



Northern Ireland  
Assembly

Committee for Agriculture and Rural  
Development

# OFFICIAL REPORT (Hansard)

Dairy Market: Department of Agriculture and  
Rural Development

13 January 2015

# NORTHERN IRELAND ASSEMBLY

## Committee for Agriculture and Rural Development

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**Members present for all or part of the proceedings:**

Mr William Irwin (Chairperson)  
Mr Joe Byrne (Deputy Chairperson)  
Mr Sydney Anderson  
Mr Thomas Buchanan  
Mrs Jo-Anne Dobson  
Mr Tom Elliott  
Mr Kieran McCarthy  
Mr Oliver McMullan  
Mr Ian Milne  
Mr Edwin Poots

**Witnesses:**

Dr Seamus McErlean	Department of Agriculture and Rural Development
Mrs Colette McMaster	Department of Agriculture and Rural Development
Mr Steven Millar	Department of Agriculture and Rural Development

**The Chairperson (Mr Irwin):** I welcome Colette McMaster, grade 5, Steven Millar, grade 6, and Seamus McErlean, principal agricultural economist. You may take up to 10 minutes for your presentation, and then we will ask questions.

**Mrs Colette McMaster (Department of Agriculture and Rural Development):** Thank you, Mr Chairman and Committee members, for the opportunity to provide a briefing on the Northern Ireland dairy industry. My colleagues are Steven Millar, head of agrifood support services, and Seamus McErlean, principal agricultural economist.

The briefing document that we sent to the Committee outlines the importance of the Northern Ireland dairy sector; the recent drop in milk prices; action taken by the Minister and Department of Agriculture and Rural Development (DARD) to support the dairy industry at this time; and current trade negotiations. By way of opening remarks, I will give a brief summary of the dairy sector and the work that DARD is doing to support the agri-food industry and specifically the dairy sector in achieving its ambitions for sustainable growth and dealing with the challenges that it faces.

As the Committee is well aware, the agri-food industry is one of the most successful industries in Northern Ireland, and the dairy sector makes a significant contribution to it. It accounts for 33% of gross agricultural output and provides employment on over 3,000 farms. It has a gross turnover of around £1 billion and employs over 2,000 people in the processing sector, which makes it the fifth largest employer in the food and drink processing sector.

The Northern Ireland dairy industry is progressive and has a proven track record for growth and a good reputation for its dairy farming. With the small local market for dairy output, the dairy industry here is heavily export-focused, with over 70% of the milk produced going to export markets, mainly in the form of bulk dairy products such as milk powders, cheese and butter. There are opportunities and challenges facing the dairy sector now and in the future. In the global context, it is anticipated that the demand for dairy products will grow faster than supply, aiding growth opportunities in international markets. At the same time, it is anticipated that the dairy industry will continue to face greater volatility in milk prices as it trades in global markets.

Growing a vibrant economy is an important priority for the Executive, who included a commitment in the Programme for Government to develop a strategic action plan for the agri-food sector, and DARD and the Department of Enterprise, Trade and Investment (DETI) appointed the industry-led Agri-Food Strategy Board to make recommendations to be included in that plan. Going for Growth includes more than 100 recommendations aimed at accelerating the growth of the agri-food industry to 2020 and beyond. These recommendations extend across the entire agri-food industry, as well as to individual sectors, including the dairy sector. In response, the Executive have agreed an action plan outlining actions to be progressed across relevant Departments, including DARD, which has a strategic goal to help the agri-food industry to prepare for future market opportunities and economic challenges. The Department will continue to support the dairy sector's growth ambitions through a range of measures, including education and training; technical and business support; and research to improve competitiveness and innovation. In addition, support will be provided under the next rural development programme 2014-2020, including the proposed farm business improvement scheme of up to £250 million, as requested by the Agri-Food Strategy Board; the agri-food processing investment scheme; and co-operation measures to encourage supply chain integration. Officials have also been working with dairy exporters to find alternative export markets following the Russian import ban. A dairy international trade working group has been established with the Department of Agriculture, Food and the Marine in Dublin to discuss mechanisms to facilitate access to third country markets for dairy companies from across the island of Ireland.

As you are aware, milk prices in European and global markets have been falling for a number of months and are feeding through to the prices received by producers. There is little doubt that this is due to an increase in EU and global milk production, combined with the residual impact of the Russian import ban and the fact that demand in China has fallen compared with last year. Milk prices have fallen from a high of 34.72p per litre in November 2013 to 25.09p per litre in October 2014. That is a huge drop, although, if you look at the average, the price paid to the producer for the first ten months of 2014 was 30.26p per litre compared with 30.78p per litre for the same period in 2013. As already stated, price volatility is part and parcel of trading in global markets. There are times, such as at the end of 2013 and the early months of 2014, when the market delivers record prices, followed by times, such as the present, when prices are low.

Whilst the price paid to producers and the pricing structure used by milk purchasers are commercial matters and therefore not within DARD's remit, the Minister is supportive of the dairy industry, and the Department is doing all it can to assist producers at this difficult time. This includes actions that seek to impact at EU and UK level as well as locally. In particular, following the introduction of the Russian ban on imports of agri-food products, the Minister wrote to the Secretary of State for Environment, Food and Rural Affairs (DEFRA) expressing her concerns and pressing her to lobby for appropriate support for the dairy sector. The Minister also met Commissioner Ciolos̄ in early September, when she highlighted the impact that the Russian ban was having on our dairy industry and requested that the Commission explore alternative markets for products. Officials have been working with dairy exporters on finding alternative markets following the Russian ban, and it is good to note that one of our exporters recently entered the Japanese market. This is a major coup, not only for the exporter but for the wider dairy industry.

The Department's dairy advisers continue to provide technical support and have been disseminating relevant information to dairy farmers on managing cash flow. A briefing on this has been provided to the Ulster Farmers' Union. The Minister met the Ulster Farmers' Union to discuss cash flow concerns, and a number of measures to help farmers were discussed. In particular, she suggested a joint meeting with the banks, and this took place on 18 December. It was an opportunity for her to advise the banks that she believed that the fundamentals for the dairy sector are good in the longer term and to ask them to be sympathetic and flexible in their approach to farmers in the coming months regarding the repayment of loan capital. Overall, it was a constructive and worthwhile meeting.

With dairy farmers facing a difficult winter, the Minister wrote again to Elizabeth Truss in advance of the December meeting of the Agriculture and Fisheries Council, outlining the importance of the dairy

sector here and explaining that, unlike GB, it is heavily reliant on export markets. During discussions in Brussels, she sought her support in asking for help for the dairy sector and requested that the Commission examine the current intervention system and assess whether it adequately fulfils the role of providing an effective safety net. The Minister was disappointed that at the Council debate, Commissioner Hogan rejected calls for additional support, such as increasing the intervention price or using export refunds. She is seeking an early meeting with him to press the case for further support for the industry. The paper provided to Committee members also provides a brief synopsis of the current trade negotiations between the EU and Canada and between the EU and the USA. The negotiations with Canada have been finalised but have yet to be approved by both EU and Canadian lawmakers. The negotiations with the USA are ongoing and still have some way to go.

That is all I want to say at this point. We are happy to answer questions. Also, if members have questions that we are unable to answer today, we will, of course, be happy to provide follow-up information after the meeting.

**The Chairperson (Mr Irwin):** Thank you very much for your presentation. In your briefing, you outlined some of the actions taken by the Minister. You said that she wrote to the Secretary of State for Environment, Food and Rural Affairs. Did a response come back on that?

**Mrs McMaster:** I am not sure that a response has come back. The Minister asked to have meetings with her before the Council meetings. She had meetings with the Secretary of State in September and December.

**The Chairperson (Mr Irwin):** OK, they have already taken place. Has the Minister met Commissioner Hogan on the issue yet?

**Mrs McMaster:** The Minister is seeking to meet Commissioner Hogan about dairy matters. The permanent secretary met Commissioner Hogan's cabinet in early December and is following up the Minister's request for a meeting with him. So the Minister has asked for that and hopes that it will happen soon.

**The Chairperson (Mr Irwin):** We have a letter from the Ulster Farmers' Union. There are predictions that prices will drop further this month and next month by 3p per litre, which, even for the most efficient dairy farmer, will mean a loss. The average pricing that you gave us was to December. It has been relatively good until the last couple of months. Do you accept that things look quite grim going into the next few months?

**Mrs McMaster:** The Department realises the difficulties facing dairy farmers. If the price drops further, the industry will face obvious difficulties. It is an immediate issue. Price volatility will remain with us. DARD and its dairy advisers have been issuing advice to the industry and to farmers. Officials have also met the banks, along with the Minister. So, yes, we recognise the issues.

**The Chairperson (Mr Irwin):** In that meeting, the banks were relatively supportive, were they?

**Mrs McMaster:** Yes, they were. I will ask my colleague Steven Millar to comment on that.

**Mr Steven Millar (Department of Agriculture and Rural Development):** I was at the meeting. By all accounts, everybody went away feeling very positive about the meeting — the Ulster Farmers' Union, the banks and the Department. There was some frank talking, and the banks agreed to be proactive in approaching their customers and asking them to engage. The Department advisers also agreed to engage proactively and reactively with farmers, helping them to analyse their business and plot a way forward. So, everybody went away reasonably content.

**The Chairperson (Mr Irwin):** I declare an interest as a dairy farmer. My son runs the farm at home.

**Mrs Dobson:** I am a beef farmer, so you are safe enough. Colette, in your briefing, your buzzwords were "opportunities" and "challenges". I know from meeting many dairy farmers over the Christmas recess, and well before it, that they feel that there are very challenging times ahead for the local industry. Many are concerned — I know that I voiced this before — about the long-term consequences for their business, their families and their mental health. There are so many issues with the volatility of the market, and they are seeing their livelihood disappear.

I know that you were listening to the excellent briefing that we had from our researcher, Mark Allen, prior to your presentation. I will just touch on some of the points in that. He focused on the Republic of Ireland, and you are focused on local farmers. Given that we are now weeks away from the end of the dairy quotas, what is your assessment of the current impact that milk coming north from farmers in the Republic of Ireland is having and will have on the volume and capacity of our local dairy industry processors? What is your assessment of the impact that the end of quotas will have on our industry and our farmers — I am focused on the Northern Ireland farmers — especially if Bord Bia cannot export their increased capacity?

**Mrs McMaster:** I will start off and then bring my colleague Seamus McErlean in on that one. In Northern Ireland and the rest of the UK, production is under quota, as you are probably aware, and there are no restraints, other than market forces, on local production. From that point of view, the ending of milk quotas should not have a noticeable impact on the pattern of production in Northern Ireland. As you say, the main impact for Northern Ireland of the ending of milk quotas will come from the planned increases in production in the South, particularly if the availability of adequate processing capacity becomes a significant issue there, because a lot of milk from Northern Ireland is exported to the South for processing. All that will depend on the price of milk and the extent to which people will continue to increase their capacity if the price is low and so on. So, to an extent, that is unknown.

There was mention of the export opportunity for Northern Ireland. Most — over 70% — of our milk production is exported, so future sustainability for Northern Ireland will be determined by the ability of the dairy sector here to respond to changing times and the opportunities for providing the right product mix in line with customer expectations.

**Mrs Dobson:** So, it is a wait-and-see attitude. Is that what you are saying?

**Mrs McMaster:** We have in place Going for Growth, the agrifood strategy for the agrifood industry, which includes the dairy industry, to 2020. Growth targets are identified in that strategy. It is not wait and see; there are specific targets identified by the board, and the industry has the ambition to grow.

**Mrs Dobson:** There are targets and ambitions; they have not delivered anything yet.

**Mrs McMaster:** DARD's role is to support the industry in realising its ambitions for growth. We are doing a range of longer-term things to support that. First, we are committed to the agreed DARD actions in the Executive response to Going for Growth. A key ask for the Department from the Agri-Food Strategy Board was to put in place a farm business improvement scheme worth up to £250 million, so we are committed to that. We have developed proposals for that scheme, and those are included in the rural development programme 2014-2020 that has gone to the Commission for approval. The proposals are designed to assist the sector in developing and becoming more competitive in achieving sustainable growth.

**Mrs Dobson:** What about my original question on the assessment?

**Mrs McMaster:** I will ask Seamus whether he can come in on that, Jo-Anne.

**Dr Seamus McErlean (Department of Agriculture and Rural Development):** It is obviously difficult to predict the future. The ROI has increased production by 10% over the past two years, but two years previous to that, it had fallen by 10%, which reflected the prices at the time.

**Mrs Dobson:** It is difficult to predict, but you could plan, surely. We heard from Mark Allen about a national strategy being built up in the Republic of Ireland. Our dairy farmers are seeing nothing. There is no strategy, no direction, no way forward.

**Dr McErlean:** I think that DARD has reacted to the crisis that the dairy farmers are facing and will keep on monitoring things.

**Mrs Dobson:** By meeting with the banks.

**Dr McErlean:** Exactly, and other activities that are ongoing in working with farmers. We will continue to monitor the situation, and, if things continue or get worse, we will ramp up our reaction accordingly.

**Mrs Dobson:** Is that plan B? Do you have a plan B?

**Dr McErlean:** At the moment, we are at the early stages of this. Sometimes, these cycles are quite short; other times, unfortunately, they are a lot longer, so we have to monitor and react appropriately at the time.

**Mrs Dobson:** We have met processors, and they say that, realistically, it will be the autumn, probably September, before there is any change. So, as an economist, what is plan B, or what is the strategy to get the dairy industry to survive over this period?

**Dr McErlean:** There are limitations on what you can do very quickly. Obviously, we can press the EU to take action as and when necessary. If there is any silver lining in what is happening, it is possibly the fact that the lower price will stop our competitors increasing their production, especially given that we are coming to the end of quotas. I know that farmers will not see —

**Mrs Dobson:** It is cold comfort for farmers struggling to pay their bills.

**Dr McErlean:** Yes, it is cold comfort, but it is probably helpful. If we are to see the redistribution of milk across Europe, there has to be some pain in getting to that. The key thing is this: if milk production increases in the Republic, it replaces milk production somewhere else in the world, not here. I think that the dairy sector here is in quite a good position to come through that, but that will not happen —

**Mrs Dobson:** What links has DARD with DETI to put pressure on that Department to help out with the high energy costs that producers face? We keep hearing about the banks, cutting costs and becoming more efficient. Surely there is something else that can be done or you have a plan to deal with DETI to see whether it can help. Is there anything else out there, or are they to be left hanging until the prices increase?

**Mrs McMaster:** This goes back to the longer-term strategy that we have in place, which is working with and supporting the industry in achieving their targets and growth ambitions. We are working with DETI and other Departments in delivering on their response to Going for Growth. That commitment has been made right across the Executive, and we have ongoing contact with DETI and so on. That is very important.

You asked about the immediate and short-term —

**Mrs Dobson:** So officials from the two Departments have met and continue to meet to discuss energy costs and whether they can help: is that what you are saying, Colette?

**Mrs McMaster:** Yes, we are working with DETI, Invest NI, the Agri-Food Strategy Board —

**Mrs Dobson:** There is no mention in your briefing of having any influence with DETI. There is absolutely nothing in it.

**Mrs McMaster:** We are working with DETI, Invest NI and the Agri-Food Strategy Board on the dairy subgroup, which is the subgroup of the Agri-Food Strategy Board specifically considering dairy issues and the challenges for the dairy industry. That is ongoing.

**Mrs Dobson:** How successful has that been so far?

**Mrs McMaster:** That is ongoing work and it is to help to deliver on the longer-term strategy. We are also trying to deal with the immediate issues and difficulties that arise by looking at what more we can do. We are doing that by seeking to influence at EU level and to lobby the Commission, if we can and if something appropriate can be done, and by providing and issuing advice to farmers and so on. The work is ongoing, and we are monitoring this very closely. We will continue to look at what more, if anything, we can do. We have made the commitment to do what we can to help the industry.

**Mrs Dobson:** "If anything"?

**Mrs McMaster:** Sorry?

**Mrs Dobson:** You said, "what more, if anything" you can do.

**Mrs McMaster:** What more, if anything, we can do over and above what we are doing. Yes, absolutely.

**Mrs Dobson:** Goodness, that is cold comfort for the dairy industry. Thanks, Chair.

**Mr Byrne:** I welcome the presentation. Like most associated with the farming community at the moment, my question is this: is there any immediate or medium-term strategy that can be pursued to improve the profitability of the dairy sector? Obviously, the liquid milk market is very restricted here, given that we have only 1.7 million consumers. So we are greatly reliant on dairy commodity markets. You are the Department; the primary producers are the farmers; and then we have the processors. What can be done by the Department and the processing sector to get a more value-added product with a longer shelf life that can be sold on the international market, where there is a demand for such products?

**Mrs McMaster:** We are committed to working with industry to seek to develop it to meet the challenges. The range of products and so on comes into that. DARD can work with the industry to help to support the development of stronger supply chains. We can work to provide education and training, and research to support innovation and development in the industry. We are working to put in place measures under the rural development programme to support those in the industry in developing their own businesses and enterprises, whether at farmer level, through the farm business improvement scheme, or through the agri-food processing investment scheme. That is one of the measures in the new rural development programme. There is also a range of measures in the rural development programme that assist in the development of co-operation in the supply chain. So there are things that we are seeking to develop and make available to support industry. It will be a long-term commitment.

**Mr Byrne:** That begs the question of whether DARD can really have any influence on the initiation of policies that improve the international marketing of our product. You are part of the public sector; farmers and processors are in the private sector. Is there much that we can do or is it just about having nice cosy meetings and looking for the banks to go easy on the sector?

**Mrs McMaster:** On opportunities in the international market, one of our key roles is to facilitate exporters gaining access to new markets. That is through our veterinary service, because access to new markets, and how you make your case to them, is underpinned by animal health, traceability, high animal health status and so on. Our veterinary service is involved in that and is working with dairy exporters, dairy export companies, Invest NI, a DEFRA-led group at UK level and the all-island working group. Veterinary service staff have accompanied Ministers and DEFRA-led missions to other countries to seek to secure access for Northern Ireland. Just recently, Northern Ireland opened an office in Beijing. That means permanent representation from Northern Ireland, which can assist in securing markets for Northern Ireland companies exporting to China. So there is stuff that we can continue to do and are doing.

**Mr Byrne:** Chairman, allow me to pursue this a little further. Given that we are a regional Administration under the umbrella of DEFRA, do we have flexibility or freedom, via DARD, to go directly to China?

**Mrs McMaster:** We are working within the systems available to us and have, on occasion, accompanied DEFRA-led missions. Now that we have representation in Beijing, when a DEFRA contingent visits China, our representatives in Beijing are involved in the missions and meet the Chinese. You are absolutely right: we are not leading on international trade matters, but we are working in whatever way we can in that system to maximise the benefit for Northern Ireland. We are working very closely with the DEFRA teams planning those visits to ensure that Northern Ireland is an important part of their negotiations there.

**Mr Byrne:** Given that we are so dependent on getting 85% of production outside the region and that GB itself is largely not self-sufficient in milk, we are more dependent on the external market beyond these islands. Are we handicapped by having to go through DEFRA?

**Mrs McMaster:** We have to do it because international trade is led by DEFRA. It is a reserved matter and is not in our hands. We have, however, been well represented in recent DEFRA missions. There are also opportunities for exports from Northern Ireland in the GB market, to the EU and to third country markets.

**Mr Buchanan:** I want to touch on the last point, which has been fairly well teased out. You mentioned in answers to the last couple of folk the work that is ongoing with other agencies and other Departments and that working groups have been set up and so forth. What tangible thing has been done to identify new markets? What new markets have been identified for the dairy industry? Let us remember that it is coming to a stage where it will be getting into dire straits. Something really needs to be done to try to identify and set up new markets. What has been done? What is being done? What new markets have been identified?

**Mrs McMaster:** As we have talked about, there is a programme of work, and we are working with DEFRA. We are working as part of the all-island working group to identify the potential for accessing third country markets from an all-island basis. So, we are coming in from different angles: UK; all-island; and so on. We are working with industry. Industry is represented on the UK working group that is dealing with export markets. It is a DEFRA-led group and includes industry, including representatives from our industry here as well as DARD. So, that is an active working group to identify which markets we can target and so on. It is something that the Agri-Food Strategy Board has seen as a priority to strengthen and build on the work that is done currently from Northern Ireland, both through industry and facilitating that. That is one of the reasons why, in Going for Growth, one of the key asks was for a review of the marketing bodies that are in place with a view to putting in place a strong marketing body for Northern Ireland in future. So, there is a review under way. It is a review led by DETI, and we await the outcome of that and, indeed, how that might impact on future plans.

**Mr Buchanan:** Yes, we are working and working on it, but nothing tangible has come out of it yet. There really seems to be nothing identified to say to the dairy industry, "There is a market that you can get into" or, "There is a market there that you can get into". I think that that is the road that needs to be looked at to make sure that something tangible is there to say to the dairy industry, "There is a market, and you can get into that market". It appears that nothing has been substantially identified as yet.

**Mrs McMaster:** I do not think that is the case. First, industry needs to want to export. People are doing that, so it is happening. You already have exporters who know that they want to export and know where they want to export to, and they are seeking to work in partnership with government to help them to do that. That is happening, so there are markets opening up, and that creates a market for others to join. We need to know where we want to target our products, and that is, again, for industry to determine whether that is the right sort of market for it to get into and whether it wants to get into that. When you start to focus your efforts on seeking access to a new export market, it is a very long-term and detailed process. It takes years of building trust and so on. It is not something that can be done overnight, so that is something to work closely with industry on for planning for the future. The sorts of structures that you are talking about are there, and there is scope to build further on those.

**Mr Buchanan:** To finish: if all this work that you are talking about is being done, we can say today that the dairy industry should have no fears or no concerns.

**Mrs McMaster:** There are definitely opportunities and challenges. Absolutely. Maybe Seamus can come in on that.

**Dr McErlean:** We do send product to quite a number of African countries, including Algeria. We have sent product to China, Indonesia and places like that. Quite a lot of these countries are now opening up, and that is partly through processors identifying which countries they want to send to and government helping to sort out the exports certification etc. All that work can be done, but a market can suddenly disappear if the exchange rate changes. If there is unfavourable movement in the exchange rate, your product is no longer competitive in that country, and it is just down to an exchange rate that we have no power over. Nobody has any power over exchange rates. So, you can do all the preparation work and have everything prepared, but the exchange rate can go against you and you are not then going to see the benefits of that work, but, as long as the work is done, when the exchange rate does eventually move in your favour, that market can open up again.

**Mr Poots:** I have been listening very closely and have heard about lobbying and influence, but what has been done that is tangible to mitigate the crisis that the dairy sector is about to enter? It is the second largest section of the largest business sector in Northern Ireland, which is the agriculture sector. I want to know what has been done and what you propose to do as opposed to just being influencers and lobbyists.

**Mrs McMaster:** What has been done to date — we are talking about longer term and how we are working to mitigate — has helped gear the industry up to become more competitive and sustainable. We talked about the rural development programme and the proposals that we have developed in it. We have worked with the industry to develop those proposals, and they are currently with the Commission.

**Mr Poots:** You are using money that would have gone to the farmers in the first instance to do that.

**Mrs McMaster:** No —

**Mr Poots:** The modulation money is really stripped away from the single farm payment to pay for a lot of that programme.

**Mrs McMaster:** No, we did not transfer moneys from pillar 1; from the farm payment.

**Mr Poots:** Is that something that you would consider doing — for example, reducing the amount of modulation money that is taken away from single farm payments so that the people who are suffering here would end up with more money?

**Mrs McMaster:** With the new CAP reform, we have pillar 1 and pillar 2. The decision has now been made not to transfer money from pillar 1 to pillar 2 for the new programme. There will be a decision again in the future on whether or not it is appropriate to do that, but the decision was made not to do it. To support pillar 2 of the rural development programme, we have had to find additional moneys from the Executive. We have EU funding towards that, and we can match-fund that, but the case was made to the Executive to put in place a significant programme of assistance for the sector. The Executive decided to support that and, in principle, to provide up to £250 million funding to support a farm business improvement scheme in the rural development programme. We have developed proposals and, subject to industry demand, we will make the bids for that money. That is going to be significant support for the industry to help it become more sustainable and develop —

**Mr Poots:** That is all very long term. We have a short-term issue and short-term problem.

**Mrs McMaster:** Yes, it is longer term, absolutely. If we get agreement from the Commission, if we have our business case approval and if we get the funding in place, we will be able to start those measures, so there will be some work starting under that over the next while. In terms of pillar 1 of the CAP reform and the single farm payment, the decision was made to introduce changes to that payment over a seven-year transitional period. That is to allow farmers to adjust and prepare for those changes. Again, that is looking to the longer term, but seeking to assist overall.

**Dr McErlean:** Over the last two years, voluntary modulation has not been applied, so no money has been moved from pillar 1 to pillar 2 in that time, except for compulsory modulation, which we have no control over.

**Mr Poots:** A comment made in the previous work that was done by the Research and Information Service (RalSe) about the New Zealand dairy sector was that one of the reasons why it is more efficient is that it is less regulated. In Northern Ireland, we appear to take European regulations, seek to gold-plate them and apply them as stringently as possible. Is there any notion in the Department that it should have a more relaxed attitude to regulations and, therefore, reduce the costs that are applied to the farming sector?

**Mrs McMaster:** If they are EU regulations, we have to comply. You mentioned gold-plating. That is very general, but it is something that we always look at any time we introduce new legislation.

**Dr McErlean:** We do not agree that we do gold-plate. The thing about regulations is that, if we do not apply them, there are penalties.

**Mr Poots:** We have experienced that.

**Dr McErlean:** Our hands are tied when it comes to regulations.

**Mr Millar:** We talked earlier about export markets. One of the things that export markets expect is enforcement of regulations, and it may even be even something that they want as well. If you ease back on regulations, you can shoot yourself in the foot when going after a market.

**Mr Poots:** I have heard that quite often. Interestingly enough, New Zealand accounts for 34% of the imports to China, and New Zealand has considerably less regulation than we have. So, that really does not stack up. That is an argument that can be made, but can you bear it out with facts? There is a fact that I have given you: New Zealand is the biggest exporter of milk to China. We are in that market. You are saying that, the more regulations we have, the better chance we have of getting into the market. With respect, that is rubbish. We will get into that market on the basis of having competitive milk prices.

**Dr McErlean:** As we are part of the EU, we must obey the regulations that are imposed on us by that. Also, by being in the EU, we get the single farm payment and we get the protection of import tariffs that other countries have to pay so that they cannot flood our market with imports. So, we get some benefits from having to meet all that regulation.

**Mr Poots:** Nobody disputes that, but there is a widespread view in the agricultural sector that, when it comes to regulation, it is more stringently applied in Northern Ireland than in most other parts of the European Union.

**Dr McErlean:** It may well be that New Zealand farmers have exactly the same view with respect to their regulations. I do not know exactly what the level of regulation is in New Zealand. I suspect that their farmers complain as much about it as ours do.

**Mr Milne:** I am sorry for having missed some of the meeting. Based on what Mark was saying, it seems that a pretty bleak picture was painted as to the Southern market. I imagine that up here mirrors what might happen in the South. We are talking about markets in Europe, so surely, with the Russian ban and the Chinese becoming more self-sufficient, other European countries are in the same boat as us. They are also fighting for access to other markets. We must say to ourselves that we have to be optimistic and put a positive note on all that, but we need to ask ourselves what advice we are giving to dairy farmers here in the North as regards increasing their yield and their product. Are we doing that? Are we having a sensible conversation as to the reality of the state of play here, rather than leaving everybody to their own devices? Do you get where I am coming from?

**Mrs McMaster:** Yes. We are working at a departmental level and with our dairy advisers.

**Mr Millar:** The starting point on that issue is that our supporting advice to dairy farmers is to produce milk as competitively and at as low a price as possible. The support that advisers give them, the training and the new technologies that they would help them to adopt are all aimed at doing that. That is the starting point. If you are able to produce milk at as low a price as possible, after that, it is up to the individual to talk to their processor to identify whether that processor has a prospect of taking more milk. If they have, the farmer must follow that through and produce it, knowing that they have a cost base that they could live with if the price falls back. That is the thinking any farmer would have to go through. Whether to increase milk production is a business decision that individuals have to take based on their view of future prospects.

**Mr Milne:** I think it was the chief executive of the UK farmers' union I heard on the news this morning. A very short time ago, he advised farmers to increase production. We have to let people know the state of play here, and we should not come out with stuff like that. Do you agree?

**Mrs McMaster:** It is very much down to individuals and the business plan they have for their own enterprise, taking into account advice on that. Absolutely.

**Mr Elliott:** Thank you for the presentation. I have a couple of questions. Is there any indication as to why China has reduced their purchase of our products by so much?

**Dr McErlean:** I am not sure. I suspect it is partly related to the exchange rate and also because they are trying to increase self-sufficiency in various products. More than likely, it is the exchange rate.

**Mr Millar:** The speculation was they would come back into the market at some time in the spring.

**Mr Elliott:** I thought there might have been more evidence around that, not only for Northern Ireland but for other countries. I am sure that there is quite a bit of export from other areas into China. I thought we might have had a better idea of why that was the case.

**Dr McErlean:** There are people who know the answer; unfortunately, we do not.

**Mr Elliott:** Do you believe that, at times like this when the price of milk is reducing, farmers are better reducing their milk production so that the market is smaller here, or are you better sustaining or even increasing your production, so that the processors are more efficient because they are getting more milk? As the Agriculture Department, which advises farmers, have you any advice on that?

**Mr Millar:** Yes. That was discussed at length at a seminar before the winter fair back in December. There were two opposing schools of thought along the lines you indicated. It boils down to this: every farmer has to make a decision based on their production costs and their own circumstances. You could argue that maintaining production covers the overheads. Even though you may be losing money on every litre, the income still covers your overheads, which are there regardless. The other view is that, if you cut back on production, it might be hard to ramp it up again when things turn round. Cows go off — if you reduce feeding to cut costs, you get depressed yields in the short term, and it might be hard to switch that back on.

**Mr Elliott:** What conclusion did the Department come to?

**Mr Millar:** The Department did not come to any conclusion. That is the point I am trying to make. There is not the same fix for everybody. Everybody has to look at their own circumstances, and the adviser would advise accordingly.

**Mr Elliott:** A severe cop-out.

**Mr Millar:** No, it is the right thing to do. You cannot give general advice when it does not apply to people. You have to be specific to the person's problem. That is the right thing to do.

**Mr Elliott:** Chair, a recent letter to you from the Department stated:

*"I am disappointed that at the Council debate, Commissioner Hogan rejected calls for additional crisis management measures at this time".*

What were the additional crisis-management measures that were being asked for?

**Mrs McMaster:** It was a matter of looking specifically at what the Commission had already done and what more it could do. Among the measures introduced by the Commission, you will be aware of private storage aid for skimmed milk and powder, the extension of the intervention period for skimmed milk, powder and butter from 30 September to 31 December 2014, the bringing forward of the intervention period for 2015 from 1 March to —

**Mr Elliott:** Yes, Colette, but that has already been agreed.

**Mrs McMaster:** There is a range of things already in place.

**Mr Elliott:** This letter states that Commissioner Hogan rejected calls for additional crisis-management measures. I am asking you this: what were the crisis-management measures that were rejected?

**Mrs McMaster:** A range of things could be done if needed, including CAP compensation from the new crisis reserve, intervention, export refunds and acceleration of trade negotiations. There is a range of other tools there.

**Mr Elliott:** Were those asked for?

**Mrs McMaster:** The commissioner was asked what further tools it would be right to use at this point. He said that they were not prepared to look at it at this stage. One of the things that could have been looked at is whether there is currently an effective safety net, with 17p per litre being the floor price. The commissioner, however, ruled out doing anything at this point, but there are still a range of things that could be done. The Commission needs to think about when that right time might be. Doing these things will have implications for the EU Budget. The other tools have implications as well. There is no silver bullet.

**Mr Elliott:** The Minister has indicated that she will seek an early meeting. Has that been —

**Mrs McMaster:** Yes, she is hoping to have that shortly in the new year.

**Mr Elliott:** There is no date as yet.

**Mrs McMaster:** I do not think there is a date as yet.

**Mr Anderson:** Thank you for your presentation. We have talked today about export markets, home markets and the crisis in which the dairy sector and industry finds itself. We talked also about the pending major expansion in the Republic of Ireland, and it was said that a lot of the milk from here could have been sent over to GB. Now that is slowing down. We are picking up second place. I know we talk about the export market, but how do we establish or re-establish our home market? How do we try to maintain or increase it? I know it has been touched on here, but what is the Department's view on that? What are we doing to get a hold on what is going on here, pending what is possibly down the line?

**Mrs McMaster:** I thank that —

**Mr Anderson:** How do you increase production here and send it, say, down South, if they are expanding? I am just trying to get the figures straight in my head. If you want to expand here, and the Republic is expanding, and you want to get a market there, and vice versa across the water. I am talking about the home markets first of all. How do we establish, maintain or improve that?

**Mrs McMaster:** It is the unknown really. Will there still be sufficient market for exports to the South? That depends on where they increase and even, geographically, whether they are —

**Mr Anderson:** The signs are that they are going to increase. They are going into expansion mode. Is that right, Colette?

**Mrs McMaster:** Yes, that is right.

**Mr Anderson:** If that happens, Colette, is the market more or less going to close down as far as any expansion in Northern Ireland is concerned?

**Mrs McMaster:** There is the export market to the South. There is a question about whether there will continue to be a market in the South. That will depend on whether they have the processing capacity and on where their production is increasing geographically. For example, if their production increases — we think that is likely to take place in the south-west of Ireland — producers in border counties may find it attractive to continue to import milk from Northern Ireland. It is not an absolute certainty that there will be no further demand from the South. It will be a matter of seeing what opportunities there are. Talking about the market in Northern Ireland, I think the reason why we are exporting is that we are producing more than we need to use. Yes, through diversification into other products and so on, there may be further opportunities here. Then, there are the export markets; we talked about GB to EU to third countries. So, there is potential in other markets as well, but I do not think that any of this is an absolute definite or known. It is about predicting it.

**Dr McErlean:** The recent high prices have encouraged everybody around the world to increase their production. That includes GB, which was way, way below the quota for a number of years. Recently, GB has started to up its milk production. That is possibly why we are sending slightly less to GB at the

moment. A high price will encourage everybody to increase production, but the inevitable result of that is that there will be too much milk and the price will fall again.

We have shown ourselves to be quite competitive. We have come through quite a number of crises previously. Over the last 15 years, we have also bought a lot of quota from GB and brought it over here. That is a reflection that we are reasonably competitive. We were able to do that and up our production while GB was reducing its production. These cyclical movements in markets come and go. To some extent, it is about how good you are at riding the storm and coming out the other side. I think that we have done —

**Mr Anderson:** It is probably difficult to know in this situation, but are you confident that we in Northern Ireland are as well placed as anyone to ride this storm and look to the future with optimism, or is there something that we are not doing that we should be doing to keep up, improve and find the markets that we are looking for?

**Mrs McMaster:** We are in a good position with dairy. There are opportunities. There is always scope to do better and to seek to find ways of becoming more efficient or developing supply chains or export markets and so on. There are definitely opportunities there, but, of course, there are all the issues as well.

**Mr Millar:** What we continually have to do is ensure that we are efficient. That is the key message. Everybody else is going to be efficient. You could be competing against somebody who has a lower cost base than you. So, where you can compensate is by having a higher quality or better product or something unique that people are prepared to pay more for. You have to be competitive on your production costs. That is the focus. We have a wide spectrum of levels of efficiency. We have some farmers who are very efficient and some who are inefficient. It is a matter of trying to encourage as many of those inefficient farmers as possible to become more efficient, to look at their costs and to take actions and advice that will help them to cut their costs.

**Mr Anderson:** In closing, I have a point about the trade negotiations. Colette, in your opening remarks, you touched on the comprehensive trade and economic agreement. Your paper states:

*"The volumes involved are not likely to have a significant impact on markets."*

Why is that? Is it because this is so small? What are the issues there?

**Mrs McMaster:** Seamus will take this one.

**Dr McErlean:** Compared with the EU market as a whole, the volumes involved —

**Mr Anderson:** It is a whole EU market.

**Dr McErlean:** — are going to be quite small. Therefore, we do not expect the European price to be hugely affected by the trade between the EU and Canada.

**Mr Anderson:** So, you do not see that as an opportunity for a market coming from Northern Ireland.

**Dr McErlean:** There is an opportunity —

**Mr Anderson:** But not to a big extent.

**Dr McErlean:** — for dairy processors as a result. Overall EU dairy processing might gain as a result of the comprehensive trade and economic agreement (CETA), but it is not going to give everybody higher prices. We will maybe just see a slight expansion, and prices might change very slightly, but it is not going to be a huge factor in the market.

**Mr Anderson:** What was the intention at the outset? Was it to get an export market into Canada and other places?

**Dr McErlean:** The intention was just to give everybody more opportunity. We have more opportunity to sell our milk, and they have more opportunity to sell other products to us. However, you often find

that prices do not change that much. At the end of the day, there is only so much demand for milk. Who produces that milk may change from time to time. However, while the price varies up and down, it stays within a certain range over time. That just reflects the fact that there is only a certain amount of demand. Whoever is the most competitive provides it.

**Mr Anderson:** That is the market.

**Dr McErlean:** But they are not going to end up with higher prices. They are just going to end up with the same price as usual. They are just going to have more of the market. As long as they are able to produce the milk profitably, they have a margin and are able to survive.

**The Chairperson (Mr Irwin):** I have seen in some media reports that one of the big English dairy processors is in some sort of financial difficulty. Are you aware of that situation on the mainland?

**Mrs McMaster:** Yes, that is the cooperative, First Milk. We heard about that yesterday.

**The Chairperson (Mr Irwin):** We have a small number of processors in Northern Ireland. Have you been in discussions with them?

**Mrs McMaster:** Not about that particular processor. As I understand, no Northern Ireland producers provide their milk to that cooperative.

**The Chairperson (Mr Irwin):** The difficulty for milk production right across Europe is that you have a double whammy. You have the Russian import ban, which, on the face of it, did not seem to be serious, but the companies that were exporting to Russia now have to find a market on mainland Europe for any extra production going onto the market. Plus, we have had brilliant weather in the last year or 18 months, which has probably increased production right across Europe. So, it has been difficult.

Is there any one policy that you think could be adopted to help stabilise the situation? I am sure that you would have already said if there was. We are going to find ourselves in a very difficult situation in the next number of months.

**Mrs McMaster:** In the longer term, working with the industry is the important thing to do. We are continuing to do that to help the industry develop, grow and to find export markets and see what we can do to facilitate that. In the short term, it is about looking to see if there is anything that can be done at EU level, such as provision of advice and so on. It is very difficult. A lot of it is out of our control, but we will work with the industry where we can.

**The Chairperson (Mr Irwin):** The recent report on milk production in Northern Ireland showed that it was up by 7.5% on the same month the previous year. That proves how good a year it has been for production, which does not help.

Thank you very much for the presentation and for answering our questions.