

# 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. T. Binet

Mr. R. Perchard

**Deputy A. Breckon:**

We are a little bit early so if nobody has any problems I would like to start and welcome you. We do have apologies from Sarah Ferguson; she is in a hearing at another place - she is Chairman of the Public Accounts Committee - and they are looking at probity in another hearing somewhere else, so we have apologies from her. Again, welcome and thanks for attending at short notice to Tom Binet and to Robert Perchard. I will just give you a little bit of background of where we are. You probably do know but just for the benefit, this is a scrutiny panel hearing. It is a joint review with the Chief Minister. The Chief Minister is doing it because the Economic Development Minister is conflicted, so therefore he is taking his place. Since August the consultants Promar have been working on the report with joint terms of reference that they were given. Their final report was produced a few days ago. There has been a number of drafts of that report and there has been consultation of that with people from the industry and from others. There is a housekeeping point, just the process of this hearing. I will read this to you. It is where we sort of stand with witnesses who are not States Members, just so this clarifies the situation: "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 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 any questions. The proceedings are being recorded and transcriptions will be made available on the Scrutiny website.” I should just add to that that also you will get the opportunity to see them before they are published and we will take out any “ums” and “ahs”, and if there is anything where you make a mistake, then that could be corrected if it is factual, if you say 30 when it is 50 or whatever. That is really where we are. Again, thanks for attending. My first question relates to whether you are aware of the Promar report, the contents, and whether you would like to express a view on that. If you could press the button for the light in front of you, if you would do that, and then as between you, Tom and Rob, as you feel comfortable to share the questions and the answers

**Mr. R. Perchard:**

Thank you, and we welcome the opportunity to address the scrutiny panel on this important matter. The whole industry - when I say the industry, I mean the dairy farming industry in particular - is aware of the Promar report. I have read it thoroughly, the full version. What is being proposed by this venture that I am going to outline with Tom is a reaction to the Promar report and the crossroads that the industry finds itself at. Hence the timing now; that is why we are acting now. If I could start with - I think this is in the public domain - a statement of intent that was issued. I think you have got it but it would help to have it on record if I went through it. It will not take very long. It gives some structure to what we are going to talk on and the questions that we will take. I do not know if the public have had it. It is in the media and so on and it has been well reported in today’s press as well. This is a statement of intent, subject to the JCRA and other necessary approvals: “The directors of La Ferme Ltd, as owners of the Ansom herd, are progressing a joint venture with the Jersey Royal Potato Company, and hopefully other dairy farmers, to form a new business to consolidate local milk production, processing and marketing in a single, efficient and customer-focused corporate structure. The aim will be to construct the most economically-sound model possible that will avoid surplus production and concentrate on matching supply to demand in order to supply the local liquid market. In recent years the Island, and indeed milk producers themselves, have not been well served by the current Jersey Milk Marketing Scheme. The elected board which operates under its auspices is an outmoded and unwieldy entity and it is anticipated that it will be ruled illegal by the JCRA for perpetuating anti-competitive practices. Under the scheme the industry has been too producer focused and has not reacted sufficiently to marketplace imperatives, leading to a situation where both producers and customers are disaffected. Local consumers are rightly concerned that they are paying far too high a price for their milk. This is because the current scheme has given rise to ongoing milk surpluses which are turned into loss-making products. The high milk price is subsidising these losses. Jersey’s milk producers continue to be aggrieved, in spite of the fact that the farm gate price they receive would be the envy of dairy farmers in most other places. However, the high retail and correspondingly high producer prices will never compensate for the problems created by a cumbersome and inefficient supply structure. This current structure has encouraged inefficient and unviable businesses to continue, adding to the large milk surplus. Also the terms of the scheme have left more progressive producers unable to manage and develop their businesses in such a way as to have

avoided the current predicament. The reduction in cow numbers some 3 years ago helped but merely addressed the symptoms, not the cause. The threat of liquid milk imports is a real one and will remain so under all the various Promar proposals, as it will with this one. The industry's best, indeed only, hope of staving off imports is to create the most efficient economic model possible, one that will enable it to get the local retail price as close as possible to that of the UK. The industry will probably always need some form of state support, although the partners of the proposed new venture believe that the state should only apply taxpayers' money to any industry when they are sure that that industry has clearly proved that there is nothing more that it can do for itself, even if that means radically restructuring. This certainly cannot be said of the current scheme or the ongoing proposals. A new approach is needed which will tackle these fundamental issues by putting the importance of industry efficiency before the protection of individual dairy farmers' guaranteed rights to both independence and viability. No other private businesses enjoy this level of protection. Under this new proposal, the company will seek to build a new streamlined dairy more appropriate to the Island's liquid milk needs, while progressing development of a single corporately-owned herd, based on fewer sites and operated to a uniformly high standard. The intention is to make the dairy industry a model of best practice that others will want to emulate. The business hopes to work in partnership with Government in such a way as to maximise the exposure of brown cows in green fields, with great attention being paid to animal welfare and good environmental practice. Considerable effort will be put into raising the profile and reputation of the dairy industry and restoring the Island to its former place in the forefront of world Jersey cattle breeding. In short, the aim is to reshape and revitalise our ailing industry, to give it confidence and to equip it to face the rigours of an uncertain and challenging future." There is a footnote. Do you want me to read that? "Note: For the avoidance of doubt it would be a mistake to view this venture as a takeover of the dairy industry by the Jersey Royal Potato Company. On the contrary, the Jersey Royal Potato Company has an important part to play in the future prosperity of the dairy industry by virtue of the fact that it is directly responsible for approximately 10,000 vergées of first crop potato land which can be used for economical forage production after the potato crop has been lifted. There will be opportunities for the dairy and potato sectors to work constructively together, for example by continuing and expanding the practice of land swapping to the mutual benefit of both enterprises. In addition, significant improvements in efficiency and appreciable cost savings will result from applying the Jersey Royal organisational model to the dairy industry. La Ferme Ltd and the Jersey Royal Potato Company will enter with equal shareholdings which will be reduced equally as other milk producers decide to become shareholders. Most importantly, the new company will seek to work constructively with all parties in achieving the objectives outlined above."

**Deputy A. Breckon:**

Thank you for that, Robbie. Obviously there are some issues that arise from what you said and I will come to other members in a minute or 2 to ask questions.

**Mr. R. Perchard:**

Sorry, Deputy, before you do could I just make a few comments on some of the salient points?

**Deputy A. Breckon:**

I was just going to say your statement obviously flows from the Promar report situation. Could you just confirm that it does?

**Mr. R. Perchard:**

It does, absolutely.

**Deputy A. Breckon:**

You want to add to that with your comments?

**Mr. R. Perchard:**

That is right. It is timely to make some comments on the salient points of that statement and, as you mentioned, the Promar report. Mr. Giles this morning quite rightly said that this a time to look forward and not backwards, to be positive and constructive, and I fully endorse that. Also this is an inclusive process. It is an offer, basically, open to dairy farmers. Mr. Giles talked about a compelling vision. I have a compelling vision as well for the future well-being of the dairy industry in the Island and I think it is exemplified by this statement. The Promar report was an interesting report. It certainly laid bare some of the important issues facing the industry. In many ways this statement and policy initiative goes along that line to some extent. What is being proposed could be construed or could be viewed as a farmer-controlled business. That is what option 5 is talking about. It is a corporate structure. That is still a farmer-controlled business. Where perhaps we part company is that the rather optimistic view of exports and milk products is not shared but the Promar report does talk about rationalisation being a fallback option if the export of milk products proves unsuccessful. So I think we probably may find that we share common ground. It is just that we are doing it more quickly. We are prepared to accept rationalisation more quickly. If I could just talk about this company. It is a company which the Jersey Royal Potato Company are founding or intend to found with La Ferme Ltd. It needs a critical mass to get started and, as I have explained, the potato industry, the potato sector, and the dairy sector work very well together. They have always done so, historically. Traditionally on our farms we have had cattle, we have had potatoes. They have dovetailed beautifully together. The 2 industries complement each other and they should continue to do so but on a modern scale, and this is what is being proposed. It is an arrangement where the mutual advantages for each can be gained. To view it, as has already been done in the media, as a takeover and as a Jersey Potato Company agenda and so on is incorrect and needs to be put to bed straightaway. I am pleased to say that the *Jersey Evening Post* report today is extremely objective and is commendable for being so. This would be owned by farmers. It would be inclusive and it would be Jersey based and it would be independent from the Jersey Royal Potato

Company financially. Just to cover the Milk Marketing Scheme. As Promar has indicated, it is probably going to be ruled illegal, if tested. The new company is not a rival to the board or anything like that, as I think is going around on Radio Jersey today. It is not a rival. This is a new proposal. If the Jersey Milk Marketing Scheme fails it needs to be replaced, does it not? It is not a question of antagonism.

If I could just touch on the subject of genetics. Promar are pretty positive, I think. Although they do not come out fully, they give pretty implied support for genetic importation. The efficiency gains are exemplified in one of the graphs and one of the tables which shows for a 100-cow herd, a £20,000 gain, if I am not wrong. Many people have been saying that we cannot ignore these financial implications to strengthen our industry and make it less subsidy dependent. We have been trying to preach that gospel for many years and I think it may finally be winning people over. It is a vital tool and it could revive the export market for cattle and semen, which has really gone into the doldrums from the heyday of a number of decades ago. It could revive the status of the Jersey breed worldwide. The Island has become a bit of a backwater and a curiosity, visited for its historical reasons more so than its pertinence to modern day dairying. Something I would like to bring to the scrutiny panel's attention is the age profile of the present industry. It is not mentioned in the Promar report and I do not know if the board have taken it into account in their planning of the proposed dairy. If I could show you a table of the age ranges of producers. For principal producers of the Jersey dairy industry, there is not one under 40 of the 33. The average age is a normal distribution around the age of 50. I do not think there are many industries which have this age profile that can have confidence in the long-term future of the industry, let alone the medium term. Consideration of this and its implications is fundamental to any future strategic planning and investment. I can count the number of these farmers who have got sons or daughters wanting to come into the industry on one hand. So we do not have a future strategy management policy at all, as far as I can tell, and we need to build a structure that has legs for the future that can deliver a viable, sustainable future for a dairy industry in some form. Time and tide waits for no man.

I would like to, if I may, talk about the surpluses and milk products. Somebody asked a question this morning of Mr. Giles, and according to one of the graphs on the Promar report at page 69 we have 11 products. It is a very wide portfolio of activity for a small dairy of the size of Jersey and possibly explains some of the high operating costs of the dairy and the difficulty to turn these into profit centres. When you turn over to pages 70 and 71, the bar graphs there tell the story in graphic detail. The volume of these boxes below the line paints an horrific story, really, of losses on milk products. It is interesting the proposal is to move into high quality yoghurts as an export product but I read yesterday on the internet that in this particular sector, such as high quality yoghurt and crème fraiche, in the UK the advertising has gone up by a factor of 6 in the last 10 years. It is an area other people are chasing, other people are pushing very hard with their own brands, so it is a very competitive minefield that we are

going to, even with this high-value product. Personally, and others that we have spoken to, we have serious misgivings about the proposed move to the product export market. If I could just take you through the report and quote a few pieces from the report, talking about products and value-added products. It says, quite rightly, to keep away from commodity products, which is a serious loser, and it talks about focusing on valued-added products. I will just read, if I may, from page 76 of the pre-final report, the full report: “Development of these products typically requires large amounts of R and D (research and development) and relatively long development timeframes, as well as a detailed understanding of food manufacture and customer needs. While these high-tech dairy ingredients tend to achieve higher sale prices, the technical development and servicing requirements of this segment are likely to be beyond the current capabilities of the Jersey Dairy.” It goes on: “To develop the speciality ingredients market segments, Jersey Dairy would need to access expertise in food manufacturing and ingredient sales and marketing. From what we have seen of the Jersey Dairy operation, we do not feel that these competencies exist in-house at the moment and they would either need to be brought into the company and/or outsourced. However, there are a number of challenges that the JD (Jersey Dairy) face in developing a retail presence in UK mainland and/or other international markets.” It lists the challenges to export marketing under 4 headings: the Island’s isolation and remoteness from its markets; transport; established markets that are already in place with these products; and pricing. It says on the first one of Island isolation: “In the UK fresh dairy market it is not uncommon for retailers to require delivery to any distribution centre or warehouse within 24 to 48 hours maximum. While this is not insurmountable, it would add additional costs to the product.” Then on transport it says: “Unless sufficient volumes are developed to create economic shipping, i.e. full container loads, the costs of moving products to any international market could be prohibitive.” Then talking about established markets it says: “In most if not all of the major European retail markets, dairy products are a well established and mature category. In all sectors of the market there are existing products with well-defined propositions. Unless the JD is able to develop totally unique products, it will be competing for shelf space in an existing category with often long-established competition and at existing clearly-defined price points. There are already a plethora of Channel Island dairy products available in the UK market, sourced from the 400 or so Channel Island-based herds on the mainland.” On pricing: “Even if the Jersey Dairy products are able to enter the UK and/or other international markets, it is likely that they will be sold at similar price points as other (locally) made premium products. The challenge for the Jersey Dairy is then to extract sufficient profit from these price points while carrying significantly higher production and marketing costs, including higher milk costs, transport and servicing costs than the local, i.e. UK, manufacturers.” It gives a table showing all of the premier brands and the price range, and it shows the Jersey product would have to be at the very top end. “Established price ceilings for dairy products at retail, combined with Jersey’s relatively high raw milk price, means that the Jersey Dairy margins would be under greater pressure than those from local, i.e. UK, manufacturers.” Going on a bit further: “What we have not seen from the Jersey Dairy is a fully convincing analysis of how these export markets will be developed and with what products.” If I could perhaps read the concluding statement

from Promar which I think is an endorsement of exports: “A detailed analysis of the export market opportunities for Jersey Dairy products, including demand and competitor analysis, as well as development of realistic costings based on current and future dairy factories, would allow the Jersey Dairy to fully evaluate the different product opportunities. A further ranking and prioritisation of the various options would then allow Jersey Dairy to allocate the maximum resources to develop highest return products in the shortest possible timeframes. Such analysis would also potentially provide the wider Jersey dairy industry and other stakeholders with increased confidence in an export-based dairy recovery plan.” Ladies and gentlemen, that is a very watery endorsement of milk product exports, in my mind. We do not want to run out of time so I will not dwell any more on it. If I could just read, “if after a period of time it becomes obvious that the idea of exporting to the mainland UK market is not going to be achieved then a much harder decision will have to be made. This also has implications for the size of any new processing facility that might be required on Jersey too.” Perhaps we could leave it there.

**Deputy A. Breckon:**

In your statement and the things you have said, you have raised a number of issues and now we would like to ask a number of questions of you to develop some of the things that you have said.

**Deputy R.G. Le Hérissier:**

Robbie and Tom, are you saying that the whole export proposal is a flawed proposal? If you are saying that, are you saying that the alternative, which is concentrating on liquid milk, would retain the industry at a sustainable number? Is that the inference of what you are saying? We are told if there are no exports the industry will go into a decline, basically, if it is based only on liquid milk. What is your view of that assertion?

**Mr. T. Binet:**

Would it go into decline or would individuals go into decline? The point we have taken in looking at this is if you were to come over from the mainland and there were no dairy cows here and somebody said: “Create a dairy industry”, you would look at 2 things. You would look at profit and efficiency. In my view, you certainly would not establish 32 individual farms that are running as individuals supplying a factory that would be corporately owned. You look at it and you think what would be the model that you would put together to maximise efficiency and cost savings. Perhaps I have not analysed this correctly but as I understand it liquid milk is a lot easier to process and it is a lot more profitable. I would be saying: “Right, there are products aplenty on the shelves and they are already on the shelves. We do not have imported milk. The area to look to protect if you want to sustain an industry is liquid milk. How much milk do you need for that and how are you going to go about producing it?” As I say, perhaps I have missed something but I would not be looking to set up 30 individual farms. I would be looking to set up one farm working on as few units as I possibly could so you can maximise efficiency, target the products you want that are profitable and do that and that alone. I think what underpins this, if

you are looking to sell the asset of the dairy, which is rumoured to be worth £8 million or £9 million, pay off all your debts, and you go and spend all the rest of it on a new dairy, you cannot sell it twice, you do it once, what do you do if your product market does not work? Then you really do run into trouble. I think there is a one-off opportunity here to rationalise the industry hard and give cash to people that choose to leave and an opportunity to reinvest for those that stay in. If you burn the £5 million balance on putting up an all bells and whistles dairy that does all sorts of processing that is not going to be needed, then you have nothing left in the pot to deal with the situation at a later stage. I think there are quite a lot of people who, if they had an opportunity to cash their share of the Milk Marketing Board by taking some money out, might be inclined to leave and you start the process of getting towards the more efficient economic model from the starting point. I know it is an unpleasant sort of way to have to look at something but it is my personal view that the scheme has been very wrong for a very long time. These things should have been addressed 15 or 16 years ago. All that has happened is the symptoms have been addressed and money has been chucked at it and people have preserved the model and preserved the model and preserved the model. It has reached breaking point and I think we are in grave danger here of perpetuating that until it gets to crisis point. One point I would make is it is not a criticism of the Promar report in any way. I think Promar have been put in a difficult position because they were brought in to deal with something which is in an advanced stage of decay structurally. They have had a very difficult job and they have probably come up with the best option under the circumstances. I do not think they could have come up with a suggestion like this. It would not have been their place to do that and I think someone probably would have shot them.

**Mr. R. Perchard:**

Can I add to that answer, please. Deputy Le Hérisier asked if we are propounding the reduction of exports, if that will reduce cow numbers. The liquid market for the Island is about 10 million litres and I think there is about 4.5 million litres on top of that going into surplus and local products and export products. That is what is suggested. I would like to look at this figure of 10 million litres as the baseline. Assuming that we do not have liquid imports; just put that to one side for the moment. If the industry can become highly efficient, centralised, raise standards, bring the retail price down to consumers by building an appropriate sized dairy, and presuming that the integrity of the ban remains, 10 million litres you can dismiss as not being important and as for the industry being in 'free fall' but I do not think that is right. 10 million litres would equate to 10 herds of a million litres. To produce a million litres is something like 200 cows at 5,000 litres each. So that is 10 very sizeable herds left. It is not like there is no industry left; it is not like there are no cows left. It is just a reformed, modernised dairy industry based on productive, efficient units operating to a high standard. You can still have a viable industry without the exports. Even more so, in fact, because as I have indicated from quoting the report, the exports are very speculative. Mr. Giles this morning perhaps gave away his true feelings when he said the export market was challenging but by no means impossible, and he also happened to say "if you hit the jackpot in the UK with exports". It implied a certain amount of a gamble.



**Mr. T. Binet:**

If you are going to be looking at products, before you look at products and before you look at exports, the most important thing to do is to get your cost structure right. You have a pretty clumsy, cumbersome and inefficient cost structure at the moment with 32 independent herds and all that goes with that. It is our intention to develop a corporate herd and you start producing milk surpluses from that because you are producing it from a low cost base. Therefore, if you are going into exports, your initial cost for export is lower and I think you have got a much better chance of survival if your net production costs are cut before you go into that.

**The Deputy of Trinity:**

A point on from that and to clarify, down to basics and being a housewife, are you talking about just producing liquid milk and not looking at any of the other milk products, not only for export but for local market?

**Mr. R. Perchard:**

To meet local demand you will need a small buffer, there is no doubt, a small surplus, because of natural variations in production, seasonal conditions and the market fluctuations. The extent of the present buffer and the indicated buffer are wider than they need to be. The proposed structure would be dynamic and responsive enough to be able to manage the production much better. It would tailor the seasonality production collectively and use management techniques to really reduce that buffer. So the actual quantity of surplus milk would be minimised but nevertheless customers want to drink, by and large, fat-reduced milk and low fat milk. From the Jersey breed you have an excess of cream, butterfat basically. There still is a market for cream and butterfat and some of it would be probably at lower prices, some could be at higher prices. To say that you can just sell milk is not correct but to enter the full range that exists is highly expensive in terms of manpower, in terms of equipment, in terms of packaging, marketing, administration, wastage, and some of them are loss making as well. So, no, the idea is not to simply sell milk but to adjust the product range to suit and to use the surplus cream and butterfat but not to go into a range of products.

**Mr. T. Binet:**

I think it is a bit of a supply and demand thing. If there is a local demand for extra products that are profitable, you produce them. Your surplus has to be turned into the cream and butter products, so there will be some availability, but if it is not viable to produce extra milk in order to produce that, I would say that the customer has a fair choice already. I go shopping every week from the point of view of wanting to know what is going on supermarket shelves and I find that one of the biggest arrays on offer is dairy products. It is bewildering, the amount of choice that we have got. As I say, if the economics are right and there is a demand for local cream and butter over and above that which would be a by-

product, then that is something you would look at on a sound economic basis.

**The Deputy of Trinity:**

So you are looking at only producing those if you feel that it is going to be economically viable, bearing in mind that you need more machinery?

**Mr. T. Binet:**

There will be some as a by-product of the liquid milk production.

**The Deputy of Trinity:**

So your machinery will be in place to do yoghurts and crème fraiche and butter, et cetera?

**Mr. T. Binet:**

Once you have a decent economic model in place, if you can import semen and produce yet more milk, there is nothing to stop you looking at an export market but you would look at an export market based on the fact that the production costs would be very low and you would be more competitive. It is my personal belief that any export market with the cost basis we have got now is just not going to work. Three years down the line you would be faced with the problem they are going to be running into debt with the new dairy. The family silver has gone and you have nothing left to pay the debts with.

**Deputy A. Breckon:**

Can I ask you what support you anticipate of your proposal?

**Mr. T. Binet:**

Support from producers or from Government?

**Deputy A. Breckon:**

From producers.

**Mr. R. Perchard:**

There is already some support or some interest. In honesty, we have not really tested the water widely but I think the model is going to prove attractive and I think the rationale will prove attractive, and we intend to make the offer very shortly.

**Deputy A. Breckon:**

That is a challenge. Can I just develop that a bit because you have surfaced with this and this is what we are discussing but what happens if you do not get support from other producers, because it becomes unviable were you not to get that support?

**Mr. T. Binet:**

The bottom line is it is my belief it is viable to transfer La Ferme's existing milk into milk products and do that in their own right, just process their own milk and sell it. The effect of doing that, I think, would leave the remaining proposal unviable.

**Deputy R.G. Le Hérissier:**

I suppose you might call this pure sentiment, Tom, and nothing that fits easily into the harsh economic world in which we now live, but following on from Alan's question, the small producers must feel great fear at this proposal. You talked of one farm, Tom. Do you see any middle ground? Do you see there is any method, almost like a little federation, where you are getting some of the economies of scale which you see as very necessary to make the thing viable? Is there in your model - albeit in a transitional sense, albeit in some kind of they have to buy through you but they can still retain a degree of independence - any role for the medium and the small producer, or will this be the end?

**Mr. T. Binet:**

It is a more complex question than it appears to be. It is not really about size and small producers being more worried than big producers. If somebody enters into a corporate entity, they enter into it or they do not, and whether you are large, medium or small beforehand does not really make any difference, does it? I think the question for Government is they have got to say: "If your idea of a vibrant industry is supporting a good number of small enterprises dotted round the Island and you are prepared to dig deep into taxpayers' money to fund that, then that is success." I believe it has got a much higher cost to it but if that is what Government wants to do and that is what the public want, to maintain a large number of small herds, then that is a political decision and something that you have got to run with. As I say, I think there is a considerable cost to it. I hope that perhaps answers your question. It is not really a size issue.

**Deputy K.C. Lewis:**

Just to make sure there is no misunderstanding whatsoever, I take it you are not talking about a rival dairy?

**Mr. T. Binet:**

No. The idea of this is it would be on offer to everybody and over the course of time. You did ask the question would there be a transition, and I think in this sort of instance there would probably have to be but you have got a fundamental breakpoint and that breakpoint is the point at which you close Five Oaks. If everybody subscribes to going down the road of cashing their chips at Five Oaks and dishing that money out to everybody on a pro rata basis and those that want to reinvest reinvest and those that want to take the money and leave the industry go, then I think that sort of is your breakpoint. Having

said that, there could be a transition. With all of these things, in a way you cannot start this process with a complete blueprint as to how everything is going to happen. I think you have to subscribe to some essential principles and follow those principles relentlessly until you get a conclusion. You cannot sit here and say all the questions are answered, because that would be impossible. You are probably all aware of this but we have done a similar thing with the potato industry which has been, I have to say, at times exceptionally painful but I like to think 3 years on it has worked reasonably well and I think it has been done very justly. When you have a situation where people put their neck on the block to develop a commercial enterprise and 3 years down the line they are still offering them shares at the introductory price, I think that is pretty reasonable and I do not see any reason why this could not take the same format.

**Deputy K.C. Lewis:**

If efficiencies across the board were made and a new dairy was built at Howard Davis or wherever, there were bull semen imports approved and there was a new board or a dairy co-operative or FCB and offloaded all other dairy products, could you see yourself rejoining the fold, as it were?

**Mr. T. Binet:**

How do you mean?

**Deputy K.C. Lewis:**

Not with the existing dairy but with a new modified dairy with all farms involved?

**Mr. T. Binet:**

Me personally?

**Deputy K.C. Lewis:**

Both of you, yes.

**Mr. R. Perchard:**

I think one would be in the fold.

**Mr. T. Binet:**

An integral part.

**Mr. R. Perchard:**

That would be part of what one was doing. *[i.e. the initiative that La Ferme Limited and Jersey Royal Potato Marketing is proposing]*

**Deputy K.C. Lewis:**

I just get the impression that, like what happened with the potato business, there will be a lot of farmers leaving the industry.

**Mr. T. Binet:**

That has been of their own choosing. Everybody in the potato industry over the 3-year period has had an opportunity to do what the founders of Jersey Wool Company have done and that is transfer the value of their current holding into shares in the company. I think it is quite important to understand how that model has evolved and how it has worked and is working because that is pretty much what lies at the root of what we are doing.

**Deputy K.C. Lewis:**

If you did not have sufficient members who wanted to stay with the new group, how would you go from there on?

**Mr. T. Binet:**

When you say members that want to stay, we are not talking about a co-operative and I think this is important to understand. You are talking about people segregating what has been a lifestyle into what we look at as 3 sections. You have got your own personal input in terms of the work you do; you have got any premises that you may or may not rent to the company; and you have got investment. I think this is what it is about. There is a confusion in everybody's mind about what they are. Are they business people? Are they lifestyle farmers keeping the countryside green for people to stare at them over the hedge? What exactly are they? If you look at it in cold hard business terms, if you look at it in investment terms, there is nothing to stop somebody investing money into a dairy business and not working in it or investing their money and working for it. I think the unpalatable thing here for people is the same as we have had in the Jersey Royal business, the loss of independence, but with respect, if you look at every other business, I do not know any other business that commands such a high input from the States. I have not seen a sort of forum looking to protect the small shopkeeper as they have gone out of business over the course of time. That has not happened. I think that everybody needs to take a long cold look at exactly what they are doing, putting hundreds and thousands of man hours and concentration into the dairy industry. You shrug your shoulders and say: "Why?"

**Deputy A. Breckon:**

Can I ask you where you see the funding coming from? Is this the money that is already in the industry that would be redistributed and done in another way?

**Mr. R. Perchard:**

I will come in here, if I may. Under the suggestion in front of us, the funding for a new dairy will come

from the sale of Five Oaks. It does not really specify how any exits will be funded, other than perhaps by withdrawing quota or licence at 20 pence. To be more proactive and to restructure the industry in the way that it really needs to be done, without putting a burden on Government to finance another exit strategy, as we have already heard about, which was done at public expense, it could be done by utilising the asset value of Five Oaks, as has been already mentioned. It could be managed in such a way that for those farmers who wanted to transfer that value into equity in the new company it would be facilitated.

**Deputy A. Breckon:**

Do you see part of that requiring a public policy exemption so that there would be a period where there could be an organised structure set up for the future and exit strategy? Do you see that as part of the plan?

**Mr. R. Perchard:**

I would have thought that the PPE that has been mentioned earlier, or some period in which things can happen without a complete breakdown, and a cool, constructive negotiating process and things can be put in place, a new dairy built wherever and under whatever terms, needs to happen. As Mr. Giles said this morning, you need a vesting day set down to work to, perhaps 18 months away, 2 years away, whatever.

**Mr. T. Binet:**

Is it not the case that the industry is going to need a public policy exemption in any event, because I would have thought if the JCRA probed too deeply at the moment, they are going to find that what goes on is illegal, in any event. I think you will also find that the issue of ownership of the Marketing Board is now going to become an issue perhaps from other quarters, because it is an issue, clearly if what is going on at the moment is illegal, and if the law that governs it is not deemed to be legal, and I would suggest that it probably is not, and has not been challenged at the moment. I think if it were to be challenged, it might be found wanting, so there is that issue, in any event.

**Deputy A. Breckon:**

Can I ask another question on that? With regard to imports, you have mentioned some of the prices coming down, but how much is imports a threat to what you are planning?

**Mr. T. Binet:**

We mentioned the fact that milk imports, as we see it, are probably a threat, and you have 5 options from Promar - and correct me if I am wrong - I wonder where we would be now if somebody over here that was in retailing decided they were going to import milk and take you on, where you would be? I fear that milk imports could probably happen at any time, and it would not be challengeable if

somebody wanted to make an issue of it. In our view, I think what underpins this is that what needs to be done in a big hurry is to develop the most economically efficient - the best chance of survival of any dairy industry of any sort - core model possible, so that at worst, if the State has to come in and say: "Well, it does need some subsidy" you guys that have your hands on the public purse are dishing out the minimum amount of money possible. I mean, it is not for me to sit here and suggest what your responsibilities are, but the people elect you to look after them and spend their money. I think you are probably expected to spend it wisely, and in that regard, I think - as we have said in the paper - this is only that you are spending it on a model that you believe to be running to optimum efficiency.

**Mr. R. Perchard:**

Can I answer further to that point? It is important: it is only for the future of our interests in dairying. Under the Promar, I agree with Tom as well, that we must get maximum efficiency here, and that is the way to stave off imports. Under the Promar suggestion, it is presumed that imports may happen, but the export market will be strong enough to still provide a living to the dairy industry. Now, as a practitioner in dairying and expanding on my doubts about the viability of exports, if that was the case and I have to rely on exports now, with liquid imports present in the Island, the herd would be for sale tomorrow. I can promise you that unless we can be assured of the liquid local supply as our prime market, there is no future, in my eyes.

**Mr. T. Binet:**

Look, you are cutting out the profitable element and you are left with the unprofitable - or the less profitable - export sector. It is double dose of the impossible, is it not?

**Mr. R. Perchard:**

If I may just come back, imports could happen. If we want cheap milk, as was said this morning, 65 pence, it can come in tomorrow by the boatload. You do not need dairy farmers in Jersey. We want Jersey to have a dairy industry, because we want the brown cows in the green fields, we want the heritage; we want to cling on to these important things about Jersey. I put it to you, if liquid milk imports came in, they would not be from Jersey cows, they would be from black and white cows. Now, those people who still want to farm, whatever, could milk black and white cows over here, and I would not want to do it, but it could be done, and that is the way you could compete with liquid imports, but nobody wants that. We have to be honest about this. Farming with Jersey cows, if we want to have a viable industry, will never be able to be entirely self-supporting and stave off the threat of liquid imports. It just cannot happen. It will always have to be underpinned by Government. I think John made that very point himself, and it is a question of the extent that Government is prepared to back the Jersey cow. That is what it comes down to, and there is a vital contract to be made with Government on this, where the industry, which needs to be reshaped to be fit for purpose, can provide things for the Island, like the Jersey cow; like a continuous milk supply; like an environment; like land for disposal of

some of the waste that the Island builds up and so on; and in return, the Government backs the industry. Unless we have an ongoing commitment to a close partnership with Government, the whole thing will fall down.

**Deputy R.G. Le Hérissier:**

Thank you, Robert. These close partnerships, they often amount to giving money, as opposed to just expressions of support. If your model were to get off the ground, what kind of Government support would you still be seeking?

**Mr. R. Perchard:**

Of course it comes down to money. I mean, warm words are no good to anybody, so come on, we are talking about money, but we have an industry that is already subsidised, and we are talking about making the industry less subsidy-hungry, as was mentioned this morning.

**Mr. T. Binet:**

I think, in simple terms, difficult to put numbers on it at this stage, but I will put a pound to a penny that it would be considerably less than you would be pumping into it over the next 10 years under the proposals that you have on the table at the moment, and that I can almost guarantee. Just a point of interest, I know the Jersey Royal Company was deeply criticised by everybody - and it was terrible, all the local things that it was doing - but 3 years on, in the space of 12 months, funding to agriculture and advertising has dropped by something in the order of £670,000. We are confronted with a downturn of £170,000, which we picked up personally at the beginning of the year. I had a meeting about next year's advertising, and the tourism and agriculture budget combined have been cut by £1 million, and what we are left with here is a few pictures of Jersey Royal going into the tourism budget. We are taking that on the chin, and are - I have to say, most importantly - able to. I think there is something there that people might read into that and look at it and say: "Well, painful as it might have been, it is a slightly more 21st century approach, and it is working reasonably well at this point in time" and I think that would be worth bearing in mind when looking at the proposals here.

**The Deputy of Trinity:**

You have talked a lot about viability. How many cows will you need to make it viable; what you are suggesting?

**Mr. R. Perchard:**

It depends how efficient you want to go. I mean, the Island, let us say it has a liquid market of 10 million litres, we are aiming for that. Once again, if you have --

**The Deputy of Trinity:**



I was thinking of what you are suggesting here now.

**Mr. T. Binet:**

What, if this model was taken to its logical conclusion or end conclusion?

**The Deputy of Trinity:**

Yes.

**Mr. R. Perchard:**

Probably 10 herds producing 1 million litres each.

**Mr. T. Binet:**

What is that like in cow numbers?

**Mr. R. Perchard:**

In cow numbers, it is about 10 herds of 200 cows.

**Mr. T. Binet:**

You have followers on top of that.

**Mr. R. Perchard:**

Yes, all young stock and so on.

**The Deputy of Trinity:**

For the milking; breeding.

**Mr. R. Perchard:**

Giving 5,000 litres, that is for 10 million; with imported semen, which really is inevitable, and must happen, to be a tool for the industry to be able to become more efficient and viable, cow numbers probably will have to drop. There is no doubt about it, but the whole situation can be managed by having cows grazing, not having them cooped up indoors all the time; by having an intelligent approach to the way all of these things are done, so that the cattle are seen by the public and this sort of thing.

**Mr. T. Binet:**

It might sound bizarre, but if there is public money come into the frame, there is nothing wrong with having a service level agreement. You can have 10,000 cows over here living in barns 24 hours a day, and everybody goes around being satisfied that they have a lot of cows. It is really about where you place them, and there is nothing wrong with a service level agreement that says: "You have X amount of

cows on display in certain fields.” It does not cost an awful lot of money to do that, and you have the right visual impression and the right economic model underlying it.

**Mr. R. Perchard:**

If I could just say, we had a downsizing of about 4 million-plus litres 3 or 4 years ago, and commensurate number of cows had gone. Does anybody notice that there is less cows around? I do not think so. I do not notice any difference. Going around the country, there are still cows in the fields. It is all down to managing the situation, the same as we will manage the milk supplies I described earlier, to minimise the buffer, and also managing the environment. That is another partnership with Government, to provide good environmental practice, high animal welfare and generally make the Island a model of best practice. It is an opportunity, and a wonderful challenge to the industry to put itself on a footing, to face the 21st century with confidence. We have an ageing industry here. You put a model like this up, you can bring young people in. I mean, let us be honest, farmers generally do not milk their own cows at the moment. Under this sort of a model, farmers will be managers, which is what they want to be anyway, and we will have a structure that can work for the future. When somebody retires, you still have the structure. At the moment, we have nobody to pass these farms and herds on to.

**The Deputy of Trinity:**

Have you identified a site for your proposed new dairy?

**Mr. T. Binet:**

In short, no.

**Mr. R. Perchard:**

Not really. I do not think the site at Howard Davis farm - the proposed site with the covenant on it - is appropriate. It is not the right place, but there are options, but not yet.

**Mr. T. Binet:**

We have 2 or 3 ideas, but nothing has come to fruition. As we have said all along, this is very much in its infancy and it builds its own momentum as it goes forward.

**Deputy K.C. Lewis:**

If I could just clarify the previous question, that you are not setting up or trying to set up a rival dairy; you are trying to steer the existing industry in a different direction, being much more rationalised?

**Mr. T. Binet:**

Pretty much, but it has to be a voluntary exercise; a very, very difficult process, for sure. I will say this:

it is my personal opinion that just withdrawing the 9 per cent of the milk that La Ferme Limited produces at the moment - and if that is to happen, and it pretty much is decided that it will - it will not be to stay at 9 per cent. If there is a free market, that will grow as quickly as it can possibly grow as a joint venture, and every per cent that it grows, it takes liquid milk away from what is the remainder of the collective, if you like, and that becomes less and less viable with each percentage that slips away. I would suggest that taking 9 per cent away from it collapses the model altogether, in any event. Certainly, if I was sitting on the other side, I would be looking very carefully, saying to myself: "It looked a bit shaky before; now it looks bloody awful" and I certainly would be - this is a personal thing - talking about making the change, and I think it really would not take very many, you know, 3 or 4 per cent coming across, and the equation starts to fall horribly away. It is a little bit like a domino effect. I have to say that when we did this with the Jersey Royal Company 3 years ago, there was a lot of hesitation, and to be honest with you, there was not a great deal of appetite for the whole thing, but the minute the first one came in, the second came in, the third, and very, very quickly, if you like, the progressive element came together very, very swiftly. The rest of it was more painful - and you probably know the story - but over the course of time, it has been managed going forward and is still in the process of being managed. It has not been easy, but as I say, it does gain momentum, and once it gains momentum, you know, if it is pursued, then that is pretty much unstoppable.

**Deputy K.C. Lewis:**

Where, in your opinion, do you think the cracks started to appear in the present system? Do you think it is the - without mentioning names - the Jersey Milk Marketing Board, or do you think they were restricted by the very structure?

**Mr. T. Binet:**

I think the cracks started to show 20 years ago. I think what lies at the base of all this is a scheme that was set up for the right reasons at the right time, and probably did a very good job. We are talking probably something in the order of 50 years ago, and without sort of questioning, it said: "Well, here is a scheme. It has to be equal for everybody. The Milk Marketing Board will build a dairy and you will process all the milk that gets processed." What happened is you come into the 1980s, the milk was tidied up, it was cleaned up, people bought more milk, and dairy herds became more efficient, and they have just produced more and more and more milk, and the dairy just did not deal with that. It just kept investing in more and more processing equipment to do UHT (Ultra High Temperature) and so on and so forth. The world milk price starts to drop and things run into trouble, and UHT exports are not viable any more, and instead of saying: "We have run into trouble here. Let us deal with this" it has been a case of, as I say, fighting the symptoms and not dealing with the causes ever since, and that is where it sits at the moment. That is, as I say, just a personal view, and perhaps I have it all wrong, but I did sit on the Milk Marketing Board for a considerable amount of time, and have been involved in dairying for most of my life, so I have witnessed an awful lot of firsthand. In fact, when I approached the

Commercial Executive Chief, it must have be 5, 6 years ago, shortly before I resigned from the Milk Marketing Board, he conceded that it was as rotten as a can of worms, but it was not his job or mine to poke my nose in interfering. When I had that response, I thought (a): “Maybe it is time for me to leave the Milk Marketing Board” and (b) when the exit scheme came along, I took my opportunity to go, because I did not see any future in it at all. It was just, for me, commercial madness. The problems have not gone away, and as I say, you have exported 1,000 cows, reduced by 4 million litres, and the same problems remain. The underlying causes of this have not been tackled.

**Deputy R.G. Le Hérissier:**

Thank you. Do you feel, Tom and Robbie, are there any redeeming features to the Promar report? I mean, when you had it, you did agree with their analysis, it seems. Are there any redeeming features, or are you really telling us, albeit with some of the findings of the Promar report, it has to be your model?

**Mr. R. Perchard:**

Deputy, I think I covered that earlier. There is a lot of common ground between what we are saying and the Promar report, and to say: “Are there any redeeming features?” is a distortion of what we were trying to say. No, a lot of the work in the Promar report is very good. It is simply the conclusion about the exports which I personally take issue with. Other than that, I think what I said is that we have a good fit with the Promar report.

**Deputy R.G. Le Hérissier:**

Why do you not accept their conclusion then, Robert, about the farmer-run co-operative?

**Mr. R. Perchard:**

I am saying this is a farmer-controlled business, what we are putting forward. It is not a co-operative, but it is a farmer-controlled business, as I see it, anyway.

**Mr. T. Binet:**

I think it would have been very difficult for Promar to come and suggest what we are suggesting. I mean, it is difficult enough for us to do it, and we are, in one way or another, involved directly - or very nearly directly in any event. Another issue that I think is worth raising is that we live in an Island that is a finite size, and in recent years, Government - and I think quite rightly so - has started deregulating land use, and we are seeing an enormous amount of people coming forward and qualifying as small holders and getting permission to take land out of agriculture. Well, not out of agriculture, but to move it across into small holdings, and we see more and more horses. I have to say, we have lost an enormous amount of land, and you have probably seen this reported, that the only reason we are interested is because of the land issue. It is an issue. As a company, Jersey Royal Company is short of maintaining its critical mass to keep the brand healthy. There comes a point where you have to produce a minimum amount of

potato crop for an export business to warrant the sort of advertising campaign that we are going to have to pay for, and quite simply, the land is draining away, and to my mind, to go forward and establish something that is going to produce 4 million litres of milk that is not going to be particularly profitable, and using up the land to do that, once again, that is going to create more and more competition for land. Land prices are going to get higher and higher, and that is going to become less and less viable, and what this has done is rationalise down to the core production that is required. With the importation of semen, which I think is vital and should be done immediately, you increase your efficiency and reduce the pressure on land, which I think if we want something of a viable dairy and potato industry, we need to be looking at those factors. We have to do something. As the person in charge of looking after the interests of Jersey Royal Company, I have to do everything I can to make sure that we have the land base to do our job. This is part and parcel - but only part and parcel - of why we are here.

**Deputy K.C. Lewis:**

Given the amount of competition from the European Union, would you say that the proposals for dairy product exports to the UK are basically pie in the sky?

**Mr. T. Binet:**

Depending on the structure that you choose to put in place, I would deem them probably to be illegal as well. You are probably aware that Top Produce and Fairview Farm and JPMO (Jersey Produce Marketing Organisation) challenged the States' intention to introduce a board, and that was deemed to be illegal, although the same principles - exactly those same principles - apply to a scheme that is formulated under the 1953 marketing law, as I understand it. You are probably in a situation, if somebody delved into it, that your existing exports would be deemed to be illegal, just for the fact, as I say, nobody has challenged that. So I think that is another area that Government has to be mindful of.

**Deputy A. Breckon:**

Thank you. We have run up against the clock, unfortunately. I think we could debate this or discuss this for a long, long time, but we have to move on. **[Interruption]** Is there anything else that you would like to say in this forum that you have not said, bearing in mind some of the questions you have been asked or anything you would like to add before we close this particular part? It is back to you.

**Mr. T. Binet:**

I would like to reiterate the point that we are very, very keen to work constructively with everybody involved. It is not an exercise in dominance or being clever or anything else. It is a genuine attempt, as I say; I think perhaps for differing reasons. I know Robbie is sort of closer at the heart of it than I am, but I think we are both very, very keen to see a good, solid, vibrant dairy industry, and an agricultural industry going forward.

**Mr. R. Perchard:**

No, I endorse those sentiments absolutely, and I think we have come to the point where, really, I think we have said what we needed to say.

**Deputy A. Breckon:**

It is appreciated. If you do feel that there is anything you would like to add, we do have your statement that you have made, which is now on record and will stay there, but if there is anything, as I say, you would like to submit after that, then please feel free to do it, because this is part of a process that is not finished yet. I just end by saying that you have given this a certain degree of interest by the way that you have come forward at this time and given us something - and indeed, others - to think about. Thank you very much again.

**ADJOURNMENT**