



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

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## United Kingdom

### Dairy and Products

### UK dairy output forecast to sharply decline

### 2005

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**Report Highlights:**

A UK Government funded report into the future of the UK dairy industry forecasts that, following several years of low market prices and rationalization within the sector, UK milk production could fall 1 billion liters below quota by MY2007, leading to an increased reliance on imports of fluid milk for manufacturers of butter, cheese and powdered milk, and the increased likelihood of rising imports of finished products.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
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London [UK1]  
[UK]

A research report funded by the UK Government's Department for Environment, Food & Rural Affairs (Defra) has concluded that more UK dairy farmers ceased production between April 2003 and April 2005 than had intended to do so in 2003. Further, there was a higher concentration of more profitable and larger herds among those that quit and not all lost English production is being taken up by other farmers. As a consequence, the report's authors forecast UK milk production to fall 1 billion liters below quota by MY2007.

In a new report, "Changes in England and Wales dairy farming since 2002/03: a resurvey", funded by Defra, author Professor David Coleman of the UK's University of Manchester examined what had happened, by April 2005, to a sample of 369 farms in England and Wales which were specialized dairy farms in April 2003. The reports results and conclusions make for stark reading:

- More farms ceased production between April 2003 and April 2005 than had intended to do so in 2003
- Of those that ceased production, there was a higher concentration of more profitable and larger herds
- The majority of the discontinuing farms (29 out of 44) moved into beef production and 12 into sheep
- While 12.4 percent of the farms surveyed had ceased production, those that remain had increased production by an average of just 5.3 percent since April 2003, fractionally more of this due to larger herd-size than to milk yield per cow. In other words, the lost production is not being fully taken up by the remaining farmers
- Total output of UK milk is forecast to decline to 13.3 billion liters in MY2007, as against a national quota at that time of 14.41 billion liters (the UK has historically produced at or near quota)
- 8.7 percent of the remaining producers surveyed intend to cease production in the subsequent years and a further 8.4 percent remain uncertain about their future in dairy farming

The report can be read in full at:

<http://www.defra.gov.uk/foodrin/milk/pdf/colman3report.pdf>

As far as the international implications are concerned, any decline in the domestic availability of fluid milk will be felt most by the UK's dairy manufacturing sector. While the supply of liquid milk direct to the consumer will likely be little affected, supplies available for further processing into cheese, butter and powdered milk will inevitably tighten. This could lead to increases in the domestic price, thereby easing the exodus of producers from the sector. The current price of around 18 pence per liter is regularly cited as the root cause of the current problems facing the sector, given that the cost of producing milk reportedly ranges from 17 pence to 23 pence per liter. However, as Professor Coleman highlights, it is not necessarily the less efficient, smaller producers not investing in their farms who are exiting the industry. As such, any increase in price may come too late for the fragile sector that remains. It will then be a case of whether UK dairy manufacturers import increased quantities of fluid milk from the likes of the Republic of Ireland, or whether imports of finished products increase to meet the domestic demand for dairy products, which itself is likely to remain buoyant.