

3 October 2014

Meurig Raymond MBE, FRAgS
President, NFU
Agriculture House
Stoneleigh Park
Warwickshire
CV8 2TZ

Dear Meurig,

I am writing to you because I want all of your members to know how important it is to Morrisons that the UK retains a strong and competitive dairy industry. It is important because we continue to sell 100% British milk and cream, as we always have. 80% of the cheese we sell is also of British origin, and we believe this is a higher proportion than any other retailer. Our commitment to 100% own brand British fresh beef, pork, lamb, chicken and eggs is also well known and leads the UK supermarket sector.

We are therefore really concerned about the impact on dairy farmers suffering from recent price cuts and particularly so for those farmers who have invested heavily in their businesses. The degree of price volatility we have seen in dairy is not helpful for any business, and the recent movements in global dairy commodity prices have been unparalleled. World milk powder prices fell by 11% last month – an unprecedented drop.

Therefore, new mechanisms to help the industry cope with this level of price movement must be developed. We at Morrisons are committed to doing this and are well advanced, as evidenced by our cheese contract which the NFU welcomed last year. We are re-tendering for liquid milk supplies because we are coming to the end of our current five-year contract in 2015, not in response to the current market situation. We fully recognise the increasing level of concern about falling prices as articulated by the NFU, and that is why I can assure you that a mechanism to address fluctuations in the market will be a feature of any new liquid milk contract.

Whether people like it or not, the days when the farm gate milk price could be affected by the UK big four supermarkets are behind us. The UK milk market is now fully integrated into the global market and subject to global forces. We have recently seen the dramatic effect of this caused by the fall in Chinese demand. Under the contracts we have with our processors we have no direct control over farm gate prices. We operate a model where we agree a price for standardised, pasteurised, homogenised and bottled milk delivered to our depots. The price the farmer receives is set entirely by the processor. This ensures that any milk price movements are shared across the entire producer pool, and that all suppliers are treated equally.

We offer a number of benefits to dairy milk farmers including our dairy bull calf scheme which now processes over 25,000 dairy bull calves per year, providing an additional source of income for dairy farmers.

The commercial terms under which we pay our processors for bottled milk have not changed since the beginning of this year, and any promotions on liquid milk have been paid for entirely by us and not passed on to the processor or farmer. We made this clear at the time we launched our 'I'm Cheaper' campaign, and have stuck to our word.

Yours sincerely



MARTYN JONES
Group Corporate Services Director