Department of Primary Industries, Parks, Water and Environment, Tasmania

Submission to the Australian Senate Economics Reference Committee Inquiry into Competition and Pricing in the Australian Dairy Industry

October 2009

PREFACE

This submission focuses on the importance of agriculture and the dairy industry in Tasmania, and the provision of selected, more detailed information to inform the Committee relating to terms of reference (a), (b), and (d). Some general comments are also made on the application of the *Trade Practices Act 1974*.

THE DEPARTMENT OF PRIMARY INDUSTRIES, PARKS, WATER AND ENVIRONMENT (DPIPWE)

This Department was formed only in July 2009, but it reflects a return to a previous structure (1998-2002 and in part, to 2006). It represents a broad-spectrum natural resource management agency, responsible for (among other things), agricultural policy, biosecurity, water management, the conservation of natural values, environmental regulation, and the management of Tasmania's very large reserved land estate.

The Department has also pioneered an approach to research, development and extension (RD&E) that operates through a partnership with the University of Tasmania. In agriculture, this is through the mechanism of the Tasmanian Institute of Agricultural Research (TIAR). DPIPWE is thus in a position to provide a perspective that draws on many relevant strands of policy and RD&E, on behalf of the Tasmanian Government.

THE PLACE OF AGRICULTURE IN TASMANIA

Agriculture is a major driver of the Tasmanian economy in terms of both farm production and value adding processing, post farm gate.

National accounts data confirms agriculture is more important to the Tasmanian economy than to that of any other State. It accounted for 4.6% of Gross State Product in 2007-08, which is twice the contribution agriculture made at the national level. This in fact greatly understates its true impact, as the flow-on effects of both agriculture itself and the large processing industries that it supplies are much larger.

The place of agriculture in the State is more important even than its economic value suggests. The State has a highly decentralized population. For those in the State's many small towns, agriculture is central to their local economy and society, as it is elsewhere in rural Australia. But even in the cities, people live within a few minutes of rural land, and the disjunction between urban and rural lifestyles, so evident in large mainland cities, is almost wholly absent. Tasmanians know and care about the State's farming sector to a quite unusual extent.

Tasmania already has a large net food surplus, with almost 70% of food produced in Tasmania being sold interstate or overseas. Increased production of food in Tasmania has resulted in growth of interstate sales rather than of export markets. The Tasmanian Food Industry Scorecard (DPIW Food Industry Scorecard, 2006-07) reports that total annual interstate food sales now approach $1.3 billion, compared with $0.5 billion worth of overseas sales. Much of this food is high-value. Tasmania is thus an increasingly valuable and appreciated "brand" in the Australian food and beverage marketplace, particularly (as well as internationally in other sectors such as fine wool).

Tasmania's branding builds on various well known and appreciated advantages: well managed natural resources, relatively abundant and accessible water, freedom from genetically modified organisms, relative freedom from significant pests and diseases, and legislative controls preventing use of hormone growth promotants in cattle. These characteristics, however, generally confer a market access advantage rather than a significant price advantage that is reflected at the farm gate. For the State as a whole, nonetheless, agriculture is seen as a key economic driver into the future, and the ongoing viability of the farm sector is therefore of critical concern to the Government.

In short, agriculture is not in any sense regarded in Tasmania as a declining industry to be "adjusted" to ever lesser relevance, but as a central part of the State's economy into the future, and a focus of innovation in its own right.

To support agriculture in general, the State Government has introduced a range of initiatives, summarised here:

(1) Research, Development and Extension (RD&E). This has already been touched on, but in light of the commitment to innovation in agriculture, it is worth restressing the importance the State places on this activity. The cooperative model embodied in TIAR was a deliberate effort to maximise the efficiency and effectiveness of this small State's RD&E resources, and to encourage genuinely integrated thinking and actions.

(2) Water and other innovation opportunities. As already indicated, agriculture is not only a large existing industry in Tasmania, but it is one that is considered to have great potential. The Government's central focus on innovation includes an intention to support the rapid growth of agriculture in the State, based on expanded irrigation infrastructure and a range of policies to promote excellence in the industry.

(3) Biosecurity. The Tasmanian community and government have long pressed a particularly strong argument in relation to biosecurity in general. This reflects the State's island nature, and a very widespread consciousness of the specific differences and advantages that this delivers. Thus the State will continue to argue for the strongest measures that are practicable, and consistent with international obligations, to preserve the country and this State from new pests and diseases. It will also continue to insist on its ability to apply measures that may be different from those in other jurisdictions, in acknowledgment of its unique biosecurity status and potential.

(4) Land use planning. This is a matter that lies almost entirely within the responsibility of the State, but is of critical importance in the longer term. Tasmania is unlikely ever to face the level of pressure on agricultural land that is posed by population and other pressures in parts of the mainland. But the

very decentralisation of the State's population means that the interface between urban or residential uses and agriculture is very widespread. The management of that interface has not been easy anywhere in Australia, but the Tasmanian Government has kept it firmly in view. The recently issued State Policy on the Protection of Agricultural Land 2009 is also supported by important improvements to the State's planning system. Among other things, these will help ensure that the planning issues around preserving the State's agricultural capability are well managed.

(5) Natural Resource Management and animal welfare. NRM in the broadest sense is considered a particularly high priority for Tasmania, due to its increasing reliance on the general perception of the island as a place with a high proportion of natural landscape, a distinctive temperate farming landscape, and an early and now well established "clean green" reputation. The Government is also very conscious that farmers as a group control a large proportion of our land mass. As custodians they provide services which sustain the resource for future generations and maintain the landscape in an aesthetically pleasing state and condition, in line with the expectations of the community in general. However, these services, from which the general community derives benefits, are provided by farmers at their own cost and often with little positive contribution to business profit.

Similar issues arise in the increasingly salient area of animal welfare, where changes in public expectations put pressure on farmers to make often expensive improvements to their farm systems. Yet these are in tension with price expectations, which tend to encourage systems such as battery egg farming or intensive pig stalls. In all these matters farmers have to manage complex balances, often especially hard for smaller producers, of whom there are many in most Tasmanian agricultural sectors. At the least, governments have to deliver clear policy settings, and where possible, national consistency.

THE IMPORTANCE OF THE DAIRY INDUSTRY IN TASMANIA

Only 13% of Tasmanian dairy produce is consumed in the State, 26% is exported overseas and 61% is consumed nationally as processed products. It has been a widely held view that overseas markets account for over 60% of sales, but detailed analysis by DPIPWE has shown that over the last 12 years overseas exports have fallen dramatically as a percentage of the total value of dairy produce (currently about one quarter).

To provide some context, the following table shows the most recent ABS figures on Tasmanian farm output. The proportions naturally vary annually, but it can be seen that farm gate production totalled about $1.15 billion in 2007-08. A little more than half (56%) was accounted for by animal industries. The most important individual sectors were dairy (29%), vegetables (21%) and meat (20%).

Gross Value of Agricultural Production – Tasmania 2007-08

	$m	$m
Cereals	20.9	
Other Field Crops - oilseeds, legumes, hay, nursery	104.9	
Other field crops - poppies, pyrethrum & Essential Oils	46.1	
Fruit	67	
Wine Grapes	27.7	
Vegetables	236.3	
Total Crops		502.9
Meat	229.4	
Wool	71.2	
Milk	332.4	
Eggs	9.8	
Total Livestock		642.8
Total Agriculture		1145.7

Source: ABS Value of Agricultural Commodities Cat No 7503.0

Dairy farming employs close to 1400 Tasmanians (2006 census data). Service providers and dairy manufacturers also employ a large number of people in regional centres in dairying districts such as Smithton, Wynyard, Burnie, Devonport, Deloraine and Scottsdale.

The Tasmanian dairy industry is a pasture based grazing system in which irrigation is used to reduce the production risk associated with the characteristic low late spring and summer rainfall. The Tasmanian Government is committed to ensuring Tasmania is a highly reliable supplier of dairy and other agricultural products through its commitment to support development of significant irrigation water storage and reticulation infrastructure. This investment will also provide sufficient incentive for dairying to expand into non traditional dairying areas with significant opportunities to capitalise on economies of scale.

Dairying is therefore an intensive, value adding Tasmanian industry. Consequently the fortunes of the dairy industry have a significant influence on the state economy as a whole as well as at the level of regional communities.

RESPONSE TO THE TERMS OF REFERENCE

The Department's submission focuses on these three parts of the terms of reference:

(a) The economic effect on the dairy industry of announced reductions in prices to be paid to producers by milk processors.

(b) The impact of the concentration of ownership of milk processing facilities on milk market conditions in the dairy industry.

(d) Impact of the concentration of supermarket supply contracts on market milk conditions.

Some comments are made on terms of reference (e): whether aspects of the *Trade Practices Act 1974* are in need of review having regard to market conditions and industry sector concentration in this industry. Then summary comments are made.

(a) Economic effect on the dairy industry of announced reductions in prices to be paid to producers by milk processors

The Tasmanian dairy industry has adjusted well to market conditions and seasonal variability over many years by the adoption of improved technology and increasing the scale of farm businesses. Chart one shows the ongoing fall in the number of dairy farms and the increase in Tasmanian milk production. There are currently 450 Tasmanian dairy farms. Chart two details the pattern of herd size change, which shows the average Tasmanian dairy herd is now 312 cows. This is higher than that of other States because Tasmania has proportionally more large herds of more than 550 cows. Tasmanian dairy farmers also have the lowest cost of production in Australia.

Chart 1: Changing demographics of the Tasmanian dairy industry

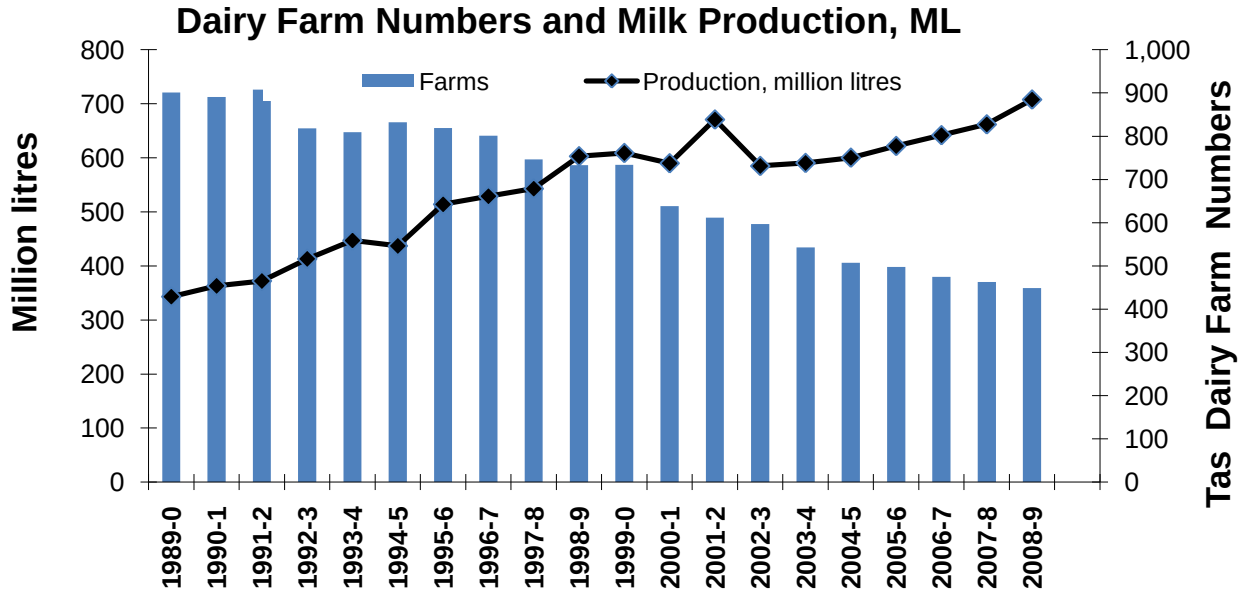
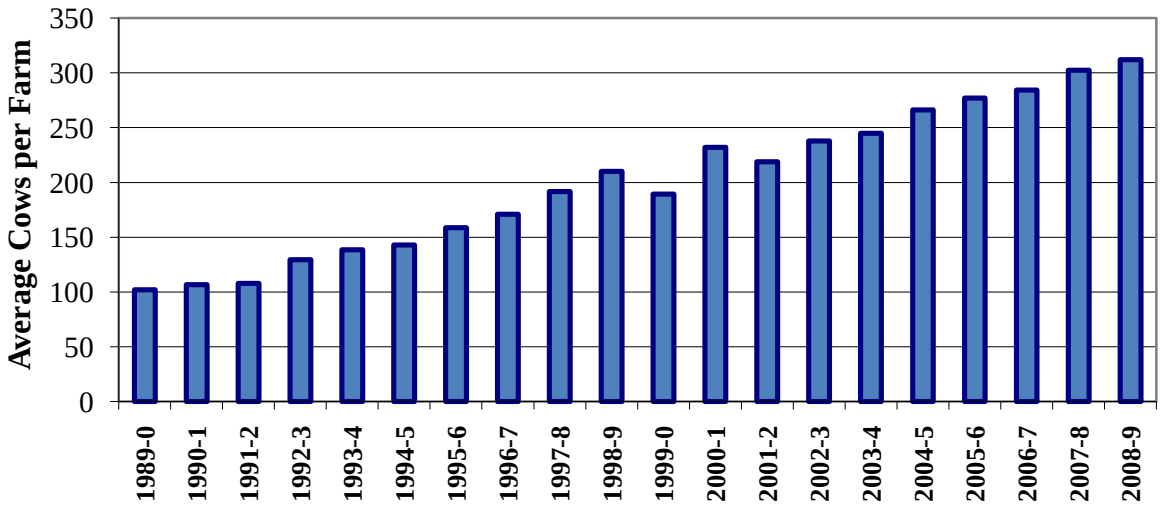


Chart 2: Average Tasmanian dairy herd size (cows per farm)



Average farm income and costs for typical Tasmanian dairy farms for 2005-6 to 2007-8 collected through the Tasmanian Institute of Agricultural Research (TIAR) dairy benchmarking program are shown in Table 1 along with the estimated income and costs for 2008-9 and 2009-10. (The methodology used to obtain the benchmarking information is provided as Appendix 1.)

Dairy farmers have been able to achieve satisfactory earnings before tax (EBT) for many years up to 2009-10 (Appendix 1 summarises income, costs and returns for nine years up to 2007-8).

Table 1: Actual and estimated dairy income and costs 2005-6 to 2009-10

	2005-6	**2006-7**	**2007-8**	**2008-9 est**	**2009-10 est**
Milk price, $/L	0.343	0.345	0.492	0.387	0.309
Other income, $/L	0.034	0.020	0.024	0.024	0.024
Total income, $/L	**0.376**	**0.365**	**0.516**	**0.411**	**0.333**
Animal costs, $/L	0.026	0.029	0.032	0.034	0.034
Feed costs, $/L	0.127	0.148	0.190	0.155	0.155
Overhead costs, $/L	0.136	0.142	0.146	0.150	0.154
Finance cost, $/L	0.030	0.039	0.048	0.040	0.040
Cost of production, $/L	**0.319**	**0.358**	**0.423**	**0.379**	**0.383**
Earnings before tax, $/L	**0.057**	**0.007**	**0.092**	**0.032**	**-0.050**

est: estimates

The recent decrease in milk prices by the three major processors (Cadbury, Fonterra and National Foods) means that dairy farmers are predicted not to achieve satisfactory earnings this financial year as the milk price is below the cost of production.

Benchmarking data for 2008-9 and 2009-10 are not available so income and cost estimates for both these years are provided in Table 1. The feed cost information for these years was estimated by reducing the 2007-8 purchased feed and fertiliser costs by 30%, fuel costs by 20% and electricity costs increased by 20%.

The milk price used for 2009-10 is 30.9 c/L. The National Foods letter of offer to suppliers dated 8 July 2009 estimated the company's average price over the season will be 29.68 c/L. Since that letter Fonterra have announced a 4% milk price step up (1.2 c/L) for their suppliers. The National Foods milk price is linked to the Fonterra milk price hence the 4% price step up will eventually be reflected to some degree in the price paid by National Foods.

The EBT estimated for 2009-10 is a loss of 5 c/L for a typical farm. A typical National Foods milk supplier produces 1.8 million litres annually and will experience a negative farm profit of $90,000 or 15% of farm income for 2009-10 with the currently announced milk price. The situation would be similar for Fonterra and Cadbury suppliers.

As the milk price for most of the Australian, and part of the New Zealand, dairy industry is below the cost of production it seems certain that milk prices will have to increase or supply from these markets will be lost. The uncertainty is how long it will

take for the milk price to move back to a sustainable level. The Australian export index prepared by Dairy Australia shows that international prices for dairy exports have increased in terms of $US. The appreciation of the $A means the international price increases are not being fully reflected in the prices received by Australian dairy exporters and hence in the price paid to dairy farmers.

Dairy farmers have limited scope to reduce costs from year to year. Average total operating costs shown in Appendix 1 have increased virtually every year over the past nine years despite fluctuations in the milk price over that time. There is however, considerable variation between farms in terms of financial management, technological uptake, the cost of production depending on the production system used and the level of finance costs.

The financial loss most farmers will experience this season will cause greater hardship for some farmers than for others.

Some dairy farmers have greater capacity to carry the loss than others. Rising capital values for the last few years mean the average equity level for Tasmanian dairy farmers is a safe 70% {equity = (assets – liabilities)/assets *100%}. Department of Agriculture Fisheries and Forestry (DAFF) data show that 180 Tasmanian dairy farmers had $9.3 million in farm management deposits (FMD) at March 2009, equating to an average FMD of $52,000. High equity and FMDs mean that many dairy farmers have financial reserves that can be drawn down to offset the cashflow deficit caused by the current milk price.

However, not all dairy farmers are in the fortunate position of having high equity and FMDs. Recent entrants to dairy farming, sharefarmers and farmers who have taken on large debts to expand production (who are often younger farmers) do not have the financial resources to survive a long period of negative cashflow. Decisions may well have been made to enter the industry based on historic (positive) milk prices.

Low milk prices have also caused some banks to tighten lending criteria for dairy farmers. Banking criteria for dairy farming finance are no doubt being influenced by both farmers' ability to service debt and concerns that land values will fall given the low milk price. The availability of bank finance will have a substantial impact on the ability of individual dairy farmers to continue to fund cashflow deficits.

The Australian Government through the provision of Farm Management Deposits does offer farmers the opportunity to minimise tax by making these deposits when surplus funds are available and redrawing them when income is reduced. However, early access to these Deposits has taxation implications.

Tasmanian benchmarking figures show that 25% of dairy farmers have less than 60% equity in their business. It is this group of farmers who are at risk of having to sell assets if the low milk prices continue. A consensus estimate from bankers is that if milk prices do not increase by the end of the current season then 10% of Tasmanian dairy farm owners will need to sell some assets to remain viable.

Most Tasmanian (and Australian) dairy farmers will erode their equity if current milk prices continue. If milk prices remain low for an extended period there will be adjustment costs and impacts for regional areas if dairy farmers are forced to sell assets and discontinue dairying. There will be flow-on impacts in those regions for contractors and other service providers.

The situation in Tasmania because of this season's negative cashflow has been compounded by an abnormally wet winter. The wet weather means pasture growth

has been slow, cows have suffered from exposure and milk production has been below budget for most farmers. Lower milk production and higher than planned feed costs because of wet weather means that the financial loss suffered by most farms will exceed what is estimated for 2009-10 in Table 1. Furthermore, high winds led to electricity disruptions. Fonterra and National Foods have assisted milk suppliers by either payments for milk loss or bonus payments.

The wet seasonal conditions plus electricity disruptions due to high winds has also impacted on milk processors. Budgeted milk intake for Tasmania's largest dairy manufacturer fell by 12% for the season to date. Milk intake for all dairy companies is below what was achieved last season.

The farm gate value of milk production for 2007-8 was $332 million. Dairy manufacturing adds 150% to the farm gate value of production. Regional cities and towns in dairying districts such as Smithton, Wynyard, Burnie, Devonport, Deloraine and Scottsdale will be the most affected by a prolonged downturn in milk prices and the decline in milk production if farmers are forced to exit the industry.

(b) The impact of the concentration of ownership of milk processing facilities on milk market conditions in the dairy industry

Tasmania dairy manufacturers and the number of suppliers to each manufacturer are shown in Table 2. The number of milk suppliers peaks each year in September. Supplier numbers for September 2009 are not yet available to be included in Table 2 but it is expected there will be more than the 420 suppliers shown for August 2009.

Table 2: Milk suppliers by milk company 2001 to 2009

	Sep 2001	Sep 2005	Sep 2006	Sep 2007	Sep 2008	Aug 2009
Bonlac/ Fonterra	345	310	299	297	287	277
Cadbury-Schweppes	71	54	50	45	42	40
Lactos P/L, National Foods	93	71	70	66	61	52
National Foods	42	34	32	32	32	34
King Island Dairies	25	23	22	21	18	17
TQM	41					
State	617	492	473	461	440	420

Source: Tasherd Pty Ltd

In 2001 Tasmanian dairy farmers were supplying six independent milk companies. By 2009 dairy farmers are sending milk to five dairy factories but there are only three independent (Cadbury, Fonterra and Betta) milk companies as Lactos, National Foods and King Island Dairies are all subsidiaries of National Foods. There has thus been a concentration of ownership of Tasmanian milk processors within Tasmania.

Dairy farmers now have less choice as to who they sell their milk to. In some dairy areas farmers have no choice between milk companies because only one company collects milk from that region.

Dairy farmers have previously had limited ability to switch their milk supply to another milk company. King Island dairy farmers have no capacity to supply an alternative factory. Cadbury, Lactos and National Foods factories have always operated at close to peak capacity and the factories would only take on new suppliers if it suited their requirements.

During 2009 National Foods lost a contract to supply approximately 12 million litres of milk annually to Betta Milk. The loss of this contract means National Foods is faced with an oversupply of milk and is forced to sell their surplus to other milk companies at a loss.

Fonterra have previously had a policy of encouraging additional milk supply in Tasmania. Fonterra's willingness to accept new suppliers and additional supply from existing suppliers has provided dairy farmers with an alternative to their existing milk company for at least the last decade. Fonterra's decision in 2009 not to accept milk from new supplier's means there is now no competition between factories for milk suppliers. Farmers are faced with the decision of either continuing to supply milk to their current milk factory or ceasing milk production.

Fonterra's willingness over previous years to spend capital to increase the capacity of their factories has provided a degree of competition between milk companies for suppliers. Previously dairy farmers have had the ability to switch their supply to Fonterra if they were not satisfied with the price or conditions offered by other milk companies.

A feature of the Tasmanian dairy industry is that the milk price paid by milk companies is strongly influenced by the price paid by Fonterra. Fonterra has the largest milk intake and collects milk from 66% of Tasmanian dairy farmers. Fonterra is the price leader and Cadbury and National Foods adjust the prices they pay according to movements in the price Fonterra pays its suppliers.

Milk prices in Tasmania are linked to the international market, despite the fact that the majority of milk products are sold nationally. The international market price coupled with the relative value of the Australian dollar therefore largely drive the local price.

All Tasmanian milk factories are now subsidiaries of multinational companies. As a result there is limited transparency in regard to the financial performance of the Tasmanian or Australian dairy component of these multinational businesses. The change in ownership and concentration of ownership of milk factories means that dairy farmers now have limited information available to them to identify where profits are being made along the value chain and hence farmers are less able to identify if they are receiving fair value for their milk.

With Fonterra it is possible to compare the price being received by Tasmanian and New Zealand suppliers to the company. After the recently announced milk price step up, Fonterra's Tasmanian suppliers have a milk price of around 28.6 c/L. Based on recent movements in international market prices Fonterra field staff are advising individual farmers that there may be another price step up this season. This could add another 4% to the milk price taking the price to 29.8 c/L.

The Fonterra website has a milk price forecast for Fonterra's New Zealand suppliers of $NZ4.60 per kg MS for the 2009-10 season. At current exchange rates this is equivalent to 29.1 Australian c/L. The milk price forecast for New Zealand suppliers is similar to the current price for Tasmanian suppliers hence Fonterra's Tasmanian and New Zealand milk suppliers seem to be being treated equally in terms of the milk price.

(d) Impact of the concentration of supermarket supply contracts on market milk conditions

Figures from the Australian Bureau of Statistics (ABS) confirm that the average retail milk price in six capital cities has fallen 7% on average from their recent peak price in 2007-08 (ABS catalogue 6403.1.55.001). In contrast the milk price paid to average Tasmanian dairy farmers has fallen by around 42% since the peak price of 2007-8.

In February 2009 the 11cents per litre Dairy Adjustment levy was abolished. The expectation was that retail milk prices would fall by a similar amount to the 11 cent levy. In the six months between December 2008 and June 2009 retail milk prices across Australian capital cities declined on average by 10 cents per litre (see Table 3). In Tasmania retail milk prices fell by 11 cents per litre.

ABS retail milk data are only available up to June 2009, so whether the fall in the milk price paid by dairy companies for the 2009-10 season is reflected in the retail prices not able to be determined. The State Government does not have the resources to monitor supermarket prices, however anecdotally national milk and milk product prices have not reduced in line with the percentage cut applied to Tasmanian farmers.

(e) Whether aspects of the *Trade Practices Act 1974* are in need of review having regard to market conditions and industry sector concentration in this industry

The objective of the *Trade Practices Act 1974* ("TPA") is to enhance the welfare of Australians through the promotion of competition and fair trading and provision of consumer protection (Section 2). As you would be aware, the Australian Competition and Consumer Commission enforces the TPA.

The Tasmanian Government is concerned about the impact of limited competition and concentrated market power within the State' milk processing sector on both suppliers and ultimately consumers of milk products.

Two aspects of the TPA and the enforcement particularly relevant within the context of the regulation of the dairy industry:

(i) Mergers and acquisitions; and
(ii) Unfair market practices.

Mergers of milk processors have been occurring across Australia and in recent years in Tasmania. As noted above, these market mergers have lead to decreased opportunities for dairy farmers to find alternate markets. The impact on competition of reduced opportunity for farmers to access different suppliers within geographical regions should be considered in merger assessments.

The TPA has provisions to address anti-competitive practices by corporations acquiring goods and services (i.e. Section 45 (contracts, arrangements or understandings that restrict dealings or affect competition)). Part IVA (Unconscionable conduct, particularly Section 51AC) is also potentially relevant to the commercial arrangements some Tasmanian farmers have entered into.

While misuse of market power (Section 46) may also be evident, the relevant provisions as they currently stand are framed to protect competitors and competition within the market processors supply rather than those who supply processors.

As all three major processors are international companies, the milk price for Tasmanian farmers is linked to international markets, despite the fact that the majority of supply from Tasmania enters the national market. Competition is also

"limited" by the fact that Fonterra's milk price has become the de facto benchmark, with National Foods guaranteeing suppliers a set price above the Fonterra price – to reflect the higher costs of production for year round milk supply. In effect, this means that price competition between the two major processors is constrained. This may not constitute a breach of the TPA but demonstrates the (unintentional) reduction of competition and associated problems that arise when only a few processors come to dominate a market.

The Government is highly conscious of what is often perceived as a power imbalance in the area of negotiation between farmers and processors, and urges the Australian Government to consider how to provide a reasonable bargaining framework and greater legislative protection for farmers / suppliers.

It is arguable that these issues are more important, generally, in Tasmania than elsewhere. This is because the State's size and industry composition mean that relatively small numbers of farmers, often individually of limited economic strength or bargaining power, are inherently at a disadvantage as against the companies that provide their buying market, particularly in light of restrictions on collective bargaining / sales arrangements. Furthermore farmers, being at the beginning of the production chain, find it less easy than processors, distributors and retailers to pass on increased costs of production.

The Tasmanian Government would therefore welcome a review of the TPA focusing on industry sector concentration and market conditions in agriculture.

CONCLUDING COMMENTS

The Tasmanian Government considers that the current plight of dairy farmers requires implementation of both short-term and long-term strategies.

(i) State Government Short-Term Activities

In the short-term, the Tasmanian Government has recognised the plight of Tasmania's farmers through the announcement (6 October 2009) of a Tasmanian Dairy Assistance Package. The package focuses on welfare measures, and on-ground measures to support fodder purchasers and pasture improvements. The initiatives include:

- **Farming Family Relief Program,** $25,000, Country Women's Association to distribute the funds to those they assess as being in need to assist with the payment of household bills
- **Family Counselling Services,** $60,000 (in-kind), Department of Health and Human Services to provide broad community family counselling, focusing on the North-West of the State.
- **Rural Services Network Coordination Position,** $60,000, Tasmania's Farmers and Graziers Association to coordinate services, liaise with providers and facilitate up-take of support services.
- **Social and Community Events,** $20,000, TFGA to administer the Program aimed at maintaining community resilience.
- **Dairy Support – on-ground measures,** $200,000, TFGA to administer, to facilitate outcomes such as: pasture improvement or access to fodder, agistment or transport of fodder/livestock. Funding to be conditional on recipients undertaking financial counselling or participating in the Taking Stock Program. Subject to eligibility criteria.

- **Taking Stock Program,** $75,000, DairyTas to facilitate the Program aimed at providing on-farm advice regarding budgeting and business survival strategies. Funding to allow an additional 100 dairy farmers to participate.

The Minister for Primary Industries and Water has established a Tasmanian Dairy Stakeholder Reference Group made up of producers, dairy farmers, peak and welfare groups, and Commonwealth and State representatives. The object of the Group is two-fold: to provide advice on how to provide a whole of industry perspective on the financial, physical and social issues currently facing the Tasmanian dairy industry; and to suggest and prioritise actions to address those issues.

(ii) Longer-term Strategies

A national issue that is particularly important at this time is the continued support and refinement of tools that can support farmers in managing the fluctuations inherent to their industry. As noted in relation to the dairy industry, mechanisms such as Farm Management Deposits are of critical importance, and need to be supported and where appropriate extended. By their nature, they are almost always dependent on action by the Australian Government.

Improved transparency and availability of information re pricing in the dairy industry may be of assistance to farmers. The cyclic nature of the dairy industry has been evident since the 1920's with peak fluctuations at both ends of the spectrum occurring every 5-9 years. A mechanism to capture market prices for dairy, as per the stock market type model, would provide trend information to farmers (and financiers) assisting them to better forecast cash flow budgets.

Value chain development is essential if better long term outcomes are to be achieved. While this won't rule out the volatility in global commodity markets it will provide the transparency desired. Improved relationships between chain partners will facilitate more timely adjustments in the supply and demand relationships, improve innovation and develop a better customer focus from the farmer to the consumer.

The current Tasmanian dairy industry malaise has demonstrated the importance of general business management skills in our agricultural industries. To assist dairy farmers to manage through the current cashflow declines Dairy Australia through the auspices of DairyTas have been running the Taking Stock Program, and the Tasmania Government has provided funding to support further participation in this Program.

The Tasmanian Government recognises that good business skills are required to ensure the future health of our agricultural industries. Innovation in agriculture is also dependent upon solid business management skills. The Tasmania Government is therefore seeking to partner with the University of Tasmania to create a "Top Flight Management School". The exact model is being determined as this is currently being considered by UTAS. Consideration is also being given to how business skills can be linked in with TIAR programs. The proposal to strengthen the State's agricultural education capacity is a further mark of the intention to ensure that Tasmanian agriculture has both the skilled people and the applicable knowledge to support it into the longer term.

Appendix 1

Benchmarking methodology

- TIAR manages an annual dairy benchmarking program that involves collection of data from dairy businesses, analysis of these data, and then generation of reports for both farmer participants and industry. The benchmarking program has been run for the last 28 years. Participation by farmers is voluntary and hence the sampling is non-random. The businesses that do participate tend to have larger than average herd size. In 2006-7, 38 dairy businesses (8% of all Tasmanian dairy businesses) participated in the program and in 2007-8, 48 businesses (10% of all Tasmanian dairy businesses) participated. This participation has remained relatively constant at around 5-10% of total dairy businesses since the benchmarking program first began, despite a significant decrease in farm numbers, and this percentage of participants as a total of industry is consistent with, or better than, similar programs interstate.

- Physical and financial data are collected through input sheets that are completed either directly by farmers or by TIAR staff working with farmers in farm visits. Farm financial information is sourced from either financial statements prepared by the farmer's accountant or from computerised accounting records. Profit and loss statements produced by accountants or print outs of computerised accounting package must be supplied by farmers along with the completed input sheets. Physical details about the farm businesses are sourced from farmers' records.

- Income and costs from significant non-dairy enterprises (e.g. cropping, beef, contracting and off farm work) are excluded from the dairy benchmarking. If the income from other enterprises exceeds $50,000 then the farmer is asked to identify the costs of these enterprises and exclude them from the dairy benchmarking.

- The methodology used by TIAR to collect benchmarking data is accepted by Dairy Australia. TIAR has supplied benchmarking data to Dairy Australia for two years as part of the Tasmilk 60 project that will use these data to model dairy farm performance. TIAR benchmarking data are also supplied annually to the national Dairy Business of the Year awards that are funded by Dairy Australia and national sponsors.

- One of the outputs from the TIAR dairy benchmarking is an annual summary of physical and financial performance indicators. The attached summary shows a steady upward trend over a 9-year period for many of the key performance indicators (e.g. pasture production, and milk production per cow, per hectare and per farm). The trends in industry averages identified through dairy benchmarking are consistent with information from other sources, such as Dairy Australia's annual survey ("Dairy Situation and Outlook").

Tasmanian Dairy Benchmarking Figures

Averages for All Participants

	1999-00	*2000-01*	*2001-02*	*2002-03*	*2003-04*	*2004-05*	*2005-06*	*2006-07*	*2007-08*
Key Performance Indicators									
Return on Assets, %	4.1%	6.6%	10.9%	3.8%	4.8%	7.9%	5.7%	4.6%	7.9%
Operating Profit (EBIT), $	$54,405	$110,895	$164,994	$63,494	$86,985	$171,939	$174,626	$163,185	$385,024
Farm Details									
Production, kg MS	103,276	108,619	107,728	103,912	108,767	129,653	142,701	151,646	171,995
Cows Milked, nos	319	315	295	310	294	335	364	400	466
Dairy Area, ha	186	178	198	184	178	192	206	220	239
Labour used, FTE	3.4	3.4	3.7	3.7	3.6	3.7	4.0	4.0	4.5
Irrigation, % area irrigated	25%	26%	19%	25%	28%	27%	24%	29%	32%
Performance Indicators									
Milksolids per hectare, kg MS/ha	802	880	864	827	872	982	1,018	1,050	1,073
Milksolids per cow, kg MS/cow	325	334	364	338	368	391	392	386	373
Stocking Rate, Home Farm, DCE/ha	2.2	2.3	2.3	2.3	2.4	2.6	2.7	2.7	2.9
Pasture - Home Farm, kg DM/ha	7,809	7,879	7,546	7,800	8,239	8,731	8,949	9,209	9,324
Dairy Assets & Liabilities									
Dairy Assets, $'000	$1,346	$1,387	$1,375	$1,491	$1,584	$2,172	$2,675	$3,471	$4,811
Liabilities, $'000	$370	$423	$359	$464	$410	$484	$683	$944	$1,602
Equity, %	73%	70%	74%	69%	74%	78%	74%	73%	69%
Assets per cow, $/cow	$4,503	$4,513	$4,937	$4,700	$5,635	$6,482	$7,348	$9,186	$10,641
Liabilities per cow, $	$1,161	$1,344	$1,216	$1,498	$1,314	$1,444	$1,876	$2,206	$3,346
Assets per ha, $/ha	$7,471	$7,630	$8,071	$8,661	$9,364	$11,436	$13,969	$16,924	$20,442
Income & Expenses – per kg Milksolids									
Milk Income, $/kg MS	$2.87	$3.38	$4.36	$3.47	$3.60	$4.15	$4.35	$4.39	$6.33
Total Income, $/kg MS	$3.28	$3.80	$4.74	$3.87	$4.03	$4.64	$4.82	$4.64	$6.64
Total Operating Costs, $/kg MS	$2.80	$3.00	$3.37	$3.37	$3.31	$3.37	$3.69	$3.81	$4.76
EBIT, $/kg MS	$0.47	$0.80	$1.37	$0.50	$0.72	$1.27	$1.13	$0.83	$1.87
Participants									
Numbers	38	40	47	42	50	40	35	36	46
As % of dairy farmers	5%	6%	8%	7%	9%	8%	7%	8%	10%