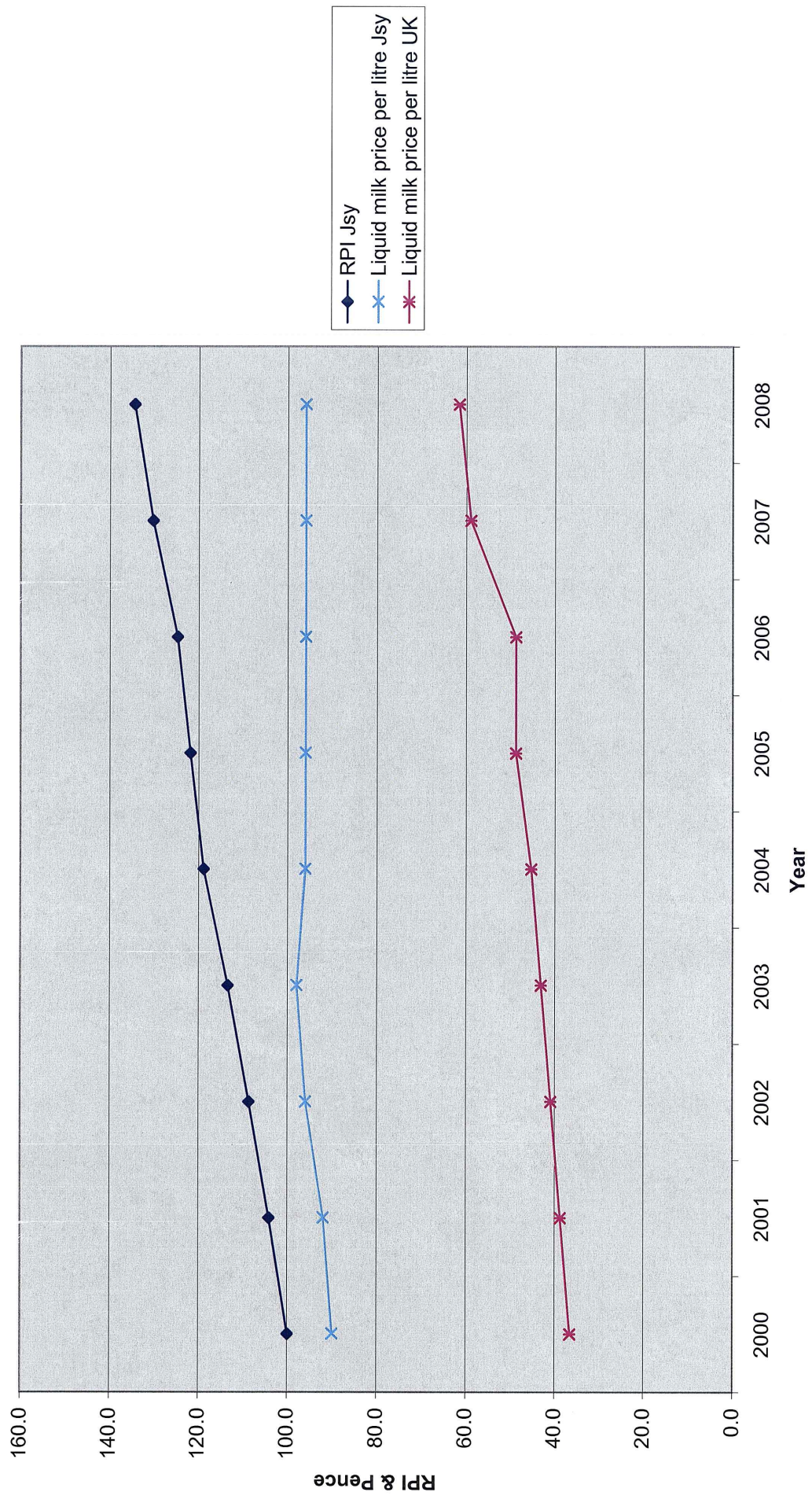


RPI & Milk retail price - Narrowing the gap



Jersey Milk Marketing Board

FIVE YEAR REVIEW	2008	2007	2006	2005	2004 10 months
	£,000	£,000	£,000	£,000	£,000
Turnover	10175	9747	9887	10341	8934
Operating costs excluding exceptional items	5004	4884	5127	5788	5176
Operating surplus before interest, distributions and exceptional items	5171	4861	4760	4553	3758
Net Debt	2585	2966	2607	2756	2961
Net assets	4442	4531	3675	3790	4003
Milk intake '000 litres	13348	14144	14109	14368	11952
Number of producers at the end of the year	28	33	33	34	35
Number of dairy staff and management at the end of the year	67	67	75	95	94
Distribution - conventional milk- pence	35.3	33.8	33.0	33.0	30.3

Chief Minister

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States 
of Jersey

13 February 2007

Andrew Le Gallais Esq
JMMB
Jersey Dairy
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COPY

Our Ref: FW/KP

Dear Andrew

Future Dairy Industry Structure

My purpose in writing is to set out my position on the future structure of the dairy industry. This has been informed by the many discussions that both I and my officer team have had with you and other stakeholders, the Promar report and the report of the Scrutiny Panel.

I am pleased to acknowledge the work that has already been put in train to take the industry forward on a path to recovery and like you I feel that the recent decision on the Howard Davis Farm site has put a very significant piece of that jigsaw in place.

I am also optimistic that the industry will now be ready to support a change to the Law that will allow for the importation of cattle semen. The improvement of genetics is an obvious and necessary step towards greater on-farm efficiency which I would expect to be taken up. Both Promar and Scrutiny have advised that such a step would not change the position on liquid milk imports and I agree with that analysis.

In my opinion, the future of the industry is dependent upon a much sharper focus on customer requirements and market signals, chief amongst which is the threat that arises from the potential importation of liquid milk. I agree absolutely with Promar and Scrutiny who have highlighted this threat as the most significant challenge, and the one which the Jersey dairy industry should be united in addressing. Only a coherent programme which drives down the costs of production and processing can hope to create a position which could withstand such external competition.

And of course, the Jersey customer is a legitimate stakeholder in the dairy industry and it is entirely right that they should benefit by seeing progressive and significant reductions in the retail price of milk.

Government too must have an ongoing involvement with the industry, not least because of the very significant sums of money that are given in support each year. In return for this investment of public money, the Government expects certain "public goods" in return. This expectation has often been reduced to a statement of 'brown cows in green fields' but whilst this captures an overall aspiration it is also too simplistic. Our complete list of expectations would encompass the following:

- Ability to withstand external competition
- Continuance of the Jersey cow in its island home
- Reduced milk price to the consumer.
- Grazing animals maintaining and improving the environment
- Increased efficiency and self reliance.
- A dignified exit for producers who wish to leave the industry
- Increased diversity and entrepreneurial activity in the countryside
- Compliance with the Competition Law.
- Less dependence on subsidy payments.
- Self sufficiency in milk.
- Reduced levels of ministerial and officer involvement.
- Reduced likelihood of legal action over liquid milk imports
- Reduced recourse to the legal system
- Increased tax revenues from a successful business and low susceptibility to foreign ownership

I would like to achieve a position where the need for Government intervention is minimised and where the industry demonstrates an ability to work collectively towards common objectives. Having given this matter a great deal of thought, along with my officer team, and taken legal advice, I have concluded that the perpetuation of the JMMB and a 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. I have listened carefully to the arguments advanced by the JMMB Board, Promar, Scrutiny and the 'La Ferme/Perchard/Binet Corporate Farm proposal and I have concluded that a farmer controlled business (FCB) is the right approach. What must now be delivered is the practical manifestation of an inclusive FCB. With the right model it is capable of putting in place the necessary control arrangements to match production to customer need, delivering (through meaningful collaboration) significant operational efficiency gains, and with a structure that, in both form and operation, is compliant with the Competition (Jersey) Law.

There is work to be done to make this happen and I am aware that you have identified an advisor to help you devise the right model for Jersey. But the process of agreeing the shape of a FCB **must** be inclusive and take full account of the views of all producers. In particular I wish to see the rapid development of a genuine dialogue between yourselves, Robbie Perchard/ Tom Binet , and representatives of Government. The objective of this inclusive dialogue will be simple - to establish a **single** way forward that is acceptable to all parties. Neither Jersey nor its dairy producers can afford to see the dairy industry fragment and/or degenerate into a contest for supremacy that leaves a broken social fabric and stranded assets.

To facilitate this I strongly believe that we should engage the services of a professional negotiator to oversee this dialogue. I am offering to arrange and fund this process because I believe it is vital that the industry achieves internal unity and begins to focus all of its effort on the real threat of external competition.

Assuming that all parties can agree to the approach I have outlined above, I do not see any reason why it would be necessary for me to grant a public policy exemption (PPE) under the Competition (Jersey) Law. In fact, it would send exactly the wrong signal because the outcome I want to see is one of inclusion, not exclusion. If the FCB model is the right one then it will attract producers to it on its own merits, without the need for coercion by a statutory regime.

My final comments turn to the subject of external markets for added value products. I am already on record as having reservations about the long term viability of this strategy and I found little in the Promar report which gave me reason to alter my views. I hope that I am wrong and that you will be able to demonstrate to me that you can secure a position in the UK at a level which can consume the current excess of production.

The high cost of the Jersey production base is not an ideal platform for going into a very competitive market and this will create difficulties of maintaining a position following initial market penetration. I am sure you have thought about this and I would like to hear much more about the opportunities and your export market strategy as well as how you might secure a greater share of the domestic added value market.

Holding on to 14 million litres of licensed volume without being able to direct all this production into fully profitable product lines seems to me to be a high risk strategy, particularly if the new dairy is sized to cope with this (or an even higher) level of production. I would be interested to hear your views on how this current surplus could be reduced by a managed exit approach for those producers who might wish to withdraw from production.

This letter covers a lot of ground, and raises issues that I recognise will need to be discussed in some depth with your Board before you are able to respond. I do intend to remain involved in the next stage of this process and look forward to meeting with you and members of your Board at an early opportunity.

There is a lot at stake here and we need to get it right. I want to do this in a way that is inclusive and which unites the industry. Above all, I remain committed to ensuring a successful future for dairying in Jersey and everything that it means for our countryside, our environment and our heritage.

Yours sincerely



Senator Frank Walker
Chief Minister

c.c. Mr T Binet
Mr R Perchard

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12 April 2006

Mr K Keen
Jersey Dairy
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Dear Kevin

Thank you for your letter of 21 March 2006 to the Minister in which you seek to extend your previous application for a public policy exemption under article 12 of the Competition Law ('the Law') to include a similar exemption under article 18.

This letter is to formally acknowledge your previous application, to note that the JCRA has responded to it, and to address the main issues raised and how this matter should be progressed.

As you know, your previous application was referred to the JCRA under Article 12 (3) of the Law and the JCRA's response dated 9 December 2005 has been published. Since then, there have been a number of meetings and some correspondence between the JMMB and the JCRA. There have also been constructive meetings between representatives of the JMMB and Economic Development officers but I believe that a number of issues have been raised which need to be resolved before I can consider your most recent application further.

The importance of the Jersey cow to Jersey's landscape, environment and cultural history is fully acknowledged, as are the current pressures on the industry. However, any public policy exemption under the Law also needs to take full consideration of the effects on Jersey's consumers and, indeed, individual producers.

At this stage, I do not think that the case that you have made for a public policy exemption meets the requirements under Article 12 (2) – i.e. "exceptional and compelling reasons". This is primarily because the justification is based on the current nature of the industry. I am aware of numerous discussions between the JMMB, Jersey Dairy, and the Economic Development and Planning & Environment departments that have made considerable progress in defining a more sustainable future for the sector. Before giving the matter of exemption further consideration I believe it is appropriate that the JMMB should address the key issues that have been the subject of these discussions as a priority, and present your conclusions in the form of a deliverable change programme and business plan. This work, in addition to its utility in this case, will be a valuable component in support of the forthcoming R&P related to the purchase of the Howard Davis Farm site. I would as a minimum expect the following matters to be addressed:

- a commitment to reduce the wholesale price of milk as a consequence of reducing costs and increasing efficiency in the “field to retail” value chain. This represents a clear commitment to share the benefit of restructuring, relocating and refinancing the dairy sector between the producer and the consumer;
- restructuring options that would separate the Jersey Dairy from the JMMLB. The Economic Development Department is, on the basis that this represents the most efficient option for operation within the Jersey market, fully supportive of maintaining a single processor of liquid milk. We are however keen to allow freedom for producers to have the option to take all or part of their production to facilitate production of added value product. The department appreciates that this option would require a significantly different commercial structure for the industry that must be derived by the industry and not government;
- a sensitivity analysis of future P&L including, but not limited to, the phasing of the transition from low value to added value production in the new dairy;
- related to the previous point, a justification for the capacity of the new dairy being significantly higher than the current gross production

I believe that the most productive way forward is for the JMMLB to consider the issues detailed above and revert to the department as soon as possible. Finally, you mention that any change needs to be carefully planned with the risks properly assessed. We wish to be supportive and seek to work with you to achieve this, to develop truly compelling argument and deliver a sustainable, profitable future that provides benefit to both the producer and their customers.

Yours sincerely

Connétable Geoffrey W Fisher
Assistant Minister