



Business Forum Report June 2023

Dairy Demands

Shaping collective asks for a fairer dairy sector

Time for change

Since 2021, the Food Ethics Council's Dairy Project has been speaking with dairy farmers to understand their aspirations for fairer, more ethical dairy systems, as well as their perceived barriers to change. Many farmers feel trapped in systems of volume-based production, with low farmgate prices and high debt leading to financial insecurity and the inability to reinvest in their farms. They also feel that they have limited control over what and how they produce due to restrictive contracts, and work long hours with limited headspace to engage in peer-to-peer learning or innovate their practices.

Beyond these challenges, farmers are facing growing external pressures to shift toward systems that are fairer for animals and the planet - from the legally binding Net Zero commitments of retailers, to shifting consumer expectations and the activity of animal rights activists leading to a changing marketplace. Similarly, the financial institutions relied on by farmers for loans are also becoming increasingly scrutinous of sustainability concerns.

"The majority of our emissions come from products on our shelves. Dairy and beef have the largest emissions by far."

The Dairy Project starts with the *people* at the heart of dairy. If those involved in producing, processing and selling dairy are treated decently, this can give more flexibility, freedom and opportunity for them to transition towards fairer, more ethical dairy systems. Having spoken mostly to farmers for the first part of the project, this Business Forum brought together milk buyers, processors, retailers and foodservice, both to share farmers' insights and to explore the role that these actors could play in building fairer dairy systems.

Shifting to climate and nature-friendly systems

Farmer programmes

A dairy cooperative that purchases and processes milk from its farmer members launched an initiative in 2020, asking its farmers to commit to improvements within three main areas - people, animals and the earth. Over 90% of farmers signed the pledge, agreeing to objectives on access to pasture, antibiotic use, biodiversity enhancement on farm and safe working environments. Following this, the same cooperative committed to be net zero by 2040 and launched a Regenerative Farming Programme to meet this target. Ninety percent of farms submitted Regenerative Farming Plans in year one.

It is important that farmers are supported to make these on-farm shifts. Peer-to-peer learning and farmer-led workshops are essential. Those working closely with farmers said that explaining *why* changes are necessary is vital, as well as communicating changes in practical and clear language. Importantly, there can be no 'one size fits all' with the changes being demanded of farmers. Every farm is unique, from soil type, topography and rainfall to people and team dynamics.

"Farmers are frustrated that they're all expected to sit in the same boxes."

Another challenge that was raised was the danger of 'carbon tunnel vision' being perpetuated by climate targets. Farms are holistic, complicated ecological systems, and reduction of carbon footprints should not happen at the expense of other priorities such as biodiversity enhancement and improvements to animal welfare.

Valuing 'better' dairy

Ultimately, the biggest challenge and priority is to *value* the changes that farmers are making on farms. Participants agreed that farming models need to be both economically sustainable and socially sustainable (people are taken care of), before shifting to more environmentally sustainable systems. The latter cannot be achieved without the first two.

There are two similar, but slightly different issues here. Firstly, paying all farmers a fair and reliable price for what they produce - this is discussed in the section below. Secondly, recognising the work that many farmers are doing to shift toward fairer, more ethical systems - and rewarding them for doing so.

"Recognising and rewarding farmers for making changes is important... We need to put a value on the transition, whether that's through milk prices, premium for products, or something else."

There is an opportunity for farmers to gain additional income through selling carbon credits, which in a sense is a form of 'valuing' on-farm shifts toward climate-friendly practices. However, there was significant discussion about the dangers of carbon being sold and 'leaving' the food supply chain.

Part of this challenge is communicating to the public about the role that dairy, done well, *can* play in a healthy, sustainable food system.

First Milk has launched 'Golden Hooves', a branded on-farm milk and dairy vending franchise that 'tells the story' of regenerative agriculture, whilst also offering a new value stream to its farmer members.

Data

There was some disagreement around data collection and provision, which links to farmers being 'valued' for shifting toward climate and nature-friendly systems. Farmers are increasingly expected to collect data to measure and track the changes they are making on-farm. In most cases, this data must be 'handed over' to purchasers as part of farmers' contractual agreements.

"If farmers didn't hand over their data, they wouldn't receive their contracts... but they would much rather be paid for it."

It was argued that purchasers use this data to protect and promote the work of farmers, and to market their produce – without the data, they cannot 'tell the story'. This data would never be used 'against' farmers. Conversely, there was a sense from some in the room that it is unfair for farmers to be expected to hand over data without being remunerated.

Fair contracts

Stable and secure prices

Farmers cannot invest in fairer, more ethical systems unless they are financially secure. There was ample discussion around the instability experienced by farmers at the whim of fluctuating farmgate milk prices and rising input costs.

Most farmers will have no idea what price they will receive for their milk from one month to the next. Countering this, one retailer said that their model commits to a fair price for three months at a time, so that even when the market price drops, their farmers still have the confidence to invest.

"For retailers it's about security of supply. We want milk on our shelves, so we've got to make sure that we're paying farmers properly."

Many of the retailers present at the meeting discussed the 'cost of production' or 'basket price' models that they use to calculate milk prices for farmers. These mechanisms take into account the costs of feed, fuel and fertiliser and pay farmers accordingly. Whilst this is a positive move, some participants explained that

these mechanisms can be too slow to respond to inflationary pressures on farmers, for example by only calculating the cost of production every three months. It was suggested that 'live' cost of production would be better.

There is a difference between stability and adaptability. One participant suggested that, if the price of milk goes up, farmers will know that it will come down again quickly, and that most farmers would prefer a stable price (such as 45ppl) rather than a price that is sometimes higher, sometimes lower.

However, it was also argued that whatever mechanism you have to provide stability, there will always be exposure to external shocks. Instead, the industry must adapt to increasingly regular oscillations, and become receptive and adaptable in the face of these. Rather than fixing volatility and attempting to remain stable, we should be asking - how can we adapt quickly?

Exclusivity clauses

The desire for more freedom and flexibility within milk contracts has been raised by multiple farmers throughout the Dairy Project - particularly a desire for non-exclusive contracts. This point was raised at the meeting. One participant explained that organic farms in particular would benefit from the ability to access new markets, set up vending machines and have a direct connection with customers, in order to ride out challenging periods.

Several milk processors expressed that they *do* allow their farmers to sell direct if they want - with some even encouraging and supporting farmers to set up vending machines on-farm and sell directly to customers. There therefore appears to be a mismatch between what farmers can legally do within the remits of their contracts, and what they think they can do. A key issue here is communication and trust. Some cases have been raised throughout the Dairy Project of farmers not feeling that they are able to 'speak up' or ask to do things differently, for fear of having a 'black mark' against their names. Whether this is true or not, the narrative prevails within the farming community. Furthermore, some farmers are in 'de facto' exclusive contracts simply because of geographical limitations - there are no other buyers to choose from.

Despite some dairy processors assuring that they do allow farmers to sell *directly*, some maintained that their contracts do not permit farmers to sell to *other* processors. The reason given for this was that, under

growing sustainability targets, supplying to multiple buyers could lead to conflicting or competitive requirements on farmers.

“If we want to tackle the challenges around climate and biodiversity, it would be very hard to have a multi-processor contract in place. Who shares that story? Which part belongs to who?”

Being ‘locked in’

There was discussion around the length of contracts and the pros and cons of long-term contracts. Farmers often have to wait a year before requesting any changes to their contracts, which can lead to the feeling of being ‘locked in’. It was agreed that regardless of the type of contract, all milk contracts should have break clauses and the option for farmers to terminate, as with other types of contracts.

The point was also raised by a milk buyer that longevity is important. Contracts represent the launching of a ‘partnership’ between farmers and buyers/processors, and there is the need to build long-term relationships in order to work towards shared goals. The challenge is to achieve this without giving farmers the sense of being locked in.

“Within the farming community, we want to give the sense that we’re in it for the long haul. We need long term relationships to make these big environmental shifts happen and to do long-term knowledge exchange. So long-termism is important, but without locking farmers in ... how do you do that?”

Trust, transparency, and communication

A clear theme running through the meeting was the need for trust, mutual understanding and clear communication right across the supply chain. However, even when trust has been established, one retailer explained how this can be eroded very quickly. A story was shared of how, despite working successfully with farmers for 10 years, farmers quickly lost trust in the retailer when the market changed. There is a sense among retailers that farmers can be quick to blame them for changes that are out of their control.

“Farmers need an awareness that retailers aren’t just dealing with milk - price increases happen across the board. We’re also accountable to our consumers and shareholders... farmers aren’t the only ones in the system.”

A number of participants raised the need for others within the supply chain to clearly communicate to farmers *why* things are being done, in order to build a shared understanding of situations. It was said that, because milk buyers regularly ‘swap out’ - what was referred to as the ‘revolving door’ - it can be difficult for farmers to develop long-term relationships based on trust and rapport with an individual. The importance of this was debated, as others argued that trust should be based on the business and its principles, rather than an individual representing a business - you can not rely on an individual to stay in a job role.

Insights were shared from the Dairy Project of farmers wanting to feel like they’re ‘part of the system’, rather than feeling extracted from by the rest of the supply chain. A story was shared of one milk buyer reducing their purchase of core litres by 12.5% across the board, significantly impacting farmers’ financial security. Some farmers feel that this ability to ‘change the rules’ very quickly is not equally shared across the supply chain.

Voluntary versus mandatory codes

It was raised that a voluntary Code of Practice for the dairy sector was developed in 2012, setting out minimum standards of good practice for contracts between producers and purchasers. Many purchasers did adopt this code. However, these purchasers were put at a competitive disadvantage to those who did not. It was therefore suggested that, to level the playing field, the code should be made mandatory.

“Everyone in the supply chain could support good practice by selecting processors or buyers that abide by the voluntary code. But this hasn’t happened... If people don’t do it, make it mandatory.”

Labour and legacy

Attracting new entrants

A key issue discussed was succession and legacy. For dairy farming to have a thriving, fair and sustainable future, the industry must be made attractive to new entrants and the next generation of current farming families. Participants agreed on the responsibility that farmers themselves must take on as ethical, fair employers, with some farmers needing to ‘step up’. It is crucial to treat staff decently and to create safe, healthy working environments. One story was shared

of a farming operation that worked at length to embed its workers in the local community, provide adequate housing, and build good working relationships based on kindness and respect.

The family farm

There was ample discussion around the ‘family farm’ model, with many arguing that we cannot - and should not - rely on family farms to carry the dairy sector into the future. Whilst the family farm narrative is an attractive story to tell, it can lead to land being kept within certain hands, and can limit new energy, new ideas and diversity within the sector.

“For the industry to thrive and be dynamic, we do need new entrants coming in.”

It was agreed that it’s not the ‘family’ or ‘non-family’ farm model that matters - it’s about whether the farm itself is resilient or not. Similarly with those leaving the sector - this should not be based solely on age, but on mindset.

Public procurement

Finally, a key opportunity for supporting fairer, more ethical dairy is through public procurement. Parties are beginning to set targets for ‘local’ and ‘sustainable’ public procurement. However, it was argued that we currently do not have clear definitions for these terms (in the way that we do for organic). What does ‘local’ mean? A case was made for ‘starting with British’.

Further questions to explore:

- How can we value and incentivise farming that is better for people, animals, and planet?
- What are the processes and mechanisms needed to build better communication, trust, and transparency across the sector?
- How can milk pricing strategies allow farmers some resilience in the face of market fluctuations?
- How can we provide greater flexibility in milk contracts, in ways that are mutually beneficial?

Other relevant resources:

- Dairy Project Report - Farmers’ Insights 2021-2022 [[see here](#)]
- Joint letter to Defra on Dairy Code of Conduct [[see here](#)]
- Business Forum Report March 2022 – Boosting Better Dairy [[see here](#)]

This is a report of the Business Forum meeting on 21st June 2023. Speakers were Shelagh Hancock (CEO, First Milk), Joseph Keating (Senior agricultural manager, Coop), and Abi Williams (Dairy Project Lead, Food Ethics Council). The meeting was chaired by Dan Crossley, Executive Director of the Food Ethics Council. The views in this report do not necessarily represent those of the Food Ethics Council, nor its members. For more information on the Business Forum contact Dan Crossley dan@foodethicscouncil.org