PARTNERIAETH BWYD-AMAETH
AGRI-FOOD PARTNERSHIP

# Strategic Action Plan for the Welsh Dairy Industry

## Vision

A sustainable, profitable, efficient and innovative Welsh dairy sector, which benefits the people of Wales

Llywodraeth Cynulliad Cymru
Welsh Assembly Government

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# Foreword from the Minister for Rural Affairs

Wales has a number of competitive advantages in the efficient production of milk and the development of new dairy products. These include its landscape and climate; a committed, predominantly family based business approach; and its reputation for quality, healthy food production. All of which add up to a brand image potential second to none.

The dairy industry in Wales continues to face a number of challenges in meeting the demands of customers and competing in an increasingly global market place. There are both short term and long term pressures on the farm gate price of milk and some difficulty in attracting skilled labour into the industry. At the same time, I believe that these challenges present a number of opportunities for the industry, particularly in terms of product development, working together and sharing the considerable expertise we have here in Wales.

The Welsh Assembly Government has a role in raising awareness of the factors impacting on the dairy sector and supporting the industry by encouraging innovation and new product development, and providing business management and technical advice, primarily through Farming Connect. April 2006 marked a major step towards the Assembly Government supporting the further development of the food and drink production and processing industries in Wales by the bringing together of the Welsh Assembly Government with the former Welsh Development Agency's Agri-Food Directorate. The Assembly Government's Food and Market Development Division is now established as an organisation well placed to support the further development of the industry and help it respond to global challenges.

This Strategic Action Plan has been developed in partnership with the Welsh dairy industry and the Milk Development Council (MDC). It identifies ways in which all those working in the supply chain, including producers and processors, can work with each other and the Welsh Assembly Government to respond to challenges in a positive way. Under the Action Plan, the Welsh Assembly Government will be working with the Milk Development Council to provide a coordinated service for dairy farmers through the Dairy Development Programme. The programme will provide high quality support for the industry in Wales.

The challenges for the sector include mitigating the effects of Climate Change, protecting and enhancing the farmed environment, and improving waste management systems. The sector needs advice and assistance on the handling of these issues and this Action Plan details how this is to be provided.

Farming Connect has already delivered effective support for the dairy sector in many ways, but not least in arranging a number of successful, vibrant and productive discussion groups on topics of common interest. The discussion groups, when coupled with tools such as benchmarking, have benefited those farmers who have embraced both concepts as a means of developing their farming businesses. It is intended to continue with these discussion groups under the Dairy Development Programme and to encourage the use of a number of measures which will support the sustainability of the sector.

This Strategic Action Plan is in line with the Welsh Assembly Government's commitment to sustainable development. Implementation of the Plan is to be funded from a number of sources including Welsh Assembly Government programme money; levy payers' contributions; funds available through the new Rural Development Plan for Wales 2007-2013; EU Convergence Programmes; and support from the industry itself. It takes account of the work that is being taken forward simultaneously on the current Agri-Food Partnership's Strategy in Action: Towards 2007, which is being reviewed in the light of changes in the market place, global competition and changing consumer tastes and preferences.

Whilst I recognise that the dairy industry faces a number of significant challenges, it is important that the sector seizes the opportunities presented by them. I believe that there is a positive future for the sector if it embraces the vision contained in this Strategic Action Plan and acts to capitalise on opportunities by working together; increasing production, improving efficiency; increasing product innovation; and concentrating on added value branded markets.

I am grateful to those individuals and organisations who responded to the consultation exercise. The comments received have been carefully considered in finalising this Strategic Action Plan for the Welsh Dairy Industry, which when implemented should help in securing a positive future for the sector.

**Elin Jones AM**

Minister for Rural Affairs

# Message from the Chair of the Dairy Strategy Group

The Agri-Food Partnership Dairy Strategy Group's vision for the industry, which has been endorsed by the Ministers of the Welsh Assembly Government, is as follows:

A sustainable, profitable, efficient and innovative Welsh dairy sector which benefits the people of Wales.

The Strategic Action Plan has been prepared with the support of the Welsh Dairy Strategy Group, which since 1999, has provided advice to the Welsh Assembly Government on the development of services for the dairy industry in Wales [A list of the Dairy Strategy Group members is at Annex 1]. The work of the Dairy Strategy Group has been carried out over the last few years against a backdrop of uncertainty and change in the Welsh, UK and international dairy sectors. Furthermore, it has taken time for the Welsh sector to adjust to the unregulated market environment.

The number of dairy farmers has continued to fall across Wales and other parts of the UK however, milk production levels have remained relatively stable. Most of this milk is produced by family farms which form the backbone of the dairy industry in Wales. Processing capacity in many instances has been rationalised, as it has in other primary product agri-food sectors. The next few years may see further changes in the Welsh, UK and international dairy sectors. Wales must adapt to these changes and compete in an international environment. It cannot afford to act in isolation of what is happening in other markets and countries. Markets will continue to consolidate around major players at the point of sale and customers will continue to demand more added value and product innovation. Niche markets will continue to grow, albeit in most cases from a small base.International competition will intensify through both changes in the Common Agriculture Policy (CAP) support mechanisms and World Trade Organisation (WTO) developments, whilst concerns over issues such as the environment, human health and nutrition, as well as animal health and welfare will increase.

None of this is especially new to the sector, but the pace of change is now more rapid and leading to increased demands on farmers and processors, not just in Wales, but across the rest of the UK and in other international markets.

The Dairy Strategy Group appointed Promar International consultants to undertake a strategic review of the Welsh Dairy industry. Following extensive consultation with the sector Promar International provided a report containing a number of proposals for the way forward. The Promar report has been considered in depth by the Dairy Strategy Group, which in consultation with the Welsh Assembly Government has prepared this Action Plan. I would like to extend my sincere thanks to all those who have played a part in the development of this Strategic Action Plan for the Welsh Dairy Industry.

**Terrig Morgan MBE**

Chair of the Dairy Strategy Group

# Chapter 1

## Executive summary

1 This Strategic Action Plan for the Dairy Industry in Wales has been developed by the Welsh Assembly Government in partnership with the Dairy Strategy Group, which is representative of the sector, and the Milk Development Council. The document has been widely consulted upon and the comments received in response have been carefully considered. The Action Plan is being issued prior to the finalisation of a wider strategy for the Welsh Food and Drink industry, which will address the major strategic issues facing primary production sectors and all those within the supply chain. Due to the particular challenges currently facing dairy farmers, it was considered important to press on with activities to help the industry cope with these challenges rather than await preparation of the wider ranging strategy. However, this Action Plan may well be adapted in the light of the contents of the Welsh Food and Drink strategy and other factors.

2 In Wales, we have about 2,300 dairy farmers producing approximately 1,548 billion litres of milk per annum, 80% of which goes into cheese production. Approximately, 7,500 people are employed in milk production and processing and between 70-75% of the milk produced is currently processed in Wales.

3 The major challenges and opportunities for the dairy industry lie in developing added value products; capitalising on Wales's unique features that can be used for branding and marketing purposes; introducing innovative dairy products in response to changing consumer demands; improving business performance and technical efficiency; selling in new markets; and producing milk in a sustainable way.

4 Success in overcoming the challenges should deliver a strong, dynamic, market focused Welsh Dairy Industry. Society would benefit from an industry that operates to high environmental and animal health and welfare standards leading to the production of safe, high quality food. Successful implementation of this Action Plan would also result in a self regulating industry which has the confidence to invest both at farm and processor level. The dairy sector would add value through Welsh branding, identification of provenance, regionality and quality. The increase in wealth flowing from this success would be shared by all in the supply chain.

5 The Dairy industry needs to focus on the key areas of markets, innovation, business performance, technical efficiency, the environment and animal health and welfare.

## Markets

The whole supply chain should be market focused. Improved communication along all parts of the food supply chain should help in achieving this goal. Retailers have recognised that there are benefits in meeting customer demand for local and regional Welsh dairy produce and promoting quality food. It is therefore vital that producers now supply milk and other dairy products which meet the needs of the market. There are numerous examples of successful niche products which have gained a valuable foothold in markets both at home and abroad. The challenge of responding effectively to market demands can be met from widening the availability of market intelligence and increasing the number of available products, whilst ensuring quality and consistent supply to a greater diversity of markets primarily within the UK, but also more widely.

There are a number of market opportunities that the dairy sector should consider exploiting. These include the trends for low fat, healthy products, ready made meals, traceable environmental footprints, products with distinctive local provenance, lifestyle products, convenience foods and the growing food service sector.

Provision of accessible market intelligence and support for trade development will be key in addressing this challenge above and capitalising on market opportunities.

## Innovation

Wales should be viewed as the home of quality dairy products and as a centre of excellence for developing innovative products which add value. Improved support for innovation and new product development is to be provided in line with the needs of the dairy sector. This should result in increased wealth shared by all in the food chain.

## Business performance and technical efficiency

The sector needs to improve business performance and technical efficiency. Farming Connect provides comprehensive, integrated advice, guidance and training on new production techniques through a number of mechanisms, including discussion groups. This should lead to increased adoption of new techniques and improved business management.

## Environment, Animal Health and Welfare, Climate Change and the Water Framework Directive

Increasing concerns about animal health and welfare, the environment and Climate Change coupled with the introduction of new regulations, as part of the European Union's Water Framework Directive, present challenges for the industry in areas such as management of nitrates and slurry; the reduction of emissions on and off farms; and adaptation of livestock systems. In order to meet these challenges and become self regulating the Welsh Assembly Government and the regulatory agencies provide guidance and support. The new Farming Connect will be providing wide ranging advice on environmental issues covering aspects such as water quality, energy and water efficiency, with a particular focus on the economic benefits of good environmental practice.

The industry will be encouraged to participate in agri-environmental schemes, which are currently under review. High standards of animal health and welfare are important in respect of consumer confidence in Welsh food and drink. The Welsh Assembly Government has made a commitment to vigorously pursue the eradication of bovine TB. In line with the Animal

Health and Welfare Strategy Action Plan, it is encouraging the take up of animal health planning, which should lead to improved herd health and welfare, and producer profitability. The Assembly Government will continue to work with the sector to address the issues of good environmental practice and high standards of animal health and welfare.

6 In order to deliver the vision set out in this Strategic Action Plan, the focus is on the following three strategic aims:

- To improve the levels of understanding of market trends and influence consumer behaviour.
- To foster innovation and improve supply chain linkages.
- To improve the business performance of producers and processors in response to changing market conditions, environmental requirements, Climate Change and consumer demands.

7 Successful implementation of this Action Plan would result in an industry operating on two scales:-

i. First, large, world class processing facilities producing both commodity products and high volumes of branded products. These plants would be supplied by efficient, highly skilled dairy farmers producing milk profitably, whilst ensuring high animal welfare standards and environmental sustainability.

ii. Second, there would be a strong, vibrant, micro processing sector, with many, small scale and on farm processors trading successfully off attributes such as organic, Welsh identity and local provenance and tradition. These processors, although relatively small individually, would when combined form a substantial niche sector. This sector through working together would bring down processing, marketing and logistics costs and help secure premium prices for milk from small, traditional farms, operating to high animal welfare and environmental standards.

8 In order to be successful in achieving the aims set out above, the Welsh Assembly Government and its strategic partners will provide a range of support activities that will be delivered through Farming Connect and other initiatives. These actions are detailed in the tables contained with Chapter 4 (pages 43-55) of this Action Plan. Co-operation, collaboration and the take up of the support on offer will be key to the industry achieving this Action Plan's overall vision of:

A sustainable, profitable, efficient and innovative Welsh dairy sector which benefits the people of Wales.

# Chapter 2

## The current situation

### (i) Overview

1 The UK Dairy Processing sector has undergone major re-structuring and ownership change since 2000. This has impacted on facilities and employment in Wales with the closure of several plants, including Llangadog Dairy owned by Dairy Farmers of Britain, Longslow's processing plant at Colwyn Bay and, more recently, the Dairygold and Aeron Valley production and cheese packing plants at Felinfach. The dominant companies within Wales are now First Milk and Dairy Farmers of Britain, who together process in excess of 60% of the milk produced. Other major processors operating in Wales include, Glanbia Foods, South Caernarfon Creameries, Saputo, Rachel's Dairies, Golden Vale and Castle Dairies. In addition there are a number of smaller plants and co-operatives producing milk, yogurts and cheeses. Dairy Crest has recently sold its cheese-making plants in Wales to First Milk. First Milk , together with the Dairy Farmers of Britain Cheese Plant in Llandyrnog, now provide the two largest farmer controlled business in Wales with a significant opportunity to move their members closer to the market place, as well as providing a platform for future growth.

2 Approximately 75% of the 1.5 billion litres of milk produced in Wales annually is processed within the country. The remainder is processed at plants relatively close to the border with England. Around 80% of milk produced in Wales is used in cheese production, compared to 27% in the UK as a whole, which demonstrates a high level of dependency amongst Welsh dairy farmers on the manufacture of cheese products. Processing plants in Wales are small by leading international standards. However, with the concentration of milk production, particularly in areas such as South West

Wales, there is potential to develop a large scale processing plant, over and above existing capacity, based on a strong business model which should include a clear strategy for the development of new markets.

There are 18 milk buyers operating in Wales processing 70-75% of Welsh milk.

Source: Promar 2005

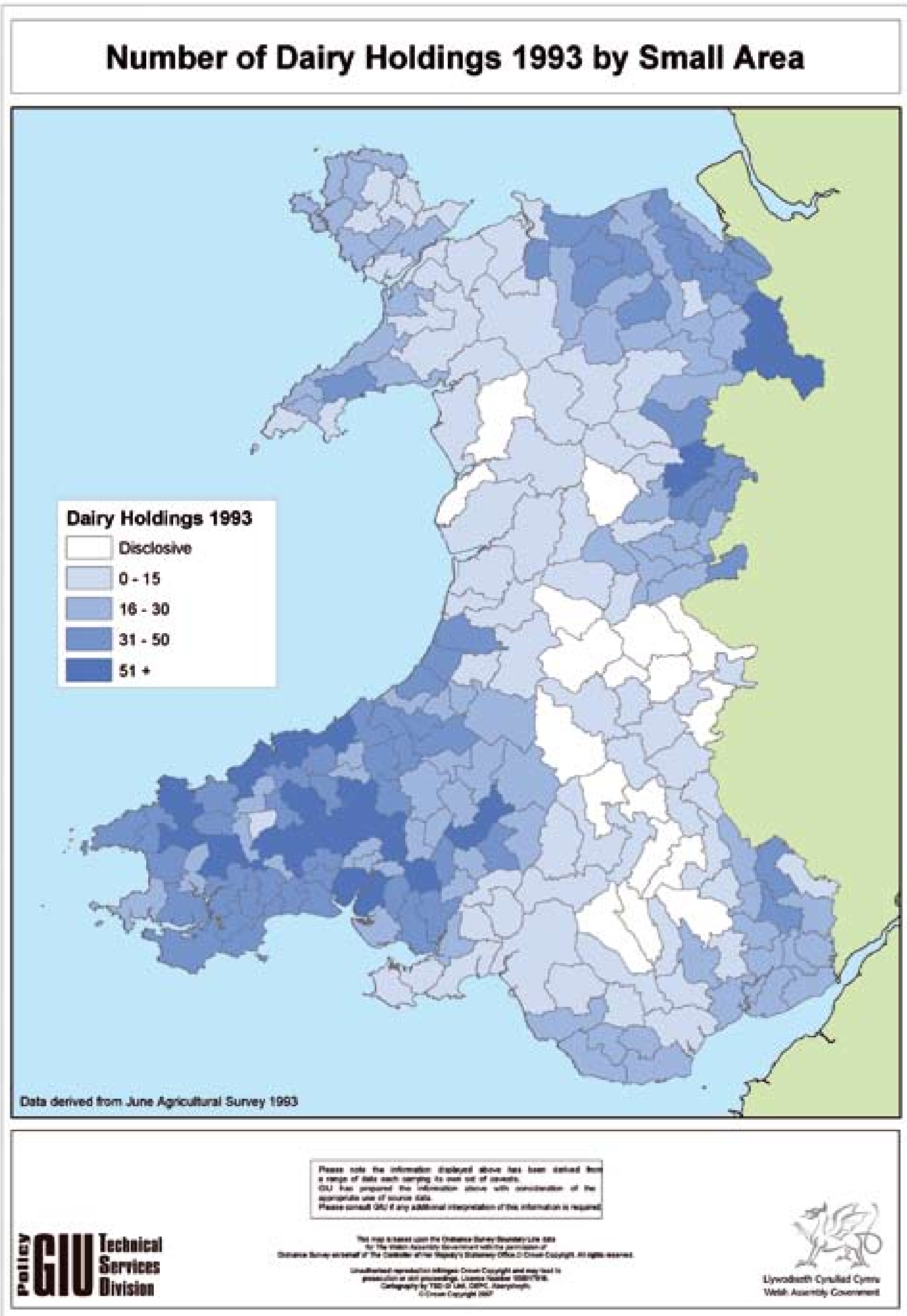
80% of Welsh milk is processed into cheese products. Other products include drinking milk, butter, milk powders and yogurts.

Source: Promar 2005

20-25% of Welsh milk is exported to processing plants close to the Welsh border in Chester, Droitwich and Severnside.

Source: Promar 2005

3 The gross output of Welsh milk producers is about £278 million annually, which represents about 27% of the total Welsh agricultural output. There are now approximately 2,300 producers in Wales, a loss of over 1,000 producers over the last five years. These producers manage around 3,368 dairy herds, which equates to an average herd size of 83 cows. The following maps indicate the trend over the last 13 years:


Number of Dairy Holdings 1993 by Small Area
Dairy Holdings 1993
Disclosive
0 - 15
16 - 30
31 - 50
51 +
Data derived from June Agricultural Survey 1993
Policy GIU Technical Services Division
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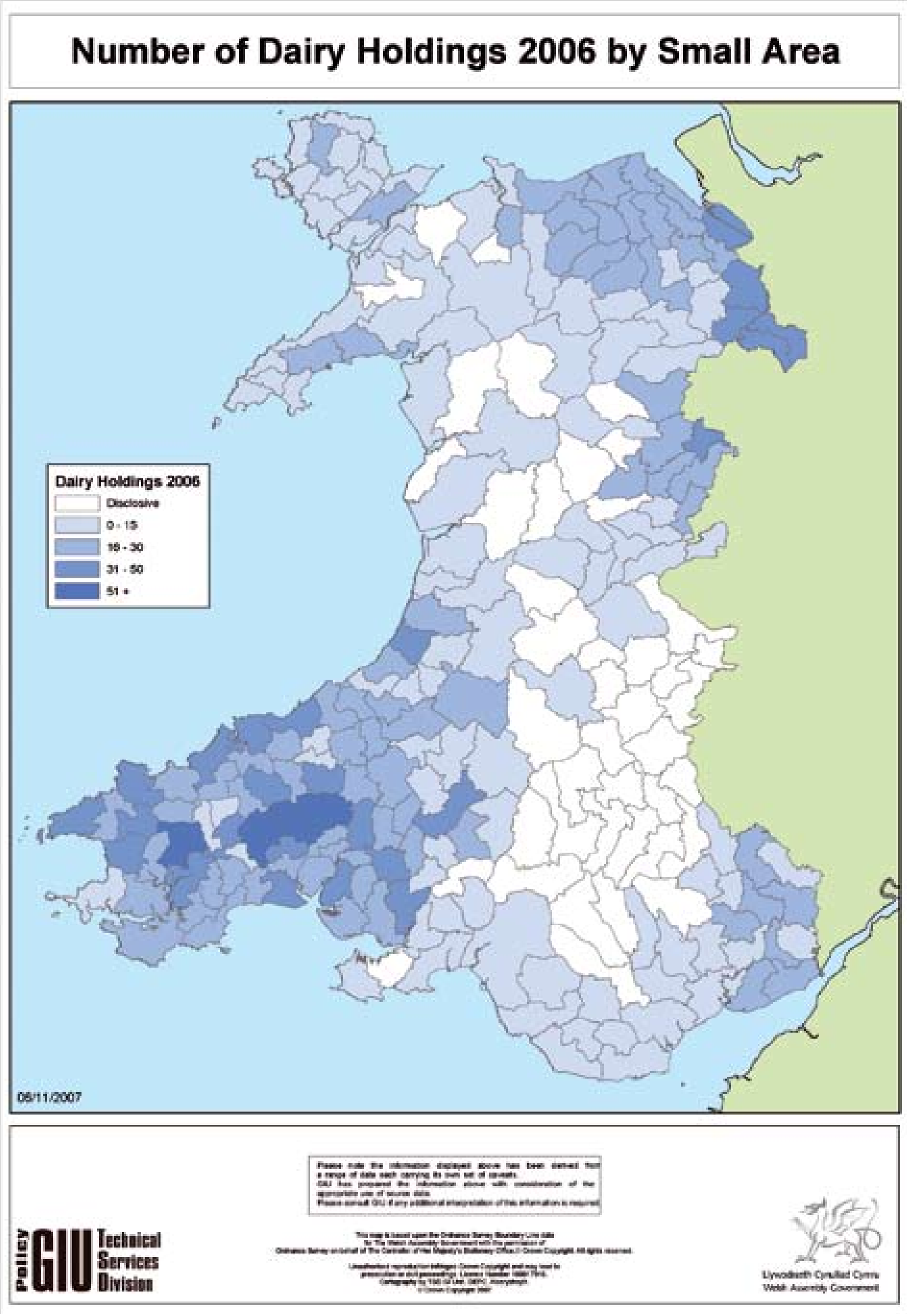

Number of Dairy Holdings 2006 by Small Area
Dairy Holdings 2006
Disclosive
0 - 15
16 - 30
31 - 50
51 +
Policy GIU Technical Services Division
Llywodraeth Cynulliad Cymru
Welsh Assembly Government

4 Trends indicate that the number of producers is decreasing at a rate of around 5.6% per year, which if continued would mean that by 2010 there would be only 1,500 primary milk producers in Wales. The trend for larger dairy farm businesses is primarily a response to the market. The majority of producers are based in the old counties of Dyfed and Clwyd and dairy farms have an average area of just over 86 hectares. Most farmers are aged over 50, with an average age of 54.4, very few are under 30. Succession planning is therefore an issue for over half of the dairy farmers in Wales. Although there has been a decline in the number of producers, the size of the dairy herd in Wales has remained consistently between 264,000 and 281,000 cows. However, the total milk yield has increased in recent years to a Welsh output of 1,548 billion litres per annum. It is expected that this output will remain relatively stable over the next 3-5 years. However, these figures are influenced by a number of factors, particularly the high proportion of Welsh producers located in Less Favoured Areas (LFA). The following tables show the comparisons of the highest and lowest cost producers over the last three years:

## Average Costs of Milk Production 2003-2004

| Pence per litre | All Farms average | Top Third (low cost) | Bottom Third (high cost) |
|---|---|---|---|
| Total Overhead cash | 5.10 | 4.29 | 6.58 |
| Total Costs | 12.94 | 10.83 | 15.89 |
| Net Margin | 5.17 | 7.63 | -0.35 |

## Average Costs of Milk Production 2004-2005

| Pence per litre | All Farms average | Top Third (low cost) | Bottom Third (high cost) |
|---|---|---|---|
| Total Overhead cash | 5.74 | 4.78 | 6.84 |
| Total Costs | 13.94 | 12.26 | 15.91 |
| Net Margin | 7.67 | 11.69 | 3.30 |

## Average Costs of Milk Production 2005-2006

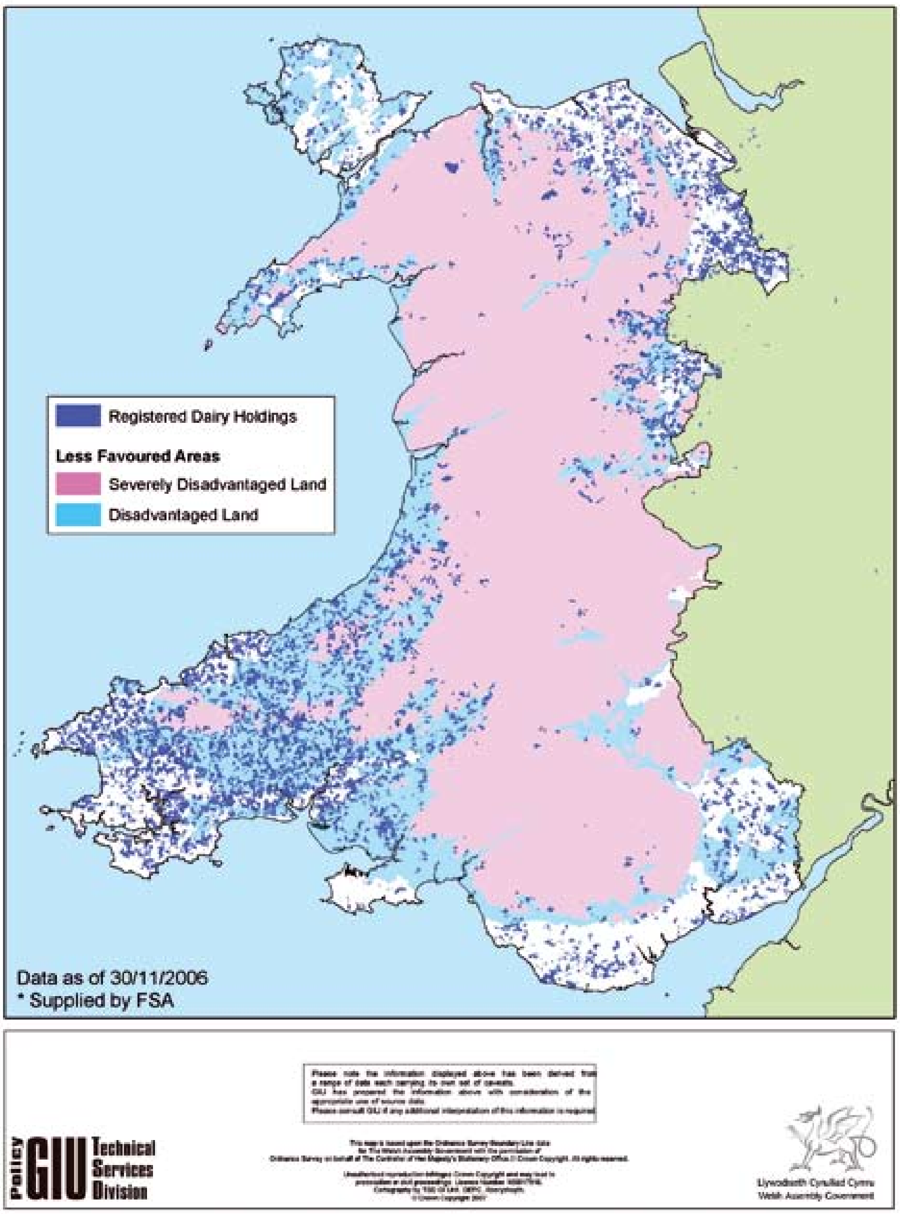
| Pence per litre | All Farms average | Top Third (low cost) | Bottom Third (high cost) |
|---|---|---|---|
| Total Overhead cash | 5.56 | 4.06 | 7.50 |
| Total Costs | 14.18 | 11.27 | 17.90 |
| Net Margin | 4.47 | 7.96 | 0.34 |

Source: Wales Farm Income Booklet 2005-2006, University of Wales, Aberystwyth

5 The tables above show significant differences in production costs between the lowest cost and highest cost producers, with the total cost of producing each litre of milk being 6.63 pence (almost 60%) greater on the highest cost farms. The evidence suggests that the production cost differential between the lowest cost and highest cost farms is increasing. In 2003-04, the difference in total costs between the highest cost and lowest cost producers was 5.06 pence per litre. It should be noted, however, that unpaid family labour is not included in the above figures and that productions costs, such as energy and feed have increased in recent years.

6 It is also worth noting that the average milk output per farm in Wales is lower than the UK average (564,000 litres compared to 750,000 litres) per annum. However these figures are influenced by a number of factors, not least by higher proportion of Welsh producers that are located in the Less Favoured Area (LFA) as illustrated by the following map:

# Registered Dairy Holdings*



7 The average, net farm income for a dairy farmer in Wales since 2001/02 has declined from £26,000 to about £19,800, although it has remained relatively stable over the last three years. Recently, there has been a notable increase in output but this has been offset by increases in the prices of feed (currently at £168 per tonne for feed wheat), land and buildings, which have impacted on overall farm incomes. It is possible that feed prices will remain high for the foreseeable future, which will present cost challenges for dairy producers, but may also provide opportunities for growing more of their own cereals to reduce feed costs. The following tables summarise the costs of inputs, outputs and net farm incomes over the last five years:

| | 2001/02 | 2002/03 | 2003/04 | 2004/05(p) | 2005/06(f) |
|---|---|---|---|---|---|
| Total Output | 125,700 | 118,100 | 118,500 | 145,700 | 147,300 |
| Total Input | 99,700 | 99,900 | 100,400 | 125,200 | 127,500 |
| Net Farm Income | 26,000 | 18,200 | 18,100 | 20,500 | 19,800 |

Source: Welsh Assembly Government publications
(f) - forecast (p)- provisional

Gross output from Welsh milk products was £266.7 million in 2006, £290.6m in 2005 and £279.3m in 2004.

Source: Welsh Assembly Government 2006

There are 2,316 dairy farms in Wales producing around 1.5 billion litres of milk per year.

Source: MDC - March 2007

The Welsh dairy herd is just over 281,000 milking cows.

Source: MDC 2006

The average herd size is 83, but is increasing.

Source: Welsh Assembly Government 2006

The average farm size is 86 hectares, but is increasing.

Source: Farm Business Survey Wales 2006

In Great Britain, yogurt, liquid milk, butter and cream products alone generate sales totaling £4.9 billion.

Source: TNS 2006 figures

8 On average people in Wales spend £1.91 per week on dairy products, which accounts for around 9% of their total food and drink expenditure. Average weekly consumption of whole milk in Wales is 40ml/week less than for the rest of the UK. However, consumption figures for semi-skimmed and skimmed milk show Wales having a higher consumption than the rest of the UK. For example, semi-skimmed consumption is 95mls/person/week higher than the rest of the UK. Overall, total liquid consumption in Wales is 124mls/person/week higher than the rest of the UK and Welsh consumers spend more on semi-skimmed and skimmed milk and less on whole milk than consumers in the rest of the UK. The following tables show patterns of milk consumption and other dairy products together with spending patterns:

| Average consumption per person per week 2005/06 | Wales | Rest of UK |
|---|---|---|
| Liquid Milk (ml) | | |
| - whole milk | 470 | 510 |
| - semi-skimmed | 1,139 | 1,044 |
| - skimmed | 178 | 109 |
| Total Liquid Consumption | 1,787 | 1,663 |
| Yogurt (ml) | 170 | 192 |
| Cheese | 123 | 101 |
| Cream | 17 | 18 |

Source: DEFRA expenditure and food survey

| Average expenditure per person per week 2005/06 | Wales | Rest of UK |
|---|---|---|
| Liquid Milk | | |
| - whole milk | 25 | 27 |
| - semi-skimmed | 61 | 60 |
| - skimmed | 10 | 6 |
| Yogurt | 35 | 42 |
| Cheese | 60 | 56 |
| Cream | 4 | 5 |

Source: DEFRA expenditure and food survey

9 Current statistics indicate that about 5,000 are employed in milk production in Wales and 2,300 in dairy processing activities. It should be noted that Wales does not consume all the milk it produces. This means that in order to capture value for the Welsh economy, the dairy industry needs to be outward looking. It needs to add as much value to the raw milk as possible before exporting a high added value product to other areas of the UK, the EU and the rest of the world.

There are over 7,300 people employed in milk production and processing activities in Wales.

Source: Promar 2005

10 Since 2003, the Common Agricultural Policy (CAP) has been reformed progressively to increasingly focus agricultural production on market realities and changing consumer demand. The reform package has introduced direct payments for dairy producers through the Dairy Premium and additional payment elements of the Single Payments Scheme. This helps compensate the industry for incremental reductions in market support for skimmed milk powder and butter, and downward movement on export subsidies.

11 The EU milk quota system was introduced as a mechanism to control production and is likely to be considered as part of the review of the Common Agriculture Policy planned for 2008. It is anticipated that the current quota system is unlikely to continue beyond March 2015 as the intention of the EU is to minimise reliance on market

management mechanisms and to aim for an agricultural industry that is sustainable, profitable, and responsive to the global supply - demand economy. The eventual liberalisation of the EU market may well result in less downward pressure on prices for producers as supply responds more directly to market demands. Those producers who are able to adapt their businesses to meet the challenge of increased competition are more likely to achieve premium prices and ultimately higher margins.

Milk production is currently limited by the European Union quota system, but the EU is considering phasing out the system by 2015. Total UK milk quota is just over 14,000 billion litres with Wales having an 11% share of the total at approx 1.5 billion litres.

**Source: MDC 2006**

Currently the UK is not meeting its milk production quota. In 2006-2007 start of year wholesale quota stood at 14,130 million litres, whilst production has been estimated at 13,633 million litres.

**Source: MDC 2007**

12 The increasing exposure of the Welsh dairy sector to world markets means that commodity prices are volatile, inevitably resulting in unstable farm gate milk prices. Those farmers and processors supplying premium products to premium paying markets are likely to obtain the most favourable prices and experience less volatility. In terms of future profitability, it is important for the sector to focus on its business and technical efficiency.

13 The dairy industry in Wales is an important primary production industry in respect of the rural economy and sustainable management of the landscape. Whilst contributing to maintaining rural life, dairy farmers and processors have to comply with an increasing number of environmental restrictions and requirements. Regulations such as the implementation of the EU Water Framework and Soils Directive together with Pollution Prevention Control, which is already a requirement for dairy processors, could potentially have a major impact on many dairy farms. The nature of dairy farming, including necessary management of slurry and manure; collection and storage of silage effluent; parlour washings; and management of soils can all pose significant environmental risks if activities

are not done properly. However, there are opportunities for farmers to promote and capitalise on their high environmental standards. One such opportunity is to act on nutrient action plans and significantly improve the management and application of slurry and manure, which in many cases could reduce costs by minimising the purchase of expensive fertilizers.

14 The prevention of disease improves the welfare of animals and also provides economic benefits for farm businesses. Reviewing bio-security standards, developing health plans and managing animal movements in a way which minimises disease risks all contribute to improving the profitability of dairy businesses. The adoption of Farm Health Planning is key to dairy farmers achieving the highest standards of health and welfare of their animals and raising income levels, whilst helping to address the ongoing problems of lameness, mastitis and fertility which can incur high costs for the dairy industry. The Welsh Assembly Government has published a free Animal Health Planning Working Folder to aid dairy farmers and veterinarians with recording and interpreting information. The process is compatible with the animal health requirements under farm assurance schemes and enables livestock keepers to decide how much or how little to record, in consultation with their veterinarians where appropriate.

15 There are many unique, positive aspects to the Welsh Dairy industry, such as the climate of Wales and the quality of its grassland, which makes it advantageous for dairy farming. Other factors include the commitment of farmers and workers; the location of processing facilities close to production; and the support available from the Welsh Assembly Government and its partners, which includes grants, advice and guidance. Since 2003, the Welsh Assembly Government has provided nearly £16 million of grant aid to dairy businesses in Wales, securing a total investment of £42.5 million within the sector. The challenges lie in adapting to the changing market; increasing efficiency; embracing innovation; adopting technical best practice; developing processing capability; wider marketing of Welsh products; and improving overall business management.

16 There are numerous new ventures within the sector which are succeeding. Trioni, Caws Cenarth and Rachel's Dairy, are excellent case studies of organic dairy businesses which are actively developing new products and seeking a greater share of the food and drink market within the UK and internationally. `Cheeses from Wales' is another good example which demonstrates the benefits of collaborative working. The company has been set up by Welsh cheese makers to collectively market and

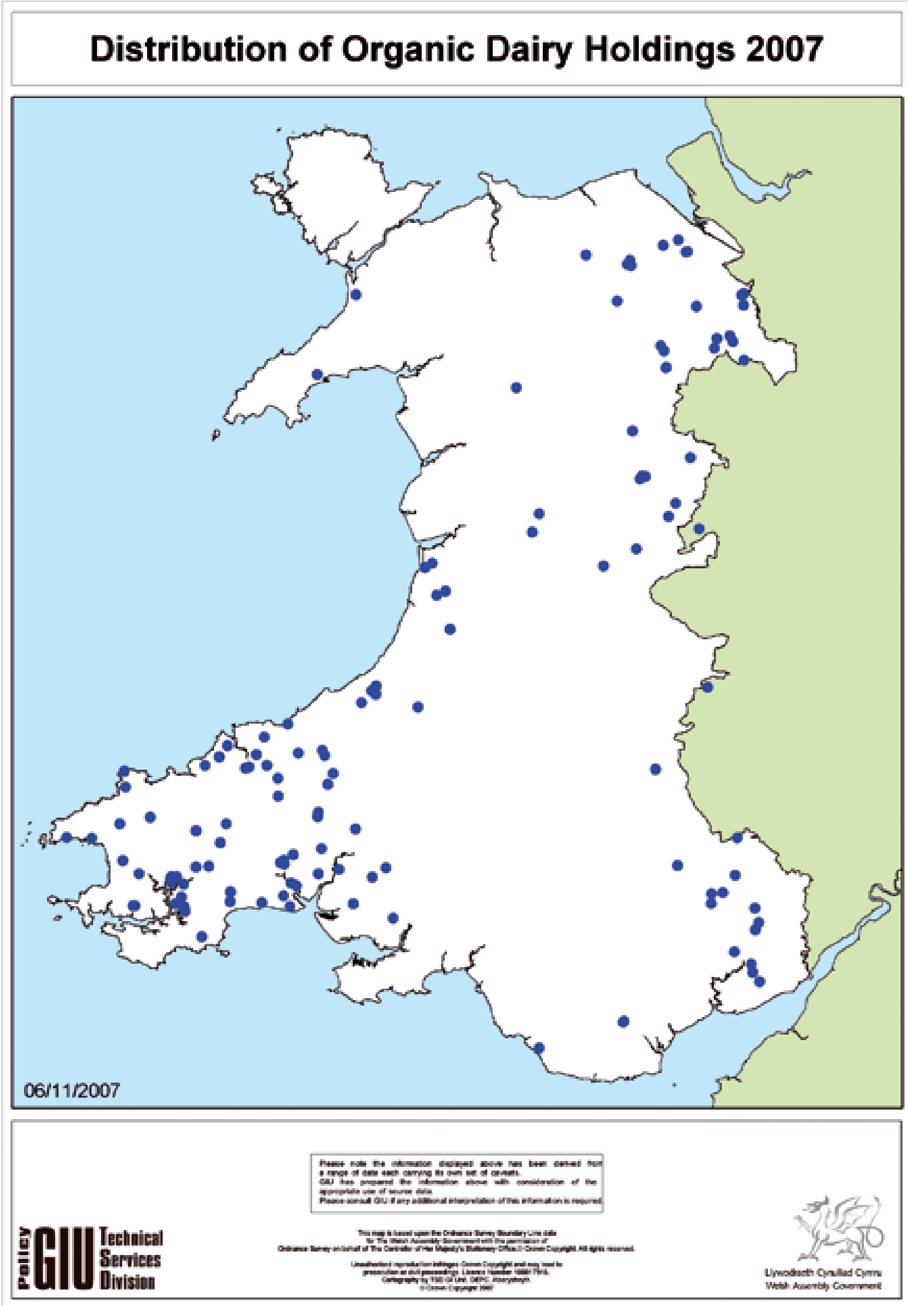
distribute a wide range of Welsh cheeses. With a range of over sixty cheeses, including many national award winners, Cheeses from Wales has an extensive offering of the highest quality products.

## (ii) Market Predictions

17 The market events of 2007 clearly demonstrate the massive influence of commodity markets on the UK and Welsh milk markets. The rapid price rises seen recently highlight how exposed the Welsh dairy farmer is to the world macro-economic factors that drive the global supply and demand of milk products. The early part of 2007 also saw a number of supermarket chains implementing dedicated supply chains for their liquid milk. As a result, the large number of Welsh dairy farmers that lie outside these contracts are likely to be more exposed to world commodity markets in the future. Strong world economic growth (5.4% in 2006) is continuing to drive world wide consumer demand, with global consumption rising by around 3% per annum. Coupled with this, in the short term it is unlikely that world production will increase significantly more than the 1.5% growth experienced between 2006 and 2007. As a result of this underlying supply / demand imbalance, even if the record highs seen in 2007 fall back to more sustainable levels, many market commentators expect global commodity prices to remain higher than their historic levels for a number of years,. To limit exposure to these highly volatile world markets and avoid direct competition with the world's lowest cost milk producers, the industry in Wales must endeavour to increase the proportion of milk being used for value added products and highlight the high animal welfare and environmental standards practised in Wales.

The sector needs to be more competitive within commodity markets and capable of responding positively to both commodity and added value market changes.

18 The UK milk market is relatively stable, but is showing an increase in consumption in response to changing consumer behaviours through the production of added value products such as branded and organic goods. The growth in sales in the organic dairy sector, which was 20% in 2006, is currently constrained to single figures due to supply limitations. There are, therefore, opportunities for more organic conversions. The following map shows the number of organic dairy holdings in Wales:


Distribution of Organic Dairy Holdings 2007
06/11/2007
Please note the information displayed above has been derived from a range of data each carrying its own set of caveats.
GIU has prepared the information above with consideration of the appropriate use of source data.
Please consult GIU if any additional interpretation of this information is required.
Policy GIU Technical Services Division
Llywodraeth Cynulliad Cymru
Welsh Assembly Government

19 At the time of writing this Action Plan, rolling organic milk prices were between 27 and 28.6p per litre. This is likely to increase by 3p per litre in order to cover increased feed costs and to maintain the differential over the conventional product. Increasing concerns amongst consumers about the environment, farming practices, health and nutrition are likely to continue to drive demand for organic dairy products. The consumption of butter and cream remains at the same level from year to year, but sales of organic products increased by 31% in 2005. Whilst matching supply with demand for organic produce remains a challenge, some within the dairy sector need to look at opportunities to meet an estimated increase in demand for organic milk of 25% year on year for the foreseeable future. There is also growth potential in local sourcing and also in the market for functional dairy products, driven mainly by the health and nutrition agendas. Although cheese markets are growing slowly across the EU, this slow growth remains significant due to the large volume of milk used in these markets. In addition, the large volume of imported cheese, particularly speciality cheeses, suggests there are genuine opportunities for added value, niche, Welsh cheese producers.

20 The market for dairy products is divided broadly into liquid milk, cheese, yogurts, yellow fats (i.e. butter and similar spreads) and cream. There are also markets in convenience foods, ready meals, and healthy and nutritional products, which are being driven by rising disposable incomes, changing lifestyles and demands for health enhancing foods. The trend for reduced fat options such as semi skimmed and skimmed milk and low fat cheeses and yogurts are likely to continue and more recently there have been demands for functional dairy foods such as those which reduce cholesterol levels and those with added vitamins and minerals. These trends provide considerable scope for further product development, particularly in the light of the fact that the demand for yogurts and cheeses has been increasing.

Sales of semi skimmed and skimmed milk have risen by more than 20% since 2002, accounting for 76% of the market. The demand for organic milk has doubled.

The domestic cheese sector is worth an estimated £1.93 billion and increasing gradually. The sector has a 26.9% share of the UK market.

The total UK market for yogurt has grown by more than 50% since 2001.

Source: Milk and Dairy Products 2007

21 The trends in relation to processed dairy products present a number of opportunities for Welsh dairy producers. These are set out below:

- Ready to drink flavoured milk is appealing to a wide consumer base. There is a growing interest in regional cheeses and provenance for which consumers are prepared to pay premium prices.
- Cheese snacks and nutritionally enriched cheeses are growth areas.
- Consumers are likely to increase demand for yogurt drinks in view of their portable, snacking features and health benefits. New textures, health advantages and sales outlets are being sought.
- The demand for cream is showing steady growth, in particular UHT cream and low fat crème fraiche,
- Growth has been experienced recently in the better-for-you spreads that are lower in fat and contain cholesterol lowering properties.
- Ice creams that appeal to all family members and contribute to healthy living are a potential growth area.

The sector needs to be made aware of market trends and encouraged to respond positively to them in respect of both commodity and added value markets.

22 All major retailers plan to expand their operations in Wales and there is a recent trend for local sourcing. Within Wales the amount of locally sourced dairy products varies considerably between the different supermarket chains, with individual retail operations stocking between 40 and 300 Welsh food and drink product lines. The amount of locally sourced dairy products has increased significantly and there is potential for some further growth in local sourcing.

The sector should respond to retailers needs and increase the supply of locally produced products.

23 Supermarkets' introduction of category management for key dairy suppliers is likely to lead to a smaller number of key retail accounts and, in some cases, possibly a sole and exclusive supplier. In effect, category management within the retail sector is about managing a particular food category, such as dairy products, with the aim of maximising sales. This move requires the dairy industry to be aware of the needs of the consumer and the retailer. The sector will need to develop new skills and expertise in areas such as analysis of consumer behaviour; marketing and promotion; supply chain costings; and relationship and category management in order to target multiple retailers effectively.

The sector should be supported on the development of new skills to cope with the implications of category management.

24 The food service sector presents an opportunity for the Welsh dairy sector to increase its market share as food service providers have been shown to be committed to using Welsh products and to have an interest in sourcing organic dairy products. This sector is growing at a rate of between 2-3% year on year and there is a view that customers would be willing to pay a premium for Welsh products.

The dairy sector should be supported on supplying the Food Service sector in Wales.

25 Welsh dairy exports amount to just over £31 million and account for 4% of UK exports of dairy products while being responsible for 11% of overall milk production. The current value of imports to Wales is £30 million per annum. Whilst efforts are being made to increase consumption of dairy products within Wales, there is scope to increase the levels of exporting by also focusing on markets elsewhere within the UK and on areas such as Western Europe, where the market is very competitive but consumption is high. The EU with a population of 450 million people and rising incomes is a relatively easy market to access and one where there is a demand for added value products. The majority of imported commodity cheese is sourced from the Republic of Ireland. Using the True Taste brand, there is however, scope for the substitution of imports into Wales.

The industry should be encouraged to increase its level of exports and address import substitution.

26 Over the next 10-15 years, the proportion of consumers in the higher income bracket is expected to increase by over 20%. These consumers are increasingly interested in food provenance and the impact food production has on the environment.

The Dairy sector needs to respond to higher earners by ensuring product quality, traceability, differentiation, innovation and added value.

The industry needs to consider the scope for meeting the growth in niche markets such as Organic, Farmers Markets and convenience based products.

The growing consumer interest in quality, traceability, food miles, carbon emissions and Climate Change provides opportunities for development of high value niche products.

27 In meeting the demands of customers, the Welsh Dairy industry needs to focus on training to be confident that it can meet current and future retail requirements. This may include taking full advantage of technology such as electronic data interchange (EDI); demonstrating a commitment to good environmental and animal health and welfare standards; committing to corporate social responsibility (CSR); showing an understanding of category management procedures and techniques; demonstrating the ability to work effectively with retailers' food technology teams; and adopting a constructive approach to problem solving.

The sector needs to be supported on training in EDI, the environment, animal health and welfare standards and development of an understanding of the concepts of CSR, category management, and consumer and retailer requirements.

# Chapter 3

## Challenges and Opportunities

1 As indicated in the previous chapter, there are a number of factors that are impacting on supply and demand. Each of these presents challenges and opportunities. A summary is as follows:

## (i) Access to Markets and Location

2 Many Welsh dairy producers have end customers throughout the UK and, in some cases, internationally, although the main markets for milk and dairy products in the UK are the major centres of population in London and the South East of England, as well as the Midlands, the North West and the North East of England.

3 Major dairy processors are now looking to locate close to good motorway connections that are accessible to both production areas and the mass markets. There are opportunities to attract inward investment to particular areas of Wales that are relatively close to producers and main motorway connections. The concentrated milk fields in South West Wales would be attractive for the location of cheese processors and, butter and milk producers, whilst liquid milk processors would be interested in locations accessible to urban conurbations. Although Wales produces 11% of overall UK milk production, major processing companies have limited presence here, mainly because of apparent distribution difficulties. There is therefore a need to develop effective supply chain linkages with those processing plants which are currently located in Wales.

Producers and processors in Wales need to develop close supply chain relationships; become more efficient; and respond effectively to customer requirements.

International Business Wales (IBW) should focus on attracting dairy inward investment companies to Wales.

## (ii) Consistent and High Quality Products

4 The technical performance of dairy producers has improved year on year and UK producers are now amongst the most efficient in Europe, but there are still many opportunities for producers and processors to improve business performance. Milk purchasers need to develop contracts that are tailored to meet market and consumer needs, whilst producers should aim to fulfil their contracts as efficiently as possible, whilst maximising payments for their milk. Processing companies are interested in mid to long term partnerships with high performing, professional and committed milk producers.

The industry should take advantage of the support available and work closely with technical and business support organisations to improve their products and therefore obtain the higher market price.

## (iii) Quality of Management and Labour

5 As with other industries, access to high quality and well trained managerial and other staff is important for the industry. A study by MDC identified the following competence areas as essential for the future of the Dairy Industry:

- Financial management.
- Statutory compliance.
- Environmental management.
- Business support.
- Farm health planning.
- People management.
- Personal development and livestock technical skills.

6 Furthermore, focus groups have also highlighted the need for training in IT skills, health and safety, benchmarking techniques and basic training and language skills for immigrant labour, particularly from Eastern Europe. In addition, a need for training in customer and category management, and supply chain innovation and development from farm to market has been identified. Support is available for training and developing the workforce through a number of initiatives and programmes delivered through organisations such as Farming Connect, Improve, Further Education Institutes and the Welsh Assembly Government's Department for Children, Education, Lifelong Learning & Skills. However, the main challenge is to stimulate uptake of relevant training amongst dairy farmers.

Deliverers of training need to promote the benefits more widely; be more innovative in the way in which training is offered and delivered; and ensure what is offered is in line with identified needs.

The industry needs to take advantage of the available support to develop a well trained workforce in order to improve its competitiveness and respond to market trends.

## (iv) Sustainable Development and Climate Change

7 In order to compete effectively in global markets and maintain consumer confidence the Welsh Dairy industry needs to be economically, environmentally and socially sustainable. Continuous improvement of technical and business performance is necessary for financial sustainability, which is a pre-requisite for social and environmental sustainability. Similarly, both social and environmental sustainability are essential for the development of an economically viable dairy sector. Clearly, if the appropriate balance is achieved between the economic and environmental sustainability of the industry, this will help ensure the future social sustainability of our rural communities.

8 Climate Change is of concern to the Welsh Assembly Government, the people of Wales and the dairy industry itself. As predicted by the UK Climate Change Impacts Programme, it is expected that average

temperatures will increase, leading to hot dry summers, which will decrease soil moisture content. Winters will be milder, with less snow and winter rainfall, and the frequency of intense rainfall events are also expected to increase. Climate Change provides both opportunities and challenges for the Dairy industry. Adaptation and mitigation is required to ensure that the industry contributes to reducing green house gas emissions and that the economic impact of Climate Change does not threaten the economic viability of the industry. Key opportunities include increased herbage production by up to 20%, expansion in area of forage crops such as maize and the potential for out wintering of cattle due to warmer winters. Key challenges include reduction of carbon footprint through more efficient energy use, adoption of anaerobic digestion systems, mitigation against increased erosion risk and mitigation against drought events. Through Farming Connect, the dairy sector in Wales will be provided with support and guidance on carbon management issues and given examples of best practice in energy management through the network of demonstration farms.

9 The Welsh agricultural industry contributes 67% of methane emissions to the green house gases that are generated in Wales. The dairy industry is responsible for a percentage of these methane emissions, which can be captured through anaerobic digestion and subsequently used as a fuel. The anaerobic digestion process has beneficial impacts for the industry by producing a new fuel source and reducing carbon footprint, whilst retaining the beneficial aspects of waste as a soil conditioner and nutrient source.

The industry needs to address sustainability and Climate Change to achieve a financially viable sector whilst protecting the environment and maintaining rural life.

The Welsh Assembly Government will need to define the actions that the Welsh agricultural industry can take to reduce its own emissions by the target date of 2020. The dairy industry is seen as a key component in achieving this target.

10 The high level of bovine tuberculosis (bTB) continues to have a negative impact on the sustainability of the dairy sector and also on animal health and welfare. The Welsh Assembly Government

is committed to tackling the disease by working in partnership with all stakeholders to develop and implement policies, procedures and systems to reduce the incidence and impact of the disease.

## Government policies and farming systems will have to be developed to collectively reduce the impact and incidence of TB.

11 The Government and society are concerned about the environment so it is an issue that needs to be addressed. Whilst, minimal environmental standards have to be achieved to meet cross compliance requirements, there are opportunities to enhance the countryside through participation in the Welsh Assembly Government's agri-environment schemes. These provide incentives for primary producers to maintain their land in good environmental order, but their use needs to be balanced with the longer term sustainability of milk production. The trend to increase herd sizes in pursuit of greater efficiency must not have adverse effects on the environment or the current high levels of animal health and welfare standards. However, it should be possible to address environmental and animal health objectives, whilst intensifying production in terms of herd size. It should be stressed that sustainability is not just relevant at a primary production level; its principles should be applied equally throughout the supply chain and are as pertinent to processors and retailers as they are to farmers.

12 The Welsh Assembly Government has published an Environment Strategy for Wales. The dairy industry can play a significant role in contributing to a key theme within the Environmental Strategy for Wales by addressing Climate Change issues through more efficient use of inputs e.g. fuel, feed and nitrogen, adoption of novel technologies such as anaerobic digestion, and adoption of soil practices which protect and enhance the carbon store within the soil. The Assembly has also implemented an Environmental Strategy for Farming Connect, which is undergoing a change of emphasis to ensure that it will be able to provide farmers with advice on biodiversity and other environmental protection issues, whilst encouraging the uptake of voluntary measures that can reduce the impact of dairy farming on the environment and help avoid or reduce further statutory controls.

13 There are indications that dairy farmers are able to meet the Single Payment Scheme cross compliance requirements for basic environmental standards. The Tir Cynnal agri environment scheme covers 3955 active agreement holders, 698 of these holdings have dairy cattle, which illustrates good proportional representation in terms of uptake. The Organic Farming Scheme (OFS) agri-environmental scheme has also been embraced by conventional dairy farmers wishing to convert to take advantage of the demand for organic produce. However, many dairy farmers have cited the lack of existing habitats on their farms and the perceived low levels of payment as reasons for non participation. The Welsh Assembly Government is undertaking a review of Land Based Schemes and this review includes consideration of the barriers faced by dairy farmers considering entry into agri-environmental schemes. In terms of future environmental initiatives, initial feedback from dairy farmers suggest that they would welcome a menu approach whereby they could contribute to environmental objectives through management of certain fragmented habitats, adopting energy saving measures, improving water quality and reducing their carbon footprint. This menu could be an expanded version of the current environmental, landscape, historical and access provisions within existing agri-environmental schemes.

14 The Welsh Assembly Government is leading a Catchment Sensitive Farming pilot project, with assistance from the Environment Agency Wales, Snowdonia National Park Authority and the Countryside Council for Wales. Project partners are working closely with the farming community to raise awareness of how farming practices affect the health of water bodies and encourage the adoption of catchment sensitive farming practices to mitigate diffuse pollution. It is also aimed at addressing Europe's Water Framework Directive on water quality. Water quality monitoring is being used to demonstrate key issues to the farming community and highlight progress. The project includes a component to evaluate farmer attitudes to the project; assess the uptake of different measures; the implications for farm businesses; and the cost-effectiveness of implementing the various measures. These findings will be useful in developing initiatives to tackle diffuse pollution in other parts of Wales.

The lessons learnt from the Catchment Sensitive Farming project needs to be disseminated to the industry and effectively implemented.

15 The dairy sector has an important role to play in ensuring that minimum standards for water quality are maintained. Over the past fifty years more intensive farming methods have led to an increase in overall loadings of Nitrogen to land, and the loss of some of this Nitrogen into the aquatic environment in some vulnerable areas. The Welsh Assembly Government has consulted on proposals to extend the coverage of Nitrate Vulnerable Zones (NVZs) and to modify the Action Programme measures implemented within the NVZs in order to achieve compliance with the EC Nitrates Directive (91/676/EEC) (ND). Defra has consulted on proposals to designate either approximately 70% of England as discrete NVZs, or to apply its action programme throughout England. A fairly small proportion of Wales, about 0.6% (approximately 15,000 ha), shows evidence of being affected by nitrate pollution from agriculture. The Welsh Assembly Government proposes, in line with advice from the Environment Agency Wales, to continue designating discrete NVZs in Wales.

16 There is a tradition of very strong and positive working relationships between the dairy farming sector and the Environment Agency in Wales. The benefits have included a marked reduction in serious water pollution incidents and, improvements in water quality and in-stream biology in some areas. At the UK level, an Environmental Plan for Dairy Farming has been developed in partnership between the Environment Agency, National Farmers' Union, Milk Development Council, Dairy UK and Royal Association of British Dairy Farmers. However, due to differences in governance, agri-environment schemes and partner organisations, a specific Welsh approach is needed to implement the Environmental Plan for Dairy Farming. This will be supported and supervised by the Dairy Strategy Group.

The Environment Plan for Dairy Farming will be adapted for Welsh circumstances.

17 This chapter has presented the challenges faced by the sector and what needs to be done to tackle these challenges. The Welsh Assembly Government, Milk Development Council and the Dairy Strategy Group in partnership with industry have agreed the following objectives and actions under the strategic aims set out in the first chapter of this plan.

Chapter 4

# Strategic objectives, actions and outcomes

## Strategic Aim 1:

To improve the levels of understanding of market trends and influence consumer behaviour

| Objective | Action |
|---|---|
| 1. To improve the availability and use of market intelligence by the dairy industry in order that it can identify market opportunities, target profitable areas and innovate. | (i) Undertake an audit of the market intelligence relevant to industry development and establish a database.<br>(ii) Develop a communications plan.<br>(iii) Disseminate information.<br>(iv) Commission market research as necessary including understanding of consumer behaviour, commencing with an investigation into the potential for increasing exports, with particular emphasis on regional cheeses to targeted areas within Western Europe.<br>(v) Develop and promote MDC Datum and MDC Datum Wales for business information purposes. |
| 2. To identify and address the barriers to the consumption of dairy products. | (i) Identify barriers to the consumption of dairy products.<br>(ii) Support proactive issues management that address image and perception of dairy products.<br>(iii) Promote the healthy benefits of dairy products.<br>(iv) Encourage the introduction of dairy products in vending machines, particularly in schools and hospitals. |

| Responsible Body | Milestones | Outcome |
|---|---|---|
| Food and Market Development Division (FMDD), Milk Development Council (MDC), Farming Connect Dairy Development Programme (DDP) and Organic Centre Wales (OCW). | Audit completed by 31 January 2008.<br>Database established by 31 March 2008. | Relevant market intelligence regularly communicated to the industry, in an easily accessible form to enable the development of the dairy sector, including greater diversification of markets and growth in exports. |
| FMDD and MDC. | 31 March 2008. | |
| FMDD, DDP, OCW and MDC. | Biennially with effect from 1 April 2008. | |
| FMDD and MDC. | 30 September 2007. | |
| MDC and DDP. | Monthly. | |
| MDC. | 31 December 2007. | Positive consumer demand for dairy products resulting in increased consumption. |
| MDC. | Ongoing. | |
| MDC, Public Health Improvement Division (PHID), Dairy Council. | Ongoing. | |
| MDC and Welsh Assembly Government. | Ongoing. | |

# Strategic Aim 2:

To foster innovation and improve supply chain linkages

| Objective | Action |
|---|---|
| 1. To provide advice and support on innovation, new product development and adding value to existing products and services. | (i) Assess need and develop a delivery programme on innovation, new product development and added value.<br><br>(ii) Encourage companies to take advantage of available support programme. |
| 2. To encourage links with academia that will facilitate the development of high value products such as probiotic drinks. | (i) Identify leading research institutions and available research.<br><br>(ii) Encourage Defra and other research institutions to undertake research which meets the needs of the Welsh Dairy sector.<br><br>(iii) Disseminate research information<br><br>(iv) Establish a database of leading edge academics and consultants that is accessible to the Dairy sector.<br><br>(v) Identify those dairy businesses that need research and development support and link them with the appropriate research institution. |
| 3. To increase the levels of inward investment. | (i) Promote Wales to the dairy processing sector as an ideal location for investment.<br><br>(ii) Provide the necessary infrastructure to underpin new developments in the sector. |
| 4. To improve supply chain linkages between farmers, processors and retailers. | (i) Establish closer links with key processors in Wales and facilitate communication between producers, processors and retailers.<br><br>(ii) Investigate the potential for the processors and retailers to increase consumer awareness of the Welsh Dairy Sector. |

| Responsible Body | Milestones | Outcome |
|---|---|---|
| Food Network Wales (FNW), supported by FMDD, MDC, DDP, OCW and Business Eye. | 30 September 2008 | A range of support services available in line with the dairy sector's needs.<br><br>Take up of support and development of new, added value products. |
| (TSD) | 31 September 2008 | Information available on leading edge research. |
| | Ongoing | Research exercises that meet the needs of the Welsh dairy industry. |
| (DDP) | Annually with effect from 1 April 2008 | |
| TSD | 31 September 2008 | Increased number of dairy businesses linking with research bodies for new product development. |
| FMDD Regional Teams and DDP | Ongoing | Development of innovative products. |
| International Business Wales (IBW), FMDD. | Ongoing | Increase the volume of milk processed in Wales and the efficiency of dairy processing facilities in Wales. |
| FMDD and DDP | Ongoing | Improved understanding of respective issues, leading to more efficient and better managed raw material supply base. |
| | 31 December 2008 | Greater consumer awareness of locally produced products. |

## Strategic Aim 3:

To improve the business performance of producers and processors in response to changing market conditions, environmental requirements Climate Change and consumer demands

| Objective | Action |
|---|---|
| 1. To provide farmers with comprehensive integrated advice and guidance on business management, new production and environmental techniques. | (i) Design focused integrated advice guidance and support under the new Farming Connect.<br><br>(ii) Delivery of Farming Connect Programme.<br><br>(iii) Re-design the delivery of Dairy Development Programme under Farming Connect.<br><br>(iv) Delivery of re-focussed Dairy Development Programme through an all Wales delivery mechanism.<br><br>(v) Encourage wider use of Milkbench and supply chain based discussion groups.<br><br>(vi) Identify and implement objectives appropriate to Wales contained in the Environment Plan for Dairy Farming. |
| 2. To support dairy farmers and processors with trade development. | (i) Provision of information on national and international trade opportunities.<br><br>(ii) Encourage participation in and provide support for national and international trade shows and missions.<br><br>(iii) Provision of support on account and category management with retailers.<br><br>(iv) Account management of top UK and international dairy processors.<br><br>(v) Provision of advice and support on supplying the public sector.<br><br>(vi) Encourage greater involvement of Dairy processors in True Taste Awards and related activities. |

| Responsible Body | Milestones | Outcome |
|---|---|---|
| FMDD | 1 April 2007 | Increased adoption of new techniques, the development of training courses which integrate business and environmental advice and improved business management. |
| DDP | Ongoing | |
| MDC/DDP | Re-designed Dairy Development Programme by 1 April 2008 | |
| FMDD/DDP | Re-focussed Dairy Development Programme by 1 April 2008 onwards. | |
| | Ongoing | |
| | 31 October 2008 | Improved environmental management |
| FMDD International Business Wales (IBW) and DDP | Ongoing | Increase in trade. |
| FMDD | Ongoing | Improved relationship with the trade and the gaining of new business. |
| MDC/DDP | Annual meetings | Retention of profitable businesses within Wales, increased investment and improved returns for producers. |
| FMDD and Value Wales | Ongoing | Increase in uptake of Welsh dairy produce by the public sector resulting in more healthy meals and sustainable procurement. |
| FMDD | Ongoing | Growth amongst Welsh Dairy processors. |

| Objective | Action |
| --- | --- |
| 3. To ensure the adoption of appropriate animal health techniques and welfare initiatives. | (i) Encourage take up of whole herd health planning.<br><br>(ii) Develop and demonstrate production systems and management techniques that improve herd health and welfare, to contribute to producer profitability.<br><br>(iii) Develop and support policies and procedures that will contribute to the reduction and control of bTB. |
| 4. To promote sustainable use of natural resources based on sound science. | (i) Encourage the uptake of existing environmental audits available through the Welsh Assembly Government and the Environment Agency.<br><br>(ii) Develop and pilot a Farm Waste Audit with case studies.<br><br>(iii) Encourage the uptake of nutrient planning and manure management plans.<br><br>(iv) Encourage uptake of agri environmental schemes such as Tir Cynnal Tir Gofal and Organic Farming Scheme;<br><br>(v) Commission a detailed study on the perceived barriers to entry into agri environmental schemes<br><br>(vi) Monitor and evaluate the lessons from the Catchment Sensitive Farming<br><br>(vii) Identify the carbon footprint of Welsh dairy production systems and the potential for the development of carbon neutral systems, in co-operation with others in the agricultural sector. |
| 5. To support the development of collaborative ventures. | (i) Establish infrastructure within Wales to support the development of collaborative ventures.<br><br>(ii) Explore lessons learnt from cluster farm arrangements used in other European countries. |

| Responsible Body | Milestones | Outcome |
|---|---|---|
| OCVO, DDP, OCW ac MDC. | Ongoing | Improved herd health and welfare, and producer profitability.<br><br>Reduction in the incidences of Bovine TB. |
| TSD, DDP, OCW and MDC. | Ongoing | Improved efficiency of water use and energy use. |
| TSD | 31 March 2008 | Improved business performance and quality of drinking water meeting the needs of the Water Framework Directive. |
| TSD, DDP, MDC | 1 October 2008 | Improved efficiency of water and energy use. |
| | 1 October 2008 | Sustainability benefits which favour the environment and dairy farming. |
| | 31 March 2008 | |
| Independent team from the University of Wales, Bangor and the Farming and Wildlife Advisory Group. | 31 May 2008 | Changes in agricultural practices resulting in improved water quality. |
| DDP/MDC/TSD | 31 May 2009 | Reduction in carbon footprint. |
| FMDD | 31 March 2008 | Effective support for the development of collaborative working. |
| TSD, DDP and MDC | 31 December 2008 | Growth in collaborative ventures that will gain greater market share. |

# Chapter 5

## Implementation, monitoring and evaluation

1 The preceding chapter sets out the actions to be taken forward under this plan in order to implement the strategic aims and attempt to secure the vision of :

A sustainable, profitable, efficient and innovative Welsh dairy sector, which benefits the people of Wales.

2 It is clear that to achieve such a vision, close partnership working will be essential. So, in order to progress the objectives and associated actions, there will be a need for the full engagement of stakeholders across the supply chain, including individual farmer owned businesses, processors and retailers. Furthermore, the establishment of an all Wales delivery mechanism for the Dairy Development Programme and associated MDC initiatives is fundamental to implementation of the plan.

3 The Welsh Assembly Government in partnership with the Milk Development Council is committed to supporting the development of the Welsh Dairy Sector and will, therefore, be putting in place arrangements through the Dairy Strategy Group for implementation monitoring and evaluation of this Strategic Action Plan. The Dairy Strategy Group will agree a framework for reporting on and measuring progress together with evaluation criteria which will include the following:-

- Increased consumer demand for dairy products and Welsh dairy products, in particular.
- Number of cases of innovation and new product development.
- Increase/retention of Dairy processing facilities in Wales.

- Increase in trade.
- Take up of market opportunities.
- Improved competitiveness.
- Number/outcomes of business improvements.
- Development of milk contracts introduced that assist the market to work more effectively.
- Reduction in use of water and energy.
- Increased levels of dairy products purchased by the public sector.
- Greater awareness of health benefit of dairy products.
- Improved awareness and management of environmental issues.
- Number of farm business development plans.
- Uptake of farm benchmarking.
- Effective succession planning.
- Take up of Herd Health Plans.

- Increasing number of collaborative ventures.

- Research exercises in the interests of the Welsh Dairy sector.

4 The outcomes detailed in the strategic aims and objectives section of the Action Plan should contribute to the overall vision of the Plan. However, a partnership approach is required to implement these aims and objectives and progress will therefore depend on full engagement of a wide range of cross industry stakeholders both large and small, from farmer groups to large companies. The development of an ongoing dialogue with and commitment from partner organisations and individuals will ensure that the Strategic Action Plan is delivered effectively and within the agreed time frames.

5 The Welsh Assembly Government together with the MDC and the Dairy Strategy Group will develop key performance measures for tracking progress with this plan and publish an annual report detailing how the actions are being taken forward. The first report will be issued by 31 November 2008.

**Annex I**

# Agri-Food Partnership Dairy Strategy Group Members

Terrig Morgan, Chair

Bryan Thomas, Chair of Dairy Development Centre / Milk Development Council Steering Group

Sue Jones, Llanboidy Cheese

Paul Roberts, Food Technology Centre, Coleg Menai

Professor Robert Pickard, British Nutrition Foundation and Food Standards Agency

Peter Rees, Coleg Sir Gar

Gareth Roberts, Llaeth y Llan

Thomas Jones, Milk Development Council member and Farmer

Trevor Lloyd, Milk Development Council members and Farmer

John Weston Arnold, Farmer

William Prichard, Farmer

Paul Rowe, First Milk Cheese Company

Jim Begg, Dairy UK

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# Further copies

Further copies are available from:

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