The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

RURAL AFFAIRS, CLIMATE CHANGE AND ENVIRONMENT COMMITTEE

Wednesday 4 February 2015

Session 4

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RURAL AFFAIRS, CLIMATE CHANGE AND ENVIRONMENT COMMITTEE
5th Meeting 2015, Session 4

CONVENER

*Rob Gibson (Caithness, Sutherland and Ross) (SNP)

DEPUTY CONVENER

*Graeme Dey (Angus South) (SNP)

COMMITTEE MEMBERS

*Claudia Beamish (South Scotland) (Lab)
*Sarah Boyack (Lothian) (Lab)
*Alex Fergusson (Galloway and West Dumfries) (Con)
*Jim Hume (South Scotland) (LD)
*Angus MacDonald (Falkirk East) (SNP)
*Michael Russell (Argyll and Bute) (SNP)
*Dave Thompson (Skye, Lochaber and Badenoch) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Chris Brown (Asda)
Richard Lochhead (Cabinet Secretary for Rural Affairs, Food and Environment)
Andrew Loftus (Morrisons)
Ewan MacDonald-Russell (Morrisons)
Frank Strang (Scottish Government)

CLERK TO THE COMMITTEE

Lynn Tullis

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Rural Affairs, Climate Change and Environment Committee

Wednesday 4 February 2015

[The Convener opened the meeting at 09:37]

Decision on Taking Business in Private

The Convener (Rob Gibson): Good morning and welcome to the fifth meeting in 2015 of the Rural Affairs, Climate Change and Environment Committee. I remind everyone to switch off mobile phones, which can affect the broadcasting system. Some people might be using tablets and so on; such equipment is used only for the purposes of the meeting.

We have received no apologies.

Agenda item 1 is a decision on whether to take in private item 4, which is consideration of responses from local authorities on the disposal of assets. Do members agree to take item 4 in private?

Members *indicated agreement.*

Dairy Industry

09:38

The Convener: Agenda item 2 is evidence from stakeholders on the dairy industry. We will hear from two panels of witnesses this morning, the first of which is comprised of representatives of major retailers—we will hear from more retailers at our meeting tomorrow. Members have the background papers.

I thank our panel for coming at fairly short notice, which is helpful. Ewan MacDonald-Russell is Scottish affairs adviser for Morrisons, Andrew Loftus is agriculture manager for Morrisons, and Chris Brown is sustainable business director for Asda. Good morning to you all, gentlemen.

I will kick off with two questions about prices. What farm-gate price do you pay for your milk? Do you pay that price to all farmers or just to those in a select group or pool?

Chris Brown (Asda): Asda is supplied by Arla Foods, the farmers' co-operative. It supplies us with all our liquid milk, cream and cheese. The current price that Arla pays is 24.87p per litre for a standard litre of milk, which, for the committee's information, is 3.3 per cent protein and 4 per cent fat. About 30 to 40 per cent of Arla's producers get in excess of that. Some of them, because of the composition of their milk, receive a price of nearly 27p. I emphasise that that is the price that Arla decides to pay.

The Convener: I understand that. That is helpful. What about Morrisons?

Andrew Loftus (Morrisons): The structure is similar to that of Asda. I do not know whether you are aware of this, but there are 10 major multiple retailers, as defined by the Groceries Code Adjudicator. As I understand it, four of them operate an aligned pool, where they have a cost-of-production model; six do not. Like Asda, Morrisons is one of the six, so we do not have an aligned pool—the price that we set is actually set by our supplying dairy companies. In our case, those dairy companies are Arla, which is a farmer-owned co-operative—the price being the same that Asda farmers get, as Chris Brown has just explained—and Dairy Crest.

The point is that we negotiate a price with those companies for pasteurised, standardised bottled milk, which is delivered to our depots around the country. It is up to the companies to set the farm-gate price that the farmer receives.

The Convener: You are saying that Arla selects the pool or group that the milk comes from—it selects whose milk it provides you with.

Andrew Loftus: Broadly, yes.

The Convener: Price volatility is a problem for dairy farmers. What have been the supermarkets' farm-gate prices over the past few years?

Chris Brown: We could not say what our farm-gate price is, but we could certainly say what our processors' prices have been. Our relationship with Arla goes back nearly 10 years now, and we have been fairly consistent.

If it would be of assistance, I have a hand-out showing Arla's farm-gate price and the retail price.

The Convener: That would be very helpful.

Chris Brown: I have a few copies here. It shows how we have tried to supply our customers with a very consistent price, so that they can budget in these economically straitened times. At the same time, we recognise that global trade has had an impact on prices.

I am sorry—you will have to share or make some photocopies.

We recognise that the global markets have fluctuated over the period concerned.

The Convener: We have some evidence of that, but the hand-out provides helpful additional information. We are trying to get to the bottom of what is a complex matter, and every aid of the sort that you have just provided helps considerably. It clears up some of the questions about how you price and what price you sell at, which we will come to in a minute.

Do members wish to ask anything about the table that we have just seen?

Michael Russell (Argyll and Bute) (SNP): How often do the supermarkets negotiate, or renegotiate, their arrangement with their processors and suppliers?

Chris Brown: The Asda-Arla contract continues until the middle and end of next year.

Michael Russell: How often do you renegotiate it?

Chris Brown: Roughly every three years.

Michael Russell: When you say that it is the processors' price, rather than your price, if the processor were paying a price that was too high for what you wanted to do, you would choose another processor.

Chris Brown: What the costs are and how they change is part of the negotiations that go on between businesses all the time. We had conversations about how we managed the situation last year, when the milk price was up at 34p.

Michael Russell: I want to push you a little on this, as clarity is really important. Both Asda and Morrisons have said that it is the processors' price; it is not set by the supermarkets. However, the inescapable commercial reality is that, if the processor set a price that you did not want to pay, you would choose another processor through the normal contractual process.

Andrew Loftus: I will start with your first question. Our previous deal, which has just ended—it ends at the end of this month, in fact, but we have renegotiated it and have announced the result—was a five-year deal with Arla and Dairy Crest. We are now about to commence a new three-year deal with Arla and Dairy Crest. Three years is about the industry norm.

On the renegotiation, when we reawarded the milk contract to Arla and DC, we negotiated on processing efficiency in particular. One of the reasons why Arla was successful is that it has made a major investment in what we believe to be the world's best bottling facility, which is in Buckinghamshire. Another reason for its success was its distribution costs. We compartmentalised milk price. Being market driven, the costs are common across the processors, so they were not a focus of our negotiations. We awarded our liquid milk contract on the basis of processing and distribution costs. Those are the key things for us.

09:45

Michael Russell: Yes, but those are costs. This is not rocket science and I am not trying to trip you up; I am just making a point that I think that we all need to understand at the very beginning. As companies, clearly—and quite rightly—you are driven by the need to make a profit for your owners and shareholders. In those circumstances, you influence the price, because if the price were too high you would choose another provider. That is capitalism.

Andrew Loftus: You could make that argument, but I do not think that it is borne out by the result of the tendering process. We have increased the amount of liquid milk that we are buying from Arla, and if you look at the milk price league table, you will see that Arla is quite near the top. Price was not the deciding factor. On your logic, we would have gone for a supplier near the bottom of the league table, but we did not.

Michael Russell: No, that is not the case. I am not purporting to give you a model by which to run your business. I am saying that when you say that price is a decision for the processors, it is really part of the mix of decisions that you make in deciding which processor gets the contract. That must be true.

Ewan MacDonald-Russell (Morrisons): It is worth saying that there are a number of decisions. Pricing is relevant, but it is not the decisive factor. It is also worth recognising that the price that farmers get is, to a large degree, based on global market fluctuations, which, as an individual retailer, we have a fairly finite ability to have an impact on. There are massive market forces that are significantly more relevant to pricing. As Andrew Loftus explained quite well, other important factors are involved in picking the right processor, such as manufacturing capacity and distribution. It is absolutely right to say that pricing is relevant, but it is one of several factors.

Michael Russell: I am not trying to do anything other than indicate that you play a role in the price that is paid to farmers. I am not saying anything other than that. You must accept that you play a role in that.

Andrew Loftus: If we accept that, I would give a further qualification, which is that the milk markets are global these days, as I can demonstrate—

Michael Russell: I know that—I am not disputing it.

Andrew Loftus: The United Kingdom accounts for 3 per cent of global production and Morrisons accounts for 3 per cent of UK production. If there is an influence on the global milk price, by golly it is a small one.

Michael Russell: I dispute that. You are a determinant in the price of milk because you have to be—you are buying it and you are part of the process. No matter. It seems that the point is too difficult to be accepted. However, it is indisputable that you are a player in that.

Dave Thompson (Skye, Lochaber and Badenoch) (SNP): I want to follow on from that interesting exchange with a question on a linked issue. Not that long ago, retailers took about 5 per cent of the milk price, but the papers that we saw last week indicated that your cut or share has increased to 35 per cent. Why do you think that that has happened?

Ewan MacDonald-Russell: In terms of profit margins, I would be astonished if that were the case. We are certainly nowhere near that sort of figure. Our public accounts indicate that the gross margin on the dairy sector is something in the region of 20 per cent. The net margin, which is significantly more relevant, is about 2 per cent across grocery and pretty much everything in the supermarket. That is now the margin that we are working to.

It is worth noting that we have kept our own-brand Scottish milk at £1.39 for four pints. We have not depressed that price significantly. We have depressed the price on our tertiary brand, but not on our own-brand Scottish milk, partly because it is important to reflect that milk is a premium product.

Although we face significant pressure from competitors and customers to reduce that price, as you have said, if we start pushing the price of milk straight through the floor, that is not necessarily great for the sector. It is a challenging balancing act for us. We have reduced the milk price to a degree and that reduction has come from our own profit margin. It has had no impact whatsoever on the farm-gate price. Retail and farm-gate prices for milk are decoupled at the moment; we hope that they will remain so.

Dave Thompson: Are you saying that the retailers' share has not increased in comparison with the processors' share—in particular—and the producers' share? Is it not true that in recent years the processors' share and the producers' share of the profit have gone down significantly, while your share has increased?

Andrew Loftus: We talk about producers, but obviously there are huge differences in the cost of production between individual farms. Everything that we talk about in that regard is an average of quite significant extremes.

I reiterate Ewan MacDonald-Russell's point. With a bit of mathematics you can calculate from our annual accounts our gross margin on our goods relatively easily. I went round all our teams yesterday—liquid milk, cheese, dairy and butter—and had a discussion about the gross margins that they are able to achieve. I can categorically assure the committee that they are slightly under the average gross margins for Morrisons retail as a group. On the question of our profiteering or making more, the trend is downward—we are making less than we were.

The Convener: The stats that Dave Thompson quoted are from DairyCo and are from 1996 to 2011. They show an increasing margin from a very low amount, as he said, to a much higher amount. The price is very marginally less at the top end, but considerably less for the processor and somewhat less for the producer. Is DairyCo wrong?

Chris Brown: Those sound like rather historical data, chair. There are fluctuations. One of the problems in all this is that cheese is a matured product. Cheese was made last year at 30p a litre. We now need to sell it. If we devalued it to the current liquid milk price or the current farm-gate milk price, the stocks would collapse in value. We need to maintain the price that we pay for that product to enable those stocks to be cleared at the price that they were produced at.

The Convener: Thank you. I just want to remind you that I am not the chair; I am the convener—that is the term that we use in Scotland. If you would care to use that term, it would be helpful.

Thank you for that answer. We are digging into this with lots of different people because we are trying to find out about the transparency of the whole matter. Farmers and customers each have a particular issue. We know what customers are being offered by some supermarkets. We need to ensure that transparency continues in the milk supply chain.

A voluntary code was set up for the producers and the processors. Do you think that the supermarkets should be included in that? The code has increased transparency at that level. Do you think that supermarkets should be part of that transparency exercise? The code has built up some trust.

Chris Brown: Convener, we already have a code that we have to abide by. We also have an adjudicator, who I understand you will be talking to shortly.

The Convener: How does that code articulate with the code for producers and processors, if at all?

Chris Brown: There is no connection. The code for processors and producers is a distinct code for those groups. I am not sure how you would be able to extend it up the supply chain.

The Convener: That is what we are trying to explore just now.

Chris Brown: No proposals have been presented to me showing how that could operate.

The Convener: Does Morrisons have a view?

Andrew Loftus: I agree with Chris Brown. The two codes are distinct and operate in different fields. We do not have a direct relationship. We buy pork, beef and lamb directly from UK farmers for our own abattoirs. Because we buy for our own abattoirs, our relationship with the farmers is covered by a code. As a supermarket, we have that direct interface. Where there is an indirect relationship, a different arrangement exists.

The Convener: For dairy.

Andrew Loftus: Indeed.

The Convener: Okay. I thought that we had better ask you about that.

Sarah Boyack has a question on resilience and efficiency.

Sarah Boyack (Lothian) (Lab): A couple of the supermarket chains have made us aware that they work with farms and have been attempting to support them to make them more resilient and more efficient, which is obviously a great thing from the farmers’ perspective. What do you think about such initiatives, which cover things such as help with vet visits, access to professionally facilitated workshops and low-cost energy?

Chris Brown: Yes, we have those types of groups, too, which we call pathfinder groups. They focus on a variety of technical issues. They are facilitated by independent consultants and the agenda is set by the farmers. We do not organise them; we support and deliver them and participate in them. We also have a next generation group, to address younger dairy farmers’ issues.

Andrew Loftus: I am holding in my hand an in-depth report on feeding the modern dairy herd, which I can distribute copies of. The report can be downloaded free of charge from our website for any dairy farmer. All the different feeding options and supplements that are available to dairy farmers are given in it. We produced that expert advice through our supply chain group, working with Arla, and we make it available to any dairy farmer in the United Kingdom to download. I think that we have produced more than 10 such reports, which really help to increase the expertise of farmers who are at the cutting edge of their industry.

The other big initiative that we would like to mention is the work first with First Milk and then with DC, under our new contract. In it, we will look at mechanisms that will enable farmers to hedge. I have a supplement that I would be more than happy to supply to the committee after the meeting which explains how the increasingly global nature of the dairy industry will lead to more volatility in the future. We have seen some unprecedented spikes, and there may yet be a further drop down. I cannot see the future, but my estimate is that when the industry comes back, it will do so strongly and quickly, and there may even be unprecedented milk price levels in the future. However, I think that there will be increased volatility across all markets.

The only solution that we know works in a more volatile world market is a market-based one that is based around hedging. I am not proposing that farmers can beat the markets by doing clever hedges; I am proposing that farmers, working through their processors and maybe even directly with us, could place hedges so that they can smooth out the volatility and achieve the long-term average price. Being an efficient producer does not really help someone to manage volatility. For most small businesses, a strong balance sheet manages volatility, but they do not all have that luxury. If a person can hedge and get a more even long-term average price, one of the disincentives to investing in their dairy business will, I hope, be taken away. We think that there is a role for hedging in the future of the dairy industry, at a producer level.

Sarah Boyack: Will that work for smaller farmers?

Andrew Loftus: To be honest, it should work for any farmer, because the more who participate, the more liquid those markets will become—I do not mean liquid milk; I mean that trading will be easier. Any farmer would be able to hedge in much the same way as a person can hedge their power bill or their mortgage. They can choose either to let the price float, if that is the way that they want to operate, or to lock in. I foresee a future for the dairy industry in which farmers can decide individually whether to let their milk price float or to lock in.

Sarah Boyack: What about the low-carbon aspects? Just last month, we had a presentation from the Scottish Retail Consortium on the retailing end and reducing the carbon footprint of all the supermarkets, but what about your work with suppliers?

Chris Brown: We have been running what I think is the longest-established individual dairy farm carbon footprint dataset, which goes back nearly seven years. The relationship between productivity and carbon is quite clear: the more efficient producers have the lower carbon footprint. The problem is some of the outliers. People might have quite a high herd carbon footprint because they have a very good herd and people want to buy pedigree stock from them, so they will maintain larger numbers of heifers and bulls for sale. Unfortunately, that creates challenges in interpretation, but the trends are quite clear in respect of the overall relationships.

To add to what Andrew Loftus said, we believe that farmers being part of a stronger farmer co-operative is their best hedge against the future. That is one of the reasons why we went with Arla.

Andrew Loftus: Chris Brown has made a perfectly legitimate point. There are two big options: binding together as a co-operative and individually hedging. Both are legitimate ways of managing risk, and we need to encourage all possible ways of managing risk.

On the point about carbon, we have worked extensively with the beef improvement group and the Scottish Rural University College, not least at our own farm at Dumfries house down in Ayrshire, on feed conversion efficiency. Most of that work has been advanced in the beef field to date, but it would apply equally in the dairy field. We need to get better at applying it in the dairy field.

Different cattle genetics and different diets yield different feed conversion efficiency in turning the intake of feed into beef—that is in the case of our study, but the same applies to milk. We are finding quite significant differences within similar populations of cattle that are of the same breed and the same age. We can get differences of up to 20 per cent in the amount of feed that is required to produce the same amount of output, which equates almost exactly with the carbon output, too. Better breeding and better feeding create the ability to reduce significantly the emissions from the bovine population of this country. We need to concentrate our efforts on feed conversion efficiency across the national herd.

10:00

Sarah Boyack: We saw something in the press about island farmers who produce milk. How do you trade off the transport distance? You said that your new big processing plant is in Aylesbury. How do you trade off the carbon impacts of that against low-carbon production on an island?

Andrew Loftus: As you say, there is a trade-off. More efficient plant is, in itself, more efficient, because it bottles every bottle for a lower carbon footprint. However, we have to offset the transport distance. I am sure that we could get figures on that for you, but I do not have them to hand now.

One of our major suppliers of cheese is Lactalis McLelland, which is based in Stranraer, in Mr Fergusson’s constituency. The plant there, which is supplied from all over south-west Scotland, produces more than half of the cheese that we sell in Morrisons UK-wide, so it is a huge contributor to our cheese sales, which is a major category for us. It draws from the area to which you refer.

Graeme Dey (Angus South) (SNP): How do you measure the impact of the resilience and efficiency advice that you give farmers? Can you give us an idea of what it shows?

Chris Brown: The clear trend is a decline in the carbon footprint, if I can use that as a proxy for efficiency, as productivity has risen. To be fair, a lot of that decline was driven less by our attention to the carbon footprint than by the increased cost of artificial fertiliser—nitrogen fertiliser. We have produced a review report. If it would be helpful, I will send the committee the report, which shows clearly the results that we have achieved.

The Convener: That is very helpful—thank you.

Mike Russell has questions on the promotion of Scottish produce.

Michael Russell: Andrew Loftus mentioned First Milk in passing. I will push an issue that emerged from last week’s evidence session and expand on it a little. Clearly, First Milk does not have any liquid milk contracts with either of the companies that you represent, but it produces a variety of products, one of which—Mull of Kintyre cheddar—is produced in my constituency, in Campbeltown. By common consent, First Milk has been pretty poor at pushing that product, but the supermarkets have also been pretty poor at selling it.

The success of the dairy farm industry in my constituency is dependent upon the success of the Campbeltown creamery, which needs substantial additional investment to make it truly competitive. The Mull of Kintyre product is a premium product, which can sell well and can be extremely attractive when it is pushed into the market. However, in Scotland the cheese market, the butter market and the yogurt market are dominated by products that are not made in Scotland. How can you play a more influential and direct role in ensuring the health of the Scottish dairy industry? If you do not do that and are not promoting products made in Scotland, you are—not deliberately, of course, but accidentally—contributing to the decline of the Scottish dairy industry.

Chris Brown: We have a dedicated Scottish sourcing team, whose job it is to put Scottish products on the shelves. There does not need to be an enormous nationwide quantity—the facility is there to do one product or one store. That is one of the things that we want to happen. We need to have innovation and new products to meet the continually changing demands of the customer.

We have also tied in with Scotland Food and Drink. We have a supplier academy, which we last ran in 2013. Six new dairy suppliers were involved in that initiative and, to date, their average sales have increased by 300 per cent. You are right that, when we get the right products in the right place for the right customers, the sales are there. That is one of the things that we are committed to doing.

Michael Russell: What is your best-selling cheese in Scotland? Is it cheddar?

Chris Brown: Across the country, it is mild cheddar.

Michael Russell: But it is not manufactured in Scotland.

Chris Brown: Yes, it is. It is produced at the Arla Lockerbie site, which not only produces the mild cheddar but—in the same way as Andrew Loftus talked about—uses 50 million litres of Scottish milk to produce cheddar to go into England.

Michael Russell: What is your best-selling butter?

Chris Brown: There are some very large brands. Lurpak is an incredibly strong brand with a great customer reputation, but one of the fastest-growing lines is the new Graham’s spreadable butter, which we stock.

Michael Russell: So you are sighted on the need to increase those products.

Chris Brown: We will put the products in the line. I was the milk buyer at one stage and I had some great products that, unfortunately, nobody bought. It still rankles that bubblegum-flavoured milk did not win.

Michael Russell: Well, I do not think that we will produce that in Campbeltown, but it is a thought.

Andrew Loftus: Ewan MacDonald-Russell will talk about the Scottish lines that we are introducing with our new deal with Graham’s.

The premise of your question is that we do not sell enough Scottish product. All our cheddar across the UK and a great deal of our other territorial cheeses, except a small bit of mild cheddar that is made in Wales, come from our single biggest cheese contract, which is with Lactalis McLelland. They are all made in Stranraer from Scottish milk.

Scotland has a hugely disproportionate share of our cheese sales relative to its size in the UK. It produces more than half of all the cheese that we sell, despite having about 10 per cent of the population—you will know that better than me.

Equally, under our Arla contract, all the liquid milk that is sold here is from Scottish dairies. In addition to that, we have just done a deal with Graham’s, which Ewan MacDonald-Russell can give a bit more of a flavour of.

Ewan MacDonald-Russell: Absolutely. On liquid milk, as part of our tendering process, we renewed our contracts with Arla and Dairy Crest, but we took tenders from nine main companies, one of which was Graham’s—I know that you heard from Robert Graham last week.

If you look at the small print, you will see in today’s *Scotsman* and *Herald* that we have announced that Graham’s will supply its own-brand milk and butter throughout our Scottish estate and one of its own-brand milks throughout our entire UK estate, which is about 500 stores. There is a recognition that when a Scottish company puts a really good proposition together—when it has the right support mechanisms in place and has the right branding and demand for the product—we can absolutely see a demand for it.

Mr Russell is absolutely right and I reassure him that Mull of Kintyre cheddar is sold in Morrisons stores. I checked it at our South Gyle store yesterday afternoon to be certain. We also stock Campbeltown cheddar in our deli section, alongside Loch Ryan cheese and the Lockerbie and Orkney cheddars as the specialist Scottish lines.

The majority of our Scottish stores have Rowan Glen butter. We also take Rowan Glen yoghurt, which I believe is manufactured in Newton Stewart.

As Andrew Loftus explained, most of our cheddar throughout the UK comes from Scotland. In Scotland, we brand our mild and mature cheddar as Scottish mild and Scottish mature cheddar because we recognise that there is a demand for, and recognition of, that product here. However, that does not yet exist beyond Scotland in the way that it does for other lines, such as Scottish beef. The Morrisons meat aisle looks like Murrayfield on a busy day with the number of saltires that we put on our beef section. We do not yet see the same demand and desire for Scottish cheeses as we do in other product areas, and the industry probably needs to consider that. James Withers spoke effectively to you about that last week.

Michael Russell: Thank you.

Graeme Dey: We are exploring with you what you do to promote Scottish dairy products, but do you encounter any barriers to successfully or better promoting Scottish dairy products? I ask in the interest of balance. Please feel free to be candid with us.

Chris Brown: As has been mentioned, there is a need to be able to plug into innovation. I am applying broad-brush strokes but, because of the level of self-sufficiency with which the UK was left when quotas were introduced through the European Union, we have never had quite the same impetus as other major dairy-exporting countries to do different things with milk.

We see a crying need in that area. How else can we add value to milk? We need to be slightly bold. It cannot only concern region and origin; I get the point that those are important, but that goes only so far. We were not really part of the bio-health drinks when they came out in the Scottish and UK industry. We need a greater development push and greater strategic vision about innovating.

Andrew Loftus: That is a very good point. Most of the innovation in processing for some new and growing sectors, such as children’s yoghurts and dairy-based desserts, is coming from overseas companies often with overseas-produced product. It would be great for the UK industry to have the confidence to invest and innovate in that way.

However, confidence is difficult when we talk about the volatility levels that we have had. The Irish have a very ambitious strategy. The National Farmers Union put forward an ambitious strategy for growing dairy production in the UK, particularly in England, and it was thrown back in its face—that made me feel sorry for it—as though the small increase in UK production that it had advocated was somehow responsible for the price collapse that we have seen. It was not; the collapse is a global phenomenon. Prices have collapsed across the world, and it has nothing to do with the NFU encouraging greater production.

We need confidence, we need a national strategy for dairy and we need investment, but how on earth do we do that when we have had such a see-saw in prices? That is the big inhibitor.

Graeme Dey: Do promotional initiatives such as the Scottish year of food and drink work? Do you buy into such initiatives? If so, what specifically will you be doing in 2015 as part of the year of food and drink, and where might Scottish cheese, for example, fit within that?

Ewan MacDonald-Russell: We have always had conversations with the Scottish Government on the year of food and drink, and we have a very good relationship with its food and drink team. As for specific areas, we tend to look at the product lines that we are particularly committed to. Red meat, beef and lamb are a good area for us, as I have mentioned before. Because we work directly with farmers and we manufacture in Scotland, we are able to get behind that area. To be absolutely straightforward, it aligns with our interests. We are very happy to promote Scotland and to promote Scottish products when they are strong. Other areas that are less relevant will probably be less a focus of our approach.

At Morrisons, we tend to take a scale approach to most issues as UK wide. That is the market that we work in. That is why, when we talk about milk and cheese, we say that we are 80 per cent British in cheese and 100 per cent British in liquid milk. That is the scale level that we are working in. We are happy to work on a Scottish level, but sometimes it is a case of reconciling quite a central team in Yorkshire with exactly what Scotland wants to do. We are looking at that and looking to do more.

Chris Brown: Generic advertising is always an interesting topic; in general, it has a good record and raises awareness. We are happy to support it. We have 100 per cent Scottish cheese and 100 per cent Scottish milk. We are interested in supporting anything that drives the customer’s appreciation for the quality of those products and hence improves sales.

Graeme Dey: Do you have any input to such initiatives?

Chris Brown: To be fair, it is a Scotland Food & Drink strategy. We have close relations with that organisation and hope that our views are taken into account. Ultimately, if you want to challenge its strategy, I suggest that you get James Withers back.

Graeme Dey: I am not suggesting that. I am asking whether the retail sector can suggest initiatives at any stage. Would you welcome such an opportunity?

Ewan MacDonald-Russell: We have relationships with both the Scottish Government food and drink team and Scotland Food & Drink; Scotland Food & Drink is less relevant for us, because Morrisons is not a member at the moment, although I believe that others are. We have opportunities to meet the Government food and drink team on a regular basis. We meet at least annually with Mr Lochhead, who is always robust on talking about Scotland and what is there, and is keen to listen to our views to help promote Scottish produce. It is a very good relationship and we are very fortunate with that, I would say.

Jim Hume (South Scotland) (LD): Speaking of dairy product lines such as cheese and yoghurt, rather than milk itself, how do the supermarkets determine which products get prominent shelf space? What are the criteria for that decision?

Chris Brown: In principle, the products that people want to buy get prominence. We cannot afford to have any passengers on the shelves. The chiller area in a retail store is one of the busiest high-sales densities that we have. Every product there has to justify itself in sales at a very high level.

Andrew Loftus: Such practices and commercial pressure are common across the retail sector. My answer would not differ from Chris Brown's.

Jim Hume: We have heard that some supermarkets request payment for prominent shelf space and even that they request payment from those who tender for contracts. Obviously, that would be very difficult for small producers. Does Morrisons or Asda do that? Have they done so?

Chris Brown: There is no listing fee at all for the Scottish products coming in through the regional team. The small and medium-sized enterprises that supply those products do not have listing fees.

10:15

Jim Hume: Does the evidence that we have heard relate to things that you have done in the past?

Chris Brown: No—we have never charged listing fees for those products.

Jim Hume: You have never charged listing fees.

Chris Brown: Not for those products.

Jim Hume: Okay. What about charging for the right to tender, which is slightly different?

Chris Brown: No.

Andrew Loftus: Taking a step back, two thirds of the cheese that we sell is under our own brand, so the majority of cheese with Morrisons packaging has been made in Scotland. One third is branded, and the process depends on the brand. There are big robust brands that deliberately invest so that their brand has a high degree of consumer recognition. When they ask us to list them, they bring a package of support to help us to sell their product and to get its name more widely recognised.

That would not apply to the very small speciality cheese brands, such as the island products that Jim Hume mentioned, where the cheeses are part of a regional or national offering from relatively small companies. However, as the companies get bigger, they want to invest in their brand, and they do a range of things to help us to sell it for them and to increase consumer recognition of the brand.

Jim Hume: Would that range of things include paying for shelf space and/or the right to tender?

Andrew Loftus: I do not know, but I can get you a categorical answer on that. It would not apply at the smaller end, to the SMEs to which Chris Brown referred. I do not know the detail with regard to the bigger brands, but I can get it for you.

Jim Hume: Thank you—that would be helpful.

Graeme Dey: Has there been any change in the pattern of demand over the past three to four years, given the difficult economic times that we are experiencing? Are your customers moving to a cheaper type of cheese, or is the more niche market holding up?

Chris Brown: When cheddar was hitting £7 a kilo, there was certainly price resistance although it was very subtle. We detected an increase in sales of spreadable cheeses in little pots, and when we dug slightly deeper, we realised that it was because the customer recognised that there would be no waste. The customer would not encounter the bit of hard clingfilm-wrapped cheese at the back of the fridge, because they could scrape everything out of the pot.

The market moves in clever and hard-to-define ways. In that instance, customers moved to those products before we did, so we responded by increasing the range of those products.

Ewan MacDonald-Russell: It is worth acknowledging in a broader sense that price sensitivity has been incredibly important to customers in recent years. The way in which the grocery market has changed is absolutely astonishing. The pace of change is phenomenal, and our response has been to lower prices across the board, which we think is the right approach.

Retail pricing has become very competitive among retailers—Asda is very competitive on price, for example—so there is a wider story about customers looking around and being more sensitive, and perhaps shopping at different grocers and trying to find the right approach. I do not have a specific data set on that, but I would be very surprised if the dairy sector was immune to the trend, not forgetting all the caveats about premium products.

Andrew Loftus: I have one point that is not really related to price and the economic environment. There has been huge growth, as has been said, in sales of spreadable branded cheese products—which often have a less specific origin, if I can put it that way—and in salad cheeses such as feta, which are very fashionable and often imported.

Perhaps UK salad-type cheeses could be developed. That niche is probably underexploited at present, and it is certainly a growth area.

Chris Brown: It is probably worth noting that Scotland undertrades in dairy products relative to other parts of the UK.

The Convener: We move on to the Groceries Code Adjudicator. Angus MacDonald is next.

Angus MacDonald (Falkirk East) (SNP): Good morning, gentlemen. The Groceries Code Adjudicator has been mentioned this morning, albeit briefly. The panel will be aware that the Food and Rural Affairs Committee at Westminster published recommended changes to the GCA's remit as recently as 20 January. Those included recommendations that the Government should consider how the remit can be extended to incorporate suppliers throughout the supply chain; that the GCA should be able to accept complaints from indirect as well as direct suppliers; and that the adjudicator should have the power to launch proactive investigations as well as to respond to complaints. The idea of issuing fines has also been suggested.

Has the establishment of the Groceries Code Adjudicator had any impact on your operations since the post was created in June 2013? If there is to be a change to the GCA's remit, as seems likely, how would that affect your operation and how you source dairy products, including liquid milk?

Chris Brown: Everybody who comes under the GCA's remit has to be trained every year, and records have to be kept and reported upon. We now have chief compliance officers, as do other retailers that are covered by the code. There is a complete structure for compliance with the code, and I confess that I struggle with the idea of the remit being extended. I know that people have suggested that, but I am not quite sure how that would operate, given the fragmented nature of the industry. Andrew Loftus has already presented the numbers, and even Asda's milk is less than 5 per cent of total Scottish milk production. The code does not cover caterers, and public procurement does not come under it, so there are still lots of other players in the milk market who will not come under its remit. I am not sure how any extension would be able to operate thoroughly, and the costs may yet be quite large, because they are borne by those who are covered by the code.

Andrew Loftus: Chris Brown has made a lot of valid points. We, too, have a specific person who looks after our relationship with the code and ensures internal compliance. That person is not me, but you would be welcome to speak to him, I am sure. People often stretch out to the Groceries Code Adjudicator as a way of looking for a solution to what we all recognise as a big problem in the dairy industry right now. They are scratching around for what we can do as stakeholders and politicians.

As I have said, I believe that stronger co-operatives and the ability for farmers to hedge forward and protect themselves from volatility are the right way forward. If the Groceries Code Adjudicator's role is strengthened in some way, how far up the chain does it go? Are you seriously suggesting that it should interfere in price negotiations? Maybe it could be involved in the structure of the contract at some point, but the price negotiation is a private area and nobody can regulate that to the extent that some people want. I am in favour of market-based solutions to remove volatility. With the best will in the world, I cannot see the adjudicator stretching its tentacles into all those areas where you think that it might be able to produce a solution. I do not think that it can.

Angus MacDonald: Thank you. We will have the opportunity to explore that further with the adjudicator tomorrow.

Claudia Beamish (South Scotland) (Lab): I would like to turn our minds towards the interventions and particular actions that people would like to see taken by Scottish or UK Governments, or at European Union level, to address current issues in the dairy sector. There has been discussion about the intervention price for milk, and we are all aware that that is a complex issue in terms of what that price actually relates to, but any comments on that would be valued by the committee. We would also welcome any observations on planning problems that the witnesses perceive the industry to be facing when it comes to investment in processing and promoting export opportunities, at any level of government—let us not miss out local authorities either.

Chris Brown: I will pick up on one aspect, if I may. Andrew Loftus has already raised the issue of volatility. I am not sure whether the committee is aware that the global dairy trade auction jumped by 9 per cent last night, and milk powder jumped by nearly 20 per cent. Government intervention has been withdrawn, and although we hope that the Commission is right and that we will have a soft landing in the milk market this year when quotas are abolished, I suspect that that might not be the case and that we will face increased volatility. There are things that can be done at taxation level, and I am certainly inclined to support suggestions that income should be smoothed over a longer period. It is difficult for farmers to manage their tax affairs on a two-year smoothing, and perhaps a five-year smoothing would enable them to adapt to the changes and fluctuations in the marketplace.

Andrew Loftus: It is a very broad question. The point about HM Revenue and Customs tax smoothing is a good one, and hedging could also help in that regard. As I understand it, the EU intervention level theoretically still exists, but not until we get down to something like 17p—that is approximate, so do not quote me on it.

Claudia Beamish: That is my understanding as well.

Andrew Loftus: Thank God we are not there yet—I hope that we never get to those levels. The era of massive, EU-level intervention in the dairy markets feels as though it is coming to a close. The EU simply can no longer afford such measures. I reiterate that we need to look at market-based mechanisms for the management of risk.

I will give further thought to your question. If I have anything else to contribute, we will provide it in written evidence.

Ewan MacDonald-Russell: I have a small, final point on planning and local authorities. We have not spoken specifically about the challenges that dairy producers face, but I can assure you that we find the planning machine to be astonishingly complex to work with at times, from a wider retail perspective.

The Convener: Is that particularly the case with Scottish local authorities, or is it about local authorities in general?

Ewan MacDonald-Russell: I will not comment on that.

The Convener: That is all right. We might well have the same view.

Thank you very much, gentlemen. The session has been most helpful to us. You were among the first to volunteer to come to the committee to enlighten us about your view on matters. As we investigate the issue further, I have no doubt that we might come back and ask you some more questions. If you are open to that, we would be pleased. Of course, you have offered to provide us later with bits and pieces of extra detail that have arisen during the evidence session.

I suspend the meeting for a few minutes before we hear from our next panel of witnesses.

10:26

Meeting suspended.

10:32

On resuming—

The Convener: We will now hear from our second panel as part of our inquiry into the dairy industry. The members of the panel are frequent visitors to the committee. I welcome Richard Lochhead, the Cabinet Secretary for Rural Affairs, Food and Environment, and Frank Strang, deputy director of the Scottish Government's food, drink and rural communities division.

Would you like to say something at the outset, cabinet secretary, or are you happy for us just to ask you some questions?

The Cabinet Secretary for Rural Affairs, Food and Environment (Richard Lochhead): Is that an invitation, convener? I would be happy to say a few words to set the scene. Thank you for the opportunity.

The Convener: That would be helpful.

Richard Lochhead: I congratulate the committee on instigating its inquiry into milk prices in the dairy sector. We all know that the sector faces some challenges, and it is good to air some of those challenges.

Global production has been high because of investment and good weather. We know that demand from importers has been particularly weak—much weaker than expected—especially in certain markets such as China. Many of the issues that the dairy sector in Scotland and beyond faces are influenced by what is happening globally.

Over the past few years, I have put a lot of effort into, and the Government has spent a lot of resources on, putting together our ambition 2025 proposals, which came out of the dairy review that we carried out a year or two ago. Although I recognise that there are some domestic issues that the committee is rightly considering—as well as global issues, which we have limited influence over but which we certainly have to be aware of—it is important that the Scottish Government says on the record that we feel very optimistic about the long-term future of the dairy sector in Scotland.

While we take action to help the address some of the short and medium-term issues, which are very serious, it is important that we do not take our eye off the ball of our strategy to realise the long-term benefits for Scotland's economy in the dairy sector. I guess that there is a twin-pronged approach. At the moment, we are trying to address some of the short-term challenges, but we do not want to be distracted from our longer-term strategy. The sector is highly skilled, makes fantastic products and has a big future.

I am working on a number of measures, and I intend to publish a plan in the foreseeable future. I had thought about doing it before this committee appearance but, given that we have a parliamentary inquiry into milk prices and the dairy sector, I wanted to understand what you feel some of the solutions might be. The Government is working on a number of proposals, but I thought that I would wait a few more days before publishing the plan. I am happy to discuss individual proposals that will be in the plan, and I will give some quick examples.

One exciting initiative that is in the pipeline is the development of the Scottish dairy brand, which will be launched at the Anuga food fair in October. That will be an exciting development for the dairy sector in Scotland. We are also taking active steps to encourage investment in new processing capacity, thereby enhancing the volume and diversity of what Scotland has to offer in the dairy sector.

We are using the range of available levers to spread best practice in the dairy farming community. We are looking at tailored and well co-ordinated support to First Milk so that it can make the adjustments that are necessary to allow it to thrive in the short to medium term.

Those are just some examples of the issues that we are working on. I will bring them all together, reflect on what the committee says and publish a plan in the next couple of weeks, which I hope will communicate exactly what is happening in the wider dairy community.

The Convener: Thank you, cabinet secretary. We have discussed the influence of global factors on the market, which you mentioned at the beginning of your remarks. We can see from evidence from the supermarkets that even large supermarkets in the UK have a small impact on the overall price fluctuations. Focusing on Scotland, what influences does the world market have on the product that we can make in our small way?

Richard Lochhead: That question gets to the heart of what I think the dairy strategy in Scotland should do. We clearly are not immune to global factors, as I outlined in my opening remarks. No doubt, the committee has heard evidence on that from many witnesses and you will be chewing it over.

The projected long-term growth across the world for dairy produce is substantial, which means that commodity prices will no doubt rise in the years ahead. However, commodity prices are volatile, as we are experiencing just now. Because our dairy production is exposed to commodity prices, there is an impact on the prices that farmers receive for their produce. If we are to secure a better future for the dairy sector in this country, it needs to be more sheltered from the volatility of global commodity prices while taking advantage of the fact that demand for dairy produce across the world is expected to grow substantially, which of course will bring major export opportunities for Scotland.

At the moment, our reliance on liquid milk and the fact that much of the produce goes into the commodity markets and so does not capture added value or niche markets result in the impact of global prices on Scottish producers. Therefore, the dairy strategy that we have in Scotland with ambition 2025 is to add value to the primary product and to capture new markets. Those new markets tend to be more valuable than some of our domestic liquid milk markets. We should not have all our eggs in one basket, if you will forgive the pun. We need to have more than just liquid milk; we have to add value to the primary product and capture some high-value markets, as that will help to shelter us from some of the global factors.

The Convener: We have interesting comparative figures on farm business income from dairy products from 2006 to 2013, which Dairy UK compiled from figures from the Department for Environment, Food and Rural Affairs, the Scottish Government, the Welsh Assembly Government and the Northern Ireland Assembly. In Scotland, the figures tend to be lower than they are in England. Indeed, the rise in England has been greater than the rise in Scotland. We can see that there have been fluctuations, but there seems to have been a particular crisis for Scotland in the past couple of years.

Richard Lochhead: I guess that that reinforces some of the points that I made in my previous answer. Scotland is perhaps too exposed to the commodity markets. We have plants in the country that are sending a proportion of their products to premium markets but which send far too much of their output to the commodity markets. If that is more the case in Scotland than it is in the rest of the UK, it will be reflected in the statistics.

The Convener: It is well worth having those points on the record, because they point to the particular problems that we are facing.

Jim Hume: Cabinet secretary, you said that demand from China is weak, but we heard last week that there is still 2 per cent growth in China, albeit that it used to be 10 per cent. Two per cent growth is growth, nonetheless.

The New Zealand dairy industry has grown tremendously and is mainly focused on south-east Asia, including China. New Zealand is quite a small place and it is some distance from China. I think that I read that the dairy industry is worth about £8 billion, or 16 billion New Zealand dollars, to the country.

With that in mind, what are the opportunities in Scotland? What should we change in the dairy farming sector to make the industry more resilient?

Richard Lochhead: We carried out the dairy review a couple of years ago, and we now have the Scottish dairy growth board, which is chaired by Paul Grant, of Mackay's, the jam makers. Mackay's is a very successful company, which has made massive inroads into export markets, and we wanted Paul to transfer his experience and expertise to the dairy sector.

Other countries are ahead of the game in that regard, such as New Zealand, as you said. New Zealand is not Scotland. It has put a huge focus on dairy in the past few years and has swung its production patterns from other sectors to dairy, focusing on Chinese markets. The approach appears to be paying dividends. New Zealand is very much focusing on export markets, particularly the growing Chinese market.

Scotland needs to catch up. We are beginning to put in place the building blocks for similar success for Scotland. I do not know whether the committee will take evidence from Paul Grant, but it would be worth your while to hear from him. He is steeped in dairy issues just now—as a jam man, he is suddenly becoming an expert in dairy—and he is looking at opportunities for Scotland to make its mark in international markets for dairy exports.

Frank Strang (Scottish Government): May I add to that? We should remember that dairy is part of a successful Scottish food and drink sector, which has a great reputation. Eleven months ago we launched an export plan for food and drink for Scotland, and we have newly appointed experts in market in Japan, Canada and other priority markets around the world. Those people are in place and will look at dairy as a priority.

Another important strand of activity is showcasing to overseas buyers what we are able to do. The cabinet secretary mentioned a Scottish brand, which will be launched in October at the Anuga food fair. That will be preceded by a showcasing Scotland event here, to which we will get overseas buyers to come. Again, we will prioritise dairy in our activity.

Alex Fergusson (Galloway and West Dumfries) (Con): The subject of New Zealand came up, and I wonder whether the cabinet secretary would agree that we are not comparing like with like when we compare the Scottish dairy industry with that of New Zealand. We will never catch up with New Zealand. I do not particularly like saying that, but given that the New Zealand climate means that the farmers do not have to house their dairy cows for six months of the year—many of them are not housed at all—on a cost of production basis alone we are not doing ourselves any favours when we make that comparison. I am sure that there are lessons to be learned from the New Zealand dairy sector, but do you agree that we do not want to try to copy everything that is done in New Zealand because the factors in milk production are very different?

10:45

Richard Lochhead: I agree. I was careful to say that Scotland is not New Zealand when I was answering Jim Hume's question. There are upsides and downsides to all the strategies, and the picture in New Zealand is not all rosy. There are environmental considerations; people tell me that there is intense focus on one particular sector at the moment. We have to have a balanced approach. Scotland is not New Zealand and we are starting from a completely different place. Our industries are different and I fully accept that.

The Convener: At our last meeting, Robert Graham said to us that, although talking about exports is interesting, as in football we have to win the home game first. With that in mind, Mike Russell wants to talk about some important issues relating to First Milk.

Michael Russell: Cabinet secretary, I was interested in what you said about the action plan. You presaged that in the meeting you had with Kintyre and Bute farmers two weeks ago. My constituents will be looking for two things in relation to the action plan: first, a series of actions that will guarantee the future of the creamery in Campbeltown—I will come on to that in a moment—and secondly, a medium to long-term plan that will give the producers a reason for staying in the business. My constituents will judge all the actions by those two criteria. They need things that will give continuity to activity and ensure that there is a continuity to what they are trying to do.

Has the Scottish Government thought any further about what it can do to secure the dairy industry in the remoter parts of Scotland, particularly in Kintyre, Bute and Arran, which must be seen as the most marginal parts of the Scottish dairy industry and therefore the most vulnerable to the current price fluctuations?

Richard Lochhead: I am sure that Mr Russell will welcome the fact that, when I was at the European Council of Ministers the week before last, I ensured that the UK raised the dairy issue during the agriculture and fisheries council debate on the Russian food import ban. One issue that I managed to get raised was the specific impact that the current events are having on island communities in Scotland—they were mentioned at the council at Scotland’s request.

I believe that Campbeltown on the Kintyre peninsula can have a really bright future. It has a lot going for it, which is why the Scottish Government is keen to work with First Milk on the future of the Campbeltown creamery. As the committee will be aware, I have been involved in the issue for several years, working with the company, and we have made grants available that can be called down for modernising and adapting the plant for the future. We continue to make such offers to the company and there are some good conversations taking place between the Scottish Government and First Milk over the future of the Campbeltown creamery and the upgrade that is required.

It is correct to say that there are additional challenges for the dairy sector in our islands, and there are one or two answers to your question. First, we have a fantastic marketing opportunity for island and more rural communities, such as Mull of Kintyre and Bute. That can help us to target niche markets. For example, Mull of Kintyre cheddar is a top quality premium product. We can use the image and reputation of rural Scotland and our island communities to help sell it to overseas markets. That is a big opportunity. I am told that you can get three times the return for a packet of cheese that is sold overseas compared with one that is sold in a supermarket in this country. There is a fantastic opportunity for Campbeltown to find niche markets overseas.

On day-to-day support from the Government, we take into account the additional pressures facing our more rural and island communities in terms of primary production. That is reflected in some of our support mechanisms through the common agricultural policy, particularly the less favoured area support scheme. Our wider rural development programme also has schemes to help our island and more rural communities.

I am aware of the issues that Michael Russell has raised in relation to transport and other costs. I am feeding them into the current review of ferry fares that the Government is carrying out. Although I am not in a position to say where that will go, I think that it is important that it is part of the debate moving forward. I remain open to any other ideas that the committee might have.

Michael Russell: I want to press you on some of those points, because I think they are important. You are absolutely right about the premium on Mull of Kintyre cheddar. It is £5,000 a tonne for Mull of Kintyre cheddar as opposed to something around £3,000 a tonne, or perhaps even less, for what one might call bog-standard cheddar. However, the figures for the quantities involved are pretty stark. Last year, only 240 tonnes of Mull of Kintyre cheddar was exported, out of a production of the creamery of 3,200 tonnes, so well under 10 per cent goes into that premium product. Another 1,200 tonnes of Mull of Kintyre cheddar may have been produced, but the creamery lost a substantial sum of money.

There appear to be eight areas in which action could be taken, some of which would help the wider First Milk community and some of which would help rural Scotland in particular. I will touch on those areas very briefly, if I may, because they are important.

The first is investment in the creamery. The cabinet secretary indicated that discussions are continuing. I know that First Milk regards it as crucial that those discussions come to a satisfactory conclusion so that it can continue with the investment that it has started on.

Secondly, Frank Strang mentioned the in-market export resource. There is a need for a dedicated in-market export resource for dairy products, particularly in North America, even for a short period of time. Scottish Development International has been very helpful, but there is a need for more.

There is a need for a very big marketing push. I am very pleased to hear about the Scottish brand work. That needs to tie together brands such as Mull of Kintyre and not stand in their place.

Keeping producers in the market is essential, particularly on Bute, as we heard last week, where any producer leaving the market would increase the transport cost for the others. Anything that can be done on transportation and other costs, with urgency, to keep the producers in the market, would help.

On examination, there was a meeting in Mull of Kintyre two weeks ago about possible long-term solutions. I think that First Milk would be open to partnership arrangements. The Orkney solution is interesting in terms of the participation of the local authority or Highlands and Islands Enterprise in upgrading premises and perhaps operating them in a different way.

First Milk carries on legacy pension liabilities from the former Milk Marketing Board. They are not massive, but the company might have the opportunity for a cash injection if they could be taken elsewhere.

There are issues about the size of First Milk and whether it needs to work more constructively with other and larger producers.

Finally, you will be familiar with the substantial investment in research and development in the dairy industry that has been announced in Ireland in the past 10 days. If we look around the Scottish industry, with the exception of the work that the SRUC has done, there does not seem to be any substantial research and development or new product development. We heard this morning from the retail sector that all the innovation in product in the dairy sector is coming from outside the UK.

Those are all possible areas where some action could be taken. Will the cabinet secretary consider those as part of the issues for the dairy plan?

Richard Lochhead: You made a number of useful points. I am aware of some of them but not all of them, so I will take them away in thinking about First Milk's future. Some of those areas might be appropriate for Scottish Government intervention and some might not be quite so appropriate for such intervention. Clearly we would have to consider each one on its merits.

You highlighted the opportunity for the Campbeltown creamery in particular to capture more export markets. We have made an offer to First Milk to lend it advice and expertise in order to access new markets overseas. I have already spoken to the chief executive of Scottish Development International about giving an extra focus in international markets to dairy products.

We also have to be conscious that we have a fantastic company that is innovative, ambitious and exactly what we want to see in Scotland in the form of Graham's, which is making a success of the domestic market. Ironically, some companies may take the view that they must export in order to be successful, whereas Graham's is showing that it is possible to be very successful in the domestic market. We have to do both—and there are examples of how both can be successful. For any dairy company to be really successful, it has to make a success of the home market but also capture new export markets. There are lots of opportunities for First Milk there.

We are already pursuing some of the issues that you have mentioned—I have given you a couple of examples. The Scottish dairy growth board would be the ideal vehicle for taking forward one or two of your ideas, particularly the research and development aspect. The board could look into that—that is partly its role, as research and development will be key to the growth of the dairy sector in Scotland in the years ahead. Paul Grant is chair of the Scottish dairy growth board, and it would be really helpful for members individually or the committee to speak to the dairy growth board and Paul Grant about some of those issues—he is very familiar with the situation at First Milk.

Graeme Dey: I will pick up on the reference to Graham's and the work that it is doing domestically. Last week, Robert Graham expressed some frustration at the fact that 85 per cent—I think—of the spreadable butter that is sold in Scotland is imported from Denmark. He highlighted that as something that we should be looking to do something about.

We heard earlier today from Morrisons that the growing demand for salad cheeses is being satisfied from outside Scotland. What can we do to tap into the butter market? Are salad cheeses an area where we should be encouraging expansion, so that we are meeting the need domestically?

Richard Lochhead: Let us be frank here. It is pretty unacceptable that, if we go into a retailer's in Scotland, we find that the biggest-selling yogurt, the biggest-selling butter and the biggest-selling cheeses are produced outside Scotland. I would find it surprising to go to Italy, France, Denmark or other countries to find a similar situation, in which the major retailers in those countries were selling foreign products as their number 1 sellers. I am fed up of going into Scottish retailers and seeing foreign cheeses emblazoned in front of my eyes in end-of-aisle promotions. We need more energy and activity from our retailers in displaying loyalty towards our home-grown producers, as retailers in other countries show to their home-grown producers.

There have been examples of great progress from retailers in Scotland in sourcing more Scottish produce but, when it comes to dairy products in particular—this concerns other products, too—we could perhaps have more effort from our retailers to promote home-grown produce in their Scottish stores.

We hope that our produce will be in stores in the rest of the UK. Graham's is a fantastic example of a company that is expanding into other UK stores. We are not necessarily expecting Scottish products to be the best sellers in other UK stores, but there is an expectation that, in Scottish stores, an extra special effort would be possible on the part of our retailers so that, some years down the line—the products have to be available in the first place—the best-selling butter in Scotland is a Scottish butter, the best-selling cheese in Scotland is a Scottish cheese and the best-selling yoghurts in Scotland are Scottish yoghurts. I think that that is possible, as we have the companies that could develop those products and get them into the marketplace.

However, we need the retailers to put a bit more effort into ensuring that their best sellers in Scotland are from Scotland just as, in other countries, the best sellers are often—albeit not always—from those countries. The retailers have a lot of influence in that regard. Hopefully, we can work with retailers in the times ahead to get more Scottish produce on to Scottish shelves.

Dave Thompson: It is not directly in your gift to take direct action in answer to this point, but our two witnesses from Asda and Morrisons this morning both mentioned smoothing under the tax regime. They indicated that farmers would benefit from a five-year tax smoothing rather than a two-year one, which I presume refers to the period over which they have to pay tax. A five-year smoothing would help their cash flow, because one of the big problems for them is price fluctuation. I imagine that processors, too, could benefit from a longer smoothing term. That is obviously a matter for HMRC and the UK Government, but could you consider the two earlier witnesses' comments on that and perhaps write to the Chancellor of the Exchequer to advocate an increased smoothing period to help businesses that are in a very volatile market deal with prices over a longer period?

11:00

Richard Lochhead: That idea that has been put to the Scottish Government as a way of providing short-term help for the sector. We have opened up a dialogue with HMRC to convey our views that the idea should be looked at, and I will take on board your request that we follow that up by writing to UK ministers. I am sure that, among Prime Minister David Cameron's limited references to the dairy sector, I read or heard something in which he addressed the point about smoothing. It would appear that the UK Government is alert to it, and I hope that it is considering the matter. Of course, I would urge the UK Government to be very sympathetic to our request.

Jim Hume: You made the point to Graeme Dey that supermarkets could do more to promote Scottish produce, but we heard from Asda and Morrisons that the public want specific brands of butter—I am trying not to mention them.

The Convener: Name them and shame them.

Jim Hume: We cannot shame the brands if they are doing very well in other countries. New Zealand has a brand of butter that sells very well here, as does New Zealand lamb sometimes, not that it should. However, the New Zealand Government puts quite of lot of focus on and funds into marketing, not just in its own area but abroad. Has the Scottish Government got the balance right? Perhaps it should focus more on helping with marketing in our own area and abroad.

Richard Lochhead: I can answer your question in a general sense in that we have made significant inroads with the food policy in Scotland over the past few years. The sale of Scottish brands across UK retailers, rather than just Scottish ones, has increased by around a third since 2007. That is worth tens of millions of pounds to the Scottish food sector. Most sectors will have benefited from that in some shape or form.

I am keen to see what more we can do in this country to have more Scottish brands. We have already mentioned the fact that we are developing a Scottish dairy brand. However, all our products should benefit from coming under the umbrella of the Scottish food brand. We are working on some ideas about how we can take that to the next level. Clearly, we have to co-operate with all our levy bodies, of which we have several. We have begun to work together more closely over the past few years under the Scotland Food & Drink umbrella.

The issue is how we can make more of the opportunity of working together to develop a single Scottish brand overseas in particular so that we get a premium not just for our whisky, beef, salmon and some other products but for all our products going into the international marketplace under the Scottish brand if they meet the quality standards. There are opportunities there that we are working on at the moment.

Frank Strang: The comment was made earlier that the home game really matters, but the export plan is an example of resources going into promotion. The export plan is funded to about £4 million and a bit and is a good model of collaboration because, although the Government is putting in the vast majority, the sector is, for the first time, putting its hands into its pocket, too. A good partnership is developing, and we are building on that model for the UK market.

Dave Thompson: Earlier this morning, we heard that, when negotiations are taking place in relation to price and so on, bigger producers that want to get their products into the supermarkets will put forward a package to promote those products. That is obviously okay for larger producers that have the cash to do that. That might be why we see shelf-end promotions—they are funded by the larger producers. In an effort to increase the market share of the smaller producers, which, by definition, will not have the resources to compete in that way, will you give some consideration to how support could be provided to the smaller producers and their brands? If that does not happen, given the nature of business, the larger producers will strike the best deals with the supermarkets and will continue to hog the best places on the shelves.

Richard Lochhead: We have grants to assist companies with their marketing. I will double-check whether the kind of in-store promotions that you are talking about qualify for grants under the current system. I do not know whether they do, so I will have to check. We have gone out of our way to give marketing grants.

There is a wider question. What has been refreshing in the past few years is the way in which the big retailers in Scotland—other European countries do not always have big retailers—have adopted policies to support local produce. That is good, and I think that consumers support that. There is evidence that they will even pay more for local produce. The big retailers are going in the right direction in sourcing more produce locally.

However, when it comes to in-store promotions, if the retailers accept that there is a case for stocking more local produce, they have it within their power to decide to promote more local produce instead of relying on the suppliers to pay the fees for end-of-aisle promotions. The retailers could decide that the right thing to do in their stores would be to put a bit of extra effort into promoting produce from the country in which those stores are based. That happens in many countries and it is beginning to happen in Scotland, but I think that the retailers could do that to a much greater extent.

We must look at what support is available for suppliers to fund in-store promotions. The retailers already promote local produce to a certain extent, but if they did a lot more of that, local suppliers would not have to pay for such promotion.

Angus MacDonald: Good morning. I want to touch on the ring fencing of milk quotas in certain areas. My colleague Mike Russell referred to one of the areas in which there is ring fencing of milk quotas—the southern isles, which are classed as including Jura, Gigha, Arran, Bute, Great Cumbrae, Little Cumbrae, the Kintyre peninsula south of Tarbert and part of the Cowal peninsula. I believe that Orkney is also covered by ring fencing, except the island of Stronsay.

The ring fencing of quotas was introduced in 1984 for good reasons, but some areas of the islands have been relieved of ring fencing for some time. If—God forbid—producers in the southern isles found that processors were unable to take their milk, for whatever reason, would the Government consider lifting the ring-fencing arrangements for the southern isles and, if necessary, Orkney?

Richard Lochhead: I would have to consider all the ramifications of going down that road. It is clear that the quota system is being phased out at European level. I would have to understand the interaction between the ring fencing of quota on the islands and the phasing out of the quota system at European level. You raise a good question. The original motivation for the ring fencing of quota was to protect the islands. If the quota system is being phased out, by default that measure is less relevant. That begs the question whether there are measures that we should be looking at to give a bit of protection to island communities as far as dairy production is concerned. I do not have a ready answer to that question. From memory, no stakeholder has raised the issue with me so far, so I will have to take the question away and consider it.

Graeme Dey: How do you view the remit of the Groceries Code Adjudicator as it currently stands, cabinet secretary? Are the Groceries Code Adjudicator’s remit and powers in relation to the dairy industry fit for purpose? If not, how would you wish them to be changed?

Richard Lochhead: It is good news that the adjudicator is in place at long last. The Scottish Government lobbied the UK Government for many years, with much cross-party support in Parliament, to set up the adjudicator. It took a long time to get that. I heard a little of the evidence that the retailers gave the committee earlier about the difference that the adjudicator is making to their operations.

It is early days, but I have some sympathy with the recommendations of the House of Commons committee that has looked into the matter in the past few weeks. It recommended giving the adjudicator the right to be more proactive in investigations and to take referrals for investigations from indirectly affected sources, as opposed to from suppliers that are directly affected; an unaffected organisation could make a referral for investigation. The recommendations should be looked at seriously, and I would be sympathetic to expanding the adjudicator’s powers in those ways.

I am due to meet the adjudicator in the next few weeks, and the dairy sector will be on the agenda. I will be keen to hear her feedback on her experience so far in the job.

There were, of course, concerns when the adjudicator was set up about the lack of penalties and clout. Whether the adjudicator should have more enforcement and penalties powers remains a live issue.

The final part of the debate is about whether the adjudicator's powers should be extended beyond retailers to other parts of the supply chain. Again, we should not rule that out. I have some sympathy with comments on that that the committee heard from the retailers. The commercial world is a very complex web, and the adjudicator has to focus on what she is doing in order to make a difference. Therefore, I would be loth to support suddenly expanding the adjudicator's powers without an understanding of the consequences. It is clear that the adjudicator could become so unfocused that it does not have any impact.

Jim Hume: We very much welcomed the Groceries Code Adjudicator, which was—of course—in the Lib Dem manifesto. However, I do not want to get too political.

I will bring you up to date slightly. Just yesterday at Westminster, Vince Cable laid down powers for the Groceries Code Adjudicator to be able to impose fines up to 1 per cent of turnover of supermarkets. Do you welcome that and do your colleagues support it?

Richard Lochhead: Yes—it is clear that I support the adjudicator having penalties. There is a debate about whether 1 per cent is the right amount, but it is a start. Given the current climate and the financial issues that our large retailers face, a fine of 1 per cent of turnover might these days have a bigger impact than it would have had a few years ago because of the tighter margins that the retailers are now experiencing. I am sure that they will think twice about not behaving appropriately.

The Convener: Are you content with how the voluntary code between producers and processors is working in Scotland? Would changes to it help in the current climate that the dairy industry in Scotland faces?

11:15

Richard Lochhead: It is a challenge to understand to what extent the current issues that the dairy sector faces relate to the voluntary code's being weak or otherwise. Quite clearly, as we have discussed before, there are Europe-wide factors and global factors, which will exist regardless of what the voluntary code is like. We cannot, therefore, say that there is an exact correlation between the weakness or otherwise of the code and what is happening just now.

Alex Fergusson is much more expert on those issues than I am, because he carried out the review of the voluntary code. He made some valid points in his report, and noted that the voluntary code has made some positive impacts. His recommendations also suggested that we might investigate tightening up some aspects of the code, or extending it.

It is not always for ministers to sit back and lay down the law on a voluntary code. Dialogue is taking place between the farming unions and the processors. What emerges from that will be important, and ministers will reflect on it.

I have in the past raised the question whether retailers should use the code to decide to whom they give contracts. If players in the industry are not signed up to the codes, should that be taken into account by the retailers? I do not have a fixed view on that, but it is worthy of debate. Some companies have argued that the code is not appropriate for them; it is voluntary, not statutory, so we would have to think carefully about going down that road. There is a debate to be had—no doubt that debate will happen among stakeholders as they speak to one another. Of course, I reserve the right, as minister, to intervene in the future if we feel that there is a case for doing something differently.

The Convener: Do you agree that a result of the voluntary code between processors and producers seems to be that more trust has built up?

Richard Lochhead: It is certainly the case that the producers are, through the voluntary code, more empowered. That raises a debate; some companies might think that they have been put at a disadvantage through the power that has been given to the co-ops, especially given the current climate in the dairy sector, where producers are able to have notice and the retailers may feel that they cannot react quickly enough to changing international prices. A wide range of factors must be considered, but I think that the primary producers have been empowered by the voluntary code.

The Convener: We asked representatives of the supermarkets whether retailers should be included in the voluntary code. One of them suggested that that would not be particularly appropriate because there is already a grocery code. Do you think that extending the voluntary code to retailers would be a good thing?

Richard Lochhead: There are some issues with the retailers and the dairy sector, and the first thing to do is to identify those issues and then work out the best way of dealing with them—whether through the groceries code or a voluntary code. There are some issues that need to be drawn out; maybe the committee will do that as part of its deliberations. At the moment, it is difficult to understand how all the contracts work within the dairy sector and with retailers. We see tweets and comments from retailers about the good deals that they are giving the primary producers, but it then transpires that those deals apply only to some primary producers and some dairy farmers, and that those who are not on contracts or not within the supermarket pool do not get those prices.

It is all quite murky, so I would like to see more light being shone on the arrangements so that we all understand what applies to milk and what applies to cheese, yogurts and other products; what applies to the farmers in a select pool of suppliers to the retailer; what happens when retailers buy spot-market milk or milk from commodities markets, and what conditions apply to suppliers in those markets. There is a case for shining more light on that, and we should give some thought to whether the Groceries Code Adjudicator or voluntary codes should shine that light.

Michael Russell: You may have missed the evidence from Morrisons and Asda earlier this morning. The witnesses were at considerable pains to say that they do not set the price of milk, but that it is done by processors and that the retailers are far more interested in such things as distribution costs. I take it from what you are saying that you do not necessarily believe that to be the case, and that there are issues about the attitude of supermarkets to primary producers that require to be resolved.

Richard Lochhead: That is the case if we want fairness across the supply chain. I do not deny for a second that there are retailers that clearly do good things with some of their suppliers, but if it transpires that that relates to only a small proportion of their suppliers, by definition it does not apply to the rest of their suppliers. Therefore, if it is in the public interest or the interest of fairness that all milk producers get a good deal and that retailers pay attention to the deal that all suppliers get, their doing that will get us to a better place.

Michael Russell: To be entirely accurate, the supermarkets said that the price of milk is a matter for processors, not for them. I found that to be a surprising remark; I still find it surprising. There is obviously a connection between the price at which they sell milk and the price that the producers get.

Richard Lochhead: That takes us into an interesting debate. We live in a commercial world; the retailer buys their milk off the processor, or whoever. They do not necessarily go direct to the producer, albeit that some retailers have specific arrangements to ensure that the producer gets a good price.

That said, in this day and age in other walks of life in the commercial world, we look not only at the immediate relationship between one part of the supply chain and another but at the whole supply chain. In other words, the ethical thing to do these days—more than ever—is not only to consider the conditions of the workers to whom we contract but to go beyond that and to ask the contractor to ensure that the subcontractor gets good conditions as well so that it goes right down the supply chain. The ethics of the modern-day commercial world concern not only the relationship between the retailer and the processor. We should consider the ethics right down the supply chain.

Claudia Beamish: Good morning, cabinet secretary and Mr Strang. I will explore the producer organisation model. In some member states, as you know, dairy farmers have formed POs. The EFRA Committee report states that the UK

> "Government believes that forming a Producer Organisation could give dairy farmers 'greater clout in the marketplace'."

I note from the information that we have received on the dairy industry and the concerns that everyone has that the Scottish Government produced a five-point dairy action plan in 2012. The fifth point, which I will read out to remind you of it and for the record, sought to ensure that

> "the Scottish Agricultural Organisation Society",

which is commonly known as SAOS,

> "have sufficient resources to accelerate their existing work on producer organisations and co-operatives".

Do you have any comments on how that is going? Do you consider it to be a way forward, bearing in mind the comments that Robert Graham made to us last week about small producers? Would a producer organisation correct the balance?

Richard Lochhead: We said a couple of years ago, and have continued to say, that we support producers working together. That is a key feature of the debate about empowering primary producers. However, it is ultimately up to the producers how they want to work together. We said, as you rightly point out, that we would support farmers who want to form POs and we made some resource available for that. A new association has started in south-west Scotland.

We support and will help to facilitate producer organisations, but it is ultimately up to primary producers to decide to what extent they want to work together and what form that takes. However, it is clear that the more they work together via co-operatives or producer organisations, the greater their potential to get better deals. Under European legislation, producer organisations attract some red tape, bureaucracy and legal status, which is perhaps not appropriate for some farmers.

Claudia Beamish: I want to connect that—seamlessly, I hope—with a suggestion that Morrisons made in evidence earlier that one way forward for dairy farmers might be to hedge for prices. I was surprised by that suggestion. Do you have any comment on it, particularly in view of the fact that one would think that small producers would hardly have time to get into hedge funds in the world markets? I find that quite an odd suggestion, although that is just my perspective.

Richard Lochhead: One advantage of a producer organisation for the producers is that they have representatives working on their behalf. The members of the organisation work together and will jointly employ people to do what is best for them. That is clearly an option.

As part of the debate in the past few weeks, issues have arisen to do with encouraging dairy farmers to plan for the future. I think that the committee received evidence in the past week or two from the levy-paying body Dairy UK, which told the committee that global trends for dairy prices show that every two and a half years there is a peak or a trough. Farmers can look at the past 10 years and see that. When they plan they can anticipate the potential for a downturn in prices every couple of years, or whatever the timescale is. Farmers have to plan for the future and understand the cyclical markets that they are in. I do not know whether hedge funds are the answer to that, but there is certainly a principle about planning for the future.

Graeme Dey: If we were to go down the producer organisation route, would the Scottish Government and its agencies oversee that directly? I am thinking about an example some years ago when producer organisations in the soft-fruit sector were overseen by the rural payments agency on behalf of the Department for Environment Food and Rural Affairs, and the cabinet secretary will be well aware of the difficulties that arose from that.

Richard Lochhead: I thought that you might mention the soft-fruit sector. You do not, by any chance, happen to represent Angus, do you?

The rules on producer organisations and how they are governed and monitored are laid down in European legislation. As Graeme Dey said, the RPA has a formal role on behalf of the member state—the UK—in relation to producer organisations. I cannot answer the question as to whether the situation would change and the Scottish Government would have a greater role. The rules are laid down in European legislation, so I expect that the arrangements would be similar.

Frank Strang: We are learning as best we can from what is happening right now. As Claudia Beamish alluded to, the Scottish Agricultural Organisation Society is working with producers in relation to First Milk in Campbeltown. Lots of different actions could be taken in Campbeltown, including with producers. That could involve getting the producers there together and learning from that. It is important that we work with the SAOS to learn the lessons from what is happening. One of those lessons will be about how producers can work together better.

Claudia Beamish: I hope that my figures are right, but I think that 90 per cent of pig farmers in Scotland are involved with a producer organisation. I will stand corrected if I am wrong, but it is certainly the majority of them. I wonder why that situation has not developed in the dairy industry. What is holding back the dairy sector specifically?

Richard Lochhead: You are right that the pig sector is highly organised and that the producers co-operate closely. They have been successful in doing that, especially in the past year or two, during which things have improved quite a lot for the pig sector.

Why, historically, has that not been the case in the dairy sector? That is a good question. It is a different sector with different dynamics. Primary producers in the dairy sector have contracts with different processors, and sometimes it might be quite difficult to keep them all together. The sector just has a different profile.

11:30

Frank Strang: A lot of it is to do with the culture in particular sectors. One of the key issues for us is that everyone plays their part in the story about how we improve things. Under the new Scottish rural development programme, there will be new advisory services and new knowledge transfer. We have said that we are going to prioritise dairy in whole-farm reviews; however, we will not be able to do as much of that as we want if we cannot encourage the farming community to come forward. At the moment we are working with the NFU Scotland to encourage take-up of advisory services and the change in culture that is required.

Alex Fergusson: I want to go back to where the cabinet secretary started in his opening remarks. No one to whom we have spoken will disagree with his comments that the long-term prospects for the dairy industry are good and positive, and we need to keep focused on that through this particular time. James Withers told us that we need to invest in processing, which accords with the view that you have quite rightly taken that we need to add value to the basic product. First Milk argued that Scotland is light on dairy processing; Graeme Jack from Müller Wiseman said that we do not have enough processing capacity; and, behind all that, Robert Graham said in his written submission that one of the problems that he has come up against and which is a particular barrier to the investment that he is trying to make is the planning process. I am sure that you will agree that we could use more processing capacity, but what do you feel about the barriers to investment that were highlighted last week? What could the Scottish Government do, perhaps through the planning process, to fast-track any investment that is likely to come into the country?

Richard Lochhead: There are two issues to address in that question: first, the issue that Graham's raised with you; and secondly, the question of how we attract more investment into Scotland for processing capacity.

Clearly, Graham's, which is family owned and based in Scotland, is ambitious for Scotland and is doing what it does extremely well, and I hope that all of us can rally round and support such companies. There is a planning system in place and it must be adhered to, but it is important that, as far as policy is concerned, local authorities and the Scottish Government take into account the economic benefits of supporting companies such as Graham's that are owned here, that are expanding and doing well and which have big plans. I cannot comment on the extent to which the Scottish Government would intervene in a planning issue such as that with Graham's in Stirling; I can only put the matter into the context of our wanting to support the expansion of indigenous companies and say that, particularly with dairy, it is very important that we provide that support. The Scottish Government will be very keen to work with and support any company that wants to invest in and establish processing plants in Scotland and to ensure that we are bringing everyone else, including the planning authorities and our enterprise agencies, around the table to make those projects happen as quickly as possible.

That said, although we are very keen to expedite the process where possible and although that is something that we would encourage, such matters are clearly in the hands of local authorities. I can tell the committee that, in Peterhead, people are seeking to rebuild the pelagic factory that burned down a few weeks ago. I would hope that just as all the agencies are getting around the table there and saying, "Let's get this rebuilt as soon as possible," so that we can keep people in jobs and keep mackerel processing, which is a major economic player in Peterhead, a similar attitude would be adopted with regard to new build in Scotland or inward investment to the country.

Alex Fergusson: Thank you very much for that response, cabinet secretary.

You mentioned in your opening remarks the possible development of the Scottish dairy brand, but do you see its development as a magnet for investment? If so, who is out there using that magnet—if I can put it that way—to attract investment in processing facilities in this country?

Richard Lochhead: We should be optimistic. There are signs that some companies are looking at Scotland's potential inward investment opportunities for dairy, which is a healthy sign that should give us confidence. I cannot sit here and say that those things are definitely going to happen or give you a timescale, but we are beginning conversations with some companies that appear to be interested in Scotland.

You are quite right that the brand plays a big role in that. Scotland is seen as a good place to invest, particularly in the food sector. As we have discussed at the committee many times, it is well documented that our food and drink industry is doing well and we have a premium brand in the international marketplace, which can pay dividends and is certainly helping to attract companies to consider Scotland as a potential investment location. That also applies to dairy, which is good news.

Sarah Boyack: My question follows on from branding and marketing, which is an issue that affects exports. The NFUS submission called for

"immediate and direct support for marketing and branding of Scottish dairy produce."

The Scottish Retail Consortium and Co-operative Food both advocated the benefits that would come from clearer branding and marketing. It was also suggested that public procurement could play an important role in brand development. We want to focus on that. We have debated public procurement a lot in the Parliament and it is a huge market. How could you do more to promote public procurement of Scottish dairy produce? To what extent could the brand help us there?

Richard Lochhead: How we use the brand, in terms of public procurement, is a good question and I will certainly give it a lot more thought.

At the moment we are increasing our public procurement of Scottish produce, which includes dairy. Virtually all our liquid milk is from Scotland, as you can imagine, and more than half of our dairy products are Scottish. I would like to see that amount rise. It is a lot better than it was before and it is a lot better than what is happening in our retailers, where less than half of the dairy products are Scottish. We are working on that.

There are opportunities for us to do a lot more and we are thinking actively on that, which should give you some confidence. As you know, we have formulated a food charter, which was adopted for the Commonwealth games and the Ryder cup. It was particularly successful at the Ryder cup but it was also successful throughout the games. We are now considering how to extend the food charter across the public and private sector in Scotland. The food charter gives us a great platform for brand promotion. A wee bit more thinking is being done on that at the moment, so I do not have the exact details for you.

I agree with you that there is a lot of potential. If we were to get all the public sector in Scotland and, I hope, the private sector signed up to the food charter, it would make a huge to difference to local sourcing, including from the dairy sector.

Sarah Boyack: I will extend my question to the catering industry more generally. At big events, although public procurement is important, a lot of it will be private procurement, including through companies subcontracting. At a very big event, the private catering industry would be hugely important. Are you doing anything to encourage the private catering industry to source Scottish?

I am thinking particularly about some of the premium branding issues that we were talking about earlier, regarding salad cheese, for example. When that was explained to me I thought, "That's what I buy." We need to look at some of the terminology. The issue is actually about what people want. Those products are not necessarily available in Scotland. That links back to how you promote more processing opportunities and make sure that there are buyers for the product.

Richard Lochhead: I was discussing that with officials this morning. I fund something called the sourcing for success initiative, whereby we work with companies, mainly in the manufacturing sector, to encourage them to source their ingredients in Scotland. We have some major food manufacturing companies in Scotland, and some of us go round their factories and ask them where they get their onions or other raw materials from to produce their ready meals.

Often, people tell us that they would be open to sourcing a lot more in Scotland—on their own doorstep—but are not currently sourcing in Scotland as much as they want to, which is ironic. Our sourcing for success initiative has been going for a couple of years and we are looking at continuing it.

I think that the food charter influenced catering and food service companies at the Ryder cup, for example, in relation to sourcing from Scotland. There is a lot of untapped potential in that regard. People think that most of our food comes from retailers, such as the supermarkets, but 50 per cent of the food that we eat in this country comes from the food service sector.

Let me advertise Entiér, which is run by Peter Bruce, a former chef who started his company in 2008 in north-east Scotland. In the short time since then, he has built up his turnover to £46 million, if I remember rightly. He is now one of the biggest food service companies to supply the offshore industry in Scotland.

Peter Bruce told me that—despite having been told that he could not do this—he sources 70 per cent of the food that he serves in Scotland from Scotland. He uses local produce, mainly from north-east companies. When I visited Entiér's premises in Aberdeen a few weeks ago, I met local food suppliers who were supplying one of the biggest food service companies in Scotland.

Entiér's success shows what can be done. The company's approach is exactly aligned with Scotland's food policy and Peter Bruce is a great entrepreneur, who is showing the way. We must support such companies.

Sarah Boyack: Yes, he is proving that sourcing in Scotland works—and showing other people that, which is hugely important.

May I sneak in a question about organic food? Procurement of organic food was a key objective of the food for life event that we all attended in the Parliament last night. Have you been monitoring the impact of volatility on organic dairy produce in what is a very uncertain market?

Richard Lochhead: That is a good question. I am not aware of recent statistics in that regard. I have statistics on milk, but I would have to investigate the situation in the wider dairy sector. I was told at last night's event that the price for organic milk is 40p per litre, compared with 23p, 22p or 20p—or, in some cases, 26p—in the conventional milk market. There is a good premium for organic milk and an opportunity for milk producers who want to convert to organic and get 40p per litre in the current market.

That was a good issue to highlight. I confess that I am not up to date on other dairy products. I will have to investigate that.

Sarah Boyack: It would be helpful to have a brief note about milk and other products. We would appreciate that.

Frank Strang: I am grateful for the question about the food service sector. Much of the focus has been on retail, but if we look at the numbers, we see that food service and the public sector are important, so it is good that the issue was raised. There are issues to do with transparency of food sourcing in the food service sector. It is hard to get in among that, but we are very interested in the matter.

When we do the showcasing activity that I mentioned, we are interested not just in overseas buyers and retail but food service. In this year of food and drink, we are very much interested in the tourism catering world. In the public sector, we are working with Assist, the local authorities' catering people. We are thinking about what we can do in schools in August, when the theme will be delicious dairy.

The Convener: I take it that the issue to do with country-of-origin labelling crops up whether the food appears in supermarkets, restaurants, catering services or all the rest of it. Labelling is a means of alerting customers to where the product comes from.

Richard Lochhead: Yes. As part of our becoming a good food nation policy, which is the next stage of our national food policy, there is an emphasis on serving good food as well as on people buying good food. We need good labelling for that to happen.

I should quickly mention a couple of issues. First, we have been saying to the UK Government for a long time that what is happening in Europe should be extended to dairy produce. The labelling regulations have been extended to different types of meats and other products, but they have not been extended to dairy products. That is next in the pipeline. We are urging Europe to extend the labelling requirements to dairy produce. I hope that that will move forward shortly.

Secondly, the Smith commission recommended that the UK Government should work with the Scottish Government to promote a made in Scotland label, or at least that the country-of-origin labelling regulation should apply to Scotland and give us the ability to have a made in Scotland label or whatever we choose to call it. Country-of-origin labelling is important and we are keen for the UK Government to act as quickly as possible on that recommendation and to work with the Scottish Government to give us a right to such labelling.

11:45

The Convener: From the overall food consumption point of view, that is helpful for us.

Dave Thompson: Many schools and so on have breakfast clubs, because some children come to school without breakfast and it is not good for their ability to learn if they come to school with an empty stomach. Could we look at providing a mid-morning flavoured milk or yoghurt break for kids, which would help them and give them more nutrition at that time?

I remember well when I was at school—a long time ago—that we had daily milk. Sometimes it was good, sometimes it was not so good and sometimes it was better. We could make the milk attractive. As I said, it could be flavoured, or we could have yoghurt and so on. I am sure that that would help children physically and mentally, and it would help the industry.

Richard Lochhead: But not bubble-gum flavoured milk. [*Laughter*.] I heard the comment from Asda's representative that it was not very popular.

I would be keen to investigate anything that we can do to encourage our children to enjoy healthy dairy produce. As part of the plan that we intend to publish, we are actively looking at initiatives to publicise better the health benefits of dairy. That is more of a generic promotion in Scotland. There has been a belief for some time that we have not publicised the health benefits of dairy enough, so now is an opportune time to look at that.

As I mentioned earlier, we are refreshing Scotland's food policy—becoming a good food nation. One reason why I am keen to refresh it is that I want children's food policy to be at the heart of it. We will do a lot of work on a children's food policy. Your comment is relevant to that, although I do not have a quick answer as to how easy it would be to do what you suggest in our schools—other ministers would have to be involved in the discussions. I assure you that the children's food policy will be prominent in our new national food policy. There will be lots of scope for such debates.

Dave Thompson: If youngsters are introduced to good-quality foods, they are much more likely to enjoy such foods for the rest of their lives. The Government can have an input into that. I welcome your comments and look forward to hearing how you propose to take that forward.

The Convener: That was an interesting suggestion. I hope that some of the press will pick up the idea that we should return the milk to the schools. It is a historic issue to discuss.

We have a question from Angus MacDonald on EU action to round this up.

Angus MacDonald: Cabinet secretary, you mentioned that you had asked the UK to raise the issue with the European Council and the Council of Ministers. If you could keep the committee updated on those discussions, that would be appreciated.

It has been suggested that an increase in the intervention price for milk would be a good short-term measure to ease the pressure on Scottish dairy farmers. Is that a realistic short-term solution, given that the intervention price is currently 17p per litre and can go as low as 15p per litre when currency exchange rate fluctuations are taken into account?

Richard Lochhead: The view that I took at the recent Council of Ministers meeting was that Europe should have an open mind about raising the intervention price and that the Commission should be asked to analyse what the impact would be and look at the case for doing it. I am keeping an open mind, because I do not know whether it would make a material difference, but I was keen for the Commission to take away from the Council a commitment to consider it and analyse what the consequences would be.

It was clear that the UK Government did not support that position. We are not the member state. I put the position to the UK, and other member states raised it with the Commission at the Council of Ministers. Likewise, the commissioner was clearly not that keen to look at the idea too seriously at this stage. He was focused on extending storage aid. Another issue that was raised was opening up new markets for exports around the world. Such initiatives seemed to be in the mix. Raising the intervention price did not get a lot of support from the Commission or from the UK Government, for that matter. I do not think that it is completely ruled out, but there was no urgency to look at the intervention price in Europe.

As you can imagine, I support the other measures that are being taken. Storage aid is playing a role, as it is hoped that it will provide an option for taking some produce off the market in Europe, whether that is because we are being flooded with dairy produce as a result of the Russian import ban or because there is less demand from China and elsewhere. Work on new markets is always welcome, because we in this country want to up our exports as well.

That is where the debate reached in Europe. My feeling was that the commissioner feels that this is a temporary downturn. His view appears to be that there will be an upturn. To be fair to him, I noticed this morning in a newsletter dated 3 February from one of the traders—Frank Strang helpfully acquired it for me—that the price for Westbury milk powder has just increased by 18 per cent over the past two weeks. The trader’s view is that there is more than a glimmer of light that global and EU prices have bottomed out.

There are tentative signs that perhaps a slight upturn in prices is coming. I do not know how much to read into that. Clearly we have to pay the situation close attention, but at least it is going in the right direction and not continuing in the wrong direction. We can perhaps take a little comfort from that trader’s view of things.

The Convener: The more we understand about the dairy industry, the less we understand about it. We will benefit from speaking tomorrow to the Groceries Code Adjudicator and some slightly more reluctant retail majors that are coming in. I am glad to say that many of them are coming.

I thank the witnesses. We will no doubt get more notes from you on certain of the points that were raised during the meeting.

Richard Lochhead: Thank you. I look forward to your report.

Public Bodies Act Consent Memorandum

Public Bodies (Abolition of the Advisory Committees on Pesticides) Order 2015 [Draft]

11:53

The Convener: Agenda item 3 is on the public bodies act consent memorandum relating to the draft Public Bodies (Abolition of the Advisory Committees on Pesticides) Order 2015. This is a UK instrument to which the Scottish Parliament must give its consent. I refer members to the paper.

Does the committee agree to recommend to the Parliament that the draft motion as set out in the memorandum is approved?

Members *indicated agreement.*

The Convener: Thank you. Tomorrow, we will deal with the Groceries Code Adjudicator and other major retailers.

11:54

Meeting continued in private until 12:15.

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