Dear Rob,

Thank you for your further letter of 4 November communicating the Committee’s views on the importance of Scotland’s dairy sector and seeking mine on progress with the implementation of the Dairy Action Plan (DAP) and other issues.

Once again I am in complete agreement with the Committee in recognising the Scottish dairy sector as one of Scotland’s lynchpin rural industries. In 2014 our 1000 or so dairy farmers produced 1.4 billion litres of milk worth £447 million (at farm-gate prices) - just under ten per cent of the UK’s production. Dairy cattle numbers rose by 3,700 (1.4 per cent) to 278,000 (June 2015 census.)

As you will understand there are things that Government can do to help shape the parameters within which industry operates. However, it also needs to be recognised that in an unregulated dairy market it falls mainly to those directly involved in the supply chain – the producers, processors and their customers (including the wholesale, retail and food service sectors) to manage their affairs and trading relationships in a way which allows each element to extract a reasonable margin to sustain production and ensure continuity of supply.

On progress with the DAP itself - and as I set out in my last letter - there is a lot of activity taking place on a number of fronts and I am generally happy that we are moving in the right direction. On marketing, the successful launch of the Scottish Dairy Brand at Anuga was a hugely positive step and will be a springboard I am sure to greater things. We currently have 11 processor signed up to the scheme. My recent visit to North America where First Milk’s superb “Mull of Kintyre” was being promoted convinced me of the massive opportunity for Scotland’s dairy sector to penetrate new markets, increase sales and add-value. We are only beginning to scratch the surface of the opportunities to project our produce onto the world stage and engaging with influential buyers and distributors is key to our export drive.
Again as covered previously much good work is being done on sourcing, procurement and supply-development and as you would expect I take very opportunity to encourage, cajole if you will, buyers and consumers to consider Scotland’s unrivalled dairy offer. Given the range and quality of our superb cheeses, butters and other dairy products this should not be difficult – but with products from many other countries competing for shelf-space we must continually strive to influence purchasing decisions.

Inevitably, with so many recommendations progress with some DAP actions are slower – particularly where delivery rests elsewhere and I continue to press other agencies, including Defra, to properly promote our interests – whether that be on Country of Origin Labelling or through encouraging greater enthusiasm and uptake of the Voluntary Code.

Regarding transport costs the Government is committed to supporting our island and remote communities and understands their genuine concerns about the affordability of ferry travel and the impact on island economies. In developing the future freight fares structure, Transport Scotland are committed to working closely with other Scottish Government departments, such as agriculture, to fully understand the issues faced and the impact of ferry fares on these sectors. There is also a need to balance the wellbeing of communities against the public sector cost, delivering best value for taxpayers at a time of severe constraints on public expenditure. As previously advised the future freight fares structure will be introduced during future SG ferry contracts, although the exact timing has yet to be decided.

In terms of what further can be done to support the Bute dairy producers I have asked my officials to work with First Milk to evaluate the effectiveness and impact of the six-monthly support package and to advise on future options. I would however remind the Committee that the primary reason for making this limited support available was to provide a short-term, temporary, fillip to Bute’s hard-pressed farming community and that any commitment to extend the support would have budgetary and state aid consequences. I shall update the Committee on this point once we have considered the way ahead.

I note your comments and the Committee’s ongoing concern about First Milk and the steps it is taking to establish the business on a firmer footing. I know that the company has been working hard on improving its performance and place in the market – and recently posted improved trading figures. I also note the recent decision to sell to Graham’s Dairy its Glenfield quark and cottage-cheese facility in Cowdenbeath thus allowing it to focus on its core hard-cheese and milk-brokering businesses. This move will protect employment at the site.

The company will shortly - and with Government support - complete the upgrading of Campbeltown Creamery which will deliver efficiency savings and help ensure its long-term future. It is also actively involved in seeking to identify new markets and business opportunities. Moreover, it has recently taken a decision to streamline its Board structure and introduce significant changes to its management and pricing arrangements and also intends shortly to engage a commercially-experienced Chair. In a fiercely competitive sector, exposed to global market fluctuations, nothing of course can be taken for granted but hopefully these positive steps will provide a solid platform to allow the co-op to improve its position and future prospects.
I am also pleased to be able to inform the Committee that Government and our economic development agencies’ are very much on the front-foot in terms of seeking to attract new investment into the dairy sector – whether that be from indigenous businesses or from those outwith of Scotland. We work hard to offer a bespoke “Scotland Plc” package of support and I very much hope to be able to make some positive announcements over the coming months – but of course take nothing for granted.

Finally, since my last update the Committee may wish to know that the majority of Scotland’s dairy producers have now received their EU emergency aid payment – worth an average £2,500. The payments began on 16 November and to ensure their swift issue I authorised Rural Payment Agency – as custodians of milk quota records – to make these on our behalf. Whilst relatively modest in scale – provided essentially by the EU as a solidarity gesture in these difficult times – I am sure the payments will be welcomed in the run-up to the Festive Season.

I trust this further update is of use to the Committee.

RICHARD LOCHHEAD