

Importation of Semen P.43/2008: Submission to Scrutiny Panel

‘Why this is so important to the Jersey Milk Marketing Board’

Much has been said and written on this important issue for the future of both the Dairy Industry itself and indeed the Island. From recent surveys, **over 75% of current milk production in the Island comes from farms of milk producers who support a change to the Law.** As part of the JMMB’s submission to the current Scrutiny process, it is important to objectively clarify some of the issues raised, in particular the perceived risk that the importation of semen will ‘open the door’ to the importation of milk into the Island.

This risk has been claimed to be exacerbated, by opponents to the proposition, on the basis that no determination was given by EU authorities to the challenge, made in 2000, of existing liquid milk import controls; however these controls are exercised through a completely different law to that which the proposition intends to amend. Neither is it the case that if the Artificial Insemination Law were to remain unchanged that these current import controls of liquid milk would become sacrosanct.

2003 was a year of fundamental change in the Industry because both the Dairy and dairy farm businesses were operating at unsustainably low levels of profitability; Kevin Keen took over as managing director in February implementing many changes as a consequence of Dr. Donald McQueen’s ‘*Strategic Review of Jersey’s Dairy Industry*’ (commissioned by the Committee of Agriculture of the day). Feeding from this process, the JMMB instigated a ‘Road Map for Recovery’ which was a long-term strategic plan for the Dairy Industry as a whole with advice from Bruce Woodacre, a leading UK dairy consultant. **The underlying principle of the ‘Road Map’ was that for the Industry to have any sustainable future, then the threat of milk imports had to be dissipated by ensuring that locally produced milk was competitively priced rather than relying on the States Assembly of the day to maintain the existing controls;** however, this would take **time** and **support from Govt.** to achieve.

The central planks for achieving this principle were (and remain) to:-

- Relocate the Dairy to new modern premises
- Develop an export trade in branded added-value dairy products
- Improve farm efficiency through self-help initiatives **but particularly through access to proven worldwide genetics of the Jersey breed**

In the intervening years since 2003, the Dairy Industry has stood by its principles by:-

- Restructuring the business at the Dairy, resulting in:-
 - reduced operating costs per litre of milk received of 40%
 - reduction in overall debt of 22% (equivalent to nearly £1m.)
 - improved distributions to registered producers of 22% per litre supplied
- working closely with Dr. McQueen and delivering his recommendations in a shorter time period than that recommended
- Establishing the ‘Jersey Dairy’ brand, introducing new product lines and successfully exporting these
- Benchmarking on-farm costs of production as well as instigating training initiatives
- Consistently improving returns to producers by as much as possible, particularly to those who most closely meet market requirements
- Taking over key services (milk recording and AI) from Govt and establishing their provision by the RJA&HS
- Regulating that all milk supplied to the Dairy must be from cows registered in the Jersey Herd Book which are milk recorded each month (implemented in 2005); **this binds together the all-important relationship between the JMMB and the RJA&HS, underpinning the marketing strategy with milk from pedigree Jersey cows only**
- Drawing up plans for a new modern dairy at the Howard Davis Farm (which have received

planning permission)

- **Initially reducing the price of liquid milk and then maintaining it until the first price rise for over five years in February of this year of 2%**; please note:-
 - the Island's Retail Price Index has risen by over 22 points since the beginning of 2003
 - the retail price of milk in the UK has risen by 19% in the last fourteen months

During this time, additional challenges have had to be met as a consequence of new regulation and changes to Govt policy:-

- Introduction of the Competition Law and the subsequent deregulation of the JMMB
- Compliance with EU Water Management Directives leading to new slurry storage facilities on dairy farms (with financial assistance from Govt)
- Absorption of the 'welfare milk subsidy' into the new Income Support Scheme
- Continued uncertainty for the provision of school milk
- Scrutiny from independent consultants, Promar International and a States Scrutiny panel (led by Deputy Alan Breckon)
- Compliance with new employment and fiscal regulations
- Cessation of the Agricultural Loans Scheme and the Farm Secretarial scheme
- Dissolution of the Department of Agriculture and changes to direct and indirect financial assistance **leading to a lower rate per cow.**
- By way of comparison, the States of Guernsey invest at least **twice** as much money, directly and indirectly, in their dairy industry for a milk supply (with access to international genetics) which is 2/3rds of Jersey's; the average retail price for liquid milk in Guernsey is 88p/l compared to 94-101p/l in Jersey (including GST). This demonstrates the improved efficiency of Jersey's Dairy Industry and the opportunity to further this with access to worldwide Jersey genetics.

These have been the challenges; however Govt has been supportive in many ways:-

- Introduction of the Rural Economy Strategy
- Introduction of the Countryside Renewal Scheme (support for new slurry storage)
- Unanimous vote in favour by the States Assembly in Jan '07 to partially abrogate the covenant at the HDF for the new Dairy
- Approval of planning applications for the new Dairy
- Improved facilities at the Abattoir
- Instigation and support for the recent reduction of milk intake scheme (which allowed for a reduction in milk supply capacity from 14.3m litres to approx. 12m litres at present)
- **Continued support for maintaining import controls of liquid milk**

However the Dairy Industry cannot stand still; it has proven to be proactive and dynamic. The immediate issues that the Dairy and the Board are tackling are:-

- Long-term clarification and definition of the constitution of the Co-operative
- Formalising the overseeing of the operations at the Dairy by 'Jersey Dairy Ltd', consisting of independent, experienced non-executive directors, as opposed to the predominant producer member board
- Seeking efficiency savings and marketing opportunities to alleviate the imminent and considerable increase in imported feed costs and thereby mitigate potential substantial price increases to local consumers (these feed costs are due to rise by £65-90 per ton or the equivalent of an increase of 8% in overall farm costs)
- Attempting to conclude final details of the lease for the HDF site before seeking approval from milk producers for the dairy relocation process
- Selection of the team to deliver a 'turn-key' construction project to build and equip the new dairy, as well as finalising internal design details
- Pursuing a 'Protected Designation of Origin' (PDO) status for Jersey Dairy butter along with

stronger marketing and promotion initiatives in the UK

- Continued new product development as well as streamlining packaging design
- Initiatives to provide collective opportunities for members of the Co-operative e.g. processing of Jersey Beef, training for GST

Hopefully the above demonstrates the Dairy Industry's determination to achieve its goals, which can only be delivered in an objective and holistic partnership with Govt. The recent adjustment to milk intake (reduction of over 2m litres) will not only have allowed four milk producers to retire from the Industry but will fine-tune further the continuing balance at the Dairy between profitable processing of local and added-value products and the inevitable 'downstream' processing of commodity low-value products for export e.g. skim milk powder. In achieving this, the proportion of milk intake actually consumed as liquid milk locally has now increased to 75% of the total intake making the future of the Industry vulnerable to **lack of milk supply** for its core market rather than from the threat of imported liquid milk per se. Guernsey 'drinks' a similar proportion of its milk supply, the Isle of Man consumes 22% of its milk supply as liquid milk, the UK currently 49%, USA 30% and EU 25%. It should be remembered that approx. only 5% of the world's milk supply is actually traded internationally; all jurisdictions, whether developed or less-developed, have as a primary aim: **self-sufficiency in fresh milk supply**.

A recent report for the JMMB by John Allen, managing partner of UK dairy consultants, Kite Consulting, concluded that, "*the Industry is relying on the loyalty of its producers, depreciation within the units or subsidy from other income streams the farmers may have*"; he also stated that, "*the variable costs do demonstrate that the Jersey dairy farmers are efficient milk producers from feed and forage and compare very well with the Kite average*".

So what are the challenges that committed milk producers of the future face?

- Seek to reduce the effect of higher imported feed costs by growing more feed on-Island (difficult given the current avid competition between potato marketing organisations and the consequent reduced availability of land)
- Optimise feed management systems so as to reduce operating costs per litre of milk produced
- Seek to reduce the effect of higher costs of fertiliser, energy and labour
- Commit to completion of investment in compliant slurry storage facilities
- Catch up with investment in on-farm infrastructure to reduce fixed costs
- Seek growth within the dairy farm business
- Maximise opportunities to improve milk quality and seasonal supply so as to achieve higher milk price
- **Plan for dairy farm business succession** (a significant proportion, over 80%, of milk supply is from farms whose principals are just over fifty years of age)

These challenges are not unknown to milk producers and they centre around husbandry improvements and, in particular, **future investment**. With lower rates of return on capital than many other sectors of the Island economy, dairy farmers are naturally cautious before making long-term investment decisions; what makes this predicament worse is:-

- Considerable alternative opportunities to realise capital (building) assets outside of agricultural use (as demonstrated by many who have recently left the Industry)
- Inadequate current profitability levels to fund much needed investment
- Increased competition for agricultural land
- Imminent decision to approve the JMMB's Dairy relocation plan (sell Five Oaks, approve lease agreement for HDF and costs of new dairy) against an opportunity to realise and

distribute the Board's assets

- **Uncertainty of whether there will be access to proven imported genetics from the Jersey breed, despite over 75% of milk intake coming from farms who support a change to the Law**

The debate on P.43/2008 is therefore not just about the semen issue; I would respectfully suggest it is also about **a vote of confidence in the Island's Dairy Industry** and support for its strategy for the future. Fundamental to this, is recognition of the Industry's continued commitment to more competitive pricing of liquid milk in the Island thereby mitigating the threat of imports; by definition, a vote against the proposition will have serious implications to the long-term pricing of locally produced milk and dairy products within the domestic market, if it is to have a sustainable supply.

As things currently stand, it is the Board's view that there is **no guarantee** that if the Artificial Insemination Law was to remain in its present form then the current controls of milk imports would be maintained indefinitely. It is our view that in the immediate future milk imports could only occur if:-

- **Either, there was inadequate local milk supply**
- **Or, if the States Assembly allowed it to happen**

The consequences of this happening would be clear for all to see.

Andrew Le Gallais,

Chairman, JMMB

30th May 2008