

Australian Dairy Industry

input to the

Senate Select Committee
on Agricultural
and Related Industries

Inquiry into food production in Australia

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The Australian Dairy Industry is one of Australia's major rural industries, with farmgate value of production of \$3.2 billion in 2006/07, third after the beef and wheat industries. Around 40,000 people are directly employed on dairy farms and in manufacturing plants, related transport and distribution activities, and on research and development projects, with a further 60,000 indirectly employed. Dairy is a leading value-adding rural industry through substantial product processing. This often occurs close to farming areas, so also generating significant economic activity and employment in country regions.

As an integrated primary, manufacturing, retail and export chain, Dairy sees the scope of this Senate Select committee Inquiry as fundamental, and welcomes the opportunity to contribute a series of points and documents in response to the terms of reference. ie:

Food production in Australia and the question of how to produce food that is:

- affordable to consumers;
- viable for production by farmers; and
- of sustainable impact on the environment.

Australian agriculture, including dairying, is working through a difficult period. While near term outlooks have improved with world prices, challenges are also becoming more complex. Environmental, political and social pressures on aspects of food production suggest it is timely for reconsideration of government policies and the balance needed for affordable, viable food production in a sustainable environment.

A major general review was undertaken over 2005-2006 (Corish, *Creating our Future: agriculture and food policy for the next generation*) but changes to environmental and market circumstances support a further, considered review of the 'whole picture'. A key challenge for this Inquiry will be to achieve policy action on recommendations the Senate Committee develops over the coming year of investigation.

As the Committee is aware, the November 2007 change of Federal government plus expansion of COAG's reform program have led to multiple reviews. Already in 2008, the Dairy Industry has developed numerous submissions, each containing analysis in support of Dairy Industry propositions for review and reform.

These submissions are forwarded as input to the Senate Committee Inquiry. Key issue areas are outlined below. The Committee is initially referred to overviews of the Australian Dairy Industry in its global marketplace contexts, as set out in *enclosures A and B* :

A. Review of Export Policies and Programs - Dairy Industry submission 5.2008

B. Productivity Commission Review of Regulatory Burdens – Dairy submission 3.2008

While all dimensions of agricultural food production are linked, it is useful to group the pressures building on milk production and product processing into five issue areas – as follow:

1. Direct cost increases – mainly input prices including fuel, fertiliser, chemicals, water, feedgrain, and costs to obtain workers, skills and contract services. Aspects of these costs are discussed in the following documents Dairy is enclosing with this input:-

C. National Water Initiative, COAG Group - Australian Dairy Farmers Limited 2004

D. ACCC Water Market Rules Issues - United Dairy Farmers of Victoria, DC3 4.2008

E. Senate Committee Inquiry into Fuel Issues - Livestock Feed Grain Users Group 2006

F. HoR Inquiry into Rural Skills Training and Research – Australian Dairy Farmers 2005

2. Policy and regulatory costs and inefficiencies including capacity pressures on managers. Policy and regulation regimes of significant impact include land use changes, native vegetation, environment and pollution at farm and plant levels including carbon emissions, water limitations, animal welfare, and multiple food preparation rules.

B. Productivity Commission Review of Regulatory Burdens – Dairy submission 3.2008

G. COAG report on Chemicals of Security Concern – Dairy industry comments 4.2008

H. Garnaut Climate Change and Emissions Trading Review – ADIC submission 4.2008

I. National Greenhouse and Energy Reporting System – Aust Dairy Farmers 11.2007

3. Intensifying societal pressures – these directions – such as organics, GMOs, animal rights, and nutrition perceptions, if not moderated through communication and care in policy-making and regulation, will likely increase future food production costs, so reducing farming and processing viability in Australia.

B. Productivity Commission Review of Regulatory Burdens – Dairy submission 3.2008

4. Marketplace realities –Australia and unprotected industries such as Dairy cannot rely on opening of world trade to level-playing field competition. Australia's own actions, for instance in areas such as quarantine, also affect this. Further, within Australia, which is half of dairy's market, supply chain choices are limited with market power issues. These groups can also access imports from competitor nations for high-value products.

A. Review of Export Policies and Programs - Australian Dairy Industry Council 5.2008

J. Quarantine and Biosecurity Review – ADIC and Dairy Australia submission 5.2008

5. Innovation, research and development. R&D has been a key to the remarkable advances in Australian agriculture over the last century, as analysed for instance, in the *Farm Policy Journal* 3:1 Feb 2006 on agricultural research & development). The Industry and its research entities provided a submission to the National Innovation Review:

K. Review of the National Innovation System - A submission on behalf of innovators in the Australian Dairy Industry 4.2008

The Dairy Industry hopes these inputs will contribute to evidenced arguments for new consideration of the weight of policy and marketplace pressures on Australian food production.

► Key issue areas for the Dairy Industry are outlined below under these five headings with reference to Dairy submissions and associated statements.

► The Dairy Industry documents are enclosed in electronic form. Other sources referred to in this paper, are available through the internet.

ISSUE AREAS for DAIRY

1. Direct cost increases. Agricultural producers are accustomed to input costs rising over years, and most have learnt to manage the cost-price squeeze as dollar exchange rates fluctuate within a 'normal' range. Recent times have seen, however, marked escalations in farming costs including fuel, workforce, feedgrain, chemicals and finance on top of a sustained high Australian dollar, and the effects of drought on income.

This year, cost increases have been partly offset by rising world food prices, but high prices are problematic for populations in some countries to which dairy products are exported, as well as to Australian consumers. While analysts confirm that many market demand and supply factors influence costs and prices, they stress the need to achieve 'the right food policy' (RIRDC/CIE, *High Food Prices Causes, implications and solutions* 2008) or sets of policies and rules (Keogh, *On-line Opinion* 16 June 2008).

On occasion, Dairy provides submissions to inquiries into input costs – usually where governments are involved in the supply and demand equation (see also Issue Area 2).

Water is now listed as a 'regulated industry' on the ACCC website and rules are being developed for the Murray-Darling Basin under the *Water Act* 2007. In April 2004, the Australian Dairy Farmers (ADF), as representative organisation for the major commodity user of water in Australia, made a submission to National Water Initiative consultation (*enclosure C*). This emphasised the importance of secure access to water in the long-term for sustainable dairy operations and future investment. National water markets and best practice water pricing were also discussed. Dairy is watching water policy development and will provide inputs as needed. For instance, *enclosure D*, an United Dairy Farmers District Council paper to the ACCC on water market rules raises practical questions for governments in creating and regulating water markets.

Feedgrain is a staple input for dairying and most animal production chains now, with persistent drought escalating demand. A range of government policies and actions are influencing availability and pricing of feedgrain in Australia. A 2006 submission by the Livestock Feed Grain Users Group (*enclosure E*) explained the group's opposition to government subsidies for domestic production of grain based ethanol. Such subsidies distort the Australian feedgrain market – which is already limited by import quarantine policies (discussed in the Quarantine submission, *enclosure J*).

Workforce and skills costs are vital issues for agricultural industries. Foresight is needed on technology and operational advances, and the changing views of individuals and families on work careers. Dairy has particular practices related to farm investment and succession, but the challenges are similar in all agricultural industries. Over 2005-2006 a House of Representatives Committee inquired into Rural Skills but the report appears to have received no attention or action at Ministerial or Departmental levels.

The Australian Dairy Farmers submission to the HoR Inquiry (*enclosure F*) suggested three problems which may be limiting the ongoing development of the industry:

- Few – industry, education providers, and government – see education as important enough to merit close monitoring of participation, let alone outcomes
- Few – industry and government – see education as integral to the continuing progress of an industry immersed in a highly complex and dynamic operating environment, and
- Few – industry and government – are actively concerned about the enormous human potential remaining unlocked in many dairy farming people.

The National Farmers Federation has recently promulgated reports and plans relating to an agricultural workforce. It is also understood the *Farm Policy Journal* September 2008 issue will focus on work skills and training.

2. Policy and regulatory costs, inefficiencies and capacity pressures. Dairy industry participants recognise the importance of frameworks especially for food safety and environmental sustainability. However, policy and regulation regimes also have significant impact on the cost structures of many agricultural enterprises including dairy farmers and processors.

Early in 2008, Dairy Australia commissioned a comprehensive review of regulatory impacts on dairy farming and processing. This analysis fed into substantial submission to the Productivity Commission (PC) Review of Regulatory Burdens on Business (manufacturing and distributive trades). The submission (*enclosure B*) discusses a range of policy and regulatory issues for Dairy, as well as various programs the industry has underway to enhance its environmental and food production performance (summarised on the Dairy Australia website and in reports to industry members and stakeholders).

The PC submission Part 1 outlines the Australian Dairy Industry and key trends as context for discussion of regulations, emphasising that -

- The Dairy Industry, like other Australian food industries, cannot carry any more regulatory costs or disincentives to innovation than essential. Australian exporters need to continue to compete on price, quality and delivery against rising competition.
- The Dairy Industry supports the intent and wording of COAG principles for minimum effective regulation and reduction of regulatory impacts, and reasonably expects these principles will be applied in reviews and in ongoing actions by both Federal and State regulators.

Part 2 provides an overview of regulation regimes of concern to the Dairy Industry in the context of COAG commitments to achieve regulatory reduction. A number of areas are general to agricultural and food production. Some are more specific to dairy and to Victoria, the many dairy production State. Particular matters of concern include:

- ▶ *Cost of regulation of chemicals and their usage.* It is argued that authorities should develop minimum effective regulation based on science and reflecting risk assessment. Increasing requirements for control and training, even where chemical use has been satisfactory over decades, are direct costs that should be carefully examined.

Expansion of chemical regulation is also discussed in Dairy comments to COAG in relation to a new framework for monitoring and control of some chemicals (*enclosure G*).
- ▶ *Regulation by national systems with blanket rules.* While rural industries often seek uniformity across jurisdictions in principle, having 'one system' can also raise productivity issues where practices in sizeable parts of industries differ for efficiency, commercial and environmental reasons. Examples discussed in *enclosure B* include the Animal Welfare Strategy's Livestock Transport Standard, and a number of QA programs.
- ▶ *Cumulative weight of a multitude of regulations* affecting rural operations. Many State organisations have raised concerns about 'red tape'. Some detailed issues are noted in *enclosure B* including, for instance, conditions on Federal programs that limit support for New Zealanders who have purchased and operate some 500 enterprises in Victoria.
- ▶ *The trend to regulated programs requiring actions to 'save' energy, water, or waste,* instead of Australian governments using marketplace mechanisms is of concern. In particular, the Environment and Resource Management Efficiency Program in Victoria, and the stringency and reporting requirements of the NEPM (National Environment Protection Measure) for Used Packaging Materials.
- ▶ *Increasing costs of reporting to authorities* for a range of national and state programs including the National Pollutant Inventory.

- *Greenhouse reporting and emissions trading* is a major emerging regulatory arena. The Dairy industry is expecting Australian governments to show their commitment to principles of 'minimum effective regulation' and 'good regulatory practice' in developing these potentially high-impact regulatory regimes. (see also 4 below)

Copies are provided of Dairy submissions to the Garnaut Climate Change and Emissions Trading Review (*enclosure H*), and on Greenhouse reporting (*enclosure I*).

- *Food health debate, policy and standard making* is becoming increasingly complex. Dairy is concerned to be fully involved and have influence equal to other parties under present and future systems as discussed in *enclosure B*. Current matters for Dairy and others include: Revision of Government mandated Population Dietary guidance, Nutrition and health claims, Mandatory Fortification, and Regulation of Novel Foods.

The third part the Dairy submission to the Productivity Commission, stresses the need for efficient food safety standards and hygiene regulation systems under increasingly competitive circumstances. The Dairy Industry has worked with FSANZ, consumers and regulators to achieve a national Dairy Primary Production and Processing Standard based on Codex food regulation principles. In particular, the Dairy Industry:

- *Sees need to streamline food regulation regimes* by reducing overlap, inefficiencies and costs. Dairy Industry frustrations about workings of the Australian food product regulation system are similar to those expressed by other industries, and include multiple rules, transparency, and need for consultation at policy stages and during implementation, as well as in standard development.
- *Is experiencing significant difficulties with alignment, integration and duplication of food hygiene standards*, particularly the Australian Dairy Primary Production and Processing Standard, and parallel export rules. A more general but important issue is development of Guidelines that extend beyond actions needed for basic compliance with standards.

3. Intensifying societal pressures – some movements – such as organics, GMOs, animal rights, and nutrition perceptions, if not moderated through skilled policy-led communication could increase future food production costs and reduce farming and processing viability in Australia. Minimum regulation principles will also be important.

Animal handling regulation, for instance, requires careful consideration and foresight. The Dairy Industry takes its responsibilities for animal welfare seriously. To deliver safe, quality dairy products, farmers must practice sound animal husbandry and keep their animals in peak condition. The National Dairy Industry Animal Welfare Strategy aligns with the Australian Animal Welfare Strategy and its principle that welfare of animals is promoted by adoption of practical, effective and humane welfare standards. However, direct and indirect costs of regulation are rising including through expansion of rules beyond science-based requirements (*enclosure B-3.2*).

4. Marketplace realities –Australia's unprotected industries such as Dairy cannot rely on opening of world trade to level-playing field competition. As reported by DAFF [web 7 August 2008], the WTO Doha talks 'broke-down in July as Ministers failed to reach agreement on the scope of a mechanism ... designed to counter surges of food imports in developing countries'. DAFF says this does not mean the end of the Doha Round but it is uncertain when negotiations will recommence.

The Dairy Industry provided a major submission in May 2008 to the Review of Export Policies and Programs (*enclosure A*). Issues identified include that the favourable trade environment for food does not reduce need to foster export opportunities for Australia; and that robust export policy is essential including goals to achieve an ambitious multi-lateral agreement under the WTO, plus bilateral and regional agreements.

The Export submission reiterates that appropriate regulatory frameworks are important to Dairy given our position as a world food industry – but these do affect costs, relative competitiveness and the industry's ability to innovate and prosper. It advocates that governments examine the potential impact of wider policies on trade outcomes and how complementary they are with Australia's trade objectives, with particular reference to Quarantine policies (*enclosure J*) and greenhouse gas trading schemes (*enclosure H*). In *enclosure A*, the Dairy Industry recommends continued government commitment to:

- ▶ Giving high priority to export focussed trade policies that expand options and market flexibility for Australian exporters
- ▶ Pursuing multilateral trade negotiations through the WTO with the aim of achieving a fair and market oriented trading system, and parallel comprehensive trade agreements with key countries such as Japan, China and Korea both to build long term business partnerships and defend existing commercial positions.
- ▶ Developing and maintaining regulatory infrastructures that facilitate export trade opportunities; including ensuring trade policy objectives are fully considered in the development of policies on climate change and carbon trading.
- ▶ Designing programs that help existing exporters increase the volume and value of Australian exports rather than just seeking to expand the number of exporters.

Within Australia, dairy producers and manufacturers have limited market power. Many agricultural groups will make submissions in relation to retail arrangements in Australia and the recent ACCC review report.

5. Innovation, research and development. R&D has been a key to the remarkable advances in Australian agriculture over the last century, as analysed for instance, in the *Farm Policy Journal* Feb 2006 on agricultural research and development). The Dairy Industry and associated researchers, provided a substantial submission to the National Innovation review in April 2008 (*enclosure K*). Major themes include that:

- ▶ Successful innovation is commercially led, responsive and adaptable. Innovation on a national scale requires investment in knowledge/technology platforms and capability.
- ▶ Government investment should aim to overcome barriers and fill gaps that stifle innovation. It should assist in reducing the commercial risks associated with bringing new technologies and ideas to market and should facilitate collaboration.
- ▶ A government investment strategy should consider of a number of dimensions including risk profile, benefit to Australian industry and economy, and time horizons.
- ▶ Commercial and industry organisations are strategically investing in innovation, often in a manner that attracts support from government. There are many common interests with government, especially where combined investments in pre-competitive and industry-good activities have national economic, social and environmental benefits.
- ▶ Government should continue to have a critical role, primarily as an enabler of innovation. Investment decisions by governments lead to clear signals of prioritisation of effort, capacity building and infrastructure use to reduce risk at pivotal moments in the innovation process, and to collaboration and networking.

Overall, investment in research and development, extension and commercialisation has been and will always be integral to the success of the Australian dairy industry. The Industry believes that partnerships with government are critical to amplify the industry and public good outcomes of a strong innovation system.
