

**NORTH EAST SCOTLAND AGRICULTURE ADVISORY GROUP  
BULLETIN – 27 NOVEMBER 2019****DAIRY SECTOR UPDATE****1 Recommendation****1.1 It is recommended that the Group notes this report****2 Discussion**

- 2.1 On 1 October 2019 Muller Milk and Ingredients announced a review of its liquid milk operations in Scotland, advising that while demand was in decline, production from its 230 suppliers north of the border had risen by 25% since 2014, requiring a surplus of 180million litres per annum to be transported to England for processing. On 1 November, the company advised 14 dairy farms north and west of Aberdeen that their supply contracts would be terminated on 30 November 2020, giving them twelve months to find an alternative outlet for their milk. The 14 dairy farms include 5 producers on 'aligned' contracts with Tesco and leaves just 8 farms in the southern part of the NE milk field with Muller supply contracts beyond December 2020. From February 2020 onwards all Muller suppliers in Scotland will be charged a transport levy to cover the cost of transporting excess liquid milk to England in line with the extent to which their output has grown since 2017. This levy will range from 0.25ppl (5% increase in production) to 0.85ppl (>15% increase).
- 2.2 The news is a further blow to the local dairy sector, just three years since Muller UK & Ireland (incorporating Wiseman Dairies) announced the closure on 31 May 2016 of its processing plants in East Kilbride and Aberdeen, resulting in the loss of 255 jobs and adversely affecting dairy farms in NE Scotland supplying the Aberdeen (Tullos) factory. At that time, 43 dairy farms supplied c.74M litres of milk per annum to the company. The Tullos factory closed in July 2016 and since then locally produced milk has been tankered to the Muller site in Bellshill near Glasgow at a cost to local farmers of 1.75p per litre. While dairy farmers on 'aligned' contracts with Tesco have not had to pay the charge, the majority of producers have been liable, putting them at a serious commercial disadvantage. As a result the number of farms in the local milk field has almost halved. This excludes a small number of organic milk producers which serve different markets.
- 2.3 In June 2016 at the request of local dairy producers, Aberdeenshire Council and ONE funded a major study to assess the impact of the additional costs on producers and to evaluate alternative dairy processing options to sustain large-scale dairy production in NE Scotland. A detailed Options Appraisal Study was carried out by a team of 2 specialist advisers (HRA and SAOS) with the consultancy costs shared by ONE and the council (which administered the contract). The study objectives were as follows:

- Identify market options & describe market, production economics and range of producer returns
- Prepare an analysis of current & latent NE milk and milk product demand, including retail products & food manufacturing ingredients.
- Investigate the feasibility of an appropriately scaled dairy plant in Aberdeenshire/ Angus.
- Establish the economics, production efficiency and intentions of the local dairy farms.
- Present the results to a meeting of all local milk producers.

The study concluded that local dairy farmers were well-invested, efficient, market facing and progressive. A technical and economic overview was undertaken of dairy fractions (fats and skimmed milk products), potential processing options and markets/outlets and costings, including capital. The minimum entry level for a processing facility was determined to be 40M litres of liquid milk. Anything less would be uneconomic. Technical requirements for prospective sites were considered and options proposed. Discussions took place with representatives from the local food manufacturing industry interested in home-produced dairy products/ingredients. The study advised that the bulk liquid milk market was not considered to be an economically feasible option for local producers in the long term.

- 2.4 In early 2017 and with assistance from SAOS, local dairy farmers formed NE Milk Producers Association and met with Scottish Government to explore the potential for grant aid (Food Processing, Marketing and Cooperation). Capital and financial projections were developed and revealed the extent of the risks associated with the processing plant project. These included difficulties in securing commitments from food manufacturers to buy dairy ingredients, the challenge in marketing high volumes of low value skimmed milk co-product, and the reluctance of producers on aligned contracts to switch allegiance, thereby surrendering the security of relatively profitable 12 month supply contracts in exchange for an unknown quantity ('aligned' milk was required to generate critical mass). Ultimately, and only after a very considerable body of work had been undertaken, the Association concluded in late 2017 that the risks at the time were too large and the financial margins too small, and subject to volatile externalities (international markets and exchange rates).
- 2.5 Aberdeenshire Council, ONE and SAOS have continued to work closely with the NE Milk Producers Association to identify and evaluate options. In August 2018 financial support was provided for a visit to Orkney by a small deputation from NE Milk Producers Association to learn about the Orkney Cheese business model, a partnership comprising local dairy farmers, Orkney Islands Council and Lactalis, an international dairy product marketing company. Following the most recent news ONE, Aberdeenshire Council and SAOS have met with NE Milk Producers Association and have offered their assistance to the remaining producers in the NE Scotland milk field to explore their options. Given that local farmers have, uniquely in Scotland, borne very substantial milk transport costs over the past three years they are entitled to feel they have been harshly treated by their buyer.

### **3 Scheme of Governance**

NESAAG is able to consider this item in terms of its remit to provide a NE Scotland focus to enable issues and concerns across the agricultural and related sectors to be addressed. This includes strengthening economic development links across the wider land-based sector and food industry, contributing to regional and local priorities, improving links between industry, the environment and biodiversity and contributing to policy development and consultations.

### **4 Implications and Risk**

- 4.1 There are no equality impact implications arising from this report
- 4.2 There are no staffing and financial implications for the council arising from this report.
- 4.3 No risks arising from this report have been identified for the council at Corporate Level
- 4.4 No issues have been identified in relation to the Town Centre First Principle

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