



Submission No: .....19.....

*Australian Dairy Industry Council Inc.*

RECEIVED  
13 APR 2004

8<sup>th</sup> April, 2004

BY:.....

The Secretary  
Joint Standing Committee on Treaties  
RI – 109  
Parliament House  
CANBERRA ACT 2600

Dear Secretary,

Please find attached a submission from the Australian Dairy Industry Council, on behalf of the Australian dairy industry, regarding the proposed Australia – United States of America Free Trade Agreement. The ADIC is an organization representing the common interests of the Australian Dairy Farmers Ltd. and the Australian Dairy Products Federation.

If there are any queries or further information required regarding this submission please do not hesitate to get in touch.

The ADIC would welcome the opportunity to provide verbal evidence to the Committee when it holds its hearings.

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'A. J. Burgess', written over a horizontal line.

A. J. Burgess  
Chairman

*MILK MATTERS*

**Proposed Australia – United States Free Trade Agreement:  
Submission by the Australian Dairy Industry to the Joint Standing  
Committee on Treaties**

The Australian Dairy Industry wishes to thank the Chairman and members of the Joint Standing Committee on Treaties (JSCOT) for providing the opportunity to comment on the proposed free trade agreement (FTA) between Australia and the United States of America.

The Australian Dairy Industry urges all members of Parliament to support the FTA.

While the Industry is disappointed that the FTA did not ultimately include free trade in dairy products, the Agreement does lead to an immediate 3 fold increase in Australia's quota access for dairy products to the USA and that new access will grow at an average compound 5% per year. The agreement, therefore, contains commercially tangible outcomes from Year 1 of implementation.

**Background to the Dairy Industry**

Dairy is the largest processed food industry in Australia creating skilled and semi-skilled jobs in farm and factory service industries, manufacturing, distribution and at point of sale (retail or food service). Dairy is also Australia's largest processed food exporting industry, representing about 30% of Australia's processed food exports. Improved access to the relatively high value and sophisticated United States dairy product and food processing market will create incentives for Australian exporters to grow demand for Australian dairy products through providing specialized, tailored products, ingredients and services.

Dairy in 2002/03 was Australia's third most valuable agricultural industry at the farm gate with a value of \$2.8 billion. The industry is also the largest value adding food industry with an ex factory value of \$8.5 billion. Dairy creates jobs – the 10,600 dairy farmers and 35,000 to 40,000 downstream workers and further indirect employment of about another 150,000. The vast majority of these jobs are created in rural and regional communities.

**Dairy Farming Business Environment**

Over the twenty years to 2001 - 2002 Australia's milk production almost doubled. However, the very severe drought has led to a drop in production of about 10% since that time.

According to ABARE, dairy farmers were the worst affected agricultural industry from the impacts of the drought with loses averaging \$76,600 in 2002 - 2003.

The severe financial and production impacts of the drought will mean it will be 3 to 5 years before production recovers to the record levels of 2001 – 2002 and resume its average annual 3% to 5% growth each year.

The high costs of the drought have been compounded by relatively low farm gate returns for dairy farmers over the past year. These low farm gate returns have been very adversely impacted by the significant increase in the value of the AUD\$. While world market prices over the past year have been about the same as they were in 2001 – 2002, farm gate prices have dropped in that period from about 33 cents per litre down to about 25 cents per litre as the AUD\$ has appreciated from about 50 cents US to about 80 cents US.

The twin impact of the drought and low farm gate prices has resulted in substantially reduced cash flow and farmers incurring much greater debt to remain economically viable. This has reduced both the confidence and ability to make, at least in the short-term, the investment needed to expand production, boost productivity and resulting profitability. The FTA with the USA has provided some welcomed good news for the future of dairy farming.

Manufactures have also felt the impact through lower milk deliveries reducing export milk availability, factory efficiencies and ultimately profitability.

### **Export Focus of the Dairy Industry**

Over the past ten years Australian dairy exports have grown by about 2.5 times to a total value of about \$2.5 billion in 2002 – 2003. The Australian dairy industry is an export success story, exporting to over 100 countries and with about 65% of exports by value going into near neighbour markets in Asia. Therefore, the long-term prosperity of the Australian Dairy Industry is linked to export markets and international market access. The domestic market is mature and will provide only limited growth through population growth and through product innovation. Australia is the third largest dairy exporter after New Zealand and the European Union.

The FTA agreement has provided a much needed confidence boost and, once implemented, will provide a commercial value of between \$2,500 and \$3,500 per farm to Australian dairy farmers. This is very important in the context of the very difficult operating conditions over the last 18 months.

The tripling in quota access through the FTA in year 1, compared to current access under the Uruguay Round agreement, creates opportunities for more dairy manufactures to benefit from the proposed Agreement.

The new access to the United States market is broad based with European style cheese (Italian varieties, Gouda and Edam and blue mold), ice cream, (frozen) cream, milk powders (both skim and whole), Goya cheese and other dairy products added to country (Australia) specific access.

The country-specific nature of this new access offers Australian manufactures a unique opportunity to grow demand for dairy in the United States with innovative, customer tailored products before competitors can secure increased access via either regional agreements or multilaterally through the WTO.

### **Impact of Proposed Agreement on the Dairy Industry**

The value of dairy exports to the United States in Year 1 is estimated to grow by between A\$50 million and A\$60 million. The exact export income gain is difficult to quantify because of the impact of a number of variables including but not limited to;

- Currency movements between the AUD and U.S. dollar,
- Movements in U.S. dairy wholesales prices which can be volatile, and
- The individual and collective ability of Australian quota entitlement holders to secure market premiums.

The compounding nature of access means that the potential for export income gains will double in about 16 years. Improved and growing access to the United States market provides a welcomed piece of positive news for dairy farmers looking to their future business environment.

However, the size of access gains needs to be put in perspective from a U.S. industry viewpoint. The new quota access for Australian dairy is estimated in Year 1 to be approximately equivalent to about 169 million litres of milk in a US domestic market of about 75 billion litres of milk equivalent. This is about 0.23 per cent of the domestic market in the United States.

### **Gains to the individual farmers**

For the farmer with an average herd size of about 200 milking cows, the agreement should contribute a further A\$2,500 to A\$3,500 in farm gate revenue in the first year. The cooperative based nature of the Australian Dairy Industry, where approximately three quarters of milk is delivered to cooperatives, means that farmer shareholders can be direct beneficiaries of increased access through the gains in export income.

The broad nature of the product types included in new access under the FTA means there is the opportunity for the benefits from the FTA to be available to all dairy farmers throughout Australia.

### **Mutual Opportunity**

The FTA has the potential to create not only closer commercial links between Australian manufactures and the U.S. food supply chain but to also boost links and cooperation in other areas. For example there are grounds for closer cooperation in seeking fundamental reform of multilateral agricultural trade. Sharing knowledge and collaborating on generic milk promotion and separately addressing common on-farm issues ranging from animal health and welfare to environmental compliance holds out the prospect of boosting the performance of dairy farming in both nations. These contacts are at multi-layered levels ranging from industry associations through dairy companies to research organisations.

### **Intangible gains – Investment flows**

The most intangible aspect but potentially delivering the greatest benefit over the long-term is the incentive provided for greater two-way investment flows. The Dairy Industry has traditionally welcomed investment in its many forms (direct, joint venture or partnership) as a way of transferring technology, bringing new skills into the industry at both the manufacturing and marketing levels and opening up export market opportunities.

### **Stepping stone to Doha**

However, it is important to note that the proposed FTA is only a stepping stone to the Industry's most important trade objective; fundamental reform of the world dairy product trading arrangements through the Doha Development Round negotiations.

The Dairy Industry has long-term milk production growth potential of three to five per cent per annum. This will directly feed into greater exports given the mature domestic market and sustainable downstream job creation in rural and regional communities where the dairy industry operates.

### **Conclusion**

The agreement is not a panacea for the challenges currently facing the Dairy Industry but will give both dairy farmers and manufacturers renewed confidence in the underlying strength and future prospects for their Industry.

The Australian dairy industry urges all members of Parliament to support the proposed Free Trade Agreement with the United States.

8<sup>th</sup> April, 2004