

1. INTRODUCTION

1.1 Background

Promar International¹ was asked by the States of Jersey to carry out a review of the dairy sector on the Island. This report sets out our detailed findings on the current situation in the Jersey dairy sector. The Terms of Reference (TOR) for the assignment were as follows:

- to critically assess the Jersey MMS as operated by the JMMB and its processing, distribution and marketing arm, Jersey Milk
- to assess the dairy industry recovery plan, which involves the relocation of the dairy processing plant to the proposed site at Howard Davis Farm, improving the farm efficiency and improving the genetic status of the Jersey Island breed
- to evaluate the optimum level of milk production in Jersey in light of current liquid milk consumption on the Island and the effects that this level will have on the marketing strategy of Jersey Milk, the price paid for liquid milk by customers and consumers in Jersey and the returns paid to milk producers
- to assess the comparative situation in Guernsey and draw any valid comparisons
- to identify mechanisms to allow for a change in the optimum level of production, which leads to an orderly shift in production as needed, which maintains the production above the liquid milk market and which creates value that can be realised by those that would wish to leave the sector
- to identify, compare and then consider the advantages and disadvantages of differing milk marketing structures for the dairy sector in Jersey in order to comply with the current competition legislation
- to consider the impact of the States controls on the import of liquid milk on the future development of the Jersey dairy sector

¹ Promar International is a specialist agricultural and food consulting company and has a particularly strong level of expertise in the UK and international dairy sector

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- to identify the most appropriate future structure of the dairy industry in Jersey (based on the various potential models already identified) in order to provide value for money for consumers and provide an adequate return for the efficient milk producer and cost effective States aid payment

Promar made an initial visit to Jersey in late July 2006 and work was formally commenced in the second week of August. A series of meetings and consultations have been held with a wide range of interested industry stakeholders on the Island in the subsequent period, mainly between August and September 2006. This included meetings with individual farmers across the Island and a summary of the findings from this research is given as Appendix 1.

2. EXECUTIVE SUMMARY

How It Has Been

1. The Jersey Milk Marketing Board (JMMB) was first set up in 1955. Clearly since that time, much has changed both on and off the Island. Marketing boards, such as the JMMB, originally operated on a world wide basis – not just in the dairy sector – but in many other areas too – meat, fruits and vegetables and the cereals sector to name a few. Accepted as *“the way to do it”* 40 years ago, around the world over the last 10 – 15 years, the role of monopoly marketing boards has increasingly been seen as *“not the way to do it (anymore)”*.

How It Is Now

2. The Jersey dairy sector has existed for the last 30 years against a background of highly competitive international food markets, deregulated markets and less protection for primary producers and a reduction – or in some cases a total removal of the monopoly powers marketing boards, existed. The Jersey dairy sector has been operating in isolation of the UK and other EU markets for most of this time. However, it is recognised that the current management of the JMMB and JD has made a number of improvements to the business in difficult circumstances over the last 3 of these in particular.

The Future

3. There are a whole plethora of challenges to the future of the dairy sector on Jersey that have to be faced up to in the next few years ahead – and in some cases the timespan is much shorter. The external challenges of what happens if liquid milk imports come on to the Island and the critical need to build exports to the UK are fundamental to the future development of the Jersey sector. Other challenges include the following:
 - a ruling likely on the status of the JMMB as a monopoly buyer and seller of milk on the Island in light of challenges to this position from an individual farmer
 - there is need for better genetics to survive – even if it takes up to 10 years to see the full benefit of this and the ban on imports on to the Island is challenged
 - the States of Jersey wants to preserve *“brown cows in green fields”* with a sustainable dairy sector that move forward in the future

There are too many challenges to the Jersey dairy sector, with the implications being too significant in terms of impact, to carry on along the somewhat isolationist route of the

past for too much longer. This is despite some of the more positive changes made by the JMMB and the JD in the last 3 years.

4. UK mainland co-operatives and plc's alike in the dairy sector are very aggressive in the purchase of milk, price setting and encouraging supply when they want it and perhaps even more importantly - *when they do not want it* – not least they are very strong on secondary balancing and processing. Across a full range of criteria, all of the JMMB market price signals (compared to mainland UK processors) to producers are weak, if not actually misleading.

Industry Recovery Plan

5. The strategy is, on paper, relatively straightforward. As is often the case the theory of the strategy is relatively straightforward and to our mind makes a good deal of sense but the actual implementation of it is proving more difficult.

Factory Location

6. The current dairy is 40 years old. It needs substantial investment in order to replace some of the very inefficient manufacturing equipment. The dairy as it is currently, will not easily pass the sort of quality assurance inspection that the higher value market buyers (e.g. Waitrose, Marks and Spencer) would expect from their suppliers.
7. The indicative value of the site could be around £9 million, and so the first aspect of strategy would work. With planning consent, the JMMB net assets would be in the region of £6.5 million, after the pension deficit and redundancy costs are paid. The idea that the sale of the Five Oaks Site solves all of the problems of the JMMB and the JD seems somewhat fanciful.
8. Ongoing delays in the search and identification of a new site for the JD will prove to be damaging. HDF is the best available site and the go ahead should be given to move to here as soon as possible.
9. The overall costs between leasing and buying are probably over a period of time not that much different. Leasing might be the less risky to the JD in the short term, but buying outright might give more stability in the mid to long term. It also reduces the chance of a small number of farmers making a move for what might be seen as a “cash pile” resulting from the sale of the Five Oaks site.

Genetics

10. The use of imported genetics to guard against inbreeding within the Island population or to improve specific traits has been considered on several occasions, the most recent of which was in 2003. This followed the production of a very thorough report into this issue by Dr Maurice Bichard, entitled *"Sustainable Development of the Island's Dairy Cattle"*. This report clearly recommended that imported genetics should be used. It would take approximately seven years for any additional initial investment in imported genetics to become cash positive for a typical 120 herd farm on the Island.

Jersey Dairy Product Mix

11. In terms of product mix supplied from the JD, the strategy is to supply Jersey with Jersey produced local milk, currently c. 9 million litres pa. The objective of reducing their wholesale price of milk, so that it could be retailed at around 70 – 72 ppl is entirely correct. It is also important to recognise that to maintain a given volume of wholesale milk supply to customers 365 days per year, there has to be a structural surplus of milk. This suggests a minimum ex-farm production of 11.5 – 12 million litres per annum to satisfy the Jersey liquid and fresh product market. SMP and butter are world traded low price commodity products.
12. Jersey will never compete with the worlds' lowest cost, but high volume milk producers in New Zealand, Australia or Latin America. The strategy is therefore correct, to move away from commodity product that cannot compete with the UK on price, let alone the rest of the world.
13. However, it also that means that the JD must find a higher value market for these structural surplus products, in what is an aggressive international market place. The plan for the new dairy is for 14.5million litre capacity, which infers the need for a substantial market for products from 5 million litres of milk. These have yet to be secured. And it might take a further 12 – 24 months before any tangible success is really achieved.

Financial and Technical Performance

14. A comparison of the financial performance of the Jersey dairy herd vis a vis the mainland UK clearly shows the strengths and weaknesses of the average Jersey dairy farm. Total direct production costs are 11.9 ppl greater for Jersey dairy farms, when expressed per litre of milk produced. The relevance of this large difference in milk production costs is that if Jersey retailers choose to import milk at some future date, and if they are able to in law, then it is from the UK that milk is likely to be sourced. There is a bigger range between the performance of the top 25% dairy farmers and the average in Jersey than on the UK mainland, suggesting that improvements can still be made by many.

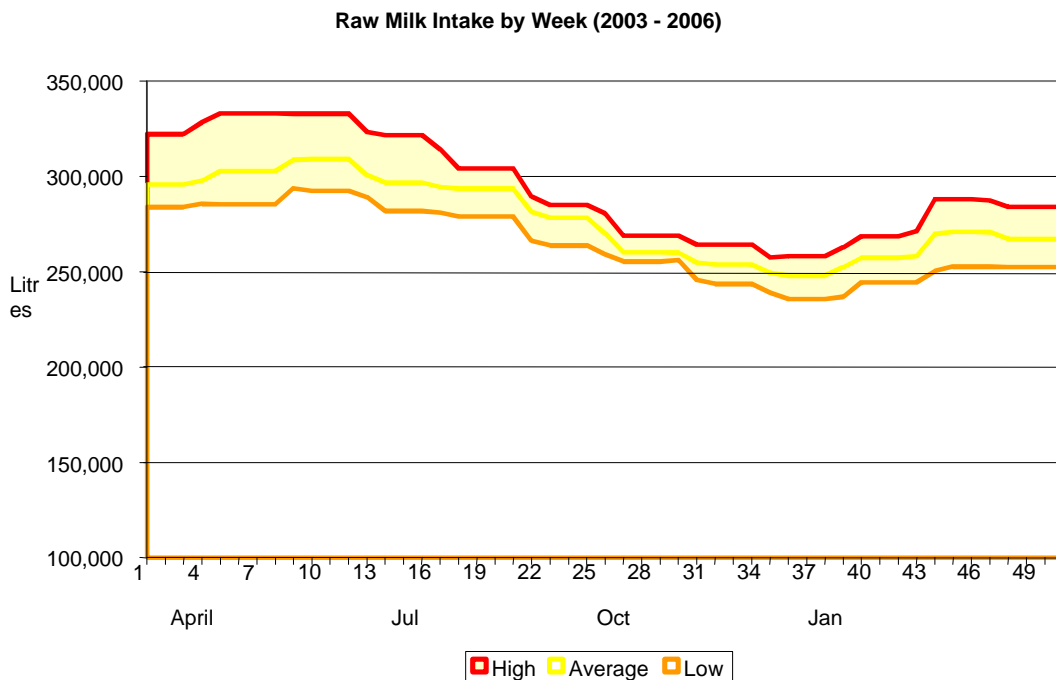
Liquid Milk Imports

15. The import of liquid milk onto the Island is a highly emotive issue on Jersey and has been for some time – and as such it needs to be handled with a degree of sensitivity. There are both plus and minus points regarding the situation which impact on the future structure of the industry and the desire that government has to see “brown cows in green fields”. If milk was to be imported, the farming sector would be put under severe pressure. The industry would go into free fall - in its current state. Government objectives of “brown cows in green fields” would be thrown into turmoil.

Supply of Milk

16. Figure A shows the natural variation in milk production in Jersey over the last 4 years. Although these peak to trough ratios are relatively low, they still mean that at times of peak production (between May and June in particular) the Jersey dairy industry would be producing upto 35% more milk than was required. This situation is not unique to Jersey, and is a situation faced by dairy companies all over the world.

Figure A - Jersey Dairy Raw Milk Supply



17. To minimise this cost, most dairy companies use a range of tools and incentives to try and minimise production of “buffer milk” by better matching their milk intake curves with the milk demand curves. In the past, the main method for dairy companies was to produce enough milk to cover the base level of demand for fresh dairy products, such as

milk and yoghurt. They would then convert any milk produced above that level into longer life products such as cheese and SMP. The markets for products such as SMP, cheese and butter are becoming increasingly competitive and the profitability from these products is decreasing.

Controlling Supply

18. This decrease in profitability is forcing companies – and the JD is no exception here - to either specialise in certain products or develop differential pricing for milk at various times of the years. When used effectively, these policies “flatten” milk intake curves and better match supply with demand. While specialisation and outsourcing of milk supply provide best-practice examples, they are not tools that the Jersey industry can in its current situation easily use at the moment.

19. This is not least due to the historical development of the sector (i.e. no imports of liquid milk and the role of the JMMB as essentially a farmer facing organisation). The only option open to the JD to modify its current milk intake pattern is via strong seasonal price signals to farmers. The price signals given to farmers by the JMMB are weak in comparison to UK co-operatives and “plc” dairy companies alike. Making changes to milk intake through demand price signalling is a difficult, but not an impossible task. However, the impact of the above factors means that in the short term, the JD is likely to maintain its seasonal milk supply and therefore a requirement to convert seasonal buffer milk into long life products such as milk powders, butter or cheese etc.

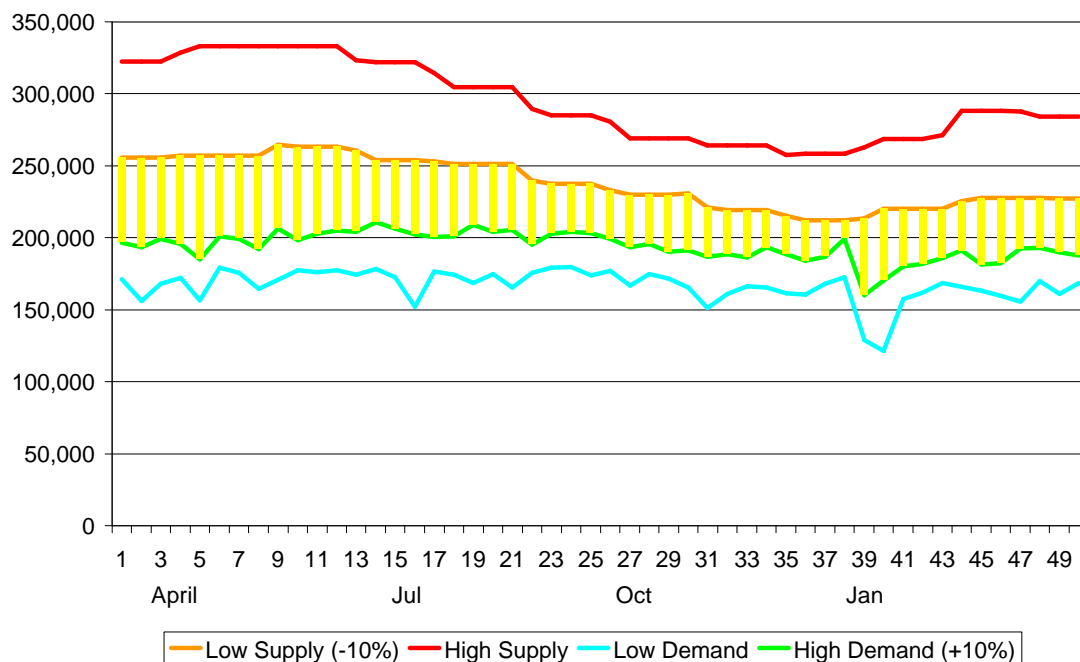
Matching Market Demand and Supply

20. Liquid milk dominates JD’s consumer products business and accounts for around 63% of whole milk intake. The need to satisfy liquid milk demand at all times, means that the JD has to run a larger than average buffer to ensure that there is always sufficient milk to cover possible variations in demand.

21. Combining the supply and demand curves along with our “worst case” buffer levels clearly indicates that at all times of the year there is a significant gap between demand for liquid and soft dairy products and raw milk intake (as shown by the bars in Figure B). This gap can be described as true “excess milk”. The degree to which this excess milk is defined as over an optimum level of production depends, in our view, largely dependent on the returns made from that excess milk.

Figure B - Jersey Dairy Supply and Demand

Worst Case: Jersey Dairy Supply & Demand



Market Returns

- 22. There is a wide range of gross profit levels made on the core product lines currently produced at the JD. Premium yoghurt is the most profitable item while SMP is the least profitable, and indeed actually incurs a straight loss.
- 23. In an ideal world, 100% of the JD’s raw material intake would be allocated into product lines that provide a positive return. Under current conditions, these products would include cream, yoghurt, liquid milks, ice cream and retail packed butter. However, analysis of the JD production data indicates that substantial raw milk volumes (up to 25% of total intake) are being allocated to products such as SMP and bulk butter that currently provide a negative gross margin.
- 24. Given the current levels of excess milk, in most situations, the logical step would be to reduce milk intake immediately and then slowly rebuild milk volumes as the various initiatives listed above took affect. However, the closed nature of the Jersey dairy industry (particularly, the lack of milk-flow, and breeding stock in and out of the system) means that responses and strategies which work in the UK or elsewhere may not always work on Jersey. Given the above factors, the challenge for the JD is to fully implement the remaining elements of its dairy industry recovery plan - as quickly as possible.

Exports

25. One of the key components of the industry's recovery road map is the development of export markets. The market for commodity dairy products is extremely competitive and largely driven by supply and demand. Given the low cost basis and cyclical nature of these markets, it is highly unlikely that the Jersey dairy sector could profitably compete in this arena.
26. Competition amongst retailers and development of supermarket brands over the last 10 years has created massive competition for food manufacturers and squeezed margins to the minimum. Despite the challenges, development of consumer preference for products through development of strong brands remains a key method for food producers to gain an increased share of the final value of their product.
27. The JD's successful consumer business in Jersey provides a good test market and platform for expansion into retail markets outside Jersey. However, there a number of key challenges that the JD face in developing a retail presence in UK mainland and/or other international market. The "Jersey from Jersey" marketing message is potentially an attractive and unique proposition. However, it is not at this stage sufficiently unique or valuable to command a significant price premium in the market over and above that gained from other premium brands. The decision to target and develop the UK export market is a natural and logical decision for the Jersey dairy industry, but the limited resources available at the JD mean that the export development programme needs to be approached in a highly structured manner.

Future Options

28. There are a number of possible options for the future development of the Jersey milk marketing system. These are set out as follows along with the key points to take in to consideration for each:

Option 1 – Modifying the Current MMS

- this would see a change of the JMMB being a prescriptive monopoly to a statutory organisation
- it would in effect buy some time for the Jersey dairy sector, but probably not much more than this. This can only be justified if the time is used to maximum effect, and the key aspect here would be to be make full use of this time to build the new JD factory which is so badly needed

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- however, it only deals with the internal threats that exist on the Island as to the position of the JMMB. It does absolutely nothing to deal with the threat of imported liquid milk, which is a critical issue for the successful development of the sector
- the JMMB and JD might well argue that protecting the domestic market in the short term is essential to allow them time to lower costs and develop export markets – and to a degree they are right. The reality is that the time they have to do this is beginning to slip away and action needs to be taken now to safeguard the future structure of the dairy sector
- the legal possibility of actually achieving this modification is not proven – and it may take some time (at least 6 – 9 months) to actually be put in place even if it can be achieved. It is likely that even if it were achievable, it would be challenged almost straight away
- another damaging and energy sapping legal case is the last thing that the Jersey dairy sector needs – not least it sends out very negative signals to potential customers, both on the Island and even more importantly potential new customers on the mainland
- it would also highlight the lack of internal certainty as to the future of the industry, one that is constantly under challenge and therefore produces a lack of confidence in the industry, low investment etc.
- rather than look to modify the existing scheme, the buying of time that is required can be achieved by the application of a PPE which will achieve the same end result but only for a specified time. However, again it does not deal with the real issue of beginning to position the Jersey dairy sector to deal with the external rather than the internal threats to the sector that exist and which are the real drivers for the mid to long term development of the industry
- there is only limited consumer benefit to be derived from Option 1, but government objectives – *brown cows in green fields* – are largely met. This option maximises the number of cows in Jersey and provides the highest (short term) returns at least to farmers

Option 2 - the JMMB Remains, But Only Deals with Liquid Milk

- Option 2 is what we believe to maybe be the "*worst of all worlds*" – the liquid milk market on the Island is still under the control of the JMMB. However, the JD has no opportunity to operate in the growth markets of exports to the UK and then the more modest growth that might be achieved in the local added value markets

- the JMMB in effect remains a statutory type body for the local market. This option does nothing to deal with the threat of imported milk on to the Island and acts as a hindrance to exports. Cow numbers will decline over a period of time - as a result Government objectives – *green fields, brown cows* - will not be met. There are medium – high benefits to the consumer of seeing liquid milk prices reduced to potentially around 70 ppl.
- there will be an on going decline in cow numbers across the Island and as a result Government objectives – *green fields, brown cows* - will not be met
- however, in the mid to long term, the JD would begin to loose critical mass and even in the situation of Option 2, the role of the JMMB in the domestic market could well be challenged
- and as we have stated under Option 1, further damaging, expensive and energy sapping legal cases should be avoided, not least because of the negative signals it sends out to customers on the Island and the mainland too, as well as other key industry stakeholders

Option 3 – A Totally “Free Market”

- Option 3 for the Jersey dairy sector is in its current state, a *“short cut to disaster”*. The benefit to consumers is however high, milk is sourced at the lowest possible price, which might be in the region of between 45 – 65 ppl at the retail level
- however, the implication here is that all milk could be imported and in its current position, huge amounts of the local market would be lost in a very short space of time
- Farmers on Jersey would be exposed to the full force of EU and world market prices and would find it almost impossible to compete – many would be forced out of business
- there would be a significant fall out within the industry in terms of farmer numbers and the number of cows, and government objectives of - brown cows in green fields - will be tested to the very limit
- while consumers win, farmers lose out and the mid to long term sustainability of a dairy sector on Jersey is hugely compromised
- imports of liquid milk would dominate the market and over a period of time, extreme pressure from imports means that increasingly dairy farming on Jersey as it has been known becomes something of a *“museum piece – this is the way we used to do it”*

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- even any possible advantage gained by the Government in terms of reduced subsidy to dairy farmers as they are forced to exit the sector would be negated by increased additional exposure to the running of the abattoir and the costs of increased payments to support better environmental practises

Option 4 - An Internally “Free – er” Market with Some Import Controls Removed

- Option 4 in effect produces the same end result as Option 3, only over a longer period of time. It does not position the dairy sector on Jersey to deal with the combination of imported liquid milk and the development of exports to the mainland – both of which we believe are the critical issues for the sector to deal with
- in the short term, it would probably produce a milk price war which is good for consumers but bad for dairy farmers and in the mid to long term might not even be that good for consumers either
- as the industry is forced to reconsolidate, it might be argued that it will eventually produce a “private monopoly” which would be ultimately challenged on a legal basis
- in reality, Option 4 for consumers produces a lower price for milk, but not the lowest. Over a period of time, cow numbers will be reduced putting Government objectives into some doubt. However, this decline will not be at the same rapid pace as seen in Options 2 and 3
- a fragmented industry, with no one single player being able to achieve a degree of critical mass will mean that the development of any exports business is put into severe doubt
- it might also be more difficult from a legal perspective to have a “semi free” market rather than a totally free one, not least in dealing with the question of if (and how) farmers not involved with the JMMB are regulated with milk licences
- something akin to a “half way house” scenario, Option 4 is most likely to produce a “*slow route*” to disaster rather than the “*quick route*” that would be produced under Option 3

Option 5 - The Development of a Voluntary Co-operative

Option 5 is the most appropriate for the dairy sector in Jersey to consider:

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- it provides a genuine long term solution for the industry but this is not to say it is without risk, and this is discussed later on – not least it requires a strong industry vision and leadership to “sell” the concept to the dairy sector and other key stakeholders on Jersey
- it is likely to address the concerns of organisations such as the JCRA
- a more competitive environment on the Island will see some consumer benefit in terms of milk price paid
- it is a proactive solution for the sector and avoids potentially further damaging internal legal action and/or having a solution and/or industry structure imposed on it externally
- it deals with both the internal and external issues confronting the sector, the development of exports and looking to produce a more efficient supply chain on the Island (i.e. more efficient farms and cows, a more efficient factory etc)
- the JD remaining a key player on the Island allows a degree of critical mass to be retained and cow numbers will be retained – having said this, Option 5 does not prevent farmers exiting the sector – and in the very short term, might even exacerbate this
- it provides an opportunity to develop the new factory required and which is critical for exports, it also reduces the opportunity for asset stripping although a careful change over will be required here
- it needs to be achieved over a period of time in a controlled and managed fashion
- it represents something of a “*new start*” for the dairy sector and leaves behind much of the negative baggage of the past, despite some of the more positive changes of the last 2/3 years
- it has been achieved in other dairy producing countries – albeit it not without some pain

To pretend that this can all be achieved without some risk would be naive though. Some of the relevant issues here are discussed below. Essentially, these revolve around questions over industry vision and leadership, the building of the new dairy processing plant and the creation of export markets as well as how assets are protected and transferred during a period of change. Not least, careful consideration needs to be given as to what time frame is required to achieve this sort of change in industry structure and the future role of Government support.

Implementation - Leadership is Critical

29. Industry leadership needs to recognise that change is inevitable and this is driven largely by the external factors surrounding the unsustainability of a monopoly milk buying system, milk imports and the development of competitive exports to the mainland UK. The best option is to be proactive and manage the change, rather than have it forced on the Jersey industry by external industry stakeholders.
30. A proactive stance is we feel far more likely to have a positive overall impact rather than adopting one of "looking to protect what we have for as long as we can". It is clear though that a realistic and planned timetable of change is required and this should probably be for between 2/3 years, but if it was possible to obtain further time, it should be taken. However, this programme of change should not be spun out and it is essential that any time available be made the very best use of.
31. The industry leadership also needs to sell the idea of controlled and managed proactive change to dairy farmers on the Island and provide the vision for the future that is credible with industry. The vision of a **single** united, strong, well equipped and market led co-operative as the best option needs to be sold to producers as it has been in other parts of the world in the run up to significant industry changes. The development of the Fonterra dairy organisation in New Zealand is a good example of this.

Key Lessons from the UK

32. In terms of what can be learnt from the process of de regulation in other parts of the UK, these can be summarised as follows:
- maintaining processing capacity is essential. This needs to be agreed and ensured at the outset
 - this process takes time - unless it is well planned it could take at least 2/3 years to implement but to minimise time:
 - the industry needs to want the change and needs to convince the States of Jersey that it is a good idea to ensure that legislative changes are passed easily
 - the States needs to ensure that the JMMD is aware of what is desirable and feasible in setting up a new structure as this will save time going through the process of public consultation

- the JMMB needs to put forward a sensible proposal for the new structure and one that is compliant with competition law etc.

How This Might Be Achieved In Jersey

33. There is a good deal of thinking to be done in Jersey before any major move is made in this direction, but a basic process could be as follows:

- the States of Jersey proposes a change from the JMMB to a voluntary co operative structure
- the JMMB puts forward a proposal and time frame
- the proposal goes out for consultation with key industry stakeholders
- the States of Jersey could then decide whether to change or not
- if the decision is “yes”, this would require a change in legislation

34. Multiple challenges provided by this change in the industry will need the maximum time possible to ensure success. As stated we believe this should be achieved over a period of 2 – 3 years but if more time can be gained, then it should be used provided it is used constructively and not as part of a “*spinning out process*”.

Government Support

35. Government should support the future development of the dairy sector in Jersey by providing assistance with:

- making a quick decision on the availability – once and for all – on the HDF site
- confirming on going support for dairy farmers as set out in past strategy documents
- granting a PPE for a specified period only to give the dairy sector at least some time to re adjust its structure and ensure that the new factory is built
- assisting with legal changes that might be required as part of the process of changing from a marketing board to a voluntary co operative
- providing export market development assistance funded by the Economic Development Department

- Government could (but only on a temporary basis) administer the licensing system to assist with the orderly transition within the Jersey dairy sector

The possibility of achieving what is a major change in the structure of the dairy sector on Jersey will be clearly enhanced by Government giving out clear, consistent and positive signals about the type, level and duration of support that the dairy sector can expect in the future.

36. We believe that the future structure of the industry in Jersey needs to look like this:

Big Picture Issues –Short Term Priorities

- a voluntary co-operative structure should be created which over arches the wider Jersey dairy sector and industry
- the JD is still the key and pivotal organisation in the sector
- the factory will have eventually relocated to an efficient and functional (not automatically high tech) site
- after all commitments have been met there will not be much left over –if any at all - to pay out to farmers who want to exit the sector. The redevelopment of the factory has to come first as well as meeting other financial commitments. This might be unpopular but is a harsh reality
- imported genetics are being used but as stated the full benefit of this will only be seen in the long term
- export development will have been developed to the mainland but probably not in short term. However, there is a need to keep trying in the short term gaining access to these markets is essential for future growth of the sector
- Government objectives of *"brown cows in green fields"* are still met and there will be the opportunity for reduction in a number of government subsidies as farming gets more efficient in the future

Tactical and More Operational Issues

- shorter supply chains and direct contact between producer and processor are the way forward: the JD contracts with farmers on a direct basis for the milk that it needs and wants, rather than the milk it is forced to accept
- the industry over a period of time becomes more customer facing, and less inward looking
- there will be a smaller but more efficient farm base maybe no more than 15 - 20 farms at some stage in the future but this depends on market forces
- farmers are more efficient in the future, better managed and in less need of government support
- new industry entrants are required as they are more likely to enter an industry which has a sense of real purpose in it than they are in its current state. At the moment, the decision not to enter the sector is just about as easy as it could be
- there will be a small number of dairy farmers operating outside the JD structure in non competing markets
- farmers that want to exit the sector have a way out through payments made from the sale of Five Oaks, but not nearly as much as expected and might be limited to buying up quota @ 20 p a litre and seeing them not reissued

Change Mechanisms

37. We see the challenge as not being so much as to reduce production to what might be seen as a more optimum level. "Excess production" is still being incurred, which suggests that farmers on the Island should be persuaded and/or encouraged to reduce production. However, we see it very much more as a problem less of having the *"wrong volume"* of production but more of the *"wrong type of production, at the wrong time"*.
38. The main option open to the JD to modify its current milk intake pattern is via strong seasonal price signals to farmers that reflect the real value of milk to the factory (and ultimately the farmer in terms of product return). Making changes to milk intake through demand price signalling is a difficult, but not impossible task.

39. It will be important to maintain production at above the level required for just liquid milk market in the short term. This is not to give the chance for the JD to it can export to UK mainland. If it does not happen in the medium term, the JD might have to bite the bullet - and the industry goes into "*contraction*" mode of thinking.