STATES OF JERSEY

Economic Affairs - Dairy Review Sub-Panel

Monday, 11th DECEMBER 2006

Panel:
Deputy A. Breckon of St. Saviour (Chairman)
Deputy A.E. Prykeof 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. J. Giles (Promar)

Deputy A. Breckon of St. Saviour (Chairman):

This is a hearing into the dairy review. This is part of the process. The Members present are the Deputy Chairman, Anne Pryke; Deputy Sarah Ferguson; Deputy Roy Le Hérissier and Deputy Kevin Lewis. We intend sitting over the next 3 days to hear a number of people as part of this process. The joint review is being carried out between this panel and the Chief Minister. It began in August 2006. The terms of reference are a joint agreement and as a result of those terms of reference Promar were appointed, who are an internationally renowned consultancy firm who have some experience in this area, and a few days ago produced their final report after a number of drafts and discussions with people in the industry. The first witness is John Giles, an executive from that organisation, and just before we get to you, John, I would just like to inform you of the process. Before you is the statement for witnesses who are not members of the States and this is so you understand it. "The proceedings of the panel are covered by parliamentary privilege through Article 34 of the States of Jersey Law 2005 and the States of Jersey (Powers, Privileges and Immunities) (Scrutiny Panels, PAC and PPC) Regulations 2006. Witnesses are protected from being sued or prosecuted for anything said during hearings unless they say something that they know to be untrue. This protection is given to witnesses to ensure that they can speak freely and openly to the panel when giving evidence without fear of legal action, although the immunity should obviously not be abused by making unsubstantiated statements about third parties who have no right to reply." The panel would like you to bear this in mind when answering questions, which we will do at the end of your presentation if that is okay. The proceedings are being recorded and transcripts will made and published on the Scrutiny website. In regard to those transcripts you will be given a copy. If there is anything you take exception or perhaps there might be a mistake then there will be an opportunity to have some editing facility over that. It is fairly relaxed, John, but I would like is if you could tell us a little bit about yourself, Promar and your involvement with the report and then if you could then speak to the report and we will ask you questions at the end. So if you would like to proceed in your own time. Thank you.

Mr. J. Giles (Promar):

Good morning, Chairman, fellow members of Scrutiny. Just for the record my name is John Giles, I am a divisional director at Promar International. Promar International is a UK (United Kingdom) and internationally based agricultural and food consulting company. We work across the whole agricultural supply chain and across a number of particular industry sectors but the dairy sector is an area where we have a particular strong track record. I have been with the company for 16 years. In that time we have been involved in dairy projects, not only in Jersey in the last few months but also a number of other sort of key dairy producing countries around the world - Denmark, New Zealand, Wales, Ireland, the US - and we have looked at international markets around the world on a regular basis as well. My involvement in this project is I have been the project director. We started work, as you said, Chairman, back in August. There has been a whole series of visits to the Island in the intervening period where we have met a whole range of stakeholders on the project. I have been heavily involved in this process but also I have had a team of 3 other senior members of the Promar staff working with me in developing our recommendations and conclusions, which has been discussed with, again, a range of stakeholders as we have been going through the project. So, the report is obviously quite a lengthy document. What we are trying to do here this morning is encapsulate what we believe to be the key points that need to be taken into account. It is a PowerPoint presentation. I will run through the key messages of what we believe and then obviously are happy to answer questions at the end. So, in terms of our role as consultants looking at the industry and obviously responding to the specific terms of reference that we were given at the start of the study, how do we see the current status quo of the Jersey Dairy industry? We see it as an industry which has got a huge amount of heritage, not least it is the home of the Jersey breed so an industry with a huge heritage to build on and that is very good. I think it is fair to say also that we have met a number of impressive people in the dairy industry, both among some of the primary producers and also at the factory at Five Oaks. I think we have also recognised or made reference to this in the report on a number of occasions that we do recognise that it has been a very difficult operating environment on Jersey for a number of years and there have been some positive developments at the Milk Marketing Board and the Jersey Dairy over the last few years. I think we have made reference in the report that the management of the Board and the dairy have done, in our view, a pretty good job in very difficult operating circumstances. I think also we recognise that Government is supportive to this industry. There has been ongoing support over a long period of time to the Jersey Dairy sector in a sense that the Government infrastructure here does want and is willing to support a dairy industry into the future. I think also from talking to some of the customers on the Island there is a - we have encapsulated it there at the bottom - reservoir of goodwill. Talking to some of the customers on the Island they would like to source Jersey dairy products, they would like to deal with Jersey dairy farmers and that, in our view, has to be positive because it is not always the case when you talk to maybe other customers in other parts of the world. So, we have encapsulated that at the bottom. A reservoir of goodwill on the Island towards the dairy industry, huge heritage to build on, that is very positive. Good people, good farmers, good people at the factory, positive developments, supportive government and supportive customers on the Island. So a reservoir of goodwill. I think also, having said that, we also, in our role as consultants looking at the industry, see a sector which perhaps at times has struggled to get to grip with the real drivers of change that it faces in the future. They can be summarised in a number of sort of fairly small points when it comes down to it but essentially we believe that at farm level and through the supply chain the price of liquid milk is too high, particularly when you look at the future threats that impact on the sector. It is also an industry - and we have used the term “subsidy aware” - where the farming sector here have benefited from subsidies in the past but in some cases they have almost become over reliant in some of the subsidies that are available and a sense that the way out of any difficulties they face is to load more subsidy and we are not sure that is really the case. There are some very good farms on the Island. I think we have identified in our report there are too many farms that are not efficient enough. The issue of genetics, again we understand that this has been a long running issue on the Island, the fact that genetics are not allowed to be imported on to the Island, but it seems to us that the decision not to use the best available genetics is akin to fighting what is -- the Jersey dairies are going to be increasingly operating in a competitive environment, or highly competitive environment, and the decision not to use every available resource to ensure you can compete effectively as possible is a bit like fighting with one arm behind your back. The factory at Five Oaks we believe to be too old, that the equipment there is out of date. One of the key things we believe for the future is the need to build exports and at the moment most of the mainland UK customers would look at the factory and say: “This is not up to the technical standard that we need it to be.” There are no exports. We believe, again, that is one of the key areas for the future to be addressed. I think also customer and consumer loyalty is coming under pressure. We have made comment in the report that in talking to some of the major customers on the Island, yes, they are supportive of the Jersey dairy industry per se, they would like to source Jersey dairy products but that support is not always conditional and, as pressure comes in, maybe particularly from imports from outside the Island, that basic loyalty to the Jersey dairy industry would be put under extreme pressure. Then the last point is that if imports do come in to the Island, and I think from the work we have done over the last few months the general consensus is it is not a question of if they come in, it is when they come. From analysis we have carried out in the report, the price level they would be able to come in at would cause severe stress in the Jersey dairy industry, a number of the issues we are talking about here become almost irrelevant. I think the reason we have bolded “no exports and imports” is we are aware that clearly there are a number of key internal issues on the Island at the moment but I think we feel at Promar that, yes, those internal issues are important to deal with but the real challenges that this industry faces are its ability to build exports to the mainland UK market as soon as possible and also its ability to deal with the threat of liquid milk imports coming on to the Island at substantially cheaper prices. I think the last bullet point is just one again that we feel is important that over quite a long period of time it is an industry we believe has managed to get itself very tangled up in internal issues which, at times, can be energy sapping, they are costly, they take up a lot of time, and also, in the worst case, they can produce a sense of division within the industry. I think if the industry is to move on there needs to be less internal focus on what is happening on Jersey, that is obviously important, but the real issues, we believe, are the external ones of can Jersey build its exports quickly enough and can it deal with imports of liquid milk coming on to the Island. If you look around the rest of the international dairy sector and look perhaps not too far away, let us look at the rest of Europe - we could look at one or 2 other places around the world - if you look at who is feeling confident in the EU (European Union) dairy market. The EU dairy market internationally is fiercely competitive but I think it is fair to say that industries in Denmark and Holland would appear at this stage to be perhaps the most confident in terms of how they see the future. Again, if we look at the structures of what might characterise their industries they have, in both these countries, scale of operations. They have large processing factories, whether they are involved in butter or yoghurt or cheese. A cheese factory in Denmark or Holland might be capable of processing 100,000 tonnes a year. I do not think we could have that scale of operation here on Jersey. But scale, whatever your business is, is quite important. We believe in Jersey it is important to have some sense of scale of activity. Their leading companies are, we call them here FCB structures, farmer-controlled businesses. These businesses are controlled by the farmers or owned by the farmers, not necessarily managed by the farmers but they are owned by the farmers. They have very strong supply chains all the way through from genetic development through to primary production, processing, distribution and then the relationship that they have with their customer base. They are export driven. They have relatively small local markets to supply and so their growth comes from exporting to other European countries and, particularly in the case of the Dutch, much further a field as well. They have invested in top level management. The comment earlier was that the FCB structures, that these businesses are owned by farmers but they are not necessarily managed by farmers. They have professional managers in place. They are very focused on customers. Their customer needs, their customer requirements and along with that a very strong sense of new product development and innovation in the supply chain. I think if you had to characterise how do they feel about further deregulation of the European dairy sector, these countries - Denmark and Holland - are quite positive about the future deregulation of the European dairy market and see it as a big opportunity for them rather than a big threat. I think the point we have made there at the bottom is clearly Jersey is not Denmark and it is not Holland, but we believe strongly that Jersey should be looking to benchmark itself against the best of class players in the dairy sector rather than the rest of class. Yes, Jersey is not Denmark, it is not Holland, but I think there must be things that can be learnt from looking at the success of these dairy sectors. In terms of the specific terms of reference we were asked to deal with. The first part of our terms of reference asked us to look at the industry recovery plan and exercise some judgment on that. Clearly one of the key points of that is the need to move to a new factory. There is one here, from our point of view, that is a very important part of the industry's future development, the need for a new factory. The existing site at Five Oaks is inappropriate and is not capable of doing the job that needs to be done in the future. We believe that Howard Davis Farm is a good site for a new dairy factory. We understand that planning permission has been given, that site plans have been drawn up and an environmental audit carried out and these have all been positive. We believe that the new factory should be a working efficient and modern dairy factory and it should not be turned into anything that approaches a tourist site. If the industry is to be sustainable and have a chance of success in the future, it needs to be a modern efficient dairy factory. We believe that move should take place as soon as possible. It is quite an urgent issue, not least because it is linked very closely to the development of exports and we believe that the development of exports is a critical area for the future development of the dairy industry. The costs of doing this could be quite substantial. We believe that a new dairy factory could cost easily somewhere between £6-£7 million to get this right. It might be that not all the infrastructure and kit was put in place on day one but over a period of time you would probably add in new kit and processing equipment as required, as markets were developed but the overall cost could easily be between £6-£7 million. Obviously there is quite a lot of talk on the Island about much the site at Five Oaks is worth. Our belief is that at the end of the day once the factory has been moved and relocated and new efficient equipment put in place the idea that there is going to be a large pot of money left over at the end of all this is somewhat naïve basically. Not least we understand also there are a number of debts. The bank may well want to see some of the debt paid off. Again, I think for a sustainable industry to move forward, having maybe a new structure, a new business with a manageable level of debt would be highly desirable. Again, we have only been part of this over the last 3 or 4 months but even in that time we have been aware of a number of apparent changes in position, but essentially the delay on the move to a new factory site is not doing anyone any good. It is not doing Jersey dairy farmers any good, it is not doing potential customers any good basically. So we believe that a decision needs to be made on this as soon as possible. We have been made aware that there may be other options in terms of site location so the other option, if you did not move to Howard Davis Farm, would be to maybe redevelop the site at Five Oaks. We think that is inappropriate, we think it is the wrong shape, the wrong size. In terms of other locations on the Island, we are aware that there are not unlimited options here so if you did find another site, if you did look to redevelop the Five Oaks site, I am not sure that these solve the basic problem of the need for a modern and efficient new dairy factory. The costs are going to be broadly the same. It may not be possible for all sorts of reasons and to go through the whole process of planning permission, site plans, environmental audit, how long is that going to take? Maybe at least another year, if not longer really, and all the time this will produce more certainty for Jersey dairy farmers and for customers about the future of the industry here. So, our strong recommendation in the report is that Howard Davis Farm is a good site and we would recommend that you go ahead and use it. Other parts of our terms of reference in the industry plan were to look at the issue of genetics and farm efficiency overall. I think the comments we would make here would be that Jersey, in our view, for all sorts of reasons, is clearly never going to be able to compete head-to-head on price with the mainland dairy sector and there are a number of important issues that that come out of that. The reality is that on Jersey the direct farmer subsidy is just over 7 pence per litre, on the mainland it would be about 2.5 pence per litre. The milk price in Jersey is significantly higher at 33 pence per litre compared to an average of about 19 pence per litre on the mainland. That can be explained by a number of reasons, I think most of which are reasonably well understood but variable costs on Jersey are about 6 pence per litre higher and that is often a function of feed which has to be imported and also the relatively high level of forage costs. Overhead costs on Jersey again are higher, over 5 pence a litre higher, mainly due to wages and machinery running costs. Clearly, the very structure of the Island in some cases adds to these costs, the average field size, the fact that the Jersey cow yields at a lower level than other cows on the mainland, the cost of importing some of the materials that are required to farm and the issue of rent as well. But you do end up with a situation where the difference between the average and the top 25 per cent of dairy farmers on Jersey is significantly higher than it would be on the mainland. The issue of whether imported genetics should be used, we are aware that this is not the first time this issue has been looked. I think our view, and we spell it out in the report, is that because the improvement that will be achieved by the use of imported genetics would take somewhere between 7 and 10 years to work its way through the system it is not something that is going to produce short term benefit. It is very much a long-term benefit that is gained. The use of imported genetics may be able to reduce cost of production by between 1 pence and 2 pence per litre, particularly if Jersey is going to compete in export markets in the future. Trying to get costs of production down so they can compete with other people in the mainland UK is going to be particular important. It is not just a case of we need farmers to reduce costs of production, there needs to be a more efficient processing facility itself and a combination of reducing farm costs and having a more efficient factory gives Jersey a much better chance of competing in those export markets. So the farm gate price could be reduced, not least by the use of imported genetics but that takes some time to achieve. We believe that reducing farm costs will be an important part of the ability of Jersey to compete in the international markets in the future, but we would emphasise it is not a question of passing all the pain solely on to farmers, they will need to be more efficient in the way they farm in the future but also an efficient processing factory will probably be just as important, if not equally more so in terms of ensuring Jersey can compete in the future. We were asked to look at the impact of imports of liquid milk coming on to the Island. Our view would be imports of liquid milk would come on to the Island at a much lower price than is currently the case at the moment, if you look at the average retail price of liquid milk on the Island. It could be somewhere around 65 pence per litre, which is quite a significant differential from the price of liquid milk at the moment. If liquid milk imports did come on to the Island I think we gained a sense that there would be measures taken to try and prevent that or delay that for as long as possible maybe. But at the end of the day if it goes through a diligent legal process it will be very difficult to defend its position and so legally liquid milk imports will be allowed to come on to the Island, although there may be a case of trying to delay that process for as long as possible. I think our view would be that retail support for the Jersey dairy sector does exist but only to a point, and if liquid milk imports did come on to the Island at 65 pence a litre some of the traditional loyalty that existed towards the Jersey dairy factory and to Jersey liquid milk -- the price differential is too great basically and I think it would be surprising if major customers on the Island did not think that 65 pence per litre was a desirable thing to offer their consumers. Again, consumer loyalty is historically strong. We know there have been studies done in the past which have expressed a strong level of support for the Jersey dairy industry, but when the price differential is maybe between 25 pence and 30 pence a litre that consumer loyalty should not be taken for granted. Our argument would be if liquid milk imports came on to the Island you might see a lot of the local market -- of up to 50 per cent, and that would happen pretty quickly. Clearly, following on from that, the farms and the factory would be under huge, huge pressure in a very short period of time. So, in its current state, bearing that in mind, the sector would go into something akin to freefall and the Government objectives of Jersey cows, brown cows in green fields, that would be thrown into turmoil. You might have as situation where maybe there are only as few as 500 cows on the Island per se. If there were imports there would be some opportunities for niche producers to supply local dairy products through some niche markets, through farmers' markets or farm shops or some small scale retail businesses. So there would be some opportunities there. Clearly, as well, if there was a decline in the number of dairy cows on the Island per se, that would free up land for other forms of agricultural activity but we also believe there would be some adverse environmental impact there and there would also be stress through the rest of the supply chain. Obviously there are other people, other organisations involved in the broader dairy farming sector on the Island and they would be corresponding stress in those areas as well. In it is current state the prospect of liquid milk imports coming on to the Island are not good. The industry plan talked about the need to build exports. I think our view is that the imports are an essential part of the industry development plan for future growth opportunities. Again, coming down to it with a fairly small population of 80,000 on the Island, dairy product consumption, as in many other basic foods, is relatively static. It is not just Jersey that happens but if you look at most developed European food markets, dairy consumption is relatively static so relatively small market size, relative static consumption. If there is going to be any growth in this industry we believe it has got to come from the export development. To achieve that one of the key things is building a new factory. It is difficult to see how that can be achieved without a new factory being in place. As we said earlier, we believe that needs to be done as soon as possible. I think the other thing we believe very strongly is that exports should not be seen as part of a cost covering exercise that we have got. If you look at successful agricultural food export operations around the world they export the best of what they have got, they do not use exports as a cost covering aspect, to mop up surplus production or: "What will we do with our export production?" "We will process it in export." They normally say: "Exports are our priority and we have to make as much money from that as possible." I think if you are investing quite a significant sum of money in a new factory it has to be very profit orientated and profit driven. So, we believe that exports are absolutely critical to the future development of the Jersey dairy sector. The challenges on the mainland, well there is a number there. I think, again, also we have spelt this out in the report in some detail. The market for Channel Island dairy products on the mainland UK is already well supplied and Jersey is in a situation - some sort of marketing jargon here - where it has no first mover advantage. There are other people who have been doing this for quite some time. What they do not have obviously is the Jersey USP (Unique Selling Point), this is the home of the Jersey breed and it is the real thing and that sort of thing, but there are other Channel Island breeds, other Channel Island herds on the mainland already supplying a whole range of customers with a range of dairy products. The price points - again, these are spelt out in the report - are all relatively well established so it would be very much Jersey fitting in and competing against the existing price point in the market rather than saying: "Well, here is our price and that is what we need to survive." I think it has to be the other way around. Let us look at the structure of the mainland market and get our cost of production in line with what other people, as far as possible, are already doing. Unless we move into an absolute super niche market which may sustain a high retail price for the product, but the downside of that is that we found a very high value niche market but the volumes required in that market channel are so small it is an ineffective way of doing business basically. The reality is that Jersey will be competing with people who are making yoghurt or farm house cheeses or whatever the product might be. Their basic costs of production are significantly lower than Jersey's, they might be as low, in some cases, as between 17 and 19 pence per litre. So, we believe that the good news is that Jersey does have a strong USP as in this huge heritage to build on, it has a very attractive environment, has some good farmers, has some good products and so, over a period of time, an evocative image of the Jersey sector could be built and the phrase people are using at the moment is the "providence of the industry", it is environmentally friendly. That is strong. The potential providence of Jersey is strong but without a strong supply chain behind it and an efficient supply chain behind it it means relatively little. So you can have the most wonderfully evocative image in the world but if you cannot get your products to the customer on a timely basis, in an efficient way, and at a cost competitive level then that evocative image does not sell products on its own. A strong supply chain behind it does. Other challenges would be that obviously at the moment there is no strong track record of dealing with the mainland UK market. We do understand from talking to the senior management at the Jersey Dairy that there has been a number of encouraging dialogues with the mainland UK retailers and not just one or 2 of them but most of them have expressed at least some sort of initial interest in sourcing products from Jersey and our view would be that - and we have made the comment in the report - we believe efforts in that area need to be strengthened in the short term to explore those opportunities and to find out a bit more detail and start working towards converting the promising dialogue into hard commercial reality. The last point, I think, speaks for itself. Obviously the UK market is highly competitive and that premiums are hard to find. Hard to find and hard to sustain is our view. But we believe overall exports are critical for the future development of the dairy industry here. When you look at the options for future development of the industry, future structure of the industry, I think there are a number of things that strike us as being critical, whether we are looking at supplying the internal market and dealing with some of the internal challenges that the industry face here, or whether it is the external situation and that might be either dealing with the imports, what happens if liquid milk imports come here and they are down at the level of 65 pence per litre, or how do we develop those exports to the mainland UK market as soon as possible. Essentially the answer comes down to being much the same, that in the future Jersey will need efficient farms and efficient cows. It will need an efficient factory, it will need a short supply chain, it will need to be strongly focused on meeting customer needs and it needs to be an industry that is prepared to give out strong market messages and strong market signals to all areas of the supply chain to dairy farmers but also to customers as well. I think the last point there - which we have bolded again - we believe to be particularly important that long-term security comes from accepting the market challenges and not protecting yourself from them. Again, that will be a critical point for the industry to bear in mind as it goes through the next 3-5 years and beyond. In terms of the industry options, the report sets out in detail 5 key options and what we will do today is talk about option 1 and option 5 in particular and we can talk about why 2, 3 and 4 are in the report. We have evaluated them and we feel, for a number of reasons, they do not really meet the needs of a sustainable dairy industry. I think it is important to remember that is what our term of reference talk about, creating a sustainable industry for the entire industry rather just bits of it maybe. The first option would be a modification of the current milk marketing scheme. Option 2 would be the Milk Marketing Board remains but is only dealing in the local liquid milk market. Option 3 would be a totally free market with no internal controls, no external controls, so totally free of competition. Option 4 would be a freer local market with some regulations in place and some of the controls retained. Option 5 would be the development of a voluntary co-operative or, as we have termed it here, a farmer-controlled business. We have concentrated in this report, not least, on looking at option 1 and option 5 particularly closely. Option 2 it seemed to us would be - I think we have described it in the report - the worst of both worlds, that you would have a protected local monopoly operating but in the sort of least attractive part of the dairy market where consumption is probably at its most static and there is no real growth. It prevents any opportunity for export development. I think we described it in the report as the worst of both worlds. Option 3, a totally free market. We refer to that in the report as a shortcut to disaster with the industry in its current state. I think that is important to bear in mind. In its current state option 3 would be a shortcut for disaster. Option 4, with the industry in its current state, would be a slow route to disaster. So, we do not think that option 2, 3 and 4, while they need to be evaluated, ultimately have a good deal of merit. Option 1 and option 5 do need to be examined in some more detail. Option 1 would be to modify the current milk marketing scheme, and in effect this would be a change in the legislation, changing the situation from a prescriptive to a statutory monopoly. We are not a firm of lawyers at Promar International but having talked to one or 2 who are, and other people on the Island, about the pace at which change can be achieved through a legal process, this might take somewhere between at least 6-9 months to achieve and that is probably being on the optimistic side. What it would do, a change from a statutory monopoly, is it would buy some time for the Milk Marketing Board and the dairy, however this situation could still be challenged and we believe, for a number of reasons, that legal challenge would come in pretty quickly. So it buys some time but it can still be challenged and we think that challenge would come in quickly and I think that one of the points we made in the report is that all the time there is legal challenges going on around the Island, among farmers and boards, farmers and Government, and anybody else who wants to get involved, it is sending out rather negative signals. Who is it sending out negative signals to?

Maybe among the farming fraternity itself, to Government, and also to customers. We would support any solution that reduces the legal tanglings as much as possible. I think it just sends out negative signals, and not only is it costly it is time-consuming and it can be ultimately quite dividing its nature at the very time none of those things are required. It helps preserves a short term status quo but, again, I think on looking at the legal situation, a similar move in the potato sector was proved to be illegal. So it could be attempted, it might take some time, might take 6-9 months, it could still be challenged and at the end of the day we believe there is a reasonable chance it would still be deemed illegal. It just adds to an air of uncertainty which is not what the Jersey dairy sector needs at the moment. Not least, it deals with the internal threat(?) of people challenging the jurisdiction of the Milk Marketing Board but it does nothing to deal with the issue of what do we do if liquid milk imports turn up next week at 65 pence a litre, or next month or even next year, and it does not do much in terms of moving to building exports for the future which we believe to be very important. There may be some limited consumer benefit as a result of this sort of move. The marketing board have made a number of comments that their long-term intention would be to try and reduce the price of liquid milk to consumers. It would preserve the broad objective of Government policy of green fields and brown cows, at least in the short term. The main beneficiary, however, from what we can see at this stage of this sort of modification would be for farmers and for the Marketing Board itself, so if you were in their situation you would maybe seriously be considering this as it attempts to keep things broadly in the status quo at the moment. What we said in the report is that if the objective is to provide a bit of time for the industry to consider its options and move the factory site, and maybe a little restructuring going on, and just give it a bit of breathing space, we will achieve all of those things. None of which should be, in our view, underestimated about how challenging they would be to achieve. If the requirement is to buy a bit of time, then a public policy exemption produces broadly the same result with a slightly less protracted process and also gives a bit more flexibility. I think one of the points we would make, Chairman, is that we do believe that the dairy industry needs time to restructure. We have heard some people, the proponents, say quite radical changes could be introduced in less than 12 months and other people saying: "We might be able to do this but it will take us 10 years." I do not think the 12 month option is possible in some cases and if we look at the sort of scale of change that might be required, to achieve it all in 12 months we believe would be very, very difficult and almost unfair, but to try and say it is going to take us 10 years to do this, you know, there has to be some common ground in there. In the report we are talking about a period of time of maybe between 3-4 years but also, I think, it is up to the dairy industry to tell the Government. One of the things we have been saying is the Government can impose all sorts of deadlines on the industry for change and what have you, the best people who understand what the requirements of change are and what sort of length of time it might take, and what is possible and over what period of time, is the dairy industry itself. If the objective is to buy a little bit of time to help the industry come to grips with some of the changes that perhaps it needs to go through, and not least maybe build a new factory, then a PPE (Public Policy Exemption) may be a less painful way of achieving that. Option 5 of a farmer-controlled business, we have spent quite a lot of time in the report talking about this but we believe option 1 only really deals with those short term issues and only deals with the internal issues. Options 2, 3 and 4 we have considered but for whatever reason have decided they are not desirable if the objective is to have sustainable industry in the future. So, we believe option 5 is the most realistic long-term option for the dairy industry here and you have a situation where the Jersey Dairy is still the key player in the Island. Dairy sector: again if you look around the world at deregulation of agriculture food industries, often you have a situation where what was the statutory body goes through a process of deregulation and they still invariably account for a very high percentage of the economic activity in that particular industry. It would not be unreasonable, in our view, that the Jersey Dairy might account for up to 80 per cent of the dairy's farming and processing activities at some stage in the future. There may well be a number of small scale niche operators operating outside the jurisdiction of the farmer-controlled business. There would be direct contact between the dairy and the farmers. The Jersey Dairy would administer the contract to supply from farmers to the processing operation and we believe this would have the best chance of meeting government objectives of "Jersey cows in green fields, a sustainable and efficient industry." I will just go into a bit more detail there about what we mean and some of the things that have to happen to produce this environment. What does a farmer-controlled business look like? Farmers would be the members of the FCB - in effect we are talking about the Jersey Dairy - and they would reap any of the trading benefits that are approved by this organisation and that is broadly in line with how much business they do with the dairy. So if they are 10 per cent of the supply base, they get 10 per cent of the benefit. There are other profit models where every farmer would have a vote on key issues at the AGM (Annual General Meeting), this would be irrespective of whether they are big, small, medium-sized. There is a phrase being used now "new generation co-operatives" in agriculture, farmers reap benefit in relation to how much business they do with the co-operative. It is not a one vote for everybody irrespective of size. There has also been quite a lot of talk about the existing failure of the Five Oaks site and is this an opportunity, if it was sold, for dairy farmers to cash in? £9 million divided by 33 looked quite enticing. We believe that there should be some sort of ring fence on the assets put in place, which is not uncommon. When dairy industries around the rest of the world have been deregulated this has been quite a common tactic. Not least, when new shares are issued there are some limits put on what can be done with those shares over what period of time they can be sold and in some cases even who they can be sold to. We believe it has been tried in other parts of the UK, other parts of Europe. If the objective is a sustainable industry then this is the sort of thing that maybe has to be done for the benefit of the industry as a whole rather than the benefit of one or 2 people looking at an opportunity for short term cashing in basically. So, not an opportunity for windfall for farmers, if we are to have a sustainable industry here in the future the objective must be that new factory and it must be, as far as possible, to reduce the existing debt levels that the business currently entails. Not all farmers have to join, and some may not. But they have to come to a basic decision about whether they are in the new business or whether they are out of the new business. It is a bit difficult to have a foot in both camps. Again, we are talking in just a bit more detail on the next few slides about why they might want to join a new business of this nature. Having said that, you are either in or you are out. You can still have situations, and the dairy sector around the world is riddled with sometimes slightly peculiar agreements between people who are not parts of co-operatives and are parts of co-operatives but non-members could still sell milk to the FCB if it so desired and if the FCB wanted the milk at that particular time of the year. In some cases it is bought as a defensive measure to keep milk off the market. So non-members could sell excess milk to the new venture but you have to suit everybody basically and Jersey Dairy would not be obliged, if it did not want to or did not need to, to buy excess milk from other farmers on the Island. We believe also that the farmer-controlled business - again from the work we have done and discussions we have had - we are aware that obviously other organisations on Jersey are looking at the structure of the dairy industry and we believe that the farmer-controlled business is properly most likely to address the concerns of an organisation such as the JCRA (Jersey Competition Regulatory Authority). We believe again that with maybe a dominant business account, maybe up to 80 per cent of the Island's dairy business, but a number of operators operating at the fringes in niche market would produce a more competitive market environment and, again, that may be translated to some consumer benefit on the Island. I think it would also be a very strong proactive statement of the need to change. The Marketing Board was set up in 1955 and it has had a long and glorious history since then but things are changing all the time and industries need to recognise the need to change and move on. This would be a very proactive statement of the need to change and therefore also likely to encourage a broader support from other industry stakeholders which will be important for the future. It also gives us the best opportunity to deal with both aspects of the external threat. We come back to this point again, and it is mentioned in the report on a number of occasions, internal challenge is one thing, external threats are completely different although the answer to both is broadly the same. But we need to be able deal with what happens if liquid milk comes in at 65 pence a litre, and also the need to build exports as soon as possible is absolutely critical. At the moment our view is that - we have not spoken to every dairy farmer on the Island but we have met a good number of them - a number of dairy farmers -- it is almost inevitable it happens in this sort of environment, if there is uncertainty about what is going to happen in the future dairy farmers will - they are pretty logical guys - hang on until a decision is made about what is going to happen. In the absence of that sort of decision being there 2 things will happen, one is that they will hang on and see what does happen, see is there going to be a payout maybe from the sale of the factory, maybe, maybe not, but ultimately they may well - in the absence of a strong vision of how it is going operate in the future - be tempted to look at coming up with their own solutions. But the establishment of a farmer-controlled business would be a bit of a line in the sand and farmers have a clear choice to make, whether they want to be part of this business or not. If not, what are they going to do subsequently to that. I think also the farmer-controlled business option does reduce the opportunity for this asset stripping, which we are very aware of and it is clearly a sensitive issue. To achieve that, to put in place the legislation and to also set out the compelling reasons for people to join the new business and to resist the opportunity for asset stripping we said that it does need brave and careful management, both from the industry and from Government as well. Last but not least, it is a new start. We have talked about, in a number of the meetings we have had with some of the industry stakeholders, that clearly an organisation set up in 1955 has had a long history, good times, some bad times; the time has come to stop looking back and maybe even apportioning the blame as to what happened and why it happened, in some cases going back over quite a long period of time. It is our view at Promar that the time to stop looking back and apportioning blame has come and let us start looking forward at how things might be in the future. So, not least, it is a new start. We have been asked in one of the presentations we had on the Island: "Can we guarantee it is a risk free option?" I wish we could is the answer to that. There is always some risks but those risks can be managed and minimised over a period of time with a careful project implementation plan. The farmer-controlled business must have some very compelling reasons for the Island's 33 dairy farmers to join it. If those compelling reasons are not put forward they are likely to make their mind up to either perhaps try and do their own thing or maybe, in some cases, say: "Right, this is an opportunity to stop dairy farming all together." So there must be some compelling reasons to join. The industry needs to have a vision of a single and united market focus co-operative which they own. One of the beauties of a FCB is the ownership of the business remains with the farmers. Other critical features of implementation if this is to be successful, there must be the development of the exports. We have talked about some of the challenges we see in the mainland market and we have talked in the report about the need for additional focus in turning the promising dialogue into the commercial reality. That is an area where there needs to be a lot of work done over the next 2 years. The implementation is reliant on a new factory. A new factory is almost at the cornerstone of the future development of the industry. Clearly, again, a farmer-controlled business, as in any business, needs to exercise high levels of good governance and in the report we have - this is not a criticism of current management - it said that in the past some of the governance issues have been open to question. But that is not an implied criticism of the current management. But good governance, transparency of management to customers and to farmers will be very, very important. The FCB needs to be very market focussed and it has to accept the reality of some of the market signals it gets from customers and for it to react and not shield itself away and pretend they are not happening. One of the challenges that a farmer-controlled business always has is that it has to keep its customers happy but it also has to keep its farmer members happy as well. Sometimes reconciling those to management drivers is quite difficult. I think our experience is it is probably easier to keep farmer members happy than keeping customers happy. If you do not keep customers happy then keeping farmer members happy is very difficult in the long run. The other key aspect of implementation - again we talked about it in the report - is at the moment quite a lot of the milk that is processed at the dairy goes into products like skim milk powder, bulk cheese, bulk butter which are relatively unprofitable and there needs to be a switch in focus to the more profitable products that can be made, things like high premium, high quality yoghurts. There has to be a switch away from commodity based products, which Jersey will always find it difficult to compete in, to more profitable high value markets and products. We talked about the compelling reasons to join a FCB of this sort of nature, there may be others but these are the ones that we feel would be most important at this stage. So what would be the most compelling reasons to join a new FCB if you were a dairy farmer? Well, you would still be involved with what essentially is the largest player on Jersey by, we believe, some way. We talked about if you look around other European dairy industries, what makes Denmark and what makes Holland strong in particular? They have got a scale of operation at a different level compared to what would happen on Jersey clearly but whatever you do, if you are operating in 15 international markets, a degree of scale is going to be a key success factor. It is a FCB; the farmers still own it. They own this business basically. They may not manage it on a day-to-day basis but it is their business. I think if you look at the success or otherwise of deregulation of dairy industries in other parts of the world, in England what they did is they separated the ownership of processing away from the milk production and the quality(?) of activity basically. The history of deregulation in the UK is a bit mixed. We would not pretend otherwise. Whether it can be traced back to this one single factor of separation of production and processing, we can do another report on that for you if you like. But in Northern Ireland, for example, they kept the 2 together and the whole process and the whole experience has been far more positive to the level that they have got more dairy farmers now in Northern Ireland than they had when they deregulated. So our view generally is that the process of deregulation can be positive if it is well managed, if it well implemented and it is strongly managed and strongly implemented and the logical things are done in that process. A compelling reason to join; again, new factory. As I say, the Five Oaks factory, having been built in 1960, everyone recognises is just not up to the job anymore. We would have a new state of the art, modern, efficient better class factory, which would give dairy farmers a good chance to operate and compete in both the local and the international market. There would also be a manageable debt. At the moment the debt level at the Jersey Dairy is quite high. This would be with the sale of the Five Oaks site, the construction of a new factory. As we said, we do not believe there is going to be a lot of money left over but there might be enough money left over to reduce that debt level and, for the future development of the industry, the key player having a manageable level of debt is something that would give it a strong chance. If we are looking for a sustainable industry in the future, this would give it a strong chance of being able to make it. Exports: export prospects will drive growth. We believe that - we have said it before - export development will be absolutely critical. This business is in probably the best situation of those on the Island to try and build on the export opportunity that exists. Strong customer support. We have said in our report, and in our presentation this morning, that that customer support should never be taken for granted but there would be an opportunity to go to key local customers and explain what is happening, talk about the new factory, what new products are going to come on stream, what sort of levels of production are going to be envisaged in the future, what sort of price scales might be achievable and there will be a great opportunity to sure up key local support. I think also there would be a high level of Government support for this sort of development, particularly with issues relating to the relocation of the factory. Also we get the sense that while Government is prepared to support the industry it would also not be looking to interfere if it felt the industry had come to its own conclusions about what was the most desirable thing in the future. So costly and time-consuming and energy sapping investigations may be a thing of the past and the Government can turn their attention to other areas of the Jersey economy basically and let the dairy farming side get on with things basically. Support but not interference. Also a long-term view of sector development. I was at a conference in the South of England recently, a national conference, and the question was asked: “Why would dairy farmers want to join a co-operative as opposed to a PLC (Public Limited Company)? What would be the compelling reasons?” The answer that was given, by a senior member of the UK dairy industry - and I think we would support it - is that co-operatives are owned by the farmers, they do have the long-term interest of the dairy farming sector at stake. The more corporate model you go to, PLC models of ownership, the argument was drawn that if there is money in dairy farming in Jersey or the UK this year, fine. If the money is in baby food in Eastern Europe the following year that is where the resource and the money will go. FCBs tend to have a long-term commitment to the dairy sector. We are not saying that PLCs cannot but by their very nature their commitment has to be a little bit more short term, we believe. The FCB structure would also be compliant and I think that is going to be very important in the future, it will be compliant with local legislation, national legislation and international legislation. Again, I think the dairy sector has reached the stage where it needs to concentrate on its activities, new factories, new products, new markets, new farming methods, these sorts of things, rather than being distracted by lots of legal challenges to its structure and so on and so forth. I think also you would see a change of focus in the business over a period of time from a business which is sort of at the moment largely reliant on local commodity products to exports of high value niche products. Again, in terms of where is the business going to grow, it will find it very difficult to grow in local commodity markets, but there is -- we talk about the challenges in the mainland market. I mean, one of the beauties for Jersey, though, it will be challenging to try and build those markets but -- first of all, it is a huge market. Jersey needs to get a relatively small part of it to be successful, so it is challenging but by no means impossible and it will -- the exports of high value niche products will offer significantly better growth opportunities than being restrained and working in local commodity markets. Again, the last point will be that it will be an opportunity to leave some of the baggage that this organisation and industry has incurred, leave some of that baggage behind. So, we believe there is a range of compelling reasons that farmers would want to join the new FCB structure, but clearly talking about them in this sort of environment and communicating them out to farmers and getting them to buy into what is happening is -- we would not under-estimate the challenges of doing that. So, implementation, how this is all effected will be absolutely critical and we have said that there will need to be a process of concentration across the supply chain. That to date has involved largely talking to farmers, but at some point it may involve talking to customers about what might happen in the future here on the Island. If there is a PPE granted, which we believe would be a sensible thing to do, at least in the short term, it is very important that the dairy industry makes good use of that time and constructs and communicates to Government what they are going to do with the time that is given to them through the PPE process and how they are going to implement this. The point there again, it is bold and it is underlined, this is time to look forward and leave the past behind and stop blaming one another for whatever has happened. The time has come to look forward and concentrate on the issues that are ahead, rather than looking back over a 10, 15, 20, 30-year period, basically, and apportioning blame. Time to look forward. You said the process is -- well, it sounds relatively simple. It is a bit more complicated than this, but there are a number of legal things that need to be done, but you would set a vesting -- what is called a vesting day for change. We have heard anything between sort of 6 to 12 months and 9 to 10 years. We do not think that either is appropriate, but there is a requirement for some time for the industry to consider its options and plan for the future. But you set a vesting day for change; you stick to it. I think our view generally is that a proactive change is -- again, we have seen -- we have been involved in one or 2 projects around the world where industry has had change forced upon them and that can be a painful process for everybody, but we believe a sort of proactive indication of the willingness to change is likely to produce a more positive support across the value chain, and that value chain goes from farmers to customers to Government and other stakeholder organisations. In terms of what support from the Government is required, we have said in the report that yes, Government does have, we believe, a strong role to play in effecting the changes that might be needed, and there are a number of areas that are particularly pertinent. But I think if the dairy industry is being asked to change over a period of time, I do not think it is unreasonable to look to Government for selected areas of support to help do that. I think there are a number of key areas that you would look at. The first one: make a decision on this Howard Davis Farm site, which, as I say, in the relatively short time we have been involved with this project seems to have oscillated from sort of one stance to the other - yes, we can; no, we cannot; maybe we can - and really if there is one thing that Government can do in the very short term, not least to help the dairy sector set out this compelling vision for the future, it is to make a decision on the Howard Davis site and do that as quickly as possible. Again, confirm ongoing support for the dairy sector as set out in rural development plans over the last few years. There are grant schemes for slurry conversion and these sorts of things. That money is going to possibly run out at some stage in the future and Government needs to reaffirm its support at least in the short term to make sure that things like slurry conversion, they are very important. You know, good environmental practice is going to be a critical issue in not just Jersey farming in the future, but UK farming and world farming, and if there is help there for farmers to convert slurry storage facilities, then that needs to be -- that process needs to be speeded up. A granting of a PPE for a specified period, but again I do not think this can be done just with no strings attached. It does need a strong industry plan to come back and say: "If we get this period of time, how will we use it? What will we do? How will we do it? When will we do it? Who will do it?" and what have you. It has to be a sort of a 2-way thing, but we believe that the dairy industry does need some time to restructure and it cannot be achieved overnight. A PPE could be granted but there has to be -- for that there has to be a strong plan drawn up and agreed about how it is going to be used. It cannot be used just as a spinning out process, basically. There are clearly a number of legal areas of work that might be needed over the next few months and beyond, but if liquid milk imports came on to the Island, as we have said in the report, obviously we do not believe that they can be prevented from coming on to the Island from a legal position. Again, in terms of consumer benefit, if the objective here was to benefit consumers, you would say: "Wow, let us get liquid milk imports here tomorrow because it is going to bring the price down to 65 pence." Again, in terms of this process of giving the industry a chance to restructure, you would probably ask Government to put up some sort of defence to prevent it happening in the very short term, basically. You might also ask Government to provide assistance on legal changes to ring-fence those assets. We believe that ring-fencing the assets is absolutely critical and that the opportunity for windfall for 33 farmers should be prevented and it has been prevented in other parts of the UK. There may be certain bits of legal help that are required with the creation of an FCB structure. There are a number of organisations who would be appropriate to approach in this sort of process and even, in some cases, help with the provision of what might be broadly termed change management skills. As industries and companies go through quite significant changes sometimes some external input there can be useful. Last not least, we are aware that there is help to support export market development activity, not just for the dairy sector but for Jersey's economy generally. There is no reason why the dairy sector should not take full advantage of that help that is out there and they need to do it, again, fairly quickly. So, if change is going to be made, our view is that the dairy sector has some obligations to change but also that there is a need for support from Government to help with that process. It might be in a number of areas as suggested here. In terms of what might be at the end of a quite extensive piece of work over 3 or 4 months, if you had to encapsulate what might be the key recommendations on the one slide, these might well be them. So I think you would be looking to get a public policy exemption for a specified period of time on the proviso that it is not used as a spinning out process and it is used constructively and there is a plan, who is going to do what, when they are going to do it, how they are going to do it and why and so forth. We believe that the relocation of the factory to Howard Davis Farm is absolutely essential. We believe there needs to be some more research carried out on export markets to perhaps focus a little bit more on where those best opportunities are going to exist, with which customers, whether products are going to be branded, unlabelled, and so on and so forth. You would set an industry date for change. You would consult the supply chain through that process. Particularly important is to set out these compelling reasons for change and to join a new FCB structure, build a very strong vision for the future and embrace a move to a farmer-controlled business structure in the future. Mr. Chairman, that is it.

Deputy A. Breckon:

Thank you for that. Would you like to take a seat and make yourself comfortable? Can I say you have done that presentation before in a number of areas and arenas to a number of people, so some of these questions you may have heard before. I would like to start. I wonder if you could expand and give us some facts and figures on the current processing of the dairy about the liquid milk market - that is the local liquid milk market - and the other present uses made of product. Could you just comment with some details which are contained in the report on that?

Mr. J. Giles:

Well, as I said in the presentation, there is a whole range of products made in the -- made at the current Jersey Dairy. One of the key issues of the future development of the industry is that the factory at Five

Oaks, built in 1960, is not really up to scratch with what modern customers would require, basically. We have talked about in the report about the sort of product mix and essentially, without going into masses of detail now, quite a high proportion of the products that are made are broadly in the category of relatively low value commodity products: skim milk powder, bulk butter, bulk cheese, these sorts of things. Relatively small amounts go into perhaps the higher added-value products that can be made by a dairy factory. We have said in the report that over a period of time we would recommend that all efforts are made to change the balance a little bit, basically. Milk, obviously no great secret, milk price on the Island sort of ranges depending on where you buy it and who you buy it from, but the price differential between the average price on the Island at sort of 85 pence, 90 pence, depending on where you are buying it, maybe a bit lower in some cases, and the ability of if a major retailer came on to the Island, which we understand again is not an impossibility, that they could get it here for significantly cheaper. Therefore, I think our view, Chairman, would be that Jersey, can it ever get its price down to compete against 65 pence a litre? That might be very challenging, but it can do quite a bit to close the gap to make sure that when liquid milk does come to the Island the price differential is not so -- if the price differential is 25 pence, 30 pence, for consumers it is stretching that loyalty to the absolute limit. If the price differential is 5 pence, 10 pence, some consumers will switch but I think a lot of consumers would probably, based on our experience, stay. But to do that, you have to get farm costs down and also that efficient factory.

Deputy A. Breckon:

I would just like to ask one more question, John, on that and then pass to other members. You mentioned in your presentation about exports and the fact that it was essential and exports were prospects to drive some real growth and Jersey perhaps needed a niche market and only a small share of, say, the UK market to make that happen and be achievable. Have you uncovered any evidence that supports that that could happen?

Mr. J. Giles:

I think in discussions with senior management at Jersey Dairy we have identified that there is ongoing discussion with most of the major retailers in some shape, form or manner. Obviously converting the promising discussion into commercial reality is always a challenge. We understand that in one or 2 cases the discussions are further down the line than they are with others. What do you need to build exports? Well, you need good products. Is the Jersey Dairy capable of producing good products? I believe it is. The evocative image, the provenance: Jersey is dripping with provenance, basically. You need good people. Jersey Dairy has got some good people. It might need a bit more concentration and focus on the marketing function in the future. You also need a receptive market, and at the moment I would say that the UK mainland market is probably as receptive to the provision of high value niche added-value products than perhaps it ever has been for a whole plethora of reasons, not least there is a huge amount of interest. I think sort of 5 years ago the mainland market in the UK was getting very excited about the opportunities in the organic dairy product sector and organic food sector. I think it is still interested in organics, but I think also there is a huge degree of interest from customers about products with local regional provenance and Jersey has got a great opportunity in that area.

Deputy R.G. Le Hérissier of St. Saviour:

Thank you, John. I was going to ask about exports but Alan has partly beaten me to it. So a 2-part question, John. You argued very strongly in a sense with your points against exports. You mentioned this was a tremendously high-cost place. I got the impression from the way you put the case forward that, in fact, you were in a sense speaking against yourself. You were suggesting that the effort was a mountain to climb. It would take an enormous amount of initial effort in order to get the export situation sorted out. Do you really think at the end of the day that your option where liquid milk was the priority might, in fact, be the best option because the dairy has been down this road before, as you well know, with the mini pot issue and of course it got seriously burned. I am not saying those reasons still appertain now as appertained then. So, that is the first question and, sorry, a very different question. As you know, there has been talk of a different approach essentially based on the free market approach. Do you still hold to the option you put forward and the comments you made about that option that if the free market were to come in it would essentially place what you see as a weak industry at the moment into freefall?

Mr. J. Giles:

Okay, first question. Are exports difficult to achieve? Well, we are talking about supplying the UK mainland market, so is supplying the UK mainland market a challenge? Yes, it is. To pretend that anybody can walk into a major retailer in the UK and suggest, well, here we are, whether we are from Jersey or from anywhere in the world and supermarkets are falling at their feet to accept new supplies, in some cases they have been looking to reduce the number of suppliers they deal with. So, is it a huge challenge? Yes. Can it be done? There are some very good examples, not least from places not too far away from here, where people have been able to develop high value export niche products into the UK market and the beauty is that you do not need a massive -- the dairy market in the UK is worth about £3 billion per annum at retail value. You do not need very much of £3 billion to turn around your industry here, basically. To do it, to try and build those exports in the current situation with an old factory, at the moment I think your industry for whatever reason is trying to do it the hard way, with the old factory, no genetics, and these sorts of things, really. So, is it challenging? Yes. Can it be done? Yes. Are there plenty of challenges out there? Yes, I think. Have other people managed to be able to do it? Yes, they have. Is the market big enough that you are not going to cause massive disruption and maybe even adverse reaction in the UK marketplace? By Jersey taking a relatively small part of it, it is not going to produce a great backlash of competitive activity. In fact, some people may even welcome you into the market, what have you. Just a last point on that, again it depends on which part of the market you want to play in. Again, having said that we do not want to go back and look at the past too much, I mean, the mini pot exercise was a decision to play in part of the market which is extremely price-sensitive, ultra-competitive and where you can be knocked out of situ quite easily. So, essentially, the lesson there for Jersey is do not play in parts of the UK market where that situation could arise again. In terms of the different approach, what we have said in the report is that, again, in its current state option 3 -- this is what we are talking about in the nub, is it not? We believe in the current state, if the objective is a sustainable industry, that option 3 we are -- I mean, no regulation. We also talk about in option 3 that there be liquid milk imports coming on to the Island fairly quickly. We think option 3 will not meet the objectives, and it will happen fairly quickly, of brown cows in green fields, basically. The one we have pointed out in the report and it is there for all to see, that clearly if you were looking to benefit consumers you would say: “Fantastic, we can get milk on the retail shelf at 65 pence a litre, maybe even a bit cheaper” but whether that meets the requirement of a sustainable industry per se on Jersey, you know, I do not think it does, basically. What it does show is that without the compelling reasons to set out a new vision and a new way of doing things, that people -- and again the evidence is not just in Jersey but in other areas where people have deregulated without a strong vision. Farmers, being quite logical guys, will say: “We will try and do this ourselves.” I think our experience is in many other parts of the world that when farmers try and do it themselves they sometimes find it a damn sight harder to do it themselves, moving from being a farmer to market-focused entrepreneur, I think we called it in the report. But making the change, doing it yourself, has sometimes proved to be a lot harder than you first think, with no strong vision set out farmers will either say: “Right, we will have a go at this ourselves. Might find it easy; might find it difficult” or will say: “Well, crikey, this might be the time to get out of farming altogether.” We have said in the report that option 5 will not stop some people getting out of farming. In fact, if you look at deregulation around the world, occasionally in the very short term it has speeded up the process as people come to those difficult decisions themselves.

Deputy A.E. Pryke of Trinity:

Thank you, John. Thinking about the exporting side, but also going on to you talked about the internal threat, are you surprised by that? What are the main issues that you have picked up during the last months about the internal threat?

Mr. J. Giles:

Well, I think following on from the last point, are we surprised that one or 2 people are challenging the jurisdiction of the Board? No, that is not a particularly new issue. That has been going on for quite some time, really. In terms of what is the answer to that, well, you have to take a view on what is the legal implication. If the jurisdiction of the Milk Marketing Board and the Milk Marketing Scheme is challenged, is that going to be upheld or whatever? I think it seems to me that from what we know that there is a strong chance that it will be found that the Milk Marketing Board is non-compliant. What we have said in the report is that the answer to these issues, whether it is the internal situation or whether it is the external situation, is broadly the same: good farms, best possible use of genetics, short supply chain, strong customer focus, accepting market challenges and not pretending we can hide behind legislation and that they will not impact on our industry.

The Deputy of Trinity:
Just to take that a step further, I know you have presented this report to the farmers.

Mr. J. Giles:
Yes.

The Deputy of Trinity:
Can you tell me what response you had from them? Were you surprised by their response?

Mr. J. Giles:
I do not think we were surprised by the response because I guess we have probably done it around the world, not just in dairy but in other sectors, really, so I suppose maybe we were not too surprised at the response. The response would have ranged from people who were probably quietly supportive, saying: “Yeah, okay.” You know, what we are asking to do is for people to change the way they have maybe farmed and the way they operate their business in the future. We all know, it is conventional wisdom that sometimes we feel uncomfortable with change and what have you, and it produces new uncertainties. One of the questions we were asked was is there any risk-free solution to the situation that the dairy industry finds itself in, and the answer to that is -- well, I think we said: “We wish there was.” There is no risk-free solution to this, but there are more risky solutions and less risky solutions. In terms of reaction from the farmers, I think probably it went from those who were quietly supportive and sort of: “Yeah, okay, we can see the logic of this and this is the way we have got to go and it is going to take some time and take some change and we need that time to allow us to change.” As always, one or 2 people found some of the messages less palatable, but that does not surprise us.

Deputy S.C. Ferguson of St. Brelade:
Thank you. In the report, you talk about parts of the industry being subsidy hungry. How do you address this? How would you see this being addressed in the context of an FCB?

Mr. J. Giles:
I think, just to put into context the comments about subsidy hungry, I mean, I think our view is that if you look at the figures of the industry here, maybe for reasons which are well understood it is subsidised to 7 pence a litre whereas on the mainland UK it is subsidised to 2.5 pence a litre. Subsidy is a fact of life in farming and in dairy farming in particular, so I think it would be undesirable to have a situation where, you know, all -- we could go to the New Zealand model and say: “Right, next week we will get rid of all subsidies. We will watch the bloodbath unfold, basically.” But I think in the future it would

seem ... and there are subsidies available there for production, there are subsidies available for slurry conversion and other areas of farming activity, and we have heard people saying -- and, yes, in extreme cases the whole building of a new factory should be subsidised. By who is not quite clear. I think probably farmers, whether they are in Jersey, whether they are on the mainland, whether they are in Denmark, Holland or anywhere else in the world, have to accept that probably in the future there is going to be less subsidy, less direct producer subsidy. So farmers may not be compensated for just producing raw materials, whether it is milk or wheat or fruits and vegetables or pork in the future, but they may be compensated for good provenance, good environmental practice. That is the trend not just in Jersey but around -- and that is driven largely by influences in Brussels does not want any more grain mountains, butter mountains and these sorts of things, but they will compensate farmers for good environmental practice in the future.

Deputy R.G. Le Hérissier:
One of the issues, John, that seems to be always present in the background is the size of the buffer, the size of the so-called necessary over-production. In a sense is your plan based on the assumption that we have to keep a current herd and because we have had a perverse incentive - in other words, the dairy has to take all milk produced - it is dealing with a very high rate of intake which it would not normally? In other words, in a funny sort of way we have not got the optimal size herd on the Island at the moment. But somehow you have to come up with a plan that will deal with the production that we do have on the Island. Did you feel you were being driven by this in the way you came up with your export plan?

Mr. J. Giles:
Well, I think ... yes, I think the short answer to that is that all dairy processing operations have a buffer of some sort. It is just a fact of life, basically. It depends a little bit on what you tend to do with that buffer, basically, and I think, to come back to earlier comments, that at the moment a lot of the buffer goes into low value commodity products which Jersey is always going to find it very hard to compete internationally and it comes down to what do you choose to do with the buffer. If more of the buffer can be diverted into high value, added-valued products, then that would be desirable. Again, sometimes, you know -- but you have to find markets for it, basically. Producing commodity products for commodity markets is relatively straightforward because you will sell it somewhere, at the end of the day, being blunt. Maybe not for the price you would always like, but commodity markets will find a home. Moving the emphasis towards higher added-value products, that is where you need the focus on the marketing and strong customer relationships. What we have said in the report is that obviously again there has been an ongoing debate about what is the optimum level of production on the Island. I think again what we have said in the report is that at the moment it would be very easy to say: "Right, let us just reduce production down to perhaps the level of the liquid milk market only on the Island" but I think we have said in the report if you are serious about exports, once you start reducing milk production, it is easy to reduce; it is quite difficult to build back up. What we have said in the report

again, at least in the short term at the very moment you might need all the milk you can get because if you do hit the jackpot of one of the major retailers in the UK, what you do not want to turn around and say is: "I am terribly sorry, we have not got the milk." But if ultimately you have not got a market for it, then it seems a logical decision you have to look at that very, very closely.

Deputy A. Breckon:

John, can I ask you about the genetics? You touched on that. Could you expand on the possible productivity gain if this was a process that was allowed in the Island?

Mr. J. Giles:

Well, again, we know that the genetic ... the question of Island genetics is a long one, it is an emotive one. It would seem to us that again if you are looking -- what makes up a sustainable dairy industry? Well, all sorts of things, but being as efficient as possible would seem to be quite an important part of that, basically. The decision not to use the best possible genetics out there, as we said in the report, Chairman, would appear to be sort of trying to fight a difficult battle with one hand behind your back. I think there are several things that you would need to take into account on the use of genetics. One is, as we said earlier, it is part of a long-term process. I am afraid there is no magic wand, that you start using imported genetics and, hey presto, the next year the world is a beautiful place. It takes between 7 and 10 years to get the improvement. We have said in the report that we believe that you could reduce the cost of production by between 1 pence and 2 pence a litre over a period of time. Also, the point that has been made a few times has been that, okay, if we use better genetics, well, we will just be producing maybe more milk and adding to the buffer problem. I think using genetics gives you just much more flexibility, really, because you might need more milk. You might need more milk from the same number of cows because you have built a very successful export business. You could have the same amount of milk from a fewer number of cows. You can also reduce feed costs, and we have said that one of the key areas - if you look at the discrepancies between how a Jersey dairy farmer operates with his counterpart on the mainland -- the differential cost is a number, but one of the key costs is the importation of feed. Using better genetics could reduce those feed costs quite considerably. So, I think, as I say, we know it is an emotive issue on the Island but I think at the end of the day if you want a sustainable, efficient industry it is something that you have got to bite the bullet on.

Deputy A. Breckon:

Can I ask you a question about the Howard Davis Farm? You have come out now positive in favour of that. Did you evaluate any other options to Howard Davis Farm and could you comment about how soon you became positive about Howard Davis Farm?

Mr. J. Giles:

How soon did we become positive about Howard Davis? I think we have always been quite positive about Howard Davis Farm. I think what surprised us when we first came into the project -- I guess we are coming into it relatively late in the day. We have been working here from August. I think when we first came on to the Island we said: "Well, look, talk us through some of the issues." "Well, we have got this site at Howard Davis and it has got planning permission; it has had the environmental audit and it has had it for some time. The site plans are all drawn up." We were saying: "Well, why are you not getting on and using it?" basically. We know again there is a sort of complex issue, covenants and relations on the other side of the world that need to be consulted and what have you, but it seemed to me that overall, as an outsider looking in, you are 95 per cent of the way there and then there is a standoff, really, basically, and further delay, and that delay is not doing anybody any good. So I think we were always quite positive about the Howard Davis site. It seems fit for purpose. It is available. You have got all the planning permission, the site audit, you know, so wow, go ahead and use it. In terms of the other possible sites, well, obviously one site is Five Oaks. I think quite quickly we came to the conclusion that unless you are going to completely knock the whole thing down and start all over again, which will probably cost a lot of money, take a lot of time, and the reality is that again ... You know, I am not quite sure what the -- well, in 1960 presumably that was a slightly less densely populated part of the Island. It is now hemmed in by housing. We just think it is not the place to be for all sorts of reasons. Then we were made aware of one or 2 other sites that in theory could be available for this sort of activity over a period of time. We looked at them briefly. I think again you come down to the conclusion that, okay, they might be available but hey, they might not be. Time, planning, environmental audit, site plans; how long do we want to wait? Two years? There may not be 2 years to wait.

Deputy A. Breckon:
Can I ask you, John, from that, is time a critical factor, in your opinion, for the Jersey dairy industry?

Mr. J. Giles:
Yes. That is the short answer. Yes, it is. I think the sooner some clear statements can be made by a range of organisations on the Island about what they are going to do and how they are going to do it, the better, really. A lot of it links back to this compelling vision. Without the compelling vision, you are asking farmers to buy into something which is unarticulated and you have to give them as clear an indication as possible about what the future might look like. One of the best ways they can buy into a future vision is to know they have a modern, efficient, working processing factory which will allow them to compete both internally and externally. As I say, without the compelling vision you will have what has been indicated over here, perhaps people thinking about doing their own thing or giving up or whatever. So I think time is critical.

Deputy K.C. Lewis of St. Saviour:
Following on from that, John, it has been suggested from several quarters that the Milk Marketing Board

should be disbanded. You have given a few options today. What is Promar's preferred option to that? A farmers co-operative, limited company or what? Do you believe that the Five Oaks site may be overvalued?

Mr. J. Giles:

The Five Oaks site, the value that has been indicated to us is in the region of £9 million. I guess the value -- you know, like shares, the value of the site can go up and down depending on who is looking at doing what on it, basically. We have heard the site value could be and we have been told it could be more, it could be less. We try to take what we believe a cautious midpoint in the way that the development of a factory -- I think our view is that development of a modern food factory, there is almost a sort of lowest level of cost of about £5 million and, again, we have heard the cost of a new factory on the Island could be a bit more, it could be a bit less. So we have taken what we believe to be a sensible estimate of £6 million to £7 million and the site value being about £9 million. In terms of the future options, we believe option 5 is -- again, we were asked at the meeting we had with the 33 dairy farmers a few weeks ago: "Is this a risk-free option?" Well, we wish it was. Clearly it does rely on a number of things being put in place: the PPE, the factory location, the building of exports, so there is a lot to do, basically. But we believe, in terms of if you want a sustainable industry here, option 5 is the best one to go for. In terms of the fine detail on more specific legal ownership structures, limited companies and what have you, again we have said that is an area where there may be some further work to be done. But there are plenty of good farmer-controlled businesses around the UK and further afield. If you want to look at good case studies, there are plenty there, plenty there, and essentially you choose the bits of the models that you like the look of and create a Jersey model, basically. I do not think you can say: "Look, that is what the New Zealanders did so we will plonk it down on Jersey" or: "That is what the Danes did, plonk it down on Jersey." I think you look around the world and see which bits of these models you like and you come up with your own model, taking into account there are some specific circumstances in Jersey that will not apply in other parts of the world.

Deputy S.C. Ferguson:

Given a sort of following wind and a certain amount of hard work and perhaps passing the propositions in January to approve the sale or lease or whatever to sort Howard Davis Farm out, how long would be a realistic goal to say we want all this up and running by?

Mr. J. Giles:

Again, you can look at the precedents set by other similar developments. There is a large dairy operation being built in southwest England which is up and running in 12 months, basically, 350 million litres per annum. So, you know, 12 months. How long does it take to build? We are talking about a modern, efficient factory but it is not an overly sophisticated or complicated structure to build. It is a shell to food industry hygiene standards with equipment in it. It might be 12 months. I think if you have it up and running in 12 months you will have done well. You might want to give yourself a little bit of leeway for product testing and all that sort of stuff, but it is that sort of timescale rather than 3 years or 4 years or whatever. But yes, if you put your foot down you could do it in probably 12 months or maybe just a little bit over to give yourself a bit of ... What you do not want to do, I think probably to some extent, is say: “It is going to be going in 12 months’ time” and then get to 12 months and say: “Oh, sorry.” This thing about setting the broader picture, setting a vesting day for change and sticking to it; you want to say: “Our factory is going to be ...” You do not want to get into a Wembley Stadium situation where: “Well, it will be ready for the Cup Final but not this year, next year.” Again, it is confidence building. I think people will feel confident when they see the first signs of activity on the site, when they see the foundations going in, when they see the first bit of the structure going up and what have you. What you do not want to do is create an expectation and then disappoint them by saying: “Oh, sorry, we are not quite ready.” So you might just err slightly on the side of caution, but it is a 12 to 18-month job maximum, not a 3 year one, that is for sure.

The Deputy of Trinity:
Just thinking on from that, what would you see the most important thing to put in place first? Let us say first, second and third?

Mr. J. Giles:
First, second and third? I think the 3 most important things, one is sort out whether you are going to get a PPE or not and then how you are going to use that. Second, get the factory situation sorted out. Thirdly, go for the FCB structure. Fourthly, start building export markets as soon as you can. So I have 4 there, I am afraid. I think on the basis that time is tight, in some cases you might have to be doing -- and this is where again, you know, what is the role of Government in there? We are asking quite a lot to be done quite quickly. You might say: “Well, there are 3 or 4 things here need to be done and, whoa, it is quite a big task.” This is where maybe Government needs to add some assistance.

The Deputy of Trinity:
They are all done within a fairly quick timescale?

Mr. J. Giles:
Yes. I think, you know, where are we now? 11th December. These are all first quarter activities, if not earlier.

Deputy R.G. Le Hérissier:
John, did you do an analysis? We are often asked this question: why does the farmer at the gate earn I think it is 33 pence as opposed to the selling price, which sort of hovers around 90 pence? Did you do an analysis of why there was the difference and what was the finding, if you did it, of your analysis?

Mr. J. Giles:

Well, it is a good question that is not just asked in Jersey. Sort of, you know: "Here is the farm gate price and here is the retail price." In Jersey, I mean, the short answer is the differential goes from farm gate price and then there are some transport costs involved and then there is a processing cost and then there is a wholesale margin involved and there is a retail margin involved, really. Conventional wisdom is that the closer you get to the retail point of sale the larger the margin you get. So retailers work on a base margin of maybe 35 per cent, 40 per cent, but in some cases it can be up to 100 per cent for very high value products. The margins in Jersey, particularly at the processing level, again are higher than they would be in other parts of the UK and also you have this discrepancy of the 7 pence subsidy against the 2 pence subsidy. So I think in the presentation we said the price starts high in Jersey and once it starts high it does not get any lower, basically. In fact, in the current structure it cannot get lower.

Deputy R.G. Le Hérissier:

When you analysed the margin, John, was there any particular factor which you said: "If only we could deal with this, we could make a real impact on the situation"?

Mr. J. Giles:

I think, again, it is a question that is asked in many parts of the world, Roy. The ability of individual farmers or group farmers or even food multinational companies to impact on retailer margins, it is very, very difficult. The people that have perhaps been most successful at it have been some of the fair trade groups, who have looked at the retail margin made and said: "Maybe some of that should be passed back to really hard-pressed farmers in Central America and West Africa" and what have you, but for even the largest food processing groups in the world, the ability to impact on a retail margin is very, very difficult. So I think you have to look at other parts of the supply chain and in those cases it is cost of processing, farm gate price per se. I think we are saying at the moment the farm gate price in Jersey is 33 pence. Is it ever going to get down to 19 pence? No, of course it is not but in the future over a period of time, better genetics, better farm management, lower feed costs, better efficient processing, we can get it down to a level where it needs to be to have a chance of competing. But on a head to head basis it is never going to be 19 pence and we are not suggesting that for one minute.

Deputy A. Breckon:

Can I ask you something about something you said in your presentation, John, about ring-fenced assets and possible asset stripping. How important, in your experience - you mentioned other areas - is it to have a managed strategy for this, some protection and also an exit strategy?

Mr. J. Giles:

I think, well, the evidence is in other parts of the UK, for example, and other areas around the world, it has been managed and it has been a feature of the deregulation process, really. We can see why it might be very tempting to look at the asset value of Five Oaks and think: “Right, that could be divided up by a relatively small number of farmers on the Island and here is the end of our problems, basically.” But I think we just feel it is not the -- if the answer is a sustainable industry in the future, a new factory is absolutely critical, basically. If the assets are divided up, you are not going to get the new factory and you are not going to get any exports, you are not going to get any growth. So it is an area where legislation needs to be seriously considered to prevent that happening, basically.

Deputy A. Breckon:
(Offline question)

Mr. J. Giles:
Again, in parts of the UK what they do with the shares that were reissued to farmers, going on a bit, there were restrictions on when you could sell those shares. Rather than giving shares to farmers and them being cashed in the next day and producing the same sort of effect, I think the shares were issued with restrictions on. You could not sell them for somewhere between 3 and 4 years, I believe it was, and even then there were some restrictions on who you could sell them to. So they could be sold to family members and to other dairy farmers, but not ... Yes, so again, we thought about the need for careful and sometimes brave management from Government on this sort of issue. This is one area where careful consideration of the legal implications and a popular statement would say: “Right, okay, let us divide it up between 33 farmers.” Well, very popular for the farmers, I am sure, but it is a brave decision to almost sort of intervene in the market but it is for the longer term benefit of the dairy industry.

Deputy K.C. Lewis:
John, as you are no doubt aware, there is the strong possibility of a breakaway group of dairy producers in Jersey. Notwithstanding the fact that you and your colleagues have worked all over the world, have you come across a similar situation to this in a small jurisdiction and what were the results?

Mr. J. Giles:
Well, over a period of time there has been one farmer with a well-documented challenge to the jurisdiction of the Marketing Board. I think in terms of will other people -- what we have said is in option 5 we suspect that there will be a -- what you normally find in a deregulation process is that one organisation, usually the organisation that that was, emerges as a new structure and finally sort of farmers tend to cluster around the new structure. We said in the report that under option 5 we would expect to see a small number of niche producers choose to operate outside the main body, basically, and again you might argue that if there is more competition in the local market, if there is a more competitive environment, that might bring prices down to consumers. Well, it could be argued that is quite desirable. The propensity of people to do this is higher when there is no strong vision about what

is going to happen because farmers are logical guys, they are often pretty smart guys; if no one is setting out a vision for us we will come up with our own. So I do not think we are surprised at all that is happening. I do not think what anybody would think is a good idea, to be honest, if you took that to the logical extreme you could have 33 farmers with 33 dairies on the Island, and that is not desirable at all, basically. But I think in option 5 we would expect one or 2 people to operate independently. As we said in the report and said this morning, saying they want to operate independently is one thing; making a success of it is another thing altogether. So there is no guarantee that people who choose to operate outside the main structure will find it particularly easy, particularly in what is a fairly small, competitive local market.

Deputy R.G. Le Hérissier:

On the issue of the smaller farmer, I think I heard you state in one of your many previous presentations that a smaller farmer is not necessarily an inefficient farmer. Even bearing that in mind, do you feel if option 5 went ahead that there would inevitably have to be a shakeout and would the shakeout be at the smaller end of the producer spectrum?

Mr. J. Giles:

Will there be a shakeout? My understanding is that 1955, 1,000 dairy farmers on Jersey and everybody was a dairy farmer, basically. We are now down to 33, so there has been a long, ongoing decline. Again, if you look at the UK dairy sector from the end of the First World War, there has never been one year when the number of dairy farmers has gone back up, basically. If you trace the line down, short-term blips or accelerations of people exiting the industry, introduction of quotas, deregulation, single farm payments, produce a small ... So, shakeout of the industry, I think if we came back in 10 years' time will there still be 33 dairy farmers on Jersey? I think that is probably a bit unlikely. What we have said in option 5 is the decision to exit the sector may even be somewhat accelerated. Our experience is that dairy farmers are often extremely resilient. Agriculturalists generally are quite resilient individuals and quite resilient businesses, depending on how they are financed and so on and so forth. But there is an ability to hang on sometimes when all logic says they should not be. The range of numbers of cows on a dairy farm range from sort of 300 down to less than 10, basically. Logically, you would expect that probably the people who are going to -- you know, what we are going to have is a more competitive market here, basically. Logically, the people at the bottom end of the scale will find it more difficult to compete, but we have also in other parts of the world and certainly in the UK seen sometimes they are the very guys who hang on right to the bitter end. Whether they should or not is another matter. Yes, I think we said in the report we sort of see -- looking forward, 33 dairy farmers in Jersey? No, probably not. The amount of milk that is needed to be produced could be quite adequately produced with 20, 25, a few less, a few more.

Deputy A. Breckon:

Would you like to comment in general terms about how you have been received and getting information? Do you think from producers, from the dairy, from the Jersey Milk Marketing Board and from community officers, and even us, have we been helpful or otherwise? Is there anything you would like to say and place on the record, be that a criticism or praise, indeed?

Mr. J. Giles:
I think in terms of -- yes. In the report there are a number of acknowledgements made to one or 2 key individuals who have been exceptionally helpful in the course of our work. They are there for all to see. As a general comment, obviously we are aware this is a sensitive issue on Jersey and it is an emotive issue on Jersey. I think bearing that in mind people have been remarkably open with this and made our job, I guess, a bit easier. So we have got no complaints on have we have been denied access or information that we felt would be useful. I mean, we have been pleasantly surprised how open people have been and prepared to hand over information, documents, and engage in discussion with us about what is a wide-ranging remit. So we have no concerns on that complaint, Chairman. I think the stakeholders' meetings we have had have been sometimes quite long but on the whole conducted in a constructive way. So, we met your organisation; we have met members of the Council of Ministers; we have met staff from JMMB (Jersey Milk Marketing Board); the Jersey Dairy; we have met the 33 dairy farmers themselves; the Chief Minister. So, again, I do not think we can have any complaints that we have not been given a chance to air our views and opinions to the Jersey dairy sector. I think probably on this sort of project we have spent more time -- I mean, the phrase that is used, you know, stakeholders, I think we have spent more time discussing and consulting with stakeholders than perhaps we would have done normally. That has been I think not least a desire from Jersey to get these issues out into the open. In terms of any sort of concluding thoughts, I could do the whole presentation again, I suppose, but yes, concluding thoughts, the Jersey dairy industry has potentially got a lot going for it but clearly it has been managed over a period of time in a way that is very different from other parts of the UK, other parts of Europe, and the reasons for that are understood. But it seems to us that we have talked about waves breaking on the beach, basically, and there is an internal wave breaking at the moment on the industry structure, but there is also this huge big external wave somewhere out there in the Channel: you know, the need to position yourself that if imports, when they come on to the Island, that you have given yourself the best possible chance to compete against those; the need to build exports as quickly and as effectively as possible. For that to happen there needs to be the new factory. I think to have an organisation which is compliant is very, very important, which sets out this compelling vision for dairy farmers on the Island is very important. Yes, I think we have said all along we are not pretending that any of these issues are particularly easy to deal with, but they do need to be dealt with and I think not least the ability to get bogged on internal issues. I think if there is anything that surprised -- perhaps we should not have been surprised, but I think one of the things that maybe did surprise us when we went through the project was the amount of time, effort and energy that was being spent on what we believe to be internal issues, obviously issues which are held dear to heart to those people

concerned, but the amount of time, effort and energy that is going in dealing with internal issues when we believe the big issue is more externally driven.

Deputy A. Breckon:
Thank you for that. I will just ask you, is there anything else you would like to add that we may have missed?

Mr. J. Giles:
The short answer to that, Chairman, is no, I think, at this stage. But I think we are also aware that -- I mean, our report has now been submitted, but I do not think we -- what we would say is that the report has been submitted and the recommendations are being discussed, not least in these sorts of meetings. To some extent the last 3 or 4 months, doing the report may be the easy bit. It has not always felt like it, I can assure you, but the report is one thing; implementation and the things I talked about a few minutes ago, these are not to be implemented in 2008. They are all first quarter things, 2007.

Deputy A. Breckon:
I will just thank you, indeed, John, for attending today, for the presentation and for answering our questions. We thank you most sincerely for that. What we will do, the process is that these proceedings will be transcribed. You will be given a copy of that on which to comment and any ums and ahs and whatever will be taken out, that is all, but if there is anything in there that you think is inaccurate then you have the option to come back to us to do that and we will try and do that fairly quickly.

Mr. J. Giles:
Yes, fine.

Deputy A. Breckon:
So I will just conclude again by thanking you for your attendance and your professional presentation and for answering our questions. We will now adjourn until 1.45 p.m.