



13 December 2019

Committee Secretary
Senate Standing Committees on Rural and Regional Affairs and Transport
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Dear Chair,

Re: UDV Submission into the Performance of Australia's dairy industry and the profitability of Australian dairy farmers since deregulation in 2000 Inquiry

United Dairyfarmers of Victoria (UDV) appreciates the opportunity to provide feedback on the Senate's Rural and Regional Affairs and Transport Committee's *Inquiry into the Performance of Australia's dairy industry and the profitability of Australian dairy farmers since deregulation in 2000*. This submission responds directly to the committee's terms of reference in its entirety.

UDV is the peak representative body for dairy farmers in Victoria. We advocate for our members on all matters affecting the dairy industry, for the benefit of all dairy farmers. UDV is a leading commodity group within the Victorian Farmers Federation (VFF), the peak representative body for all farmers in Victoria, and is an affiliate member of Australian Dairy Farmers (ADF), the peak national body for Australian dairy farmers and the National Farmers Federation (NFF).

The Victorian dairy industry makes up for 65 per cent of the milk produced, with 3,514 dairy farmers currently operating in Victoria¹. Since 2000 the Victorian dairy industry has seen a vast change in the way it operates. The dairy industry in Victoria has an economic output of \$8.58 billion, making it the largest agricultural industry in Victoria. Over 42,000 people are employed by the dairy industry in Australia, both on farm and in processing facilities, with the majority being employed in Victoria.²

The profitability and financial viability of dairy farmers is the key element to a strong dairy industry in Australia with cost of production and price paid per kilograms of milk solids (\$/kgms) being key factors in a dairy businesses' financial stability. The continued increasing cost of farm inputs has seen an increasing number of farmers exit the industry. UDV believes that with the continued rising cost of doing business and operational pressures, the profitability of dairy farming may no longer be as sustainable as it has been previously.

a. the ability of Dairy Australia to act independently and support the best interests of both farmers and processors;

As an organisation that is funded by both tax-payer and levy-payer money, Dairy Australia is unable and should not act fully independently of levy-payers or government. If Dairy Australia did act entirely independently, farmers would be unable to influence where their levy money is spent.

¹ Dairy Australia

² Dairy Australia

UDV believes that Dairy Australia acts in the best interest of farmers and processors. As a Research and Development Corporation (RDC) Dairy Australia's role is to create tools that farmers have the ability to use. Dairy Australia's role is not to maintain profitability on individual dairy farms; the role of Dairy Australia is to provide farmers with the tools to assist with their businesses' short and long term viability. To better support the interests of both farmers and processors, UDV believes that processors should also co-invest in relevant Dairy Australia research, development and extension activities. This recommendation is further detailed in section c. the funding of Dairy Australia.

b. the accuracy of statistical data collected by Dairy Australia and the Australian Bureau of Statistics;

UDV is reliant on much of the data supplied by Dairy Australia. Dairy Australia data is simple to access, specific to dairy, easy to understand and reputable. As such, UDV does not often use data made available by the Australian Bureau of Statistics (ABS) and is therefore unable to comment on the accuracy of data provided by ABS.

A key challenge for Dairy Australia is reporting on real-time data (ie. farm numbers, milk production figures). Often Dairy Australia data has a two to three month lag time. Although this can be a challenge, it is worth noting that Dairy Australia relies on data to be voluntarily provided by the processors and food safety regulators, such as Dairy Food Safety Victoria (DFSVM). Therefore, Dairy Australia's data can only be as accurate as what is voluntarily reported. UDV would like to see the roll out of required reporting by processors on milk production volumes and number of dairy farms by region to help increase transparency and reliability of data.

Regarding on-farm profitability data, it is important to note that many of Dairy Australia's statistics used to determine industry performance are not representative of the entire industry. There are not enough farmers entering data into the system, therefore the sample size is too small and not statistically relevant. Results are also typically inflated because there are a disproportionate number of high performing farmers entering data. UDV believes these sample sizes need to be expanded to better reflect the broader industry. However, UDV does note that this requires dairy farmers to volunteer to contribute their data and time which is an ongoing challenge.

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

Through the dairy service levy, dairy farmers currently fund 56% of Dairy Australia's revenue (\$30.9 million). The Government matching payments delivered under the Statutory Funding Agreement (SFA) account for 36% of Dairy Australia's revenue (\$20.1 million)³. These matched payments reflect the benefits of the agricultural industry including dairy to the Australian public and economy. UDV believes this matched funding arrangement is crucial for the future of the Australian dairy industry. However, UDV also believes that processors should also contribute to the funding of Dairy Australia.

Processors are gifted improved farm output, better promotion of products and increased trade capabilities through Dairy Australia, all at no cost to processors. The launch of Dairy Australia's Sustainability Framework has put Australian dairy in a position to act sustainably into the future. This framework has been recognised internationally and has helped Australian dairy products gain Unilever certification. This Unilever recognition goes to show the work that has been done by Dairy

³ Dairy Australia

Australia is of benefit to the whole supply chain, including processors. This means that Australian dairy products can gain higher value domestically and internationally which is of direct benefit to the processors. This recognition shows the clear value of Dairy Australia's output and the value it can add to processors bottom line.

Under the historical co-operative structure in the Australian dairy industry, dairy farmers owned a high percentage of milk processors. Therefore there was little benefit for both processors and farmers to contribute financially to the dairy RDC, given it would ultimately mean farmers were paying twice. The last three years has seen drastic changes in the processing landscape with most companies now owned by international private entities. Dairy Australia has both Group A and Group B members. Group A members are Australian dairy farmers. Group B members include Australian Dairy Farmers (ADF) and Australian Dairy Products Federation (ADPF). ADPF represents the interests of the Australian processing sector. Given the processors are a member of and are direct beneficiaries of the research, development and extension undertaken by Dairy Australia, UDV believes Government should pursue a formal funding arrangement with the major Australian milk processors to contribute to Dairy Australia. A similar arrangement already exists in the livestock industry with Meat and Livestock Australia (MLA) receiving co-investment into MLA programs through the meat processors and livestock exporters.

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;

UDV does see merit in tasking the ACCC with investigating options to improve the viability and profitability of Australian dairy farmers. For example, UDV believes a form of income insurance to help farmers sustain their businesses during market downturns of climatic disasters or an investigation into the domestic pricing of cheese and butter are worthy of further investigation. However, UDV does not support the notion of re-regulation or the implementation of a 'minimum'/floor price.

To return to a regulated market, Victoria would have to reduce production to only supply the domestic market. This means 2 billion litres of milk would have to leave the Victorian dairy industry alone to make re-regulation viable. The average Victorian dairy farm produces 1.5 million litres annually; meaning over 1,100 Victorian dairy farmers would have to exit the industry. Re-regulation is not a viable option for the Victorian dairy industry and would force more farmers to leave the industry.

The Australian dairy industry has continued to argue that any form of government assistance in the form of direct payments and income support, distorts trade as it changes the risk profile of the farmer. There are World Trade Organisation (WTO) implications if the Government implemented a floor/fixed price. Compliance with Australia's trade agreements and specially the WTOs Agreement on Agriculture which places limits on domestic support arrangements is crucial for the future of the Australian dairy industry. The WTO limit, per annum, on domestic support payments by Australia to all agricultural sectors is \$471.86 million. Whereas the previous structural adjustment program was implemented to assist farmers with the deregulation process, thereby making the industry more competitive and efficient, the purpose of a fixed/floor price would be less clear.

UDV believes that history should be recognised regarding Government regulation of prices paid for agricultural goods. The wool industry crash of 1991 is a prime example of what a regulated price can do to an industry. Any time state intervention moves the price of a good or service away from the market equilibrium, there are people who win and people who lose. In the overall economy, there will be a loss of economic surplus, which can cause market crashes. The government set up the Australian Wool Corporation, which was a body that bought wool from producers when the market price was low, and then sell it back to the market when prices went back up. This operated for approximately 20 years and the market price rarely dipped below the reserve price. Wool producers enjoyed high wool prices up until the late 1980's. Due to good prices wool producers continued to produce more and more wool until the supply and demand grew further apart and by February 1991, AWC's wool stockpile contained 4.7 million bales of wool. In February 1991, the government finally decided to stop the reserve price scheme. They let the price of wool drop. This caused the industry to become unprofitable which eventuated in farm businesses being unable to run viable enterprises. The UDV wishes to note that the wool market took over 30 years to recover and this type of market distortion is not supported.

Since 2000 there have been 10 government and industry inquiries into the Australian dairy industry:

1. May 2010 - Milking it for all it's worth—competition and pricing in the Australian dairy industry by the Senate's Standing Committee on Economics
2. November 2011 - The impacts of supermarket price decisions on the dairy industry by the Senate's Standing Committee on Economics
3. January 2013 – Horizon 2020 by the peak bodies representing the dairy industry
4. July 2014 – Australian dairy: prosperous, trusted, world renowned nutrition vision statement by the Australian Dairy Industry Council
5. October 2014 – Relative costs of doing business in Australia: Dairy Product Manufacturing by the Productivity Commission
6. June 2015 – Dairy Moving Forward by the peak bodies representing the dairy industry
7. August 2017 - Australia's dairy industry: rebuilding trust and a fair market for farmers by the Senate's Economics Reference Committee
8. April 2018 – Dairy Inquiry by the Australian Competition and Consumer Commission
9. April 2019 – Federal election policy statement by the Australian Dairy Industry Council
10. November 2019 – Australian Dairy Plan by the peak bodies representing the dairy industry

Not one of these inquiries recommended the implementation of a farmgate minimum price or any form of pricing regulation. UDV supports ADF in calling for the implementation of various recommendations from previous inquiries, rather than pursuing the implementation of a regulated price.

e. alternative approaches to supporting a viable dairy sector;

UDV is supportive of further investigation into the viability of new trading platforms to give farmers the option to supply milk on the open market. While UDV has no doubt many farmers will continue

selling the bulk of their milk to their preferred processor, milk trading platforms may give farmers the opportunity to sell small amounts of milk at a higher price. By doing this farmers could have the opportunity to sell a higher value product which could increase demand and competition for milk.

Victorian dairy production accounts for 72 per cent of the national dairy exports – volume. Therefore, a viable Victorian dairy sector is heavily reliant on free trade agreements and international milk supply. In these agreements the idea of ‘fair trade’ needs to be considered to ensure that dairy exporters can get the best value for their product which should return the price at the farm gate. The Australian government should always strive to ensure dairy farmers can achieve the best price for their product in all free trade agreements to ensure the viability of the dairy industry long term.

f. the introduction of a mandatory industry code of practice; and

UDV understands that the Mandatory Code of Conduct was announced the day this submission was provided and will be in place from 1 January 2020. UDV looks forward to the twelve month review of the Code to ensure the regulatory instrument is fit for purpose and adequately addressing the power imbalance between processors and Victorian dairy farmers.

g. any related matters.

There are a myriad of different mechanisms that should be further investigated or implemented to assist the Australian dairy industry. Input costs, employment, debt levels and cash flow are all issues that need to be addressed to create a more viable dairy sector in Victoria.

Peak Body Funding

It is well known that each dairy farmer across the country pays a compulsory levy to help fund Dairy Australia research and development projects. Some would like to see a portion of this money redirected to state based direct membership peak organisations. These groups help lead the way on issues facing the dairy sector and have the ability to assess and respond on regional issues. By doing this an extra layer of benefit would be added to the levy system with farmers being well represented on issues affecting them.

Addressing the Labour Shortage

An issue that is facing a large group of farmers is the skilled labour shortage in regional communities. For the future viability of the Victorian dairy industry it is important that farmers can easily source skilled labour to help them run profitable businesses. Increasingly farmers are using foreign backpackers to fill the current labour shortage but the constant turnover of staff is making this option increasingly unviable. The expansion of designated area migration agreements (DAMA) would help meeting the increasing need to meet the current labour shortage. A DAMA is an agreement between the Australian Government and a regional, state or territory authority. It provides access to more overseas workers than the standard skilled migration program. DAMAs operate under an agreement-based framework, providing flexibility for regions to respond to their unique economic and labour market conditions. Increasing DAMAs across the state of Victoria would not only increase a farms ability to grow in size but also add to the economic viability of small regional and rural communities as more people settle.

Increasing Marketing and Promotion of Dairy

Many consumers recognise the benefits that dairy provides, from improvements to health and wellbeing, through to the contribution it makes to our economy. However, the way dairy products are perceived by consumers is influencing their purchasing behaviour. There is more that can be done to respond to this challenge, but it requires a greater effort in marketing and promotion. The industry needs to increase the scale and effectiveness of marketing and promotion to build trust in dairy products and win support for the dairy industry. The responsibility of promoting the health benefits of dairy products falls right across the supply chain, health industry e.g. nutritionists and government give the public good aspects of promoting good bone and other nutritional health consistent with the Australian Dietary Guidelines.

UDV would also like to see an improvement to the Health Star Rating (HSR) for cheeses. The dairy industry supports the intent of the HSR Reports 5-year review recommendation 4D, that dairy categories be redefined and rescaled to ensure that in the Five Food Groups (FFG) dairy receives a higher HSR and improves comparability between dairy products. However, UDV raises concern with FFG cheese – which still need further review.

This outcome aligns with the HSR calibration principles where ‘foods considered to be ‘core’ typically score at least 3 stars’. Cheese has been identified as a low scoring FFG food. However, current proposed rescaling and reclassification of Category 3D (cheese) has not delivered substantial improvements in star ratings. Dairy Australia modelling shows 47% of cheeses are still scoring less than 3 stars; this is only a minor improvement on the current HSR algorithm where 50% of cheeses were scoring less than 3 stars.

The addition of ‘surface-ripened cheese’ to Category 3D has had only a minor impact. Some products have shifted ½ to 1 star, however this has had no overall impact in increasing the proportion of cheese scoring equal to or more than 3 stars. Close to half (47%) of all cheese remains misaligned with the HSR calibration principles where “foods considered to be core to typically score at least 3 stars”.

UDV is concerned that if cheeses like cheddar continue to score as low as 1.5 stars, this will further discourage intake of the dairy food group. As such, it is imperative that cheese scores in line with other FFG foods, and the FFG calibration principles of the HSR system recognised to minimise further decline in consumption of the dairy food group.

Country of Origin Labelling

UDV would like to see much clearer country of origin labelling on all dairy products in supermarkets to help consumers make more conscious decisions when buying dairy products. UDV has been working with Queensland Dairy Organisation (QDO) and New South Wales Farmers Dairy Committee to develop a retail strategy to help increase the price of milk at the farm gate. Through this work it has become clear most consumers do not understand where the product comes from and, despite trying to buy Australian, they often end up buying products from the United States or New Zealand. Australian consumers value Australian dairy products at a premium because they understand that a product produced here is ethically sourced. The current labelling of products makes picking an Australian product difficult and confusing and means that Australian products are competing with cheaper imports. Country of origin labelling would help increase the demand for Australian dairy and hopefully lead to overall increases in the price at the farmgate.

Animal Activism

The last 24 months has seen an increase in the activities of animal activist groups such as Aussie Farms. While the UDV appreciates the recent removal of Aussie Farms charity status, the UDV still has concerns around the Aussie Farms map. This map supposedly shows the location of farms with a history of animal cruelty, these claims are without basis and are defamatory. With the current pressures of the dairy industry and agriculture in general this map has caused a great deal of anxiety amongst farmers who are concerned for their safety, the safety of farm staff and their livestock. The UDV asks that this map be removed and such defamatory accusations to be acted on by those in power. This is a threat to not only the mental stability of farmers but also a threat to their capabilities as business people to operate properly.

Truth in Labelling

UDV believes there are significant issues in Australia with truth in labelling that can be rectified by, at a minimum, the removal of Clause 1.1.1-13(4) in the *Food Standards Code*. This clause states that; *'if a food name is used in connection with the sale of a food (for example in the labelling), the sale is taken to be a sale of the food as the named food unless the context makes it clear that this is not the intention'*. The clause uses 'milk' as an example by saying *'the context within which foods such as soymilk or soy ice cream are sold is indicated by use of the name soy; indicating that the product is not a dairy product to which a dairy standard applies'*.

A 2017 Dairy Australia survey showed 54% of respondents buying these products did so because they perceived them to be a healthier than dairy milk. This is due to this clause allowing these products to falsely imply unique health properties or nutritional equivalence with dairy. An appropriate resolution is for Australia to have closer alignment with the principles outlined in the Codex General Standard on Use of Dairy Terms (GSUDT 1999). This change, coupled with regulations to prevent plant-based alternatives from evoking the qualities and values of dairy would bring Australia in line with many of its international counterparts. For example, the European Court of Justice Decision in 2017 mandated that dairy terms could not be used on plant-based products, even with clarifying terms.

Reducing Energy Costs

UDV welcomes the various government initiatives to reduce the cost of energy for Australians. The exorbitant price rises over the past decade has redistributed wealth from hard working Australians like those in the dairy industry to multinational energy companies. The most important changes include establishing a default market offer and reference bill to help consumers get better energy deals, establishing the Underwriting New Generation Investment Program to drive investment in new power generation, and providing support to small businesses which includes \$10mn being set aside from the \$50m Energy Efficiency Program for the dairy industry. UDV would like to see the ACCC continue to monitor and prosecute energy companies for price gauging and profiteering at the expense of Australian families.

Delivering this addresses the Productivity Commission's findings that 'Australian energy prices have risen sharply since 2006. For manufacturers of energy-intensive dairy products such as milk powder, this would have had a relatively substantial bearing on cost-competitiveness' and 'poor regulatory frameworks governing electricity markets, policies designed to reduce

carbon emissions and promote renewable energy, and the integration of Australian gas markets with global markets have added to spiralling energy costs in Australia, increasing the burden on the dairy industry, in some cases unnecessarily'. Pricing reforms designed to improve the functioning of electricity markets would be desirable, and further examination of supply impediments in gas markets is worthy of consideration.

Geographical Indications

Geographical Indications (GIs) is an issue which has come about through the negotiations of a free trade agreement (FTA) with the European Union (EU). GIs are naming rights to certain generic foods which the EU believes have regional significance. A GIs regime would cost the Australian dairy industry \$70-90 million a year for the first three years of the agreement. This equates to \$0.16/kgMS less for farmers at the farm gate, equating to a loss of \$25,000 on average per Victorian dairy farm. The implementation of a GIs regime in any form would have a detrimental effect on the dairy industry and profitability at the farmgate. UDV would also like to see implemented in this FTA a reduction in tariffs over 15 years rather than immediately. This would give Australian dairy farmers the ability to adjust their business models to deal with an increase in cheaper imports from a subsidised market.

UDV appreciates the opportunity to have input into this inquiry and looks forward to further engagement with the Committee.

Yours Sincerely,

Paul Mumford

President

United Dairyfarmers of Victoria