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

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Open Forum

Professor John Oldham (Chairman) in opening the debate between a panel of the speakers and participants representing all sectors of the industry, proposed that discussion of the future marketing prospects should concentrate on three key areas. Firstly, bearing in mind that the increasing demand for milk and milk products is largely in countries outside Europe, the main focus of the industry within the UK and European countries should, in addition to creating and maintaining domestic demand, be to concentrate on the ways and means of improving the quality of products, rather than increasing the supply. Secondly the opportunity should be taken to underline the importance of closer integration within the producer, processor, retailer and consumer chain and urge the further strengthening of the relationships and co-operation that will be vital in meeting the market changes and the market challenges of the future. And thirdly the following questions relating directly to the industry's response to the changing demand and supply situation should be addressed –

> 'what kind of milk should farmers be helping their cows to produce?'
> 'should it be simply a raw material that processors can then use for added value purposes?'
> 'or should it be a high value product in its own right?'

During discussion, much emphasis was placed on the consumers' perception of liquid milk sold or delivered by retail, as a 'natural', healthy food item produced directly from the cow and purchased with an excellent market reputation. Consumers therefore have much concern and anxiety about any form of 'structural' change to the 'natural' product such as varying the level of protein or processing to change taste or colour. On the other hand, it was recognised that the technology already exists, and will be developed further, under which the 'natural' product can be changed so that it is suitable for marketing as a 'standardised' liquid milk product, for the manufacturing of products to meet new types of demand such as spreadable butter, or for the separation of components for use as food ingredients.

It was evident from the issues raised by producer and dairy company representatives that these sectors also recognise that the key marketing advantage on which those providing for the liquid market have capitalised for years, is the consumer preference for the 'natural' product. The nature of consumer demand is however, changing – added-value and differentiated liquid products such as milk produced by organic systems, specialist breeds, and to some extent farm produced 'designer' milk at specific protein levels, specifically branded products, and also market attractive packaging, are all developments and innovations that appear to be increasingly consumer-acceptable.

<u>The global market</u>
Discussion took place on the global liberalisation of trade in dairy products in the context of the extent to which the UK will be an attractive market for overseas investors; the range of investment opportunities likely to be available outside the UK; and the expectation that the drift of investment abroad can be minimised when current problems in the UK's marketing arrangements for raw milk are resolved, thus providing the industry itself with the confidence to invest. The view was put that priority should be given firstly to the measures needed to stabilise the UK market situation in order to encourage investment here; and then to the progressive expansion of markets abroad, not necessarily by acquisitions but through the development of product exporting which will contribute effectively both to the balance of payments and to the provision of dairy sector jobs. Concern was however expressed about the UK's ability to compete with the enormous and powerful multi-national dairy industry businesses that are developing in continental Europe and elsewhere with handling capacities of 6 million tonnes or more – equal to half the milk produced in the UK. It was also pointed out that in the context of global markets, there is much scope for expansion of exports of skimmed milk powder, cheese, and other milk components suitable for use as ingredients in the processing and manufacture of food products.

A question was raised about the prospects of restoring the 'fast-track procedure', a system under which the USA Congress may authorise the President to ratify trade agreements. This issue was regarded as critical to the removal of uncertainty in the development of world markets. The response from the European representative of the US Dairy Exports Council indicated the expectation that this procedure will be brought back in a few months' time depending on the attitude of the labour unions, and accepted also that failure will create many problems for world trade in dairy and other agricultural products.

<u>Efficiency of production</u>
The need for optimum efficiency of milk production to ensure survival in an increasingly competitive market was recognised and emphasised, and the issue of using bovine somatotropin (bST) in dairy cows for making better use of feed resources and significantly increasing production was debated. The question posed was in what way authority to use this technique in the UK would affect public perception. The broad conclusion was that in the current state of consumer awareness and anxiety about food safety and the emphasis on food products that are 'pure and natural', such a development would be unlikely to be acceptable. Furthermore, the marketing of a product using bST could be seriously undermined by the commercial exploitation of products claimed to be derived from 'naturally' reared cows. Consideration was also given to the broader aspects of gene technology in relation to the

was also given to the broader aspects of gene technology in relation to the efficient and economic production, processing and marketing of milk and dairy products, and whilst it was recognised that the application of these new techniques holds out great promise for the future, it was felt that there remain many problems of consumer acceptance that can only be overcome by even greater efforts to explain and communicate scientific and technical developments, and the implications for policies.

Taking a more general approach to the market uncertainties and options, producers were convinced that given a clear understanding of consumer attitudes and expectations, and the necessary incentives, they have the expertise, experience and technical knowledge for the relevant on-farm breeding of cows and the production of milk of high value fat and protein content to meet future specified market requirements.

Adjusting to change in demand patterns

Discussion took place on the nature of the products that the market will look for in the future. It was recognised that although producers want to market products as 'natural' because of the marketing advantages, changes in consumer taste and acceptance of structural change in the pattern of products being introduced into the market, are very evident. There is a move, for example, in continental European countries, towards 'standardised' milk for liquid consumption and if that is a market to which a response is required, the farmers, processors and retailers must jointly consider the most economical way to proceed. The approach to this issue that appeared to be generally acceptable was that the industry should continue to market the natural product for as long as is possible. Since the standardisation of protein at farm level will take a long time to achieve, factory processing techniques, which are quicker and equally effective, should be accepted and developed in relation to the retailer's perception of changes in consumer demand and attitudes.

On the question of retail marketing of dairy products, concern was expressed about the insufficient display space available for chilled products; the need to remove this handicap to the marketing of a developing new range of milk-based items was stressed.

Low cost production

The Chairman felt that in the final stage of the discussion it would be appropriate, having regard to the current and likely future levels of costs and market prices, to focus on the subject of low cost milk production. A few years ago this would simply have meant forage based production, but with the development of year-round calving, which implies the housing and feeding of animals throughout the year, he questioned how producers will be able to afford to conserve forage at high cost when cereals are at a relatively low cost; and what alternative uses are likely to be available for areas of land that dairy farmers may have to leave vacant.

During the ensuing discussion the organisation of a large dairy farming business was outlined, with an expected herd size of around 200 cows, each herd calving roughly 20 per month (except in June and July); calving takes place outside for ease of management. It was stressed that whether cows are housed inside or grazed outside, low cost methods must be applied to all aspects of management, otherwise the dairy industry will lose its ability to compete. In the west of the country, producers must make as much as they can out of grass and by minimising housing requirements – energy from grass can now be over 50% with the potential to increase further, which reduces supplementary feed and other costs including veterinary and welfare. In the east and midlands, it is possible to procure feed products extremely cheaply, thus reducing the cost of the ration. It is, it was claimed, all a matter of judicious and cost-conscious management at every stage of the business, combined with proper standards of health and welfare. Reference was also made to the development of low-cost high-return organic production systems taking the advantage of the buying price premium. A growing consumer preference is evident despite the market price, and transition to organic systems appears to be progressing steadily, mainly on smaller family farms.

The Chairman, in bringing the debate to a close, re-emphasised that commercial success for all the sectors that comprise the dairy industry, depends on mutual understanding and co-operation, particularly in relation to technical efficiency, and the changing perceptions and attitudes of the consumers. He felt that the conference, in bringing together the producers, processors, manufacturers, retailers, consumers, researchers and policy makers, had made a valuable contribution to the interactions and understandings that are vital to meeting the market challenges of the future, both in Europe and globally; and he finally thanked the panel members for their expert contributions and the audience for their informed and enthusiastic participation.