

Chapter 6

Other matters

6.1 This chapter considers other matters raised during the course of the inquiry, relating to the sustainable development of the dairy industry and the adequacy of information provided to consumers.

Food security

6.2 Some witnesses fear that the challenges facing the dairy industry are so severe as to threaten its viability in Australia and leave Australia dependant on imports for a key food item. This would be particularly worrisome in the context of growing concerns around *global* 'food security' – the availability of affordable food – reflected in the surge in global prices of agricultural commodities in the late 2000s.¹

6.3 Dr McCall raised the issue of food security at the Committee's first hearing:

...instead of ridiculing the likes of the European Union, which value the contribution of food production and food producers, we should also value it and embrace it within what I would describe as a food security policy and make it just as important as national security. In the age of scarcity and uncertainty that we are likely to confront over the next 15 to 20 years, that policy framework needs to be an imperative...In Australia we need to acknowledge this reality as a risk assessment for policymaking into the future and develop a similar policy response to the European Union, where there are intervention thresholds around price for suppliers.²

6.4 Other submitters also expressed concerns:

Food security is becoming an important issue throughout the world as food producers are being encouraged to increase production to meet the needs of a growing population. However, unless appropriate returns are available to the farmers our food production may suffer a huge shortfall as many farmers are forced out of agriculture... as food security has become an important worldwide issue we need to put appropriate measures in place to support the Australian dairy industry.³

...we have to be able to work through it [drought] so we can retain as many farming families and communities. These are the people who supply food to this country and many other people from other nations. We can make a difference if as a nation more help and protection is given to the people who

1 Sheales, T and Gunning-Trant, C, 'Global food security and Australia', *ABARE Issues Insights 09.8*, Australian Bureau of Agricultural and Resource Economics.

2 Dr Tony McCall, *Committee Hansard*, 5 November 2009, pp 42–43.

3 Amalgamated Milk Vendors Association, *Submission 32*, pp 3, 5.

work hard supplying food. Give us the right to pass on our legitimate expenses. If not, this nation will experience food shortages in the future.⁴

6.5 A number of farmers' representatives also referred to it:

...as less of the world's land is dedicated to agriculture, maintaining a robust dairy sector in Australia is vitally important.⁵

Somehow this country needs to implement a system that recognises the costs of food production and ensures adequate returns are achieved for farmers' produce. Otherwise, we will surely see the demise of an industry that makes a vital contribution to the wealth of this nation, putting at risk Australians' ability to purchase safe, locally produced food.⁶

Global demand for dairy products is still strong and likely to remain so with rising world population, little or no new land available for agriculture and increasing concerns over global food security.⁷

6.6 Mr Danny Harris, a Western Australian farmer, warned:

I am seeing the mood change and I am seeing that there could be some exodus. There is a lot of cash tied up in dairy farms. If they have not got a willing next generation, they are going to cash them in very quickly. Why wouldn't they? Would I ever dare to say it—it can never work, but re-regulating the WA dairy industry is on the cards to safeguard daily fresh milk... I read Dick Smith's comments the other day—and I know they were fairly outlandish—about moving to 40 million people or something or other and we would all starve. I reckon governments need to take notice of that. That is the peak of the worst-case scenario but I reckon we need to start taking notice because it is a mess and unless we can get some power back at the farm gate for all products we are in trouble.⁸

6.7 Among retailers, NARGA also expressed concern about the longer-term viability of the dairy, and other agricultural, industry in Australia:

It is not beyond question that we will not see the dairy industry in a few years time. I think that, in a lot of instances with food production, we have gone too far. I do not think you will be able to buy a can of Australian canned tomatoes in five years if we do not do something soon. I am still disappointed every day when I look out and I see that we live in a country with the cleanest paddocks in the world and we are sourcing more and more of our product from China and overseas. I do not see the sense of it. I do not

4 Mr Malcolm Fechner, *Submission 33*, p. 2.

5 Australian Dairy Farmers Ltd, *Submission 16*, p. 3.

6 Mr Philip Depiazzi, Western Australian Farmers Federation, *Committee Hansard*, 29 January 2010, p. 17.

7 Victorian Farmers Federation, *Submission 18*, p. 4.

8 Mr Danny Harris, *Committee Hansard*, 29 January 2010, p. 37.

see where we are going. We are fundamentally going down the wrong road.⁹

6.8 In reply, Woolworths felt such concerns were exaggerated:

I think that, if 76 per cent of current production is devoted to manufacturing, to food service, to the production of product for further manufacturing and for export, there is a long way to go before there is a specific problem in milk, if there is going to be a problem in milk.¹⁰

6.9 Ms Nola Marino MHR argued that where the *Trade Practices Act 1974* refers to the 'public benefit', this should encompass not just price but also the maintenance of food security:

The ACCC should be able to utilise a broader definition of public interests rather than simply...retail price...Take into consideration whether the industry structure would result in the loss of food production and whether that loss of local food production is in the public interest. The ACCC should be specifically charged with joint responsibility with the other relevant Government Departments and Agencies for ensuring Australia's future food security if that security is threatened by current industry practices.¹¹

6.10 In a similar vein, Dr McCall believes 'competition' is being accorded undue primacy over food security:

Competition as a policy mantra confines farmers to being winners or losers rather than guardians of food security for Australia in a world where scarcity will be the new currency of value.¹²

Strategic dairy plans and overproduction

6.11 In principle, concerns about food security could argue for the development of strategic plans. In practice, however, what the Committee heard about strategic plans suggests they need to be adequately thought out.

6.12 The Committee considered the development and operation of the Tasmanian dairy industry strategic five-year plan. The plan, developed by both industry (processors and farmers) and government, was launched in August 2006 by the Minister for Primary Industries and Water, the Hon David Llewellyn,¹³ and was described as follows by a proponent:

9 Mr John Cummings, NARGA, *Committee Hansard*, 4 February 2010, p. 19.

10 Mr Ian Dunn, Woolworths, *Committee Hansard*, 4 February 2010, p. 34.

11 Ms Nola Marino MHR, *Submission 22*, p. 11. See also her comments in *Committee Hansard*, 29 January 2010, pp 10-12.

12 Mr McCall, *Submission 8*, p. 7.

13 http://www.dairytas.com.au/files/STRATEGIC_PLAN.pdf, accessed 6 May 2010.

That plan has a basis of growth. It is there to support farmers to improve their business operations but it also has an underpinning driver of seeking to grow the dairy industry on the basis that we believe a larger dairy industry in Tasmania is a stronger dairy industry.¹⁴

6.13 In the early stages, production was ahead of the plan's target but has since dropped below and looks likely to be well below in 2010 (Table 6.1).

Table 6.1: Tasmanian strategic plan: Milk production (m litres)

	Target	Actual
2005	600	600
2006	610	622
2007	640	644
2008	680	662
2009	720	708
2010	750	

Source: DairyTas, *Submission 31*, p. 6.

6.14 Some Committee members are concerned that the plan encouraged farmers to increase their capacity (which may involve taking on large debts) without sounding cautionary notes about possible changes in market conditions.

6.15 At the hearing, DairyTas's representative said:

I think it is unfortunate that we have got to this particular season with that milk price and with that capacity situation happening at the same time. It is causing a lot of our problem right now. I hope that in the next 12 months that will turn around significantly with the international milk price pickup through commodity prices... Hopefully, Fonterra will announce that they are going to go ahead with their investment, free up that capacity situation, take on additional milk supply and get our industry back into a reasonable path of certainty for our farmers so investors will come into it again.¹⁵

6.16 It is now recognised by DairyTas that a new processor needs to locate in Tasmania to meet the goals, and this is far from assured:

Tasmania can produce milk at a very competitive cost of production and has the potential to grow further as water resources are secured and new farms convert to dairy. But this production potential requires a milk processor that has the capacity and interest to invest in Tasmania. The ownership and decision making of all of the main milk processors is outside

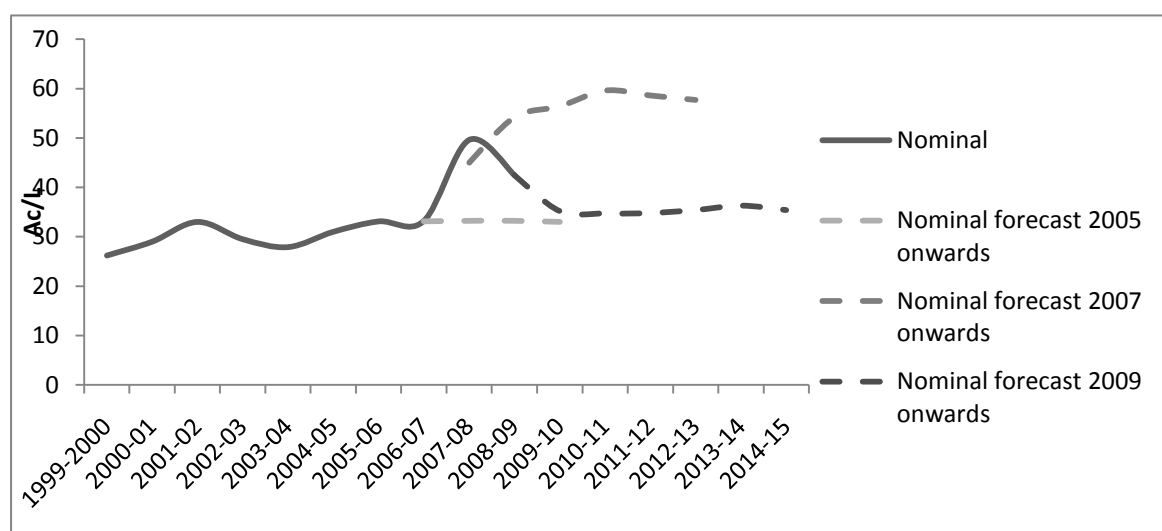
14 Mr Mark Smith, Executive Officer, DairyTas, *Committee Hansard*, 6 November 2009, p. 20.

15 Mr Mark Smith, Executive Officer, DairyTas, *Committee Hansard*, 6 November 2009, p. 21. The Committee notes that Fonterra has now decided to go ahead with that investment.

Tasmania and overseas meaning that local interests will not be part of this decision making.¹⁶

6.17 Formulating a useful strategic plan requires a degree of ability to forecast future trends in the industry. This is a difficult task as shown by Chart 6.1. When prices had been around 30 cpl for years in 2005–06, ABARE expected they would stay there (as shown by the lowest dashed line). When prices shot up to 50 cpl in 2007-08, ABARE expected them to keep rising (the higher dashed line). Both forecasts proved wide of the mark, and ABARE are now forecasting prices to stabilise around 30 cpl (the final dashed line).¹⁷ (The Committee is using ABARE as an example; it is not saying their forecasts are less accurate than those of other forecasters.)

Chart 6.1: Farmgate prices: actual and forecast



Source: Based on data from ABARE, *AustralianCommodities*, March quarter 2010, March quarter 2008, March quarter 2006.

6.18 Given the difficulty in forecasting demand and prices, there are risks for farmers in encouraging them to increase their productive capacity. This was put to DairyTas at the hearing in Burnie:

Senator MILNE—What is bothering me here is that the whole strategic plan is based on increasing production without any guarantee that you have a market to sell that additional volume—only that Fonterra said they were interested in supporting expansion...At the time you locked this in there were no guarantees at all, were there, that anybody would pick up the extra milk? So you actually encouraged farmers to get into debt and expand production, and there is no market for it.

¹⁶ DairyTas, *Submission 31*, p. 6.

¹⁷ Similarly their forecasts of export volumes for whole milk powder have proved overoptimistic.

Mr Smith—No, I would not agree with that. Certainly the plan encourages and supports growth, but it does not do any more than that except try to put a positive framework around our industry to encourage growth. There are no guarantees...Our understanding, though, was that Tasmanian dairy farmers can produce milk at a very competitive cost of production and that, provided we have a good processing market, that milk will find a market internationally into the future.¹⁸

6.19 The Tasmanian Institute of Agricultural Research gave reasons for supporting the projections in the plan.

Senator MILNE—Isn't it taking an incredibly high risk to develop a strategic plan to encourage people to expand supply and borrow vast amounts of money to do so in this case? And all you have got is a verbal undertaking from a company that they will expand—no guarantees, nothing—and it is only one company, not even a few out there as possibilities. If they then renege on the deal, everybody is left—I am astounded that there is not more to it than that.

Mr Fergusson—There is also a track record of them having done that. They have expanded their factories over the last 20 years, and even over the last few years their factory throughputs have increased. So it is their verbal comments plus their track record which lie behind the growth strategy.... One other thing lying behind the growth strategy is what is happening in the international market for dairy products. Up until the global financial crisis the demand for dairy products throughout the world was steadily increasing.¹⁹

6.20 As well as DairyTas, some processors have encouraged farmers to increase production, which is clearly in the processors' interests but may not be in the interests of the farmers:

In the mid-1970s farms were single blocks on soldier settlement places, milking 80 cows. They amalgamated because the call was to get bigger or get out. We saw that happen and it has gradually increased. In the early 1980s the average herd size in Tasmania was about 90. It is now about 330. People with two blocks are now milking 280, and we have got some of them milking 400 on those blocks. Everybody has encouraged it. It does not matter whether it is Fonterra or National Foods. They have all had their names on the bottom of that 'dairy farmer of the year' thing, which is an encouragement to increase your production. That is the way you can beat the cost, they said.²⁰

There has been a definite desire out there, on the part of Fonterra anyway, to increase milk production ...It is all right to say more, more, more, and

18 Mr Mark Smith, Executive Officer, DairyTas, *Committee Hansard*, 6 November 2009, p. 21.

19 Mr Mark Fergusson, Dairy adviser, Tasmanian Institute of Agricultural Research, *Committee Hansard*, 6 November, pp 69–70.

20 Mr John Oldaker, *Committee Hansard*, 6 November 2009, p. 11.

selling the milk may well be profitable for the company because they can absorb more of their overheads, they got more volume going through their plants. From their point of view they see it as being very profitable. But from the actual farmers' point of view it weakens our price situation because it creates more milk than they say they can market on our behalf at a profitable level for us.²¹

Committee view

6.21 The Committee acknowledges the concern within the dairy industry that the current circumstances are putting at risk the future viability and sustainability of this industry. The Committee agrees that this industry is vital to Australia's food security and appeals to the Government to take action at a national level to address the systemic problems that are putting dairy farmers at risk.

6.22 The Committee takes the view that the issues of food security and future sustainability need to be addressed at a federal level to ensure that state and territory agencies and organisations are engaged and appropriate strategic plans developed.

6.23 From the evidence received throughout its inquiry, some members of the Committee are of the view that the current Tasmanian strategic plan was over-optimistic and, to a degree, reckless. Others view it as reasonable, given that the disruption to demand associated with the global financial crisis could not have been foreseen, and the targets set in place have been met prior to the effect of the crisis.

6.24 The Committee agreed that processors' agents should not encourage farmers to increase production unless they intend to increase purchases from them.

Recommendation 14

6.25 The Committee recommends that the Government addresses the issues of food security and the future sustainability of the dairy industry at a federal level. The Committee suggests to the Government that this review be facilitated through the Primary Industries Ministerial Council to ensure it receives the commitment and attention required. The Committee recommends that any review include the role of the ACCC and federal, state and territory agricultural departments in ensuring Australia's food security.

Recommendation 15

6.26 In the light of the Tasmanian experience the Committee recommends that where industry bodies are encouraging increased production, all agencies involved in those bodies have regard to issues of long term sustainability in the context of long term trends. They should identify the source of increased demand, adopt cautious language and indicate the degree of uncertainty around any projections.

21 Mr Wayne Tennant, *Committee Hansard*, 6 November 2009, p. 50.

Labelling laws

6.27 Some witnesses argued that milk sold in shops should be more clearly labelled to give more information about its nature and provenance.

6.28 Ms Dee Margetts referred to 'the necessity for better labelling for local production'.²² Mr McCall referred to:

...appallingly weak labelling regulations, regarded as being too costly for those with market power—the retailers and the processors—they would not have to clearly identify where the product was sourced from.²³

6.29 There is also a case for labelling on generic milk to disclose the processor involved so that consumers can make a more informed choice between generic and branded milk.

6.30 Ms Nola Marino MHR is concerned that:

Milk labelling does not require processors to disclose top up using permeate...²⁴

6.31 She argued:

Food labelling should require a clear definition of fresh whole milk and the disclosure of milk additives...The ACCC should be able to utilise a broader definition of public interests...Public interest should include the right to have foods properly labelled so that consumers are properly informed of the product they are buying.²⁵

6.32 The issue of permeate being added to fresh milk as well as the reconstitution of powdered milk being sold as 'fresh' milk are of concern to the Western Australian dairy industry, particularly given in geographic remoteness and the difficulties associated with transporting fresh milk long distances.

They would have got some milk from other companies, but they were the first to start bringing in powdered milk. I presume it was from Victoria, because that is the only state that has excess milk. They would have reconstituted it. I do not know whether they just added it to fresh milk for flavoured milks or whether it was complete. That is not at all illegal but I think it is highly immoral when you have an industry that is struggling to get a farm-gate price.

People should not fool themselves. Those products—UHTs, cheeses and powders—could easily come in here. But when it comes to the fresh products that appear on the shelf every day, we are protected by distance.

22 Ms Dee Margetts, *Committee Hansard*, 29 January 2010, p. 43.

23 Mr McCall, *Committee Hansard*, 5 November 2009, p. 42.

24 Ms Nola Marino, *Submission 22*, p. 4.

25 Ms Nola Marino MHR, *Submission 22*, pp 10–11.

However, as I said, it is highly immoral. There should be an investigation into that because, although the use of powder is not illegal, it is highly immoral. There is nothing on those cartons that says 'reconstituted'. It does not say that it is fresh but it does not say that it is reconstituted. It does not have to say anything, but this public has been brought up to believe that these are all fresh products. I can be challenged on that because I have not got absolute and accurate pieces of paper sitting in front of me. I am saying to you that they are my assumptions and that is what I believe is occurring...

Not only have they put powder into flavoured milks and sold it off—immoral, I believe—they are now in a position to control the farmgate buy price. They have created surpluses in milk in this state that are fictitious. They are not surpluses at all...they do not have to buy that milk and they can put powder in it, the ACCC can go and investigate it, because I believe that is controlling the farmgate milk price and I think that is illegal... I might add that that surplus milk has been fictitiously created because of the powder usage. There is about 80 million but there is not 120 million.²⁶

6.33 Food labelling was recently examined by the Senate Economics Legislation Committee in its report on the Food Standards Amendment (Truth in Labelling Laws) Bill 2009. The report particularly examines the distinctions between products being described as 'product of Australia' or 'made in Australia'.

6.34 That committee is now inquiring into the Trade Practices Amendment (Australian Consumer Law) Bill (No. 2) 2010, which provides a specific methodology for determining whether claims about the country of origin of goods are false, misleading or deceptive.

Committee view

6.35 The Committee notes that the Australia and New Zealand Food Regulation Ministerial Council has commissioned an independent comprehensive review of food labelling law and policy, and believes this is the appropriate venue in which to pursue this issue.

Recommendation 16

6.36 The Committee recommends that the Australia and New Zealand Food Regulation Ministerial Council acts to ensure that labelling on dairy products adequately and accurately informs consumers about the provenance, manufacturer and contents of the product.

26 Mr Danny Harris, a dairy farmer, *Committee Hansard*, 29 January 2010, pp 36–38.

**Senator Alan Eggleston
Chair**