

STATES OF JERSEY

Economic Affairs - Dairy Review Sub-Panel

TUESDAY, 12th DECEMBER 2006

Panel:

Deputy A. Breckon of St. Saviour (Chairman)

Deputy A.E. Pryke of Trinity

Deputy K.C. Lewis of St. Saviour

Deputy R.G. Le Hérissier of St. Saviour

Deputy S.C. Ferguson of St. Brelade

Witnesses:

Mr. K. Keen (Managing Director, Jersey Dairy)

Deputy A. Breckon:

Right, we are back in session. Are we okay with the recording, Fiona? Welcome, Kevin. What I will do, I will just go through briefly the outline, some of which will not be new to you, just so you know the process. This is a scrutiny sub-panel hearing on the dairy review. It is a joint review with the Chief Minister. It is the Chief Minister because the Minister for Economic Development is conflicted because of a family interest in the dairy industry. As a result of this joint terms of reference were drawn up and consultants Promar were appointed. They reported with their final report in the last few days. The Treasury Minister presented 2 propositions to the States: one in reference to moving the dairy to Howard Davis Farm; and the other was in changes to the covenant pertaining to that land and consequently they have been withdrawn. The purpose of this panel really is inform the States, the Minister, the debate in general, about what they may and may not do in the future, and to gather evidence and to speak to people within the industry. You are a very important part of that. Procedurally, in front of you you will find that there is a document, and I will just read this to you. It is about procedure, really, so that you fully understand the conditions in which you are appearing at this hearing: "The proceedings of the panel are covered by parliamentary privilege through Article 34 of the States of Jersey Law 2005 and the States of Jersey (Powers, Privileges and Immunities)(Scrutiny Panels, PAC and PPC) (Jersey) Regulations 2006. Witnesses are protected from being sued or prosecuted for anything said during the hearings, unless they say something 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 of reply. The panel would like you to bear this in mind when answering questions. The proceedings are being recorded and transcriptions will be made available on

the Scrutiny website.” As an aside from that, Kevin, the transcripts of today will be given to you in fairly short order and you will be asked to look at those. If there is anything where you have may have made a factual mistake, or if there are any “ums” and “ahs”, they will be taken out. So it is not cast in stone; it will be subject to that. Then after a period they will be published in full so that they are in the public domain. That leads us in. What I would ask you to do first of all is just if you could give us your titles, so that we know --

Mr. K. Keen (Managing Director, Jersey Dairy)

Yes. My name is Kevin Keen and I am the Managing Director of Jersey Dairy, which is the commercial arm of the Jersey Milk Marketing Board.

Deputy A. Breckon:

Kevin, I think you know everybody. Anne Pryke, Deputy Anne Pryke is the Deputy Chairman, Deputy Sarah Ferguson, Deputy Roy Le Hérisier and Deputy Kevin Lewis are the members of this panel. It is a joint review, as I say, with the Chief Minister. You should have been sent questions which has the outline. There may well be supplementaries, and also I will say at the end, if there is anything you wish to say, you will be given that opportunity. Although it is a formal recording process, it is fairly relaxed, you are not on trial for anything, so please feel free to say as you find and maybe fire back with whatever it be to our questions. What I would like to do, Kevin, is to lead in with the first of the questions that you were given about are you comfortable operating under the 1952 Milk Marketing Scheme?

Mr. K. Keen:

Yes, I think just a slight technical correction: I think it is the 1953 Agricultural Marketing Law and the scheme that I work to is the 1954 Milk Marketing Scheme (Jersey) or something like that. So those are the 2 relevant bits of legislation. I have been perfectly happy working within them and this is particularly the case because they were endorsed by a consultant appointed by the States as recently as 2003, Dr. Donald McQueen. I still think they are appropriate. A particular attraction to me in joining the business in 2003 as I did was working for the prosperity of Jersey dairy farmers as a whole, rather than individuals.

Deputy A. Breckon:

Anybody like to ...?

Deputy R.G. Le Hérisier:

Thank you, Kevin. If we could start off with some broad questions just to get a feel for your thinking and the obvious question - although we have heard some of your views we need really to get them formally - what is your fairly detailed view of the Promar report?

Mr. K. Keen:

The Promar report was obviously commissioned by the States to support some decisions that they were making. I think the decision was should we be allowed to move and should the States grant a public policy exemption under the competition law? Those were the 2 drivers as we understood it. I suppose later you have got a question of what I thought of it. It is hard to say. It endorsed many of the things that we have been trying to do for the last 3 years, it endorsed the idea of a move, it endorsed the idea of trying to develop a market outside of the Island so that the dependence on the importation of milk ban was not total. It endorsed maintaining some critical scale in the industry rather than trying to reduce it. These are things that we have been trying to do for the last 3 years, nearly 4 years, in fact. So I think from that point of view I was very pleased about it. From the point of view of its comments about the deregulation of the industry, I have to say I am less happy about it. I think the Milk Marketing Board Scheme, as Dr. McQueen says, has served the industry well and I think I should continue because it serves to protect the interests of farmers as a whole. One only has to look at what has happened in the UK to the interests of dairy farmers to see the possibilities. So I live in the real world and accept that government does no longer wish to support their scheme because it was they who created it and therefore we may have to work with something different but I did not see a problem with it.

Deputy R.G. Le Hérissier:

From what you are saying, Kevin, are we to assume that if the dairy industry were to break up to any extent you have not got much hope for its future? Is that correct?

Mr. K. Keen:

Well, I think the thing to recall is that, first of all, the average size of dairy in the UK, I think is 32 million litres of milk. That is the average size of dairy and there are now dairies that are much, much bigger, hundreds of millions of litres. So an efficient process scale is absolutely everything. That is number one. Number 2 is that our market is subject to the possibility of what some people would call “cherry picking” and, in fact, someone else has called it “cream skimming” where you can take a small proportion of the market and make profit out of that and leave the rest to someone else. I think the perfect example that we have in Jersey today is that we are still processing Classic Herd’s milk. They are still sending us milk just about every day. So they are in the market competing with us but still sending milk to us and expecting to be paid for it.

Deputy R.G. Le Hérissier:

From your view of working - and I know this is getting into somewhat sensitive territory, Kevin - with the governance structure of Jersey Milk, did you come to the view that it was unworkable unless certain reforms were put in place?

Mr. K. Keen:

The governance structure?

Deputy R.G. Le Hérissier:

Yes, the way the thing is governed, the way the producers all, in a sense, direct the show?

Mr. K. Keen:

No, I find it an absolute pleasure to work with the dairy farmers of the Island. I am not just saying this, they are a great bunch of people, they are a very dedicated bunch of people, many of them work 7 days a week and some of them work 365 days a year. So I think it is an honour and a great privilege to work for them. The way the board is structured is that we have an executive committee which is very similar to the board of a company, it consists solely of non-executives, the majority of which are appointed by government. Two of them are farmers so there is 3 States appointed board members who are commercial people: Mr. Bob Henkhuzens, who is a chartered accountant and former partner in Pricewaterhouse Coopers; Mr. John King, who has incredible experience of business both in the Island and outside of the Island; and Mr. Brian *FOULSER*, who is a 11K and moved to Jersey in 1997 but made his fortune from dairy processing. There are those 3 and there are Andrew Le Gallias and Richard Le Boutier, who are both dedicated to the interests of all farmers, I believe. We have, on top of that, a structure that one might regard as a little bit more unwieldy, it is the 7 other producers and they form the board of 12. My colleague, the finance director and myself are not board members, we report into the executive committee. The full board meets - or has met more regularly recently - routinely 3 times a year to approve the budget and business plan, to approve the annual report and to approve the interim report. The executive committee meets normally monthly and deals with the supervision of the management team at the dairy. We have a management team. Myself and the finance director go along to those meetings and account, very similar to a public company I worked in before; very, very similar. A majority of non-execs. I have had absolutely no difficulty and in the first couple of years we spent most of our time talking about the business, which is what we were there for.

Deputy A. Breckon:

Can I just ask you, Kevin, on that, would you say that works as well as or the same as a PLC?

Mr. K. Keen:

In my view, I really do not have a problem with it and depends who is in the PLC and it depends who is in your structure. You know, often these things depend on who is running them. I do not think that there is anything inherently wrong with the Milk Marketing Board or the way our Milk Marketing Board is run. It has had problems in the past clearly but I do not think that was out of structure, it was out of the people that were running it at the time.

Deputy A. Breckon:

Would you say that you have worked towards best practice on reporting and GAAP (Generally Accepted Accounting Principles) and things like that? You have headed that way --

Mr. K. Keen:

Yes, that is something that was just starting to happen. Just as I joined they had just appointed their first qualified accountant. It is quite a large business, it had over 100 people in it. Only just appointed a qualified accountant as finance director and, you know, from that point on we got down to producing accounts to generally accepted accounting principles which we do. We try as best we can to follow suitable reporting requirements for a small public company, which is essentially what it is. We comply with FRS17 (Financial Reporting Standard 17), the pension disclosure, we have a true and fair audit. We have been, over the last years, providing a set of interim accounts to the dairy farmers as well so we have regarded them as our shareholders and we have sent them information twice a year.

The Deputy of Trinity:

Just back to the Promar report, was there anything in there that surprised you? Any of the recommendations?

Mr. K. Keen:

Not really, Anne, because I think we had taken the view that government did not want to support their statutory scheme any more and wanted something else. I think that is the view that we have had to come to over time. It has never been directly said, so that was a disappointing thing but not a surprise.

The Deputy of Trinity:

Looking at the 5 options, what did you make of the 5 options that they came up with?

Mr. K. Keen:

Well, I personally would have preferred option 1. I think that would have been in the interests of dairy farmers who are the people that I work for and I do not think that would have been against the consumer interest. Option 5 seemed to me to be, I suppose, a bit vague about what exactly option 5 was and I could imagine many, many people reading it and saying: "Yes, I agree with option 5" and all coming to different conclusions as to what it might be. It did not seem to be very precise about exactly what it meant.

Deputy K.C. Lewis:

Part of the report suggested that maybe the Jersey Milk Marketing Board be dissolved and some kind of farmer-controlled business being set up. How do you feel about that?

Mr. K. Keen:

Well, I think the answer is that at the moment it is a farmer-controlled business, that it belongs to all dairy farmers in the Island and allows them to participate so, you know, I think that is what you have got. I think the thing that you have got over and above that is that you have supervision by having government appointed board members because it is likely that whatever you have you will have a dominant enterprise one way or the other, with likely to be a near monopoly or monopoly, and it seems to me that the structure that you have got is one of the best ways of ensuring that that is appropriate, i.e. government appointed board members and the requirement, before you put the price of liquid milk up, to go back to government and ask them. We have never done it since I have been there. We have only reduced the price. But that seems to me to be infinitely preferable to an unknown, privately owned, monopoly.

Deputy K.C. Lewis:

So you feel that the structure so far with the Jersey Milk Marketing Board has been a help and not a hindrance?

Mr. K. Keen:

I have been perfectly comfortable with it and I was quite happy that it was supported by a States appointed consultant 3 years ago. So I have been perfectly happy with it.

Deputy A. Breckon:

Would you like to comment, Kevin, on the fact that that is a statutory monopoly, if you like, and that the challenge that would come from JCRA (Jersey Competition Regulatory Authority) and how it might not fit that legislation?

Mr. K. Keen:

Yes, I think that is quite an important issue to understand what the JCRA's issue was because I think maybe people have had some misunderstandings about it, and what the public policy exemption was all about. Essentially, with the competition law being introduced on 1st November 2005, all organisations were invited to get in contact with the JCRA if they wished to discuss any particular thing before the new law came out. We made an appointment and went along to see Bill Brown and his colleague, Charles Webb, we met them in August, I think. They said that, you know, statutes that were existing, i.e. the importation ban, was essentially of no relevance to them because the statute was in force and therefore they could be consulted by government as to whether it had competitive, anti-competitive, implications but they could not override a statute that had already been introduced. At the first analysis they said: "Well, probably that is the situation with your Milk Marketing Board structure because it is a statutory structure." In the course of the discussion it became apparent that our structure was slightly different to those of the UK Milk Marketing Board and the Isle of Man Milk Marketing Board, and the

equivalent in Guernsey, in that the board had arguably the right to enforce milk regulation rather than the obligation. On that pure basis, this was the obligation to require milk producers to sell their milk through the board or to the board and for the board to buy their milk. That is what the whole JCRA issue was about. We discussed possibilities for that. There were 2 possible exemptions that were available. One was that we could apply to the JCRA and that would be on pure economic grounds. The second was to apply to government for a public policy exemption. The view the board reached was that in the light of the fact that essentially the problem that we were caught in was a conflict between 2 statutes then it seemed appropriate to apply for the public policy exemption and that gave government a broader range of issues to consider: the environment; the welfare of farmers; not just the price of milk but long-term sustainability of milk. So on 29th October, before the law came in, we applied under Article 12 of the law for a public policy exemption. We heard nothing more really until December when the JCRA gave their opinion to government, which was a public document saying they did not think the case had been made. That was only advice to government, it was not binding on government. I think in January time or something like that we had a meeting with Mr. King of Economic Development and the view was that government were having to think about that because it was a rare thing for a public policy exemption to be granted. It was not refused it was just under consideration. In February, at a routine meeting to discuss our invoicing practices with the JCRA, to just make sure that they were happy with some changes we were making, they said: "We would like to speak to you about something else. We have had another think about these prescriptive resolutions. We know you have applied for a public policy exemption but we think they may breach another part of the law, part 4, abuse of dominant position." I was very, very surprised. I did not immediately know why they had changed their minds but I think quickly came to the conclusion that they have had a complaint from Classic Herd Limited, who is one of our producers. At that point we took some advice and then made a fresh application under both Articles 12 and 18 of the Competition Law for a public policy exemption. Our first one had not been refused. We had no reason to believe that the second one would be refused so we made a new application. Obviously the JCRA were getting a little more excited at that and so were our board members. They were getting concerned because there is personal liability under the Competition Law. I think everybody generally felt very concerned because they were really stuck between administering a statutory scheme and having responsibilities to administer that scheme and the obligations under the Competition Law which were quite onerous, and the fines were onerous, it could be up to 10 per cent of turnover. We took advice, we discussed the matter with Economic Development, they asked us to provide certain bits of information to support their consideration of the public policy exemption, which we did. We provided information. I think that eventually was provided in early May. We were told that that was sufficient. Time went on a bit more while it was being considered by the Council of Ministers and all this sort of stuff and then finally the JCRA launched a formal investigation against us. We were then obliged to start really sort of spending time legally defending our position because we still felt that we were obliged under the statutory scheme, in fact we were advised that we were obliged to administer the statutory scheme. This went on and eventually towards the end of June we were told by

the Chief Minister that in order to consider this public policy exemption that there was now a requirement to appoint consultants, and this is where Promar came in, and that that would be dealt with promptly. So, quite a long year.

Deputy K.C. Lewis:

Kevin, you have touched upon one of your milk producers there who has, to an extent, gone their own way. As you are no doubt aware, you have got several other members who feel disaffected and are threatening to do likewise. How do you feel about that?

Mr. K. Keen:

If I can first say Classic Herd are still sending milk to us pretty much every other day, if not every day. So they are in and out at the moment.

Deputy K.C. Lewis:

That is why I said to an extent.

Mr. K. Keen:

One of the issues about milk processing is that cows do not have taps. Sorry, Chairman, I am -- so it is impossible to absolutely balance milk output from cows precisely to daily demand by consumers. It is impossible. You can do everything that you can to manage that but essentially the way it is done in the UK is that major companies like Wisemans or Arla or people like that, they run in milk deficit. They only contract with their farmers to, I think, about 70 per cent of their own requirements and then they purchase from co-operatives to balance their milk. We do not have that ability. We grant that ability to Classic Herd but we do not have that ability. I respect the skills and acumen of these new producers and I am sorry that they feel like that. Obviously, you know, our obligation has always been to the interests of producers as a whole and I do not think it is possible to have 2 or 3 or 4 dairies, not for any period of time.

Deputy A. Breckon:

Would you say, Kevin, that that is a threat to the long-term viability of Jersey Dairy as we know it?

Mr. K. Keen:

I guess of course it is a threat. You know, the issue is about this cherry picking, cream skimming argument where you can pick a part of the market and effectively run out of stock and require somebody else to fill in the gaps. We serve 500 customers just about 7 days a week. We provide a service across the year. We have always got milk. We provide a range of milk. We provide organic milk; we provide long life milk. It is very possible to take a very tiny bit of the market and say: "We will just service that and we will leave the rest to somebody else." I suppose the analogy I might give is that if you were the

post office you might wish to only deliver to St. Helier. Or if you were running the bus company you might only want to run one route because it is the only route that is profitable... We have not had that privilege. We have served all farmers and tried to served all customers.

Deputy K.C. Lewis:

If these, shall we say, rival producers - for want of another word - decide to go their own way, could that deficit be absorbed by Jersey Dairy?

Mr. K. Keen:

I think if they were to go into the milk processing market themselves I think, you know, that is something we would have to deal with. It would not, in the first instance, cause us a problem. It depends what they do with the milk really is the thing. But there is more to processing milk than just putting it in packs.

Deputy A. Breckon:

Sarah, did you have anything?

Deputy S.C. Ferguson:

Yes. The structure recommended by Promar, in a lot of respects, is very similar to what you have got already. Where do you see the problems and the differences?

Mr. K. Keen:

I think it is by the removal of the regulation of milk marketing in the Island and effectively allowing farmers to come out of that structure. What you will lose is you will also lose control over the total amount of milk production in the Island, because at the moment the statutory scheme provides that. When that is gone you will have no control over the amount of milk that is produced in the Island. I understand the idea of competition but I think competition among farmers for processing milk in Jersey is a pretty futile business and may lead to some short-term gains but it will lead to some very long term pain, that would be my judgment of it. You have only got to go back to the 1940s and 1950s when there were multiple dairies in Jersey and there ended up being one.

Deputy R.G. Le Hérissier:

Pursuing, Kevin, the possibility of a breakaway group, it is not necessarily that there will be competition, I think some people - and it may be a dream at the moment - would see it as eventually replacement because they think that the Promar report is -- while it is good in many ways, and indeed, as Sarah has indicated, there is perhaps an overlap between the findings of that report and the thinking that the breakaway group are thinking. But they have identified certain issues. For example, they have identified that the export market thinking is not really robust enough. They have identified the fact that

it is probably going to be a fact of life that the import ban is going to be lifted and we may as well be robust, and they have identified, in their view, the fact that the differential between 33 and circa 90p really has to be reduced to give any chance of dealing with imported milk. You are going to prey on the loyalty factor. So how do you think retaining, in a sense, the status quo is going to deal with this --

Mr. K. Keen:

I think the thing that will deal with those issues are business strategies rather than necessarily structural, and those are things that we have been trying to pursue for the last 3 years and are endorsed by the Promar report. Number one is I do not agree that having a market that is solely based on local production is sustainable. I do not agree with that. We are successful in exporting potatoes. We are successful, I think, in exporting flowers. Added over and above that we have the threat that the import ban will go, therefore if you have a market that is totally dependent on the local market and you do have imports then you have no market. Because I do not think milk will ever be the same price as is it in the UK. I think it is like so many things, it will always be more expensive. You have cows that produce less milk, you have expensive land, you have staff involved - certainly at the dairy where we try to pay reasonable wages to our staff. If you get rid of all of those things I still think you would be in a situation where milk might be cheaper but the best way to get that thing is to have a new and efficient dairy, to have a growing market that means that farmers are not dependent solely on government for the local ban because removing a couple of million litres does not solve the problem as far as I can see. I have looked at it a million times.

Deputy A. Breckon:

Kevin, yesterday we were told by the Promar consultant that the dairy market is about £3 billion in the UK and for you to achieve a niche in there, you know, you might not be able to cope if it were successful but could you give us some indication of how confident you may be in perhaps things that have been discussed of that happening? At the moment I understand you are between a dairy that would not comply with the standards to meet people you might like to supply and then you do not have a new dairy. So, where are you here between the devil and the deep blue sea?

Mr. K. Keen:

The first thing, if I might just say also, is that the Isle of Man process 36 million litres of milk a year and there is a population of 75,000 people there. The vast majority of their market is export. So a very similar environment to ours, over time they have built an export market.

Deputy A. Breckon:

In milk.

Mr. K. Keen:

In cheese actually. It is a 36 million litre market and I think only about 20 per cent of it relies on a liquid milk ban which they have also. So that is the first thing. The second thing is if you have watched television, if you have seen Marks and Spencer's advertising, Channel Island, Fantastic Channel Island cream and if you have been into Tesco's or Sainsbury's and seen Jersey Milk sold, and gone into Marks and Spencer's and seen Channel Island yoghurt sold, from what we understand many people believe that those products come from Jersey or the Channel Islands. They are, I think, being misled. I am sure not deliberately but they believe that those products come from the Islands. So there is a ready appetite for products made from the milk of Jersey cows, and what we have said is: "Well, why not make sure that that milk comes from Jersey cows from Jersey." Clearly it is a market that cannot be dependent on price, and the yoghurt market where we have some expertise and have won prizes in the UK is, according to my information, £.9 billion in the UK alone. I would not for a moment say it is easy, particularly in the circumstances that we are in. But I think the situation is what choice have we got? If we cut the market back to nothing, have no marketing, have only a processing plant and then milk comes in and it is still cheaper, we will have no industry. You know, I have not seen the numbers about how cheap this model could make milk. I have not seen them. I do not know how it would work and I am always willing to learn how these things can be done but I do not think you get milk down to 50p a litre without paying farmers a lot less than they are paying now.

Deputy A. Breckon:

Just a supplementary on that, Kevin. If you look at farm gate prices and other areas of the UK where is your cutting edge in the market? I know you are talking about a premium product, if you are looking at that difference how aggressive do you think supermarkets and others may be if they were wanting to deal with you? Do you think they would try and beat you down or would they accept that on a premium product?

Mr. K. Keen:

I think it has got to be about the best product. As I say, I am not saying it is easy. It has got to be about the best product, it has got to be about a product that is not sold purely on price. I was not around but I think in its time the mini-pot business was a successful business. When it was a new business and it was first established and it was a bit leading edge, the industry was successful with it. The problem that it had was after a while because they were not able to reinvest in R and D and new products it became an old product purely sold on price. Eventually then you do lose. If you are in Jersey and you are purely trying to compete on price you are going to have a difficulty competing with a 200 million litre dairy. But, as I say, the Isle of Man has an export market, Guernsey has some limited exports of butter to Waitrose. We have been working on trying to create a market and we have had some limited success but we have had problems with facilities, we have had problems with debt and, you know, I suppose I would have to say I spent a huge part of this year dealing with the JCRA and others, which has prevented me from getting on with my day job.

Deputy S.C. Ferguson:

I notice in the report there is a lot of talk about farm gate price in the UK. I assume the farm gate price they are talking about is black and white, it is not Jerseys, because I looked up the price of Jersey cow milk as opposed to Jersey Jersey milk at Tesco's on the internet the other night and it is about 94p a litre. The perception is, perhaps, incorrect that all milk in the UK is 50-60p a litre. But going back to the dairy and your accounts, there is quite a large expense item which is payments to farmers, some of which presumably is subsidies.

Mr. K. Keen:

No. We do not process any subsidies. The subsidies are paid directly to farmers by government.

Deputy S.C. Ferguson:

All right, so when they are talking about the inefficiencies of farmers including palm oil to bring the butterfat content up, and as soon as that get to the dairy, you have to take out the extra butterfat content -
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Mr. K. Keen:

No, one of the criticisms that I received when I very much started in the industry was that we paid purely for litres of milk, for liquid. One of the USP (Unique Selling Point) of Jersey milk is that it is rich and full of cream. I was advised, and I think others had advised, that really it was appropriate that there should be some bonusing to recognise that cream is more valuable than skim milk. Basically we set up a bonus structure to encourage farmers to produce creamy milk because we could get a greater value for cream that we can for what is left of milk when you take the cream away, what is called skim milk. That has more value and we were trying to encourage the farmers to produce that. It seems that our system may have been a little bit generous towards the farmers in this first year that it was implemented because it is pretty much the first year that it has been done, but like anything you revise it on experience and I guess that is what we would do. Because it had not been going on for years and years and years.

Deputy S.C. Ferguson:

I am sure you will agree that you look at an equation like that where they spend extra on feed to bring up the butterfat content and then the subsidy they get probably does not cover the extra subsidy.

Mr. K. Keen:

I think it probably does. We can get a lot more money for butter and cream than we can for skim milk powder. Essentially you will always have a balancing product and we have 2. We skim the cream from the milk and make bulk butter, this is our very final product right at the end of the chain, and we dry the

skim milk into a powder. There is a big difference between the returns on those 2 products. So, if a farmer is just making his cow produce white water, as it is sometimes called, that is less valuable to the market. I think what Promar were criticising was that the bonus scheme that was introduced, I think, in the current year, i.e. it has been running for about 6 months, was too generous and did not reflect the underlying commodity prices of the 2 products. I think, in fairness, they are probably right. This has been running for 6 months, it is not like end of the world stuff sort of thing.

Deputy A. Breckon:

Can I come back to the Jersey Dairy in general terms? You have been there 3 years now?

Mr. K. Keen:

Nearly 4.

Deputy A. Breckon:

Nearly 4. It may seem longer at times, does it? What I wanted to come to really, to give you the opportunity to comment on the current debt situation and the situation you inherited with the management of the company and the accounts because there has been some changes in the time you have been there, perhaps it is an opportunity for you to describe it.

Mr. K. Keen:

Okay, well I applied for the job in September of 2002 and the industry was having some very rough times, it was almost appearing in the papers as often as it does now, you know, there were disgruntled farmers and all that. I was not happy in the job I was in and I felt that I could probably help. I applied. So, I knew the business had lots of problems but I thought I might be able to make some contribution to fixing them sort of thing, just a contribution. I arrived in February 2003 and I suppose the financial position became a bit clearer then. I had managed to get a set of accounts for the year June 2001, I think. You know, there had been a problem and a missing year in June 2002 and, anyway, I managed to get some accounts. We told producers that we thought the financial position was a bit worse than had been anticipated because there was this restructuring scheme going on and I think farmers thought that once the restructuring scheme was dealt with then everything would be okay. But, of course, we then had to deal with a restructuring of the dairy. So I have spent my time since then not particularly worrying about farmers and how they run their businesses because I felt that it was appropriate that my expertise was in trying to run the business more efficiently, not worry about how they run their businesses, we run our business correctly. Given that they had been through the majority of pain in this restructuring it was appropriate to get on and try and deal with the issues. So we brought the accounts up to generally accepted accounting principles and made -- I think we booked a £3.7 million loss in that year and made what accountants call prior year adjustments of £2 million. I thought that was quite an achievement because we had started off with assets of, I think, £6-and a bit million the year before. We

had managed to lose £5.6 million of it. We increased the value of the property; the property had not been revalued for many years so in the end it did not look quite as awful as that. We then tried to have a good look at the business, what the business was doing and what it was not doing and then we made the decision to exit from the mini-pot business because that had become very unprofitable by that time and the equipment was in generally a poor condition and was requiring lots of maintenance and the mini pot customers were coming around for another price reduction and we really just could not compete so we made the decision to exit from that. I think there were 115 people when I joined and unfortunately now there is only 70 people working in the business so we have some really horrible decisions about people. I think the good news is that those people were treated as well as we possibly could. They had generous redundancy terms and received that without any quibbling. As far as I know just about every single one of them, if not every one of them, got a job pretty quickly, which was good news as far as I was concerned. We have just gone on with making some quite tough decisions, getting rid of milk rounds was another huge decision that we had to make and the criticism I would make myself is that it took too long to make up my mind to do it. The main reason was it was something else that was inextricably linked with government because the only way that people claiming welfare and milk could get their benefit was by having their milk delivered. We could not charge them for delivery but there was a massive cost of providing that delivery service. Again, all the vehicles were knackered and everything else and so we made that very difficult decision as well. I have to say we still do something that is not totally commercial, I will probably be criticised for that but we do still deliver to housebound customers because we thought it was unfair not to. So we probably do make a small loss in doing that but I think this is Jersey and I know the board shared the view that to just leave people who were housebound high and dry seemed a very hard thing to do. The business had about £3.5 million worth of debt when I arrived, and last year I think it was £2.7 million. It is still a huge amount of money. Although you might say that the interest charge is relatively modest we have the continuous pressure of the bank saying: "We would like to see some resolution to this issue." A big chunk of debt that we have repaid is leasing debt that was used to finance the ice cream facility and all in 2001 and we had no choice but to repay that debt. It was the most expensive so we wanted to get it repaid so that really took up a lot of the cash flow. The other decision that the board made was that it was inappropriate to increase the price of milk to consumers and that we had to recognise that the price was too high. So I think our record does stand for itself, since that time the price of milk has reduced marginally in nominal terms and I think in real terms it is probably about 13 per cent lower. You would say that is nothing, it should be 50p or something like that but the cost of that is about £1 million a year in terms of if milk had gone up with inflation at 9 million litres of liquid milk, that would be about another £1 million coming in. But the producers took a commercial view, a proactive view, and said: "We cannot get our living out of just pushing the price up to consumers."

Deputy R.G. Le Hérissier:

Can I interrupt? I take your theme, Kevin, and you are putting it very well, but what your critics would

say - and I am being the devil's advocate here just to tease out the others - is this is all well and good but you are basically playing around with ultimately a flawed and a defective system. For example, you are playing around with a system which has, for various reasons -- the fact that you have to take all the surplus, for example. The fact that all the producers, even if they might be classed as inefficient, have to be dealt with under the co-operative structure. You are having to receive milk, to a degree, which if you had a blank sheet of paper you would not and you are having to justify activity to basically use this milk. If you could go back to the blank sheet of paper you would not run the business in the way you are running it, even though you are doing a magnificent job in trying to deal with this so called flawed structure.

Mr. K. Keen:

Well, I do not have a blank piece of paper. I have 33 dairy farmers, many of them have been doing it all their lives, have invested and I believe work hard. So I do not start with a blank sheet, others might. But I think the idea that you can completely eliminate so called surplus milk and exactly balance daily demand with daily output is an erroneous argument. As far as I know it does not happen anywhere else.

Deputy R.G. Le Hérissier:

Does that mean that the buffer, as far as you are concerned, is a reasonable buffer?

Mr. K. Keen:

What you might argue is a reasonable buffer is probably from our 9 would probably take us to 11½, 12 and we are processing 14. You might say: "Well, let us remove 2 million litres." To me it is tinkering with the situation in a way because if we are trying to develop this export market and we go along and say: "Well, we have got this product but unfortunately we have not got any milk to make it with" then where does that take us. It is not neat and bundled and absolutely perfect but rather than sort of say: "Well, let us just take a few hundred thousand litres out" or whatever, we work with what we have got. Again, it was a recommendation of a States appointed consultant, Dr. McQueen, that it was not changed because it was a specific request of them, I think. Also, I believe it is a specific recommendation of Promar who are the latest consultants to be appointed that (a) we should pursue this export market and (b) we should not mess around with the intake at this stage. I agree with those things.

Deputy K.C. Lewis:

Moving on to a potential new dairy, where did the idea of Howard Davis Farm as a site originate?

Mr. K. Keen:

I think it had originated from another dairy farmer, to be honest with you, who has since retired. I think that happened some years ago when the RJA was being built, as I understand it. Basically what happened was when we got to the stage of looking at the business in 2003 we recognised that the

property was not effectively utilised. It was a highly valuable property and it was not properly utilised, there were buildings spread all over it. The first idea was to try and realise some of the value of the property by having some small housing development on it. That was objected to by Planning because they did not want new housing and a dairy on the same site. That started to cut our options back. We had to find some money to deal with the bank. It is a big chunk of money. So we started to look around and think about trying to move the dairy, which I admit was an ambitious idea at the time but we thought we would look at it. We looked at a number of sites, we looked at a couple of sites at Rue De Pres at the time, we looked at the Mourant site at the top of Trinity Hill and I had the idea, again, of why do we not go to Howard Davis Farm. The idea was that there would be synergies about working with the Royal Jersey Agricultural and Horticultural Society and it would be in the middle of the Island and all that. We had some informal discussions with Deputy Voisin and he sent us to talk to Peter Thorne about other potential sites. No real sites came up. I think Warwick Farm was looked at and then eliminated and a couple of other sites like that. Then we came back to Howard Davis Farm. We made a presentation to the Economic Development Committee as it was then on 2nd March 2004 to say this is what we wanted to do and that was supported and I think the words were pretty much: "Get on with it." Eventually we managed to get around to submitting our planning in June 2005 and we finally got a decision from Planning in May 2006. We could have submitted it earlier but because the site belongs to the Island it was more complicated. But we did look at other sites and we did look at staying on the existing site. Either the site is not available or the economics do not work.

Deputy A. Breckon:

Just on Howard Davis Farm, Kevin, is leasing an option, a long-term lease?

Mr. K. Keen:

We negotiated the idea of a sale at the beginning that would be the preference because we are talking about a long-term investment and I think that would have been the preference. If the site is not available on those terms then I think the board would, of course, look at a lease on appropriate terms. They have gone to a lot of trouble and expense to identify that site and to obtain planning permission on it. That was done on the basis that they thought they were buying it. It was always subject to States' approval of costs and contract but I think we felt we had a good chance, which is why we applied for planning and why Property Services signed our planning application. We always thought there was an interest in selling it. If there is no longer an interest in selling it but leasing it, it is then about the terms and the tenure because it is a big investment and you cannot make a big investment like that without some security.

Deputy A. Breckon:

Are you aware of the contents of the Davis affidavit. It was published; there was a letter in the Evening Post.

Mr. K. Keen:

I saw it in the JEP (Jersey Evening Post) and I do not have the letter with me. I think there was a misunderstanding as to what the basis of the ownership of the dairy was. I think they were under the misconception that it was owned by States and so there was a slight misunderstanding. We wrote to them shortly after to explain our position and what the Milk Marketing Board was. If I recall correctly they were in support of the sale of the freehold.

Deputy A. Breckon:

Conditionally. It was conditional.

Mr. K. Keen:

But we really would like to get on with it. We have been criticised for being too inward looking and I do not accept that criticism for a moment, I have to say. We have had to deal with what we have had to deal with. The JCRA are not people that you can just ignore.

Deputy A. Breckon:

Part of the Davis affidavit talks about a donation to a trust from the dairy in some way or another, either in funds on the sale or an ongoing thing on a lease, and they also perhaps hinted that if there was a windfall from Five Oaks then there might be a contribution there. That was said in sort of couched terms, I wonder if you would like to comment on how that might appeal to you?

Mr. K. Keen:

As far as I understand it the Property Services are trying to obtain commercial terms for either of the sale of the freehold or the leasehold of that site. They are negotiating either a rent for a lease or they are negotiating what they consider the value of it be freehold. So I am sure although the owners of the business of dairy farmers would like to make some donation they understand that the rent or the proceeds of the sale will be going to that trust. So over and above that, if the Island wants us to be commercial and to get on with the job of trying to reduce the price of milk to consumers, if we are placed under further obligations to make charitable donations as well, that money has to come from somewhere. I am sure people would want to do it because it is a noble cause, but I think the rent is the right thing to go to that trust. As I understood it that is what the rent or the proceeds of sale of the freehold was for, because the States were going to sell the freehold for £750,000 to us so we thought that money was going to the trust.

Deputy K.C. Lewis:

The JCRA, Milk Marketing Board, farmer-controlled business, could you outline your ideal scenario for the future? I think we all know that big changes are happening.

Mr. K. Keen:

The Government, it seems to me, have expressed a clear intention that they want to get rid of the Milk Marketing Board. That seems to be their clear intention. They have not granted the public policy exemption so effectively the industry is going to be deregulated, I think the hope of Promar and others was that it would not be deregulated by default but I think that is more or less happening. I would like to see a structure that all dairy farmers were participants in. I agree with people that inefficient farmers should not be subsidised but if farmers want to carry on farming because it is their life, I do not think they should be forced to leave. I do not think they should get special terms but they should be allowed to participate in that structure. If we cut the milk price tomorrow I do not think it is necessarily the case that some small dairy farmers would stop tomorrow. I think some of them do it because it is their life and they want to do it. I do not think it is clearly for totally economic reasons that they farm. They farm as a way of life and I think to say to those people: "You must get out tomorrow" is unfair. I would like a structure where all farmers co-operated and clearly that it was compliant with the Competition Law, that was a growing industry where the price of milk was coming down to local consumers, that had farmers involved in seeing that their business was properly run but letting management get on with running it. To be honest with you I really believe some regulation to milk marketing is necessary for that. I really fear that if it is got rid of, as it appears that it is going to be, in 5 or 10 years' time we will all be worried about why we have got another monopoly of milk processing in the Island that is not owned by farmers or the Government, or indeed we have got no industry at all.

Deputy A. Breckon:

Can I just make a comment about something you said there about government want to get rid of the Milk Marketing Scheme? We have not come here as politicians with that fixed view, I should say, and it may be a view --

Mr. K. Keen:

No, I appreciate that. I suppose I was talking about government in that I had interpreted the Council of Ministers and Economic Development Committee. I apologise if I have --

Deputy A. Breckon:

We have not come here with any fixed view and we still have not decided on the outcome so we have not come in and said: "This must go. This must happen." I know we get accused of taking an eternity to make a decision but we have to make a rational decision.

Mr. K. Keen:

Of course, Alan. The only thing I would say is with the passing of time and the lack of decision-making, it has happened pretty much anyway.

Deputy A. Breckon:

But from our point of view, you see, we were formed in August and we are trying to do a job and it has been difficult chasing Promar and trying to do this, but we did not come with any fixed view.

Mr. K. Keen:

If I made any criticism of your panel, I apologise.

The Deputy of Trinity:

Very touchy about government. I was going to ask a question but just picking up what you just said about timescale, and we have heard from some farmers and Promar that timescale is very important. I think Promar said they would like to see some sort of movement in the first quarter of next year. How would you feel about that?

Mr. K. Keen:

It has to be because as of today we still have a pending investigation hanging over our heads by the JCRA, who have incredible powers. We do not have any sort of exemption to say: "These 2 statutes conflict, while we sort all this out we will give you an exemption." We have never had that so we basically live from day to day in fear of a prosecution by the JCRA. They told us that while this Promar review was going on they did not intend to continue their investigation and said to me that they would be proportionate in the fact that they had now created some delay in coming to a decision, but there is still the potential in the 2 statutes conflicting that we may be breaking one or other law.

Deputy S.C. Ferguson:

Do you feel that is your biggest threat at the moment?

Mr. K. Keen:

I think the threat is sort of the uncertainty that is created for people who probably want to make decisions and they are not sure whether they should do their slurry(?) stores or not. For my staff, I have got lots of long-serving staff, what does it do to their careers? To the bank who have been excellent and supportive throughout. It is the uncertainty that it creates for all people and that is the real threat. Obviously the time that is spent dealing with these things is not dealt with dealing with the things which Promar say we should be dealing with, which is the commercial aspect of the business of trying to sell more milk for more money but do a better job for the consumer.

Deputy S.C. Ferguson:

You attach great importance to this public policy exemption but in fact the Chief Minister has given assurances that he will, in fact, be pushing this - I think I am right in saying that - have you any

comment on that?

Mr. K. Keen:

The only thing I can say is that he has not given one and effectively now, you know, I do not think --

Deputy S.C. Ferguson:

Giving assurances to the industry in meetings that we were attending. He has not given that to you as well?

Mr. K. Keen:

Well, he has, but I mean essentially what he has not given is he has not given the public policy exemption and therefore the industry is deregulated. I mean if somebody had a dairy -- could bring in a dairy on the back of a container tomorrow - maybe they have sort of thing - they could be working tomorrow. That is where we are now. You are going to have competition among dairy farmers in the processing of milk.

Deputy K.C. Lewis:

If I could just clarify, at the last meeting we had with the Chief Minister he did say he would be more than willing to bring in a PPE (Public Policy Exemption) but he could not guarantee for how long.

Mr. K. Keen:

All I am saying to you is I think the PPE is completely irrelevant now because we -- effectively the market has been deregulated which is what the desire of the JCRA is.

Deputy A. Breckon:

Can I ask you, Kevin, on the public policy exemption how you would view them within that if it was granted over a given time? Asset protection, asset stripping and perhaps a managed exit strategy so that would be done within the public policy exemption.

Mr. K. Keen:

The public policy exemption, if I just make it clear, does not deal with the import of milk. It only deals with the regulatory powers of the Milk Marketing Board to require producers to sell their milk through the board. That is why I say it is irrelevant because obviously Mr. Quenault is doing something else and, you know, I guess from what I can understand about the press release yesterday is that if the other people have got a dairy or had a dairy they would be processing their milk tomorrow as well. So the public policy exemption is -- as I say, we have this problem of having to deal with it once and for all but I think it, essentially, is irrelevant. If government had said: "Well, we really do want our Milk Marketing Board to remain. We have been convinced by us or Scrutiny or whatever that it should

continue”, then the only way to protect it short-term is the public policy exemption. But clearly Promar do not support that and therefore I think the Milk Marketing Board looks to me like it is probably finished and we have to get on with the new world. I personally, as I say, am not happy about it but that is life and we just have to get on with it. As to the potential to asset strip the board, I mean it is an organisation that it is possible that it could be wound up and its assets distributed. Those are the rights of producers within the scheme to call a meeting and to call for the scheme to be wound up and for the assets to be distributed in the way that they agree in general meeting. That is their democratic right. Obviously there is not much I can say about that. I do not think there is any way of ring fencing or stopping it.

Deputy A. Breckon:

Is there any way for a managed exit strategy within some of the things? If people are waiting for outcomes in the next 6 months, say, to say that they can still do what they want to do without seen to be unsettling the situation.

Mr. K. Keen:

What, for producers to leave the industry as they wish? Well, you see, up until recently, while we had the licensing scheme, what a dairy farmer would probably have done is he would have sold his right to produce milk, his licence, and he would have sold his cows and he would have gone off into the sunset; and that has happened with a couple of dairy farmers over the last few years. I think at some time there was a little bit of optimism and there was a market and they sold their so-called licence which is underpinned by these prescriptive resolutions which are now potentially illegal. He would have sold his licence, he would have sold his cows and he was off. The exit was done among farmers. There were farmers who wanted to grow their production, and there were farmers that wanted to exit, and that was how it was done. That, obviously, is not possible at the moment. How dairy farmers would exit, you know, obviously the Milk Marketing Board at this moment does not have the cash to provide an exit route for people, the bank manager wants any money that is going, sort of thing, so I do not see -- you know, that is why if we could get on to talking about what would happen with the proceeds of Five Oaks. Each day that we go on the cost of building a new dairy goes up - whatever we end up building - and the debt has to be dealt with as well. So as Promar says, the idea that there is like a big sort of bonanza at the end of it, I think is not there.

Deputy R.G. Le Hérissier:

It strikes me, Kevin, in a way you did want the status quo, albeit with some improvements to remain. You have obviously fought against this but you are accepting the inevitability of an open market or certainly deregulation. Even with an open market, do you feel there is a way forward that you could build on the strengths of Jersey Milk and you can take it forward? Or are you really sort of gloomy and pessimistic about the future in terms of Jersey Milk?

Mr. K. Keen:

Problems occur in business and you have to get on and make the most of -- things change and we will make the absolute best thing. Give every effort that we can to that. That is all we can do. As I said, my preference would have been to keep the structure in place, clearly it looks unlikely that it will be. So we will just get on. I do have concerns if the market starts to fragment and you have multiple dairies all over the Island.

Deputy R.G. Le Hérissier:

I think one of the big issues - this is in a sense a repeat of the way the potato consolidation occurred as you know - is that if rationalisation occurs it will inevitably hit smaller and medium producers. Is this your view?

Mr. K. Keen:

I guess, you know, from my reading of the press release, it would be aimed at removing those producers, and I think that is the target, to remove them as quickly as possible, I guess.

Deputy A. Breckon:

Kevin, would it be a surprise to you if I said that some may have suggested to us that a managed exit strategy could be part of a massive distribution?

Mr. K. Keen:

I think if somebody was saying: "Well, let us just wind it up completely and let every man cash in and go", I suppose that is the exit strategy that you would -- of course you then have a situation where the Island potentially has no dairy and has no sustainability of milk supply. I know that we keep saying that imported milk is great because it is cheaper, but I have seen the boats not turn up a couple of times this week and the price of oil going up. My personal view is that we should have more sustainability in local food, so I think the possibility of this wind up and cash in, it may be that you end up with no industry whatsoever. Some people have argued that really those assets belong to dairy farming rather than to individual producers, I have heard that argument mounted. Not quite that they almost belong to the Island but not a million miles from it.

Deputy K.C. Lewis:

If I could just clarify something I mentioned earlier. In a recent meeting with the Chief Minister - obviously I cannot speak for the Chief Minister - but it was my understanding that he made the offer of the PPE to stave off an external threat to the dairy industry. I do not think the internal threat was envisaged at that time to this degree.

Mr. K. Keen:

It depends, I am sorry, Deputy, on what you call internal/external. The only thing that the PPE ever could do was prevent us from a prosecution from the JCRA of administering the statutory scheme, and the people that would want to break the statutory scheme, by their very nature, would be participants in it. It does not stop the importation of milk or anything like that. It is solely about the power to regulate producers.

Deputy S.C. Ferguson:

In the presentation yesterday, in the question period, we asked Promar what their estimate of the timescale they would work to, given a good following, when all propositions came through the States in January. They were talking about 12 to 18 months to get a new dairy up and running. What is your comment?

Mr. K. Keen:

Yes, I think when we last looked at the build programme, the build programme was about 18 months, so just thinking back to March 2004 and we were talking about it today, we could have been in there now. We could be in there and we could be producing more efficiently. We could be out of debt, we could be getting on. So, hopefully, in 2 years' time, 18 months' time we will be.

Deputy S.C. Ferguson:

We will come to the opening.

Deputy A. Breckon:

You mentioned something else; when you were in post in February 2003 you had some difficulty obtaining the accounts, are they not a matter of public record?

Mr. K. Keen:

Yes, the accounts are a matter of public record, but I think when I was being interviewed they did not want me to get depressed too early, sort of thing.

Deputy A. Breckon:

So you got the job and you got the bad news.

Mr. K. Keen:

No, I got the accounts before I took the job.

Deputy A. Breckon:

In your opinion, the accounts that you inherited were they GAAP compliant?

Mr. K. Keen:

I think it was a matter of fact that they were not GAAP compliant and that the board had undertaken to make them GAAP compliant in the succeeding period. There was some controversy about the audit opinion that the auditors had given because they had not given a totally clean opinion in those sets of accounts, but the auditors now do give a totally clean opinion and they are GAAP compliant.

Deputy R.G. Le Hérisier:

It comes across, Kevin, from representatives of the board that on the one hand they want complete independence and the freedom to manage and that they find government interference drives them round the bend, basically, and you have to get all these propositions, you have to have all this negotiation with the family, and you get this feeling that clearly government interference frustrates - maybe yourself - people enormously. But, yet, they need the underwriting from governments, like they need for example -- or they needed government to give you the statutory monopoly or to give you some kind of way handling your way out of that monopoly; and for government, of course, to continue the rural environment kind of subsidy scheme which, as you know, is shifting to rural environment. You have come out of a business environment - and you probably found it enormously frustrating - if you could improve, given that love or hate us you have got to work with government, how would you improve the relationship?

Mr. K. Keen:

We are in exceptional circumstances here. I think 2 things have happened. One is the competition law was introduced and there was found to be an anomaly between the competition law and the statutory scheme that had been introduced by government and had been supported by the Government's consultant only a few years *BEFORE*. So there was a problem and I suppose if I had have been a Minister I would have said: "Clearly, there is a problem here, it needs resolving, it is unfair to place board members and others in this position and it is going to take up a lot of time. I am just going to grant the public policy exemption for a year, or 6 months, or 18 months. I am just going to do it today and I am going to hear what the JCRA say, but it is unfair for people to have to be conflicted in that way." That to me is number one and it could have just been done and it could have been withdrawn at any time. A decision just could have been made. I think we have been unfortunately caught also by the fact the Minister was not able to deal with it because he was conflicted, so we had that as well. That is one thing that has taken up a lot of time. The second thing that has taken up quite a lot of time is we chose a property that belongs to government and, you know, government want to see that that is being dealt with correctly and that they have got fair money for the taxpayer, and I could not possibly criticise that. I think one politician decided that he was very much against it and that has caused a delay, but I think that, in a way, goes with the territory. It is unfortunate and it has cost consumers money and it has cost farmers money, but that is just part of life really. So I think a quicker decision from government to

say: “We are not going to grant this public policy exemption, forget about it, the market is deregulated tomorrow” or, “There is clearly a conflict between the 2 regulations, we are going to give it to you tomorrow and we will have to come back to it.” But I think the way we have been made -- will you, will you not, maybe, maybe not give us this, do not give us that, now we will have a review, I personally think has been very unfair on us. I am sorry, I really do. It has created a lot of tension and it has created a lot of cost and ultimately I think if they had been adult with us and said: “Look, we do not want the scheme anymore, we had this consultant say it was a good scheme but now we do not want it, forget about it, get on with it.” That would have been a more straightforward thing, and what we have ended up with is this, sort of, death by a thousand cuts really. But the property, I guess, it is just one of those things. I am a bit naïve and thought when somebody said it was a great idea, get on with it, it might have happened.

Deputy A. Breckon:

Can I ask, Kevin, how you see, from a Jersey Dairy point of view, the threat of milk importation and if there is a contingency to deal with that later?

Mr. K. Keen:

We have always been told that milk importation will happen one day and we cannot count on government to protect us from that so we therefore have to make our own plans to try and make the industry self-sufficient, which is why we have tried to make the business more efficient, lessen the gap of milk prices and ultimately create an alternative market for farmers’ milk. That has been the drive of what we have been trying to do. If the milk import ban failed tomorrow and milk started coming in at 50p, 60p a litre, and it was alongside milk at 89p, 85p, 96p a litre, clearly the industry would be in huge problems and we do not have a contingency plan to deal with that. There is not one. You would have to take -- the cost of my staff is about £2 million a year and if you think about that, that is about 20p on a litre of milk on a 9 million litre liquid milk market. So even if I operated with no staff milk would still be 70-odd pence.

Deputy K.C. Lewis:

This is more of a farming question. The importation of genetic material, do you think the benefits outweigh the risks?

Mr. K. Keen:

I think it is essential that this is furthered because if we want farmers to be as efficient as they possibly can be they need to make the breed as efficient as it can be and I have been persuaded that semen importation is the way to do that. There are risks. Having said that, Guernsey have been importing semen for some considerable number of years and they have managed to maintain their import ban. So it seems to me that we just have to get on with that. It will take 10 years to have any effect. In fact, I

found some press cuttings where in 1979 we were saying it was urgent that it was done then, that is nearly 30 years ago, and I think it is high time that that was got on with. Farmers cannot be criticised for being inefficient if they have got one arm tied behind their backs, and they desperately need that.

Deputy A. Breckon:

Anybody anything else? Kevin, thank you very much for the full and frank exchange and for the benefit of your experience. Is there anything you would like to say to us and feel free, whatever that may be?

Mr. K. Keen:

I would just like to emphasise that throughout the time I think it is, as I say again, a pleasure to work with the Island's dairy farmers, all of them. They are a great bunch of people. That is first of all. Two, is that we have always tried to run the business over the last few years with the long term in mind so that the industry was not totally dependant on this liquid milk ban. That was going to always take time to do anything about, but we have tried to take that view. So we have taken a view with some products that were not loss-making but small in quantities that you could perhaps take a very hard view. I have never invested in anything material in new equipment to make new products, but I think to have an industry that is totally dependant on liquid milk, normally consumption is shrinking on that, have that with no brand development or product development or anything is, I think, a big mistake. So we have tried to do that. We have taken the point, early on, that consumers thought milk was too expensive. From my memory, the average household spends £2.50 a week on milk so if we could get milk at half the price the average household would save a pound a week. I do not treat that glibly. I think if people believe that that is important then we must work hard to do something about it - just to protect the industry as much as anything else. But the fact that households spend more on their mobile phones probably than they do on milk seems to me to be a bit strange. But anyway, consumers believe it is very important, we need to get on, and that is what we have done. Milk was 98p when I joined, it was 98p absolutely everywhere, it is now 96p in many places, it is 89p in Safeway, and it is 85p with Mr. Quenault, who has been permitted -- we always allowed Mr. Quenault to start his enterprise. We offered him terms which he had, and one of the most important terms, which possibly is more important than most people realise, is that he would always have somewhere to send his surplus milk because you cannot balance to the exact degree. I think the Milk Marketing Board does that. So we have tried hard to the extent that we have made mistakes or we could have done a better job then, you know, I am sorry but that is business. You have to make the odd mistake because if you do not you are not pushing hard enough basically.

Deputy A. Breckon:

Thank you. We are adjourned now until 10.00 a.m. tomorrow morning.

ADJOURNMENT

