

STATES OF JERSEY

Economic Affairs - Dairy Review Sub-Panel

Monday, 11th 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 Hérissier of St. Saviour

Deputy S.C. Ferguson of St. Brelade

Witnesses:

Mr. G. Voisin

Deputy A. Breckon:

This is a hearing of the scrutiny sub-panel that was set up to look at the dairy working, in consultation with the Chief Minister because the Minister of Economic Development is conflicted, so Frank has taken over that. It is a joint review which has been taking place over the last 4 months. Of course, as you know, the industry has a longer history than that. The consultants Promar were appointed and they were given joint terms of reference. Their final report was produced and presented a few days ago. We have asked you to attend today really in your capacity in your formal life - to quote somebody else who sits here - as former President of the Economic Development Committee. It was just because of your knowledge in that time that you were a member of the States that we have asked you to come along perhaps to give us the benefit of that. That leads to the first question; what did you see at the time? Could you summarise the key issues that face the dairy industry and perhaps you could tell us a little bit about your involvement with that? Could you use the microphone as well.

Mr. G. Voisin:

Yes, certainly.

Deputy K.C. Lewis:

Mr. Voisin, if I can just briefly read: "It is important that you fully understand the conditions under which you are appearing at this hearing. 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 the 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 of reply. The panel would like you to bear this in mind when answering questions. The proceedings are being recorded and transcriptions will be made available on the Scrutiny website.”
Thank you.

Mr. G. Voisin:

Right. Well, look, from my recollection, you asked what were the key issues that faced industry when I became President of the Economic Development Commitment. I think it is fairly safe to say, because of course this was at the beginning of 2003, that the industry was in a pretty difficult situation. We had quite severe over-production because the dairy itself had encouraged an increase in production because the dairy had found quite a large market for mini-pot production. However, the market in mini-pot production became, I suppose, saturated really, so the prices fell significantly. This meant that it was unprofitable for the dairy to continue to produce mini-pots. They stopped and that is what led to the over-production from the industry. Of course with all this milk coming into the dairy, the dairy had nowhere to sell it, yet the dairy was under an obligation through the Milk Marketing Board regulations and laws to process the milk, and of course pay the farmers for the milk as well. Now, it was shortly after I became President that a new chief executive was appointed, Kevin Keen. I think that it is important to note that he and the rest of the Milk Marketing Board recognised that the industry was going into a fairly dynamic state of change and that the number of producers was almost certainly going to shrink. You asked me what were the key issues facing the industry. Of course the key issue was a lack of profitability. That key issue really made people who had been struggling in the dairy industry previously, it really forced them to make up their minds to do other things, and we saw a number of producers cease. Of course the whole issue of over-production had been recognised before I was President of the Economic Development Committee and I am sure you have heard from other people that have given evidence that a restructuring scheme was put in place whereby farmers were paid for their cows if they gave up milk production. A number of herds took the opportunity to do that; they received a payment and gave up production. However, profitability had not recovered, so we had a situation where the dairy industry generally was highly inefficient because it was producing too much milk. The Dairy was inefficient, not only because it was having to process milk that it could not sell, but it was inefficient in any case. So really there were a lot of problems that had to be faced up to in the industry. What the Economic Development Committee did is we felt that we needed to iron out some sort of future strategy for the industry and so we invited Dr. McQueen to write a report, which was produced in 2003. I think that was published in 2003. The report really identified a number of issues that had to be tackled, not only by Government - by the States - but also by the industry itself. I have to say that at this time the industry recognised that they were going to have to change significantly as well.

They involved a gentleman called Bruce Woodacre to try and help them change. It was at that time when the dairy started talking about improving its own efficiency by, for example, growing its own winter feed for cattle. I understand that that is what is ... well, it certainly was happening when I left as President of Economic Development Committee. So those really were the key issues. Basically it came down to lack of profitability because of over-production and an inefficient Dairy. The new chief executive and the new desire within the dairy to change things helped, and the dairy did improve its efficiency quite considerably. I think at the beginning of 2003 the farmers were receiving high 20 pence per litre - so about 27 pence, 28 pence per litre - for their milk, and by November 2004 this had gone up to 33 pence per litre. That was done largely by reducing the staffing at the dairy and also making it more efficient.

Deputy A. Breckon:

Gerald, could you say what policies, if any, the Economic Development Committee at the time followed to assist that in any way? Was there anything that you did that --

Mr. G. Voisin:

Well, one of the main things we did was to arrange an emergency payment to the industry of £120 per cow, because we were really worried that too many producers were going to go out of business and Jersey was going to be left in a situation where we were not going to be able to produce sufficient milk for the Island. Although I think only 60 per cent of production was sold as milk and in products. The trouble is that the Island herd had got to a situation where we had quite a small number of operators, of farmers - probably about 33 or 34 - but they all had quite large dairies, so one or 2 farmers leaving would make quite a large impact on the amount of milk produced. So the first policy really was to try and help the industry survive until a time when the milk price recovered, so we made the emergency payment of £120 per cow. The other thing is that we started working quite closely - when I say "we" I mean the whole Economic Development Department and certainly the advisors retained by the department - started working with the industry to identify ways of how they could improve farm efficiency. As I said earlier on, it was during this time when farmers recognised the need to be able to grow their own winter feed instead of buying it, which is considerably more expensive. The other thing is that a lot of work was done to assess the optimum feed that cattle are given. I do not know if you have had people giving you information? So you will know all about that. Right, okay. So we were trying to help - we were trying to provide money - at the same time we were providing advice to the industry so that they themselves could help change, and also we were supporting the Milk Marketing Board and the dairy itself, because of course they themselves recognised the need to change. I do not know that there is a lot else that we could have done at that time. I think with any industry, if an industry has problems it has got to resolve to change itself so that it can face up to those problems. So that is really what we allowed. We gave the industry support but we did not intervene too much because, of course, the dairy themselves had to find a way. At the end of the day the biggest benefit to

all of the producers that wanted to stay committed to farming milk and producing milk in Jersey was to get this balance between the amount of milk that is produced with the amount of milk that is consumed about right. Unfortunately that was going to mean that farmers were going to have to leave the industry, and that is also what happened between 2000 -- well, it started happening before I became President of Economic Development and it continued afterwards.

The Deputy of Trinity:

Just going back a bit, Gerald, you said that they realised that they needed to change - the dairy needed to change - were you approached by the dairy themselves directly, or were you aware that there was a problem and you approached them, or was it the representatives of the board that approached you initially with this problem?

Mr. G. Voisin:

Initially I think everybody knew there was a major problem in the dairy industry, because the Finance and Economics Committee had been asked to fund the scheme whereby cattle were bought from farmers and then sold to the UK. So certainly I knew about the situation because I had been a member of the Finance and Economics Committee in support of the restructuring scheme. I do not think that there was a situation where either the Economic Development Committee or any previous committees were waiting for either the dairy or individual farmers to make an approach. Certainly by 2003 we, as a committee and our officers, were working very closely with the board members. We had a vested interest in making sure, for example, that the problems at the dairy were resolved, because we knew that if the dairy continued to be inefficient and insufficient returns were available to give to the farmers, then the farmers would need help, and I am sure the first port of call would be to the Economic Development Committee. So we wanted to make sure that the long-term future for the industry was really being protected, not just by the States but also by the industry themselves. Does that make sense? Not really?

Deputy A. Breckon:

Can I ask you, did some of this flow from the *McQueen Report* or had some of the issues been addressed before *McQueen* and *McQueen* gave it focus? Did you have a plan of action following *McQueen* for the action points to assist the industry?

Mr. G. Voisin:

The *McQueen Report* really defined our approach to the dairy industry during my presidency, yes. Problems had been recognised. This problem of over-production was most certainly recognised as a problem. Deputy Pryke, if I can just explain that if the dairy itself is inefficient, then there is going to be less money available to give to the farmers by payment of the litreage. It was recognised also at this time that the consumer just will not put up with constantly increasing price rises for milk, so if the selling price is already at its maximum the only way of providing more money to the farmers was to

improve the efficiency of the dairy, so the actual cost per litre of processing the milk was reduced, which would increase the amount that could be returned to the farmer.

The Deputy of Trinity:

I was more concerned with who approached who, or if you were aware - as part of the presidency - aware of what the state of the dairy was? Or was the first thing that you knew about it was when they approached you, or did they approach you?

Mr. G. Voisin:

No, I knew the problems before I became President. I think it was widely-known. I do not think that there was any one approach, any single approach. It was more common knowledge and a lot of people were talking about it. Certainly I was talking to individual farmers and I was talking to board members as well. I think at this stage we were not so much talking about the problems - we were talking more about how to resolve them - because of course everybody has different ideas as to how to resolve the problem. On the news this morning I hear about a farm that is wanting to set up basically a dairy in competition with the Jersey Dairy, and I am sure you are going to hear representations about that.

Deputy R.G. Le Hérisier:

I am sure you have kept interested in the industry. Why do you think, having yourself tried to set the foundations for long-term sustainability of course, we seem to be here again. We have had another consultant's report and there appears to be even more urgency. Does that mean that *McQueen* was not the right approach, or was not applied with the right degree of energy, or the right degree of support? What is your analysis of why *McQueen* is still not driving the industry forward?

Mr. G. Voisin:

Well, I think that one of the key planks to the *McQueen Report* is that the dairy must be more efficient. I have been referring to that on a number of occasions. The problem is, as I understand it - and as *McQueen* identified - the dairy itself is 40 years old. It is a dairy that is spread across a number of buildings - they have to take product out of one building into another, for example, to convert it into ice-cream - and it really is totally inefficient. Also, it is too big because it is geared up to process significantly more milk than it is processing at the moment. So really the idea was to move to a new location and a new unit which was more efficient. The other issue, of course, would be to sell the site that it is on at the moment, release that for housing, and the dairy would receive a nice premium off the back of that. The premium would go to extinguish the fairly large overdraft that it had at that time. I think the overdraft when I was President was about £3 million, and of course the cost of paying the interest on that was effectively being paid by the farmers. So rather than giving money to the bank in interest, it was felt that it would be better to give the money to the farmers after selling the site for housing.

Deputy R.G. Le Hérisssier:

Did you have other sites in mind when you thought of that?

Mr. G. Voisin:

When the board first approached us with this we suggested that they should go away and think about the options again, because the dairy identified the site in Trinity, by the Howard Davis Farm. I think what concerned a lot of members of the committee was that the plan was to sell their existing site for housing and move into a site that was owned by the States. It was also felt early on that they probably wanted to be given the land at a cheap price. Later on it was established that the dairy were prepared to pay a realistic commercial value for the site. But there was concern on the committee and we asked them to go away and identify further sites where they could establish their new dairy. They did that and they were not successful. In actual fact we can see how any industry in Jersey that is seen to be a bad neighbour is going to find difficulty in finding a location. We saw the opposition to the site identified by the supporters of the Jersey Vodka Scheme - and I do not want to comment on the scheme itself - but I am just saying that people did not like the idea of a commercial activity going there. Then of course there is Mr. Luce in Grouville who has also found extreme difficulty in finding somewhere for his very successful oyster plant as well. So I think wherever commercial activity is going to be placed in the Island, there is always going to be this conflict between retaining and preserving the tranquillity of the Island, against the need to stimulate commercial activity.

Deputy K.C. Lewis:

I think you have just answered the next question in a sense. In reference to your time on the Economic Development Committee, could you recount where the initiative to relocate the dairy to Howard Davis Farm came from? You mentioned the dairy there; could you be a bit more specific on that?

Mr. G. Voisin:

It was the Milk Marketing Board, the board members, that identified this and approached the committee. It was part of their roadmap, their recovery plan. I think the driver was 2-fold really: first of all to have a more efficient dairy - I think they have to have that - and the second this is that it was seen as a way of shedding the £3 million debt that was causing so much problems.

Deputy K.C. Lewis:

So the site was identified by the board, Howard Davis Farm?

Mr. G. Voisin:

Yes.

Deputy A. Breckon:

Can I just explore that? Was a political decision ever made with your committee to support that?

Mr. G. Voisin:

I cannot recall whether a committee decision was taken whether to support it. I have a feeling that we did, although I could be confused with a meeting that we had of the Agricultural Board. I would have to look back in my minutes. If you want to wait 5 minutes I can rummage through.

Deputy A. Breckon:

It is not the idea of this process to trip you up and we have looked at minutes; there are number of reports that went to your committee at the time and to Planning and there are reports, but there is no decision, so it is still a grey area. So that is really why we want to explore that with you to see if you could recall.

Mr. G. Voisin:

Okay, so there may not have been a committee decision. From my own perspective as President and spending a lot of time on this problem, I would have thought that it makes sense to relocate the dairy to a more efficient dairy. If the only site that can be identified is Howard Davis Farm, and if the covenant can be removed or changed to allow the dairy to be located there, I think it is an eminently sensible idea. There was quite a lot of discussion about whether a new dairy could be built on the existing site, and I think after a lot of time it was resolved that, yes, they probably could squeeze the dairy on to the site, but to release the value to reduce the debt would mean having to squeeze housing on to the same site as a dairy. Now, I do not know about you, but I do not think that the residents would take very kindly to buying a house adjacent to a dairy that is going not far off 24 hours a day, 7 days a week. The other thing is that the location of the dairy would have to be at the back of the estate of houses, so you would end up having lorries driving through the close, or the estate of houses, to the dairy and out again. That did not seem to be a very practical solution either.

Deputy R.G. Le Hérissier:

Reflecting on your period, Gerald - and in a way your evidence backs this up - on the one hand you are telling us we laid the conditions down to let the industry sort of move forward under its own steam. On the other hand you said, for example, you were very involved in the relocation of the dairy, I imagine doing a lot of things which you as a businessman would find quite anathema, you know, there was a lot of interference and so forth. Having reflected on this period, what do you think the role of Government is with a highly-sensitive industry like the dairy industry?

Mr. G. Voisin:

I think to give it support and guidance. You said I was very involved in the relocation; I gave support. I

was not involved in sitting around a map and saying: “Let us go and let us put it there.” You asked earlier on what has gone wrong with the *McQueen Report*; one of the bedrocks of the *McQueen Report* was relocating the dairy to increase efficiency and release this debt. Of course this report was written - I think it was released in 2003 - and we are still here talking about whether to relocate the dairy. The economic growth plan - that I put out to bring along today but unfortunately I forgot to bring it - clearly states how Government, the States, the States of Jersey, should not intervene unless it is absolutely essential. Our intervention in the dairy industry was first of all to provide money to secure the short term future of the industry, and then to give it support and guidance for the long-term future. I have to say that at that time I was impressed with the way that the industry was coming together and defining its own strategy and plans for the future. They really did embrace change and at that time I thought it was good of the industry to do that. The other thing that they recognised very quickly was that they could not just go on putting up the price of milk and expecting the consumer to pay, because the consumer had made it quite clear that they thought that they were paying enough for their milk in Jersey. I think it was during 2004 - or it could have been 2003 - the board reduced the price of milk by a couple of pence, so you have a situation where the price of milk has gone down despite the fact that inflation in the Island had been increasing at 3 or 4 per cent during that time.

Deputy A. Breckon:

Do you remember, Gerald, if a lease or sale of Howard Davis Farm was ever an issue, that you can recall? Was a sale or lease discussed?

Mr. G. Voisin:

We did not really get to that situation. I was involved up to the stage where the Howard Davis Farm site had been identified as a real opportunity. It was regarded by Planning as a brown field site because there were already glasshouses and various other structures on that particular site. It was also right next to the Royal Jersey Agricultural and Horticultural Society as well, so there seemed to be some sort of synergy there. Then it was really a question of getting planning approval and I am afraid that that is where things rather got stuck. So I do not think that we got to the stage where it was either a lease or sale. I think the dairy, the board, preferred a sale, because then they could secure any borrowings required - either for the future or to rebuild the dairy - then those borrowings could be secured from the bank. It is quite difficult to secure money if you only have a lease; rather easier if you own.

Deputy K.C. Lewis:

Having accepted the fact that the dairy needed to be relocated, did you or your committee have any input into alternative sites? Did you look at alternative sites and, if so, why were they discounted?

Mr. G. Voisin:

The committee and the department felt that it was not our role to look for and find premises or locations

for businesses. We had a lot of requests from various organisations asking us to help find sites. I am afraid I do not believe that that is our role. Our role is to support business, to guide and to intervene if it is absolutely essential, but we did not believe that our role was to find sites. This is why when the dairy came to us with the one option, we said: "Well, go away and look again at other sites." We did this with the people supporting the vodka project as well. Does that answer your question? No, certainly not. It might drive you to drink, that one.

Deputy R.G. Le Hérisier:

Just winding up, I suppose, Gerald. Not winding you up; winding up the discussion. When you worked with the structure of the Jersey Milk Marketing Board - and some people at that time saw it as a very complex structure, and it has been proposed it be replaced by a farmer-controlled business - when you worked with that structure, putting aside personalities, what was your view of that structure? Did you think it could carry the industry forward into this massive kind of change that we are now contemplating?

Mr. G. Voisin:

We were able to work with it. To be quite honest, whatever structure you have you are still going to be left with the same issues and the same problems. If farmers are not able to make a decent profit on their milk, then they are going to find something else to do and they are going to diversify. Of course diversification was an important part of the rural strategy and the economic growth plan. So, you know, yes, we were able to work with the structure. As I say, the problems are still going to be the same whatever structure you have.

Deputy A. Breckon:

Can I just ask you a question? You were also, I remember, one of the prime movers in the competition law; with those 2 hats on did you see a collision course for a statutory milk marketing scheme and a competition law that was designed perhaps to challenge that sort of thing?

Mr. G. Voisin:

Well, the competition law allows for the Minister to exempt a scheme if it is seen to be in the public interest. The whole issue of whether there should be one or more dairies was something that was raised by Dr. McQueen in his report. His conclusion was the more dairies that you have the less efficient the actual processing of milk is going to be, because instead of having one dairy doing it you are going to have a proliferation. Indeed, that is the situation that led to the 1952 scheme in the first place. There were a number of dairies in the Island, they were inefficient, they were not very good at it from what I understand - the quality of milk was not very good - and that is what really drove the introduction of the one milk marketing board with the one dairy. Which is why, I think, it is so important that we need to have an efficient Dairy.

The Deputy of Trinity:

Just going to the *McQueen Report*, you talked about the various issues that you took up, the recommendations that you did. Was there anything else that you looked at in the *McQueen Report* that you supported the dairy industry with at that time?

Mr. G. Voisin:

Obviously we continued to support the industry through a headage payment, and we also continued to provide funding to the industry for good countryside management as well. Indeed, those payments were enshrined within the rural economy plan or strategy that was approved by the States in 2005, I think. The other thing is of course, as I say, continue to provide advice to the industry on growing crops for fodder. Diversification is another issue. There is much more Jersey meat available now and that was something that came out of this period of time as well. There is, I think, one other thing and that is that the consumer views, I think, were also dealt with and strongly considered, not only by *McQueen* but also by the committee. Because I think it was at this time, after there had been a number of price rises, when we were paying nearly £1 for a litre of milk - it was more expensive than petrol - and I think that the message was received loud and clear that the consumer would not tolerate going on basically subsidising an efficient industry. It is interesting; there was a survey done recently which asked consumers whether they thought that they paid too much for their milk. Of course the resounding reply was yes. I have to say that if you ask any consumer whether they think that they pay too much for anything, of course they are always going to say yes. I think that a better question would have been to ask the consumer whether they would be prepared to pay a premium for their milk if it meant the continuation of a herd of Jersey cows in Jersey. I think that you would get a pretty resounding yes to that question as well.

Deputy A. Breckon:

Gerald, just to wind up, is there anything else you would like to tell us of your experience? You were also, I think, a member of a subgroup that was advising McQueen, or monitoring the work as he went, so I think you were involved with some of the issues before you were President of the EDC (Economic Development Committee). Is there anything else in general that you would like to say?

Mr. G. Voisin:

I think the only other thing is that - and I do not know if this has been raised - but the semen importation is something that I think is going to have to be addressed at some stage, because the caveat to the consumer paying a premium for their milk, if it means the continuation of having a Jersey herd in the Island, I think that there has always got to be a caveat: "Well, we are prepared to pay within reason." There is no doubt about it that the Jersey herd is not as efficient in terms of milk production as other herds. They are producing just over, on average, 4,000 litres a year, and certainly there was one or 2

years when I was president when that average went down. I understand if the weather conditions are not good then the yield will go down. But to me there is no doubt that the Island herd is losing its efficiency; it is not as efficient as other Jersey herds elsewhere in the world. The trouble is that if a cow is able to produce 5,000, or if the average for a herd is 5,000 litres produced, then of course you need fewer cows to produce the milk that we need for the Island. Then you have the issue - and I do not know whether you have heard evidence on this or not - you may have people saying: "Oh well, you can have an Island herd with very few bulls; just 2 or 3 bulls and you can have an Island herd." That may well be true, but what you will not be able to do if you have just a very small herd and you keep the population of Jerseys very small, you will not be able to improve the yield from 4,300 litres to 5,000 or 5,500. That is what you will not get. Yes, you will have brown cows in the field but what you will also get is a very inefficient industry, and then we really are looking at £1.20 a litre for milk, despite the fact that possibly we might have a more efficient dairy. So I think a lot of these things go hand-in-hand. I understand the concerns about importing semen, but I think that one of the key drivers is that if we are going to have an efficient industry - and I do not believe that it is fair to ask the consumer to subsidise an inefficient industry - then we must start to see the yields for the herd go up. I was advised at that time - I am sure you will hear more advice - that that can only be achieved through the importation of semen.

Deputy A. Breckon:

There was just something I thought of that I had forgotten. You had mentioned the liquid milk and the liquid milk market and quotas and the like; were you aware of the product split and what was profitable and what was not? Did you drill down to that detail, or not?

Mr. G. Voisin:

Well, the committee would have period presentations by the Milk Marketing Board and we would be provided with some information. Again, some of the products were inefficient to produce because of the type of dairy that the management had available to them.

Deputy A. Breckon:

Gerald, can I thank you for your time and bringing along all those lovely papers that you have kept. You obviously have a very efficient system. We have a number of files of a similar size in submissions. Again, thank you for coming along and being so well-prepared and providing us with that information. Thanks indeed. We will adjourn now until we have the next one.

ADJOURNMENT