



# JAMAICA DAIRY FARMERS FEDERATION LIMITED

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## ***Memorandum of evidence submitted to International Development Committee***

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### **Introduction**

1. The Jamaica Dairy Farmers Federation (JDFF) is a NGO formed by the dairy farmers of Jamaica in 1998 as a Company Limited by Guarantee Without Share Capital. The JDFF was formed to efficiently organize and rationalize production and collection of milk, to set up a dairy plant to process and market milk and milk products while continuing to supply milk to the traditional milk processors. The JDFF promotes the participation of additional numbers of small farmers. It has worked and will work in partnership with government and other private sector interests to ensure that milk producers have access to the necessary inputs to increase milk production.
2. The JDFF is making this submission of evidence to demonstrate the negative impact of EU export subsidies on the market for fresh local milk in Jamaica. While Jamaica has a history of milk production in rural communities and resources of land, labour, water and livestock, the dairy farming sector is in rapid decline due to unfair competition from subsidized milk powder. Dairy farmers do not have an alternative legal activity to keep their land in agricultural production. The declining dairy industry is contributing seriously to the economic pressures being experienced in rural communities resulting in urban drift and inner city crime. Increasing food imports and the negative impact this has on balance of payments also makes Jamaica more vulnerable to external shocks and has a detrimental effect on Jamaican food security.
3. This submission also serves to demonstrate Jamaica's productive capacity and the efforts that have been made to build these capacities.
4. Finally the submission suggests ways in which the UK and EU may be able to improve or partially remedy the situation.

### **Background**

5. Jamaica annually consumes 170 million litres equivalent of milk and milk products (roughly 20 M litres fresh milk, 60 M litres cheese and 90 M litres milk powder). Because of cheap imports of milk powder the market for fresh milk has been shrinking from 38 M litres in 1993 to 18 M litres in 2002 for the dairy farmers. Of the nearly J\$7

billion (3% GDP) milk and milk products market the farmers were only getting J\$0.5 billion in 2001

6. Jamaica has a tradition of dairying that was particularly enhanced in the 1950's when Nestle came to Jamaica and in collaboration with government set up a programme to encourage milk production for local consumption through churn milk collection routes and condensed milk production. In the 1960s there were 4,000 small farmers and milk production met the requirements of the market. At that time there were 200,000 acres of improved pasture because livestock production was profitable. Today there are less than 200 dairy farmers, most of whom are small farmers, but 50% of milk production is from 2 corporate farms.
7. Agriculture is the most important employer in Jamaica at 20% of the people and supporting some 150,000 families in rural areas. While farming is the most important livelihood for people in rural areas 40% of the population live there and 72% of the poor live there.<sup>12</sup> The World Bank reported that small farmers constitute the largest proportion of the rural poor and there is a crucial need for poverty reduction programmes.<sup>3</sup>
8. The past decade has been marked by continuing decline in the local production of milk; from a peak of 38.8 million litres in 1992 milk production declined to about 18 million litres in 2002. This decline was largely a result of the negative impact of trade liberalization and specifically the dumping of subsidized milk powder which followed the lifting of trade restrictions in 1992.
9. Following a problem of milk dumping the government implemented in 1986 a parity transfer mechanism to use duty from milk powder imports to supplement the price processors paid farmers for their milk. During this period a state-owned company was the sole importer of skimmed milk powder from the European Economic Community. This brought the price of heavily subsidized milk powder up and lowered the price of fresh milk and made it equally beneficial for a processor to buy either. In this market environment the milk production rose by an average 7.5% per annum.
10. In 1992 the parity transfer mechanism was removed and import duties on milk powder reduced because of a structural adjustment loan from the World Bank. This resulted in large increases in imports of milk powder, primarily from the EU and dairy farmers were again caught with an uncertain market for their milk. First milk was thrown away and then farmers either cut back production or went out of business.
11. In 1994 the dairy farmers commissioned a study by International Accountants KPMG which they presented to the Jamaican Anti-Dumping Advisory Board. It took years for them to investigate and finally make a recommendation of 137% countervailing duty (against dumping) to the Parliamentary Committee on Production. The result was that in 1996 Parliament decided that import duty on Whole Milk Powder be increased from 30% to 50%, but the problem for the dairy farmers was that at the same time the concessionary import duty of 5% that Nestle enjoyed was extended to all manufacturers.

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<sup>1</sup> Figures from 1998 and 1999 respectively, World Bank, World Development Indicators 2001

<sup>2</sup> 'Agriculture, trade and food security issues and options in the WTO negotiations from the perspective of developing countries – Vol. II country case studies', FAO, 2000

<sup>3</sup> World Bank, 'Jamaica – Small Farmers Support Services Project' 1997

## Recent Developments

12. In 1996 the Commonwealth Secretariat sent a team to investigate the viability of the Jamaican dairy industry at the invitation of the government as a result of farmer outcry. The team spent 3 months in the country before presenting their preliminary findings to the public. The Commonwealth Secretariat stated that Jamaica could be self-sufficient in milk and proposed a development programme. 'A Milk Production Strategy for Jamaica' was printed in November 1996 and was accepted in principle by the government in 1997. Later that year an advisor was sent to assist the government in implementing what became known as the 'ComSec report'.
13. In 1997 the result of the new import duty regime was researched and proven that the collection of duty on milk powder of both whole milk powder (WMP) and skimmed milk powder(SMP) combined had declined because the ratio of SMP had increased and virtually all importers classified the end use for manufacture and enjoyed the concessionary duty of 5%.
14. In 1998 the Jamaica Dairy Farmers Federation was formed as recommended by the ComSec report with optimism and high expectations of the farmers. The estimated cost of the Milk Marketing Project and the Milk Production Enhancement Programmes that it was to undertake was US\$22. The first activity the JDFF undertook was the bulk procurement of feed and was able to negotiate on volume for the lowering of the feed price by one third.
15. In 1999 the government received funding from USAID through the PL480 Programme and the sale of rice which was identified for the JDFF's Milk Marketing Project. The project was expected to see the construction of a new 60,000 litre per day processing plant started in 1999 to demonstrate that the margin on processing milk could be reduced and the retail price of milk brought down while expanding the opportunities for dairy farmers. Funds are being slowly released by government and Cabinet is still to approve the expenditure on building and equipment.
16. In 1999 the Jamaica Dairy Development Board was set up within the Ministry of Agriculture as a statutory body to guide government policy, which the ComSec report had also recommended. Whereas the JDFF addresses itself to the dairy business, the Board manages national issues in the overall context of the global marketplace. The Board now has three technical members of staff and has produced three annual publications of 'Dairy Facts & Figures'.
17. In 1999 Nestle had discussions with the Dairy Board and the JDFF about their need to cut back on fresh milk sales by 30% (6 million litres, per annum) due to competition from manufacturers and retailers who did not use any fresh milk. The JDFF had done a test run with some fresh milk through the Ministry of Education's School Feeding Programme in 1998 and was able to suggest this as an alternative to cutting back fresh milk production. The JDFF then negotiated with the Ministry of Education and this resulted in a reduction in farm gate price of this milk from \$22 to \$19 per litre.
18. It was in April 1999 that the dairy farmers protested Nestle's offer of \$13 per litre to take fresh milk when the schools were closed, that is when the School Feeding Programme

- could not take any milk. The protest took the form of farmers giving away 4,000 litres of chilled pasteurized milk outside the gates of Sabina Park during an internationally covered cricket match in the inner city of Kingston. Nestle did not change their position. The JDFF refused to settle at \$13 per litre this price and milk was left unsold or farmers unofficially sold to Nestle. The event did catch the attention of development organizations in Europe.
19. Later in 1999 a Dutch student studied Jamaica's dairy sector and felt the case was strong enough to be a part of the lobby for the removal of export subsidies, which is Eurostep Dossier on CAP & Coherence. A dairy farmer and a staff member of the JDFF traveled to Europe and met with officials in Den Hague and Brussels to present the case.
  20. In 2000 the JDFF bought an existing processing plant to speed up their entry into the market. The farmers' expectations were that the plant would be able to take all the milk they were unable to sell elsewhere. The plant required considerable refurbishing and was not of a capacity to handle all the milk that farmers had to sell. There was also limited retail market access for the JDFF to start from scratch. The JDFF started having cash flow problems as the feed business activity was unable to collect monies owed. The JDFF was finding it increasingly difficult to pay the salary of required professionals. Farmers were becoming disillusioned with their Federation.
  21. In 2000 the EC's Eastern Jamaica Agriculture Support Programme (EJASP) collaborated with the JDFF on the implementing of a small milk project in Guy's Hill, St. Mary. The government was keen on the bulk coolers for the project to be bought by the project from Nestle. Nestle was moving away from churn milk collection to cooling stations. While this plan was the same as that of the JDFF the speed at which Nestle wanted to implement the change could not be accommodated by the JDFF. Nestle erected the shed and bulk cooler themselves and the JDFF now has a Field Assistant working in the area. There are roughly 15 suppliers pooling 1,000 litres per week. Nestle is paying \$14 per litre despite the project being designed for cooled milk price of \$20 per litre.
  22. From 2000 to 2002 all across Jamaica the 300 farmers who had supplied milk in churns and had it picked up by truck were trying to accommodate the mandate by Nestle that farmers bring their milk to one of 4 cooling stations. By January 2002 all churn collection routes had ceased and passed the milk processors expenditure on collection to the small farmers. Yet in the same month they reduced the price from \$18 to \$14 per litre. Of the 300 dairy farmers there are about 50 still supplying milk to Nestle through the cooling stations.
  23. One churn collection route in Manchester had 25 small farmers in 1999, but by July 2002 only one was left. As one farmer tells it, steadily the situation worsened; first Nestle told him to bring his churns to a cooler 10 km away but this arrangement did not work. Then he was told to take his milk to a cooler 40 km away. Then the hired pickup driver said the trip was not viable and stopped. Now the farmer has no way of getting his milk to the cooler and has sold his milking cows to a butcher. He still has two heifers which he will breed if a market for fresh milk opens up.

## Current Situation

24. Of the JDFF members 15% are no longer actively in milk production.
25. While the objective of the JDFF is to collectively pool and market all the milk from its members it is actually buying from 20% of the active members.
26. The retail price of milk is \$56 /L (pasteurized) or \$62 /L (UHT) as opposed to \$66/L for either at the time of writing the Milk Marketing Project in 1999 (15% price reduction). This is despite the devaluation of the Jamaican dollar from J\$38 : US\$1 to J\$52 : US\$1 (37% devaluation). The value of the milk price has reduced 20% since 1999.
27. The farm gate price of milk has fallen from \$22 /L to an average \$18 /L while the currency has devalued 37% since 1999.
28. The price of fresh milk is falling, the price of inputs of feed, fertilizer, electricity and labour are rising.
29. Fifty percent of Jamaica's fresh milk is produced by two corporate farmers, 40% is produced by the medium-sized farms and co-operatives and less than 10% is produced by small farmers. Whereas, in 1996 the number of small farmers was 470, in July 2002 there were 90 small farmers able to sell their milk.
30. Dairy Board statistics show that dairy product imports have risen from 16,823 tonnes, valued at US\$38.1 m in 1997 to 20,374 tonnes, valued at US\$48.3 m in 2001. Ice cream imports gained particular attention by rising by 58.7% between 2000 and 2001.
31. The government is torn between a policy of cheap food and agricultural development.
32. All major sectors of agriculture are struggling. Coffee shows the greatest profitability but is restricted to specific geographic regions. The political defense for maintaining the sugar industry is strong because it employs so many people, but is not based on efficiency or sustainability. Bananas are an export crop that cannot compete in the global marketplace any longer. Citrus has been damaged by a debilitating virus. Dairy has not been considered as a foreign exchange earner but has the potential to save on foreign exchange and create 10,000 productive jobs and could market throughout the Caribbean region.
33. The lobby effort by manufacturers and retailers is much stronger than farmers. There does not appear to be justification for the strength of their negotiating strength other than the depth of their financial resources.
34. The ComSec report and the Jamaica Dairy Farmers Federation has had stout supporters in some heads of government but this has not been able to see policy change through to Cabinet level. For 3 years proposals for the Dairy Board Act and increased milk product import duty have been passed between the ministries and still have not had Cabinet approval.

## Ways to Improve the Situation

35. The external world environment is currently hostile to the interests of Jamaican dairy farmers. Subsidies (notably EU export subsidies on milk powder) distort the world market and these distortions penetrate the Jamaican domestic market.
36. The removal of export subsidies would allow EU milk powder to compete fairly with fresh Jamaican milk. This would also allow more efficient milk producers globally to enter the market, New Zealand specifically. But New Zealand does not have enough milk to supply the entire world demand and the international price of milk products would rise.
37. Given current levels of world market distortions and the importance of dairy to Jamaica's rural economy and poverty levels we would like to see a rise in the Jamaican milk powder tariff levels. But our experience with the Jamaican government has shown that they are under external constraints and internal pressure from the World Bank and lobbying from the Jamaican food processing industry. We would like to see a loosening of these constraints, especially from International institutions, in the interest of Jamaica's food security and rural livelihoods.
38. Nationally, JDFF are trying to influence the Jamaican government to effect policy that would aid dairy development such as countervailing duty or a parity transfer mechanism to protect itself from dumped milk powder. To harvest the concept of productive job creation as opposed to short-term cheap food policies.
39. In restitution for damages done by dumped milk powder, the EU could give to the JDFF milk powder that would then be sold in Jamaica. Proceeds from this milk powder would go towards implementing the Milk Production Enhancement Programme, MPEP (US\$ 12 million). This would also demonstrate that the JDFF could manage the role as the sole importer of milk powder.