

**Five Pillars of Productivity**  
**Response to Interim Reports**

September 2025

## INTRODUCTION

The Australian dairy industry welcomes the opportunity to provide comment on the Productivity Commission's interim reports on the Government's priority reforms to enhance productivity.

Dairy is the third largest Australian rural industry, generating \$18.5 billion in economic impact across and the entire value chain and directly employing almost 31,300 people across dairy farms and processing. Dairy farmers create \$6.2 billion in farmgate value, while the industry exports 32 per cent of milk production worth \$3.6 billion in 2023/24 and ranking fifth in global dairy trade.

Like the broader economy, dairy is experiencing productivity stagnation, averaging -0.04% growth annually between 2010–11 and 2022–23. Long-term decline in raw milk supply, along with rising production and compliance costs, regulatory uncertainty, import competition and concentrated market pressures have limited investment in innovation and technology. At the same time, the volumetric RDC levy has resulted in reduced R&D funding at a time when it is most needed.

The table below provides an overview of the dairy industry's key asks and recommendations.

The submission provides comprehensive insights and analysis across the five productivity pillars and needed industry support and investment to secure a viable and prosperous Australian dairy industry – with sovereign food production at its core.

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| <b>01</b> | <b>Creating a more dynamic and resilient economy</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|           | <ul style="list-style-type: none"><li>• Ensure tax and regulatory reforms recognise that most farm businesses are not incorporated and may not benefit from company tax cuts.</li><li>• Undertake sector-specific modelling before introducing the 5% net cashflow tax to assess impacts on variable-capex, high-turnover, low-margin industries, such as dairy farms.</li><li>• Ensure tax and regulatory frameworks provide flexibility for highly variable farm incomes and seasonal conditions.</li><li>• Tax reforms and incentives that support the retention of local dairy manufacturing and drive supply chain efficiency through technology and automation upgrades in dairy processing facilities</li><li>• Adopt a whole-of-government approach to ensure national policies are applied consistently across all levels of government and avoid duplication.</li><li>• Address competition imbalances in agricultural supply chains, particularly focusing on the continued market power imbalance from the supermarkets.</li><li>• Develop programs to support and incentivise the stocking and purchasing of Australian-made dairy products.</li></ul> |
| <b>02</b> | <b>Building a skilled workforce</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|           | <ul style="list-style-type: none"><li>• Implement a national system of credit transfer and recognition of prior learning (RPL).</li><li>• Ensure equitable access to educational technology (edtech) and Artificial Intelligence (AI) for farmers, processors, and service providers.</li><li>• Strengthen school-level agricultural education that promotes dairy career diversity from farm to factory and provide pathways for adult retraining and upskilling.</li><li>• Build workforce capability in essential dairy services, including adapting to emerging technologies.</li><li>• Ongoing migration system reform (visas and renewals) to ensure that skilled workers can be accessed when demand can't be met by domestic workers.</li></ul>                                                                                                                                                                                                                                                                                                                                                                                                             |

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|           | <ul style="list-style-type: none"> <li>• Expanded education and training opportunities, tailored to the diverse skills needed in dairy.</li> <li>• Equitable access to vocational and tertiary pathways, including expanding Fee-Free TAFE eligibility to cover key dairy and advanced food manufacturing qualifications.</li> <li>• Support for industry-led initiatives such as scholarships, career pathways programs, and virtual centres of excellence to promote lifelong learning and attract new entrants across the supply chain.</li> <li>• Support universities to reinvigorate investment in food related resource and capability building.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>03</b> | <b>Harnessing data and digital technology</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|           | <ul style="list-style-type: none"> <li>• Establish clear rules for safe and trusted data sharing.</li> <li>• Improve regional internet and mobile coverage to enable effective automation and real-time monitoring.</li> <li>• Support practical, sector-specific digital pathways to improve export compliance and reduce costs.</li> <li>• Electronic certification, interoperable systems, traceability, user-friendly lodgement and labelling platforms.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>04</b> | <b>Delivering quality care more efficiently</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
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| <b>05</b> | <b>Investing in cheaper, cleaner energy and the net zero transformation</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|           | <ul style="list-style-type: none"> <li>• Recognise dairy's role as a nutrient-dense, affordable food that underpins national nutrition and food security, and assess its environmental impact within this broader context.</li> <li>• Invest in R&amp;D and innovation (e.g. feed additives, inhibitors, genetics) and provide grants, low-interest loans, tax incentives and capital allowances for: <ul style="list-style-type: none"> <li>○ Emissions reduction and climate reporting capability</li> <li>○ Adoption of abatement strategies and technologies on farm</li> <li>○ Renewable energy adoption and electrification (e.g. heat pumps, biogas, biomass)</li> <li>○ Circular packaging solutions and waste reduction technology</li> </ul> </li> <li>• Provide coordinated and tailored support for the sustainability programs the dairy sector is already delivering so these initiatives can be scaled effectively.</li> <li>• Extend well-designed emissions-reduction incentives to agriculture, ensuring they are integrated with other policy levers and avoid perverse outcomes such as productive land being displaced by forestry and carbon projects.</li> <li>• Reform the Australian Carbon Credit Unit (ACCU) framework to recognise and reward opportunities for dairy such as anaerobic digestors, effluent management, and renewable energy from processing waste.</li> <li>• Provide complementary transition supports: de-risking technology adoption, upskilling the workforce, equitable investment in regional energy infrastructure, improved consultation with regional communities, and skilled migration to build the workforce needed to deliver transition infrastructure.</li> </ul> |

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|  | <ul style="list-style-type: none"> <li>• Ensure the Safeguard Mechanism applies proportionately to dairy processors, so that any threshold shift does not impose undue compliance burdens on medium-sized processors.</li> <li>• Carefully manage changes to the heavy vehicle emissions policies, while ensuring reliable and affordable energy supply through clear gas planning, technology-neutral transition pathways, and risk-sharing mechanisms.</li> </ul> |
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## DAIRY INDUSTRY ORGANISATIONS

ADIC is the peak national representative body of the Australian dairy industry, representing the interests of dairy farmers and processors through its two constituent bodies, Australian Dairy Farmers (ADF) and the Australian Dairy Products Federation (ADPF). It aims to create a more prosperous and sustainable future for the local industry and the regional communities that rely on it.

Australian Dairy Farmers (ADF) is the national peak Industry Representative Body (IRB) representing all dairy farmers from across Australia's six dairy producing states. ADF's membership includes the State Dairy Farming Organisations from each State as well as direct farmer members.

The Australian Dairy Products Federation (ADPF) is the lead policy and advocacy body representing the nation's dairy manufacturing industry. ADPF members process about 90 per cent of Australian milk volumes and provide dairy products for both domestic and export markets.

Dairy Australia is the national services body for dairy farmers and the industry. Its role is to help farmers adapt to a changing operating environment, and achieve a profitable, sustainable dairy industry. As the industry's Research and Development Corporation, it is the 'investment arm' of the industry, investing in projects that cannot be done efficiently by individual farmers or companies.

Together, these organisations work to secure a more prosperous, competitive, and sustainable future for the industry and the regional communities it underpins.

## CONTACTS

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## CREATING A MORE DYNAMIC AND RESILIENT ECONOMY

### Key asks:

1. Ensure tax and regulatory reforms recognise that most farm businesses are not incorporated and may not benefit from company tax cuts.
2. Undertake sector-specific modelling before introducing the 5% net cashflow tax to assess impacts on variable-capex, high-turnover, low-margin industries, such as dairy farms.
3. Ensure tax and regulatory frameworks provide flexibility for highly variable farm incomes and seasonal conditions.
4. Tax reforms and incentives that support the retention of local dairy manufacturing and drive supply chain efficiency through technology and automation upgrades in dairy processing facilities
5. Adopt a whole-of-government approach to ensure national policies are applied consistently across all levels of government and avoid duplication.
6. Address competition imbalances in food supply chains, particularly focusing on the continued market power imbalance from the supermarkets.
7. Develop programs to support and incentivise the stocking, and purchasing of Australian-made dairy products.

### **Proposals for tax reform**

The Australian dairy industry welcomes tax reforms and incentives that encourage and reward investment. The proposed reduction in the company tax rate to 20 per cent for businesses with turnover under \$1 billion would benefit dairy manufacturers in that category, freeing up cashflow that in turn could drive investment.

However, it raises significant concerns for larger processors who are already challenged by the current operations. It must be noted that these businesses provide substantial investment in human capital, financial resources and regional economic growth. These processors would still face the 30 per cent corporate tax rate plus the additional 5 per cent net cash flow tax resulting in one of the highest tax burdens in the developed world and disincentivising investment in Australia. Likewise, only a limited proportion of farm enterprises would benefit, as many farm businesses are not incorporated but operate as partnerships, trusts, or sole traders and therefore do not pay company tax. Many farm businesses do not pay company tax and would see no direct advantage from the change.

The proposed 5 per cent net cashflow tax for all companies also raises important questions for dairy and we seek to understand this further, including the need for sector-specific modelling. We currently understand what is being proposed is a write-back of approved investments to reduce taxable income. We see merit in freeing up cashflow to channel into investments and productivity improvements, however – as outlined above – this must be managed to encouraging investment in Australian manufacturing, not by putting food security and sovereign food production at risk.

For dairy farms in high capital investment years (common on dairy farms where significant reinvestment is made in infrastructure and herd improvements) the design of a net cashflow tax, with immediate expensing of capital costs, could offer advantages over the current profit-based system. However, in years when substantial capital investment is not possible, for example during droughts or floods, the same tax could increase the burden on farm businesses with high turnover but low margins. In such years, increased spending may still occur on

operating inputs such as feed, which are deductible under existing rules but would not offset the net cashflow tax in the same way as capital investment. Sector-specific modelling is highly recommended before implementing such a measure.

Other proposed investment incentives we recommend are:

- **Instant Asset Write-Off:** Reintroduce the Instant Asset Write-Off to incentivise companies with turnover up to \$150m to invest in productivity-enhancing assets and look to increase the value the threshold from \$150,000.
- **Accelerated depreciation:** Introduce a scheme of accelerated depreciation for business assets with a value in excess of \$150,000.

Finally, Australian dairy processors are becoming less competitive as cost of production continues to rise, compared with the rest of the world. To offset this, processors are looking to create supply chain efficiencies through technology and automation, but the cost of transitioning is prohibitive. The government needs to incentivise or help fund such projects with real intent, to secure local manufacturing in Australia.

### **Regulation reform proposals**

A whole-of-government approach to reform would send a strong and positive signal to agriculture. National leadership is critical to ensure this approach extends to all levels of government, with agreed and harmonised national policies implemented consistently and without reinterpretation at the state or territory level. Inconsistencies, such as the differing rules on gene editing between Tasmania and other jurisdictions or virtual fencing permissions, undermine innovation, weaken investment confidence, and reduce competitiveness.

Stronger scrutiny of existing or new regulation through Cabinet, parliament, and an independent commissioner, combined with greater accountability for public servants to deliver growth, competition, and innovation outcomes, would help address these issues and rebuild trust in the regulatory environment. Policy reforms must bring benefit and not be cost-prohibitive.

The Australian dairy industry recommends that the Commonwealth take a leadership role to ensure all levels of government consistently adopt this approach, providing certainty and confidence for investment and innovation across the sector.

The industry supports:

- Stronger scrutiny of new regulation, with a focus on cumulative burdens, timeliness, and transparency.
- Higher expectations on regulators to prioritise growth, innovation, and competition in reviewing or developing new reforms.
- Establishment of a prioritised reform list covering water regulation, packaging standards, energy transition, sustainability targets and reporting, nutrition and labelling (including the Australian dietary guidelines), virtual fencing, farmland protection, trade access, biosecurity, animal welfare, and interoperable digital and AI systems.

### **Market concentration and competition**

The report's concern about concentrated industries is directly relevant to dairy. The Australian dairy industry faces sustained downward pressure on farmgate prices from major

supermarkets, while production and input costs continue to rise, exacerbated by drought and flood recovery.

Supermarket shelves highlight the problem: imported cheeses, butter, and ice-cream are crowding out locally made products, eroding value from the dairy supply chain.

Due to the perishability of dairy, interdependencies between dairy farmers, processors and retailers are critical to ensure efficiency. Yet the imbalance of market power between processors and retailers has created a market that is unfair and unsustainable.

While the Food and Grocery Code and the ACCC Supermarket Inquiry have addressed aspects of this imbalance, significant inequities remain. This imbalance is further compounded by retailers' expansion into food service (Woolworths – PFD Foods; Metcash – Superior Foods) – and most recently into dairy processing (Coles). Vertical integration now gives supermarkets disproportionate influence across the supply chain, from product mix, to sourcing decisions, and pricing strategies.

The aggressive promotion of home brand milk and other dairy products has removed a significant amount of value from the dairy value chain. Retailers have publicly announced range reduction strategies and continue to stock extensive home brand or private label products and imported products across all dairy products.

As a result, Australian dairy products made with locally sourced milk is increasingly crowded out, while imports now account for 25% of dairy consumption – that's one in every four products in the shopper's basket.

The ACCC's report was an important step in examining the broader dynamics of Australia's grocery sector, including the challenges suppliers face in an increasingly consolidated retail environment. It reinforced concerns raised by ADPF: growing pressure on supplier margins, the complexity of commercial arrangements and the need for more transparent, fair and consistent supply chain practices.

Recommendations to strengthen the Food and Grocery Code of Conduct to improve contract certainty, enhance transparency, and ensure risk and cost are shared more equitably across the supply chain are welcomed.

However, we believe there are areas the report didn't go far enough, and urge the Productivity Commission, in its report to:

- Drive incentives to produce, stock and purchase branded Australian dairy products, to limit home-brand dominance and protect against imports
- Create stronger oversight of vertical and horizontal integration

Addressing competition imbalances in food supply chains must therefore be central to the broader reform agenda. Alongside tax and regulatory measures, reforms are needed to ensure risk and reward are shared fairly

We urge the Productivity Commission to go further in addressing the impacts of retailer market power on dairy. New programs should be developed to support and incentivise the stocking and purchasing of Australian-made dairy products. The 'Buy Australia-made campaign' is a start, but more targeted measures are needed to ensure the long-term viability of Australia's dairy sector.

## **BUILDING A SKILLED WORKFORCE**

Asks:

1. Implement a national system of credit transfer and recognition of prior learning (RPL).
2. Ensure equitable access to educational technology (edtech) and Artificial Intelligence (AI) for farmers, processors, and service providers.
3. Strengthen school-level agricultural education that promotes dairy career diversity from farm to factory and provide pathways for adult retraining and upskilling.
4. Build workforce capability in essential dairy services, including adapting to emerging technologies.
5. Ongoing migration system reform (visas and renewals) to ensure that skilled workers can be accessed when demand can't be met by domestic workers.
6. Expanded education and training opportunities, tailored to the diverse skills needed in dairy.
7. Equitable access to vocational and tertiary pathways, including expanding Fee-Free TAFE eligibility to cover key dairy and advanced food manufacturing qualifications.
8. Support for industry-led initiatives such as scholarships, career pathways programs, and virtual centres of excellence to promote lifelong learning and attract new entrants across the supply chain.
9. Support universities to reinvigorate investment in food related resource and capability building.

### **Skills and training needs**

Dairy farmers require more than 170 skills across 11 specialist areas. These range from animal care and natural resource management to business management, human resources, and advanced technology. The challenge is twofold: attracting new entrants while ensuring existing workers can reskill and upskill as industry needs evolve. This requires a stronger focus on education and training pathways, from school-level programs through to adult retraining opportunities. This also requires ongoing promotion of the Australian dairy industry as an employee of choice.

Similarly, the dairy processing industry is unlike any other – employing more than 70,000 Australians (directly and indirectly), with more than 50 per cent in rural and regional communities, and offering highly skilled, long-term careers. Unlike seasonal industries, dairy processing operates year-round and relies on a workforce with strong technical expertise to maintain quality, efficiency, and innovation. Notably, about 23 per cent of its direct workforce falls within the two highest job skill categories.

Despite these opportunities, the processing sector faces deepening labour shortages. In 2022/23, an estimated 2,610 additional processing positions were required to meet demand – equating to 13,050 positions over the next five years.

With more than half of the workforce nearing retirement and limited (and now closed) specialised training facilities, the sector is at a crossroads. Targeted action is urgently needed to address workforce shortages and build future capability.

The Australian dairy industry strongly supports the Commission's recommendation to move toward a national system of credit transfer and recognition of prior learning (RPL). A more portable skills system would make it easier for workers to have prior experience recognised and to build on their skills across the sector.



## **Technology shaping the future dairy workforce**

Technology adoption, including robotic dairies, virtual fencing, and monitoring collars, is transforming the Australian dairy industry's workforce needs. AgTech and AI are shifting tasks from manual labour to technologically advanced roles that demand higher levels of digital and technical capability. These tools will complement, not replace, core farm and manufacturing roles such as calving, milking, and machinery operation. A workforce that integrates digital tools with traditional animal, farm, and production management skills will be critical to future success.

Equitable access to educational technology (edtech) and AI is essential. The Australian dairy industry supports government-led national efforts to ensure farmers, processors, and service providers can access, use, and support these technologies, fostering a modern, skilled workforce.

The industry is also underpinned by a specialised network of services critical to farm productivity, including irrigation, dairy shed maintenance, artificial insemination, agronomy, and veterinary care. Skilled regional workforces in these areas are as important as on-farm capabilities. As technology and AI become more widespread, service providers must adapt, for instance by installing and maintaining automated milking systems, data-driven pasture monitoring tools, or AI-enabled animal health technologies. Ensuring a workforce that can support both traditional services and emerging technologies is vital to the competitiveness and long-term sustainability of the dairy sector.

## HARNESSING DATA AND DIGITAL TECHNOLOGY

Key asks:

- Establish clear rules for safe and trusted data sharing.
- Improve regional internet and mobile coverage to enable effective automation and real-time monitoring.
- Support practical, sector-specific digital pathways to improve export compliance and reduce costs.
- Electronic certification, interoperable systems, traceability, user-friendly lodgement and labelling platforms.

### **Use of data and digital technologies in Australian dairy**

While the use of digital and AI-assisted systems on-farm is increasing, the industry is only beginning to explore the full potential of these technologies. There is clear recognition within the industry of the need to remain informed about developments on the horizon and to ensure that data and digital technologies can be harnessed in ways that are practical, secure and productivity-enhancing.

Dairy Australia, in collaboration with other Research and Development Corporations through the AI Alliance, is commissioning a Situational Analysis of Artificial Intelligence for Agriculture, Fisheries and Forestry. This cross-sector initiative will identify high-value AI opportunities, critical capability gaps, and shared enablers such as data standards, infrastructure, workforce skills, and governance frameworks. The outputs will guide a coordinated, scalable investment and implementation plan for responsible AI adoption across multiple rural industries, ensuring benefits extend beyond individual sectors and supporting system-wide resilience and innovation.

However, RDC investment alone cannot deliver the scale and coordination needed.

Government support, through a proactive coordinating role, can set clear national priorities, invest in shared digital infrastructure, build skills and adoption capability, and integrate AI into broader agricultural strategies. Co-investment in trials and infrastructure will help to achieve scale and de-risk, and ensure promising technologies move beyond pilots to practical tools for farmers. A coordinated national approach would also help to avoid duplication, accelerate adoption across multiple sectors, and maximise the returns from both public and industry investment in AI.

In the dairy processing sector, automation and digitalisation of processing systems can create efficiencies in factories and drive productivity. Investment in user-friendly, interoperable digital platforms for export certification and labelling would create efficiencies, reduce compliance burden, streamline audits and improve performance.

Our recommended priorities are to introduce electronic certification, interoperable systems, traceability, user-friendly lodgement and labelling platforms.

### **Opportunities for data sharing and privacy implication**

There are significant opportunities for sharing data across the dairy supply chain, which can drive efficiency, innovation, and informed decision-making. Examples include benchmarking farm performance particularly against other farms in a particular region, tracking environmental impacts such as emissions and nutrient management, and enhancing supply chain traceability

and animal welfare requirements. These data-sharing initiatives can help identify best practices, support targeted research, and enable farmers and processors to make more strategic, evidence-based decisions.

The dairy industry is acutely aware of the delicate balance that must be maintained in managing competing priorities. Overly aggressive policies or interventions can harm business productivity or increase operational costs, while failing to adequately protect the interests of farmers, processors, and related stakeholders can erode confidence in and undermine trust. The industry is pleased to see that the Australian Government is also approaching this balance proportionately, recognising the need to safeguard productivity while protecting the interests of the broader community.

## DELIVERING QUALITY CARE MORE EFFICIENTLY

Longevity is increasing, but morbidity remains unchanged in Australia resulting in a growing proportion of older adults requiring full time assistance in aged care homes. Older adults are often frail with high risk of falls and fractures, with 30% of the community burden of hip fractures arising from aged care homes. Dairy foods play a critical role in supporting bone health and preventing fractures, with landmark research showing that increasing consumption from 2 to 3.5 serves a day is associated with a 33% reduction in fractures, 46% reduction in hip fractures and an 11% in falls<sup>1</sup>.

Preventing falls and fractures in this high-risk group would not only reduce the community burden of fractures and improve quality of life for older adults, but save on health care costs. Research has shown this food-based intervention was \$0.66 AUD per resident per day, saving \$66m annually<sup>2</sup>. The latest update to Cochrane's landmark [Interventions for preventing falls in older people in care facilities](#), has found menus in aged care facilities should include at least 3.5 serves of dairy foods – milk, yoghurt, cheese, daily to address malnutrition and reduce the number of falls and hip fractures.

Asks:

- Introduce minimum nutritional requirements for aged care providers, including dairy foods
- Support increased dairy provision in aged care settings as a critical lever to improve public wellbeing, support healthy ageing, and ensure more Australians stay active, nourished and productive.
- Recognise dairy's role as a nutrient-dense, accessible, affordable and familiar foods for older Australians in the Australian Dietary Guidelines for Older Australians

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<sup>1</sup> Effect of dietary sources of calcium and protein on hip fractures and falls in older adults in residential care: cluster randomised controlled trial. *BMJ*. 2021;375

<sup>2</sup> Iuliano S, et al. Reducing hip and non-vertebral fractures in institutionalised older adults by restoring inadequate intakes of protein and calcium is cost-saving. *Age & Ageing*. 2023;1-60.

## INVESTING IN CHEAPER, CLEANER ENERGY AND THE NET ZERO TRANSFORMATION

The dairy industry supports the recommendations in the *Investing in Cheaper, Cleaner Energy and the Net Zero Transformation Interim Report* that aim to reduce the cost of meeting emissions targets. We ask that government policy recognises dairy's unique contribution to food security and nutrition, while enabling the sector to reduce emissions through tailored support and targeted investment.

### **Asks:**

1. Recognise dairy's role as a nutrient-dense, affordable food that underpins national nutrition and food security, and assess its environmental impact within this broader context.
2. Invest in R&D and innovation (e.g. feed additives, inhibitors, genetics) and provide grants, low-interest loans, tax incentives and capital allowances for:
  - a. Emissions reduction and climate reporting capability
  - b. Adoption of abatement strategies and technologies on farm
  - c. Renewable energy adoption and electrification (e.g. heat pumps, biogas, biomass)
  - d. Circular packaging solutions and waste reduction technology
3. Provide coordinated and tailored support for the sustainability programs the dairy sector is already delivering so these initiatives can be scaled effectively.
4. Extend well-designed emissions-reduction incentives to agriculture, ensuring they are integrated with other policy levers and avoid perverse outcomes such as productive land being displaced by forestry and carbon projects.
5. Reform the Australian Carbon Credit Unit (ACCU) framework to recognise and reward opportunities for dairy such as anaerobic digestors, effluent management, and renewable energy from processing waste.
6. Provide complementary transition supports: de-risking technology adoption, upskilling the workforce, equitable investment in regional energy infrastructure, improved consultation with regional communities, and skilled migration to build the workforce needed to deliver transition infrastructure.
7. Ensure the Safeguard Mechanism applies proportionately to dairy processors, so that any threshold shift does not impose undue compliance burdens on medium-sized processors.
8. Avoid disproportionate impacts on dairy processors by carefully managing changes to the Safeguard Mechanism and heavy vehicle emissions policies, while ensuring reliable and affordable energy supply through clear gas planning, technology-neutral transition pathways, and risk-sharing mechanisms.

### **Emissions context and the role of dairy**

Agriculture contributes around 16 per cent of Australia's total emissions. Within that, the dairy industry accounts for approximately 19 per cent of agricultural emissions, representing about 3% of the national emissions profile. As a nutrient-dense, affordable food source, dairy plays a vital role in human nutrition and food security. Its environmental footprint must therefore be assessed in balance with these nutritional contributions, particularly given the lack of scalable, low-emission alternatives to dairy.

Australian farmers are custodians of 55% of the land mass, and dairy farmers in particular play a central role in balancing productive land use with environmental stewardship. This custodianship provides unique opportunities for integrated land management, including

hosting renewable energy projects or transmission infrastructure, integrating farm forestry, and participating in ACCU projects. These opportunities, however, must be designed in a way that does not displace food production or undermine regional economies.

### **The need for tailored policy approaches**

We acknowledge and endorse the report's assessment that there is a need for carefully designed, tailored policy interventions given the diversity of agricultural activities, the unique role agriculture plays in Australian society, and the limited existing technology solutions to reduce agricultural emissions in large volumes. Food production relies on biological systems and seasonal variability, and policies applied in other sector are not suitable for agriculture.

While agriculture is currently less covered by climate policies, any new measures must reflect these unique characteristics and avoid blunt regulatory approaches that could erode competitiveness and resilience. The dairy industry recognises the importance of contributing to national emissions goals, but given efforts to establish the Feeding Australia strategy, this must be done in a way that maintains food security and the viability of farm businesses.

The Australian dairy sector is already subject to growing sustainability reporting demands from financial institutions, customers, retailers, trading partners and regulators – each setting their own sustainability expectations and targets. These obligations are proliferating across the supply chain, often without coordination or support, and the necessary support and investment, leading to high costs, complexity and duplication – in an already challenging operating environment

The dairy industry is advancing an extensive program of work to reduce emissions, improve reporting, and enhance sustainability. What is needed from government is not more regulation, but support to scale and accelerate these initiatives and practical 'common approach' tools that make data collection more accessible, affordable, and useful.

The Australian dairy industry seeks government support to:

- Deliver the Australian Dairy Industry Sustainability Framework and achieve government and industry targets.
- Expand investment in Australian Dairy Carbon Calculator education tools and resources, including methods to reduce carbon footprint, data analysis and reporting, and on-farm extension.
- Develop and fund common approach methodologies for both scope 3 emissions and scenario analysis and build capability across the supply chain.
- Support the development and implementation of a whole-of-industry Emissions Reduction Action Plan to meet the target of reducing GHG emissions by 30% by 2030 (vs 2015 baseline) and net zero by 2050.
- Accelerate the commercialisation and adoption of emission reduction technologies already identified by the dairy industry.
- Partner in delivering the Dairy Packaging Roadmap and its three prioritised areas.
- Partner in delivering the Dairy Sector Food Waste Action Plan, and key priorities for reducing waste and creating value.

## **Support for policy direction and incentives**

Abatement options within the dairy supply chain remain limited and capital-intensive. The dairy industry is already leading initiatives to reduce emissions, adopt new practices, and invest in innovation. Policy support is required to accelerate commercialisation and uptake of solutions the sector has already identified. We are actively investing in research and development, and innovation, particularly in feed additives, methane inhibitors, and improved genetics, but these programs need greater backing to reach commercial scale.

Australian dairy processors are also taking proactive and significant steps to reduce environmental impacts, by transitioning to renewable energy, turning waste into energy (biogas), decarbonising fleets and optimising transport.

Programs must be carefully integrated with other policy levers, including those shaping land use through renewable energy projects, forestry, and carbon markets, to avoid perverse outcomes such as the displacement of productive dairy land. We also ask for complementary forms of support that address the broader enablers of transition.

First, government backing is needed to de-risk the adoption of new technologies and to upskill the workforce, ensuring that regulation and industry capability remain aligned with emissions frameworks and practical implementation on farm and in processing.

Second, equitable investment in regional energy infrastructure is essential to support renewable energy uptake in dairy regions, so farmers and processors can access affordable and reliable clean energy without compromising production.

Third, consultation with regional communities must be improved so that local perspectives are incorporated into planning and policy design, and the benefits of transition are shared fairly.

Finally, support for trade and construction through skilled migration is required to build the workforce capacity needed to deliver the infrastructure and investments critical for dairy supply chains and regional economies.

## **Risk for dairy processors**

The report's proposal to lower the Safeguard Mechanism threshold (from 100,000 tCO<sub>2</sub>-e per year to 25,000 tCO<sub>2</sub>-e) could materially affect dairy processors, given the sector's energy-intensive nature. Key risks include:

- **Increased compliance burden:** Facilities would face new requirements to set and report baselines, audit emissions, and potentially purchase offsets. This adds internal resourcing pressures, consultant costs, and compliance risk. Alignment with AASB climate disclosures is also essential.
- **Financial exposure:** Even modest baselines could create significant cost exposure if energy use rises or efficiency investments lag.
- **Competitiveness risk:** Dairy processing is already highly energy-intensive, with thin margins. Lowering the threshold would further increase costs relative to offshore competitors not subject to equivalent regulation.

Lowering the safeguard threshold risks unintended consequences for regional food processors—affecting jobs, export competitiveness, and national food security. This is despite the dairy sector already contributing to abatement through on-farm reductions and processor efficiency investments.

The Australian dairy industry supports proportionate regulation. In practice, this means ensuring that any threshold change does not impose disproportionate compliance costs on medium-sized businesses.

Policies targeting heavy vehicle emissions may further increase costs for milk tankers and freight trucks, with direct implications for logistics and supply chain efficiency. While Recommendation 1.3 to introduce an emissions reduction incentive for heavy vehicles is welcomed, the transition must not add unsustainable costs for transporting perishable milk. Without careful planning, these measures risk placing additional pressure on a sector that is both trade exposed and regionally concentrated.

Dairy processors also face heightened cost and investment risk from declining gas supply in legacy fields and delayed market responses, particularly in Victoria where state government energy targets create added uncertainty. To remain viable, processors need clear long-term gas supply planning to avoid shortfalls and volatility, technology-neutral transition support so they can pursue the most cost-effective decarbonisation pathways, and risk-sharing mechanisms such as transition grants or energy cost relief to buffer against supply disruptions and price spikes.

### **Opportunities through ACCU reform**

There are also clear opportunities for dairy through reforms to the ACCU framework. Current methods do not adequately capture or reward many abatement options available to the sector.

For example, projects such as anaerobic digestors, effluent management, industrial methane capture, and renewable energy generation from processing waste offer significant potential to reduce emissions while generating co-benefits in energy and nutrient recycling.

Reforms that enable and scale these activities would allow dairy to contribute more fully to net zero while maintaining food production, enhancing circular economy outcomes, and supporting regional economies.

### **CONCLUSION**

The Australian dairy industry is committed to strengthening its contribution to the economy, regional communities, and national food security. By addressing the barriers outlined across the five productivity pillars, government and industry together can unlock investment, innovation, and growth that will ensure a competitive, sustainable, and resilient dairy sector into the future.

We look forward to working with the Productivity Commission to advance these reforms and deliver lasting productivity gains for both dairy and the broader Australian economy.