Gwell Cysylltiadau Busnes Organig

BOBL

Better Organic Business Links

# *Market Review of the Organic Dairy Sector in Wales, 2009*

# *Executive Summary and Recommendations*

**Organic Centre Wales**
**Better Organic Business Links**

*March 2010*

Cronfa Amaethyddol Ewrop ar gyfer Datblygu Gwledig: Ewrop yn Buddsoddi mewn Ardaloedd Gwledig
The European Agricultural Fund for Rural Development: Europe Investing in Rural Areas

Llywodraeth Cynulliad Cymru
Welsh Assembly Government

**Submitted to:**
**Organic Centre Wales**
**Date: March 2010**

**Prepared by:**
**ADAS Wales**

**Authors**
David Frost
Carolyn Smith
Fay Francis

**Acknowledgements**
ADAS Wales would like to thank the following companies and organisations for providing information: Calon Wen, OMSCo, Rachel's, South Caernarfon Creameries, Hafod, Sanclêr, Tomlinson's, Arla, Organic Centre Wales, Soil Association, Welsh Quality Food Certification, Organic Farmers and Growers and Defra.

**The Better Organic Business Links Project**
This work has been undertaken under the auspices of Better Organic Business Links (BOBL), the Supply Chain Efficiencies project run by Organic Centre Wales. This work delivers against action point 4.1 of the BOBL Action plan – Market Intelligence. The review is one of four and provides a snapshot of the organic dairy market at the outset of the project. The review will act as a baseline and will be repeated towards the end of the project in 2012.

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**Executive Summary**

In the conventional dairy market there are strong downward pressures on the prices paid for milk at a time of global financial instability and rising production costs for dairy farmers. Globally, prices in mid 2009 were 40% below 2008 levels. In Europe, the EU milk price has fallen 9.1% year on year. Low prices to dairy producers led to strikes among French, Belgian, Luxembourg and German dairy farmers who want the EU to stop increasing milk quotas and are calling for a 40 cent per litre milk price. In the UK, there has been a continued decline in total milk production and the conventional dairy industry faces a number of challenges. In particular, prices paid to producers are not covering increasing input costs.

In the UK organic dairy sector there has been a 50% increase in the volume of organic milk produced in the past three years. In 2009 more dairy converters started to supply organic milk. The combination of this additional supply and lower demand for organic dairy products meant that prices to producers were lower in 2009 than in 2008.

Although there has been a decline in organic produce's share of the overall UK grocery market, this decline has been lowest for organic milk sales. Expenditure on liquid milk increased and sales of organic milk in 2009 were the highest on record. Sales of organic cheese grew from a low base but sales of organic yoghurt fell.

According to TNS consumer data for the 52 week period ending 12th July 2009, the UK market for organic dairy products (including eggs) was worth £298 million. Expenditure on organic milk and cream rose but expenditure on organic yogurt, butter and cheese fell. The changes in expenditure on the main categories of organic dairy products 2008-2009 were:

- Milk +3%
- Yogurt -11%
- Cheese -4%
- Butter -13%
- Cream +9%

ADAS calculates the number of licensed organic dairy producers in Wales to be 120. The main milk buying companies for organic dairy producers in Wales are OMSCo (supplied by 87 Welsh producers) and Calon Wen (supplied by 22 Welsh producers).

Preliminary results from the 2009 Welsh Organic Producer Survey indicate an estimated fall in Welsh organic milk sales. OCW estimate that total organic milk sales in Wales in 2009 fell to 67.4 million litres, down from 73.5 million in 2008.

The volume of organic milk in Wales sold as non-organic rose from 100,000 litres in 2008 to 1.1 million litres in 2009. The main reason for certified milk sold as non-organic was the lack of an organic market.

Although there was a decline in organic milk sales in Wales between November 2008 and November 2009 there were reports of a sales upturn during the autumn of 2009 and an increase in enquiries from new customers looking to source organic dairy products for the first time

In Wales, only 16% of organic dairy producers believed prices to be high enough in 2009 compared to 50% who felt them to be high enough in 2008. This reflected the reduction in organic milk prices in the previous 12 months.

Most of the organic milk produced in Wales is processed outside Wales. As there is little processing capacity for organic milk in Wales, most of the organic milk and dairy products consumed in Wales are processed outside Wales. Nonetheless organic cheese, butter, cream, yogurt, flavoured milk and crème fraiche are produced by Welsh-based processors. Marketing initiatives and product development continue to be a feature of the sector.

Consultations with stakeholders found that a number of factors have put pressure on the organic milk market since the last review of the organic dairy sector in Wales in 2007. Although supply has increased, consumer demand is lower. Production costs are higher and some stakeholders felt there is a lack of positive drivers in the market.

Stakeholders identified the marketing strategies for the organic dairy sector to be: improving the clarity of the organic message to the consumer; focusing more on the sustainability of organic production; producing the best quality; uniting industry and securing funding to promote its benefits.

Stakeholders' priorities for the future of the industry are to manage the seasonality of milk supply to ensure continuity to the consumer and market enlargement; to improve producer technical efficiency; to develop new products; and to improve communication to the consumer.

**Recommendations**

The review makes the following recommendations,

1. The organic dairy sector should work together in a positive marketing campaign to promote the benefits to the consumer of organic dairy products.
2. The launch of the Organic UK campaign is a positive marketing move and needs to continue.
3. More consumer data should be obtained and made more widely available. This will help smaller organic processors to make informed marketing and production decisions.
4. Farm supply and demand from processors need to be brought more into balance. Seasonality payments and accurate profiling of production by the producer will lead to a better balanced supply.
5. Technical efficiency on organic dairy farms needs to continue to improve to help combat the impact of lower prices.
6. The potential shortage of new entrants/converters into the Welsh organic dairy sector needs to be addressed. Monitoring of the situation to provide the basis for forward planning is required.