

**INQUIRY INTO LONG-TERM SUSTAINABILITY OF THE
DAIRY INDUSTRY IN NEW SOUTH WALES**

Organisation: Dairy Connect Limited

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The Hon Mark Banasiak MLC
Chair
Portfolio Committee 4 – Industry
Parliament House
6 Macquarie Street
SYDNEY NSW 2000

By email

Dear Mr Banasiak,

Re: Inquiry into the long-term sustainability of the dairy industry in NSW

I refer to the announcement by the Chair of NSW Parliamentary Portfolio Committee 4 (Industry), the Hon Mark Banasiak MLC, regarding an 'Inquiry into the long-term sustainability of the dairy industry in NSW').

Dairy Connect values the opportunity to participate in this critical and ongoing inquiry into the NSW dairy industry. We are pleased to provide the following remarks and observations, and may we also add that we strongly support the intent and spirit of the Committee's terms of reference.

We have also had the opportunity to review the written and oral comments that we made to the former NSW Legislative Council 'inquiry into the sustainability of the dairy industry in NSW' chaired by the former MLC member, the Hon Robert Brown. We wish to indicate our continued support for the relevant matters that remain ongoing and to which we may also refer to below.

Introductory Remarks

By way of background, Dairy Connect is a unique agricultural advocacy membership body, having been formed in 2011 by representatives of the NSW dairy industry. We are focused on being the voice for the needs of the dairy industry value-chain. Under one advocacy umbrella, we represent a broad cross-section of the Australian dairy industry, including dairy farmers, processors & supporting corporate partners around a shared dairy vision.

We are committed to providing initiatives that will reinvigorate and propel the industry forward. As well as provide support to the rural and regional communities that support dairy farmers and their dairy farming enterprises.

Dairy Connect has made a number of submissions to a range of dairy inquiries during my tenure CEO. This has included, for instance, the:

- NSW Legislative Council Committee inquiry into the sustainability of the dairy industry in NSW (which reported in 2018);
- Senate Economics References Committee into the dairy industry (which reported in 2017);
- ACCC inquiry into the competitiveness of prices, trading practices and the supply chain in the Australian dairy industry (which reported in 2018);
- Senate Standing Committee on Rural and Regional Affairs and Transport inquiry into the performance of Australia's dairy industry and the profitability of Australian dairy farmers since deregulation in 2000 (ongoing); and
- ACCC price inquiry into the supply of perishable agricultural goods (ongoing and to report in November 2020).

Dairy Connect has provided written submissions to these inquiries addressing their terms of reference. I am pleased to advise that a number of the recommendations arising from these committees are as a result of submissions put forward by Dairy Connect (and other dairy industry bodies). In addition, the President of the Dairy Connect Farmers Group, Graham Forbes and I have appeared before these inquiries and provided oral evidence. Mr Forbes is also a dairy farmer whose family farming enterprise is based in Gloucester NSW, where he milks approximately 800 cows.

However, I wish to indicate our strong concern that while a number of the recommendations have been adopted by government, such as the introduction of the Federal Mandatory Dairy Code of Conduct (Code), as was recommended by a recent report of the Australian Consumer and Competition Commission (ACCC), other committee recommendations have been either ignored or only been given 'lip service'.

Dairy Connect considers this to be lost opportunities to address issues associated with, for example, continued market failure within the Australian dairy industry since deregulation in 2000.

It is for this reason that Dairy Connect has called for the Federal and/or State Governments to support the introduction of a Royal Commission to inquire into the Australian dairy value-chain, with the powers that are associated with such a body and make recommendations that will provide a holistic approach to address the issues within the dairy industry. Attached and marked annexure 'A' is a media release entitled 'Dairy Connect throws down the gauntlet on a Royal Commission' attaching draft terms of reference dated 15 June 2020.

(Source: <https://www.dairyconnect.org.au/news/2020/6/15/dairy-connect-throws-down-the-gauntlet-on-a-royal-commission>)

These terms of reference provide, in the view of Dairy Connect, issues that need to be reviewed, considered and addressed to ensure a long-term and sustainable dairy industry in Australia generally and NSW specifically for current and future dairy farmers. We also submit that these terms of reference are as equally applicable to NSW dairy issues.

Stopping or reversing trends that continue to have a negative impact on NSW dairy will require further bold approaches. It is hoped that this inquiry and its eventual recommendations may provide a way to assist in addressing these concerns.

Before addressing the individual terms of reference, we would like to elaborate a little on the significance that dairy farming and fresh milk production have in many rural communities. Countless small and medium towns in NSW depend on the employment opportunities and the spending of agricultural producers, especially in a time like today where many rural parts of NSW are still recovering from drought, bushfires, COVID-19 restrictions and lower tourist numbers.

This has resulted in and been exacerbated by higher production costs that dairy farmers have encountered over the past years. These costs have included fodder/feed (eg grain), energy costs, water and the cost of labour (when available) which has resulted in a negative impact upon the farm-gate price paid by processors to their dairy farmers/suppliers.

Since deregulation in 2000, the dairy industry has seen a continual decline in production volume, the ongoing 'slumping' of fresh milk prices in major supermarkets, which has resulted in high numbers of farmers exiting the industry. This is evidenced by the number of registered dairy farms as recorded by Dairy Australia (the farmer levy based/Federal government funded Research Development Corporation for the Australian dairy industry). (Source: Dairy Australia - 'Australian Dairy Industry in Focus' and 'Situation and Outlook Reports' publications.

These trends are only exacerbated by ongoing issues like climate change making farming ever more unpredictable, continuously high fodder and production costs and Australian dairy farmers being continuously disadvantaged against other global producers by way of receiving little to no subsidies.

The number of dairy farms within Australia has continued to fall by almost three quarters, in 1979/80 there were 21,994 registered dairy farms which declined to 5699 in mid-2018 (source: Dairy Australia: 'Australian Dairy Industry In Focus 2018').

In NSW, there were 1024 registered dairy farms in 2005/2006 and it has been estimated by Dairy Australia that this number has now declined to approximately 530 registered farms.

NSW is referred to as a 'fresh milk state' as the majority of its milk is sold as fresh drinking milk, with lesser amounts flowing through to manufactured products and export sales. However, the amount of milk production in NSW has continued to fall since de-regulation.

This illustrates the continuing decline of the NSW dairy industry and the negative impact to the economic well-being of NSW.

We now turn to the terms of reference and provide the following comments and observations.

The nature of, and relationship within, the value chain between farmers, processors, logistics companies and retailers and their respective influence on price (and the introduction of the Mandatory Dairy Code)

Fresh milk has a short shelf life, leaving dairy farmers as suppliers of fresh milk to processors with relatively little bargaining power to begin with.

Furthermore, depending on where a farmer is positioned, they might only have one processor to negotiate with in the first place and are thus beholden to the goodwill of this processor.

For instance, Dairy Connect recently assisted a dairy farmer that could not come to agreement with their then processor with respect to their milk supply agreement (MSA). After discussions going over many weeks, that processor indicated that they would no longer collect that farmers milk (with little notice). This unilateral decision (as the dairy farmer wished to continue to trade with that processor) left the farmer without a processor to collect their milk. Other processors (of which there were a small number in the area) indicated at the time had no need for further milk and indicated that they were not wishing to collect the farmers milk.

This decision left the farmer with possible serious animal welfare issues as well as the dire and negative economic impact on their dairy farming enterprise, which may have resulted in the closure of the farm.

This case example highlights the peculiar situation a farmer can find themselves in if the processor chooses to sever ties with the dairy farmer from whom they had been collecting fresh milk.

Dairy Connect submits that dairy farmers are in an invidious position at the bottom of the supply chain and any light that can be shone on attitudes and activities within the supply chain are most welcome and indeed needed.

As far as the relationship between processors and supermarkets is concerned, Dairy Connect has worked productively with major Australian supermarket chains and has achieved considerable positive outcomes for the industry.

This included a much-needed shift away from the \$1/litre milk price, as well as the drought relief schemes that supermarkets had put in place. As was indicated in evidence before the Senate Committee on 5 December 2019 by Christian Bennett, Head of Government Relations and Industry Affairs, Woolworths Group:

“We are very keen for dairy farmers to have the appropriate voice in their negotiations with processors. That's why we are a supporter of the ACCC's recommendations which will do that. The whole issue of trying to make sure that the dairy industry could buy some time to get this sorted out was one of the drivers for us introducing the 10c levy and working cooperatively with people like Shaughn Morgan at New South Wales Dairy Connect, who I want to publicly acknowledge because he was very instrumental in helping us to get to where we are.” (at page 17 Hansard, Senate Rural and Regional Affairs and Transport References Committee Performance and Profitability of Australia's Dairy Industry, 5 December 2019)

It should nevertheless be noted that Dairy Connect has observed the strong bargaining power of supermarkets. In the past, this resulted in a situation in which the milk price was kept artificially low, pushing that pressure to effectively freeze production cost down the supply chain.

The introduction of the 'Mandatory Dairy Code of Conduct' (Code) in 2019 is an important Federal Government initiative. The Code provides the ACCC the power to review MSAs in light of safeguards that the Code has introduced. These safeguards include, for instance, that the parties must act in good faith, prohibits retrospective step-downs by processors, plain english MSAs, mandating mediation, amongst other positive measures.

However, as can be seen from the case example provided above, the Code is not a panacea for the industries issues. Indeed, it will require 'cultural change' within the dairy industry and this will take time to be implemented and accepted as a 'way of doing business'. This is particularly so in the dynamic between the dairy farmer and the processor where trust was eroded in their relationships as a consequence of the actions of Murray Goulburn and Fonterra in 2016 (being, in part, a claw back of the farmers payments from their processors at the farm-gate).

However, Dairy Connect has formed the strong view that the Code is a benefit to the relationship between the dairy farmer and their processor on many levels as it will provide a platform that is transparent, balanced and fair thus ensuring robust discussion in negotiating their MSA.

This may eventually assist in providing a mechanism for an improved farm-gate price for the dairy farmer above the cost of production. The Code is not intended to set a farm-gate price but rather ensure a minimum price from which the processor cannot go below.

Recently, Dairy Connect provided a submission to the ACCC 'inquiry into perishable foods'. In that submission, we indicated that consideration should be given by the Federal Government to have the Code extended to the relationship of supermarkets with processors and thus down the supply chain to dairy farmers. This would ensure that the entire supply chain could be overseen, reviewed and supervised by an independent overseer/regulator, being the ACCC.

In that submission, Dairy Connect stated:

"The relationship between processors and supermarkets has a marked impact upon the relationship between the dairy farmer as the supplier and their processor as against the supply chain relationship between the processor and the supermarket. In this regard, consideration should be given for the Code to be extended to take into account the value-chain between the processor and the supermarket, with reference to dairy.

The dairy cabinet in supermarkets needs to be considered in light of payments made to processors and manufacturers as well as price points as determined by supermarkets for the dairy produce to be consumed/purchased by the customer. This is particularly so with the continued importation of cheap dairy produce and sold at a reduced price in the dairy cabinet. In some instances, this produce is also falsely identified as 'Australian'. This needs to be regulated urgently and safeguards put in place. Extending the Code would be one mechanism to address this concern."

It is hoped that one of the effects of the Code will be the dairy farmer moving from being 'price takers' to 'price negotiators'.

Dairy farmers may, in some instances, have a direct financial relationship to supermarkets in the supply of fresh milk. This has occurred over the past years with supermarkets purchasing milk directly from dairy farmers. A processor is retained to 'bottle' this milk for distribution as 'home-brand' or 'niche' brands such as 'Farmers Own' within the supermarket chain. In such instances, the supermarket must abide by the provisions of the Code.

As is stated, as an example, on the Woolworths website:

"Farmers' Own' comes from a group of innovative Aussie dairy farmers that have come together with Woolworths to bring you this great tasting quality Milk.

Our Background

The Farmers Own initiative was started back in 2013 with Farmers from the Manning Valley in NSW. The brand began with a trial of just eight local stores within the Manning Valley and 12 Sydney stores in NSW. It's success saw the brand expand into VIC, QLD, WA, SA and NT, all the while building direct relationships with Farmers from key provincial areas within these states (Margaret River WA, Otways Regions VIC, Sunshine Coast Hinterland QLD and Barossa Mid North Region SA). In a challenging time for Australian Dairy Farmers, Farmers Own has been a good news story. Check out our packaging to see what our Farmers have to say!

Our Deal

We have direct relationships with our Farmers and not via a processor or a Co-op to ensure they are getting a good deal every time. Our goal is to pay our Farmers a good price for their milk that allows them to continue to produce quality milk. We pick up milk from their farms and transport directly to be processed so we know exactly where the milk comes from that goes into Farmers' Own milk. Our Farmers are engaged in the branding and feel a sense of belonging to the brand because it is their milk that goes into each bottle. We work with our farmers on sustainable and good animal husbandry practices and our farmers and families are proudly active in promoting Farmers' Own branded milk in their communities." (source: <https://www.woolworths.com.au/shop/discover/our-brands/farmers-own-milk>)

As Dairy Connect has stated previously:

"Dairy farmers in NSW are feeling disenfranchised and disempowered by the lack of market transparency within the value chain. They are often provided with milk supply agreements that are overly complex, in both the clauses contained therein but also as to the length and number of contractual documents to which they are provided. They are provided with a price letter, a milk supply agreement and a supply handbook. The length and type of the milk supply agreements needs to be amended and independent advice provided to the producer in a timely fashion by a third party."

The Code primarily addresses these concerns but there are still a number of steps that will need to be taken to ensure the full effect of the Code comes into operation. This will occur over time and the advent of a 'cultural change' by those within the value-chain.

The impact of external influences on the dairy industry, including but not limited to drought, water, energy, and price-setting

Input costs has continued to increase without any corresponding increase in the farm-gate price of their fresh milk. This has ranged from the increasing costs and availability of feed/fodder (due to the onset of the drought and the resulting high prices being paid, for instance, grain), skyrocketing energy costs, lack of water availability and reduced funding for dairy research & development.

Dairy farming continues to remain resource intensive, requiring a stable supply of grazing land or available fodder, water, labour, access to vets for animal welfare issues as well as transportation infrastructure (both for the collection of fresh milk and the movement of cows).

The prices of necessary production inputs, which have all substantially increased, it becomes clear that dairy farming is becoming more difficult and less profitable.

While the drought may not be having as severe an impact as it had been, there can be no doubting the ongoing issues that have arisen as a consequence of the impact of the drought over the past years have resulted in extreme outcomes for the dairy industry. This will continue into the future until such time as the impact of the drought can be alleviated. However, this will not be achieved in the short-term as there are long-term issues that need to be addressed arising from the impact of the drought.

With respect to energy costs, Dairy Australia data has shown a significant influencing factor on the sustainability of the dairy industry is the high cost of energy to dairy farmers and processors. Dairy Connect has previously stated:

"Energy costs were set to rise 50 – 70% for processors in 2017/18 which was projected to have a flow on effect on farmers and cost them \$89 million on farmgate prices. The energy increase meant that there was the prospect for processors to pay farmers 1c/L less, equating to approximately \$15,340 less paid per farm. Moreover, the energy price rise could also mean dairy farmers pay up to 20% more on their own power bills for dairy sheds, which is approximately up to \$4,840 on top of the current \$24,200 average. The increase in energy price has therefore acted on farmers directly and indirectly through processors.

The increase in energy price and shortage in gas supply in Australia is a deterrent for investors in Australian dairy. In recent years there has been a steep increase in gas production in Australia. However, there is a shortage of domestic gas supply which is due to market failure - the increase in exports of gas as a proportion of production, that is the free market's inability to account for Australia's national gas needs. Due to

the shortage of domestic gas supply for use, higher prices are offered for gas supply which results in less favourable contracts arrangements."

and

"The ACCC report into the Australian Energy Market found that dairy farmers were paying twice for energy cost hikes. It was concluded that they pay once at the dairy shed and again at the farm gate in the form of price cuts for their fresh nutritious milk.

As can be seen, energy comprising electricity and gas accounted for a significant proportion of costs of dairy production and Dairy Australia has estimated that the total cost of energy for dairy processors was about \$160 million a year."

As with MSAs, energy agreements and energy invoices for rural farming enterprises are overly complex and detailed. Energy retailers make it difficult with complex invoice and anti-competitive clauses. It is necessary for Government to take a leading role to ensure that energy providers remove clauses that may be seen as anti-competitive and to provide further support via such mechanisms as a revamped NSW 'milk board' as a point of call for dairy farmers and processors to seek information and assistance in their dealing with energy providers.

The impact of previous policies, in particular, the deregulation of the dairy industry

While the free market approach taken with deregulation of the dairy industry in 2000 has resulted in the creation of efficiently run, large scale farms (1000 plus cows) within NSW, countless small-scale farms struggle to maintain a profitable dairy farming enterprise within the industry. This has continued the downturn in the number of dairy farmers operating in NSW. This reduction of registered dairy farms is continuing and is of great concern for the long-term sustainability and viability of NSW as a 'fresh milk state'.

While deregulation certainly has its merits, it should not be forgotten that the majority of dairies are small and medium sized business, which are often family run and generational.

Additionally, these businesses are tasked with what are, in the view of Dairy Connect, unnecessary burdens and 'red-tape' regulations.

Other points to consider include:

The CPI rate and inflation have continually outpaced the farm-gate price paid to dairy farmers by their processors. As a consequence, dairy farmers are continuing to fall behind input cost increases such as water, energy, fodder, transportation and labour.

With milk production stagnating, processors and manufacturers have not been able to maintain their current manufacturing output. As a consequence, we have seen a decline. This is further eroded the opportunities for job creation in rural and regional communities, as such businesses are unable to hire new staff or retain existing employees. The impact of COVID-19 has only added to these ongoing concerns.

The Australian dairy industry has experienced market failure and continues to do so. While Dairy Connect is not advocating for re-regulation of the dairy industry, government must consider some form of regulatory intervention so as to address the imbalance in market power between dairy farmers and processors as well as between processors and supermarkets.

Indeed, the introduction of the Code was a form of Federal Government regulatory intervention and this was a positive government decision to help restore trust, transparency and openness between the dairy farmer and processor.

For instance, consideration should be given to undertaking a state-based marketing campaign to highlight the nutritional value and health benefits of fresh milk that is produced in New South Wales and available to customers at supermarkets. This is discussed further below.

The role of government in addressing key economic challenges to the industry

Dairy Connect accepts and understands that the decision by government to deregulate the Australian dairy industry was following the zeitgeist of ever-increasing free markets within the world economic platform and the self-regulating forces that govern it.

To break away from those mantras, would be a bold political move. It nevertheless holds potential for those willing to risk *thinking* about it. Dairy Connect is aware that any form of re-regulating the Australian dairy industry may be inhibited by international trade agreements and Australia's WTO membership.

The recently proposed concept of a 'dairy floor price' might be difficult to embed into a free trade framework. However, this should not be a hindrance to reviewing and considering such policy considerations which may address the current market failure and also ensure food security within the wider community and the viability of dairy farming enterprises.

The current impact of COVID-19 upon Australia's economy and thus the flow on effect to the States, illustrates the strong necessity to ensure food security, particularly for agricultural produce, in this country (remembering that fresh milk is a staple of the consumer's food basket).

Furthermore, the Federal Government could review the criteria for the imposition of subsidies for the dairy industry. On a global scale, Australian dairy farmers receive hardly any subsidies, yet must compete with, for instance, European dairy farmers on the world market, which profit from EU-farm-subsidies.

Particularly the European Union, like Australia, is set among high-wage, high production cost countries but unlike Australia, it is both subsidising agricultural productions directly. This allows for far greater joint bargaining powers for dairy farmers.

The mechanism through which farmers can join together and collective bargain, may be

considered to be costly and complicated. There is also no compunction upon processors to engage in any discussions with dairy farmers in a collective manner. Hence, this is a tool that any dairy farmer may not wish to consider unless changes were made to the way in which such approvals are granted and the ability of farmers to collective bargain without objection from processors.

The appointment, operation and effectiveness of the NSW Government's Fresh Milk and Dairy Advocate, and the Dairy Industry Advisory Panel:

Dairy Connect was a strong advocate for the creation and implementation of a New South Wales dairy commissioner. This was part of the platform that Dairy Connect took to both Government and Opposition in the lead up to the 2019 state election. At that time, commitments were given by both the Government and Opposition to implement a form of dairy advocate/commissioner.

The comments that are made by Dairy Connect in relation to the NSW Office of the Fresh Milk and Dairy Advocate (Advocate) are no reflection upon the current appointee but rather as to the current structure and ambit of the position.

The NSW Opposition committed to the appointment of a Dairy and Fresh Food Commissioner, which would be supported by a dedicated unit and have legislative underpinning. Importantly, this position had also been allocated additional funding, which had been costed by the Parliamentary budget office in the lead up to that State election. The ALP commitment identified the ambit of the role and the powers that the Dairy and Fresh Foods Commissioner could exercise. These included:

- 'investigate and report on contracts and prices across the dairy and fresh food supply chain;
- work with Commonwealth and industry bodies to ensure that the Mandatory Code of Conduct is implemented as a matter of urgency;
- identify areas within the primary industries sector where there was market abuse and unfair contracts;
- investigate ways to provide better access to the Farm Innovation Fund;
- work with the sector to find opportunities for collective or co-operative arrangements between producers, processors, wholesalers and big retailers;
- compel the negotiation of fair and sustainable prices, name and shame businesses that engage in unfair practices, ensure workers are not exploited and open the supply chain to transparency; and
- work with universities to find opportunities for collaboration and research.' (Source: ALP Media Release dated 18 February 2019 'Labor acts: fair go for fresh food and dairy')

The Opposition intended that engagement was to occur with 'all stakeholders to determine priorities, legislative requirements and resourcing beyond that which had been allocated for the first year'.

This remains the preferred model by Dairy Connect for the Advocate and the Advocate's Office.

The then NSW Minister for Agriculture, the Hon. Niall Blair, also committed the NSW Government to the appointment of a dairy advocate if they were re-elected but with less detail as to the function and role of the position. The Government has, since its re-election, appointed a NSW Fresh Milk and Dairy Advocate. The DPI website states the following regarding the Advocate:

"The NSW Fresh Milk and Dairy Advocate, Ian Zandstra, was appointed in September 2019, delivering on a key election commitment of the NSW Liberals & Nationals. The Advocate works closely with industry and provides government with expert advice on how to best support the dairy industry in NSW. The Advocate is supported by an industry advisory panel that was established in consultation with industry."

It goes on to state:

"The NSW Dairy Industry Advisory Panel is an independent panel that provides advice to the NSW Fresh Milk and Dairy Advocate on:

- developing a NSW Dairy Action Plan
- reporting on the NSW Dairy Action Plan
- developing a NSW Dairy Research and Development Investment Plan
- the implementation and evaluation of the National Mandatory Dairy Code in NSW

The panel has met every month since January 2020." (Source: <https://www.dpi.nsw.gov.au/animals-and-livestock/dairy/advocate>)

Dairy Connect submits that the current office does not have the necessary authority nor any legislative underpinning to make the position independent of Government and to be the conduit between the dairy value-chain and the relevant Ministers of the Crown. It is the view of Dairy Connect that the current structure of the position lacks comprehensive authority to bring forward any material positive change in the NSW dairy industry.

Dairy Connect advocated for the role to apply to the whole dairy value-chain, including all stakeholders and interest groups. This continues to be the considered position of Dairy Connect.

As was stated by Dairy Connect in December 2018:

"The appointment of a NSW Commissioner for Dairy, in conjunction with the introduction of a Federal Mandatory Dairy Code, will assist in the restoration of trust, balance and transparency that is required within the dairy industry.

"A NSW Commissioner for Dairy to act as an arbiter and advisor to the dairy industry on their rights and responsibilities in commercial relationships. The Commissioner can also provide regular reports to the Government and Parliament on the state of the NSW dairy industry" (Source: <https://www.dairyconnect.org.au/news/2018/12/15/government-amp-opposition-must-embrace-the-recommendations-of-the-nsw-parliamentary-committee-into-dairy>)

Dairy Connect considers that the role needs to be re-examined and changes made to its structure as indicated above.

**Any other related matters:
Further Observations**

The following observations, which are not exhaustive, may provide a platform for further discussion and consideration.

A NSW 'Fair Milk Logo' campaign

Dairy Connect has previously submitted that a 'fair milk logo' campaign should be undertaken. This would enable the customer to identify fresh milk which is grown in NSW (or within specified NSW regions) by placing an appropriate 'logo' on containers of milk sold within NSW.

This could also extend to, for example, a diagram showing the nutritional value of fresh milk as against plant-based drinks. This would be a voluntary campaign to highlight the importance of 'buy local' and/or 'buy nutritious milk'.

The campaign would involve the entire dairy value-chain. This may also contribute to a resurgence of fresh milk grown in NSW and assist the economic and social fabric of metropolitan, regional and rural communities.

Restoration of the availability of milk to schools for distribution to students

Dairy Connect has been advocating for the restoration of the 'schools' milk' program to all schools in NSW since September 2017. In conjunction with Foodbank NSW and ACT, we jointly advocated for the restoration of a comprehensive breakfast program for schools, including the availability and inclusion of dairy produce. (Source:

<https://www.dairyconnect.org.au/news/2017/9/26/fund-nutritious-free-breakfasts-for-nsw-schools-say-leading-advocacy-groups0>)

This would provide nutritious milk to children (being a natural source of vitamins and calcium) but also be a further source for sales of locally produced fresh milk. Since 2018, the International Dairy Federation has strongly supported the availability of dairy produce through a school's program in member countries.

As was reported as recently as October 2020:

"Logic would say that a school milk program would help the dairy industry while nurturing school-aged children," Ms Hamilton said.

It is a sentiment echoed by New South Wales dairy lobby group Dairy Connect.

In 2018 the group, in partnership with Foodbank NSW and ACT, called on the NSW Government to fund free daily breakfasts, including freely available milk, for primary school students.

Dairy Connect CEO Shaughn Morgan said health benefits for generations of school children had been poorer since the abolishment of the federal school milk scheme.

"Since the 1980s, concern has grown year-on-year among health professionals about the impact carbonated soft drinks and energy drinks high in sugar were having on successive generations," Mr Morgan said.

"All dairy milk whether it's fat free, flavoured or organic provides nine essential nutrients ... as well as other nutrients including B vitamins for energy, vitamin A to help maintain a healthy immune system, calcium and vitamin D." (Source: <https://www.abc.net.au/news/2020-10-07/memories-of-school-milk-bolster-push-to-revive-initiative/12726316>)

Milk sampling, testing and calibration of testing equipment

Dairy Connect believes that the NSW Government through either the Department of Primary Industries or the NSW Food Authority should ensure that standards for milk sampling, testing and calibration of testing equipment should be standardised across all dairy States.

The testing has a material impact upon the farm-gate price that is received by the dairy farmer from their processor. Hence, where milk sampling, testing and calibration of milk testing is not consistent, then farm-gate price fluctuations will occur.

National standards were in operation prior to deregulation in 2000 and there appears to be no compelling reason as to why such standards should not be reinstated as a matter of priority.

Concluding Remarks

Dairy Connect appreciates the opportunity to provide a written submission to the NSW Parliamentary Inquiry into the NSW dairy industry and its sustainability/viability into the future.

There have been ongoing reviews into the dairy industry over many years, indeed decades, since de-regulation in 2000. The Australian dairy industry, not just NSW, has continued to decline. In 2000, there were over 3000 registered dairy farms in NSW. That number is now approximately 530 registered dairy farms, with dairy farm numbers continue to decrease.

However, the failure of successive Governments to ensure a sustainable dairy industry in NSW, both now and into the future, may result in the inability of the dairy industry in NSW to supply sufficient fresh milk to service the needs of supermarket customers.

We have already witnessed the importance of food security, as evidenced by the impact of COVID-19. We must ensure that steps are taken urgently to allow the industry to once again begin to increase in farm numbers, not only in terms of farm size but also in the amount of milk that is produced.

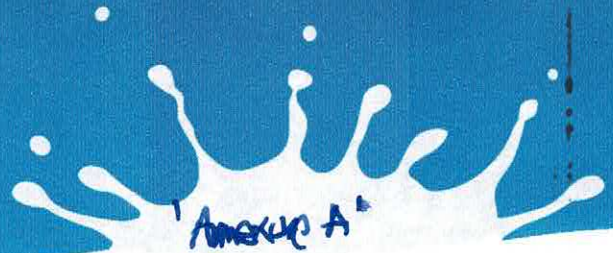
The time has come to ensure that recommendations put forward by committees such as this one are given the due weight that they deserve and appropriately implemented. The recommendations must not be ignored or placed upon Parliamentary libraries or MPs shelves, gathering dust but not doing much more.

In concluding, Dairy Connect asks the question that it has asked before, it is no longer a question of NSW maintaining a sustainable dairy industry but rather will a NSW dairy industry survive past the current generation of dairy farmers within the State.

Representatives of Dairy Connect would be pleased to appear before the Committee to augment its written submission.

Yours Faithfully.

Shaughn Morgan
Chief Executive Officer



15 June 2019

For immediate release

Dairy Connect throws down the gauntlet on a Royal Commission

Advocacy group Dairy Connect today challenged political parties and Members of Parliament to signal their support or otherwise for a Royal Commission into the Australian dairy industry.

This followed a pledge yesterday by the National Party candidate for the Eden-Monaro by-election, Trevor Hicks, that, if elected, he would move a motion to enact a Royal Commission into dairying nationally

Dairy Connect CEO Shaughn Morgan said that while the industry had been regularly inspected and analysed, there had never been a broad-ranging inquiry with powers appropriate to a critical analysis of the entire supply chain.

"There have been a number of stakeholder and parliamentary committees looking into the Australian dairy industry over many years with many of their reports now gathering dust on the shelves of Parliamentary libraries and MPs' offices," he said.

"Many of the recommendations from past inquiries had either been paid 'lip service' or quite simply ignored.

"A Royal Commission would overcome the intransigence of government in implementing appropriate reform in an industry where market failure has been occurring since deregulation 20 years ago.

"Dairy Connect supports the call for a Royal Commission where the terms of reference specifically looked at ways to ensure the long-term sustainability of the Aussie dairy industry and thus kept future generations of dairy farmers on the land, providing fresh nutritious milk 24/7 to consumers."

Shaughn Morgan said a Royal Commission would have powers of coercion to ensure appropriate information was provided to deliver well researched recommendations that government could not ignore.

"The recommendations could set the platform by which the dairy value-chain industry could return to viability and provide a pathway to the future for the long-term growth of Aussie dairy farmers," he said.

"It could supplement that work being done by the Australian Competition and Consumer Commission who are supervising the implementation of the Dairy Mandatory Code of Conduct.



"A commission's terms of reference will play a vital role in setting the parameters by which any outcomes can be judged.

"It cannot be like other inquiries where information has been gathered, reports written and recommendations left to gather dust.

"The dairy industry is now well and truly '1 minute to midnight' and if things do not change in a positive proactive manner the industry will not exist as it is currently operating within a generation.

Graham Forbes, President of the Dairy Connect Farmers Group said a Royal Commission would need to look at differences and needs between 'fresh milk' states like Queensland, New South Wales and Western Australia comparing them with Victoria, South Australia and Tasmania.

"The time has come to stop importing dairy produce that is labelled as being 'Australian', the time has come for us to look at ways in which we can address the inequities between those who produce compared with those who process, sell and/or market our nutritious dairy produce.

Dairy Connect applauds the initiative of the Nationals candidate for Eden-Monaro, Trevor Hicks, for indicating that he will cross the parliamentary floor to ensure the passing of legislation to establish a royal commission into the Australian dairy industry.

However, any legislation will require more than 50 per cent of those in the parliament to support it and we call upon MPs and political parties to indicate their support or otherwise for a proposed Royal Commission and its terms of reference.

Shaughn concluded that "the time has come for action not words; the time has come for us to look forward to the future not the past; the time has come for us to be able to ensure that the Australian dairy industry is sustainable in the future for those in the industry but also for customers of fresh nutritious milk and dairy produce, and those who want to buy Australian milk and dairy produce."

The Draft Terms of Reference, as proposed by The Nationals candidate Trevor Hicks, may be found below.

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"ROYAL COMMISSION INTO THE AUSTRALIAN DAIRY INDUSTRY TERMS OF REFERENCE

The Australian dairy industry both nationally and internationally has encountered market failure since de-regulation in 2000. This has been illustrated by the decision of the major supermarkets to impose dollar a litre for private label milk in 2011. It was not until 2018 that there was any change in the price for this produce. Dairy farming enterprises have encountered severe financial hardships and found it difficult to remain profitable as the farm gate price continues to be below the cost of production. In more recent times this has been illustrated by the collapse of the export market, collapse of the dairy co-op Murray Goulburn in 2016 as well as the declining number dairy farming enterprises in Australia.

TERMS OF REFERENCE

A review of the dairy value chain and the way in which the stakeholders (Supermarkets/processors/dairy farming enterprises) interact with one another in commercial and business arrangements.

Review the current market failure that has resulted from the deregulation of the dairy industry in 2000 and the ongoing market failure that the industry is continuing to experience with the collapse of the export and domestic markets.

A review of the prices/costs for dairy cabinet produce including fresh milk by the major supermarket chains, especially as to market share, import costs undercutting Australian dairy produce. This is illustrated by the low farm gate price that is paid to dairy farmers for their produce, particularly given the high price points (and profits) that supermarkets obtain and their relationship to their customer (purchaser) and processor (supplier) for the dairy produce/milk.

Review of 'truth in labelling', with reference to imported dairy produce (e.g. cheese) being marketed as 'Australian produce' and the resulting impact upon the Australian domestic market.

Review the powers that the ACCC with respect to organisations within the value chain, ranging from supermarkets, (as currently regulated by the food & grocery code) as well as processors and dairy farmers (currently regulated by the mandatory code) and the lack of good faith between the parties and the unfair bargaining power by certain parties within the dairy value chain.

Review the business efficiency of dairy farmers and support that could be obtained to ensure the viability and sustainability into the future.

Review the effectiveness of Dairy Australia's programs on delivering a return on the investment from the farmer's levy contributions, in particular the RD&E and marketing Programs and review alternatives to the current RD&E model.

Review the good faith, efficiency and effectiveness of industry advocacy by the national and state dairy farmer representative organisations and their relationship with other members within the dairy value-chain.

Review current water management practices at both a state and federal level including the Murray Darling Basin Plan, which are directly (e.g. dairy farms within the Basin area) and indirectly (e.g.: dairy farmers who purchase fodder from within the Basin to supplement feed livestock) impacting on dairy farmers."