

Brexit and the future of dairy exports

November 2016

Dairy
UK





Contents

Table of Contents.

Foreword.....	04
State of the Industry.....	06
What we need – Maintain uninterrupted access to the EU market.....	08
What we need – Protect existing trade agreements.....	09
What we need – Develop new FTAs.....	10
What we need – Avoid border issues on the island of Ireland.....	11
Working with Defra – Health certificates.....	12
Working with Defra – Foreign inspections.....	13
Working with Defra – Promotion of the UK brand.....	14
Our priorities.....	15

Foreword



Neil Parish MP **Chair of the Efra Select Committee**

The Brexit referendum set the country on an unexpected course, with many unknowns ahead. The negotiations with the European Union will be complex and will impact every industry in the UK.

Food and drink exports are a crucial part of our economy and we must make sure the Government has and uses all resources available to promote and boost trade.

As a life-long champion of the UK dairy industry, I am anxious to protect the interests of the

sector and ensure they are not traded away during the negotiations. Alongside my colleagues from the Efra Select Committee, I will examine the Government's proposed policies on trade and labour and I will need evidence and contributions from all stakeholders.

The food and farming sector must make itself heard throughout the negotiations and I welcome Dairy UK's initiative to showcase the industry's achievements in terms of dairy exports and to highlight what we can and must do to support it in the coming years.



Dr David Dobbin
Chair of Dairy UK

The UK dairy sector is an outstanding industry which has been steadily growing its exports of world-class products, supporting much needed rural jobs and employing people with the expertise, ambition and determination to succeed.

Yet the last six months have brought some of the most unexpected and singular challenges we have had to face. As the market began a slow but steady recovery, the Brexit referendum forced us to take a step back, analyse our strengths and weaknesses, and try to anticipate what might come next.

With so much yet to be negotiated and agreed, it is essential that the dairy industry should make its priorities clear and maintain a close and constructive dialogue with Government and Parliament throughout the negotiation process.

If we are to remain internationally competitive and successfully exploit the dairy trade opportunities we have at home and abroad.

This document outlines where we are, where we want to be and what we need from Government and Parliament to fulfil our potential.

State of the industry

As part of a billion strong global dairy community working together on nutrition, standards and sustainability, the UK dairy industry provides consumers worldwide with the foods and ingredients they want and love in a way that protects our planet for future generations.

The UK dairy industry is a success story.

Dairy makes a difference to the economy. From farm to fridge, the sector provides an array of jobs to a 80,000 strong workforce across the country. From farming to manufacturing, from research to marketing, the dairy industry employs people from all walks of life and helps generate revenues for thousands of companies involved in the dairy supply chain.

Dairy makes a difference to nutrition and health. Given the versatility and diversity of dairy products, it is no wonder they can be found in 98% of homes in the UK. The nutrient-richness of dairy foods is unique and makes them an essential part of a healthy and balanced diet. With an ever-growing body of science backing the benefits of dairy on health, we can be proud to offer such nutritious and tasty products to consumers of all ages.

Dairy makes a difference to the environment. The UK has long been a global leader in terms of sustainable production and with ambitious targets set out in the Dairy Roadmap,

dairy companies strive to improve their environmental credentials and performance. All food production comes at a cost but the UK dairy industry's commitment to sustainable production is unwavering.

With state-of-the-art infrastructures, significant investments in research and new technologies and a dedication to create and innovate, the UK dairy sector is in a prime position to be a leader of the manufacturing industries.

Our industry is also a key player in the European market. At 14.8 billion litres of milk output per annum, the UK is the third-largest milk producer in the EU after Germany and France and a major contributor to trade flows within and outside the EU.

Exports are a crucial part of growing and strengthening the dairy industry. We have tremendous potential for growth on the global stage and we need the Government to provide the right framework to achieve this potential.



Dairy
UK



What's next?

The Brexit referendum raised many questions, most of which have yet to be answered and the unprecedented uncertainty around the future of the country creates a series of challenges and opportunities. Exiting the European Union is bound to have a profound impact on our industry and we must ensure we take all the right steps to make it more resilient, competitive and profitable.

Other dairy exporting countries have followed successful paths and set interesting examples in terms of industry-government cooperation to foster growth and develop exports. We can learn from these experiences and ensure that the UK has efficient and cost-effective systems that support export growth while preserving consumer confidence in the safety and quality of UK dairy products.

In January 2016, Dairy UK published an Export Strategy which identified a comprehensive list of steps which could help foster growth and boost our industry's competitiveness in the international market place. These recommendations include a one-

stop shop for dairy exporters, the removal of trade barriers, world-class audit practices and improvements to the export certification regime.

We have had a strong domestic market for years in the UK and dairy exports have been growing steadily, satisfying the rising demand of dairy products in emerging countries. Over the last five years, the volume of exports within the EU increased by 28%. In 2014, the value of dairy exports totalled £1.3billion. Similarly, exports to non-EU countries have increased by 91% in volume over the last five years through to the end of 2014.

With global demand for dairy expected to grow by around 2% per annum over the next 10 years, the UK has a unique opportunity to step up, unlock new markets and increase dairy exports across the globe.

Dairy companies already have an impressive track record. From China to the United States, from Singapore to Australia and Brazil, consumers on every continent can enjoy tasty and nutritious UK dairy foods, produced to the

highest standards of food safety, environmental performance as well as animal welfare.

In our strategy, our members shared an aspiration to grow their exports by value and volume by 20 to 30% over the next five years. To meet our goals, we need to take stock of and showcase how well the UK dairy industry is doing in terms of innovation and promotion, skilling our industry for the future, food safety and environmental credentials. Getting all of these elements right is essential in a highly competitive export market.

In spite of the uncertainty created by the Brexit negotiations, the UK dairy industry is ready to rise to the challenge and strengthen its position as a global dairy player. Our ability to innovate and invest in the future is second to none and our resilience is legendary. We strongly believe the UK dairy industry has a tremendous potential for growth and success, with the support of an appropriate and with the support of a forward-looking regulatory framework in the UK after we exit the European Union.

“Over the last five years, the volume of dairy exports within the EU increased by 28%.”

The dairy industry's path to global success

What we need – Maintain uninterrupted access to the EU market.

- 80% of dairy exports go to EU countries, mostly cheese, butter, cream and powders, and UK dairy products are becoming more and more popular by the day across the EU.
- We need continued access to the EU market without any tariff and non-tariff barriers to ensure our dairy industry can thrive and grow.
- The Government needs to maintain continuity and avoid any disruptions to existing trade partnerships between the UK and EU countries.
- Clarifying our relationship with the EU must be an utmost priority and dealt with swiftly before negotiating any other trade agreements.

Case studies

Accounting for approximately 1/3 of all of the UK's cheese exports, Glanbia Cheese is among the nation's top cheese exporters.

Exporting to over 30 countries, predominantly in the EU and the Middle East, Glanbia Cheese has chosen to specialise in the production of mozzarella cheese, targeting the fast growing pizza sector utilising its patented and proprietary technology.

While many are surprised to hear that Glanbia Cheese sells thousands of tonnes of mozzarella to Italy, this is one of the many successful and growing export markets.

Across Europe, due to the popularity of pizza, mozzarella is either the first or second cheese ranked by consumption in every major market. Mozzarella has a unique appeal for consumers and Glanbia Cheese fulfils this growing demand domestically and across the EU.

Glanbia Cheese has a long history of growing its business in both domestic and export markets through ongoing investment in consumer insights, people and manufacturing, combined with a dedicated workforce and a quality milk supply.

The key to success is a world class product and a relentless focus on exceeding customers' expectations both at home and abroad.

In 2013 Müller invested £17m in Britain's largest butter facility to maximise the value of the surplus cream generated by the liquid milk business.

The ability to access major European food manufacturers who have significant butter requirements for bakery, patisserie and consumer applications without barriers to entry, has enabled rapid growth and the achievement of the critical mass necessary to be efficient and competitive with large European dairy competitors. EU based now customers account for 25% of butter sales to the manufacturing sector worth in excess of £30m.

Over the past three years Müller has invested in developing long term supplier partnerships through extensive product and factory trials programmes with some of the largest European Food manufacturers and are approved suppliers to a number of factories across Europe.

Establishing the UK dairy sector as a high quality dependable source for dairy ingredients has been essential in the success which can be seen in the Butter exports where after years of falling exports, between 2013 and 2015 Butter exports grew by 50% and 2/3 of this growth was from the EU.

Continued access to EU markets is critical to maintaining UK dairy investment and competitiveness on international trade.



- The industry has been working hard to develop dairy exports and unlock new opportunities with countries around the world.
- Dairy companies have successful partnerships in place in countries including the United States, Australia, China, Singapore and the United Arab Emirates.
- To remain competitive, the UK dairy industry needs a level playing field with its European and global partners. When looking at food and drink regulations, the Government must make sure it does not inadvertently create non-tariff barriers which would hinder dairy companies' ability to export.
- It is extremely important for dairy companies that existing equivalency agreements for production and sanitary standards should be maintained, as well as tariff-rate quotas currently in place.

**What we need –
Protect existing
trade agreements.**

OMSCo was the first European company to gain USDA organic accreditation under the EU-US equivalency agreement (2013).

At the end of 2015, OMSCo entered into a formal partnership with Organic Valley, the largest organic dairy brand in the world. Through this joint cooperation, OMSCo has supplied USDA certified organic cheeses and powders to the US market and has worked with Organic Valley to drive the sales and distribution of OMSCo's award-winning premium Kingdom cheese brand.

In 2016, OMSCo was successful in certifying 15m litres of its milk to Chinese organic standards. As part of OMSCo and Organic Valley's close relationship, OMSCo now manages the production and export of Organic Valley UHT to China from Europe, using British organic milk. This business is expected to grow to 5m litres by early next year.

Key to OMSCo's success at opening up new export markets has been the ability to gain organic equivalence across borders due to clear and achievable regulations. Looking to the future post Brexit, OMSCo is more concerned by how these non-tariff barriers may change than it is concerned with tariff barriers. Overnight, British organic could effectively become illegal in the US, therefore decimating a unique and significant dairy export market for the UK.

With the Seriously Strong brand exported to 67 countries across the world, it is obvious that exports play significant role in Lactalis McLelland's success.

The company also exports bulk cheddar to several markets and managed to increase its overall exports volume by 57% from 2014 to 2015. The company's ambition is to pursue its export drive and find new ways to identify the opportunities for premium cheddar business throughout the world.

The export business includes two major production sites, the Caledonian site and the Orkney site. The Caledonian site focuses on strategic branded and private label opportunities with cheddar satisfying all levels of maturity and profile while the Orkney site helps position the product as a traditional Scottish Island cheddar with PGI accreditation. This combination gives Lactalis McLelland a focused approach on cheddar exports.

The cheddar market is continuing to grow on a worldwide basis and Lactalis McLelland is determined to be a key player within this market. In addition to manufacturing and logistics capabilities to secure new business opportunities, support from UK industrial bodies and the UK and Scottish Government Departments are critical to foster growth and progress.

Case studies



The dairy industry's path to global success

What we need – Develop new FTAs.

- Once its relationship with the EU market is clarified, the UK must focus on unlocking new markets access and developing far-reaching Free Trade Agreements (FTAs).
- Where UK dairy exports are subject to trade barriers, the industry cannot be competitive and reach its full potential.
- Free Trade Agreements can effectively remove trade barriers and boost exports of dairy products to growing markets such as the United States, Japan, South-East Asia, North Africa and the Gulf States.
- This means removing barriers such as tariffs and quotas as well as non-tariff barriers such as environmental regulations, labelling, food safety and sanitary regulations.

Case studies

Now in its 26th year of operation, Somerdale International provides an effective route to the international market for great tasting British cheeses, made in some of the country's leading creameries.

Today Somerdale has a turnover of over £32 million, of which exports represented c.94% and it is the leading exporter of British cheese to the US with shipments leaving for New York every week.

The company is focused on expanding its international customer base which includes a mix of leading retailers, food service organisations, major national distributors and wholesalers as well as specialty cheese retailers. Thanks to years of experience, the company is able to leverage its critical mass, in-depth knowledge of procedure and regulations as well as a network of shipping partners and distributors.

While strengthening its presence in key markets such as the US, China, the Far East and the Caribbean, Somerdale is now looking for new horizons and working on making its mark in emerging markets including the Middle East, North Africa and Brazil.

Somerdale strongly believes that developing the market for British dairy exports will be a key element going forward to secure the growth and sustainability of the sector.

Dairy Crest is actively expanding its export business. British cheeses, particularly cheddar, are generating some real interest abroad with exports up 10% last year.

Cathedral City is already in over 50 countries and Dairy Crest is working on more exciting opportunities for exporting it into both mature and emerging markets. The company has also entered the fast-growing, global infant formula market by manufacturing demineralised whey powder and galacto-oligosaccharide (GOS). These products are going mainly into China.

A distinctive selling point is the complete traceability throughout its short supply chain. This means Dairy Crest is trusted to produce high quality, safe products. The wider UK dairy sector should be marketing the combined British provenance and dairy heritage more effectively. The Government has a role to play here. They have organised some successful trade delegations, including to China and Australia. These are effective and helpful for companies looking for help to access those markets.

We need a healthy trading environment and trade agreements which encourage exports to all potential markets. We must also be supported by an administrative system which does not place undue burden on companies seeking to trade internationally. In such a competitive environment, Britain needs to be first into emerging markets.



- The dairy industry on the island of Ireland acts as a single entity, facilitated by the free movement of milk, product and staff.
- A significant proportion of the dairy processing capacity in Northern Ireland is owned by dairy co-operatives from the Republic of Ireland, who depend on intra-company movement of raw milk, product and staff to achieve economies of scale and efficiencies.
- Without the option of free movement of raw milk, product and staff, the sustainability of the Northern Ireland dairy industry, in its current structure and scale, is questionable.
- It is therefore essential that a two way access for raw milk and dairy products should be maintained between Northern Ireland and the Republic of Ireland without tariffs and free from burdensome non-tariff administrative measures.

**What we need –
Avoid border issues on
the island of Ireland.**

Lakeland Dairies is a farmer owned cooperative manufacturing a range of dairy based products in Northern Ireland and Republic of Ireland, selling in 77 countries globally.

Approximately 1.2b litres of milk is produced by 2400 family farms across the Island.

The cooperative has successfully grown its milk volumes to 550m litres in NI over a 20 year period. The business and its farmers have invested £150m in state of the art manufacturing facilities in NI and ROI. It directly employs 350 people in NI/UK on the assumption of no borders and unrestricted movement of milk raw material and finished products across the island of Ireland. This enables operational efficiency and excellence along the entire supply chain.

As the Brexit negotiations start, it is important to remember that free two way movement of raw

material milk and finished product is mission critical to align processing capacity and product capability across the milk field to optimise efficiency and competitiveness.

Additional challenges include customer friendly labelling and certification of products with Northern Ireland and Republic of Ireland milk, veterinary and health certification, alignment of food manufacturing standards between the EU, the UK and the rest of the world (50% of NI production is exported outside the UK).

It is also critical to have local movement of people and access to skilled labour as well, continuance of Free Trade Agreements so as to avoid trade disruption and tariffs.

Last but not least, in order to operate successfully, the dairy industry needs continuing financial farm support to ensure farmer viability and security of supply as well as continued access to sustainable energy sources at competitive cost.

Case studies



The dairy industry's path to global success

Working with Defra for optimal results – Improve the health certification scheme.

- The Dairy UK Export Strategy outlines key steps to improve the cost effectiveness and efficiency of the dairy export certification scheme.
- Creating a 'one-stop-shop' for dairy exports in one government agency could reduce administrative complexity for businesses and provide for a more integrated approach by Government.
- This could be supported by an integrated application system allowing for all relevant documentation to be applied for at once.
- Industry and Defra must work together to evaluate possible solutions in order to identify cost effective and pragmatic options that build on the existing food safety inspection and control regimes in dairy plants.

Case studies

Arla Foods operates in over twenty countries worldwide, including Denmark.

In Denmark, exporters must be registered at the Danish Veterinary and Food Administration (DVFA) and a Veterinary Inspection Officer is attached to each site and ensures by inspections at regular intervals that the site operates according to the regulations and complies with attestations in certificates that go beyond EU regulations.

All certificates are handled by the DVFA, are available online for download and are issued with an average processing time of 24 hours. Country specific certificates must be signed by a Veterinary Surgeon working with the DVFA, this is done centrally not at the loading site. In cases of exports to Third Countries, DVFA negotiates and or drafts the necessary health certification to meet the conditions for import into the country of

destination. Certificates are usually approved by the importing country.

This set-up allows for an agile supply chain where administrative red-tape has been reduced to an absolute minimum. Reducing the "black spots" in the order lifecycle i.e. periods of time, where goods are not moving and waiting for administrative processes to be completed, is an efficient way of supporting the competitiveness of businesses.

Arla Foods believes that establishing a similar regime in the UK would be a win-win situation for authorities and British export businesses alike.

By reducing the frequency of control, resources can be freed up for other tasks and costs are driven down, all the while maintaining a high level of trustworthiness in the UK Health Authorities. This would not create an environment with no control but one where a different kind of control prevails.



- As the UK moves to expand its export of dairy products, the number and frequency of importing country audits is likely to increase.
- The goal of the industry is to ensure that such visits are managed as efficiently and cost effectively as possible, while safeguarding the UK dairy sector's food safety credentials and building confidence in the UK regulatory regime.
- Industry and Government should develop a protocol setting out guidance for inspections and audits that includes preparation and timely follow up. They must explore ways to develop a stable basis for the equitable and transparent funding of inspection visits by importing countries.

Working with Defra for optimal results – Improve inspection and audit practices.

Codex Alimentarius, the FAO/WHO body compiling harmonised international food standards to protect consumer health and promote fair practices in food trade, also provides extensive guidance to governments on the conduct of assessments of official inspection and certification systems.

This includes factors that the exporting and importing countries should agree on in advance of any visit and recommends that the assessment process should be planned, systematic, transparent, consistent, fully documented and well communicated. Codex also provides that the plan incorporating the rationale, objective, scope, assessment tools and requirements against which the exporting country's official inspection and certification system is assessed, should be clearly identified by the importing country, notified to and

agreed by the exporting country's competent authority within a reasonable period of time prior to the commencement of the assessment.

Official inspections are managed at government-to-government level based on the objectives of the importing country for the inspection visit. The benefits of involving industry in planning for visits as early as possible ensures adequate opportunity for industry representatives to be educated and familiarised with the goals and expectations of the inspections or audit and therefore able to prepare themselves for hosting site visits. Such visits are also an opportunity to showcase the industry and that may include arranging for meetings with industry leaders and other activities that help to build understanding of the local situation for dairy production.

Timely follow up to the visits helps ensure that the outcomes are effectively communicated and that any issues arising can be addressed without disruption to trade. Reviewing how a visit has gone after the event provides an important opportunity for continuous improvement.

Case studies

The dairy industry's path to global success

Working with Defra for optimal results – Promote the UK brand with the Great British Food Unit.

- UK dairy products are celebrated the world over and should be at the heart of the Government's promotional efforts.
- Dairy products offered by UK exporters have their own specific characteristics and priority target markets compared to other food groups. Giving UK dairy exports a boost would achieve greater impact on dairy exports than exclusively relying on generic messaging on British food.
- The dairy industry would reap significant benefits from a dairy-specific framework in the export promotion work undertaken by the Great British Food Unit.
- Dairy UK's British Cheese Board promotes great British cheeses to consumers and could provide financial and in-kind contributions to the Unit's promotional efforts.

Case studies

Over the last 4 years, international sales at Belton Cheese have increased by 60%.

Export volumes continue to increase accounting for 15% of the business, with the strongest market being the US followed by Canada, Europe, South Africa, Australia, Japan and China. The potential for continued export growth with Government support is likely to be significant.

The British image plays a huge part in our sales pitch to international customers and helps us form emotional connections with distributors, customers and consumers. There is an ever growing demand for high quality British dairy products the world over. The UK has a real and credible story to tell in relation to product quality, food safety, authenticity, environmental standards, provenance, animal welfare and farming systems such as grass fed and free range.

The flavours and styles of both traditional and modern British Cheese developed in the UK are respected worldwide. Belton Cheese produce a total of 8,000 tonnes of British regional cheese and fully utilizing the "Great British" stamp of approval to promote the provenance and heritage behind our dairy products will help boost exports across the world.

Delamere Dairy supplies a range of speciality dairy products and currently exports to a diverse geographical mix of over twenty countries.

As well as a number of European countries, Delamere Dairy exports to China and the USA and for these customers, British provenance is key when it comes to dairy.

Products are exported through a combination of direct sales and via third parties. Where sales are direct, for example with China, market research has been key and has involved a number of government trade missions, one with David Cameron in 2015 to Singapore, promoting British companies. Such government support has been important for Delamere Dairy from a networking point of view and can be directly related to sales. In 2014 Delamere Dairy accompanied Liz Truss, Secretary of State for Environment, Food & Rural Affairs on her trade mission to Beijing. Following the Brexit vote in June, there will be challenges ahead and government support for British dairy will be welcomed.

Delamere Dairy is proud to fly the flag for British and European speciality dairy products and meet the needs of numerous export markets where dairy quality and provenance is held in such high esteem.



Our priorities

“The UK dairy industry is ready to rise to the challenge and strengthen its position as a global dairy player.”

Maintain uninterrupted access to the EU market.

Protect existing trade agreements.

Develop new Free Trade Agreements.

Avoid border issues on the island of Ireland.

Improve the health certification scheme.

Improve inspection and audit practices.

Promote the UK brand with the Great British Food Unit.

The logo for Dairy UK, featuring the word "Dairy" in a large, bold, black sans-serif font, with "UK" in a smaller, blue, bold, sans-serif font directly beneath it.

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