

# Submission by the Tasmanian Government to the Inquiry into the performance of Australia's dairy industry and the profitability of Australian dairy farmers since deregulation in 2000

November 2019

## Introduction

The Tasmanian Government welcomes the opportunity to provide a submission to the *Inquiry into the performance of Australia's dairy industry and the profitability of Australian dairy farmers since deregulation in 2000*.

Tasmania's agriculture sector is a key pillar of our State's economy. It underpins prosperity in our rural and regional communities, and will be a vital driver of economic growth in the future. In 2017-18, the farm gate value of Tasmanian agriculture (excluding forestry, aquaculture and fisheries) was \$1.60 billion, an increase of 9.1 per cent. Tasmania contributed 2.7 per cent of Australia's overall value of agriculture from only 0.4 per cent of Australia's agricultural area.

Over that period, the dairy industry set a production record to once again be Tasmania's highest value agricultural industry, worth \$429 million at the farm gate. In the last 10 years, Tasmania's milk production has grown by over 28 per cent, and it is now the third largest milk producing State in Australia. These figures demonstrate the importance of Tasmania's dairy industry not just to Tasmania, but to Australia.

The Tasmanian Government acknowledges with concern the difficulties that other Australian dairy producing regions are experiencing, particularly those impacted by drought. We welcome all appropriate efforts to assist those businesses.

However, the cause of these challenges are varied and cannot necessarily be attributed to deregulation that was initiated by the dairy industry 20 years ago.

It is widely acknowledged the impact of deregulation at the farm level varied across the different states of Australia, with a greater impact felt by those states reliant on fresh milk markets, that once attracted a higher regulated price.

Tasmania is less reliant on drinking milk markets than some other States, with the majority of Tasmania's production going to milk powder and cheese products.

Tasmanian dairy farmers benefit from a sustainable, low-cost, pasture-based production system, underpinned by reliable rainfall and increasing irrigation infrastructure. This translates to lower costs of production and a more reliable milk supply, when compared with many dairy districts both in Australia and internationally.

While we note there has been some challenging times for Tasmania's dairy sector, the local industry has responded and grown since deregulation.

## Tasmania's Sustainable Agri-Food Plan 2019-23 and AgriVision 2050

As the world population continues to grow, food production will need to keep pace with this expansion. By 2050, the world's population is expected to reach more than nine billion people, and food production will need to increase by 70 per cent. With the growing Asian middle class demand for higher protein diets, and an increasing demand for fresh, quality food, Tasmania has a remarkable opportunity to leverage our competitive strengths in agriculture – rich soil, a favourable climate, abundant water, enterprising farmers and a premium brand – to significantly expand our agricultural industries and food manufacturing capacity.

The Tasmanian Government, in partnership with the agricultural sector, has made a commitment to grow the farm gate value of the Tasmanian agricultural sector to \$10 billion per year by 2050 (AgriVision 2050). *Tasmania's Sustainable Agri-Food Plan 2019-23* is our blueprint for achieving the growth needed to meet this target. Sustainable growth of the state's dairy industry both in production and in value will contribute significantly to that target.

## Tasmania's Dairy Industry

The performance of Tasmania's agricultural sector is detailed in the annual *Tasmanian Agri-Food ScoreCard*, which measures and reports on the value and final market destinations of the State's agriculture, food and beverage production. The 2017-18 edition, released at the end of September 2019, highlighted excellent growth in Tasmania's agri-food sector, underpinned by the strong performance of pasture-based livestock industries.

Dairy is Tasmania's biggest agricultural industry and a key contributor to the Tasmanian economy. Despite extended warm and dry periods in 2017-18, the availability of irrigation water and favourable prices at the farm gate saw the dairy industry set a production record of over 910 million litres to be worth \$429 million at the farm gate.

The Tasmanian industry is growing strongly, outperforming the national average for investment returns and producing around 9.8 per cent of Australia's total milk volume. In recognition of this, many major processors have invested heavily in Tasmania over the past decade, attracted by the quality of Tasmania's dairy produce, the expertise of Tasmanian dairy farmers, and the strength of Tasmania's pasture based systems, which provide some of the lowest costs of production in the world.

The Government remains focused on the enormous potential of dairy in Tasmania, which is viewed as a priority industry. It has benefitted both directly and indirectly from a number of government programs and initiatives over a number of years, many of which are outlined in this submission.

## Responses to the Terms of Reference

The performance of Australia's dairy industry and the profitability of Australian dairy farmers since deregulation in 2000, with particular reference to:

- a. The ability of Dairy Australia to act independently and support the best interests of both farmers and processors;
- b. The accuracy of statistical data collected by Dairy Australia and the Australian Bureau of Statistics;

c. The funding of Dairy Australia and the extent of its consultation and engagement on the expenditure of levies revenue;

Dairy Australia is the national services body for the dairy industry. It is one of 15 Rural Research and Development Corporations (RDCs) jointly funded by the Australian Government and compulsory industry levies.

RDCs such as Dairy Australia are placed under frequent scrutiny. This includes a review completed in March 2019 by Ernst & Young, and another review currently underway commissioned by the Australian Minister for Agriculture, Senator the Hon. Bridget Mackenzie.

In Tasmania, Dairy Australia's program is provided by its local delivery arm, DairyTas. DairyTas is a well-respected and active organisation within the Tasmanian dairy industry, delivering both Tasmanian-specific and Australia-wide dairy research, development, extension and education activities that help dairy farmers build robust and sustainable businesses.

The Tasmanian Government has no concerns to raise regarding the accuracy of farm gate data collected and reported by Dairy Australia and the Australian Bureau of Statistics. It is noted that the data is more comprehensive and accurate than the data collected and publicly reported for many other industries.

The Tasmanian Government collaborates frequently with DairyTas. For example, in July 2019, Tasmanian Minister for Primary Industries, the Hon Guy Barnett MP, announced a grant of \$300 000 to DairyTas to support a suite of programs to assist the further growth and success of the Tasmanian dairy industry to support the industry to successfully prepare for evolving ownership structures, larger herd sizes and increasing labour challenges.

d. The merits of tasking the ACCC to investigate how it can regulate the price of milk per litre paid by processors to dairy farmers to ensure a viable dairy industry

The Tasmanian Government does not believe that price regulation is an appropriate response to the issues currently affecting some Australian dairy regions. While Tasmanian farmers have experienced the highs and lows of farm gate milk prices, they are currently experiencing record highs. and as already referred to, at an industry level Tasmanian dairy has grown.

It is true that market power disparities between producers and processors can create concern in dairy as well as in many other agricultural industries. The mandatory code of conduct (discussed further below) currently under development is a constructive way to address this imbalance, and the Tasmanian Government will monitor its implementation with interest.

e. Alternative approaches to supporting a viable dairy sector

As detailed earlier, the Tasmanian Government's approach to supporting a viable agricultural sector is set out in *Tasmania's Sustainable Agri-Food Plan 2019-23*. Government initiatives focused on realising the benefits of irrigation; targeted research, development and extension; increased on-farm productivity; career pathways and skills development; and enhanced profitability are focusing effort on those industries and components of the value-chain that have the greatest long term prospect of contributing to growth in the agricultural sector.

As a leading agricultural industry, and a significant regional employer, the dairy industry is a key part of this Plan.

## Industry support

In its 2018-19 budget, the Tasmanian Government committed \$900 000 over four years towards its *Grow More, Milk More, Make More* initiative. To date \$300 000 of this funding has been provided to DairyTas, to deliver a range of programs that have been carefully designed to respond to the evolving nature of the Tasmanian dairy industry and its component businesses. A further \$250 000 is being directed to support dairy farmers to undertake energy audits and invest in energy-saving or energy-efficient capital infrastructure.

Assistance has also been provided to help the dairy industry manage and respond to challenges. For example, the viability of the State's dairy industry faced a major challenge when the two major dairy processors in Tasmania dropped milk prices in mid-2016, at a time when Tasmania's dairy farmers were already managing very difficult seasonal conditions. The Government played a major role in the industry-led Dairy Taskforce, which was convened to coordinate the Tasmanian response. Grant funding previously allocated to DairyTas to attract new entrants was diverted into programs that were specifically aimed at helping existing farmers respond to the challenging conditions. The Tasmanian dairy industry managed to rebound strongly from these challenges in 2016 to set a new milk production record for the State in 2017-18.

## Business support

The Tasmanian Government recognises that the development of the dairy industry is important to the economic future of Tasmania and is supporting the development of new dairy processing businesses in Tasmania.

The Office of the Coordinator-General is the Tasmanian Government's principal entity to attract and support investment, which provides free confidential services and professional advice to investors.

There are growing number of businesses targeting niche premium markets, which can provide new options to producers, and reduce the exposure of the industry to changes in commodity prices in global markets.

Prospective new dairy businesses are able to apply for the AgriGrowth Loan Scheme, which provides low interest loans ranging from \$100,000 up to \$3 million for Tasmanian farm businesses or agri-food businesses. Since 2014 eight AgriGrowth Loans totalling \$10.3 million have been provided for new or extended dairy operations. Of these, six loans totalling \$7.9 million have been provided to young farmers under 45 years of age.

Dairy was identified as a key sector within the *Tasmanian Trade Strategy 2019-2025* (Trade Strategy). The Trade Strategy identifies strategic markets for growth in trade in the dairy sector to include the domestic Australian market, and focussed engagement in international markets. The Trade Strategy recognises Tasmania's temperate maritime climate provides a comparative advantage in a changing climate, particularly in relation to dairy production. The Trade Strategy outlines a number of initiatives and programs designed to increase trade, mainly aimed at premium niche markets nationally and internationally, including the Accelerating Trade Grant Program, which assists Tasmanian businesses to collaborate, expand their presence and introduce Tasmanian products and services to the world.

The Tasmanian Dairy Industry Authority (TDIA), which ensures that dairy products manufactured in Tasmania are safe for consumers, works closely with enterprises establishing new dairy processing factories in Tasmania. The independent statutory government authority works closely with potential and existing dairy businesses and offers a program of subsidised training courses.

### Research, development and extension

Investments in research, development and extension will be fundamental to achieving a competitive dairy industry. The *Growing Tasmanian Agriculture Research, Development and Extension for 2050 White Paper* is our plan for achieving future productivity gains and innovation in Tasmanian agriculture. Through a Joint Venture between the Crown and the University of Tasmania, the State Government is investing \$28 million over five years into the Tasmanian Institute of Agriculture (TIA) for the delivery of RD&E. The University of Tasmania also invests in TIA directly and leverages research funding through the National Rural Development Corporation arrangements and other partners.

Dairy is a major focus of TIA, largely through its highly regarded Dairy, Grains and Grazing Centre. One of its key programs is the development of technologies and strategies for nutrient and fertiliser applications, to help Tasmanian dairy farmers protect and improve water catchment quality. This has been a major issue in other regions where the dairy industry has expanded rapidly.

The *Agricultural Research, Development and Extension Principles and Investment Strategy* provides the principles and strategy to guide the Tasmanian Government's investment in RD&E. Within this strategy an Agricultural Innovation Fund has been established to address emerging opportunities and issues that will directly impact Tasmanian agriculture.

An additional \$7 million will also be provided to modernise our Crown and TIA research farm assets to create centres of excellence for practical research and demonstration.

### Infrastructure

As an island state, Tasmania is presented with particular challenges for transporting (particularly freight logistics) dairy products to interstate and international markets.

The State Government, through Infrastructure Tasmania, is rolling out a 10-year Infrastructure Pipeline involving \$15.2 billion expenditure on 265 infrastructure projects to be delivered across the State over the next decade including roads, rail, energy, irrigation, ports, airports and communications. Of note is \$70 million committed to the State-owned company Tasmanian Irrigation Pty Ltd for the Pipeline to Prosperity program (Tranche 3) to deliver at least the first five of ten possible new irrigation projects across Tasmania to provide additional high surety water for sustainable agricultural growth (<https://www.tasmanianirrigation.com.au/pipeline-to-prosperity>). These projects are being co-funded by an additional \$100 million commitment from the Australian Government from the National Water Infrastructure Development Fund.

Building on the planning and work on projects under the 10-year Infrastructure Pipeline, the Tasmanian Government has also developed a comprehensive Infrastructure Strategy which sets a course for the next 30 years to create the best possible long term future for the State.

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| f. The introduction of a mandatory industry code of practice |
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As noted above, there are frequently concerns expressed by producers about the perceived market power advantage that processors have in their dealings with individual producers, especially where these processors are large and sophisticated multi-national corporations.

The Tasmanian Government is therefore supportive of the proposed introduction of a mandatory dairy code of conduct, which the Australian Government announced it would pursue in March 2019. The proposed code should simplify some aspects of the supply agreements, and restrict or prohibit some of the conduct that has previously caused significant financial hardship to producers, such as retrospective price step downs.

There is a need for this initiative to be very carefully developed, and then closely monitored - with industry -once it is implemented, as even less intrusive market intervention can have unintended and negative consequences if not managed appropriately.

## Conclusion

The Tasmanian dairy industry has thrived primarily as a result of the State's natural competitive advantages in dairy, but it has also benefitted from the strong support it receives from Dairy Australia (though DairyTas), TIA, the TDIA and the Tasmanian Government - both in the good times and the bad.

Tasmania greatly appreciates collaboration with the Australian Government and welcomes the opportunity to continue to work in partnership in areas of mutual interest.