



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

**Future global, EU and UK markets
for milk and milk products –
*implications for the UK dairy industry***

Proceedings of a conference organised by the Centre for Agricultural
Strategy, held at The University of Reading on 8 April 1998

Centre for Agricultural Strategy
The University of Reading
P.O. Box 236
Earley Gate
Reading RG6 6AT

October 1998

7 Changing markets, output, and demand patterns – effects on dairy industry policies and structure

Jim Begg

SUMMARY

The UK industry is undergoing a cultural change. Those in charge are increasingly business professionals from other industries, and companies are more international. Given greater globalisation, the question is whether or not the UK will be an attractive place to invest.

The next World Trade Organisation (WTO) trade round will bring greater liberalisation, but complete liberalisation would lead to other dairy producing countries exploiting the higher prices prevailing in the European Union (EU). Maintaining a high-priced internal market would prevent the EU itself from accessing the growth in the world market. Against this background big dairy companies are already investing heavily outside Europe.

The scale of the United Kingdom (UK) fresh product market would ensure that 6.5 billion litres of domestically produced milk will always be required, but demand for commodity products could be met from outside the EU. Consequently, global liberalisation will present UK companies with an enormous range of investment opportunities outside the UK. The drift of investment abroad can be prevented if the marketing arrangements for raw milk and the retail product market itself in the UK give the industry the confidence to invest.

Milk Marque's selling system and ambitions to vertical integration pose considerable problems for the industry and are now being investigated by the Monopolies and Mergers Commission (MMC). It is expected that this issue should be finally resolved by October 1998. In respect of the retail market place, whilst the UK has 80% of its milk in retail packs, the industry faces the problem of a declining liquid milk market. Once again, generic advertising is being considered. A further problem is that the UK does not export a great deal and it would take time to exploit the growth in the world market that any further liberalisation would open up.

Other issues facing the industry include the perennial fat and nutritional debate, the increasing use of milk as a food ingredient, and restoration of consumer confidence in food safety. However, in the short term, the farmers' milk price will remain subject to the vagaries of the sterling exchange rate.

In respect of CAP reform, processors are looking for an economically driven policy rather than a social one. The Dairy Industry Federation (DIF)'s ultimate aim is the abolition of quotas and the dismantlement of subsidised regimes. Price cuts are an inevitable part of reform of the Common Agricultural Policy, but we wish to see British farmers fully compensated for any income loss they suffer as a result. However, the scope and scale of the Commission's proposals, whilst in the right direction, do not go far enough and face the risk of being further diluted in the forthcoming negotiations.

Another challenge is the changing political and institutional environment in which the industry operates. The balance of power between the Ministry of Agriculture, Fisheries and Food (MAFF), the European Commission, the European Council, Codex, WTO, etc is shifting all the time. The one constant in all of this has been the dairy industry's trade association, which other than a change in name, has remained largely unaltered over the past 25 years.