REPORT OF THE DAIRY COMMISSION OF INQUIRY

NOTES ON GOVERNMENT REACTIONS TO VARIOUS RECOMMENDATIONS BY THE COMMISSION

As a result of certain public and Government unease in the present running of the Dairy Industry, the Minister for Agriculture and Animal Husbandry appointed a Commission of Inquiry last year under the Chairmanship of the Hon. M. Kibaki, M.P., Assistant Minister for Economic Planning and Development. The Terms of reference of the Commission covered all aspects of the Industry to enable the Government understand and, where possible, solve various existing problems in the Industry and at the same time formulate a policy to reach certain goals.

A detailed report was subsequently submiteed to the Government for careful consideration. The report is now ready for publication and the purpose of this note is to enable whoever studies the report to understand Government's reaction to the more important recommendations made by the Commission, as the Government was not committed to accept all or any such recommendations. This note should also serve to dispel any fears that any dairy farmer may have held on reading newspaper reports not originating from Government sources. It outlines a skeleton "Plan of Operations" of the Industry in future.

TERMS OF REFERENCE, (a): NATIONAL HERD:

Recommendations as outlined in paragraph 39 of the report are acceptable to Government. Implementation of some of these recommendations are already in operation. For instance, arrangements are at an advanced stage to establish a Police Mobile Unit to combat stock thefts; the Agricultural Development Corporation has already been formed and is in the process of buying up National Farms to increase the National Herd while work by the Lawrence Commission on Land Consolidation is already in progress. It is the intention of the Government to implement all the recommendations outlined under paragraph 39 in due course.

TERMS OF REFERENCE (b): DELIVERY OF PRODUCE TO PROCESSING FACTORIES - PARA. 45

The Government agrees with all the recommendations under this paragraph. The Industry to-date operates on these lines.

TERMS OF REFERENCE (c): PROCESSING FACILITIES - PARA. 53

The Government accepts the recommendation.

A development and marketing plan indicates that by 1970 the Industry should be able to handle double the dairy produce handled in 1964. Some of the funds for the implementation of the plan would come from the Industry, commercial banks and the U.N.I.C.E.F. The present K.C.C. factories have been developed during the last couple of years to such an extent that they can cope with much more than is the case today. The marketing plans put forward indicate that much more produce could be sold at fair returns.

TERMS OF REFERENCE (d): QUOTA, CONTRACTS & EQUITABLE PRICE STRUCTURE - PARA. 118

At present the marketing system of dairy produce is a complex one. There are three market levels:-

(i) a limited market for liquid milk for consumption as such. This gives the best returns;

(ii) an expanding market for milk for the manufacture of cheese, condensed milk, ice cream etc. This gives moderate returns and

(iii) an unlimited market for butterfat for manufacture into butter and ghee. This is not as lucrative as (i) and (ii) above. But this level of marketing is recommendable to the less

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developed parts of the country. Indeed the K.C.C. was built upon a butterfat basis and this even to-day accounts for about half the industry's produce.

To ensure proper channelling of dairy produce into appropriate market levels, a stringent control and a complex price system have been in operation.

COMMISSION RECOMMENDATIONS:

(1) Agreed, provided that this incorporates (10) below.
(2) Agreed.
(3) Agreed.
(4) Agreed.
(5), (6) & (7): Government considers that these three recommendations would operate against the interests of both present and future African dairy farmers because:-

(a) Although Contracts, which allow a variation in supplies, will eventually replace quotas, both will be needed for some time. The Commission recommended that quotas must be retained until the new Authority was satisfied that the consumers would get all the milk they needed without quotas in the dry season. The recent drought showed that this is not likely to come about quickly.

As a quota requires the farmer to supply the quota quantity daily throughout the year, dry season or not, it is necessary to pay a premium for quota milk to enable the farmer to provide extra fodder and feed for his cows in bad times. This costs money, so the Commission agreed it was necessary to pay a premium for quota milk.

If quotas are not transfereable, new milk producers will not be able to earn this premium.

(b) If, as the Commission recommends, the quota remains fixed to a particular piece of land, the only way a new milk producer would got a quota would be to buy a farm with a quota attached. A farm with a quota would be worth more than a similar farm without a quota, which means that buyers would, in fact, pay for thequota when they bought the farm.

(c) Many quotas have, up to now, been transferred from the former scheduled areas to the former non-scheduled areas, and this is in accordance with Government policy to lay the greater accent on the small scale farmer.

This transfer would be impossible in future if the quotas were tied to the land or were not transferable.

(d) The Ministry of Lands & Settlement must be free to transfer quotas from one area or one farm to another, otherwise many of our people who are being settled by that Ministry would be unfairly treated.

(e) New dairy farmers now own nearly half the total quotas and within a few months it is expected they will own the majority, if transfer is permitted.

(f) Because of premium paid for quota milk, a quota has a definite value to an efficient farmer. Government considers that so long as quotas have a value - which is likely to be for some time - farmers should be permitted to sell or transfer their quotas. Government considers it would be most unfair on the large number of African farmers who have quotas if they were not allowed to sell them if they wish.

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APPENDIX 4 (a)

KENYA CO-OPERATIVE CREAMERIES LIMITED

PLANT CAPACITIES
DAIRY

(a) KCC'S EXISTING FACILITIES FOR THE DAILY RECEPTION AND HANDLING OF LIQUID MILK
NOVEMBER 1964

(all details in gallons)

	MILK RECEPTION FACILITIES			PROCESSING FACILITIES		
	Unprocessed Milk from Producers	Processed Milk transferred from other factories	TOTAL	For Sale as liquid milk	For Manufacture	TOTAL
NAIROBI	12,000	13,000+	25,000	22,000	3,000*	25,000
NAIVASHA	8,000		8,000	4,000	4,000	8,000
NAKURU	16,000		16,000	12,000	4,000	16,000
ELDORET	18,000		18,000	14,000	4,000	18,000
	54,000	13,000	67,000	52.000	15,000	67,000

+ for transfer in bulk only

*could be increased to 4,000 given the market.

Note: This is the basic situation and can be altered in minor ways by permutation.

(b) BUTTER AND GHEE

The existing Butter and Ghee manufacturing plant has processed 1[illegible],602,000 lbs of butter and ghee in one year, viz: 1962/63. It is estimated that the present plant could handle an increased throughput of up to $33\frac{1}{3}\%$.

(g) Kenya is not the only country with a quota system. Most of the major exporting dairying countries have found it necessary to operate some form of quota to control sales to the internal milk market. The Government however considers it vital that the new Authority must exercise strict control over the sale and transfer of quotas because:-

(i) K.C.C. is receiving now from suppliers in December, 1965, 65,000 gallons per day as milk through its creameries at Eldoret, Nakuru, Naivasha and Nairobi, and at Mombasa and Kisumu.

(ii) K.C.C. also receives cream representing another 65,000 gallons of milk a day supplied to its creameries at Kitale, Eldoret, Molo, Nakuru, Thomson's Falls and Nanyuki, and to Mariakani.

(iii) Of this total production of 130,000 gallons per day, only 43,000 gallons per day is sold as whole milk for consumption in the main towns.

(iv) There are, therefore, 130,000 gallons a day available for sale, but the market is only 43,000. If everybody was allowed to sell his milk freely in the towns himself, there would be much more milk than could be sold, and so the price would be very low and much milk would go sour. It is therefore necessary for the Industry to control the supply and it does so by quotas.

(8): Agreed, provided the review will be with a view to raising Contract Prices nearer Quota Prices.

(9): Agreed in principle. New authority to investigate practicability.

(10): Agreed.

(11): Agreed. This already in operation in K.C.C.

(12): Agreed.

(13): Agreed, provided that this is not taken to mean that collection of milk must be undertaken from all areas. Para. 113 makes it clear that the Commission, in fact, commends that milk should be supplied from areas as near the processing factories as possible.

(14): Agreed.

It may be worth noting here that the KCC & KDB have, in fact, already most of the commissions recommendations over quotas, contracts & price sturcture. A simple paper in Swahili and English on this subject has already been sent out to all KCC Members.

T TERMS OF REFERENCE (e): METHOD OF CONTROL - PARA. 132

(1) The Government agrees in principle.

(2), (3), (4) & (5) Agreed.

(6) The proposed composition of the Commission to be on the following lines:

(a) A Chairman appointed by the Minister;
(b) The Managing Commissioner;
(c) Not more than two persons appointed by the Minister, who in his opinion possess special knowledge of the dairy

industry likely to be of nenefit to the Commission;

(d) two persons from each election area elected in a manner to be prescribed in the new Kenya Creameries Act;

(e) not more than three persons appointed by the Minister who, in his opinion, possess special knowledge, ability, business experience or other qualifications or experience likely to be of benefit to the Commission;

(f) not more than three persons who have managerial, technical and marketing experience may be nominated by the Commission from those within the industry.

(7), (8), (9), (10), (11), : Agreed.

(12) Government accepts in general the principle the intention expressed, but the Constitution of the Republic of Kenya does not permit the following of the recommendations exactly.

(13) Government concurs and intends to negotiate an agreement acceptable to both parties.

(14) Government will examine the possibility of underwriting any Bonds that may be issued by the Commission.

(15) Government accepts that there should be no break in contractual obligations and liabilities, staff contracts, Pension commitments or other business agreements, etc., that KCC may have.

(16), (17), & (18) : Agreed.

<u>TERMS OF REFER NCE</u> (f) : <u>CO-OPERATION WITH TANZANIA & UGANDA - PARA. 133</u>

Agreed in principle.

<u>TERMS OF REFERENCE</u> (g) : <u>GENERAL - PARA. 134-138.</u>

Para. 135 - Agreed.

Para. 136 - Agreed.

Para. 137 - Agreed. Government attaches great importance to the National Herd and cream collection centres.

Para. 138 - Government is acting.

IX. <u>DAIRY INDUSTRY ACT.</u>

The Minister for Agriculture & Animal Husbandry intends to present a Bill in Parliament in the very near future setting up a new Commission. While the Bill does not lay down the details as to how the new Commission will work, it gives the Commission the necessary powers to manage the Industry.

Details in the Bill will be published in the Kenya Gazette within the next ten days or so.