

*Submission to Senate Select Committee***Australia-United States Free Trade Agreement****About Murray Goulburn**

Murray Goulburn Cooperative is Australia's largest processor of milk and Australia's largest dairy exporter, accounting for over \$1 billion in export sales in the last financial year -- about half of Australia's dairy exports.

With more than 2,200 employees and 3,500 dairy farmer suppliers/shareholders in Victoria, the southern Riverina and the south east of South Australia, Murray Goulburn Cooperative plays a leading role in the regional economy as well as in the national dairy industry.

For over fifty years, the Co-operative has established itself as a significant presence in the global dairy trade and its exports now account for about nine percent of all dairy sales on world markets.

Murray Goulburn trades in over 100 countries with substantial and growing sales into the USA, Mexico, the Middle East, India and Sri Lanka. Its products are known domestically under the Devondale brand name and MG™ in export markets.

A leading role in trade with United States

Murray Goulburn is by far the largest Australian supplier to the United States market having worked within the restrictive US quota system and around the edges of the quotas where possible by means of innovation and market development to grow its share of the market despite high levels of US protection.

As a leader in the development and adoption of dairy technologies at both the production and processing level, Murray Goulburn Cooperative has innovated in its product-lines, product styles, marketing and supply to meet the specific needs of US customers and to maximise its opportunities to compete in the US market despite some of the highest barriers anywhere to its entry to the market.

For example, MG has developed and grown opportunities for the sale of non-traditional cheese styles such as Goya that can enter the US market without quota restriction (although subject to tariff). It has also developed and improved ultra-filtration technology for extracting and concentrating advanced milk protein products that are now in strong demand in the USA.

MG has also worked hard over many years to establish independent alliances in the US market with US importers and manufacturers who have become established customers for both quota-controlled and non-quota products including consumer products and dairy food ingredients produced using exclusive MG technologies.

Opportunities for expansion

Although the dairy market access provisions of the Australia-US free trade agreement are very modest in comparison to the size and growth of US dairy demand they represent a very substantial increase in Australian access to the United States market that Murray Goulburn Cooperative will pursue to the full extent possible.

We are disappointed that the liberalization of the United States' highly restrictive quota barriers will take place very slowly and that the over-quota tariff rates will remain in force throughout the 20 years of implementation. This means that penalty tariffs for competitive entry beyond the quota volume will continue to prohibit MG from servicing demand that we know exists for our products.

The agreement, nonetheless, represents for the Australian dairy industry a substantial reduction in US import barriers, leading to potential sales valued by Dairy Australia at between \$50 and \$60 million in the first year of implementation.

Murray Goulburn, as the largest dairying business in Australia, with the largest number of farmer shareholders and employees of all Australian dairy companies and with the strongest track record of any firm in innovation, sales and expansion in the US market looks forward to making the most of the new opportunities.

Quota allocation

Once the Free Trade Agreement is ratified on both sides, the Australian government will allocate access to the expanded dairy quota in the USA among companies supplying Australian dairy produce.

In those segments of the market where quotas are combined with punitive out-of-quota tariff rates, the performance of Australian exports – and therefore **the return to the Australian economy** in terms of growth -- will depend on prices and the capacity of firms profitably to fill the available quota.

The **return to Australian dairy farmers** from the FTA will depend on prices, the manufacturing efficiency of the firm filling the quota and on the share of Australian farmers in the firm's returns from export sales.

Support for the Agreement

Murray Goulburn Cooperative strongly supports ratification of this Agreement because, on a 'cost-benefit' basis, we rate it as a big step forward for Australian dairy in a market that has been one of the world's most protected.

We urge Senators to consider the significant addition that this agreement will make to Australian dairy farmers' returns and to endorse this treaty.

13 April 2004