

Address to the JLA Conference/Workshop
On the Jamaican Cattle Sector September 16-18, 2005 Breezes, Runaway Bay

SALUTATIONS

Mr. Chairman,

Minister of Agriculture, the Honourable Roger Clarke; Senator Norman Grant of the Jamaica Agricultural Society (JAS); Mr. Henry Rainford, CEO of the Jamaica Livestock Association, who extended this invitation; Mr. Barreyro, Resident Representative of the IICA; Other Honoured guests; Ladies and Gentlemen

Let me start by thanking Mr. Rainford for inviting me to address you. He will tell you that I accepted without hesitation. Senator Grant, with whom I met some months before to discuss how the PIOJ can assist in the development of agriculture, will confirm my great desire to speak to the agriculture sector. Part of my desire stems from the false perception that seems to have developed that the PIOJ was anti-agriculture. This perception seems to have emerged partly as a result of our analyzing the proposal to tax agricultural imports as a way of supporting the local industry. Our findings showed the macroeconomic and social implications both negative and positive. When I outlined for Senator Grant, the significant involvement of the PIOJ in the various projects and programmes for the sector he agreed that I needed to speak to the sector more directly.

One of my disappointments in my job as Director General has been the fact the Dairy Development Programme funded by the USAID PL480 resources, the Commonwealth Secretariat and the GOJ, and on which I personally expended a lot of time and “capital”, has not fully realised its full potential, to date. But, there is still hope.

I hope my remarks will generate discussion and add value to the current debate on how to revitalize the cattle sector. But, I start off by placing the current situation within an international framework.

The one overarching theme that is impacting on all industries – whether sugar, bananas, or cattle is globalization. Globalization is dynamic and broad-based. This means that it is far-reaching and all-encompassing. It is here to stay; it is a continuous process of transformation. It presents challenges and opportunities that affect the stability of all countries. These challenges are filtered down to the sectors and industries such as the dairy sector for example. Likewise, the opportunities are also diffused to the various sectors of the economy. Like all major adjustment processes, globalization means that there are winners and losers.

Whether you are a winner or a loser is a function of where you are located in the production continuum, your level of efficiency, and your ability to compete globally.

If you are producing a product that the rest of the world needs, and you are globally competitive in the production and distribution processes, you are likely to be a winner. If the competitiveness is not dependent on government policies, but on sound business strategies along with state of the art technologies then being a winner is more certain.

If you are located in an industry that produces commodities, dependent on government protection and subsidies, using out-dated technologies and has poor business strategies, then you are far more likely to end up being in the losers circle.

Uncompetitive industries and firms will find it very difficult to survive using old approaches. Government will be increasingly unable to protect industries and firms over

time as trading regimes are liberalized. A current and relevant case is the revision of the EU sugar regime which has forced both Government and private sugar interests to re-evaluate the future of the entire industry. The reality is that the sugar industry's long history of subsidy and protection has not resulted in a secure future. That future can only be secure if it is based on sound business strategies, producing value-added products and using modern technology.

The fundamental difference between a commodity and a product is of critical importance in analyzing the future of the agricultural sector in general and the cattle industry particular. A commodity is a good produced on a mass basis with little or no differentiation. Pricing is often based on marginal cost. This means that over time the survival of firms and industries producing commodities will be dependent on cutting costs as a permanent strategy.

Products on the other hand, imply differentiation based on endowments created by innovation and entrepreneurship. Competition does not require a permanent strategy of cutting costs.

Historically, Jamaica's production systems have been biased towards the production of commodities. Our drive for industrialization ultimately accelerated the undermining of agriculture. Jamaica's industrialization strategy of the 1950s and 1960s (outside of bauxite and alumina) was based on low skill, low wage labour, with labour drawn from the rural areas migrating into the city. These low paid workers had to be given access to low cost food. We could not have high cost food and low wages. So food: rice, flour, saltfish, etc., were imported at subsidized prices. This was necessary if low wage rates were to be kept. This approach had a very negative effect on the agricultural

sector. It could not compete with imported cheap food. In this way, we cemented the strategy of low wage and low skill approach to development. This is a very hard legacy to break. In a sense, this strategy must be abandoned if we are to break the cycle of poverty.

A country that has rooted its production in commodities will be forced to compete based on the constant cutting of costs, including labour. If productivity of labour is not growing, then wage costs cuts, via devaluation of the exchange rate is likely to be a constant feature of economic strategy. This is a recipe for persistent poverty.

There is no future out of poverty unless we resolve as a nation to use our creativity and entrepreneurial drive to produce high value products that are globally competitive. This is the only basis on which we can begin to pay workers high salaries in order to raise living standards. We cannot base our future on the production of commodities only and expect to create a wealthy society.

One of the strategies often put on the table by firms and industry facing global competitive pressures, is for government to find subsidies to protect them. I have no philosophical position for or against subsidy. They are neither good nor bad although they do create distortions. The question is: can the country afford it? Rich countries can do so more than poor ones. It is as simple as that.

Subsidies will have to be paid for as nothing is really free. The questions that I pose are for all industries seeking subsidies:

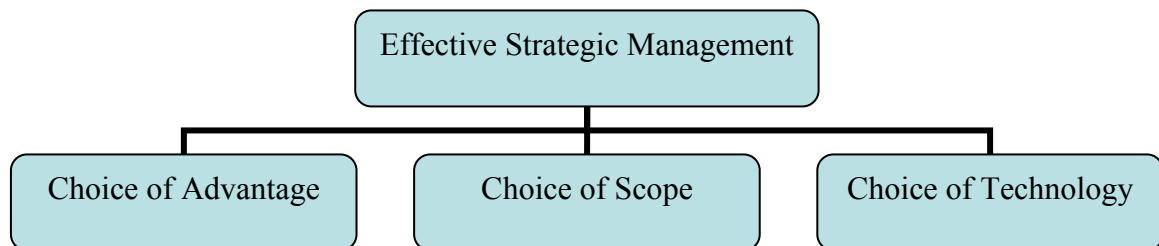
- (i) Who should pay? (ii) For how long? (iii) Will those who pay benefit and how? And
- (iv) What will those who get the subsidy do with it?

The economy will grow but it has been significantly affected by significant shocks: four hurricanes within a one-year period; oil prices increasing by almost 70%,

and worsening the balance of payments situation and exacerbating an already significant trade deficit. The rapid increase in oil prices over the last year has added nearly US\$300 million to our import bill. Katrina was another significant shock that hasn't even been fully factored in as yet.

Nonetheless, there are great prospects for the future in terms of increased investment flows. There are also great prospects for the agricultural sector.

Planning for the future entails identifying opportunities and taking advantage of the said opportunities. I commend you on your effort at being proactive in developing a National Plan of Action. The thrust of the JLA's National Plan of Action must be strategic planning. Priorities have to be identified and pursued relentlessly.



Effective strategic management relies on the combination of three strategies: choice of advantage, choice of scope and choice of technology. It can assist in your prioritization. First, you need to decide where your long term competitive advantage lies. Further, you need to decide the extent to which this competitive advantage can be

facilitated and achieved. You also need to determine the technological requirements that are necessary to ensure the sustainability of the National Plan of Action. In other words, I see a need for you to focus on truly strategic issues, rather than being bogged down with tactical or operational issues.

The SWOT analysis in the study by Jabico and Jennings “The Current State of the Jamaican Cattle Sector” is excellent. However, the recommendations have some of the standard weaknesses found in many reports coming from the traditional sectors. There is an over dependence on governmental action. There is also an over emphasis on supply side issues. There is insufficient discussion of strategies to enhance demand and development of value-added products to match consumer patterns and tastes.

I foresee four main strategic issues and opportunities that can benefit the JLA significantly. These are: (1) the increasing demand for beef and dairy products. (a) Demand for animal protein in China is estimated to be growing annually by 1.1% while supply is only growing by 0.8%. There is a likely to be an annual demand deficit of 0.3%. In a country the size of China, this is huge. (b) The local market can also be expanded. Domestic demand can be driven on taste, health concerns and quality assurance. Jamaicans are not going to ignore a product that caters to the unique Jamaican taste; is safe and healthy; and is first-class. The industry, therefore, has to develop and nurture this niche market.

(c) Tourism’s impact on the domestic economy can be quite significant. Tourism, which is slated for major expansion is a most resilient industry. It bounces back readily from shocks and has significant linkages with other industries. The expansion of the

tourist industry will therefore also impact on demand in the cattle sector. There will be a fifty percent increase in hotel rooms over the next five years. This will increase the demand for beef and milk products if the quality and delivery time meet world standards. To complement this expansion, the Chinese have signed an agreement to send 200,000 visitors here annually. So, rather than export the meat to China, we can bring them here to eat.

One of the greatest challenges that the JLA faces is encouraging private investment. I agree in particular with the JLA's recognition that the revitalization effort "should be private-sector led."¹ The Government of Jamaica (GOJ) should be there only as a facilitator and enabler. It is private investment that is needed to jump-start the sector. The JLA needs to effectively lead stakeholders who are able to bring all the private sector entities together and both argue and present effectively the case for investment in the sector. This requires detailed analysis to satisfy prospective investors that there is a worthwhile rate of return on their investments and that the investment can eventually be self-sustaining and profitable. To achieve this may require new approaches than that used in the past. What about partnerships with foreign investors?

To take advantage of the opportunities identified in the study, certain capacities have to be built. These include: adherence to the Sanitary and Phytosanitary (SPS) Standards of the World Trade Organization (WTO); investment in market research and aggressive marketing; investment in newer and relevant technologies; and massive inflow of investment from the private sector.

¹ Jabico Investments Limited and P.G. Jennings. 2005. *The Current State of the Jamaican Cattle Sector: A Study Commissioned by the Jamaica Livestock Association Limited*: xi.

Increasingly, levels of trade are not being determined by tariffs and quotas but by non-tariff issues such as sanitary and phyto-sanitary standards which speak to quality. SPS standards are critical, especially given the fact that the JLA plans to target the overseas market, whether directly or via the tourism sector. SPS standards are inextricably linked to technical competence.

Technical competence is important as this is the principal driver of change. Laboratories have to be equipped and the requisite technical personnel have to be on hand to conduct proper scientific tests. These will ensure that our standards are world-class. The SRC can also play an integral role because this institution can assist in developing capacity by utilizing technology that enhances strains of grass so that they can better influence cattle yield and quality (extension services). The SRC will only play the required role if there is genuine partnership with the industry. We cannot simply write down that the SRC should do this or that and leave it there. Someone must lead the process. It has to be driven. Investment in technology requires private investment inflows.

The industry needs to invest in market research. There is the need to employ the services of economists and other specialists to help determine the long term demand possibilities for the sector.

I believe that concessions to a sector should have a known lifespan. This lifespan may coincide with the offer of incentives for increasing productivity and quality output in the sector. This is one way of increasing competitiveness within the sector and promoting innovation.

In closing, I affirm that the cattle sector in Jamaica is facing a great challenge. I also affirm that it needs assistance both from the GOJ and the private sector. I applaud the initiative of the JLA in commissioning a study to ascertain where the sector is, now, so as to map a course for the future. There are many challenges, opportunities and realities confronting the JLA. But, everything cannot be done at once. The JLA needs to prioritize and plan strategically. But, that is why collaboration and consultation are so important in drafting this National Plan of Action.

If I might quote Michael Fairbanks (Financial Gleaner of 16/9/05) “Jamaica’s current belief systems, attitude and goals are anti-development overall. Jamaicans don’t believe in competition, are not optimistic about the future, and don’t trust each other”. If these are the attitudes and values that permeate the cattle sector, it will be difficult to convince bankers or the holders of capital to put money into the sector. I sit on the DBJ Board, and I can say without fear of contradiction that we are biased towards the agricultural sector. We bend over backwards to support the sector, but it is very difficult to support an industry when all we hear from the leaders is a constant chant of the problems and no clear plan for a positive future.

If the cattle industry has a future, and I do believe it does, let us embrace competition, let us outline a clear strategy for the future and be positive about it, and very importantly, let us build trust among the players. Finally, let the leaders lead by getting things done!