh dairy

There are currently no Dairy Producer Organisations in Wales. However there are several notable cooperatives, as well as privately owned companies (Tab. 1).

TAB 1: INDICATIVE MILK PURCHASERS AND WELSH MILK SHARE 2014

Company	Ownership	Estimated Welsh Milk Share*
First Milk	Coop	<50%
Glanbia	Plc	90%
Dairy Crest	Plc	<25%
Arla / AML	Coop	<25%
Muller Wiseman	Private	<25%
Freshways	Private	<50%
Meadow Foods	Private	<50%
County Milk Products	Private	<50%
SCC (Hufenfa De Arfon)	Coop	100%
Llaeth Cymreig	Coop	100%
Tomlinsons Dairies	Private	<50%
OMSCO	Coop	<50%
Fayrefield Liquids	Private	<50%
Dairy Partners (Dansco)	Private	100%
Calon Wen	Coop	100%
Medina	Private	<50%

*Estimated share of total milk intake

PART 3

SWOT ANALYSIS OF THE WELSH DAIRY SECTOR

Analysis taken from "A Review of the Dairy Sector in Wales" by Andy Richardson, published circa February 2015. Some minor changes have been made, specifically replacing outdated quota points with Brexit.

S — STRENGTHS

- Grass based production
- All year calving pattern
- Good image
- Temperate climate
- Large market on doorstep
- Reasonable skills set
- Good scale on some farms
- Traditional farms
- Dense milk fields SW & North
- YFC (Young Farmers' Clubs) very strong

W — WEAKNESSES

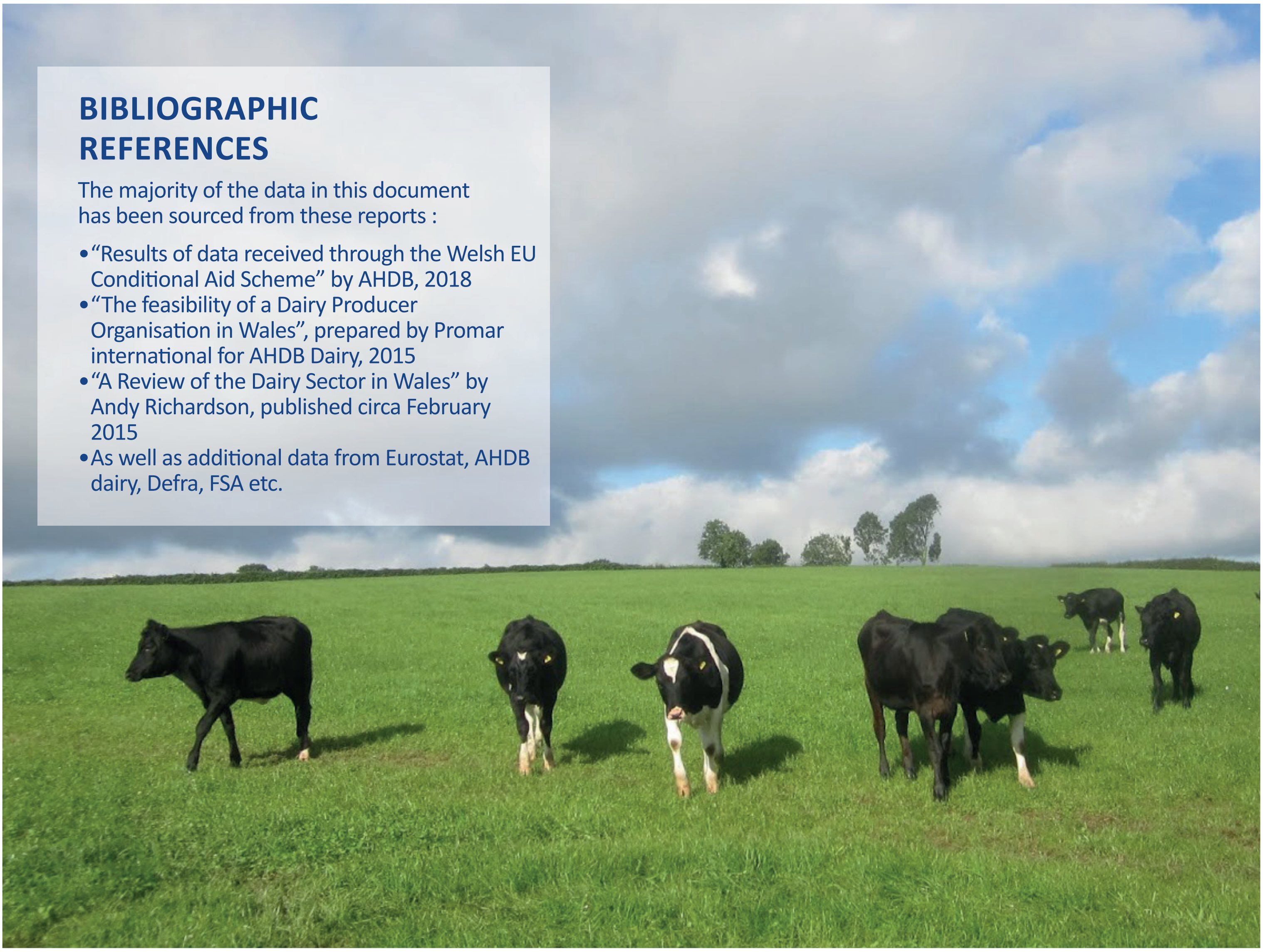
- Knowledge to exploit grass could be improved
- Dairy farmers are price takers who have little control over price
- Poor road infrastructure
- Lack of processing capacity
- Milk sold as a loss leader
- Fallen behind on innovation
- Farm worker skills could be better
- Transport infrastructure
- Small population cannot support dairy industry alone
- Dependent on English market
- Range in farm production efficiencies
- Disconnected with how market works
- Few options for contracts

O — OPPORTUNITIES

- Fantastic location for milk production and processing investment
- Competitive raw material and efficient processing
- Increasing world demand
- Industry can grow
- Development of Welsh brand
- Feasibility study for milk processing in South Wales
- Direct RDP funding based on outcomes
- Encourage innovation
- Identify the right people to lead the industry
- Educate farmers on markets, trends and forecasts
- Room for some seasonal milk supply
- Develop discussion groups
- Export market
- Develop PDOs, PGIs and Food Tourism
- Brexit

T — THREATS

- Failure of a major milk buyer could have a big impact
- Costs to access English market
- Failure to tackle bio security and animal disease (Johnes, TB, BVD, etc)
- Price volatility
- Extreme weather events
- Rising input costs
- Disease management
- Lack of quality staff
- South Wales could become a "buffer" for UK milk production requirements
- Challenge of moving niche to large scale – small manufacturers find it difficult to expand
- SW welsh milk only needed when it suits
- Poor market understanding could lead to bad investment decisions
- Brexit



BIBLIOGRAPHIC REFERENCES

The majority of the data in this document has been sourced from these reports :

- "Results of data received through the Welsh EU Conditional Aid Scheme" by AHDB, 2018
- "The feasibility of a Dairy Producer Organisation in Wales", prepared by Promar international for AHDB Dairy, 2015
- "A Review of the Dairy Sector in Wales" by Andy Richardson, published circa February 2015
- As well as additional data from Eurostat, AHDB dairy, Defra, FSA etc.

REPORT WRITING

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AHDB DAIRY

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