



Queensland Dairyfarmers' Organisation Limited ABN: 90 090 629 066

Committee Secretary
House of Representatives Standing Committee on Agriculture and Industry
Parliament House
Canberra ACT 2600
Email: AgInd.reps@aph.gov.au

18th September 2015

Dear Committee Chair & Members,

Re: Inquiry into role of technology in increasing agricultural productivity in Australia

In addition to the submission to your committee by the Australian Dairy Industry Council, the Queensland Dairyfarmers' Organisation (QDO) wishes to provide the following comments, in particular relating to the inquiry term of reference 'barriers to the adoption of emerging technology'.

Confidence – The confidence of farmers to invest back into their business will be the biggest determinant on the degree of new technology and innovation adopted in the farm business. Farm profitability, Government decisions, individual business cycle stage and market outlook will determine how that is achieved.

Farm Profitability – The Queensland dairy industry in the last 4 years has experienced very low or non-existent profits. There have been severe climatic conditions that have influenced these figures, but the introduction by Coles of \$1 milk (and subsequently followed on by other retailers) has also directly impacted on the financial results and had a devastating effect on the confidence of our dairy farming community. The failure of successive Governments to implement satisfactory supporting legislation to the present competition law has allowed large retailers to continue to abuse their disproportionate market power which has directly affected the returns to the domestic dairy supply chain and to farmers, particularly in States like Queensland where the majority of milk produced is for the domestic fresh milk market.

The results from the Queensland Dairy Accounting Scheme (QDAS) show losses for the majority of farmers in the last few years. In addition to this a survey of our farmers undertaken in August this year presented that more than 70% had deferred expenditure of repairs and maintenance and capital improvements due to the lack of profitability.

Since 2011 when the milk price war was initiated by Coles, Queensland has seen over 150 or 25% of our dairy farmers exit our industry at a time Queensland has been short of fresh milk to meet Queensland consumers' needs every day of the year. Processors have adopted a reactionary tactic of freighting milk into Queensland to fill the supply gap at a higher landed cost as opposed to paying Queensland dairy farmers a higher price.

The loss of 150 dairy farmers equates to loss of investment, production capacity and jobs from our industry – not an enhancement of investment let alone in new technology and innovation.

Milk processors are telling farmers that milk prices cannot rise while major supermarkets continue to sell their store brand fresh milk at \$1 per litre.

Recommendation – That the Federal Government put an ‘Effects Test’ in place that will put a stop to the current predatory conduct of major supermarkets in conjunction with the present Competition Laws to bring Australia in line with the other 127 countries that have already implemented them.

Market Outlook – The major retailers have put in place long term contracts (5 and 10 year) for the supply of home (or store) brand milk. There also appears to be an expectation that discount milk prices will be maintained at the present level well into the future.

This will impact on Queensland dairy farmers to the greatest degree because of our higher cost of production associated with every day of year production of milk for the domestic fresh drinking milk market. This is also highly consistent with dairy industries across the world with higher costs in tropical and sub- tropical regions versus temperate regions. The main reasons for these extra costs are additional costs required to produce high quality milk every day of the year, higher fibre forages necessitating higher concentrate use, lower reproductive performance, heat stress and cow comfort costs and higher exposure to the effects of infectious and metabolic diseases.

Queensland milk production for 2014/15 was 410 million litres (ML) versus packaged milk sales of 580 ML. The deficit of 170 ML has grown since 2011. Virtually all milk produced in Queensland goes directly into fresh milk packaging, so our state’s exposure to the unsustainable discounting by major supermarkets is higher than any other region. Following the Senate inquiry into milk pricing 2011, the recommendations stated that dairy farmers needed to source alternative markets. At present the milk contracts that dairy farmers are requested to sign have an exclusivity clause as part of the conditions of supply.

Even though the contracts are written with a specific entity, the exclusivity conditions cover the farm boundaries. It is an extremely difficult environment to find alternative markets when these conditions are in place. There also have been instances where micro processors have been unable to source milk without jeopardising farm contractual obligations.

The ACCC has received complaints from farmers about this perceived restriction of trade, and have conducted interviews earlier this year. The QDO is still waiting for feedback about the outcome of this investigation.

Recommendation 1- That the Government finalise this report, and create market conditions that are consistent with the recommendations from the previous milk inquiry.

Recommendation 2 That the Federal Government extends unfair contract protection laws to small business, with a small business eligibility criteria based on \$3 million annual turnover rather than a limited value of contract currently in the Bill which would exclude most farmers.

Role of Government in the implementation of new technology – The divide between rural and urban regions has increased over the decades and this will continue to increase. If we go back 30 or 40 years a vast majority of people had an uncle or grandparents who were farming, and the knowledge of farm life was well known. We face the prospect with dwindling farm numbers of an urban population getting their farm views from largely unfounded or biased information.

Some new and emerging technologies will have no perceived conflict with urban dwellers, but others such as GM have the potential to be divisive within the community. New technology using GM or Genome editing to reduce Neutral Detergent Fibre (NDF) or lignin levels could have massive positive implications for Queensland dairy farms by significantly reducing feed costs. To illustrate the degree of benefit this technology could give to our region – if the average NDF levels changed from 50% to 40% the benefit in Dairy Operating Profit (DOP) could increase by \$180-200 per cow. (The preliminary figures for Qld dairies for 2014-15 are predicting a DOP of less than \$250 per cow).

There have been many reports from Federal and State Governments on the need to increase food production etc, but failed to satisfactorily explain the changes in farm systems/practices that may be needed to realise those aspirational targets.

Recommendation – That the Government take a more proactive role in conjunction with Primary Industries commodity groups to keep the community fully aware of changes of farm practices based on peer reviewed accepted scientific information.

The QDO would be happy to further discuss any of these issues further with the committee.

Yours sincerely,

Ross McInnes
Vice-President
Queensland Dairyfarmers' Organisation Ltd