

STATES OF JERSEY

Economic Affairs - Dairy Review Sub-Panel

WEDNESDAY, 13th DECEMBER 2006

Panel:

Deputy A. Breckon of St. Saviour (Chairman)

Deputy A.E. Pryke of Trinity

Deputy K.C. Lewis of St. Saviour

Deputy R.G. Le Hérisier of St. Saviour

Deputy S.C. Ferguson of St. Brelade

Witnesses:

Senator F.H. Walker (The Chief Minister)

Mr. M. King (Chief Executive Officer, Economic Development Department)

Deputy A. Breckon:

We will reconvene. The time has moved on a bit, not quite as much as that clock has but it has moved on a bit. Welcome to the Chief Minister, Frank Walker, and to Mike King, Chief Executive Officer of the Economic Development Department, agriculture is now within their remit. Welcome to you. What I would like to do first is just do the general background to where we are, some of which will be known to you, it is just for the benefit of the tape really. This scrutiny sub-panel hearing is part of the process of the dairy review and, as you know, it is a joint review with yourself, Chief Minister, and we agreed joint terms of reference. The consultants, Promar, were appointed and in the last few days they have produced their final report. As a background to some of the wherewithal of this inquiry, the Treasury Minister lodged 2 propositions with the States: one was the move of the dairy, the Jersey Dairy, to Howard Davis Farm; and the other one was to changes in the covenant on that piece of land. Procedurally there are 2 issues: the first one is for Mike as a non States' member. I would just like to read you this so you are aware of it and you fully understand it. "The proceedings of the panel are covered by parliamentary privilege through Article 34 of the States of Jersey Law 2005 and the States of Jersey (Powers, Privileges and Immunities) (Scrutiny Panels, PAC and PPC) (Jersey) Regulations 2006. Witnesses are protected from being sued or prosecuted for anything said during hearings unless they say something they know to be untrue. This protection is given to witnesses to ensure that they can speak freely and openly to the panel when giving evidence without fear of legal action although the immunity should obviously not be abused by making unsubstantiated statements about third parties who have no right to reply. The panel would like you to bear this in mind when answering questions, and the proceedings are being recorded and transcriptions will be made available on the Scrutiny website." That is solely for you, Mike, and for the Chief Minister, it is slightly different being a States' Member in that

the panel's proceedings are covered by parliamentary privilege through Article 34. As a result you are protected from being sued or prosecuted for anything you say during this hearing, although this privilege should obviously not be abused and, again, the transcription should be available within 48 hours and anything said will be subject to your agreement. If there is a factual mistake then that can be corrected, and about 7 days after that it will then be published as a true and accurate record. So if you mistake a date or anything like that there will be that opportunity to change it. I would like to formally welcome you, and just for the benefit of the tape if you can say who you are, although I have said that, if you could just do that first.

Senator F.H. Walker (The Chief Minister):

Thank you, Chairman. I am Senator Frank Walker, the Chief Minister, and because of the conflict of interest of the Economic Development Minister the responsibility for taking a ministerial decision in this matter has fallen to me.

Mr. M. King (Chief Executive, Economic Development Department):

I am Mike King, Chief Executive of the Economic Development Department which has responsibility for agriculture.

Deputy A. Breckon:

Thank you. I would like to start with the first question. I believe, Mike, you might not have seen the copies of the questions but if there is anything between the Chief Minister and yourself feel free and relaxed to answer as you see fit, either one or the other or whichever, it is not a problem. Now the first question really is to the Chief Minister, are you content with the process and timings of the production of the *Promar Report*?

Senator F.H. Walker:

Am I content with the process and the timing?

Deputy A. Breckon:

Yes, in the production of the *Promar Report*.

Senator F.H. Walker:

Generally speaking, if we are talking about the process and the timing, yes. We know that the report was somewhat, albeit not I think seriously, delayed from the original timescale - that is a timing issue - I promised the producers, at a meeting we held at Lodge Farm a number of months ago, that they would be fully and properly consulted by Promar throughout the process. I also promised them the full opportunity for comment, feedback, alternative ideas, whatever it may be and the feedback I have had to date suggests that certainly the first part of that promise has been met, the second part of course is in the

process of being met, but I believe it will be met.

Deputy A. Breckon:

Just a comment that somebody else has asked us - and perhaps you could comment if you can remember - how much the report cost?

Senator F.H. Walker:

No, I cannot. Mike?

Mr. M. King:

That is a very good question and I have not got that figure to hand but will get it for you.

Senator F.H. Walker:

Yes, absolutely.

Deputy A. Breckon:

It was just a question that was asked of us.

Mr. M. King:

It is in the depths of my files somewhere but it may take me a wee while to pull it out.

Deputy A. Breckon:

Thank you.

Deputy R.G. Le Hérissier:

Frank, we have had a very robust presentation from Dr. McQueen who, as you know, was the last consultant to report. He set the dairy on a particular track, any break up of any kind will ultimately leave fragmentation. It may give the illusion of competition, it might give the illusion of price cutting but ultimately it will lead to fragmentation. He obviously had some fairly interesting things to say about the *Promar Report*. I suppose the interesting issue for us, Frank, is on the one hand we have had all variations and we know out in the field there has been a possible move towards a freer, much freer, market, so where do you stand on this issue - and it is not sufficient to tell us: "I am waiting for the industry to tell me". What is your view? Do you feel, from what you know so far of the industry that the milk scheme, yes, it may need reform but essentially it has done a good job with a bit of reform - maybe more I do not know - it could do an even better job but we have to essentially keep a milk scheme because otherwise the industry will fragment?

Senator F.H. Walker:

I do not think I am in a position to answer that at this particular juncture because I am still waiting to hear back - and this is no criticism whatsoever - from the producers their reaction to the *Promar Report* and that of course is fundamental. I think though it is fair to say that the milk scheme in its current form is not sustainable long term. There are going to be challenges to the current structure, it is only a matter of when not whether, in terms of importation. I think there are other issues, and these have been highlighted recently, which have to be addressed and not least is the cost to the consumer. We know that the Jersey consumer is paying a very high price for their milk and I think the margin between the current retail price and the price at which imports could be introduced is unsustainable. That is not just my view. I have heard that view from just about everyone I have spoken to in the industry. So I do not believe that the current scheme is sustainable. Now, whether a variation of the current scheme is an option, I do not know. I have had no such proposition put to me at this juncture. I have had effectively 2 propositions put to me to date. One is the Promar proposition which very firmly falls on their option 5, and the other of course is the Perchard/Binet option, a firm option if you like, which has been put to me in, I think it is fair to say, outline only at this stage with the recognition that that needs to be fleshed out at some point. Now it is entirely consistent with what I have asked the producers to do. But to give an opinion at this juncture on what is the right format for the future would, I think, be entirely presumptuous and not one that I can give because I want to see, need to see and will see all the arguments for whatever the options may be before reaching a final decision. At this moment in time I have an open mind.

Deputy R.G. Le Hérissier:

Would you say, Frank, that given that government is very heavily committed to competition obviously, is your presumption, with all your business experience, with all your enthusiasm for competition - or increased competition - in favour of competition?

Senator F.H. Walker:

I do not think my presumption is important here. My presumption is based on 3 requirements. The requirement is to protect the industry and the last thing that I want to be a party to is any decision which ends up with a totally fragmented industry and which ends up with us losing something which is extraordinarily precious to Jersey's culture, our countryside and our culture, which is, to quote the usual expression: "Brown cows in green fields." That is one of the objectives. The other objective is to ensure that we have a viable industry going forward. The third objective is to ensure that there is a more sustainable price to the consumer. Now, what I am looking for is the best model to achieve that. If competition is the best model, I am in favour of competition. If it is not then I will go along with what is considered to be the right way forward, with one very strong caveat. I am not sure now, at all, that with the competition law and the external pressures that it is possible to see a long term future of the industry without competition. Now, it may be but there has to be a significant question mark against that possibility.

Deputy S.C. Ferguson:

Chief Minister, following on from your answer there, would you give serious consideration to a derogation and/or a PPE possibly on a sunset clause to protect the industry while it restructures?

Senator F.H. Walker:

Absolutely. I have made this very clear on a number of occasions. I do not think it is a question of would I give consideration to, I think a derogation or PPE is going to be necessary. The issue will then ~~become~~ become for how long is it correct to seek a PPE and how long would such a PPE be possible? A PPE in my view, without either a cut off date or a PPE which is effectively permanent is not sustainable. A PPE will have to be, in my view, for a definite period and to quote you, Deputy, I absolutely agree: "While the industry restructures." A PPE is not issued lightly. It is something that needs the most careful consideration but I have no problem with issuing a PPE in these circumstances should it be necessary, ~~and~~ but in my view it almost certainly will be necessary.

Deputy S.C. Ferguson:

Following on from the PPE argument, we have this afternoon heard from Bill Brown from the JCRA. There are a number of instances in the UK where they have permanent PPEs put in and that it would be entirely within the province of the Minister to say: "We want an open-ended PPE." This was Dr. McQueen's comment on it, that he felt that this was something government should have done and really said sort of why had we not done it.

Senator F.H. Walker:

Well, other than very recent events I do not think there has been a need to do it. I have to say I am surprised to hear, because it is not the information I have so far received - and I note from the nodding of Mr. King's head that he too is surprised - that Mr. Brown has said an open-ended PPE is possible. All the information I have received hitherto has been that it is not. Now, if that is a viable way forward then, along with everything else it would be explored. I think if I could give an overview of my position here. I am not seeking to evade any questions by not giving definite answers but I stress what I have said already, I have an open mind on this issue and I am waiting to see the full submissions in response to Promar from the Dairy Board and any other producers that may be working with the dairy board or working in their own name and also, of course, the Perchard/Binet option. It is very much an open book at this juncture and it is far too early to be looking to take decisions in my view.

Deputy S.C. Ferguson:

Fair enough. In fact this was a surprise to us as well when we explored the possibility this afternoon.

Mr. M. King:

Can I add something to that, Chief Minister? Our knowledge, and this comes from discussions that we have had with the JCRA I think, in the UK there is a precedent for an open-ended PPE but our understanding is there has only been one and that has been related to maintenance of naval vessels where there was a national security implication and that is why the PPE was put in place by the authorities in the UK. But I think in any way, shape or form, that a PPE is anything other than a very, very extreme exception to the rule that is normally applied would be a fundamental mistake. While there are precedents they are not the sort of thing that happens on a daily basis and what the Chief Minister says is that his willingness to grant a PPE, if it were to prove necessary, should not be taken lightly because it sends a very strong message of support to sustain an industry which, simply put, preserves the “Brown cows in green field”.

Senator F.H. Walker:

If we were to look at the possibility of an unlimited PPE, the other question is whether, even though that may be acceptable perhaps to the JCRA and under the competition law, it is ~~how~~ sustainable ~~it is~~ under challenge from other sources and I think that you would have to say, at this juncture - and I put it no more strongly than this - that ~~there~~ has to be a very serious question mark against whether or not it is sustainable.

The Deputy of Trinity:

Following on from that, Chief Minister, has the Milk Marketing Board approached you last year, or even this year, asking for an exemption, be it a temporary one while they go through a period of change?

Senator F.H. Walker:

We have had discussions about the possibility of a PPE, I have had no formal request to introduce one.

The Deputy of Trinity:

So if they came with a formal request to ask you to do a temporary one, you would look at it?

Senator F.H. Walker:

It depends on what the terms of the PPE are. If the PPE is designed to shut down the current level of competition, that is one issue. I know there are those who would favour that. If the PPE is designed, as Deputy Lewis asked in his question earlier, to allow a period of time for the restructuring of the industry, that is a very different issue. Now, I have had no formal approach as such but I think there is an understanding with the board of the dairy, and I think the producers generally - in fact, I am sure with the producers generally - that we will look to introduce a time limited PPE for restructuring purposes. Now, whether we could or should introduce a PPE to address what is perceived to be a problem currently is another matter all together and I would need to give that very serious thought indeed because, as I say, that is a very different question to allowing the whole industry a timescale for

restructuring. It is a very different approach all together.

Deputy R.G. Le Hérissier:

I will direct this to Mike and then you may wish to comment on it. One of the arguments we get, and in fact came up at this telecom privatisation seminar last night, is that in small jurisdictions you have to accept, in part, the existence of monopolies because if you try and bring in competition, as I said earlier, you may get a brief period of competition, you may get a bit of blood letting but essentially you will end up with a reduced industry. But, of course, in this case you have obviously got to be enormously careful about pressing the button on that process because you are playing with heritage. You are playing, as the Chief Minister said, with heritage. What is your assessment, Mike, of conditions where a benign and well regulated monopoly is essential in a small place like this?

Mr. M. King:

There seems to be a presumption that the Economic Development Department and the JCRA, for that matter, are slaves to competition. That is not the case. What we wish to see is the appropriate balance between competition in the marketplace and efficiency in the marketplace. If it is the most efficient solution to have a single entity that delivers liquid milk production and associated products to the Island then that is exactly what should be delivered. Indeed, I think the competition law would support that because the application of the law has to be balanced between delivery of effective competition if it is appropriate and efficiency in the marketplace. Efficiency in the marketplace means, in this context, a sustainable level of farm gate price to the produce and a competitive level of price to the consumer. That is something, as has been recognised in both the *McQueen Report* and indeed in the *Promar Report*, is a very laudable aim and something that I know that the JMMB, and indeed all of the producer base, are fairly committed to deliver.

Deputy A. Breckon:

I wonder if you would like to comment on where you see the tension between the Milk Marketing Scheme which is over 50 years old and the competition conflict?

Mr. M. King:

I think, to answer it quite simply, it is that it potentially reduces the degrees of freedom for individual producers to deliver greater value from their milk production. It is really that simple. But, in essence, I think it has to be said that it is possible, even with the existing scheme, to - albeit in a slightly modified form - allow individual producers, should they so wish, particularly if they are producing added value products and not substantial volumes of liquid milk to effectively operate outside the scheme while the mass liquid milk production in the Island is governed within the scheme in some way, shape or form. What is described as tension I think is a function of perhaps the difference between the position that has prevailed for 50 years and what could be described as current market conditions.

Deputy A. Breckon:

I wonder if you would like to comment on the possibility of a short term solution being a situation that was ring-fenced for asset protection and stop asset stripping and perhaps to allow an orderly exit if people, because of age and circumstances, want to leave, would you see that as a possibility as an orderly way to head the industry in the future?

Senator F.H. Walker:

I would see it as a possibility but there are many other possibilities as well. Again, I cannot emphasise too strongly that what we need to do before we arrive at favouring any solution is hear back from the industry. The *Promar Report* has not yet been responded to, in effect, by the industry. We all attended - or most of us attended - a meeting with producers at St. Paul's a few weeks ago at which the *Promar Report* was presented. It had a mixed reception it is fair to say but the agreement was, I think, 2 fold. That the producers would go away and come back with their response to Promar, which has not yet happened. I emphasise that I am not making any criticism here, they clearly need time to do that and that is acknowledged. That was one thing we asked for, the other thing that we asked for was those particularly who were criticising the Promar preferred option to come up with an alternative, and I think we made the point that there would be little future in criticising if there was not a better alternative. Now, we have had the Perchard/Binet proposal in, I think it is fair to say, outline but we understand very clearly the thrust of it. So we have had that. They, I know, are working on that to give it flesh at some point in the New Year. I know that the board of the dairy met today. I do not yet know the outcome of that meeting and I do not know when we will know the outcome of that meeting. But clearly we are looking at a situation here where we need a lot more information from the people who are at the heart of this, which is the producers. I am not ready to back any preferred option at this juncture until we have got that information. We cannot take a decision in any way in isolation to the industry. That has obviously got no legs to it at all. So let us await the response from the industry. Let us evaluate the response from the industry, and it may end up being responses from the industry, it may not. I do not even know that specifically at this juncture but let us await whatever response is forthcoming, let us evaluate that thoroughly and fully. That will require, I have no doubt, further meetings and consultation with the producers until we are in a position to take an orderly decision.

Deputy A. Breckon:

In view of what you said then, Frank, can I put something to you, you might have received this earlier today by email, it is a suggestion that you and I do a joint letter with the latest *Promar Report*, which was only produced in the last few days, sent to all the producers and say that if they wish to respond to either of us by, say, 5th January then we are open to that to meet with them privately, individually, collectively, whatever that may be. We can agree that that is a way forward?

Senator F.H. Walker:

I have no problem with that at all. I have, I hope, made it clear now for some months that I am open to any discussion with producers at any time. Indeed a number of individual producers have contacted me. So I am pretty sure the industry is aware that the door is open but I have absolutely no problem whatsoever, of course not, to you and I writing a joint letter enclosing the latest copy and inviting more formal responses. I think what we do not want is about 10 different alternatives flying in from different areas. I mean, if that is what the producers would want to do, fair enough, but I do not think that is going to make the task of giving the industry a future any easier.

Deputy A. Breckon:

If that were to happen do you see that delaying any process about decision making if we did extend that offer?

Senator F.H. Walker:

Well, the longer the consultation goes on the longer the process. That is an inevitable, inescapable conclusion. I think, as with all these things, it is vitally important that we strike a balance between ensuring that every person who is entitled and has a real position from which they should be invited to respond has had the opportunity of doing so. We need, though, to create a balance between that and taking a decision because all the pressure that I have felt from the industry, and continue to feel from the industry is: "For goodness sake, the States of Jersey have messed around with this for far too long, take a decision." So it is a question of striking that balance and you are never going to get it entirely right at that juncture. There is one decision perhaps that can be taken and I know certainly all the feedback I have had to date suggests that the vast majority, not necessarily all, but the vast majority of producers are very anxious that it should be taken, and that is to be able to develop a new dairy. To release the covenants on the HDF (Howard Davis Farm) site so that we are in a position to promise the industry a new dairy. Now, that is a decision that, as you know, Senator Le Sueur, the Treasury and Resources Minister, is working on right now and I think and hope that that is a decision that can be taken in the near future. It is a very important decision and I think it sends out absolutely the message that the industry currently requires, which is do you, the States of Jersey, believe that we have a future and are you prepared to help us create that future. I think that is one thing where we can be positive and hopefully positive very quickly.

Deputy A. Breckon:

Would it be correct to assume from what you said that at the moment you do not feel you have had enough direct feedback from the producers themselves?

Senator F.H. Walker:

There is no question of that and the producers themselves would be the first to say that. The only actual

feedback I have had formally, if indeed that was formal, from the producers generally was at the St. Paul's meeting. We have had the Binet/Perchard model in outline, we have not yet had a response from the dairy or, indeed, the vast majority of producers. But I emphasize again I make no criticism here, this takes time, nor would I have expected a response at this juncture. But without that response and without the fullest possible consideration of that response or those responses we cannot possibly take an informed decision or have any confidence at all that any decision we take would, indeed, have the support of the industry and be in the best long term interests of the industry. I am afraid in that context we are in a waiting game but that is inevitable, and I go back to what I said, we need to balance the need for speedy and firm decision making against the absolute necessity of making sure that everyone who legitimately should be able to express an opinion has had the opportunity of doing so.

Deputy R.G. Le Hérisier:

Obviously while this waiting game goes on it is very hard to sort of look into your thinking, I suppose, behind it. But, say, for example, the industry split and really the public assembly is going to have to make up its own mind about this. You know, you cannot get a clear view. As you know, the Binet/Perchard report essentially said the export strategy is a flawed strategy, and because that is flawed therefore the need for the expensive dairy is unnecessary, it will add to yet another string of debt around the neck of the organisation and we are on a downward spiral. Whereas the other view, so far as can be articulated, it says we need optimism, we need a strong export strategy, it is going to be difficult but at least it will give faith to the industry, it will give optimism to the industry and it is a risk we have to take. Say you were going to be faced with those 2 options, and that is essentially what it boiled down to, bar all sorts of other side arguments, how would you choose between those 2 options?

Senator F.H. Walker:

Roy, I think the thrust of some of the questions is asking me, in effect, to take a decision today with no information, or little information. I am not going there, I am afraid. I need to see the responses from the industry. Until we have got those, in full, and we have not got them yet as I have said on numerous occasions already, it is absolutely presumptuous and absolutely wrong to take a decision or even lean towards one model or another. Until we have got all the facts, all the evidence if you like, then how can we possibly take an informed decision? I will favour - and I have no philosophical leaning here whatsoever - I will take a decision ultimately which I believe best protects the industry long term. I laid out much earlier my criteria that I work to here, the objectives, which is to keep, as the quote goes: "Brown cows in green fields" to make sure we have a sustainable industry long term, to make sure that we are in the best and strongest possible position to fight off imports, to equally at the same time make sure we are giving the consumer the best possible deal. Now, I will go with whatever model gives the best answer to those basic objectives but at this moment in time I could not possibly tell you what that answer will be and I await much further information and much further consultation with the key figures.

The Deputy of Trinity:

Just following up on that, and just down to basics, have you given the producers a timescale that you want a response by?

Senator F.H. Walker:

Not firmly. I have had telephone conversations with a number of producers and others since the St. Paul's meeting but I think the outcome of the St. Paul's meeting was clear. The outcome of that was that Mr. Le Gallais as Chairman of the Dairy Board was going to organise a series of meetings with producers and then have a board meeting or board meetings as necessary and report back in the shortest possible time scale. But, no, we did not set a date of 31st December or 15th January or whatever, but I do know from the information that I have had privately that they are working to a very tight timetable. I think there is a sense of urgency here for everyone and I well understand that sense of urgency. Everyone wants certainty. There are key issues hanging over the producers themselves at the moment about whether or not they have a future and what that future is. So the urgency is real. I think it is felt by everyone but, no, we have not given a specific date at this point. Nor would I want to do so. I mean if we are still sitting in this position by, shall we say, the middle of January and we have had no response, I will start to get seriously concerned and then I think pressure would have to be applied. I do not, for one minute, believe that that is the position we will be in.

The Deputy of Trinity:

So you are envisaging that Andrew Le Gallais will be speaking on behalf of the producers to you, or are you open to any producers contacting you and, if it is by phone call, you see that as sufficient evidence to base your --

Senator F.H. Walker:

I am not going to take any final decisions on the basis of a phone call, no. But, at the same time, I think it is important that producers know that if they want to they can call me. Some of them have already, to express strongly held views, some of them have ~~to~~ phoned up and say: "Look, do we really have a future? Are you really going to do what you say you are going to do?" That is entirely legitimate. I would not want to discourage that at any point but I will not take a decision on the basis of a phone call. I take a line here, which is very similar to the remit of scrutiny, any decision we take at the end of the day will be evidence based. There is no philosophical political dogma involved in this. It has got to be based on hard and fast evidence and on being able to read into that evidence and define from that evidence what model provides the best future and meets the objectives, which I think are pretty well signed up to by everyone, the 3 objectives I have outlined for the future.

Deputy A. Breckon:

Can I ask you, Mike, something on the detail of the export market? Is there any evidence you have seen

that it is there for the taking and, Mike's point of view, could ED (Economic Development) provide some practical support for the dairy development and get that?

Mr. M. King:

There is no doubt, I think, Promar, even Donald McQueen and certainly the producers and the JMMB, recognise that the export market is not without challenge and it is a risky strategy. Is it absolutely essential? Yes, it is. It is a very saturated market, it is a very price sensitive market, even at the luxury end, which is where the products from Jersey would be playing. But, having said that, we do not need a very significant market share to make it work. But nobody should be under any illusion that achieving a meaningful export market is going to be easy. It particularly is not going to be easy with the current dairy production facility that we have up at Five Oaks. That simply is not, at the moment, of sufficient quality, I think, to playing meaningfully in that marketplace. That is one of the other key drivers behind the States, as the Chief Minister said, making a decision to allow the redevelopment under whatever future we are in. As far as Economic Development is concerned, and I have said this to the dairy many times, I believe that in the past we have not, because they have not maybe approached this and we have not offered it, given them the appropriate level of support to develop those export markets. We now have an export trade development initiative which is well funded for 2007, it is open to any business but it is particularly applicable, I think, to the dairy if we move forward with this export strategy. It would be unthinkable for government to support a strategy for the future of the industry that was export driven and then not play a role in trying to facilitate the success of that. That is what we are more than happy to do. As I say it is a well funded, well structured scheme. The dairy industry is eligible to apply for it and we would welcome, as part of any restructuring initiative, engaging with them to do that. But I will come back to the point, an export market and development of it should not be considered a low risk option for the future, but is it achievable? Yes. Will it be difficult? Yes. Will it require quite different skills perhaps from a marketing development perspective? Yes, it will. But I am sure everybody involved in the industry is prepared to take that on board.

Senator F.H. Walker:

Can I say I am concerned about the export potential. I have not seen yet any firm evidence, although I understand the requirement for an export market, that that is going to be easily achieved or perhaps whether or not it is even achievable. I have had a big question mark about that element of the pathway forward and the *Promar Report* from day one. Again, I am certainly not ruling it out but there are still more questions to be asked and answered in that ~~respect~~ respect ~~than where we are today.~~

Deputy R.G. Le Hérisier:

Just to come back to my traditional theme, it strikes me all that could happen, Frank, when you get your consultant, is people who are comfortable with the Milk Marketing Scheme will say: "We want to stay with it because we are comfortable and we are fearful of the others." People who are not

comfortable with it will say: "Oh, the dairy is an inefficient organisation, it is this, it is that, and we really need a massive shake up." So, say, for the sake of argument, they give you these 2 sets of arguments which are driven partly by history and emotion and fact, they give you these 2 sets of arguments, Mike, how are you going to test out these arguments? Under what conditions - this is my frustration in trying to get clear answers from you 2 eminently fine gentlemen - would you say: "Well, tough, there has got to be competition because that is really the way forward"?

Senator F.H. Walker:

That is a different question. A totally different question. I am sorry you are frustrated, I am sorry that you feel I should -- I am following, I think, a well trodden political path which you yourself have perfected, Roy, [Laughter] of not giving a decision. The fact is that I am not yet - and I will not be pushed or harried into it - in a position to take a decision. Now, what I do think is that change is inevitable. I do not think the current model is sustainable and I think there is probably now general agreement on that point. I do not think the current model is sustainable. Now, whether that change should be towards competition, internal competition, or whether it should be to a voluntary co-operative to which theoretically everyone, or very nearly everyone, is signed up, I do not yet know. We have got 2 radically different proposals on our table. I cannot look at them both and say: "Oh yes, that is the right one", not at this juncture. It is impossible. The decision we are taking here is of such importance not just to the producers but to Jersey, that I am not going to be rushed or pulled into favouring any particular model at this point. In particular, I am not going to come close to taking a decision until I have had the feedback from the majority of the producers which, as we have already noted, we have not yet got. But let me re-emphasise, there is no political dogma here, no philosophical line in favour of competition, internal competition, or not. Now, you did ask a question: under what circumstances would we take a decision in favour of competition? I think that was the gist of your question. We would take decisions in favour of competition if we became convinced from the evidence in front of us that that was the best model for the way forward. Equally we would take a decision against it if we were convinced that that is the best way forward. But although we have deep rooted internal views from the industry and others, and deep rooted internal needs, we cannot in any way escape from the fact that there are external issues here which we have got to deal with as well. That is going to have a bearing on the final decision.

Deputy S.C. Ferguson:

You talk about the external issues, we understood from - I think I am right in saying - earlier afternoon, that there were aspects of the EU regulations that would, in fact, allow the continuation of a model such as the JMMB. Dr. McQueen came out very strongly against a voluntary co-operative. It is another point of view, it is another model. He feels that the industry is recovering well, it is nothing like as in as dire state as perhaps the newspaper headlines say. It is facing challenges --

Senator F.H. Walker:

Very few things are.

Deputy S.C. Ferguson:

Given these sort of comments if the producers all came back and said we like our JMMB, what is your view on that?

Senator F.H. Walker:

I think what you are saying to me is that Dr. McQueen is still in favour of an imposed monopoly?

Deputy S.C. Ferguson:

Yes.

Senator F.H. Walker:

I am not at all sure, no matter what view may be taken of the EU position, that it is sustainable. It is certainly effectively under challenge today as we know it. There is a world of a difference in today's world, never mind where we were 50 years ago, between an imposed monopoly and a voluntarily monopoly. ~~in effect~~. There is a world of a difference. Now, having said that, one of the other pieces of evidence that we still need, and have asked for - and I think the panel is well aware of this - is a legal opinion from the Attorney General on precisely what is achievable, what is sustainable and what is not. Again, until we get that opinion it is impossible to take a decision, and I would not at this point say I think Dr. McQueen is either right or wrong. I think there is other evidence that is required before one can reach that conclusion.

The Deputy of Trinity:

We have heard you say that you are going to get evidence from the producers, Milk Marketing Board, et cetera, but we understand that there are 3 States' appointed directors on the board. Have you sought their view and do they report to you?

Senator F.H. Walker:

Separately from the rest of the board, no. Nor do I intend to do so at this juncture. What I have always done is met with the board at their request and it may be a full board meeting, it may be representatives of the board and I think what we need to do here is maintain an orderly approach. I think that communications with the board and meetings with the board should be through the chairman. I do not think there is any other way of doing it and I would expect, having said that, the States' appointed representatives to make their views very strongly known. But I would equally expect the other members of the board to make their views strongly known. I would not like to in any way suggest that there could be a major difference between the 2. I would like to think, and in fact I do think, that they are all there

to act in the best interests of the industry. Therefore I will continue to meet with them on request but I go back to what I said, those meetings, in my view, should be at the behest of - and with the full knowledge and involvement of - the chairman.

Deputy A. Breckon:

Can I ask you, Frank, if you think at the present time the emergence of a very public alternative is helpful at this stage or it is a hindrance?

Senator F.H. Walker:

It is a fact of life. It has happened and it is totally consistent with the outcome of the meeting, the conclusions that were drawn in the meeting at St. Paul's where I did say, and I am again repeating something I said a little while ago, to the producers: "Well, there is not much point in criticising the Promar proposals if you have not got what you think is a better alternative", in effect, inviting anyone who wished to to come forward with a better alternative. Now, clearly Mr. Perchard and Mr. Binet believe they have a better alternative, they have submitted that. I think it will stimulate a healthy debate. I think it is, on balance, good that we have a choice of options and it ultimately, I think, will lead to a more informed decision.

Deputy A. Breckon:

Would you agree that the process of consultation is not over because we both said at the conclusion of that meeting on 17th November that Promar was part of a process to inform government about a decision and that consultation process was still open and we should both extend that and go public on that.

Senator F.H. Walker:

I have confirmed that already. I doubt that there is a single producer who is not aware that they have the opportunity to express their opinion, in whichever way they wish to express it. But I maintain that position. My door is open, both to individuals who may wish to speak to me - and as I have already said, a number have - and to more corporate approaches, either from the board of the dairy or from Mr. Binet, Mr. Perchard and other producers.

Deputy A. Breckon:

That would extend to holding another meeting, a group meeting, if necessary?

Senator F.H. Walker:

I think another meeting is going to be essential and I think I said that in my summing up at St. Paul's, that when we have had the necessary responses it will, I am sure, be necessary to have another meeting with the producers. It may be necessary to have another 3 or 4 meetings with the producers, I am not

sure. It will depend on the responses and how the sifting of evidence and the debate goes on. But there is no bar, other than at some point a decision has got to be taken. One can consult for ever without taking a decision and that is not in anyone's best interest. Other than that there is no bar on consultation, discussion and meetings or informal approaches, conversations, whatever.

Deputy A. Breckon:

Can I just ask a question of Mike from the department's point of view. Is there anything in the proposals you have received that cause difficulties for the back up the industry gets from your department?

Mr. M. King:

No, nothing at all. You know, I think that the way the industry goes forward should not and will not affect the structure of the subsidies as we go forward or that we make. It is a different issue, to be honest with you.

Senator F.H. Walker:

The States are going to have to continue to support the dairy industry and both models - if you want to call them that - that we have had presented to us so far are based on the presumption that there will be continuing subsidies. I have not heard anyone yet who believes there is a sustainable future ~~foref~~ the industry without subsidies and if we want to protect the industry long term we have got to recognise that and we have got to be prepared to invest in the industry in that way, and Mike King has already referred to other possible ways of supporting the industry.

Deputy S.C. Ferguson:

Given that every technical witness from the industry who has appeared before us, whether it is Dr. McQueen or Promar or whatever, everybody has agreed that the key to the dairy industry is a new efficient dairy. When would you expect the relevant propositions to come to the States?

Senator F.H. Walker:

There are discussions currently under way between the Treasury and Resources Minister and the Howard Davis family. The Minister gave notice to the States last week that he intended, on the back of that, to lodge a proposition early in the New Year. My understanding is that he will be moving heaven and earth to lodge that proposition, possibly even before the end of this year but certainly early next year. We understand the urgency here. We understand the absolute requirement, although there is not, I do not think, unanimity on the use of Howard Davis site - there may be alternative views to that within the industry - but wherever it is we understand the need for speed. My view is that even if, shall we say, another site was the preferred solution long term - and I personally have doubts about that - we lose nothing by getting the States' approval to the proposition so that the industry knows that come what may

we do have a site for the new dairy and we are committed to ensuring that that new dairy is provided, in whatever form it is needed. That is the message, I think, we have got to send out to the industry loud and clear and I will be looking for the States very firmly in the New Year to show their support for the industry and show their support for ensuring that that a new efficient dairy can be provided in the shortest possible timescale. It has taken too long and we have got to make sure now that we do not delay that process unnecessarily one day longer than we need.

Deputy R.G. Le Hérisssier:

I was just going to ask Mike, as you know, Mike, one of the possible things that weighs down the JMMB is, of course, their obligation to take surplus or to take the buffer milk and they process it at what is at loss, as you well know. If they were to enter into what appears to be your third way, where there is some competition and the JMMB are still there, would you expect them to still take milk from people who are now in farm gate competition with them?

Mr. M. King:

Well, can I give you a personal view from somebody who has worked in the commercial world in the oil sector which is a little different to the dairy sector, I will give you that. My view is that if you sit outside the JMMB you sit outside. You are either out or you are in. If you are out and you have excess milk clearly you cannot throw it away and there is a cost of processing that milk into whatever product is exportable and that cost should be borne by the people who sit outside the co-operative. That is a rather different commercial arrangement between producer and the processing arm but it is, in my view, just common commercial sense. The dairy in that instance would be providing a service. I do not know anybody who provides a service in the commercial world who does not charge for it. That is my view. We as a department have made that position very clear to the dairy and, indeed, to people who currently are, as you say, somewhat in competition from a farm gate and product perspective in the Island.

Deputy A. Breckon:

Well, from the silence I am going to assume they are content. Not necessarily content with every answer you have given there but I would just like to thank you for attending and being part of this process. It was important that we saw you. We still have got a number of people to see before we conclude this, including we are going to make the offer again jointly to the producers with the *Promar Report*. We will do that within the next day or so. In conclusion if there is anything you would like to add that you think we might have missed or you would like to say something in summary, please feel free. You do not have to take that up but if you do you are quite welcome.

Senator F.H. Walker:

I do not think there is anything that you have missed, Alan, but I suspect and believe that it will be necessary for me and Mike King and probably others to come back and discuss this issue with your

scrutiny panel further. I would welcome the opportunity, when we have had all the evidence, when we have evaluated evidence and taken a decision, to be scrutinised on that decision. That is when the line of questioning that Roy has been putting to us this afternoon will have total validity and that is when you will get hard and fast answers.

Deputy A. Breckon:

For our part, we hope to be able to inform you, in part, in that process by having something that you would be able to consider as part of the wider scheme of Promar and whatever else.

Senator F.H. Walker:

I regard the work that you and your panel at scrutiny are doing as being very important to the ultimate decision. Your opinions and the evidence you are gathering are going to play a part in the final decision taking. I will be taking your decisions, your views, your evidence, fully into account when reaching whatever decision ultimately is necessary. So I think we continue, I believe and hope, to work together on this and I think we each have value to bring to the party. I am in the position where I have to take a decision which is fine. You are in a position where you have to help me and inform me in taking the best decision and I warmly welcome that.

Deputy A. Breckon:

Mike, is there anything you would like to add?

Mr. M. King:

No, except for one thing. I think the department is - and this is something I know that Andrew Le Gallais has said - dealing with a value chain here and it goes from the field to the fridge, or the doorstep depending on where you get your milk, and I think it is important when we look at the industry we look at all aspects of that. I think it is very, very important for your decisions, indeed for ours as well, that we also talk -- because we have talked about options for fragmentation, consolidation, I think it is very important, as well as talking to the producers and the dairy as the processing arm, we also talk to the retailers, because you have to ask yourself - and I come back to the point I made earlier - we need to strike an appropriate balance between competition in the marketplace and efficiency in the marketplace. The retailers who supply to the 88,000 or 90,000 people in the Island have an important voice in that and I think that is an important thing. We certainly consult with them and I think there is certainly a presumption there against fragmentation. That does not mean that the consolidation has to be under the current structure or under a different structure, but fragmentation -- I think the view that they may take is probably not the best thing that would serve the market in the most efficient way and I would urge you to have the discussion with particularly the 2 primary purchasers of wholesale milk who do play an important role in that value chain.

Senator F.H. Walker:

Can I add one thing? Mike talking about fragmentation, there was a point I meant to make earlier. Come what may I appeal to the producers, whoever they may be, to ensure that we do not end up in a war within the industry because if we want to create problem upon problems we end up in that position. We have heard much of the unity of the industry, there are question marks for obvious reasons being raised about that unity, but I very much hope, and I think everyone accepts this - whether it is achievable or not remains to be seen - that we will avoid a war within the industry because ultimately that would only damage the producers far more effectively than anything else.

Deputy A. Breckon:

Anything else you would like to add? I would just like to conclude again by thanking you and just to say that this is the first time it has been held in this Chamber, we did have a problem using downstairs and I think in general terms, although we have had a few hiccups, it has worked. We have some producers and some members of the public that have attended many of the sessions and I hope they have found it useful and informative. The *Promar Report* is now in the public domain, if anybody does not have a copy we can supply that if they contact the scrutiny office, and also the transcripts of this within 10 days should be available publicly. I think with the information we have gathered it will gradually unfold and go into the public domain. It is evidence based and we can share that with as many people as possible and make a decision based on the evidence, but bear in mind that people have spent a lifetime in the industry, there is some emotions and the final decision will not be easy but hopefully this process has given us all some insight and some wisdom to make those decisions that will treat everybody involved with a degree of respect. With that I will adjourn the proceedings.

ADJOURNMENT