



# **AUSTRALIAN DAIRY INDUSTRY RECOVERY PLAN**

**CONSULTATION DRAFT**

**August 18<sup>th</sup> 2017**

## Foreword

The context for the preparation of this Plan is an Australian dairy industry at the tipping point. A crisis has been building since 2013 which led to a collapse of milk production and factory closures in late 2016, and an ongoing decline which could lead to complete destruction of the industry. There are 45,000 jobs at risk, and the impact of job losses is already threatening the viability of many rural towns. Australian consumers stand to lose their access to fresh drinking milk as well as locally made dairy products, and Australia will lose what was once a major export industry.

Reversing this decline will take a concerted effort by all those involved in the dairy industry. This is no longer a time for laying blame for the crisis on any particular industry sector, it is a time for shared commitment to saving what remains of the industry, and rebuilding for the long term.

It is remarkable that there is no overall plan for the Australian dairy industry within governments or amongst the various industry bodies. Farmer Power has decided to fill this gap and has worked with award winning planning consultancy FOCUS to develop this consultation draft. We will seek the views of farmers, processors, retailers, industry groups and governments on the proposed strategies in this plan – either agreement or alternative proposals - and commitments to implement the Plan.

There is no time to lose. We hope we can quickly build a framework that can be put into effect through shared effort. This will be based on the significant consultation and inquiries that have been carried out over the past year, which form an important foundation for this Plan.

We suggest that input to the plan should be invited over the next two months. In parallel a shared agreement should be developed for sign up by all stakeholders, enabling them to make commitments (budget allocation and action) for 2017-18. We hope that this Plan's implementation can start without delay.

The Plan has been prepared in two parts. Part One provides a summary of issues under the headings of Milk Production, Dairy Processing, Domestic Marketing, Export Marketing, Research & Development, Capacity Building & Advocacy. Objectives and Strategies are identified under each of these headings. Part Two provides an implementation framework for the Plan, identifying who is responsible for implementing each strategy, appropriate resources and targets.

Developing the Plan should be ongoing, so that as progress is made in industry recovery the strategies can be adjusted for best results. Quarterly reporting is appropriate.

Please join with us in committing to this plan for industry recovery.

***Chris Gleeson, President***

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# VISION AND OBJECTIVES

The vision for this Recovery Plan is the establishment of a sustainable Australian dairy industry within which the profits of one sector are not made at the expense of another, and trust is established between all participants across sectors. This can provide the foundation for Australia to grow its milk production, maximise its product value, grow its exports and ensure its long term domestic food security.

The Plan's objectives are as follows.

## ***Milk Production***

- Stem the flow of existing farmers out of the industry.
- Provide a financial and operational basis for dairy farmers to build their herds and increase milk production.
- Provide incentives for young farmers to become involved in dairy farming.

## ***Dairy Processing***

- Encourage processors to co-operate in building the capacity of the Australian dairy industry.
- Enforce fair practices that are necessary to achieve sustainability of the industry.

## ***Domestic Marketing***

- Ensure Australia's food security through domestic dairy production.
- Provide conditions that enable dairy farmers and Australian dairy manufacturers to operate in different parts of Australia, catering for regional markets.
- Ensure that Australian dairy consumers have the information they need to choose the dairy products they want.

## ***Export Marketing***

- Restore Australia's competitiveness as a dairy exporter.
- Support Australian exporters seeking new markets.

## ***Research and Development***

- Establish an Australian dairy research capacity that supports innovation and product development.
- Improve the accuracy and timeliness of reporting on the dairy Industry to governments and other stakeholders.
- Provide extension services and training in the most cost effective way.

## ***Capacity Building and Advocacy***

- Establish an effective advocacy structure that provides good value for money for farmers and other industry participants.
- Rationalise food safety regulatory functions on a nationally consistent basis.
- Ensure that the advocacy structures are responsive to the needs of their client base.

# 1. MILK PRODUCTION

## *Situation Analysis*

National milk production has dropped by around one third since deregulation in 2001. New Zealand has also deregulated its industry, but its milk production has doubled over the same period, suggesting that the New Zealand post-deregulation strategies have been much more successful.

The number of dairy farmers has more than halved since deregulation. This has resulted in some farm amalgamations, but it is difficult to tell whether this is a welcome trend or one that has been a result of smaller farmers being forced out of the industry. The emergence of corporate farms has had mixed results, with many of these proving unworkable in times of low milk prices. The vast majority of dairy farms are still family run.

Young entrants to dairy farming often lease their farms in the first instance, but buy their own herds and equipment. Unfortunately these people have suffered most from the recent industry downturn, as they have carried heavy debts but have had no equity in land to use as security for loan finance. Encouraging young people back into the industry will require much effort to build confidence. However this is essential if the industry is to continue, as the current farming population is ageing. As profit margins have fallen into negative figures, farmers have had to pay off workers, and many are working long hours in maintaining their farms. This is placing severe physical and mental stress on an ageing cohort.

Average farm debt has grown to around \$1M. The value of dairy farms has fallen, so that many farmers face the prospect of farm repossession by their financial institutions. This situation is exacerbated by the fact that over 2016-17 farmers have had to sell off cows (for export or for beef) in order to pay their bills, leaving them with lower cash flow and limited capacity to repay loans into the future. The poor balance sheet has also limited the ability of dairy farmers to access government concessional loans which have been offered to some farmers to cushion them through the crisis.

The farm gate milk price has fallen well below the average cost of production, and this makes dairy farming unsustainable, and rising debt levels further increase the cost of production. There is no possibility of rebuilding the national herd unless the price farmers receive is increased. However price alone will not be sufficient to give farmers the confidence to rebuild their herds, and there needs to be a reform of the contractual practices that are in place. Currently these are heavily weighted in favour of processors' interests, and they do not give sufficient protection to farmers. The recently launched voluntary Code of Practice that has been prepared by processors has done little to rectify this situation. The very complex arrangements in place make it very difficult for farmers to negotiate on price, and to be clear about what price they will receive if they sign a particular contract. It is clear that price premiums are paid to some farmers but not to others, for reasons which are not always readily apparent. Current pricing attributes different values to fat and protein which do not align with market value, to the detriment of the farm gate price, and better benchmarking to both export and domestic values is required.

Rebuilding the national herd will take time, as herd culling has now extended to young heifers which would have been future milkers. Falling fertility rates and years of contracting production are factors to be considered. Pursuing increasing milk yield per cow (as has been encouraged in the past) may no longer be appropriate if this increases cash inputs and limits cows' productive life.

## **Objectives**

**1(a) Stem the flow of existing farmers out of the industry.**

**1(b) Provide a financial and operational basis for dairy farmers to build their herds and increase milk production.**

**1(c) Provide incentives for young farmers to become involved in dairy farming.**

## **1.1 Securing Land and Water Resources**

**Strategy 1.1.1 Ensure affordable water access for dairy farming regions that are dependent on irrigation.** *(implementation responsibility = water authorities, government agencies)*

**Strategy 1.1.2 Rehabilitate abandoned dairy land for future dairying use.**  
*(implementation = government grant agencies)*

## **1.2 Building the National Herd**

**Strategy 1.2.1 Introduce tax incentives for herd expansion eg use of sex semen.**  
*(implementation responsibility = Federal Government via ATO)*

**Strategy 1.2.2 Recognise a diversity of management models that can cater for different environmental conditions and product types to meet consumer demands.**  
*(implementation = dairy industry bodies to recognise needs and opportunities for organic production, pasture fed production, flat production, intensive production, high protein, high fat, once a day milking, family farms, corporate farms, small and large farms etc.)*

## **1.3 Operational Recovery**

**Strategy 1.3.1 Provide financial support for dairy farmers to upgrade their technology including production equipment, water supply systems and power generation to future proof their operations.** *(implementation = government and private financial institutions, redirection of Federal Government budget already allocated)*

**Strategy 1.3.2 Provide incentives for dairy farmers to rehire farm workers and/or expand the farm workforce.**  
*(implementation = prioritise through existing State Government grant programs)*

**Strategy 1.3.3 Freeze dairy farm repossessions for a two year period, while dairy farmers recover.**  
*(implementation = banks and other creditors)*

## **1.4 Negotiating Fair Supply Contracts**

**Strategy 1.4.1 Introduce a mandatory code of conduct with affordable and effective enforcement provisions.**  
*(implementation = ACCC)*

**Strategy 1.4.2 Enable collective bargaining through new and existing structures.**  
(implementation = ACCC and processors)

## **1.5 Achieving a Viable Price**

**Strategy 1.5.1 Simplify milk pricing and make it transparent, with a common timing for price announcements by processors and a standard contract pricing template.**  
(implementation = processors to implement through mandatory code of conduct)

**Strategy 1.5.2 Provide a price insurance scheme that is funded through a levy on dairy product sales, so that farmers are able to draw on this when the farm gate price falls below cost of production.**  
(implementation = designed by Task Force formed from dairy industry bodies working with processors and retailers)

## **1.6 Strategies for Succession Planning**

**Strategy 1.6.1 Provide low interest loans to young people wanting to become dairy farmers.**  
(implementation = government incentives, possible draw down from insurance scheme in 1.5.2 or redirection of Federal Government budget already allocated)

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## 2. DAIRY PROCESSING

### *Situation Analysis*

The Australian dairy industry started out as a series of local co-operatives, in which the processing factories were owned by local dairy farmers, and profits were shared. Tensions arose early on, with farmers claiming they were being underpaid, and a Dairy Farmers Union functioned for a while to facilitate collective bargaining. This disappeared as the Australian industry became corporatised, but exploitation of farmers was moderated by regulation. The industry was then deregulated around 2000-2001, with protective measures being progressively phased up to 2007.

The trend to corporatisation has continued, with NORCO in Northern New South Wales remaining as the only true co-operative structure. Murray Goulburn has retained a mixed model. Most other large processors are now foreign owned, with complex shareholder structures operating between companies. Corporatisation may have resulted in prioritising the demands of non-farmer shareholders above those of supplier-farmers, which runs the danger of placing short term profits above long term sustainability.

Australian companies appear to have fallen well behind those of their international competitors in terms of value adding and innovation. It has been suggested that foreign owned companies tend to make lower value products in Australia and higher value products in their home countries. These companies conduct their product innovation overseas, so that cutting edge products are not produced in Australia. At the same time Australia's overall research and development capacity has dropped, partly as a result of processing companies declining to provide funding or to share information. This has severely reduced the capacity for home grown innovation.

The recent fall in milk supply has had an alarming impact on milk processing. It might have been expected (in a rational market) that shrinking supply would lead to an improvement in farm gate milk prices, so that this would encourage farmers to produce more and correct the imbalance between supply and demand. This has not occurred because the high debt levels of processing companies has discouraged them from paying more for supplies. The result of shrinking supply has been that expensive plant is often operating below capacity, further limiting their capacity to pay. At the same time there is fierce competition between processors (some operating in blocks) to tie up long term supply contracts with farmers in a way that disadvantages competitors. The impending collapse of some processing companies may be seen as a commercial opportunity by others, even though this damages the industry as a whole.

Current farm gate milk pricing includes a notional amount for milk transport that probably exceeds the actual cost, especially if local supplies are secured. This creates an incentive for processors to secure supplies from the lowest production areas, even if the transport costs would otherwise be prohibitive. Farmers are effectively subsidising a system which will put higher production areas out of business.

The pattern emerging for Australia as a whole appears to follow that which has occurred in Western Australia over the last decade. WA used to have a successful dairy industry providing for the local domestic market and supporting significant exports. The soils and climate in south-west WA are very suitable for dairying, and there is the potential for dairy production to be a major export industry in that State. However large companies have sought to rationalise their operations and have withdrawn from WA, crippling the infrastructure for smaller local processors, and leading to a collapse of local milk production. Dairy products are now transported to WA at a cost which appears to be much higher than the cost of local production would be. A similar trend appears to be

occurring in Queensland, which could see the collapse of the industry in that State. If taken to its local conclusion, the process of rationalisation could lead to total collapse of the Australian industry in favour of New Zealand, with the result that consumers pay more for dairy product and have limited access to fresh milk.

Dairy food safety is governed by Australia-New Zealand Standards but implementation is carried out at the State level, with variations that sometimes disadvantage Australian dairy farmers compared with their New Zealand counterparts. This fractured system is part funded by dairy farmers through a levy on the farm gate milk price. The levy is being steadily increased without any accountability or justification. This system should be streamlined to achieve consistency and cost savings.

### **Objectives**

**2(a) Encourage processors to co-operate in building the capacity of the Australian dairy industry.**

**2(b) Enforce fair practices that are necessary to achieve sustainability of the industry**

## **2.1 Re-Establishing Trust with Farmers**

**Strategy 2.1.1 Processors should pay farmers for all milk that is collected and used in dairy factories within 14 days of milk collection, and should guarantee not to withhold any payments unless the milk fails to meet specified standards.**

*(implementation = through mandatory code of conduct)*

**Strategy 2.1.2 Processors should provide support to their suppliers for rebuilding their herds by way of incentives (eg subsidised herd expansion and pregnancy testing).**

*(implementation = voluntary effort by processors to demonstrate good faith)*

**Strategy 2.1.3 Processors who have provided loans to farmers in return for long term contractual obligations should cancel these restrictions.**

*(implementation = voluntary action by processors enforced by ACCC/ASIC as appropriate)*

**Strategy 2.1.4 Processors who have “clawed back” payments already made to farmers should restore these payments.**

*(implementation = Murray Goulburn and Fonterra Australia, enforced by ACCC/ASIC as appropriate)*

**Strategy 2.1.5 Establish a national dairy food safety function to replace separate State bodies, to be administered in a way that protects farmers’ interests.**

*(implementation = Federal and State governments through a new dairy industry services body, see 6.2.1)*

## **2.2 Maximising Added Value**

**Strategy 2.2.1 Foreign owned companies should commit to maximising the value of product they process in Australia, along the value chain.**

*(implementation = voluntary by processors, reporting by industry services body)*

## **2.3 Investment for the Long Term**

**Strategy 2.3.1 Processors should work with their investors to ensure a long term investment perspective, and to suspend expectations of short term profits while the industry rebuilds.**

*(implementation = industry services body to provide an outlook summary that can be included in reports to shareholders, including realistic expectations for recovery of milk supply and requirements for support to be given to farmer suppliers)*

## **2.4 Innovation through the Supply Chain**

**Strategy 2.4.1 Processors should be encouraged to innovate, making best use of research findings within Australia and overseas.**

*(implementation = Federal and State Government incentives, greater commitment by processors, reporting by industry services body)*

## **2.5 Negotiating Fair Sales Contracts**

**Strategy 2.5.1 The practice of retailers negotiating contracts for supply of heavily discounted product in return for shelf space should cease.**

*(implementation = ACCC enforcement with strengthened powers and penalties given by Federal Government, commitment by processors and retailers)*

**Strategy 2.5.2 Any negotiated contract for product sales should include commitment of the proportion of sales earnings that will be passed on to farmers.**

*(implementation = through mandatory code of conduct)*

## **2.6 National Distribution**

**Strategy 2.6.1 The transport levy should be removed from the farm gate price, so that processors carry the actual cost of long haul milk.**

*(implementation = processors, enforcement by ACCC through a mandatory code of conduct)*

**Strategy 2.6.2 Farmers and small scale processors should not be put out of business as a result of withdrawal of infrastructure or sales outlets by major processors.**

*(implementation = the Queensland State Government to act promptly in the interest of their consumers and businesses, with local solutions to safeguard business viability)*

**Strategy 2.6.3 The Western Australian dairy industry should be rebuilt, to take advantage of its excellent natural resources, and in the interest of local consumers.**

*(WA State Government to develop a dairy industry rebuilding strategy)*

### 3. DOMESTIC MARKETING

#### *Situation Analysis*

Milk produced from dairy farms in Western Australia, Northern New South Wales and Queensland is primarily directed into fresh drinking milk, with small quantities being provided to boutique manufacturers of cheese and yoghurt. Dairy farming is more expensive in these areas, but the extra payments made to farmers are offset by their proximity to the markets. In Victoria, South Australia and Tasmania a majority of milk is used in manufacturing for both the domestic and export markets. In the Northern Territory there is no dairying from cows, and fresh drinking milk is transported from elsewhere.

Dairy farming outside the main areas of production in southern Australia suffers not only from higher production costs but also from lower critical mass. Western Australia has steadily lost most of its dairy production as the large corporate processors have consolidated their operations and pulled out. Dairy produce is now being transported long distances to Western Australia at considerable cost. A similar process now threatens Queensland's remaining dairy farmers.

Pricing of milk varies across brands, but is similar across States despite the different transport costs involved in reaching consumers. Since 2007, major supermarkets have marketed heavily discounted "dollar milk" as a way of attracting customers. However unlike discounted fuel (which is used similarly as a marketing gimmick to attract customers) the supermarkets do not compensate suppliers for the discounted price. Instead, it appears that processors are persuaded to provide homebrand drinking milk at an increasingly cheap price in return for securing shelf space for their name branded dairy produce (milk and other goods). It has been calculated that processors are unable to recover their production costs from discounted milk, and they are unable to pay farmers a price that adequately covers the cost of production.

Some processors have willingly signed contracts with the major supermarkets on the basis that this gives a long term dependable market that enables them to build supply. However such contracts have often been broken in recent years, and the keen competition for a shrinking national milk supply may make this strategy inappropriate.

Discounted milk is acknowledged as a "loss leader", meaning that it is sold at a price below its market cost to stimulate other sales of more profitable goods. In the case of milk, it reduces the earnings of processors and farmers not only because of direct discounting, but also because the prices of name branded products have to be reduced to compete with the homebrand product. The Minister for Agriculture has indicated he will be looking to the Australian Competition and Consumer Commission (ACCC) to recommend what measures are appropriate to address this situation in a report that will be concluded in November 2017. However it is necessary to develop interim strategies as a matter of urgency.

Pricing of cheese and yoghurt is suppressed not only by competition with discounted homebrand product, but also more recently with bargain priced imports which could constitute dumping. When products are priced below the retail price in the country of origin, the Australian Government can impose a dumping tax. However the process for initiating, researching and implementing this action is unclear. Consumer demand for Australian product is high, but labelling of product does not always inform consumers clearly about country of origin, and this continues under intended future labelling requirements.

There is increasing demand for organic dairy products, so that farmers are now being offered significant premiums for converting their farm operations. This trend is likely to continue as a niche component of the domestic market, with participation by smaller farms.

As most Australian production is from pasture fed cows, there is not yet the sort of price differentiation made overseas between milk from pasture and stall fed operations. However as there are plans to expand stall feeding in future, this needs to be considered in terms of its impact on the industry, product pricing and consumer choice.

Dairy Australia's domestic marketing using the "Legendary" theme has been remarkably unsuccessful, and should be replaced by a much better targeted campaign, that appeals to discerning consumers.

### **Objectives**

**3(a) Ensure Australia's food security through domestic dairy production.**

**3(b) Provide conditions that enable dairy farmers and Australian dairy manufacturers to operate in different parts of Australia, catering for regional markets.**

**3(c) Ensure that Australian dairy consumers have the information they need to choose the dairy products they want.**

## **3.1 Retailing Networks and Markets**

**Strategy 3.1.1 Retain regional supply capacity in the interests of national milk production and regional food security.**

*(implementation = processors by mutual agreement, to be addressed in the mandatory code of conduct and encouraged by State governments)*

**Strategy 3.1.2 Re-establish production capacity in Western Australia through incentives for start up processing.**

*(implementation = WA State Government)*

## **3.2 Sustainable Fresh Milk Pricing**

**Strategy 3.2.1 Price fresh milk in store at a level which provides a sustainable return to retailers, processors and farmers.**

*(implementation = retailers to implement, encouragement by consumers, long term action by ACCC – see also Strategy 6.4.6 for proposed price levy)*

## **3.3 Competitive Dairy Product Pricing**

**Strategy 3.3.1 Establish vigilant surveillance to identify imported dairy product dumping, with prompt follow up action.**

*(implementation = dairy industry services body, follow up action protocols with Federal Government)*

**Strategy 3.3.2 Maintain a watching brief to ensure that dairy products other than fresh milk do not become the new “loss leaders”.**

*(implementation = ACCC with enhanced enforcement capacity)*

### **3.4 Informative Product Labelling**

**Strategy 3.4.1 Enhance product labelling in the short and long term to clearly identify country of origin, as well as guaranteed returns to farmers.**

*(implementation = Federal Government legislation based on proposed Queensland model, processors to comply, strict monitoring and enforcement)*

**Strategy 3.4.2 Require processors to clearly distinguish between reconstituted milk and fresh milk for retail sales.**

*(implementation = Federal Government legislation complemented by community education)*

### **3.5 Changing Consumer Demand**

**Strategy 3.5.1 Monitor and project changing consumer demand and associated earnings from different production regimes, including fat/protein values, organic and pasture fed premiums.**

*(implementation = dairy industry services body in collecting and disseminating information)*

### **3.6 Effective Promotion and Marketing**

**Strategy 3.6.1 Replace the Legendairy campaign with targeted information on dairy nutritional value, the need to support Australian producers, and how to scrutinise labelling.**

*(implementation = dairy industry services body)*

**Strategy 3.6.2 Introduce school milk programs together with family education about nutritional value.**

*(implementation = State governments)*

## 4. EXPORT MARKETING

### *Situation Analysis*

Global trade in dairy products is equivalent to around 30B litres, or less than 10% of total global production. Around 35% of this is exported from New Zealand, and the other significant contributors are the USA, Canada and the EU. Brazil and Argentina are also growing as exporters. Australia is falling well behind as its production plummets.

Ten years ago Australia and New Zealand produced equivalent quantities of milk, but Australia's dwindling supply (and New Zealand's expansion) has resulted in Australia losing ground as an exporter. Exports have fallen from around 60% of national dairy production ten years ago to around 25% in 2017, largely because of falling milk production. Australia's cheese exports have dropped significantly, severely impeding overall export performance. American dairy produce has tended to fill the gaps left by Australia as its own exports have grown.

Over 70% of Australian exports go into the Asian market, the largest now being China. Japan has been the major export destination in the past, but this market is unlikely to demonstrate significant future expansion despite the removal of tariffs as a result of a recent Free Trade Agreement (FTA). FTAs with Malaysia, South Korea and China offer better prospects, though Fonterra NZ has positioned itself well within the Chinese market. Current negotiations to open up the Indonesian market may offer Australia particular competitive advantage.

Over the past five years, Australian exporters appear to have misjudged the Asian market, investing heavily in making a switch from cheese production to manufacture of infant formula. While this had good prospects initially, the unpredictable and changing regulatory frameworks which differ between Asian countries have created considerable problems. At the same time, production of all milk powders has suffered from a global glut, with unsold stockpiles still evident in Australia. A downturn in global prices is attributed to a lifting of production quotas in the EU and a trade sanctions with Russia, and this has exacerbated difficulties for Australian exporters.

Australia's location and its relatively low cost production places it in an excellent position to export dairy products to Asian markets. However the characteristics of these markets varies considerably, as does Australia's competitive advantage in relation to these markets.

A further difficulty facing Australian exporters is that many of its international competitors receive subsidies for farm production of milk, sometimes amounting to 50% of production costs. The exception is New Zealand, where production is so well geared to export that its farmers receive other advantages. A further disadvantage for Australian processors is that Australia tends to regard the global trading protocols as mandatory, whereas its competitors regards them as guidelines which can be circumvented.

If Australia is to regain its role as a dairy export nation then it will need to find new ways to support its dairy farmers through periods of low global dairy prices, as well as providing support for its processors in accessing profitable markets.

New Zealand promotes its clean green pasture fed dairy products on the export market. Australia can boast a similar quality of produce but there is no comparable national marketing effort.

## **Objectives**

**4(a) Restore Australia's competitiveness as a dairy exporter.**

**4(b) Support Australian exporters seeking new markets.**

### **4.1 Effective International Competition**

**Strategy 4.1.1 Ensure that Australian export processors and their suppliers are not disadvantaged by unnecessary adherence to guidelines that are ignored by Australia's competitors, recognising also that milk supply is an essential commodity that is exempted from some WTA/FTA requirements.**

*(implementation = dairy services body to advise Federal Government before and after execution of FTAs)*

**Strategy 4.1.2 Ensure that Australia's dairy industry is not disadvantaged in Free Trade Agreements as part of negotiating for other benefits.**

*(implementation = Federal Government)*

### **4.2 Meeting International Demand**

**Strategy 4.2.1 Prepare an annual Dairy Export Strategy that can advise exporters on the characteristics of different export markets, including consumer demand, regulatory requirements and risks.**

*(implementation = AUSTRADE)*

**Strategy 4.2.2 Prioritise assistance to dairy processors, including start up companies, based on likely fit with emerging export demand.**

*(implementation = Federal and State governments)*

### **4.3 Securing Access to Markets**

**Strategy 4.3.1 Prioritise access to dairy export markets in negotiation of new trading agreements, including current negotiations with Indonesia.**

*(implementation = Federal Government)*

### **4.4 Improved Risk Management**

**Strategy 4.4.1 Where dairy product intended for export markets in good faith is subject to contract cancellation, purchase supplies for redirection through the foreign aid budget or domestic food charities.**

*(implementation = Federal Government, State Governments)*

## **4.5 Transparent Benchmark Pricing**

**Strategy 4.5.1 Establish a clear benchmark pricing formula for milk supplied by farmers to manufacture export products.**

*(implementation = dairy processors, address in code of conduct)*

## **4.6 Promoting the Australian Brand**

**Strategy 4.6.1 Establish new branding and promotion of export product that highlights Australia's clean green image and its production based on pasture fed herds.**

*(implementation = AUSTRADE)*

**Strategy 4.6.2 Increase promotion of dairy innovations through Trade Fairs and other international marketing events.**

*(implementation = AUSTRADE, State governments)*

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## 5. RESEARCH AND DEVELOPMENT

### *Situation Analysis*

Australia's dairy research effort has virtually disappeared. Dairy Australia proclaims itself as an R&D organisation but it does not conduct original research, and its R&D function is limited to information collation and dissemination, with many questioning the value of this output. The previous dairy research section of the CSIRO has been disbanded, together with some combined research being pursued with universities (some of which had resulted in new processing proposals that were near ready for commercialisation, now abandoned). Australia's flagship research body, Dairy Innovation Australia Ltd (DIAL) was closed down last year, leaving a number of shared research projects with different universities in limbo. DIAL's funding came from Dairy Australia as well as some of the major processors, who stood to benefit from its research findings. However it appeared that these various companies were increasingly reluctant to pool their resources for joint research.

As processing becomes dominated by foreign owned dairy companies, these are able to benefit from significant overseas research carried out by the same companies. However to date the Australian arms of their operations do not appear to benefit from cutting edge technologies or product profiles.

If Australia is to restore its dairy industry as a significant employer and export earner, it needs to retain its own dairy research capacity. This can support innovation and enterprise growth on the part of Australian dairy companies, large and small. The Federal Government currently invests around \$20M per annum on the R&D functions of Dairy Australia, and this could be much more effectively targeted at direct research.

Much of Dairy Australia's R&D allocation is expended on field extension services, focusing on pasture improvement and herd genetics for example. This work is the main function of the eight Research and Development Programs established throughout the dairy regions of Australia. However these are used by a minority of farmers, and the quality of these programs is questioned by those who prefer to choose their own service providers from the private sector, enabling them to select and pay for the services that are most appropriate to their needs. Farmers could be assisted in accessing these services through expansion of existing grant programs, potentially involving services to clusters of local farmers. This would reinvigorate service provision, ensuring that farmers have access to cutting edge innovations on farm.

There is much scope for innovation in Australia's dairy industry, but there are significant obstacles for start up entrepreneurs. Access to government grants and private sector venture capital seems to be easier for established foreign owned companies than for small Australian start up enterprises. Currently Australia's start up assistance is focused on tech companies. Australian financial institutions will generally not lend to companies without established cash flow and equity. As a result, innovations in manufacturing often depend on foreign investors, who are likely to become shareholders and influence priorities. This situation demands a reprioritisation to build on Australia's natural resources and the maximise value adding for the benefit of the Australian economy.

## **Objectives**

**5(a) Establish an Australian dairy research capacity that supports innovation and product development.**

**5(b) Improve the accuracy and timeliness of reporting on the dairy Industry to governments and other stakeholders.**

**5(c) Provide extension services and training in the most cost effective way.**

### **5.1 Improved Research Capacity**

**Strategy 5.1.1 Redirect most of the Federal Government R&D funding from Dairy Australia into the CSIRO, with a revived dairy research unit that can work with and co-ordinate the research effort of Australian universities.**

*(implementation = \$15M per annum research allocation by the Federal Government redirected to CSIRO)*

**Strategy 5.1.2 Redirect priorities for allocation of research grants by the Gardiner Foundation to projects which are of direct practical benefit to Victorian farming operations.**

*(implementation = \$10M per annum for the next 3 years – see Strategy 6.1.2 below)*

**Strategy 5.1.3 Review the outcomes from dairy research every three years to ensure value for investment, and adjust forward priorities accordingly.**

*(implementation = Federal Government)*

### **5.2 Monitoring Industry Dynamics**

**Strategy 5.2.1 Establish monitoring and reporting on the dairy industry as a core function of a new national industry services body, with a dedicated budget of \$2M per annum to be provided by the Federal Government.**

*(implementation = Federal Government – see Strategy 6.2.1 below)*

### **5.3 Disseminating Critical Information**

**Strategy 5.3.1 Establish a new protocol for the Australian Parliament to receive reports from the new industry services body rather than interpretative reports from public servants with limited skills in research, and a poor understanding of the dairy industry.**

*(implementation = Parliamentary Services reform)*

### **5.4 Timely Advice to Governments**

**Strategy 5.4.1 For the next three years, the Australian Parliament and State Parliaments should receive and discuss quarterly reports from the new industry services body on the state of the Australian dairy industry and the progress in implementing this Recovery Plan.**

*(implementation = Parliamentary Services – note that this reporting can also address implementation of the various Government inquiries that have contributed to this Plan, ensuring that findings are translated into action)*

## **5.5 Reconfiguring Extension Services**

**Strategy 5.5.1 Redirect farmers' field extension services to the private sector, with grant funding support for farmer clusters.**

*(implementation = Defund the RDPs at a cost saving of around \$10M, and prioritise grants to farm clusters for the Gardiner Foundation in Victoria, other grant programs to be identified by State governments in other States)*

## **5.6 Encouraging Innovation**

**Strategy 5.6.1 Prioritise dairy innovation in allocation of resources by governments and the private sector.**

*(implementation = Federal and State Governments to quarantine funding allocations for dairy innovation within existing grant and loan programs, and through underwriting risk for private lenders as an extension of EFIC functions)*

**Strategy 5.6.2 Extend eligibility for the R&D Tax Incentive to dairy farming family trusts.**

*(implementation = ATO)*

CONSULTATION DRAFT

## 6. CAPACITY BUILDING AND ADVOCACY

### *Situation Analysis*

Dairy farmers have lost faith with the current representative structures, because of the lack of action to protect farmers' interests. This has created a vicious circle as farmers withdraw their membership, and falling revenues creates a funding gap that has to be filled through corporate sponsorship. Willing sponsors may be dairy processors and retailers, but this creates a perceived conflict of interest from the farmers' point of view, creating even more disillusionment.

Dairy Australia currently has no role in political advocacy, and its residual roles are poorly defined. As long as it relies on funding from dairy farmers there will be questions raised as to why other industry sectors are heavily represented in its governance structure, and why its activities benefit these other sectors. It needs to establish much closer connection with its client base, and for this reason relocation to a regional centre is highly desirable (and will also save costs).

For an industry services body to be effective, there needs to be a complementary advocacy function for dairy farmers within the same organisation or separate from it. Australian Dairy Farmers (ADF) has this role at present, but it has weak and unstable leadership, and some potentially compromising sponsorship arrangements. Its advocacy voice has been ineffective in the present crisis, and there has been no evidence of policy or action.

The various State based advocacy structures vary in their effectiveness and their credibility with their client base. In Queensland, the Queensland Dairy Organisation appears to be highly effective and well respected by farmers. In Victoria the placing of the United Dairy Farmers of Victoria (UDV) under the umbrella of the Victorian Farmers Federation (VFF) has led to loss of autonomy and effectiveness.

Another structure intending to benefit dairy farmers has been the eight Regional Development Programs (RDPs) which are funded through Dairy Australia but which are separately incorporated. These engage with farmers in providing the type of extension services that were previously provided by State Governments (filling a gap when these services were withdrawn). However these services reach a minority of farmers, and it would be more equitable for these farmer to pay for their services rather than the majority of farmers subsidising their access. The type of extension services offered could readily be provided by the private sector on this basis.

Training for the dairy sector has collapsed, possibly as a result of fewer people entering the industry. There is a role for an industry services body to develop and accredit training courses, but these can be rolled out through the TAFE system or by private providers as demand rebuilds.

A new representative structure is required which avoids the trap of building bureaucracies and losing touch with the client base, and which does not drain farmers' earnings. This includes the funding of food safety compliance with the Australia-New Zealand Standard, which is currently administered separately in each State, with dairy farmers contributing an estimated 20% of the running costs through a levy on the farm gate milk price.

## **Objectives**

**6(a) Establish an effective advocacy structure that provides good value for money for farmers and other industry participants.**

**6(b) Rationalise food safety regulatory functions on a nationally consistent basis.**

**6(c) Ensure that the advocacy structures are responsive to the needs of their client base.**

## **6.1 Building Industry Skills**

**Strategy 6.1.1 Provide a national system of training course development and accreditation that can be rolled out through public and private training providers.**

*(implementation = new national services body)*

## **6.2 Industry Leadership and Representation**

**Strategy 6.2.1 Create a new national dairy industry services body, to be located in regional Victoria with the following functions:**

- **Developing and accrediting training courses for farmers and farm workers**
- **Administering Dairy Food Safety on a national basis**
- **Collecting, assessing and disseminating information on dairy industry dynamics**
- **Advocating to government and others on behalf of industry sectors.**

**The governance arrangements should provide for one vote per licensee.**

*(implementation = Federal Government and State governments to amend legislation and contractual structures, core funding limited to \$2M per annum for reporting services to Government plus additional funding through licensing fees from all sectors, location at Glen Ormiston College if available or otherwise Geelong)*

**Strategy 6.2.2 Establish a separate national industry body representing dairy processors which excludes companies that are importers, to be funded by member subscription.**

*(implementation = existing industry bodies separating from the Dairy Australia governance structure)*

**Strategy 6.2.3 Farmers to form new independent representative structures (or adapt existing structures outside Victoria) within similar catchments to the current RDPs, funded by voluntary subscription.**

*(implementation = farmers, possible seed funding made available through grants from Dairy Australia reserves as this organisation is wound up)*

## **6.3 Networking Industry Participants**

**Strategy 6.3.1 Secure funding to enable all dairy farmers to become better connected using email, Skype, social media and other Internet resources.**

*(implementation = regional industry bodies securing grant funding, Gardiner Foundation to fund in Victoria)*

## 6.4 Mobilising Industry Resources

**Strategy 6.4.1 Place Dairy Australia reserve funds in trust with the new industry services body for allocation in implementing this Recovery Plan.**

*(implementation = around \$20M reallocated – some of this could be used to purchase Glen Ormiston College)*

**Strategy 6.4.2 Reprioritise distribution of Victorian funds from the Gardiner Foundation to implementing this Recovery Plan with a streamlined administrative structure.**

*(implementation = Victorian Government to require a streamlined administrative structure with a budget of no more than 10% of funds allocated, annual allocation increased to \$10M per annum for the next three years)*

**Strategy 6.4.3 Redirect Federal and State Government grant programs to implementing this Recovery Plan.**

*(implementation = \$500m reallocated by Federal Government, reprioritising employment and economic development programs by State Governments agreed by COAG to match Federal funding allocations, total pool \$1B))*

**Strategy 6.4.4 Additional funding effort to be committed by processors in assisting their farmer suppliers.**

*(implementation = target contribution for purchasing new herd stock and subsidising pregnancy testing)*

**Strategy 6.4.5 Raise funds for an insurance/hedge pricing vehicle through a 50c levy on the retail price of drinking milk, to be invested with earnings to be deployed through grants, and with the possibility for farmers' incomes to be subsidised when the farm gate milk price falls below an agreed benchmark.**

*(implementation = Federal Government to revive existing legislative framework, new industry services body to administer)*

## 6.5 Working Across Sectors

**Strategy 6.5.1 Facilitate an inclusive national Dairy Conference to launch this Recovery Plan, with a subsequent annual conference to review progress in each State.**

*(implementation = Federal and State government support for the initial Conference as part of their implementation commitment, subsequent State governments funding support with organisation by the national industry services body)*

## 6.6 Implementing the Recovery Plan

**Strategy 6.6.1 Encourage progressive sign up of stakeholders to support this Plan, through Memoranda of Understanding.**

*(implementation = through sign up to the attached Implementation Framework)*

# IMPLEMENTATION RESPONSIBILITIES

## ***Federal Government***

### ***Minister for Agriculture***

Redirect \$500M from existing Dairy Assistance package as follows.

1.2.1 \$100M for subsidised importation of high quality dairy heifers (to be administered by dairy industry body)

1.3.1 \$400M for a continued concessional loan program for farm improvements, with easier access and no repayments for first three years

6.2.1 Terminate contract with Dairy Australia as the national dairy industry service body

5.1.1 Redirect most of the Federal Government R&D funding from Dairy Australia into the CSIRO, with a revved dairy research unit that can work with and co-ordinate the research effort of Australian universities (\$15M pa)

### ***Whole of Government***

4.1.1 Seek a level playing ground for processors in competing for export markets against its competitors through implementation of global trading agreements.

4.3.1 Prioritise access to dairy export markets in negotiation of new trading agreements, including current negotiations with Indonesia

4.2.2 and 5.6.1 Prioritise assistance to dairy processors, including start up companies, based on likely fit with emerging export demand and/or dairy product innovation, through existing industry assistance programs.

4.1.2 Ensure that Australia's dairy industry is not disadvantaged in Free Trade Agreements as part of negotiating for other benefits.

### ***Parliamentary Services***

5.3.1 and 5.41 Establish a new protocol for the Australian Parliament to receive reports directly from the new industry services body, quarterly for the next three years

### ***AUSTRADE***

4.2.1 Prepare an annual Dairy Export Strategy that can advise exporters on the characteristics of different export markets, including consumer demand, regulatory requirements and risks

4.6.1 Establish new branding and promotion of export product that highlights Australia's clean green image and its production based on pasture fed herds

4.6.2 Increase promotion of dairy innovations through Trade Fairs and other international marketing events

### ***DFAT***

4.4.1 Where dairy product intended for export markets in good faith is subject to contract cancellation, purchase supplies for redirection through the foreign aid budget

### ***EFIC***

*Seek Government authority to underwrite risk for private lenders to start up export producers.*

### ***Parliamentary legislation***

1.4.1 Mandatory code of conduct for the dairy industry on request of new industry services body, with improved enforcement procedures and more effective penalties for ACCC

3.3.1 Strengthen provisions for enforcement of anti-dumping legislation and collection of dumping tax by ACCC

1.5.2 Reactivation of the Dairy Industry Adjustment Program to provide for a 50c levy on the retail price of drinking milk to be collected by the industry services body by amendment to Dairy Produce Act, and placed into a Trust for benefit of dairy farmers (annual revenue \$1.2B)

3.4.1 Enhance product labelling requirements with clearer and more prominent information on country of origin, and to include guaranteed returns to farmers on Australian product

6.2.1 Cancel contract with Dairy Australia on establishment of new industry services body, with funding contribution of \$2M per annum to the new body for provision of information services

### **ACCC**

1.4.1, 2.6.1 and 3.3.2 Enforce new mandatory code of conduct including maintaining a watching brief in compliance by all parties

1.4.2 Facilitate effective collective bargaining by dairy farmers and prevent blocking by processors

3.3.1 Promptly act on reports on import dumping by imposition of dumping tax, with proceeds allocated to ACCC budget

### **CSIRO**

5.1.1 Re-establish dairy research unit that can work with and co-ordinate the research effort of Australian universities (Federal funding \$15M pa)

### **All State Governments**

1.1.1 Ensure affordable water access for dairy farming regions that are dependent on irrigation.

1.1.2 Provide incentives for rehabilitation of abandoned dairy land for future dairying use.

1.3.1 Simplify ease of access to Federal Government concessional loans, eg directing applications through a range of private institutions

1.3.2 Allocate a set portion of existing State grant programs for job creation to farmers for hiring/rehiring farm employees (50% grant funding for first two years' wages)

3.6.2 Introduce or enhance school milk programs together with family education about nutritional value

4.2.2 and 5.6.1 Prioritise assistance to dairy processors, including start up companies, based on likely fit with emerging export demand and/or dairy product innovation, through existing industry assistance programs

4.4.1 Where dairy product intended for export markets in good faith is subject to contract cancellation, purchase supplies for redirection through domestic food charities

6.3.1 Secure funding for communications technology and capacity building in its use to network all dairy farmers

6.4.3 Collectively (through COAG process) match Federal Government \$500M commitment to rebuilding the industry through the above initiatives

### **Queensland Government**

2.6.1 Negotiate with major processors for retention of milk collection and processing infrastructure in Queensland

### **Western Australian Government**

2.6.2 and 3.1.2 Establish strategy for rebuilding dairy industry infrastructure and encouraging dairy processing start ups with a budgetary commitment for provision of appropriate incentives – suggested annual budget \$10M based on potential 5:1 economic return on investment

### **Victorian Government**

1.3.2 Target 400 jobs per annum to be created from the Regional Jobs Program over two years, at a total cost of \$25M

5.1.2 Redirect priorities for allocation of research grants by the Gardiner Foundation to projects which are of direct practical benefit to Victorian farming operations (\$10M pa for 3 years, admin costs not to exceed 10% of allocated funds)

6.3.1 Direct Gardiner Foundation to allocate 2M (10% of \$10 annual grants) over 2 years as funding for communications technology and capacity building in its use to network dairy farmers

### ***Private Sector Institutions***

1.3.1 Participate in easing access to government grant programs (financial institutions)

1.3.3 Freeze dairy farm repossessions for two years (financial institutions)

1.6.1 Participate in provision of low interest loans to young people wanting to become dairy farmers (financial institutions)

5.6.1 Funding support for dairy innovation should be given priority in allocation of resources (financial institutions)

5.5.1 On-farm extensions services to be provided and funded on a fee for service basis (feed, pasture, genetics and business management companies)

### ***Dairy Processors***

Implementation on a voluntary basis as soon as possible, later to be included in code of conduct.

1.4.2 Commit to participation in collective bargaining where this is proposed by farmers

1.5.1 Provide simplified and transparent milk pricing system with common timing on price announcements

2.1.1 Reduce payment period to 14 days, with payment in full for all milk collected

2.1.2 Remove restrictions on dairy farmers changing their supply arrangements imposed as part of loan agreements

2.1.3 Provide subsidies for farmers expanding their herds and also for pregnancy testing

2.1.4 Reverse the “claw back” payment deductions imposed on farmers in 2016, and remove such provisions from milk supply contracts

2.3.1 Inform non-farmer investors that the current crisis necessitates a curtailing of short term dividends while the industry rebuilds

2.4.1 Commit to innovation, including a publicly announced funding commitment to dairy research and development in Australia

2.6.1 Remove the transport levy from the farm gate price, so that processors carry the actual cost of long haul milk

2.6.2 Cease withdrawal of infrastructure which prejudice the viable production of milk in Queensland and Western Australia

2.5.3 Remove the current transport levy on farmers so that processors pay for real transport costs of milk off farm (overall industry savings reflected in savings to farmers)

3.4.1 Develop product labelling that specifies viable returns to farmers

4.5.1 Establish a clear benchmark pricing formula for milk supplied by farmers to manufacture export products, in consultation with dairy industry services body

6.2.2 Establish a new national industry body representing dairy processors which excludes companies that are importers, to be funded by member subscription

Work with dairy farmers to include these provisions in a workable code of conduct

### ***Foreign owned companies***

2.2.1 Commit to maximising the value of product they process in Australia, with corresponding value calculations within the farm gate milk price

### ***Dairy Retailers***

2.5.1 Cease negotiating contracts for dairy products as “loss leaders”, including negotiating on shelf space as a factor in product pricing

2.5.2 and 3.2.1 Include commitments to a viable return for dairy farmers in any product purchase negotiations, to be made public  
Work with dairy farmers to include these provisions in a workable code of conduct

### ***Dairy Farmers working with Dairy Industry Bodies***

6.6.1 Seek the commitment of all industry participants to support implementation of the Recovery Plan through a Memorandum of Understanding that identifies their particular roles and responsibilities. This should include consulting dairy farmers and develop a workable code of conduct that can be implemented immediately on a voluntary basis, and then mandated through legislation (see potential provisions above)

6.5.1 Facilitate an inclusive national Dairy Conference to launch this Recovery Plan

1.5.2 and 6.4.5 Establish a Task Force to establish a price insurance scheme that is funded through a levy on dairy product sales

6.2.3 Disband existing structures and form a new independent dairy farmer representative structure (or adapt existing structures outside Victoria) within similar catchments to the current RDPs, funded by voluntary subscription

6.2.1 Create a new national services body for the industry, to be located in regional Victoria (Glen Ormiston College preferred)

6.2.1 Wind up DA and RDPs, liquidate assets and reallocate reserves to new services body (\$20M seed capital with allocations to support implementation this Recovery Plan – some could be allocated to purchase of Glen Ormiston College); abolish compulsory dairy levies, establish separate Chapters for dairy farmers, processors and retailers, with allocation of board members as follows: Dairy Farmers 5, processors 3, retailers 2. Board members to be voted on the basis of one vote per licenced business.

Dairy industry body to include the following responsibilities.

- 1.2.2, 6.2.1 and 3.5.1 Advocate for dairy farmers across a diversity of farm management models, production types and scales of operation (principle of operations) through the Dairy Farmers Chapter, and for other industry sectors through other Chapters
- 2.1.5 administer a national Dairy Food Safety framework that is consistent with the ANZ standards and which does not disadvantage farmers in their dealing with processors, to be funded through a new system of pricing for licences (farm, processors and retailers)
- 5.2.1 Establish monitoring and reporting on the dairy industry as a core function (\$2M pa Federal funding)
- 3.3.1 Include monitoring and reporting on apparent import dumping to ACCC for action, and reporting on action
- 3.4.1 and 1.5.2 Monitor and report quarterly on benchmarks for determining minimum viable farm gate milk pricing
- 3.6.1 Domestic promotion of the nutritional value of Australian dairy products (subsidised by licence fees)
- 4.5.1 Establish a clear benchmark pricing formula for milk supplied by farmers to manufacture export products, in consultation with processors (included in above budget)
- 6.1.1 Provide a national system of training course development and accreditation that can be rolled out through public and private training providers (funded through licence fees)
- 6.5.1 Monitoring and reporting on implementation of this Recovery Plan, including annual conference to discuss progress (funded through licence fees)
- 6.4.5 Administer Trust for benefit of dairy farmers (1.5.2) that provides:
  - a superannuation scheme for dairy farmers that they can draw on in times of demonstrated financial hardship (\$800M per annum)
  - a low interest loan scheme to assist new/young farmers in purchasing farms, stock and equipment (\$200M per annum with no repayments for first two years)