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|  | **Lord Gardiner of Kimble** Parliamentary Under Secretary of State for Rural Affairs and Biosecurity | |
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Dear Lord Campbell-Savours,

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| Lord Campbell-Savours  House of Lords  London  SW1A 0PW | 5 May 2020 |

I am following up on the points that you raised following the question from the Bishop of St. Albans on dairy prices on Tuesday 28th April.

The Government fully appreciates the supply chain pressures which Covid-19 has caused for the dairy sector and is grateful for the hard work farmers are doing to maintain supplies. Dairy products are a staple part of many households’ diet and we are working closely with the dairy supply chain to manage the impacts.

The vast majority of Britain’s dairy farmers continue to supply their contracts at the usual price. Between 5 and 10 per cent of total milk production goes to the food service trade which has been severely impacted by the lockdown restrictions. Farmers supplying milk to processors that sell into the food service sector have seen a significant reduction in demand and we have taken several steps to support those affected.

The government initially relaxed temporarily competition rules to allow retailers, suppliers and logistic services to work together. This has allowed the dairy industry to redirect some of their surplus supply from the hospitality sector to retail. Subsequently, on 17 April we announced a further temporary relaxation to enable further collaboration in the supply chain making it easier for processors to come together to maximise production and processing and storage efficiency until shops, restaurants and pubs are able to open again. The Statutory Instrument permitting this additional easement was laid on 1 May and will apply retrospectively from the 1st April 2020. The Agriculture and Horticulture Development Board and Dairy UK are leading work together with farmers, processors and other key stakeholders to help industry take advantage of these easements.

The Government also took a number of early emergency steps to support dairy farmers and other sectors. These included designating employees in the food sector as key workers and temporarily relaxing the normal rules on drivers’ hours, enabling the sector to keep supply chains running, including deliveries from farm gate to processors.

The dairy industry can access various Government backed loan schemes. The Covid-19 Business Interruption Loans scheme is available to farmers, milk buyers and milk processors. We have been in priority discussions with the banking sector to clarify the position for farmers and dairy processors, with clear guidance issued to the banks. In addition the new Bounce Back Loan scheme, which will apply to businesses including those operating in agriculture, will ensure that the smallest businesses can access up to £50,000 loans. The government will provide lenders of this latter scheme with a 100% guarantee on each loan, to provide them with the confidence they need to support the smallest businesses in the country. We will also cover the first 12 months of interest payments and fees charged to the business by the lender.

I am grateful for your suggestion that we consider implementing a temporary price floor for milk. However, the current COVID-19 crisis reflects a temporary dislocation in the market that is affecting a small number of farmers, as a result of, as indicated above, the temporary closure of the food service sector. We do also recognise that crises can be unavoidable which is why the Agriculture Bill will grant powers for government to intervene at times of extreme market disruption. In the meantime, during the Transition Period the EU public intervention scheme for skimmed milk powder (SMP) and butter continues to be available. UK dairy processors are also eligible for the additional EU private storage aid schemes for cheese, butter and SMP which will open on 7 May. These measures will help to underpin prices providing a floor in the market by reducing the volume of product coming on to the market.

In the longer term our ambition remains for a more dynamic, more self-reliant agriculture industry. Regarding your concerns about farm gate prices we are acutely aware of the longer standing concerns about the position of farmers in the dairy supply chain. We are committed to tacking unfairness where this may exist. Beyond these immediate measures to deal with COVID-19, the government plans to launch a range of initiatives to improve the position of milk producers. Government is keen to see greater levels of collaboration between producers and will continue to support farmers who want to harness the benefits of working together. Our Agriculture Bill includes powers to introduce a new domestic system for recognising producer organisations, which will be better tailored to the requirements of UK producers.

The Bill also includes powers to introduce and enforce statutory codes of practice to address unfair trading practices which can occur between milk producers and purchasers. We will carry out a full consultation on dairy contracts to take account of the range of stakeholder views and hope to launch the consultation later this year.

A copy of this letter has been placed in the libraries of the House.

