



## **Relative Costs of Doing Business in Australia: Dairy Product Manufacturing**

### **United Dairyfarmers of Victoria response to Productivity Commission Issues Paper**

#### **Introduction**

The United Dairyfarmers of Victoria (UDV) is the collective voice of Victorian dairy farmers, representing its members to governments and industry at state and local levels. As a commodity group of the Victorian Farmers Federation (VFF), the UDV also provides representation on a broad range of agricultural issues affecting all farmers, not just those specific to dairy. The UDV is also the largest member of Australian Dairy Farmers Ltd (ADF), thereby representing Victorian dairy farmers at a national level.

Dairy is Victoria's largest agricultural industry, and the powerhouse of Australia's \$13 billion dairy farm, manufacturing and export industry. Our state's 4,200 dairy farms produce more than six billion litres of milk a year and provide work for 16,000 Victorians on farms and another 11,000 in milk processing factories. Victoria exports dairy products worth \$2.3 billion a year through the Port of Melbourne, where dairy is the largest container exporter.

As an export focused industry we need to remain competitive on a global scale. To do this we must ensure that Government regulation is in line with the needs of the industry.

This submission will focus on five key areas:

- Government funding for research, development and extension
- Domestic competition and regulation
- The impending China Free Trade Agreement
- Labour issues
- Maintenance of our industry food safety standards

## **Increasing international competitiveness through increasing production**

### **Government investment in Research, Development and Extension services**

Government investment in research, development and extension services is vital to ensuring the Australian dairy industry remains competitive in the global market. For farms to remain profitable they need to have access to the latest technologies and practices. This is important to ensure growth in milk supply which underpins the industry's capacity to manufacture dairy products at an internationally competitive rate.

#### *Research and Development in improved feedstocks and animal genomics*

Two priority areas identified in Dairy Moving Forward, the dairy industry response to the national R&D framework. Currently being addressed through Designer Forages and Animal Improvement programs run by the Dairy Futures Cooperative Research Centre (CRC) established in 2009.

In December 2013, the Victorian Government announced it would invest \$20 million over five years in research to improve feeding systems and cow fertility, matching the farmers' commitment through their levies paid to Dairy Australia. During 2011-2012 the benefits from the CRC's activities has been modelled to generate \$320 million for the dairy industry.

The current funding commitment is due to end in June 2016, which will leave a significant hole in research capabilities and resourcing. It is essential that this commitment is honoured by future Governments and that the funding is maintained in real terms.

#### *Extension*

The State Government's extension model is failing to deliver what farmers need to make the profitability and productivity step changes required to meet national and state policy objectives. The Government says it has 22 full-time equivalent (FTE) extension staff focused on delivering productivity services in the three dairy regions. However, according to a Department of Environment and Primary Industries presentation to the 2014 UDV Conference, four are new graduates, three undertake 'knowledge brokering and multimedia', and six are development specialists. In fact, there are only 12 FTE extension positions – four in each dairy region – where staff actually work with farmers directly.

Setting aside that the above numbers do not add up to 22 FTE, this model is also falling short because the FTE numbers translate to a much larger, faceless workforce of part-timers. It is extremely difficult to pin down who is responsible for doing what, and for farmers to develop the relationships needed to make extension effective.

Effective extension is a function of Government, industry and service providers collaborating to make the best possible use of the available funding and resources. However, the Government's current approach is not meeting farmers' needs for a more expert, transparent and well-staffed extension presence on the ground.

The Government as a matter of urgency needs to review its current approach to, and resources for, extension in conjunction with the dairy industry and other service providers.

The UDV is seeking state government investment of \$2 million per annum in extension programs coordinated by the dairy industry. We believe this will deliver more effective and efficient services and accelerate the uptake of new technologies, farm systems and business management skills.

Investment in Research, Development and Extension is needed to ensure farm business practices continue to increase efficiency on-farm which will enable the industry to grow.

### **Domestic Competition**

Australia's current competition laws do not allow any possibility of Australian owned manufacturing on an internationally competitive scale. This issue was highlighted in the widely publicised Warrnambool Cheese and Butter (WCB) bidding war. In this circumstance, there were three bids on the table, however only two companies were given the opportunity for acquisition. The bids for WCB began on September 12, 2013 with Bega Cheese making an unsolicited bid for the company. Saputo, Canada's largest dairy company and one of the world's top 10, soon followed suit launching a bid on October 7 last year. Murray Goulburn, Australia's largest farmer owned co-operative made a bid on October 17, 2013. At this time, there were three similar bids on the table, one foreign owned and two local investors.

The Australian Competition and Consumer Commission (ACCC) approved Bega's bid on October 31, 2013. The Foreign Investment Review Board (FIRB) and the Treasurer approved Saputo's bid on November 12, 2013. However, Murray Goulburn never received clearance from The Australian Competition Tribunal. Saputo gained a 52.7% majority shareholding in the company on January 22, 2014 while Murray Goulburn was still waiting for approval. The decision, which was due to be handed down on February 4, 2014, was unlikely to be in MG's favour given the ACCC rejected Murray Goulburn's claim that its WCB takeover would not significantly lessen competition in the Issues Paper released.

The Treasurer had the power to impose conditions on Saputo's acquisition and/or delay his ruling until the Competition Tribunal delivered its decision. However, he did not exercise any of these options.

For Australia to be productive on a global scale, policy priorities have to shift to allow Australian companies the chance to compete against our international competitors, such as New Zealand, which allow a company to have a majority of the market.

## **Free Trade Agreements**

The UDV supports FTA's that provide genuine liberalisation of all dairy products and commercially meaningful opportunities for Australian dairy to reduce its comparative disadvantage to its major global competitors.

The recent Japan Free Trade Agreement and the South Korean FTA did not deliver this.

Japan is the single most important market for the Australian dairy industry, with \$511 million in exports in 2012/13, 19% of our dairy exports by value. Under the terms of the Japan FTA, the Australian dairy industry will save just \$4.7 million in the first year of its implementation rising to an estimated \$11.6 million by 2031, out of a total export market of \$511 million. This is just 0.1 of a cent per litre for Australian farmers in 20 years' time. There was also no movement in this agreement on fresh cheese – the number one objective for Australian dairy, with tariffs to remain at 29.8%. A successful outcome on this tariff line would have delivered approximately \$60 million in tariff savings.

The UDV is calling for future FTA's, such as the likely China FTA, to deliver real opportunities for increasing trade between the countries. The current agreement between New Zealand and China offers a distinct tariff advantage to our biggest competitor. Australia is currently paying a 15 per cent tariff on Skim Milk and Infant Formula, with New Zealand tariff free on these items. By 2019, all key dairy products exported from New Zealand will be tariff free.

## **Cost and Competitiveness of Australian dairy product manufacturing**

### **Labour costs**

Our relatively high cost of labour contributes significantly to the cost of production in Australia. A simple comparison with one of our biggest competitors, New Zealand, shows that factory workers are paid slightly more in Australia. In New Zealand, food and beverage factory workers usually earn \$14 an hour without experience and \$16 - \$24 per hour with experience.<sup>1</sup> In Australia, however, the minimum hourly wage is \$16.37 for a Level 1 employee with no experience and \$17.49 - \$19.66 for an employee with some experience.<sup>2</sup> Whilst these figures are not significantly different, they do not take into account overtime and penalty rates which many employees in Australia are paid. Given the high rate of wages in Australia, The UDV is not advocating for the minimum wage to be lowered, we are however highlighting that it is a factor in the cost of production, and that it is imperative Australian dairy products are marketed as safe and clean to gain a competitive advantage over our neighbours.

A lack of availability of specialist labour with technical skills inhibits productivity. The dairy industry needs to attract skilled and experienced workers to improve profitability and to ensure efficiency in processing. We rely on workers with Temporary Skilled Work Visas (457) and Working Holiday Visas

---

<sup>1</sup> <http://www.careers.govt.nz/jobs/manufacturing/food-and-beverage-factory-worker-/about-the-job>

<sup>2</sup> <https://www.fwc.gov.au/documents/awardsandorders/html/pr536738.htm>

(417) to fill the gaps in employment. This comes at a significant cost to employers as they continually have to advertise to re-fill positions as employees meet the end of their visa. It also creates increased administration as many visa requirements need to be fulfilled. Maintaining long standing employees with suitable skills and experience would be of benefit of the industry.

### **Maintaining our industry food safety standards**

The Victorian dairy industry ensures national food safety standards are met through Dairy Food Safety Victoria (DFSVM). This independent regulator requires licenses from all dairy premises operating in Victoria ensuring compliance with food safety standards and guidelines.

DFSVM is an industry funded body. DFSVM ensures Victoria has a robust regulatory system in place to assure the quality, safety and integrity of Victoria's dairy products at all stages of the process; from the quality milk leaving our farms through to processing, manufacturing and distribution of dairy products to consumers in Australia and around the world.

Under the Code of Practice for Dairy Food Safety (COP), all participants in Victoria's dairy industry are required to be licensed with DFSVM and have an appropriate food safety program (FSP) in place. The food safety program outlines the control measures and procedures that have been put in place to reduce or eliminate significant food safety hazards associated with milk and dairy products at each point in the food production or manufacturing process.

Victoria's dairy food safety regulatory framework offers independent assurance of the safety and quality of Victoria's dairy products. It is essential that DFSVM's work continues, providing industry protection and access to world markets.

For further information contact the UDV:

Yaelle Caspi

Or

Adele Beasley