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29 November 2019

Senator Glenn Sterle
Chair
Senate Standing Committees on Rural and Regional Affairs and Transport
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Chair,

Re: Submission by Dairy Australia (DA) to the Senate Economics References Committee Inquiry into the Performance of the Australian Dairy Industry

Dairy Australia welcomes the inquiry by the Commonwealth to support opportunities to improve the performance of the Australian Dairy industry.

It is recognised that there are a number of challenges impacting the Australian dairy industry at this time which are impacting profitability and overall performance. There are also dairy farms performing strongly in the current environment and many opportunities to better leverage these for greater success across the dairy industry.

To address the challenges and leverage the opportunities, the industry services body (Dairy Australia), the Gardiner Foundation and industry representative bodies representing farmers (Australian Dairy Farmers) and processors (Australian Dairy Products Federation) are in the final stages of releasing the Australian Dairy Plan. This plan was developed in consultation with over 1,500 stakeholders across the dairy industry and outlines the Australian dairy industry's priorities for the next five years and beyond with the aim of delivering transformational change to create a profitable, confident and united Australian dairy industry.

When considering the performance and profitability of Australia's dairy industry it is important to consider that:

- Market dynamics vary considerably across the major dairy-producing countries and significantly impact profitability of both the farming sector and the processing sector in those countries. There are substantial differences in the restrictions on imports, dependence on export markets, retail market dynamics and domestic competition policies relating to the dairy processing sector. Australia has a challenging combination of open markets for imports, ongoing reliance on export markets for at least a third of milk produced, extreme pressure on retail prices, and low levels of government intervention in the market.
- Climatic conditions and other factors that impact key input prices including access to forage and water. For example, water supply in the Murray Darling region is significantly impacting dairy farm profitability.
- In most regions of Australia, there are some dairy farmers succeeding in the current environment with record high farmgate prices driven by increased competition amongst processors seeking a sufficient volume of milk supply to address underutilised processing capacity.
- Dairy farm performance can also vary extensively within regions based on a range of factors in addition to climatic conditions and market forces. This includes factors such as the level of technological innovation and business management skills.
- There are rising consumer expectations around the dairy industry and agriculture more broadly. The socially conscious consumer is seeking more information on dairy products and the way they are produced. While there is a need for the dairy industry to proactively address community trust, the

industry has a strong foundation. 'Trust in the Australian dairy industry' is at 70 per cent and 'trust in dairy products' 84 per cent. Additionally, per capita consumption of dairy remains one of the highest in the world and consistent over many years. Dairy needs to proactively maintain this community trust while celebrating the important role dairy continues to play in the livelihoods of Australians.

Consideration of dairy industry performance, therefore, needs to take into account the following factors that impact dairy farm and processor profitability and performance:

- differences in market dynamics between Australian and international dairy markets;
- differences in seasonal conditions and inputs costs that lead to variation in performance between Australian dairy regions; and
- factors which can lead to high levels of variation in individual farm performance.

In recognition of these factors that impact dairy farm performance, Dairy Australia customises its expenditure and investment to provide the most value to dairy farmers through:

- regional offices being established in each key dairy region to identify and best respond to local conditions and priorities; and
- tailoring the development, delivery and communications of services that support farm businesses, specific to farmer needs.

Dairy Australia's submission attached includes our response to the following terms of reference:

- Dairy Australia's independence and how the best interests of both farmers and processors are supported; (term a)
- Statistical data that Dairy Australia prepares and activities in place to ensure the data is accurate despite the challenges from significant changes in milk supply and processing arrangements; (term b)
- Dairy Australia's funding sources and the extensive consultation and engagement on the expenditure of levies revenue; (term c)
- alternative approaches to supporting a viable dairy sector as outlined in the Australian Dairy Plan (term e); and
- Dairy Australia's willingness to assist the inquiry address any related matters (term g).

Commitments from the Australian Dairy Plan will be referred to as relevant throughout this submission. Dairy Australia will submit a copy of the draft plan to the inquiry once released.

Regarding the remaining terms of reference in the inquiry, in our role as an industry services body, Dairy Australia can assist with the provision of fact-based insights on critical policy issues that have an impact on the dairy industry and broader economy as required by the inquiry. Dairy Australia is not an industry representative organisation, as defined by the Statutory Funding Agreement with the Commonwealth Government. As such, Dairy Australia does not make a public statement on any decision to:

- task 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 (term d); and
- introduce a mandatory industry code of practice. (term f)

Yours sincerely,

Jeff Odgers
Dairy Australia Chair

Context

- Dairy Australia recognises a number of challenges impacting the performance and profitability of the Australian dairy industry. In recognition of these challenges, more than 1500 representatives from across the dairy industry have collaborated to develop the Australian Dairy Plan to deliver transformational change to ensure a more profitable and confident dairy industry. A draft plan will be launched in early December 2019. Responses to various terms of the inquiry that will be specifically addressed by the Australian Dairy Plan will be referred to as relevant in this response by Dairy Australia to the Senate inquiry.
- Variances in profitability drivers such as climatic conditions, processor competition, access to water, grain and other inputs, product and market mix all lead to a divergence in the performance and profitability of dairy farms between regions of Australia and internationally. It is important this divergence is recognised in assessing the performance of the overall Australian dairy industry and comparison of the performance and profitability with international dairy industries.
- Dairy Australia is not an industry representative organisation, and as such, has focused on terms relevant to our role and purpose, especially where we are able to assist industry and government in critical policy deliberations through the provision of fact-based insights.

1a The Ability of Dairy Australia to Act Independently and Support the Best Interests of Both Farmers and Processors

Executive Summary

The ability of Dairy Australia to be independent whilst supporting the best interests of both farmers and processors is bestowed in Dairy Australia's membership and decision rights. This includes:

- Levy payers who sign up as members having voting rights for director election to the Dairy Australia Board and changes to the Dairy Australia constitution.
- Majority representation of industry representative bodies (two from each of ADPF and ADF) on the Dairy Australia Board Selection Committee along with one Dairy Australia Board member to provide an independent decision on Board candidate nominees for election.
- Extensive consultation with members regarding Dairy Australia's investment and expenditure decisions including regional priorities identified through Dairy Australia's regional offices in each key dairy region.
- The Statutory Funding Agreement (SFA) with the Government makes clear the independent role of Dairy Australia and the decision rights to invest funds to best support the interests of both farmers and processors.
- Governance as outlined in the Dairy Australia Constitution set out the capacity of the board to act independently and the objects of the company support the interests of both farmers and processors.

1ai Membership

- Dairy Australia's membership comprises:
 - Group A members: consisting of levy paying dairy farmers who elect to become members of Dairy Australia. This membership entitles them to vote on key decisions including the directors for election and changes to the Dairy Australia Constitution. There are currently 3,587 members representing 63% of known active dairy enterprises (5,552). The total of both nominated and joint members is 6, 737.
 - Group B members: the dairy representative bodies supporting the dairy industry consisting of representative bodies for both dairy farmers (ADF) and processors (ADPF). Whilst represented on the Board Selection Committee, Group B members do not have voting rights.

1aii Decision Rights for Election of Dairy Australia Directors

- Dairy Australia's Board Selection Committee independently determines director nominations for the Dairy Australia Board based on identified skill vacancies in line with the [Board Skills Matrix](#). This committee ensures the DA Board can act independently and support the best interests of both farmers and processors as the Board Selection Committee membership comprises:
 - two members from the industry representative body for dairy farmers (ADF);
 - two members from the industry representative body for processors (ADPF); and
 - one Dairy Australia Board member (usually the Chair unless he/she is standing for re-election).

- An independent executive search firm assists in advertising identified Board vacancies and shortlisting prospective director candidates for the Board Selection Committee.
- Nominations for Board positions can also be obtained by prospective Board candidates seeking the support of at least 100 Group A members. On obtaining this support, the Board Selection Committee reviews the skills and experience of the candidate and determines the most appropriate position the candidate should stand for.
- Group A members vote on the Board candidates at the annual general meeting with a minimum of 50% of votes required for a director to be successfully nominated to the Dairy Australia Board.
- Dairy Australia maintains a skills-based Board of eight directors in addition to the Managing Director. The importance of the best interests of dairy farmers are recognised by the Constitution specifying at least four directors have milk producer skills.
- The above responsibilities are clearly set out in the [Board Selection Committee Charter](#) and [Dairy Australia Constitution](#).

1aiii Consultation on Dairy Australia's Strategy and Funding Expenditure

- Extensive consultation with the industry particularly with Group A & B members including reference committees and a clearly defined investment process in setting Dairy Australia's strategic direction and annual operating plan to support the best interests of the farmers and processors. Further detail on consultation is contained in section 1cii.

1aiv Decisions Rights Regarding Dairy Australia's Role & Governance

- Dairy Australia's role is set out clearly in the [Statutory Funding Agreement](#) (SFA) and Dairy Produce Act (1986). As a condition of funding from the Government, Dairy Australia must comply with the terms of the agreement. The SFA sets out requirements for the management and use of funds, the requirement to act independently, obtain certification from external audit and not provide firm views on Government policy decisions and other agri-political activities.
- Dairy Australia's governance process is set out in the Dairy Australia Constitution. Any changes to the Constitution must be supported by a majority of Group A members.

1av Structure

The current structure of the industry services and representative bodies for the Australian Dairy industry is outlined in Figure 1 below and involves multiple bodies at national, state and regional level.

The structure outlined is complex and the responsibilities of each body is not always clear to members of the industry including farmers, processors, media and other stakeholders. At times this creates challenges regarding assessment of perceived performance.

In recognition of the above challenges and complexity, Commitment 1 of the Australia Dairy Plan will propose a range of structural options. These recommendations are being developed by an independent body (Joint Transition Taskforce) to better support the industry and overcome the current challenges as part of the following commitment: *We will reform our dairy industry structures and how we work together to create a more cohesive dairy industry and a more influential advocacy voice.*

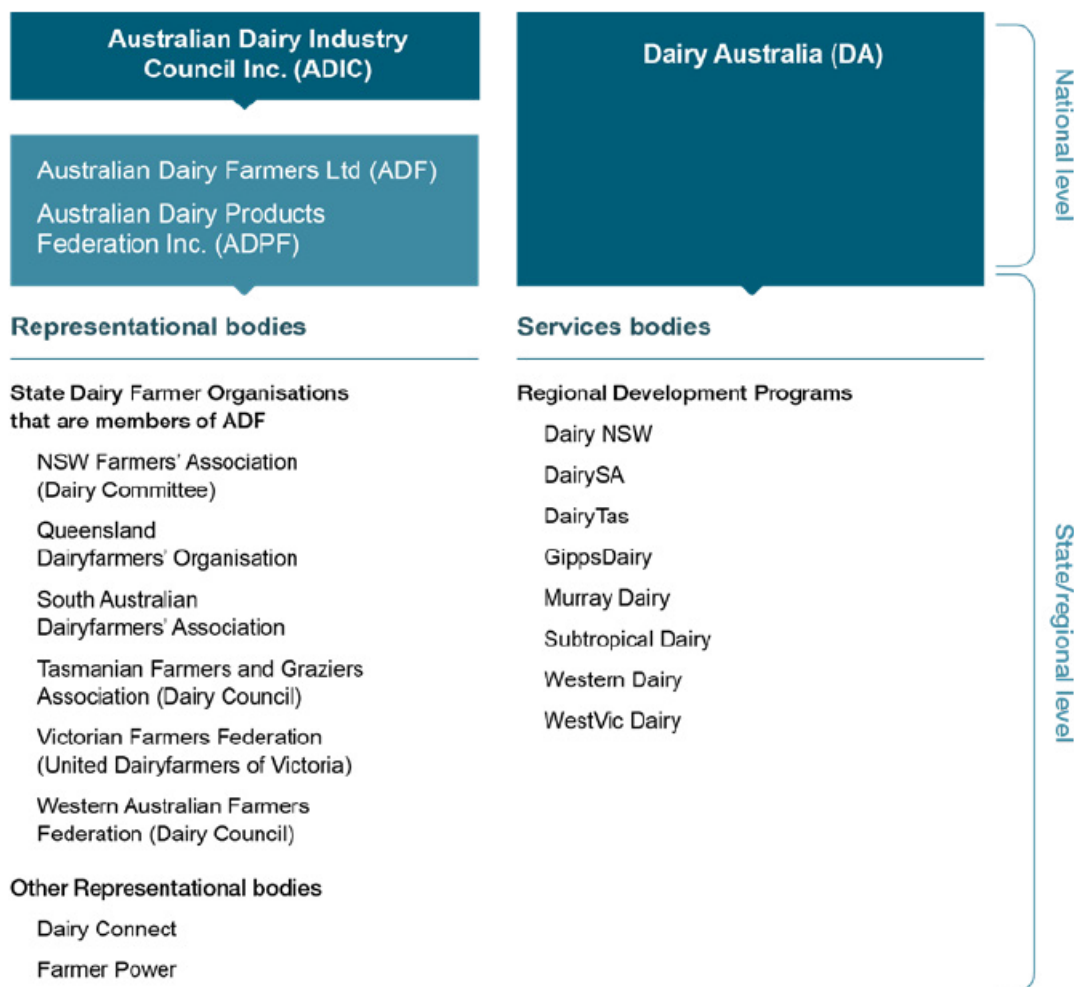


Figure 1: Structure of Australian Dairy Industry Service & Representational Bodies

1b The Accuracy of Statistical Data Collected by Dairy Australia and the Australian Bureau of Statistics

Executive Summary

- Dairy Australia provides a variety of highly valued analysis and insight services to a wide range of stakeholders for the betterment of the industry.
- Dairy Australia's information services include the provision of monthly milk production estimates which are reliant on processors voluntarily supplying data. Unprecedented movements in milk supply between milk processors due to increased competition and processor reporting constraints have created challenges in collating these data estimates and effectively tracking milk movement from the voluntary data provided.
- In recognition of these challenges, Dairy Australia has introduced:
 - Comprehensive quality assurance processes; and
 - A disclaimer on milk production data.
- There is no organisation or government agency that can currently provide milk production data for each dairy region with a guarantee of 100% accuracy on a monthly basis in a timely manner.
- Should the inquiry see the need for more accurate milk production statistics, consideration could be given to mandating the timely provision of milk production data as existed prior to deregulation.

1bi Milk Production Data

Milk and manufactured production data is shared by processors on a voluntary basis with the aim that Dairy Australia and the industry more broadly can attain valuable insights from the data sets than otherwise would be possible.

1bii Milk Production Data Challenges

The most prevalent reasons for data acquisition/delivery issues for this data collection are listed below:

- Late delivery of data from existing participating processors.
 1. Limited resources to perform the extract.
 2. Not prioritised due to not recognising the value of participating.
 3. No resource redundancy during holiday period or staff transitions.
- Quality issues with the delivered data.
 1. Unclear data export process.
 2. Inadequate training.
 3. Reporting system changes.
- Unsuccessful recruitment of new dairy companies
 1. Not recognising the value of participating.
 2. Limited resources to participate.
 3. Company data sharing policy restrictions.
- Some processors are only able to report milk volumes against the post code for the head office of the processor rather than the post code of the farm location where the milk is produced.

As a result, this data collection has become increasingly difficult to maintain total coverage of milk production as the percentage of processors contributing data to the program reduces and new processors enter the industry who are not yet providing data to the DA collection. Unprecedented turnover in supply contracts between different processing companies and some new entrants in the processing market is also making the collection more difficult.

DA's annual milk production data undertook a significant adjustment late in the 2018/19 season after receiving additional data for Northern Victoria and NSW from a new contributor to the collection. This has placed the collection of data under more scrutiny.

1biii Measures Undertaken by Dairy Australia to Enhance Milk Production Data Accuracy

In recognition of the challenges regarding accurate monthly milk production estimates, Dairy Australia has introduced:

- A number of quality improvement processes to maximise the accuracy of milk production estimates given these challenges. This includes:
 - Developing processor relationships to increase processor participation in providing the voluntary data
 - Enhanced reconciliation procedures including identification of new or changed milk supply arrangements
 - Cross-referencing of data with the Levy Revenue Service (LRS) and State Regulatory Authorities (SRAs)
- The following disclaimer on milk production data: *"These reports contain data based on a combination of voluntary direct reporting from processors, and data sourced from government agencies. Retrospective adjustments are possible if new or revised data is received."*

Using the LRS data to audit the DA figures is not a complete solution to this problem as the LRS data only collects the precise pickup location of the milk once a year and not on a monthly basis. This means the LRS is not able to deliver monthly updates, nor can they decipher the specific region from which the milk has been sourced. Annual LRS statements (generally provided to DA in the final quarter of the calendar year) include more details about the source farm and can therefore accurately place milk by region and postcode. Therefore, the LRS data is used to audit the figures provided to DA by the processors to improve the accuracy of annual data. It is also used as a basis to inform DA's following year's milk production estimations for processors who do not participate in the DA data collection (generally less than 5% of the total milk pool).

1biv Further Measures That Can Be Considered to Improve Data Accuracy

Timely direct processor data is currently the only data source that will allow us to produce the detailed, monthly information currently delivered by Dairy Australia.

Should the inquiry see the need for more accurate milk production statistics, consideration could be given to mandating the timely provision of milk production data by as existed prior to deregulation. Reporting by the postcode of origin of the source of the milk will ensure more accurate regional data statistics given that some processors currently only report by the postcode of the processing plant head office.

1c The Funding of Dairy Australia and the Extent of its Consultation and Engagement on the Expenditure of Levies Revenue

Executive Summary

Extensive consultation processes exist to ensure that funding from Dairy Australia's two main sources (levy and Government matching funding) provide appropriate services for the industry to support the needs of farmers and processors.

- Dairy Australia receives two main sources of funding:
 - A levy from dairy farmers proportionate to the volume of milk produced; and
 - Matching funding from the Commonwealth Government for eligible research, development and extension activities.
- Unlike other agricultural commodities such as sugar, processors in the dairy industry do not pay a levy.
- Dairy Australia has an extensive consultation and engagement process on the expenditure of this funding including:
 - Dairy Moving Forward
 - Strategic Plan and Annual Operating Plan Consultation
 - Policy Advisory Groups
 - Reference Committees
 - Regional priority setting
 - Extensive engagement of industry stakeholders in the Australian Dairy Plan as outlined in section 1e.
- It is recognised that dairy farmer priorities differ based on local conditions, different farming systems, and different market requirements.
- To ensure that the services and programs delivered by Dairy Australia best meet these differing needs:
 - an understanding of local farmer needs is obtained from the regional offices directly engaging with local farmers in the eight key dairy regions; and
 - services and programs are tailored to the specific needs of farmers with common characteristics e.g. those facing challenges relative to those progressively innovating.
- It is recognised that dairy farmers may not necessarily associate Dairy Australia with the services provided by their local Dairy Australia regional office e.g. Western Dairy.
- Robust governance processes exist for Dairy Australia's expenditure and investment via internal processes and external certification requirements.

1ci Funding of Dairy Australia

Dairy Australia's revenue is obtained primarily through the dairy service levy and Commonwealth Government funding for eligible Research, Development and Extension (RD&E) activities.

The dairy service levy is deducted from payments made to farmers by milk processing companies which are then remitted to the Australian Government. In FY19, the rate of milk levies was 2.8683 c/kg milk fat and 6.9914 c/kg protein. Based on national average milk composition, these combined levies were equivalent to approximately 4.7302 c/kg milk solids.

Under the Statutory Funding Agreement (SFA) between Dairy Australia and the Commonwealth Government of Australia (Commonwealth) the Commonwealth supports the dairy industry by providing matching payments for eligible research and development activities. The maximum amount of Government matching payments received each year is the lesser of 0.5% of the amount determined by the Minister of the Department of

Agriculture, Water and Resources to be the gross value of whole milk produced in Australia in the financial year, based on a three-year average, and 50% of the amount that is spent by the Company on qualifying research and development activities.

The Commonwealth's important contribution of funds reflects the public benefits of co-investing with farmers to address national research priorities. Rural Research and Development Corporations, such as Dairy Australia, are the mechanism by which dairy farmers and the Commonwealth co-invest in research and development for community and industry benefits.

Dairy Australia's revenue for the year ending June 30, 2019 as outlined in the annual report is included below.

Revenue	2019 (\$'000)	2019 (%)
Dairy service levy	30,936	56
Government matching payments	20,058	36
External contributions	2,820	5
Interest revenue	394	1
Distributions from investments	147	1
Royalties	138	-
Other income	520	1
Total revenue	55,013	100

In addition to levy revenue, Dairy Australia 2019 revenue includes:

- External contributions from other dairy and agricultural bodies including other research and development corporations.
- Royalties from the commercialisation of intellectual property.
- Other income including government grants from the reimbursement of eligible expenses under the Government's Export Market development grants scheme and sundry income from profit on sale of assets.

1cii Consultation and Engagement with Levy Payers

Dairy Australia is committed to open, accountable and responsive decision-making, informed by effective communication and consultation between Dairy Australia, levy payers, the Government and industry stakeholders.

Dairy Australia has an extensive consultation and engagement process including:

- Dairy Moving Forward
 - Dairy Moving Forward was set up as a collaborative project to bring together RD&E providers and investors along with other industry stakeholders to set out a blueprint for RD&E investment.
 - The Steering Committee of Dairy Moving Forward has accountability back to the governments' Agriculture Senior Officials Committee (Research and Innovation Committee).
 - The role of Dairy moving Forward is to identify and prioritise pre-farmgate interest areas through six program areas.
 - Each program area is also supported at least one "Community of Interest" drawing on a range of stakeholders with expertise across research, development and extension.
 - Dairy Australia's investment decisions are guided by the priorities of Dairy Moving Forward and there is consultation with the committee as part of our planning cycles.
- Group B consultation on Strategic Plan and Annual Operating Plan:
 - Dairy Australia's Group B members are Australian Dairy Farmers (ADF) and Australian Dairy Products Federation (ADPF).
 - During strategy planning and annual planning processes Dairy Australia collaborates and consults with both our group B members.
 - While we collaborate throughout the planning process, the starting point is during the environmental scan to ensure we understand key industry issues.

- As the plans reach draft stage, there are formal feedback sessions in which we align on key priorities and capture feedback.
- In addition, State Dairy Farmer Organisations (SDFOs) which form part of the ADF structure are also consulted to understand their key priorities, issues and direction. This information is used in understanding the current state of the industry.
- Policy Advisory Groups (PAGs). There are five PAGs under the ADF structure that make recommendations to the Australian Dairy Farmers (ADF) National Council on dairy farmer policy and advocacy. Dairy Australia provides a wealth of technical policy and RDE advisory into each of the PAG processes enabling strong consultation between Dairy Australia and ADF on areas including:
 - Animal Health and Welfare PAG
 - Trade and Value Chain PAG
 - Farming Systems PAG
 - People, Skills and Capability PAG
 - Natural Resources Management PA
- Reference Committees such as the Nutrition Policy Reference Group which comprises representatives from Dairy Australia, ADPF, ADF and staff from milk processors to consult on nutrition priorities and industry positions. This includes the establishment of various working groups e.g. health star rating review, added sugar labelling. To recognise the various mandates of the participants involved, an anti-trust statement is acknowledged at each meeting to ensure competition and consumer laws are not inadvertently addressed.
- Regional priority setting through the consultation that exists between our eight regional offices with local dairy industry participants.
- As outlined in section 1e, a draft of the Australian Dairy Plan which has involved extensive consultation with over 1500 representatives from the dairy industry will be delivered in December 2019 and will form the basis of the next strategic plan for Dairy Australia.
- Dairy Australia's Managing Director, senior staff and Directors frequently travel to dairy regions and attend industry events, providing numerous opportunities for levy payers to ask questions or raise issues. We undertake a wide range of stakeholder communication and engagement initiatives ensuring levy payers have a strong voice in decision making and understood our levy-funded programs. Initiatives include:
 - regional led activities such as seminars, on-farm workshops, field days and priority-setting sessions
 - attendance and presentations at industry events such as farmer conferences, meetings and agricultural shows e.g. Australian Dairy Conference
 - regular on-farm visits by senior Dairy Australia staff and Board members
 - media releases distributed to print, electronic and broadcast media
 - regular news articles and features in regional and rural print and online press
 - fact sheets and research reports in both print and online formats
 - quarterly electronic newsletters to farmers and service providers
 - monthly electronic and hard copy RDP newsletters to farmers and regional stakeholders
 - Dairy Australia and RDP Facebook pages
 - Dairy Australia's YouTube channel, featuring a broad range of farmer-facing content and topical Taking Stock information to support farmer decision-making.
 - Tailoring services and benefits to the different needs of dairy farmers.

1ciii Investment of Levy Revenue

Dairy Australia maintains a balanced portfolio of RD&E investments which is achieved by investing:

- over different time horizons including both long-term and short-term initiatives
- in response to critical short-term issues e.g. feed shortage
- in projects following thorough consideration of the benefits (benefit-cost ratio) and risks
- to maximise other funds while managing our risks i.e. with Universities, Ag Vic and the Gardiner Foundation
- in projects that consider research, development and extension activities and recognising the importance of rolling our successful research to the industry
- in projects with other RDCs to address similar problem that farmers face and agricultural wide industry issues
- in strategic initiatives to achieve long-term benefits for the dairy industry.

The general purpose/objective of DA is to use available funds as effectively and efficiently as possible. To be effective, DA allocates funds towards projects that best address the short and long-term needs of the dairy sector in order to:

- Maximise economic return to levy payer
- Manage long term risks / sustainability – protect right / cost to operate

While economic return is the highest priority, DA also invests in areas where the industry need is real but financial gain is difficult to quantify. This includes protection of “social license” and other areas where “risk management” is the major objective.

Dairy industry Total factor productivity (TFP) is a measure of how effectively dairy farmers combine inputs to produce outputs. At the industry level TFP for Australian dairy farms has increased on average annually by 1.62% from 1978/79 to 2017/18.

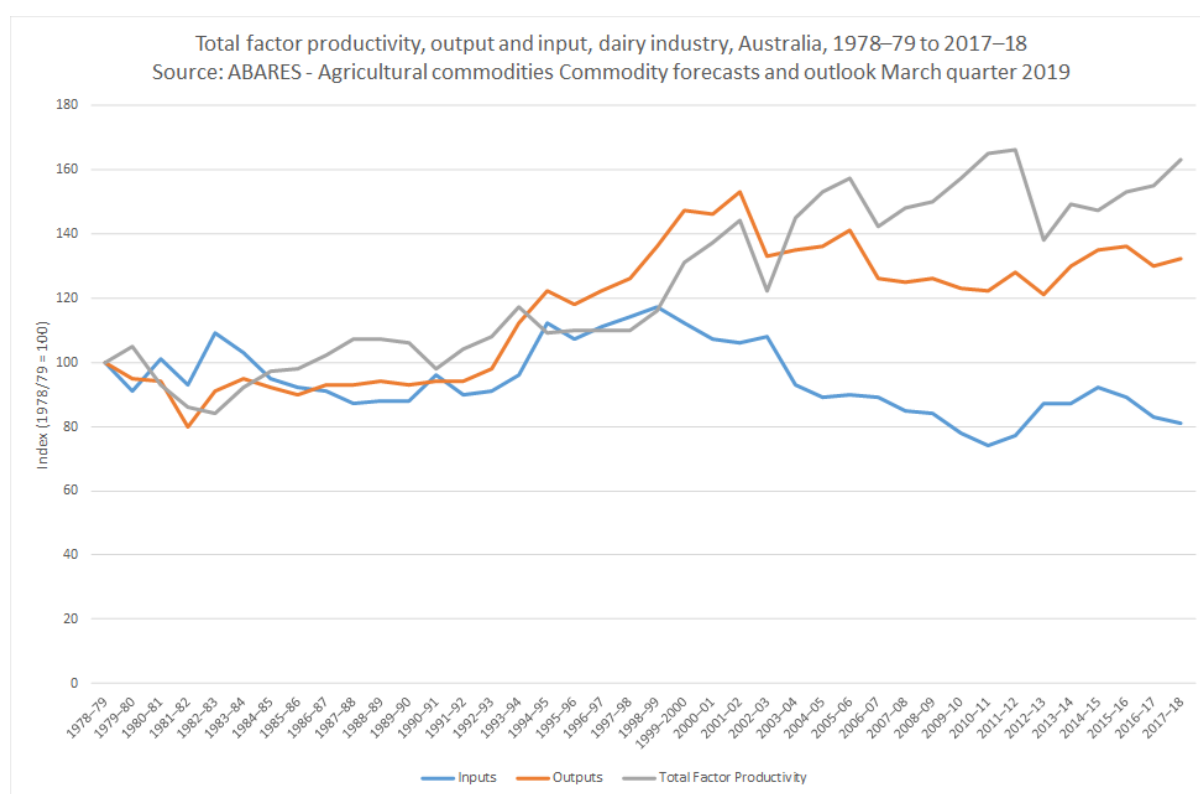


Figure 2 Total Factor Productivity 1978/9 – 2017/8

Total Factor Productivity growth is generally driven by:

1. Improving economies of scale – the result of farm consolidation, i.e. fewer larger farms, and,
2. Improved on-farm practices – the result of RD&E of better practices / innovation in the areas of animal performance, land and feed usage, labour automation, farm management

Through our annual Performance Tracking survey, there is evidence of continued positive and improved endorsement of the services provided by Dairy Australia. There has been a consistent increase in farmers’ ratings over the past three years across key indicators:

Key indicator	2016 Score	2019 Score
Overall satisfaction in the way DA engages with dairy farmers	6.0	6.4
Services provided by RDPs are relevant to the needs of dairy farmers	6.4	6.9
Services provided by RDPs are meeting the needs of dairy farmers	5.9	6.5
Services provided by RDPs are useful to dairy farmers in the region	6.1	6.9

In addition, the last independent review of Dairy Australia's performance with the Statutory Funding Agreement conducted three years ago reinforced the value we are delivering to our levy payers. One of the key findings suggested that the RDPs and Dairy Australia's strategic RD&E collaborations may serve as a model for other industries.

1civ Governance of Investment of Funds

Dairy Australia has rigorous governance processes to ensure appropriate use of funding for investments and relevant expenditure to support the industry including:

- Strategic and investment planning processes
- Evaluation of projects and investments
- Expenditure approval and project management framework
- External certification requirements

Strategic and Investment Planning

Dairy Australia invests in a range of programs that are set up to benefit levy payers. The mechanism to determine investment areas is carried out in two phases:

- Strategic Planning (every three years) and
- Investment Planning (annual).

Both phases follow a consultative approach and include collaborating widely with stakeholders in regions, government, industry (including our Group B members Australian Dairy Farmers and Australian Dairy Products Federation) and various policy advisory groups.

Dairy Australia creates a new strategic plan every three years. While this is an extensive process that follows a pre-determined framework, the steps outlined below focus on identifying investment priorities:

- Identify industry issues: Key issues that impact the industry are identified through extensive research and understanding of the current situation. This is further refined through collaboration and consultation with key stakeholders such as ADF/ADPF, Policy Advisory Groups (PAGs), Regional Development Programs (RDPs), Dairy Moving Forward (DMF).
- Define strategic priorities: Dairy Australia's strategic priorities are then defined which ultimately drive the investment of levies into programs that benefit levy payers. Strategic priorities typically span across a range of on-farm and post farm-gate areas.
- Ensure alignment with national and rural research priorities: Dairy Australia strategic investment areas are then aligned with Australian Government's Science & Research priorities and Rural RD&E priorities to ensure there is alignment with the broader agriculture sector.

Planning for levy investments follows an annual cycle and is aligned with the priorities defined in the strategic plan. This is a key part of the Annual Operating Plan (AOP) which also follows a consultative approach engaging with industry and government stakeholders. The steps followed for investment planning are below:

- Agree goals and financials: Identify the goals to be achieved for the year based on industry needs along with financial situation and targets.
- Identify potential investment areas: Based on goals and targets identify key investment areas across strategic pillars and organisational effectiveness and efficiency.
- Prioritise investment based on value to levy payers: Prioritise the investment areas based on the potential benefit to levy payers, ensure that it is part of Dairy Australia's remit, ensure a balanced risk profile that reflects the importance of delivering value for farmers with some certainty while also investing in innovation programs that will build the industry's resilience and competitive advantages. Other metrics such as benefit-cost-ratio, external evaluations, etc. also play a critical role in prioritising investment.
- Engage and consult with stakeholders: Throughout the annual planning process, Dairy Australia actively collaborates and consults with key stakeholders in the industry. This is a combination of understanding industry needs and formal review points of the proposed investment structure. Feedback from regions is

captured through a combination of Regional Development Programs and State Dairy Farmer Organisations which helps in regional priority setting.

Evaluation

Dairy Australia conducts an economic evaluation of the benefit-cost of identified projects prior to approving expenditure.

Our evaluation framework enables monitoring and reporting of the value that we deliver back to levy payers. This includes a combination of internal and external evaluations throughout the year. Quarterly reporting to the Dairy Australia Board enables monitoring of key project outcomes and metrics that ensures we are continuing to deliver value. Starting FY19, we now report our performance against the evaluation framework in an Annual Performance Report as well as the Annual Report.

Expenditure Approval & Project Management Framework

Dairy Australia's governance process also includes:

- A Board approved Delegations of Authority matrix requiring expenditure above the discretion of the Managing Director to be approved by the Dairy Australia Board.
- A robust project management office and framework to monitor the effectiveness of progress on key projects and investments. This includes project completion reports including key findings that should be incorporated for future projects and investments.

External Certification Requirements

In addition to internal governance processes and the external audit review of the financials, the following external certification processes exists to independently assess Dairy Australia's performance as required under the Statutory Funding Agreement (SFA):

- Annual independent certification by external auditors on the management and use of funds.
- External performance assessment of Dairy Australia's performance against the SFA requirements prior to renegotiation of the next SFA including the level of consultation and delivery of benefits to levy payers.

1cv Tailoring of services and investments to the needs of dairy farmers

Dairy Australia provides a wide range of industry services to support the dairy industry. It is recognised that not all services and projects will be relevant to all dairy farmers. This includes the willingness to invest in and adopt new technology and other Research and Development initiatives. To assist ensure that the most appropriate services are delivered to dairy farmers, Dairy Australia customises the solutions to meet individual dairy farmer needs through the following means:

- Local interaction by the Dairy Australia regional offices to understand the specific needs of local dairy farmers. The regional offices can then leverage the scale of centre support to most efficiently service these regions.
- Tailored services initiative developed to identify farmers with similar needs with services provided according to these needs.

As dairy farmers generally interact at a local level with their respective Dairy Australia regional office as outlined in Figure 1 above under the respective name of the dairy body listed above e.g. WestVic Dairy, it may not always be clear to farmers that these regional offices are part of Dairy Australia. As a result, dairy farmers may not associate the levy paid to Dairy Australia with the services they receive from their regional office. Whilst Dairy Australia can do more in ensuring farmers have increased clarity on this, the priority is focused on ensuring relevant services and support are provided to dairy farmers rather than using farmer funds for this purpose.

1d 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.

Executive Summary

The dairy industry farmer representation body, Australian Dairy Farmers (ADF), has acknowledged that a floor price is one instrument that could be considered to support dairy farmers. They have also recognized that there are challenges, domestically and internationally, associated with the establishment of a milk floor price. They have stated that any regulatory mechanism must ensure that we remain competitive with other dairy export countries.

Dairy Australia can assist the Government, and industry representative bodies such as ADF through the provision of fact based insights. This includes detailed studies on costs of production (which vary significantly within each region, as well as between regions), profit margins (such as measures of earnings before interest and tax), and relative competitiveness of regions with each other and with international peers.

If required, Dairy Australia is committed to assisting the dairy industry and the ACCC to unpack the considerations around regulating the price of milk per litre paid by processors to dairy farmers.

In addition, the Australian Dairy Plan through Commitment 5 is including measures to support increased trust and transparency between milk producers and processors in the supply chain as part of the commitment to *“restore trust and transparency between farmers, processors and retailers to strengthen industry confidence”*.

1e Alternative Approaches to Supporting a Viable Dairy Sector

Executive Summary

The dairy industry has recognised the need for transformational change to support a viable dairy sector through the development of the Australian Dairy Plan following input from over 1,500 industry participant. The plan as outlined in more detail below will propose a number of solutions to deliver a more profitable, confident and united Australian dairy industry. A draft plan is expected to be delivered in early December 2019 outlining a range of alternative approaches to support a viable dairy sector.

More detailed information on this can be found online at: <https://www.dairyplan.com.au/>

Australian Dairy Plan

In early 2019, Dairy Australia, Australian Dairy Farmers, Australian Dairy Products Federation, the Gardiner Dairy Foundation (collectively the Partners) and John Brumby AO (as the Independent Chair) committed to working together to develop the Australian Dairy Plan – a plan which will set the Australian dairy industry’s key priorities for the next five years and beyond, to deliver transformational change for a more profitable, confident and united Australian dairy industry.

In developing the dairy plan, the Partners recognised that the industry has changed significantly in recent years. Farmer-owned cooperatives no longer dominate the industry. On-farm there is wide variation in performance as the industry works through the challenges of drought, access to water and price volatility. Some farmers are hurting badly while others are doing well. The dairy plan is being designed to respond to these current realities while supporting the whole industry to make the changes required for long-term success.

The plan has involved extensive consultation with industry. Over 1,500 farmers, service providers, processors, retailers, investors and other key stakeholders, participated in over 20 consultation workshops across dairying regions, one-on-one interviews, and via an online forum OurSay, from May through to July 2019.

Key findings were discussed at a two day National Workshop in Melbourne at the end of July attended by 130 representatives from across the industry, where key themes for positive change were agreed. The key priorities that have emerged through the development of the dairy plan have been distilled into key commitments to return the industry to profitable growth.

The commitments for transforming the industry are:

1. We will reform our dairy industry structures and how we work together to create a more cohesive dairy industry and a more influential advocacy voice.
2. We will attract and support new entrants and investment to build industry capacity.
3. We will increase our effort in marketing and promotion to build greater levels of trust with consumers and to improve the value of dairy products.
4. We will intensify the focus on farm business management skills to improve farm and supply chain profitability.
5. We will restore trust and transparency between farmers, processors and retailers to improve supply chain profitability and better manage volatility and risks.

In addition to these key commitment areas, the dairy industry has established a range of activities and partnerships that are of fundamental importance to the dairy industry. In many cases this has involved years of investment and development of people capability and infrastructure, often with the support of Federal and State governments. Industry stakeholders have emphasised that with ongoing refinement and investment, these activities and resources will be vital for the future success of the industry. The dairy industry excels in four key areas:

1. Sustainability
2. Policy leadership
3. Research, Development & Extension
4. Market development

The draft dairy plan will be delivered in early December 2019 at which time specific initiatives will be agreed to within each of the above priorities. After this, the Partners will engage in an external consultation phase where members of the industry and key stakeholders will be invited to comment on the dairy plan. The purpose of this consultation will be to seek and capture any feedback on the dairy plan, its priorities and initiatives to inform the final version of the dairy plan. In conjunction with this, recommendations to reform industry structures and advocacy arrangements will be developed. Once finalised, the Partners in conjunction with the support of the whole dairy industry, are committed to implementing the initiatives set out in the final dairy plan which will be supported by effective monitoring and reporting mechanisms.

Dairy Australia's Strategic Plan for the period 2020-2024 will be strongly informed by the final dairy plan recommendations and we remain committed to helping to drive the reforms and initiatives identified through the dairy plan process to deliver a more viable dairy sector.

1f The Introduction of a Mandatory Code of Practice

Executive Summary

The industry representative bodies, the Australian Dairy Farmers (ADF) and Australian Dairy Products Federation (ADPF) are both committed to the development and implementation of the Mandatory Code of Conduct and are in the midst of consultation with the Federal Government on the design of the Code.

Dairy Australia does not have a representative position on the Code and has not made any submissions to the development of the Code.

1g Any related matters

Dairy Australia is happy to provide further information or analysis on any related matters.