

EXECUTIVE NOTE

THE CONDENSED MILK AND DRIED MILK (SCOTLAND) AMENDMENT REGULATIONS 2008 (SSI 2008/12)

The above instrument was made by the Scottish Ministers in exercise of the powers conferred by sections 16(1)(a) and (e), 17(1) and 48(1) of the Food Safety Act 1990. The instrument is subject to negative resolution procedure.

Policy Objectives

1. The purpose of the instrument is to implement provisions allowing the protein content of powdered milk produced in the EU to be modified, in line with international standards (Codex). In practice, for UK industry – this means the removal of protein from milks used to manufacture preserved milks. This is of benefit to the UK Dairy industry as any protein extracted can be used to manufacture other dairy produce.
2. In addition, EU exporters will be able to compete on a level playing field with their international counterparts, as currently EU producers have to sell powdered milk with a higher protein content than their international competitors, but at the same price.
3. Protein standardisation is voluntary and will only be mandatory for milk products entering into the [Intervention Scheme](#)¹

The instrument also amends certain definitions in the principal Regulations (The Condensed Milk and Dried Milk (Scotland) Regulations 2003)

¹ Intervention supports the market price by purchasing eligible surplus product, skimmed milk powder in this case, into public intervention storage. Product may also be sold out of intervention for specified end uses when prices are high or there is a shortage on the open market. Traders offer to sell product into or buy product out of intervention at a price related to the intervention price. The scheme is managed by the Rural Payments Agency, an executive Agency of Defra.

4. The instrument will come into force on 22 February, as will parallel regulations for England, Wales and Northern Ireland, which will ensure even application across the UK.

Policy background

6. Council Directive 2007/61/EC, amending Directive 2001/114/EC (defining products and product names for partly or wholly dehydrated preserved milk, such as condensed milk), was adopted on 26 September 2007. Member States are required to bring into force implementing domestic legislation by 31 August 2008. This amendment forms part of a larger package of EC measures designed to simplify the Common Agricultural Policy (CAP) regime.

Consultation

7. The UK dairy industry has specifically requested that the Agency amend domestic legislation as soon as possible in order for them to be able to take advantage of the provisions afforded by the amendment.
8. A 4 week public consultation on the draft Regulations and the draft Impact Assessment under consideration in this submission was carried out by the Food Standards Agency Scotland.
9. The Agency in Scotland did not receive any responses. Four responses were received elsewhere in the UK (three from Industry and one from Local Government). No objections were raised towards the new Regulations; the main UK wide industry body is highly supportive.

Regulatory Impact

10. This change will have no impact on consumer interests; currently preserved milk is produced with a protein content exceeding customers' specifications, thus the excess protein is not being utilised, and the resultant selling price may not be competitive, leading to loss of business.
11. The new Regulations will apply to those businesses engaged in the production of preserved milk. As the Directive is an amendment to an existing EC Directive on preserved milk, the proposed measure will impact equally across all producers of preserved milk products intended for human consumption.
12. As any alteration of the protein content of preserved milks is voluntary, any significant incremental costs are zero.

Chris Raftery
Food Standards Agency
January 2008

REGULATORY IMPACT ASSESSMENT (RIA)

1. TITLE OF PROPOSAL

The Condensed Milk and Dried Milk (Scotland) Amendment Regulations 2008

2. PURPOSE AND INTENDED EFFECTS OF THE MEASURE

Objective

2.1 The proposed Regulations will implement in Scotland Directive 2007/61/EC amending Directive 2001/114/EC relating to certain partly or wholly dehydrated preserved milk for human consumption by amendment of the Condensed Milk and Dried Milk (Scotland) Regulations 2003. In summary, the Regulations:

- Permit the standardisation of the protein content of preserved milk to 34% in line with internationally agreed standards (CODEX²). The authorised raw materials for protein adjustment processes are listed.
- Revise the definitions of 'totally dehydrated milk' and 'partially dehydrated milk'
- Now make reference to Regulation (EC) No. 1925/2006/EC on the addition of vitamins and minerals and of certain other substances to foods in the context of authorised additions to condensed and dried milk

Timing

2.2 Council Directive 2007/61/EC amending Directive 2001/114/EC is part of a larger package of EC measures relating to the dairy sector which are part of the Common Agricultural Policy (CAP) simplification initiative. It was adopted on 26 September 2007 and Member States are expected to bring into force domestic implementing legislation by 31 August 2008. The UK dairy industry has specifically requested that the Agency amend

² The codex alimentarius commission was created in 1963 by FAO and WHO, to develop food standards, guidelines and related text such as codes of practice under the Joint FAO/WHO Foods Standards Programme. The main purposes of this Programme are protecting the health of the consumers and ensuring fair trade practices in the food trade, and promoting coordination of all foods standards work undertaken by international governmental and non-governmental organisations.

domestic legislation as soon as possible in order for them to be able to take advantage of the provisions which will allow the protein content of preserved milks (dried and condensed milk) to be modified. Currently the natural protein content of collected milk must be maintained.

Background

- 2.3 The EU has introduced a policy on simplification and better regulation which has the aim of reducing red tape. The UK is fully supportive of this policy. It was under the EU's simplification and better regulation policy that the Commission published its proposals known as the "mini dairy package" which includes amendments to three Directives relating to the dairy industry.
- 2.4 The particular element of the "mini dairy package" under consideration in this RIA will implement amended legislation that will give Member States the ability to 'standardise' (modify) the protein content of preserved milks (powdered/dehydrated, evaporated or condensed). This is known as protein standardisation.³
- 2.5 Milk protein is a high value commodity. At present the natural protein content of EU produced preserved milks must be maintained, which means that Member States cannot benefit from extracting protein from their milk. The practice of removing protein from milks has been allowed internationally since 1999 when Codex standards for preserved milks were published, thus allowing the modification of the protein content of preserved milks to 34% (expressed on fat free dry matter).
- 2.6 The publication of the amended Directive which allows preserved milks to have a protein content of at least 34%, will allow the EU dairy sector to benefit economically as they will be able to extract and subsequently use milk protein for the production of other fresh produce such as cheese, or sell the milk protein to third party countries.
- 2.7 This change will have no impact on consumer interests but is in line with the cross-Government better regulation agenda to simplify legislation, where possible, without removing the protection it affords.
- 2.8 The amended Directive also sets out the revised descriptions for "totally" and "partially dehydrated milk" and sets out the permitted raw materials for protein standardisation.
- 2.9 In Scotland, The Condensed Milk and Dried Milk (Scotland) Regulations 2003⁴ define "partly dehydrated" and "totally dehydrated" milk and implements the requirements of Directive 2001/114/EC, *relating to certain partly or wholly dehydrated preserved milk for human*

³ <http://www.food.gov.uk/foodindustry/regulation/europeleg/euupdates/milkupdate0703>

⁴ Scottish Statutory Instrument 2003 No. 311

*consumption*⁵. The Regulations do this by laying down specifications for preserved milk governing composition, use of reserved descriptions, manufacturing specification and labelling of products. It lists the permitted modifications to dried and condensed milk and lays down definitions and common rules governing the composition, manufacturing specifications and the labelling of “certain partly or wholly dehydrated preserved milk” for human consumption, so as to ensure their free movement within the Community.

- 2.10 Preserved milks are essentially liquid milks preserved in powdered/dehydrated, evaporated or condensed form which, apart from blending with other milks, have not otherwise had their composition altered. Products such as powdered/dehydrated milks are primarily intended for reconstitution with water to result in a product similar to fresh liquid milk. They are also used as an ingredient in numerous food products.
- 2.11 As part of its Common Agricultural Policy (CAP) simplification initiative, the EC proposed amendments to three Directives relating to the dairy sector. The Agency is responsible for implementing one of these - Directive 2007/61/EC⁶ amending Directive 2001/114/EC - into domestic legislation. This amendment will permit protein standardisation.
- 2.12 Protein standardisation involves changing the protein content of preserved milks to a standard value, in this case 34%. The protein content of milk varies according to season and bovine diet therefore, in practice, for UK producers this means the lowering of protein levels. The average protein level of milk in the UK from August 2006 – August 2007 inclusive, was 37.5%⁷
- 2.13 The ability to standardise the protein content of milk has long been requested by EU producers, as EU produced milk tends to have a higher protein content⁸ (31% – 37%) than milk produced in third party countries (countries that produce milk outside of the EU). This is particularly important when considering the UK export market for preserved milks. The ability to remove protein from preserved milks will benefit UK industry as any protein extracted can be used to manufacture other dairy produce; thus providing an additional revenue stream for the dairy industry. In addition, protein standardisation will allow the manufacture and export of a product with a consistent protein content as specified by a third country customer. Currently preserved milk is produced with a protein content exceeding customers' specifications, thus the excess protein is not being utilised, and the resultant selling price may not be competitive, leading to loss of business.

⁵ OJ No.L15, 17.1.2002, p.19 as adopted by the EEA Joint Committee Decision No.99/2002 (OJ No. L298, 31.10.2002, p.10)

⁶ OJ No. L2584.10.2007, p.27

⁷ Dairy UK, October 2007

⁸ European Parliament Report on the proposal for a Council directive amending Directive 2001/114/EC <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+REPORT+A6-2007-0282+0+DOC+XML+V0//EN>

- 2.14 Currently, six UK businesses (3 in England and 3 in Northern Ireland) manufacture preserved milk in the UK. We are not aware of any preserved milk manufacturers in Scotland. In 2005, 36,000 tonnes of skimmed milk powder was exported from the UK⁹. The UK Dairy Industry comprises of 20,313 dairy farms, with approximately 1350 of these in Scotland. In 2006 77,000 tonnes of skimmed milk powder, 52,000 tonnes of whole milk powder and 142,000 tonnes of concentrated milks were produced. Exports are valued at EUR1, 030m¹⁰. The UK has the third largest dairy industry in Europe¹¹. The market for skimmed milk powder for 2007/2008 is envisaged to be firm so long as supply and demand conditions remain as they were during 2006.¹²
- 2.15 The ability to modify the protein content of preserved milk is not expected to have an adverse effect on the consumer, in terms of health or purchasing patterns. In the UK, preserved milks do not form as significant a part of the diet as fresh liquid milk. During 2005/2006, the average figure for purchases of liquid whole milk (including school milk, full price and welfare milk), skimmed and other milks (including milk drinks) was 1657 millilitres (ml) per person per week, whereas the average figure for purchases of condensed, evaporated, instant dried and dried milk products was 31 ml per person per week¹³, or just 1.8% of the weekly milk intake when compared to liquid whole milks which contributed 98% of the average weekly milk intake. Therefore, consumption of preserved milks is very low in the UK compared to fresh milk as shown by the National Statistics Expenditure and Food Survey¹⁴ data and so the impact on protein intake will be very small. In addition, protein intakes in the UK are well above Dietary Reference Values in all age groups and there is no evidence of low intakes. Milk (excluding cheese) provides around 10% of protein intake in the UK - the major contributors to protein intake are meat and meat products and cereals and cereal products¹⁵. As such, any possible reduction in the protein content of preserved milks on the UK market is not envisaged as having an adverse affect on the protein intake of the average consumer.
- 2.16 A leading UK Dairy processor has estimated that an annual revenue of at least £1million might be achieved ¹⁶ as a result of the ability to standardise the protein content of preserved.
- 2.17 Member States have been given until 31 August 2008 to bring into force their own domestic legislation implementing the requirements of Directive 2007/61/EC.

⁹ Milk Development Council, October 2006

¹⁰ European Dairy Magazine, 2007, The Future of the UK Dairy Industry.

¹¹ Troisième producteur de lait en Europe. (UK dairy industry.) RLF (Revue Laitière Française) 2007

¹² Dairy Supply Chain Margins – October 2006, Milk Development Council

¹³ Family Food in 2005-06 - A National Statistics Publication by DEFRA , 2007 The Stationery Office

¹⁴ <http://www.statistics.gov.uk/about/services/UnpublishedData/ssd/efs.asp>

¹⁵ Diet and Nutrition Surveys Branch, Nutrition Division, Food Standards Agency October 2007

¹⁶ Dairy UK, October 2007

Rationale for Government intervention

2.18 Modifying the protein content of preserved milk is currently not allowed by EU law. This has put the EU industry at a significant economic disadvantage as they cannot extract milk protein from preserved milk as a further revenue stream. EU producers have to sell preserved milk with its higher natural protein content than non-EU producers (who have been able to standardise their preserved milk since 1999) to third party countries at the same price. Directive 2007/61/EC amends existing EU legislation to permit protein standardisation to 34% in line with international standards.

Devolution

2.19 Similar but separate existing legislation on preserved milk applies in England, Wales and Northern Ireland and will be amended on a devolved basis. The amended European Council Directive must be implemented into national legislation in order to bring these provisions into line with the Community legislation by 31 August 2008. A common entry into force date is desired and aimed towards.

2.20 The proposed Regulations will apply in Scotland only. Separate parallel implementing legislation will be made in England, Wales and Northern Ireland.

2.21 As noted we are not aware of any preserved milk manufacturers in Scotland, therefore this RIA contains UK-wide business and market data.

Provisions of the Directive

2.22 The main features of Directive 2007/114/EC are:

- **Protein Standardisation** – allowing the standardisation of the protein content of preserved milk (dried and condensed milk) in line with internationally agreed standards (CODEX)
- **Definition of partially and totally dehydrated milk** – removal of the word ‘directly’ from the current definitions
- **Council Regulation 1925/2006/EC on the addition of vitamins and minerals and of certain other substances to foods** – addition of reference

3. CONSULTATION

3.1 The “dairy package” proposals were first issued for consultation by DEFRA in April 2007. In Scotland, this consultation was conducted by

SEERAD¹⁷. The consultation package contained three proposed amendments to existing legislation and a Partial Regulatory Impact Assessment. The proposal for the amendment to Directive 2001/114/EC¹⁸ that was consulted on, is identical to Directive 2007/61/EC, aside from the addition of a reference to Regulation EC 1925/2006 *on the addition of vitamins and minerals and of certain other substances to foods*.

- 3.2 The Agency was informed that the responses to the consultation were broadly supportive (apart from one objection to the package on principle), and the comments received helped to inform the UK's negotiating position during a technical Council Working Group, at the Special Committee for Agriculture and in the Agriculture Council.
- 3.3 The Agency issued a consultation on the draft amending domestic legislation which was carried out in parallel but separately by the individual country offices of the Food Standards Agency. The consultation in Scotland ended on 3 January 2008.
- 3.4 No responses were received in the Scottish consultation and four responses were received in total across the UK (three from Industry and one from Local Government). No objections were raised towards the new Regulations; the main UK wide industry body is highly supportive, one Welsh respondent had no comment, another raised concerns with potential increased costs to their small cheese manufacturing business. However, they did not object to the amendment and stated that in the long run, protein standardisation will lead to the production of a more consistent product. No other concerns were raised by other similar manufacturers. The Local Authorities Coordinators of Regulatory Services (LACORS) take the view that there will be no additional burdens for enforcement authorities resulting from the introduction of the Regulations. The Agency has published a summary of these consultation responses on its website.

4. OPTIONS

4.1 Option 1 – Implement the Directive

Option 2 – Do nothing

Analysis of options

4.2 Option 1 (amend the Regulations and apply the 34% standardisation to milk protein)

¹⁷ www.scotland.gov.uk/Resource/Doc/169145/0047117.pdf

¹⁸ COM/2007/0058 final-CNS 2007/0025
[http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52007PC0058\(01\):EN:HTML](http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52007PC0058(01):EN:HTML)

Milk is a high value commodity in its own right. UK milk tends to have a protein content of between 31% - 37%, as such, with the standardisation to 34% it is envisaged that additional protein will be extracted from milk and sold or used in the production of other fresh dairy produce such as cheese. Option 1 would ensure continuing compliance with EU law and would help businesses take advantage of additional revenue brought about by the protein extracted from fresh milk destined to be manufactured into preserved milks. This option is preferred.

4.3 Option 2 (do nothing)

This would put UK industry at an economic disadvantage internationally. It would also not allow business to benefit from the standardisation as the natural protein content of collected milk would have to be maintained. This option would also leave the UK open to infraction proceedings by the Commission and contradicts the Government's commitment to meeting its EU obligations.

5. COST AND BENEFITS

Business sectors affected

- 5.1 The businesses affected would be those engaged in the production and marketing of those partly and wholly dehydrated preserved milks covered by the Directive.

Benefits

- 5.2 Option 1 (amend the Regulations and apply the 34% standardisation to milk protein)
- 5.3 *Key monetised benefits by main groups affected* – this depends upon commercial implementation. Please refer to Annex A which sets out the base case as calculated by DEFRA.
- 5.4 *Key non-monetised benefits by main affected groups* – there is also a potential budgetary implication of the policy change. The European Commission forecasts a drop in spending on export refunds as a result of the policy. This will be translated into a potential UK budgetary saving. See Annex A – this sets out the base case as calculated by DEFRA.
- 5.5 *Consumers* - will not gain significant additional benefit from the new regulations. However, they may be able to benefit from potentially lower priced preserved milks such as skimmed milk powder, forecasted by DEFRA to be equivalent to 17p per person¹⁹ - please refer to the Scenario in Annex A. Consumers will not be adversely affected in terms

¹⁹ DEFRA, Agricultural and Economic Unit October 2007

of their health due to the consumption frequency patterns of preserved milks. The protein standardisation of condensed and dried milks in the UK is not envisaged as having a major impact on the nutrition of the nation, and is neither seen to affect the purchasing behaviour of consumers of preserved milks.

- 5.6 *Producers* - will be more affected by the proposed Regulation. Producers choose to modify the protein content of their milk will potentially benefit from being able to utilise any extracted protein for use in the production of other fresh dairy produce or for selling the milk protein. It is currently not possible to quantify cost benefits as protein standardisation is an option *per se* and is dependent upon the protein level of milk used for the production of preserved milks. However, based on DEFRA's modelling in Annex A it is expected that the annual benefits could range from £0 - £47.5 million.

5.7 Option 2 (do nothing)

This option will not generate any incremental benefit to consumer or business.

Costs

5.8 Option 1 (amend the Regulations and apply the 34% standardisation to milk protein)

- 5.9 *Key monetised costs by main affected groups* – whilst we would anyway expect such processing equipment to already exist in facilities which manufacture preserved milks, investment in equipment and labelling regarding protein standardisation is made on a commercial basis therefore policy costs are zero. There are some administrative costs (see section 12)) but these are small.

- 5.10 *Key non-monetised costs by main affected groups* – ongoing Local Authority costs are being sought.

- 5.11 *Compliance Costs* - in Scotland, condensed and dried milk intended for human consumption is already subject to the Condensed Milk and Dried Milk Regulations (Scotland) 2003 and the general labelling provisions of the Food Labelling Regulations 1996 (as amended). The proposed changes are not envisaged to have an adverse effect on the costs associated with labelling, as any labelling changes will be made on a commercial basis.

- 5.12 *Dairy Producers/Processors* - may have to invest in specialist equipment in order to modify and monitor the protein content of preserved milks. Therefore they are provided the market flexibility to seek to alter protein levels in preserved milks as they commercially see fit. We are not aware of any preserved milk producers or processors in Scotland..

5.13 In addition, as milk production varies from season to season, if UK produced milk does not contain high enough yields of protein due to season/diet/lower milk production – then any monies invested in obtaining equipment for protein standardisation may not be recouped.

5.14 *Familiarisation costs* - there are 469 local authorities in the UK²⁰. Based on allowing 2 people 1 hour to read the new legislation at a rate of £19.90²¹, familiarisation with the Regulations would cost £18,666.20. There are 6 UK businesses involved in the production of preserved milks. Based on allowing 2 people 1 hour to read the new legislation at a rate of £11.19²², familiarisation with the Regulations would cost £134.28. Therefore based on these figures the total UK administrative burden cost is £18,800.48

5.15 *Costs for a typical business* - as noted previously, industry are provided the market flexibility to seek to alter protein levels in preserved milks as they commercially see fit. It is not a mandatory requirement, therefore, any incremental costs salient to this RIA are zero.

5.16 *Charities and voluntary organisations* - it is not anticipated that these Regulations would affect charities and voluntary organisations.

5.17 Option 2 (do nothing)

This option will not generate any incremental costs to consumer or business.

6. SMALL FIRMS IMPACT TEST

6.1 The Department for Business, Enterprise and Regulatory Reform (DBERR) has been consulted on this issue, as has a leading UK trade body. In the Agency's Regulatory Impact Assessment produced for the Condensed and Dried Milk Regulations 2003, the following was stated:

'The markets affected by this regulation are those for condensed and dried milk products. Milk processing in the UK is characterised by five large companies who together account for 60% of the market; there are a few other smaller producers. Eight companies account for over 99% of UK milk powder production; 92% of condensed milk production is accounted for four companies. All these markets currently appear to be

²⁰ Food Standards Agency, Enforcement Division – November 2007

²¹ 2006 Annual Survey of Hours and Earnings (ASHE) Analysis by Government Office Region by Occupation

- UK Business And Public Service Professionals (National Audit Office)

²² 2006 Annual Survey of Hours and Earnings (ASHE) Analysis by Industry - UK Manufacture of food products and beverages (National Audit Office)

competitive producing good value for UK consumers, and being a mature market is characterised by slow change'

- 6.2 We consider that the situation for 2008 remains much the same and have not received any information contrary to this during the public consultation.
- 6.3 The DEFRA/SEERAD consultation asked whether the dairy package would have a disproportionate impact on small firms. No response was received.

7. TEST RUN OF BUSINESS FORMS

- 7.1 There are no new business forms associated with this piece of legislation.

8. COMPETITION ASSESSMENT

- 8.1 By removing a regulatory requirement which prevented the protein levels of preserved milk from being altered, the change to domestic legislation will now allow protein extracted from UK milk to be used more effectively. This change is expected to allow UK companies to be more pro-competitive in world markets and may lead to lowering the price of milk protein for all companies.

9. SUSTAINABLE DEVELOPMENT

- 9.1 Directive 2007/61/EC forms part of a wider European package of measures to simplify administration of the CAP scheme, therefore, implementation of amended legislation may be seen as aiding towards sustainable development.

10. RACIAL/GENDER/DISABILITY EQUALITY

- 10.1 The amended legislation does not impose any restrictions or involve any requirements which a person of a particular racial background, gender or disability would have difficulty complying with.

11. ENFORCEMENT AND SANCTIONS

- 11.1 Enforcement of the Regulations in Scotland will be the responsibility of Local Authority Environmental Health Departments. This remains unchanged from the existing enforcement arrangements.

- 11.2 The penalty on conviction of an offence is unchanged by the amending legislation and is a fine not exceeding level 5 on the standard scale (currently £5000).
- 11.3 Local Authority enforcement bodies already have responsibility for the enforcement of the current requirements for condensed milk and dried milk. It is not anticipated that enforcement of the new provisions will place a significant additional burden on enforcement bodies.
- 11.4 The DEFRA/SEERAD consultation on the dairy package asked for suggestions to simplify current enforcement rules. No suggestions came forward.

12. ADMINISTRATIVE BURDENS

- 12.1 There are no requirements in the amended legislation which require that additional records are kept. Any additional costs are voluntary regarding the decision by industry to standardise the protein content of preserved milks.

13. IMPLEMENTATION AND DELIVERY PLAN

- 13.1 The new Regulations will be laid before the Scottish Parliament on 22 January 2008 with a coming into force date of 22 February 2008.
- 13.2 Interested parties will be informed when the new Regulations come into force.

14. MONITORING AND REVIEW

- 14.1 In accordance with the Scottish Government's, Improving Regulation in Scotland Unit (IRIS) guidelines, this RIA will be reviewed, as appropriate, in order to establish that it is "fit for purpose" therefore not adding any additional burdens to businesses. In line with Scottish Government's guidance, FSA Scotland will review the continued effectiveness of this Regulation through the use of a Review Regulatory Impact Assessment that will be completed within 10 years.

15. SUMMARY AND RECOMMENDATION

15.1 Two options have been identified:

- i) amend the Regulations and apply the 34% standardisation to milk protein
- ii) do nothing

15.2 Option 1 is the recommended option.

15.3 Milk is a high value commodity in its own right. UK milk tends to have a protein content of between 31% - 37%, as such, with the standardisation to 34% it is envisaged that additional protein will be extracted from milk and sold or used in the production of other fresh dairy produce such as cheese. Option 1 would ensure continuing compliance with EU law and would help businesses take advantage of additional revenue brought about by the protein extracted from fresh milk destined to be manufactured into preserved milks.

15.4 Consumers will not gain significant additional benefit from the new regulations. However, they may be able to benefit from potentially lower priced preserved milks such as skimmed milk powder. The protein standardisation of condensed and dried milks in the UK is not envisaged as having a major impact on the nutrition of the nation, and is neither seen to affect the purchasing behaviour of consumers of preserved milks.

DECLARATION AND PUBLICATION

I have read the regulatory impact assessment and I am satisfied that the benefits justify the costs

Signed.....

Date.....

Minister's name, title, department.....

Contact point for enquiries and comments: name, address, telephone number and email address:

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Annex A

Mini Dairy Impact Assessment – Modelling Results

1. This work has been undertaken by The Department for Environment Food and Rural Affairs (DEFRA) for the mini dairy impact assessment, examining the protein standardisation element of the mini dairy package.

Background

2. The merged Dairy model is the amalgamation of the DEFRA dairy model and the OECD Aglink model. The resulting model is a partial equilibrium model which models the dairy sector in the EU25 on a country by country basis, and models the world markets in dairy products, cereals and livestock products, disaggregated into over 25 countries and regions. Within the dairy sector, there is an interdependent relationship between milk and four key milk products – butter, cheese, SMP and WMP, based upon the availability and price of protein and fat for factory use.
3. The baseline results which are used for the purpose of comparison are based on a continuation of the current policy situation. It is assumed within the baseline that the proportion of fat in milk consumed will continue on a downward trend, reflecting the continued switch from whole fat milk to semi-skimmed and skimmed milk and thus a fall in the average fat content in milk consumed.
4. The dairy model also includes the welfare effects of the scenarios. In economic terms, welfare attempts to capture the fact that at the equilibrium, there are consumers who would have been willing to pay more for the good than the market price, and there are producers who would have been willing to sell the good at a lower price than the market price. For producers, the producer surplus is the total extra revenue that producers receive compared to a situation where each unit was sold at the price at which producers would have been willing to supply. Similarly, the consumer surplus is the total difference between the market price and the amount that consumers would have been willing to pay for each individual unit. We are able to capture the welfare effects for milk, by looking at the change in welfare relative to the baseline.

Scenario

5. Protein Standardisation policy has been modelled as a shift to a 34% protein content in SMP (previously 36%). This brings the EU into line with international standards which will benefit exporters who were previously selling higher protein content SMP at the world price, not realising the full value of the protein.

Results

6. Most of the effects of the shock are contained within the SMP market. As a result of the protein standardisation, we assume that the average protein content of SMP falls from 36% to 34%. This fall of around 2% results in a 5% fall in price and a 7% increase in the production of SMP.
7. This has some knock-on effects on the butter, cheese, WMP and milk markets which are detailed below, although the largest of these changes is still less than 0.5%. The main reason for this is that the extra protein which is available as a result of the policy change leads to SMP becoming more competitive, increasing levels of exports and domestic consumption.

| Skimmed Milk Powder | % Diff | Abs. Diff |
|----------------------------|---------------|------------------|
| Production (QP) | 5.97 | 7.10% |
| Consumption (QC) | 2.31 | 2.45% |
| Price (PP) | -8.24 | -5.37% |
| Exports (EX) | 3.14 | 7.94% |
| Imports (IM) | -0.52 | -1.04% |

| Butter (BT) | Abs. Diff | % Diff |
|--------------------|------------------|---------------|
| Production (QP) | 0.43 | 0.30% |
| Consumption (QC) | -0.01 | -0.01% |
| Price (PP) | 0.12 | 0.07% |
| Exports (EX) | 0.00 | 0.00% |
| Imports (IM) | -0.45 | -0.38% |

| Cheese (CH) | Abs. Diff | % Diff |
|--------------------|------------------|---------------|
| Production (QP) | -0.30 | -0.07% |
| Consumption (QC) | -0.19 | -0.03% |
| Price (PP) | 0.09 | 0.04% |
| Exports (EX) | 0.00 | 0.00% |
| Imports (IM) | 0.11 | 0.03% |

| WMP | Abs. Diff | % Diff |
|------------------|------------------|---------------|
| Production (QP) | -0.22 | -0.56% |
| Consumption (QC) | 0.03 | 0.03% |
| Price (PP) | -0.26 | -0.17% |
| Exports (EX) | 0.00 | 0.00% |
| Imports (IM) | 0.01 | 0.03% |

| Milk (MK) | Abs. Diff | % Diff |
|------------------|------------------|---------------|
| Production (QP) | 3.49 | 0.02% |
| Consumption (QC) | -3.94 | -0.06% |
| Price (PP) | 0.03 | 0.15% |
| Exports (EX) | 0.00 | 0.00% |
| Imports (IM) | 0.00 | 0.00% |

Welfare effects

The net welfare benefit is generated mainly from SMP consumers and producers, benefiting from the increased quantities (for producers, the fall in price is more than offset by the increase in quantity). There is also an impact from the small increase in the milk price, beneficial to producers but detrimental to consumers. The overall benefit is roughly equivalent to 17p per person in the UK.

| | Welfare Effects |
|--------------------|-----------------|
| Milk consumption | -£1.7m |
| Butter Consumption | -£0.2m |
| Cheese consumption | -£0.6m |
| SMP consumption | £7.5m |
| WMP consumption | £0.2m |
| Milk production | £3.8m |
| Butter production | £0.5m |
| WMP production | -£0.1m |
| SMP production | £1.1m |
| Cheese production | -£0.2m |

| | |
|-----------------------|--------|
| Total Welfare Effects | £10.2m |
|-----------------------|--------|

THE CONDENSED MILK AND DRIED MILK (SCOTLAND) AMENDMENT REGULATIONS 2008 (“THE REGULATIONS”)

TRANSPOSITION NOTE FOR COUNCIL DIRECTIVE 2007/61/EC AMENDING DIRECTIVE 2001/114/EC RELATING TO CERTAIN PARTLY OR WHOLLY DEHYDRATED PRESERVED MILK FOR HUMAN CONSUMPTION (“THE DIRECTIVE”)

The Regulations give effect to the Directive by amendment of the Condensed Milk and Dried Milk (Scotland) Regulations 2003 (“the parent Regulations”). In this Note, Directive 2001/114/EC (referred to above) will be referred to as “the parent Directive”.

The following table demonstrates how the relevant provisions of the Directive have been given effect to in the Regulations.

| Article | Implementing provision |
|---|--|
| <i>The Directive: Article 1</i> deletes Article 2 (which permits member states to authorise the addition of vitamins) of the parent Directive and provides for Annex I of the parent Directive to be amended in accordance with the Annex to the Directive. | The amendment of Annex I (which includes provision regarding vitamins) is implemented by regulations 3 and 4, and further detail is given below. |
| <i>The Directive: Annex, paragraph 1</i> amends the definition of “Partly dehydrated milk” in Annex I to the parent Directive. | Regulation 3 amends the definitions of “partly dehydrated milk” and “totally dehydrated milk” in the parent Regulations. |
| <i>The Directive: Annex, paragraph 2</i> amends the definition of “Totally dehydrated milk” in Annex I to the parent Directive. | Regulation 3 amends the definitions of “partly dehydrated milk” and “totally dehydrated milk” in the parent Regulations. |
| <i>The Directive: Annex, paragraph 3(a)</i> amends the introductory words of point 3(b) of Annex I to the parent Directive to refer to Regulation (EC) No. 853/2004 laying down specific hygiene rules for food of animal origin. | Regulation 4(c) makes equivalent provision through amendment of Note 4 of Schedule 1 to the parent Regulations. |
| <i>The Directive: Annex, paragraph 3(b)</i> adds a provision to point 3 of Annex I to the parent Directive that deals with the adjustment of the protein content of partly and wholly dehydrated milk. | Regulation 4(a) substitutes a new Note 1 in Schedule 1 to the parent Regulations which makes equivalent provision for adjustment of protein content. |

| Article | Implementing provision |
|---|---|
| <i>The Directive: Annex, paragraph 4</i> replaces point 4 of Annex I to the parent Directive to authorise, for partly and wholly dehydrated milk, (a) the addition of certain vitamins and minerals and (b) the use of certain raw materials for protein adjustment purposes. | Regulation 4(b) substitutes a new Note 2 in Schedule 1 to the parent Regulations which makes equivalent provision with respect to authorised additions and raw materials. |
| <i>The Directive: Article 2</i> requires Member States to bring into force the laws etc necessary to comply with the Directive by 31 August 2008. | The Regulations come into force on 22 February 2008. |