

STATES OF JERSEY

Corporate Services Panel - Proposed Importation of Bovine Semen

MONDAY, 16th JUNE 2008

Panel:

Deputy P.J.D. Ryan of St. Helier (Chairman)
Deputy J.A. Martin of St. Helier
Connétable G.F. Butcher of St. John (Scrutiny Officer)
Connétable P.F.M. Hanning of St. Saviour
Professor Steven Hall (Adviser)

Witnesses:

Mr. A. Le Gallais (Chairman, Jersey Milk Marketing Board)
Mr. B. Foulser (Chairman, Jersey Dairy Limited)

Deputy P.J.D. Ryan of St. Helier (Chairman):

Good morning and welcome to the Corporate Services Scrutiny Sub Panel looking into the Importation of Bovine Semen. Welcome to the Jersey Milk Marketing Board. I will introduce us first and then ask you if you would introduce yourselves for the recording so that we know who you are by your voices and can be identified. Thank you. Deputy Judy Martin.

Deputy J.A. Martin of St. Helier:

Good morning.

Deputy P.J.D. Ryan:

Our officer, Connétable Hanning, and Connétable Butcher, myself, Deputy Patrick Ryan, and our adviser, Professor Stephen Hall.

Mr. A. Le Gallais (Chairman, Jersey Milk Marketing Board):

I am Andrew Le Gallais, Chairman of the Jersey Milk Marketing Board and I have come with Brian Foulser, who is a States appointed member of the board and Chairman of Jersey Dairy Limited.

Deputy P.J.D. Ryan:

Good morning to you.

Mr. B. Foulser (Chairman, Jersey Dairy Limited):

Good morning. Obviously you want to record my voice so they know who is talking. It is Brian Foulser. I am non-executive Chairman of Jersey Dairy Limited.

Deputy P.J.D. Ryan:

Good morning. Two linked questions, first of all, and I would ask you to keep this fairly short this little one, it is a general one: what would be the implications of not lifting the ban on importation of bovine semen and what would be the advantages and the benefits of lifting the ban for the dairy industry?

Mr. A. Le Gallais:

We would like to answer all these questions together, if we may, and I would like to lead off on this one, if I could. The simple answer to the question of not lifting the ban is that there would be, in our opinion, uncertainty of long-term milk supply. The reason we state that and we state it quite categorically is that over 75 per cent of current milk production in the Island is from farms whose principals are in favour of importation of semen. We believe in the long-term situation that long-term milk supply from those farms might be in jeopardy if the change to the law is not made. The benefits of the law change are well documented over a long period of time within our Road Map for Recovery, which has been referred to with the previous representatives of the Society. This Road Map is something that we devised back in 2003, with advice particularly from Bruce Woodacre. The central aim of the Road Map is to narrow the gap between the retail price of milk in Jersey compared to the retail price of milk in the U.K. (United Kingdom). We believe that is fundamental in discouraging importation of milk in the future. Relying on government with the controls that it has at the moment to maintain that for ever and a day, we believe, is unsustainable. Therefore, in order to ensure this dramatic change in policy, but one which we believe is realistic; we have 3 main pillars to achieve this. The first pillar was relocation of the dairy to the Howard Davis Farm to more modern premises. The second one was to develop the export trade so as to grow the business in added value products and the third one is to improve farm efficiency, of which access to world-wide genetics is a fundamental part.

Mr. B. Foulser:

From my point of view, talking as a processor, if we wish to have a viable and sustainable dairy industry as a processor we need to be efficient in all areas of our business. Jersey Dairy has made quite remarkable progress over the last 4 years in squeezing out inefficiency from its operation at Five Oaks. We have reduced operating cost per litre of milk 40 per cent. We have a reduction in overall debt of 22 per cent and we have improved payments to our producers of 22 per cent. This has all been done without increasing the retail price of milk. So anybody who looks at the operation and believes that it is inefficient now, I would challenge them to come up and tell us exactly where those inefficiencies apply. We have a raw material in Jersey Milk which we would not wish to substitute. We would not wish to compromise the qualities of the milk because that is our U.S.P. (unique selling point); that is how we can sell our products in overseas markets. At the same time, we are inefficient or the Jersey cow is

inefficient, in terms of its yields, in comparison with Jersey breeds outside of Jersey. When we try to take our products outside of the Island of Jersey we are, of course, competing with all sorts of processors who have yields that go up to, I believe, 7,600 for a Holstein, 82 per cent more than the Jersey breed in the Island which, if I may remind you, you may have heard of all these figures previously but in the Island a Jersey cow yields just over 4,200 litres. A U.K. pure-bred Jersey yields 5,500 litres and, as I said, a Holstein is yielding around 7,600 litres. The Danish Jerseys, which seem to be the ones that people are looking more closely at, is yielding 6,500 litres per annum. The only growth sector of the dairy industry is the added-value sector. Liquid milk sales throughout the western world have been falling continuously for 20 years but this has been more than counterbalanced by the advance of added-value dairy products, hence our strategy to develop markets outside of these Islands with added-value products. If we concentrate purely on liquid milk in this Island then we will be coping with over-supply on an ongoing basis and farmers and producers will be asked to cut back regularly. The biggest cost factor as a processor that Jersey Dairy is faced with is that despite very heavy increases in liquid milk prices in the U.K. and, really, an absolute minimal 2 pence in some 5 years in Jersey, we are still paying, as a processor, 35 pence per litre for our milk and the U.K. processor is paying 28 pence a litre for his milk. If genetics are available to achieve improved efficiency without compromising the integrity of the breed - because I believe the U.S.P. that we have is absolutely vital - it seems to me, as somebody who has not a full understanding of genetics, that we would be foolish to ignore advances that are available to people outside of this Island. We understand, as a result of questions asked, that it is believed that sufficient controls are in place to ensure that the integrity of the breed will be maintained. The second part of the question what would be the benefits? Well, clearly, rather simply, the major benefit that I can see is we would start moving in a positive direction of enabling our producers to achieve a narrowing of the 30 per cent gap on yields that are prevalent at this time between a Jersey Island cow and a U.K. pure-bred Jersey cow.

Deputy P.J.D. Ryan:

Andrew, the control of liquid milk imported to the Island you felt was unsustainable in the long-term but you did not tell us why you thought that, you just made the statement that it was unsustainable. Why do you believe it is unsustainable?

Mr. A. Le Gallais:

I think for a number of reasons. We are, firstly, in a situation at this very moment in time where a challenge was made to the European Union on the existing controls that apply at the moment; that challenge was made, I believe, in 2001. The answer that came back from the European Union was such that they, in effect, parked the challenge; they did not give a definitive response, as far as we are aware. Obviously this goes through a certain system of protocol, which I am not directly privy to, but our understanding was that they were not minded to give a specific response. So, we are a little bit in no man's land on this one. I think it is important that the industry recognises that that is something which

could flare up again and we would need to have a robust response to it; that is the first point. The second point is that certainly since the formation of the Council of Ministers it has been made abundantly clear to us by the Chief Minister and others that the policy of reducing the gap between the retail prices of milk in the Island and in the U.K. was the right one. Indeed, the Council of Ministers and the Chief Minister made it very strongly to us in a number of key pieces of correspondence that they expect us to get as many efficiencies or to take advantage of as many efficiencies as possible in order to narrow that gap because they believe that is the best way to alleviate a challenge in the future. If I can quote from a Council of Minister's minute of a meeting, which was in May 2007, I believe - sorry, if you just bear with me, I had it a moment ago - under the heading Milk Importation Controls, the final bullet point reads as follows: "Given the lack of certainty around our ability to maintain import controls, it is a sensible strategy for the industry to guard against any possible loss of import controls by increasing its efficiency, leading to a retail price that could withstand external competition, and by building a product base that reduces the dependency on liquid milk sales." Now, if I could just hold that up I would like to leave this with you, this chart here shows that in terms of narrowing the gap the Jersey Milk Marketing Board have put its money where its mouth is. The red line beneath that, the lower line, is where the increase in retail price in the U.K. has occurred and the light blue line in the middle is what our price is, and that is from the year 2000 to date. The top line, the dark blue line, is the retail price index for the Island. So we have been put under very clear notice ...

Deputy P.J.D. Ryan:

I think what you are saying, though, comes largely from the Council of Ministers, as one would expect, and you are under sort of commercial pressure, I think, that you feel that the surest way to stop the import of liquid milk is for it to be uncommercial for people to do that or get as close to that situation. What I was looking for was whether you had any other information. We will take this up with our own Attorney General because there is a legal situation here that we need to investigate. We will carry on that line of investigation with the relevant lawyers and so on as far as whether the ban on milk imports is legally sustainable in the EU (European Union) context.

Mr. A. Le Gallais:

Sorry, without being too picky, we do not have a ban we have a system for control. We have a system of control and the Island has a means of allowing or licensing the importation of milk into the Island and that was something that it took up, I believe, in 1978 when we had an extreme drought year. We were not able to supply enough milk into the Island and for a short period of time raw milk was imported into the Island and processed at the dairy. I think the semantics would be that we do not directly have an outright ban; we have a means of control. Sorry to be picky on that. I would also like to make the point that the Island has never applied, as far as I am aware, for a derogation - the word "derogation" is one that is bandied about quite considerably - and I do not believe, although the Attorney General will confirm this for you, that the Island has ever applied for a derogation in the same way that the Isle of

Man applied for derogations for some of its agricultural products. We have never done that.

Deputy P.J.D. Ryan:

All right, thank you.

Mr. A. Le Gallais:

I think the last point to make is what is the alternative? What is the alternative to the strategy that the dairy industry set out to achieve back in 2003? I suggest the only alternative would be to say that, well, we preserve this dairy industry in aspic, as it were; it is a special industry, we must preserve the cow. The question then becomes who should pay for it? The simple answer is either the consumer or government. Now, this government has made it very clear in the Rural Economic Strategy -approved in July 2005 - that, ultimately, the amount of money paid to the dairy industry will decline - slightly, but it will decline. We are hoping that is something that is not going to take place as quickly as they envisage because we do not have the benefits of relocating the dairy as quickly as we thought we would. But if the Island dairy industry is treated in this aspic way then I would maintain that the only way it could continue is by vastly increased sums of funding from government.

Deputy P.J.D. Ryan:

Thank you. Can I just go back to the dairy itself for a minute? You have been quite successful at exporting added value products, the yoghurts, butter, et cetera.

Mr. B. Foulser:

We have made a start.

Deputy P.J.D. Ryan:

You have made a start. To what extent do you believe that the Jersey Island - not just the Jersey brand but the Jersey Island brand - has been of assistance to you in the successes that you have had so far?

Mr. B. Foulser:

I believe that we have had to expound the qualities of Jersey milk, as opposed to other available milks in the U.K., with 20 per cent higher protein, 18 per cent higher calcium, higher in all essential minerals. This is the starting point for persuading people that with those ingredients you have a better chance of producing a better product.

Deputy P.J.D. Ryan:

But the truth is that Jersey herds from the U.S.A. and the U.K. will have those same - in fact, probably better - fat contents and protein contents.

Mr. B. Foulser:

But this, of course, is a Jersey from Jersey.

Deputy P.J.D. Ryan:

That is what I was trying to get at. We have the Jersey brand.

Mr. B. Foulser:

Yes.

Deputy P.J.D. Ryan:

But we also have the Island of Jersey Jersey brand and there is a slight difference between them.

Mr. B. Foulser:

Yes, essentially, and in very simplistic terms, this is the real McCoy.

Deputy P.J.D. Ryan:

This is the added value that you are putting across.

Mr. B. Foulser:

Yes.

Deputy P.J.D. Ryan:

Really, that is what I am getting at - brand versus purely commercial. I am sure the Professor on my left here will forgive us for a moment just talking about the commercial aspect. To what extent do you feel that the Island of Jersey, pure Jersey, gold-standard brand could be affected by the importation of semen from everywhere else? Do you think there is a danger?

Mr. B. Foulser:

As I understand it, I do not believe there is any real risk to that at all. I think we can make the same claims.

Deputy P.J.D. Ryan:

Does anybody else want to ask a question?

Professor S. Hall:

One thing that might jeopardise your brand - that occurred to me as someone not from the Island - was if you do get the semen in from overseas, the milk yields go up and you get some management changes that go with that sort of cow, is there a risk of year-round housing of your cows - I presume you do not

do year-round housing at the moment - because it does not exactly go with the terribly naturalistic approach, does it?

Mr. A. Le Gallais:

We have a rule in the Rules of Supply, a condition of milk suppliers that I think from the months from April to September cows must go out to graze. (1) We believe that is part of the U.S.P. package which Brian has referred to; (2) I think we really do need to get very clear on this issue of the potential benefit we will derive from access to world-wide Jersey genetics. A lot of people think that suddenly the yields will go up tremendously. Well, of course they will improve but as a farmer, as a milk producer, you have a number of choices. You can either keep the same amount of cows and produce a bit more milk or you could keep less cows and supply the same amount of milk to the dairy. I think this notion that we are suddenly going to go overnight from a cow that is relatively unproductive to one that is grossly over-productive is just not going to be the case. It is going to be an evolving situation; it is certainly going to improve and Jersey Dairy has a clear message to producers in its pricing policy of rewarding for butterfat. The majority of our added-value products are butterfat based, so butterfat, potentially, is very important to us. When you distil this down to an individual farmer looking at the range of genetics that is available to you to improve your herd and you have these market signals coming forward about improved butterfat, about improved Somatic Cell Counts (SCC) and these sorts of things. Then there are a range of issues that you are going to be looking at when you look at the bull proofs that are available and I think the really exciting thing as a breeder myself, as a farmer myself, is that we are going to have a great range of bulls available to us that will do different jobs for different farms with different cows on those farms. That is the really exciting part about it, but I think to say this is going to flood us with milk is, with respect, I think, the wrong assumption. Coupled with the fact that because this is a long-term process and that the advantage is going to take some time to flow through, we believe because of the demographic age of producers at the moment - the majority of the milk is produced from farmers who are in the early 50s - then in 10 years time a lot of those farmers are going to be making some major succession decisions and, if you like, the ability to improve the efficiency of our cow will be paramount at a time when we might be losing producers and we might be losing the number of cows. Remember, there is a very fine line that we balance now of making sure that we are self-sufficient in milk supply but also making sure that the buffer that is required to ensure that is processed as efficiently as possible into as many added-value products as possible. It is a very delicate balancing act especially when we drink 75 per cent of our milk supply. Sorry, did that answer the question?

Professor S. Hall:

Yes, that adds to some useful background. I think one thing that would go from the increased confidence of the industry, which is, presumably, one of the things that was mentioned before about the import of semen, is whether that will lead to pressure on you to amend that rule about grazing because the cow is such an icon here. If people suddenly discover that they are in herds of 200 in a shed all year

round your U.S.P. is going to be quite badly damaged. I suppose my question is how fixed can you make those rules because the import of the semen does bear on the shape and appearance of one of your main tourist assets.

Mr. A. Le Gallais:

Well, for instance, one of the countries that we have bought semen from is New Zealand and the cows never go into a shed.

Professor S. Hall:

Well, what was mentioned earlier was that New Zealand was thought to be unlikely perhaps because of the difficulty of guaranteeing a pedigree that was ...

Mr. A. Le Gallais:

In some cases, but not exclusively. Well, there are others that would be able to answer the specifics of this. I think what is driving the dairy industry are market signals. The market signals are such that we have an opportunity, as Brian Foulser has explained, to market top quality, added-value products into the U.K. We are beginning to do that and we are confident that we are going to be successful. The signs are that those products are likely to be more fat-based than protein-based. Therefore, there is ample evidence from the genetics that are available around the world that there are bulls available that can increase butterfat percentages without compromising anything else. There is ample evidence, as far as I am aware, that those same cows will still be able to perform that way. But in terms of grazing, you have only to look to the U.K. That is the great advantage; go to U.K. herds and you will see cows grazing in the summer months, housed in the winter months. We most probably have some of the best climatic conditions in the world to raise our cows in this Island. What we are saying is we are taking the best advantage of this, which is what the consumer wants.

Deputy P.J.D. Ryan:

Purely from a person who does not understand the industry, is there a danger we will end up with, as the Professor says, super-yielding cows that are kept housed --

Mr. A. Le Gallais:

Behind a locked door?

Deputy P.J.D. Ryan:

Yes, in effect being fed all the kinds of foods that were given in super-production --

Mr. A. Le Gallais:

Sorry, I just get very excited about this, no, there is no danger because the cow is an icon of the Island.

My farm is on a lane that leads to the Orchid Foundation which is popular tourist destination. If someone gave me £5 for every time a visitor stopped on the bend in the road to take a picture of my cows, I would be a lot, lot wealthier than I am now.

Deputy P.J.D. Ryan:

Yes, but with due respect, you do not get £5 for every time.

Mr. A. Le Gallais:

No, but what I do get is a quality-milk payment and an area payment from government which is specifically a reward for the provision of public goods. We have a very decoupled system of financial support from government. Now if government, on behalf of the taxpayer, says: “We do not value this view any more. We really do not care; we are not going to give you much money anyway because the public goods that you give to the Island are not, in our opinion, deemed to be worthwhile” and the economies of milk production are such, then herds will become larger and it is up to the rules of supply and our dialogue with Jersey Dairy to decide how we go. I do not believe that is going to be the case at all.

Deputy P.J.D. Ryan:

So the key to this is government through area payments, commercial incentives of one variety or another because I suppose, in very simplistic terms, you could probably get more milk or make more money out of the Jersey cow if it was kept housed and you were feeding it like a battery hen.

Mr. A. Le Gallais:

Never!

Deputy P.J.D. Ryan:

Is that right or ...?

Mr. A. Le Gallais:

That is wrong.

Deputy P.J.D. Ryan:

That is wrong?

Mr. A. Le Gallais:

That is wrong.

Deputy P.J.D. Ryan:

Fine. We needed to establish that. But you were saying that through the area payment system anyway, that is the way to make absolutely sure that we keep cows in fields.

Mr. A. Le Gallais:

Yes. There are 3 entities here. There is a milk supply base, which is made up of individual farm businesses that supply milk. There is a processing base, which is processing that milk and marketing it as successfully as possible. Brian Foulser has described to you the market opportunities. It is the job of that processing base to send the market signals back to the farmer to make sure that those market requirements are met. There is a tertiary entity, which is government. Government has phenomenal means, with all sorts of different regulations, to tweak all this and to do little things with that with environment schemes or with other forms of financial support, to, if you like, provide the taxpayer with their expectations. We all play our part but in order to do that we all have to interact very carefully.

Connétable P.F.M. Hanning of St. Saviour:

Could I ask a question going back to what you were saying about the use of butterfat products for the dairy and what could be the increase in, if you like, the financial dependency of the dairy on that. Is there a problem if you are starting exporting those to England that there could be seen by some EU bodies a problem in that you are not allowing equal competition in the Island in terms of importation of anything else? In other words, you are operating virtually in a restricted area but exporting from that. It may be all right for exporting small amounts but if you start to build up the amounts you export there might be questions.

Mr. B. Foulser:

The only restriction that we have on importation here is on liquid milk and we are not exporting liquid milk. We accept we cannot have our cake and eat it and I do not believe, in simple terms, that that would be a factor that would be raised.

The Connétable of St. Saviour:

You do not think they would balance one against the other in that you are limiting the import of milk; that they would say you are deriving something from that, from your milk, which you are exporting and, therefore, it is supported by a limitation?

Mr. B. Foulser:

I would not believe that to be a consideration. The limitation is on the import of milk and we do not export milk.

Deputy J.A. Martin:

Can I just put that in context; you said earlier we now have a small amount of export growing and the

Constable has just asked when we get bigger there could be a competition. Can you put this concept of Jersey small and Jersey large into context of who we are competing against because I am assuming our “large” is still very, very small on the big scale?

Mr. B. Foulser:

Yes, we will always be a small player in a large market. Even if we doubled our sales we would still be a relatively small player. That is one of the fundamental problems that we have; that Jersey Dairy in the big league is right near the bottom in terms of size and, therefore, clearly it is more difficult for us to gain efficiencies because there is an economy of scale. We believe that the move to the new dairy at Trinity will assist us because it will be a modern dairy. It will provide us with opportunities that we do not have up at Five Oaks where the staff do a magnificent job in really totally out of date premises there. But the answer to the question is that we see, first and foremost, our priority to ensure that the Island remains in a self-sufficiency of milk here. The best way to achieve a milk price that is comparable to those in the U.K. is to grow our export markets, to spread our overhead, to take some of the costs away from liquid milk and spread it on to other products where markets are growing and not declining year on year as liquid milk is.

Deputy P.J.D. Ryan:

Moving on to the controls in place to ensure that you only collect milk from pure-bred Jersey cows; we understand how that is done, herds have to be registered in the herd book, et cetera, and that kind of thing. I think what we would like to try and talk about is any successor company to the existing dairy and to ask you what safeguards could be put in place to ensure that in the future that scenario would remain.

Mr. B. Foulser:

Well, our whole marketing philosophy and strategy is based on the superiority of Jersey milk; the U.S.P.s that go with that that I alluded to earlier. We currently have a P.D.O. (Protected Designation of Origin) application that is pending which if successful will be the fulcrum and the driving force of the Jersey Dairy business for a number of years to come. We already have in our statutes for the company that we will only collect milk derived from cows registered in the Jersey Herd Book.

Deputy P.J.D. Ryan:

What I was trying to get at was if there was a successor to the current dairy would there be any way that you could ensure that that continued?

Mr. A. Le Gallais:

I think that it is important at this juncture to just explain briefly a little bit of the structural changes that are occurring to Jersey’s dairy industry. Is that what you are referring to?

Deputy P.J.D. Ryan:

I think so.

Mr. A. Le Gallais:

This will lead to a potential threat that you are identifying.

Deputy P.J.D. Ryan:

Could.

Mr. A. Le Gallais:

Could, yes. I do not think it will for the reasons that Brian has just said. It is important just to record that we are moving from a statutory co-operative position to one of a voluntary co-operative and we are going through that process as a consequence of a letter which I will leave with you which we received from the Chief Minister, on 13th February 2007, at which he stated very clearly to us (this is following the *Promar Report*): “I have concluded that the perpetuation of the J.M.M.B (Jersey Milk Marketing Board) and the statutory Milk Marketing Scheme is not the best way forward and, as a consequence, I cannot support the perpetuation of any scheme based on the 1953 law.” This was an extremely important letter which I will leave you copies of. This has come about as a consequence of the introduction of the Competition (Jersey) Law and where the Agricultural Marketing Scheme sits within that law. The board have recognised that it needs to move to a voluntary co-operative situation and this is not something that we just sort of switch on and off, this is a transition process that needs to be managed very carefully. The board have consulted on this and are currently being advised by a legal firm in the U.K. by name of Burges Salmon, in particular, one of their senior partners, William Neville, who has particular experience in the U.K. dairy industry of deregulation. We are going through that process and we have recently submitted a report from Mr. Neville through Advocate Kelleher to senior officers of the Council of Ministers to chart a way forward in this process of change. It is quite intricate and I do not think this is the place to explain the detail but we could supply it to you if you like. Fundamentally, what that will mean is that the formation of Jersey Dairy Limited, which is responsible for the commercial activities of running Jersey Dairy, led by Brian Foulser, that entity will be the one that is ultimately responsible to the board of the co-operative to deliver the best possible price for its producer/suppliers coupled with maintaining a competitive position within the local and export markets. It will be the one that defines our viability for the future. I cannot over-emphasise the point that the success of processing milk in the Island on a small scale - albeit in a modern dairy, eventually - with all those added costs, means that if we are going to be successful - and we certainly are showing those shoots of success at the moment - it can only occur by looking to market our products in that tiny little bit at the top of the added-value market. The volumes will be small, our costs will be high and the value we need for the product will need to be high. There are a myriad of examples of other foodstuffs where

other processors and suppliers have successfully positioned themselves in albeit a very competitive market, but at that top end. That is why we have been successful with our Marks & Spencer butter recently; that is why we have been supplying Harrods with our products for a long time and that is where, we hope, with the discussions that are ongoing at the present time, to increase the volume of products but at the top end of that market.

Deputy P.J.D. Ryan:

Just one quick one which I think we should put forward because we have had one submission which says simply: "For ages we had too much milk being produced. We reduced the herds. Now that we have done that we cannot produce enough milk." What do you say to that?

Mr. B. Foulser:

Raw milk consumption, as we said earlier, has been falling throughout the western world for 20 years, as I am sure Professor Hall will tell you. This has been more than compensated by added-value products, as I have already mentioned. Our export strategy is built around growing added value. The company was previously relying purely on liquid milk and with liquid milk sales showing year on year decline then you will get into an over-supply situation because farmers are not setting out to produce less milk in one year than they did the previous year. There was a build up of situations that occurred there. With our export strategy beginning to bite Jersey Dairy management and, indeed, Promar International, when they did their review into the industry, recommended that the existing intake of 14 million litres be maintained whilst the export strategy was given time to work because it does take a long time to gear up again to produce more milk. You cannot turn the tap on today; it takes, as I am told by the people that know, at least 3 years. Under strong pressure from government, I have to say, the intake was reduced by 2 million litres last year and inevitably, of course, the export strategy begins to bite. So consequently we are now in a situation where we have to consider very carefully when we are knocking on the doors of the U.K. retailers whether we have sufficient quantities of milk to supply them this time without jeopardising the essential continuity of supply in Jersey.

Mr. A. Le Gallais:

Can I just add to that, that where we have been in overall milk intake in the Island, our productive capacity, I think it was in the year 2000-2001 or 2002, during that period, we were producing close to -- I think the highest we got up to was 18.5 million litres of milk. Our productive capacity in the Island at this moment in time is just over 12 million litres of milk. As Brian has explained, those reductions had come about with discussions with government. But the latest reduction was very much on the back of pressure from government to narrow the gap of the amount of milk that goes into low-value commodity priced products like skim milk powder - which is at the end of our production system at the dairy - to try and minimise that because obviously the value we derive from that milk is much lower than the added-value sector. So, again we come back to this concept of balance, but at the same time our Road Map is

definitely one of recovery and growth. No business in this Island can stand still without growing and our growth is in that added-value market. We are confident that producers will respond to market signals to grow in the future but access to international genetics, certainly as it would come through in 4 or 5 years time as it begins to flow through, is something vital for the future, coupled with the fact that I mentioned previously of this demographic issue. The biggest risk Jersey's dairy industry faces in the near future, the next 10 years, above all else, in our opinion, is lack of milk supply.

Deputy P.J.D. Ryan:

Variations in the commercial market and successes of market exports, those aside, I think what you are saying is that it is not as easy to turn the tap on and off, it takes a while.

Mr. A. Le Gallais:

That is absolutely right.

Deputy P.J.D. Ryan:

I think that probably answers the question; you cannot simply turn the tap one year and get the milk or turn it back a bit and get less milk is what you are saying.

Mr. A. Le Gallais:

Yes, but the only tool to do that is with either cow numbers, which takes 3 years to come through, or with improved management practices. The tool that we have not got is access to genetic improvement.

Deputy P.J.D. Ryan:

Just talking about genetic improvement, although specifically it is the dairy, what is your very quick view - and we have had a lot of evidence on genetics and what have you - on whether the current argument Island herds are genetically wide enough to ensure that the closed herd remains viable? Now, this is for the dairy generally, obviously we are aware of your opinion, Andrew, as a separate cattle breeder in your own right, but as to the dairy, Brian, what is your view, very quickly?

Mr. B. Foulser:

Well, obviously I am not really qualified to answer this one. However, as I understand it, the Island herd is wide enough to sustain the current situation but you are unlikely, as I think we heard earlier today, to gain any improvements in the stock.

Deputy P.J.D. Ryan:

I think question 9 leads on from that: is it likely that the dairy's future business model will continue to focus on protein and fat content and all of those other higher brand value items? Is it likely to continue down that road?

Mr. B. Foulser:

I think the quality of Jersey milk with its higher solids and higher fat enables you to manufacture added-value products without the need to support it with additives and starches that are used by other processors.

Deputy P.J.D. Ryan:

So you do not see that business model changing?

Mr. B. Foulser:

No. That is our difference, I think.

Mr. A. Le Gallais:

Can I follow on with that? Obviously we are talking in general terms here but, yes, there might be some bulls in the Jersey world which would substantially increase milk yield and maybe depress butterfat per cent of volume, not total solids. I would ask you to consider looking at some of the semen catalogues and the availability of bulls and the evaluations that are done because there is tremendous variation in terms of what bulls can do according to what a breeder wants for his own herd and according to what market signals that he is receiving from the processor. I am looking at a list here done by the M.D.C. (Milk Development Council), which is an independent evaluation, and there is certainly no direct correlation, in my opinion, between profitable lifetime index, which is regarded as the standard benchmark, and improved milk yield. There are bulls here which could do lots of fantastic things in terms of yield but they might do something which might be regarded as inferior in terms of legs or udder attachment, or whatever. That is a choice for the individual to make. The important thing is that there is a choice, it is accurate information and you can go forward, it is on positive improvement. To say that it would just be increased milk yield at the expense of butterfat and protein is wrong.

Deputy P.J.D. Ryan:

How would the dairy respond if a large retailer imported liquid milk and began selling it as a market leader with a view to a longer term cornering of the market, or competition removal, and charged more for his milk? How would the dairy respond to that?

Mr. B. Foulser:

We are clearly in the hands of government in this respect. However, I would say that milk production in the E.U., including the U.K., has been in decline for some time and with the exception of one year, the U.K. has shown a reduction in each of the last 10 years with last year showing the biggest fall. There have been increases in the U.K. amounting to 15 pence per litre over the past 12 months, well over 20 per cent increase in price. It could be that Jersey might not have access to sustainable cheap milk in the

future. This is a world-wide situation that is occurring on dairy supplies. There was a situation, I believe, last year when world demand outstripped the availability of milk which triggered the very large price increases that occurred over the past 12 months. That is really why self-sufficiency is vital, in my view, and why we should seek to take every opportunity to make our production as viable and as efficient as it possibly can be while, of course, (and I say again) maintaining the integrity of the Jersey breed. If milk importation is permitted by government, unless they wanted to oversee the total demise of the Jersey dairy industry, they will be faced really with the need to directly finance milk production in a similar way to Guernsey. My understanding is that the Guernsey States support the retail price of milk in Guernsey to the tune of 26 pence a litre, well over 3 times and close to 4 times what is supplied to the producers in Jersey.

Deputy P.J.D. Ryan:

Have you had any discussions with the J.C.R.A. (Jersey Competition Regulatory Authority) to do with this scenario? For instance, there is something in Competition (Jersey) Law known as “predatory pricing”. Have you had any discussions with the J.C.R.A.?

Mr. B. Foulser:

We have had lots of discussions with the J.C.R.A. on several matters over the past couple of years but we have not had discussions specifically on this point, I do not believe.

Mr. A. Le Gallais:

No, I do not think the Competition (Jersey) Law is such that the changes could be made. I think it also ought to be mentioned that we have a very close commercial relationship with our major customers, as you would expect, and I think one can see very clearly in the retail market recently, over the last couple of years, that there is considerable variation in the pricing of milk in the Island. We have a wholesale price of milk which we supply our customers and it is up to the supermarkets or the retailer or whoever, to charge what they see fit for retail milk and you will see a great variation.

Mr. B. Foulser:

In fact, I think there was a letter to the *J.E.P. (Jersey Evening Post)* a few weeks ago complaining that the price of milk was different in several supermarkets that they visited.

Mr. A. Le Gallais:

So I think as a consequence of the Competition (Jersey) Law, also as a consequence I personally believe, but you would need to ask them, that the major retailers in this Island have clearly stated in public that they support local food production; they support quality products in their supermarkets and certainly the relationship that we have with them bears that out. Competitive pricing: they are supportive of our policies as anyone and I believe that is very healthy.

Deputy P.J.D. Ryan:

I think you mentioned you were taking advice from a U.K. firm of lawyers - I cannot remember the name.

Mr. A. Le Gallais:

Burges Salmon.

Deputy P.J.D. Ryan:

Yes. Have you similarly taken advice on E.U. policies and practices on opening restricted markets? Presumably this is an area you have covered with them? We are talking about question 11. You had a comment on question 11 --

Mr. A. Le Gallais:

Sorry, can you just tell me what the question is?

Deputy P.J.D. Ryan:

Has advice been taken from persons qualified to comment on the E.U.'s policies and practices towards opening currently restricted markets such as that for liquid milk in Jersey?

Mr. A. Le Gallais:

The ability to control milk imports is in the hands of government and, as I said to you, the Chief Minister has made it very clear to us that he believes the dairy industry should be moving to a position where it can withstand external competition. That is one that we have strived to achieve but we recognise that it is going to take time to get there and that is why we need all the tools that could be available to us to achieve that. In terms of the detail of advice in terms of how compliant Jersey's regulatory system might be with E.U., then certainly we believe that is a responsibility of government to make sure that we are compliant and, as has been mentioned before, there was a lot of activity on this front back in 2001-2002. We are clear that our responsibility is to put forward a policy which we believe would sustain the Jersey cow in her Island home. We think it would be completely immoral and irresponsible of this generation of dairy farmers to allow a situation to develop that future generations might be faced with something catastrophic to deal with, i.e. a continual increase in the price of milk to cover our costs, whatever, and basing our policy on the premise that the current import controls were cast in stone. I think, as I said right at the beginning, that is a dangerous position to take because if those import controls were, for whatever reason, to be abandoned - and the Council of Ministers have assured us that it would not be abandoned overnight, it would be over a period of time - it would effectively switch out the light for Jersey's dairy industry overnight. But if we look at this in a long-term position and say what really is reality here -- it might not be reality now, we certainly do not want it to be reality

now? What is the ultimate position we are going to face? Greater competition? Then the sooner we get on and put the tools in place for us to be able to achieve that, the greater the confidence the Island can have in sustaining its precious Island herd. The viability of milk production in this Island is intrinsically linked with the future of the Jersey breed.

Deputy P.J.D. Ryan:

I have just got one last question, which is a very narrow one and, of course, completely ignores all of the implications and the nightmare scenarios of continuity of supply and everything else of milk in the Island. But if the co-operative decided to sell the dairy and if no new dairy was built, how much would the farmers in the co-operative stand to gain financially?

Mr. A. Le Gallais:

A very substantial amount of money. You are talking about winding up the scheme. It is a very difficult question to answer specifically but I think it is a sufficiently important question that, with respect, if you could allow me a little bit of time to quantify that accurately then I could give that to you. The reason I am hedging is because if we were to wind it up over a short period of time there are issues with pensions, there are issues with employer responsibilities. Nevertheless, if that nightmare scenario was contemplated then the current members of the co-operative would stand to gain a considerable amount of money. I think if I could flick the question over the other way, you heard earlier this morning about the profitability trend in the dairy industry, which the Milk Marketing Board is acutely aware of and is looking to obviously change by increasing the price substantially to producers this year, which we have already told producers of. I think the fact that we are not looking, despite the low level of profitability, to “carpetbag” Five Oaks - if one could put it that way - is a measure of the determination of the existing producer base to create a facility that the Island can be proud of by way of a new dairy at Trinity and very demonstrably show to everyone in the Island that we are determined, responsible individuals who want to create a facility, not for our own capital gain but for the benefit of the Island as a whole, the consumers of milk, because, ultimately, that will secure the future of the Jersey cow in her Island home.

Deputy J.A. Martin:

You did flick the question over. I did not get a direct answer and I know what you are saying. Why this question was put in and I am going to ask it, it might not be very popular. I am sitting here talking to what I would say is a very committed Jersey milk-producer farmer and it has been put to us that maybe some of the “noes” are maybe not so interested in carrying on with the Jersey herd and to not have the 3 strands, which one of them is importation, that if it did not go ahead and the scenario did happen that the new Jersey dairy was not built, you sold the old Jersey dairy, some people would obviously stand to gain a lot of money. Now, the second part of that question is is it pro rata per head of cow? So a smaller herd will obviously - after all your payouts to your employees and your debts - would the co-operative --

how does it work? If you have got a bigger herd do you get a bigger payout, is it that simple? If you have got a smaller herd, is it that simple? I am not asking it properly but I think you know where I am coming from.

Mr. A. Le Gallais:

Yes, I know where you are coming from.

Deputy J.A. Martin:

It is something we need to investigate.

Mr. A. Le Gallais:

This is one of the issues of this transition between a statutory co-operative and a voluntary co-operative. At the moment we are assuming we still abide by the rules and regulations of the Milk Marketing Scheme (Approval) (Jersey) Act 1954 and I think it is Articles 52- 54 of that scheme which states that, at a winding up, very clearly the proportion of producers who would need to vote in order for that to be a recognised vote on the issue, and quite clearly a vast majority of producers, if not every single producer, would vote on it. The scheme determines how many votes individual producers can have, as stated in the scheme, and a vote would be taken and if the majority was in favour of a winding up that general meeting would then move on to decide how that winding up would take place. I stand to be corrected on this, the scheme does not specifically state how that process would take place. If I were chairing that meeting, and with the support of my board, I would recommend that the 'divvy up' would be in proportion to milk supply over an agreed historical period of time.

Deputy J.A. Martin:

Which, as you say, it is not set in stone as yet.

Mr. A. Le Gallais:

It is not set in stone, but that would be the fairest way to do it and I would suspect that would be -- providing one went into the detail of exactly how it would work out, I would suspect there are precedents that would back up that system of doing it. It would not be divided up equally among producers; it would be in proportion - because we are a co-operative - to the trade within that co-operative over an historical period. Although collectively we obviously own the assets of the dairy because we are a co-operative structure and not a corporate structure (that is, owned collectively) and if there is a means of dividing that up individually I would suggest that is the way other co-operatives have done it in the past. But I would also suggest it is a fair way.

Connétable G.F. Butcher of St. John:

Can I just ask a question, it has certainly been indicated to us that there is a number of dairy farmers that

if they do not see a future in the industry they might want to buy it out, it does not mean your industry is going to fail totally. If the vote went against imported semen and some wanted to depart the industry, what mechanism is there for them to get a payout within the industry at the present time?

Mr. A. Le Gallais:

At the present time there is the ability for members of the co-operative to sell their litreage - their licensed litres which are allocated to them - to other members of the industry. That system has been in place for a number of years now and they would simply sell their cows, sell the whole of farm assets and they would sell their licensed litres among others within the industry.

The Connétable of St. John:

Rather like fishermen's quotas, presumably, that private thing.

Mr. A. Le Gallais:

Yes, that is it exactly.

Deputy P.J.D. Ryan:

Is there an open market?

Mr. A. Le Gallais:

Yes, there is a very clear open market for that. It is between 2 individuals. It is a mutually agreed situation. Within members of the co-operative it has to be registered on a signed piece of paper which is then submitted to the secretary of the board.

Deputy P.J.D. Ryan:

So there is no process for valuing the total assets of the co-operative?

Mr. A. Le Gallais:

No. Apart from our balance sheet. But the price that would be paid for licensed litres would be set in, as you have described, Chairman, an open market. It is between 2 individuals, you do not have to declare the value that you have exchanged those litres for but you do both have to sign the form that registers a transfer from one to another.

The Connétable of St. John:

So, in theory, if a couple of larger producers did not want to leave the industry it need not necessarily mean that the Island's herd will not reduce, it just might spread out?

Mr. A. Le Gallais:

In theory, if they find a buyer and if there is the capability - obviously if you are going to buy those litres you are going to be interested in buying cows as well - of the purchasing producer to accommodate those cows on his present facility. I understand why you are asking the question, I do not want to denigrate that. We are, I believe, talking about something relatively hypothetical and the reason I say that is we did give producers the opportunity last September, in the last adjustment to the Milk Exit Scheme that we organised as a Milk Marketing Board, the ability to come forward and discuss with the independent members of the board whether they wanted to leave the industry. We had 4 producers that came forward and no more and of those 4 producers 3 have left the industry and one is going to be leaving later. Now, if there was such a desire and such an uncertainty then I would put it to you that there would have been a lot more people queuing up. I cannot say to you here now how many will queue up if the semen proposition is defeated; I cannot answer that question, that is for individuals to decide. I believe we will be facing a critical situation though in the next 5-year period. It is something we will have to look at very carefully because this is all going to coincide at a time when we are looking to start building a new dairy.

The Connétable of St. John:

That was part of my thinking that at what level is the dairy viable in terms of litreage if the litreage drops down, if people do go out of the industry?

Mr. A. Le Gallais:

We are vulnerable. That is something we have to balance through. We are vulnerable but we are confident given the submissions that we have made on behalf of the industry, by the R.J.A. (Royal Jersey Agricultural) and the Milk Marketing Board and other individuals that you are going to hear. We are confident that the States Assembly on 15th July, or that week of 15th July, will support this proposition. We believe we have some very clear evidence to put to you; that if the very clear objectives set out in the Chief Minister's letter of 13th February 2007 are going to be adhered to then it is vital, if the States Assembly want to see a viable dairy industry for the future in this Island and if they want to see that dairy industry being supplied by unique Jersey cows in their Island home, if that is what they want - and I think there is an overriding desire among the public of the Island to see that - then we believe we have put sufficient arguments to you to give you the confidence to vote in favour of the Chief Minister's proposition. If you vote against it collectively, then I am very clear in the first instance, government has to decide what it is going to do very quickly if these objectives of the Chief Minister's are going to be complied with. The ball will be firmly in the government's court to deal with that situation in the first instance.

Deputy P.J.D. Ryan:

Would you agree that a winding up of the dairy industry as we know it, would result in individual farmers being better off financially in the short term than not? Would you agree, in very simplistic

terms, with that?

Mr. A. Le Gallais:

With the greatest respect, Chairman, I cannot think of a more hypothetical situation, to be honest with you.

Deputy P.J.D. Ryan:

It is hypothetical. The ultimate cynical man in the pub comes along and says: “There are moves afoot, there are background dynamics here, there are background pressures for almost the dismantling of the Jersey dairy industry in order to get the short-term financial gain.” Now, I do not expect you to answer that because it is very, very hypothetical and extremely, shall we say, difficult politically, I understand, but would you say there was any evidence at all of that kind of pure selfish financial motivation within the Jersey dairy industry? Would there be any evidence to suggest that as having any foundation?

Mr. A. Le Gallais:

The actions of milk producers, current milk producers, particularly in the last 12 months, with the opportunities that have been afforded to them to leave the industry, to retire from the industry, with the clear definition of policies, the Milk Marketing Board, the Economic Development Department, the Environment Department, the Chief Minister’s wishes, are such that I would have to say to you that I do not think there has ever been a generation of dairy farmers in this Island that are as committed to the dairy industry, as committed to the Jersey cow and as committed to ensuring that this Island is self-sufficient in high quality milk and milk products ever. I think your man in the pub, with the greatest respect, has one thing on his mind, and a man in the pub is similar to the man in the street, they want to drink Jersey milk from Jersey cows grazing in Jersey fields. As representatives of the Island’s electorates, I would be staggered if you thought otherwise.

Deputy P.J.D. Ryan:

Thank you very much. I think we can conclude. **[Laughter]** Thank you very much.