Australian Dairy Industry, Represented by United Dairyfarmers of Victoria and Dairy Australia Response to DEDJTR Regional Services Review

**April 2015**

**About the United Dairyfarmers of Victoria**

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.

**About Dairy Australia**

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 (RDC), it is the ‘investment arm’ of the industry, investing in projects that can’t be done efficiently by individual farmers or companies.

# Joint submission from Dairy Australia and the United Dairyfarmers of Victoria

# Key points and overarching comments

The Department of Economic Development, Jobs, Transport and Resources (DEDJTR) is a key partner for the dairy industry in Victoria and we welcome any improvement in regional services that will benefit Victorian dairy farmers.

Dairy is Victoria’s largest agricultural industry, and the powerhouse of Australia’s $13 billion dairy farm, manufacturing and export industry. The industry as a whole makes an enormous contribution to regional economies. Our state’s 4,268 dairy farms produce more than six billion litres of milk a year and provide work for 13,000 Victorians on farms and another 8,700 in milk processing factories. Victoria is export-oriented, accounting for 82% of Australia’s dairy exports. $2.3 billion a year worth of Victorian dairy products passes through the Port of Melbourne, where dairy is the largest container exporter.

The Victorian dairy industry needs to be viewed as integrated supply chain, recognising the linkages between agriculture, value adding and markets and consumers.

A supportive state environment that recognises the whole dairy industry’s economic contribution to local communities and their economies, will continue to play a vital role in attracting capital and underpinning the confidence for dairy farmers to grow production. There must also be ongoing investment in regional infrastructure and communities to ensure they are strong and viable.

The dairy industry is confident that the economic contribution made by dairy will continue to grow as the industry capitalises on the immense opportunities that exist for the sector, particularly in overseas markets, such as the burgeoning Asian region.

Priorities for dairy in Victoria include:

* The leadership role Victoria has played in dairy RD&E, and continuing partnerships in this area.
* The contribution of the Victorian Government to the education, training and retention of people in dairy
* The Victorian Government’s role in attracting and facilitating investment in the future of dairy.
* The importance of a robust export sector to Victorian dairying.
* Dairy’s reliance on transport infrastructure to support this.

## The Victorian dairy industry

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **2013/14 Victorian Dairy Breakdown** | | | | | | | |
|  |  | **Gipps Dairy** | **Murray Dairy** | **WestVic Dairy** | **Total Victoria** |  | **AUST** |
| Dairy farms | No. | 1,442 | 1,561 | 1,352 | **4,268** |  | **6,314** |
| Cows in milk & dry | 000 | 425 | 382 | 352 | **1,114** |  | **1,690** |
|  |  |  |  |  |  |  |  |
| People employed on farm | No. | 3,993 | 4,687 | 4,320 | **13,000** |  | **20,600** |
| People employed in processing | No. | 2,672 | 3,137 | 2,891 | **8,700** |  | **18,000** |
| People directly working in dairy | No. | 6,665 | 7,823 | 7,212 | **21,700** |  | **38,600** |
|  |  |  |  |  |  |  |  |
| Volume of milk produced | Million Lts | 1,949 | 2,288 | 2,109 | **6,123** |  | **9,239** |
| Share of National milk production |  | 21.1% | 24.8% | 22.8% | **66.3%** |  | **100%** |
|  |  |  |  |  |  |  |  |
| Value of milk leaving farms | $M. | $995 | $1,168 | $1,076 | **$3,125** |  | **$4,732** |
| Dairy farm contributions to economy | $M. | $796 | $934 | $861 | **$2,500** |  | **$3,786** |
|  |  |  |  |  |  |  |  |
| Value of dairy products exported | $M. | $808 | $948 | $874 | **$2,630** |  | **$3,210** |
| Share of National exports - value |  | 25% | 30% | 27% | **82%** |  | **100%** |
| Volume of dairy products exported | 000 tonnes | 177 | 208 | 192 | **577** |  | **741** |
| Share of National exports - volume |  | 24% | 28% | 26% | **78%** |  | **100%** |

## Research, Development & Extension

Research, development and extension (RD&E) is essential to achieve a sustainable and profitable dairy industry and has provided the basis of significant productivity improvements over the last 30 years. World leading RD&E that is easy for farmers to adopt is central to increasing returns at the farm gate.

The dairy industry is strongly committed to the National RD&E Framework and the dairy industry response, Dairy Moving Forward. This has led to reduction in duplication, efficiency gains and better outcomes for farmers.

Pre-farmgate research and development

The dairy industry and the Victorian Government have a long history of collaboratively funding research and development, culminating in July 2013 in a five-year collaborative funding agreement between Dairy Australia and the Victorian Government. This agreement represents significant industry support to maintain pre-farmgate research and development capability in dairy.

It is essential that the Victorian Government’s commitment to dairy R&D is, at a minimum, maintained in real terms and that adequate government funding is available to maintain and upgrade critical R&D infrastructure, such as the National Centre for Dairy Research and Development at Ellinbank and AgriBio at LaTrobe University. The Victorian Government’s investment in dairy R&D will deliver associated regional and state economic development and employment benefits.

Extension

In recent years, there has been a decreasing contribution from the Victorian Government to dairy sector RD&E activity.

Effective extension is a function of Government, industry and service providers collaborating to make the best possible use of the available funding and resources. The Victorian dairy industry believes that there are emerging opportunities to establish new and alternative partnership and co-investment arrangements between the dairy industry and the Victorian Government. To facilitate the development of these arrangements, a new dialogue based on achieving outcomes could allow the Victorian Government to invest with industry in adoption and innovation projects that meet industry priorities while delivering benefits to government, farmers and the wider community.

Victorian Government efforts should focus on how to facilitate extension delivery and investment in extension programs through Dairy Australia, to deliver extension services according to who is best placed to achieve outcomes on a case by case basis. This includes more funding for agricultural education and training, the increased use of industry and vocational education and training sector resources to build capability in the private sector, and exploring opportunities to grow capability through professional development and accreditation of advisers.

Extension services historically provided by state governments have focused not only on productivity improvements but on important natural resource management and social objectives. In the long term how governments support extension, particularly around NRM and social aspects, needs to be looked at strategically. There is no simple solution of a one off transition to private providers as delivery of extension requires ongoing investment in public and private sector capability, particularly given the constant need to roll out new research, with an associated need to train providers.

Farm business improvement

Farm business improvement is a key priority for the dairy industry, and accordingly has been an important area of investment for Dairy Australia and a key area of partnership with the Victorian Government through the Dairy Farm Monitor project.

As a key priority, the Victorian Government’s continued partnership in this area is critical to facilitate on-farm decision making and farm business improvement.

Food processing innovation

The dairy industry acknowledges that much of the value in the food industry is generated post-farm gate where significant innovation also occurs. The dairy industry adds value through processing to produce drinking milk, cheese, butter, milk powders, cream, yoghurts and a range of specialty products. This value-added processing delivers an agricultural industry with a wholesale value of dairy products in excess of $13 billion a year.

Increasing productivity for food therefore relies on research, development and extension, and commercialisation all the way along the supply chain. Milk, unlike many other raw materials, must be processed to preserve its integrity. This strengthens the focus on a supply chain approach to value-adding in this industry. With comparatively low domestic dairy prices and a competitive international market, innovation to drive improvements in dairy manufacturing and processing is imperative.

Research and development-led innovation includes improvements in all parts of the processing chain – improved equipment and processes that create production efficiencies as well as new product development.

Accordingly, the Australian dairy industry invests in innovation across the supply chain, and we call on the Victorian Government to continue as a key partner in this investment.

## People

Dairy’s future depends on recruiting, training and retaining the next generation of farmers, food scientists, processing workers, and industry service providers. The dairy industry supports efforts to improve the pipeline for this next generation, including through strengthening agricultural education to develop the skilled workforce required.

Education and training

The dairy industry is working hard in this area, particularly through the National Centre for Dairy Education (NCDE). As the Australian dairy industry’s provider of education and training, NCDE operates through GoTAFE and a national alliance of partner Registered Training Organisations (RTOs). As arranged with Dairy Australia, NCDE translates the outcomes of research into practice via a nationally recognised curriculum. This is one of many approaches that creates the link between R&D and on-farm practice change.

Currently, government decisions regarding issues such as funding for Vocational Education and Training are undermining industry programs to attract and retain more people in dairy. Specific issues include lack of funding priority for Vocational Education and Training (VET) courses targeted at industries with acknowledged skill shortages, such as dairy, the need to recognise ‘Agriculture dairy farmer workers and managers’ on skills shortage lists for eligibility to Commonwealth and state programs, and the ineligibility for funding of people with existing qualifications, even in areas of skills shortage.

There is also an opportunity for the Victorian Government to support campaigns like Legendairy and Cows Create Careers with programs that support agriculture and the food industry as a career option. These may include measures such as design of the school curriculum to influence children’s attitudes to the sector.

The Victorian Government is a critical partner in dairy education and training, and this should continue to be a priority.

Labour shortages

As well as addressing these issues in the long term, in the short term, immigrant labour will help fill dairy’s acute skills shortage, and there are also a number of actions governments can take to facilitate this, including assisting farmers in accessing this labour, and advocating at a national level.

## Investment

The Victorian dairy industry has become increasingly attractive to investors from both international and domestic sources. It is well recognised capital investment in the dairy sector can increase efficiency and productive capacity and contribute to incomes, infrastructure and employment, often in regional areas.

The Victorian dairy industry, with the support of government, needs to be proactive in driving the investment discussion and looking for capital through a broad range of models, derived from both on and off-shore sources. The industry has started this process, conducting an Investment Forum (positively supported by the Victorian Government) and launching an Investment Guide in 2014. [[1]](#footnote-1)

The dairy industry has identified a number of areas to comprise a follow up work program with the aim of generating more on-farm investment from all sources and positioning the Australian dairy industry as an “easy” sector for investors to engage with. These have each enjoyed positive engagement to date from the Victorian Government and include the following:

Investor Signposting - Austrade worked with the State Governments and DA to host a workshop to inform what best practice looks like in this space and ensuring better collaboration by the various players engaging with potential investors.

Upskilling farmers - DA will look to engage expert help to develop a program to assist farmers to become investor ready. This will look to leverage off existing DA information and programs where appropriate.

Opportunities to leverage existing industry programs – DA is exploring ways to customise services and programs such as DairyBase, Stepping Stones, the Dairy Investment Guide and Situation and Outlook to better inform the investment community about the Australian dairy industry.

In market activity - DA will explore the potential to bring a condensed version of the dairy investment forum overseas to markets such as New Zealand and China.

In addition to industry activities (both at a collaborative and individual entity level), it is recognised that the regulatory environment does, and will continue to, play a vital role in how successful the Australian dairy industry is in attracting capital. Government has a key role in ensuring the regulatory environment (in areas including labour, environment and competition) underpins confidence and certainty for dairy investment.

## Trade

Dairy, particularly in Victoria, is an export oriented industry and access to international markets is critical. As well as setting the right environment within Victoria for a competitive and sustainable industry, government has an important role to play to facilitate trade.

While we recognise many areas are the responsibility of the Australian Government, we also see this as a key area where the Victorian Government can support regional economic growth.

Trade missions and facilitation

The Victorian Government has an excellent recent history of promoting and facilitating trade through inward and outward programs and missions. These program regularly involve dairy companies (and Dairy Australia) and have been proven successful in encouraging trading relationships.

Technical market access

A recent study commissioned by Dairy Australia found that the total annual impact for individual technical barriers to trade is estimated at $1.57 billion. While industry can, and does, play a key role, much of the activity required to address these issues can only be undertaken by government as it involves working with and negotiating with the governments of our trading partners. Given the size of the dairy export industry in Victoria, the government has an opportunity to use international ministerial visits, its technical and research capability, and its network of international offices to drive action on priority issues.

The dairy industry is encouraging the Victorian Government to continue to work with the dairy industry and the Australian Government to address technical market access issues and regulatory coherence with trading partners. A new approach to develop a more strategic approach to dealing with these technical trade barriers is currently being developed in conjunction with the Federal and State Governments.

Promotion

The Victorian government should actively promote our food regulatory system so that regulatory authorities and customers understand the systems that underpin the safety and quality of Australian food.

As an example, this year the Victorian Government and Dairy Australia partnered to host the first year’s intake of participants in a new dairy scholarship program designed to strengthen ties between Victoria and South East Asian export markets.

15 South East Asian dairy industry specialists stayed in Victoria for a week-long study tour to gain a first-hand insight in to the state’s dairy industry with a focus on food regulation and food safety. Under the scholarship program, 15 industry leaders will each year receive funding to visit Victoria and participate in a program of visits to farms, manufacturing plants, retail and wholesale outlets and research facilities.

Initial analysis and surveying of the scholarship participants suggest that the program was an enormous success and industry hopes that the support from the Victorian Government for this program continues.

## Infrastructure

Growth in the dairy industry relies on improved road, rail and port infrastructure, infrastructure to support efficient water use, a reliable and expanding power supply, infrastructure to support research, development and training, and infrastructure for supporting industries (for example, feedmills).

Many industries, including dairy, often proclaim transport infrastructure as a priority.  However, they struggle to identify specific projects and reforms that would make a demonstrable difference, much less quantify the industry benefits to make the case to governments to direct limited funds their way.

Therefore Dairy Australia is in the process of commissioning an evidence-based study to assist the Australian dairy industry to identify priorities for investment in improved transport infrastructure and regulations.  This report should be complete in the third quarter of 2015.

However, in scoping this study, the dairy industry has identified a number of top line issues in the area of freight infrastructure and regulation. These include the following.

Roads

The dairy industry is heavily reliant on road transport to pick up milk from farms and take it to regional and metropolitan processing facilities, and to take finished products to distribution centres to supply domestic and export markets.

In Victoria, transport companies moving raw milk and processed dairy product report they could reduce their transport movements by up to 40%, if mass limits on vehicles were to increase from a gross 68.5 tonnes to 74.5 tonnes.

Heavier payloads would mean hundreds fewer trucks a week for the dairy industry alone. Enabling heavier mass limits would deliver a substantial productivity gain in reduced transport costs and increased capacity to accommodate production growth. The cost savings will lead to improved farmgate prices and international competitiveness among export dairy companies.

Upgrading key transport routes will also boost the dairy industry’s competitiveness. For example, the South Gippsland Highway from Leongatha to Melbourne is a major freight route for dairy and other primary produce grown and processed in the region. Three major dairy processing plants are located along this route, generating hundreds of truck movements a week to and from Melbourne. The poor condition of the road is resulting in tens of thousands of dollars a year in additional costs through wear and tear to vehicles that are passed back to dairy companies and in turn to farmers. These costs would be avoidable if the highway had been maintained to a standard reflecting its heavy use.

Ports

The dairy industry also encourages Government to examine the competitive settings around freight infrastructure such as ports that can often operate as monopolies and are able to charge/recover monopoly rents that are often passed on to others in the supply chain. This can hamper the competiveness of Australian dairy on international markets for which the industry depends.

A recent example is the Port of Melbourne’s plans to increase stevedore company rents by 800 per cent rent, resulting in significant increases in the cost of a container exports.

Around 85% of all Australian dairy exports are channelled through the Port of Melbourne. Around 46,000 twenty-foot equivalent units (TEU) of dairy product are exported from the port of Melbourne each year.

The Victorian Government is proposing to increase rents for Stevedoring companies occupying the terminals. This decision comes on top of a recent Port License Fee increase where the collected monies are fed not into the port but to ‘general revenue’ for the State.

The additional cost touted for this new fee increase is around $80 - $100 per twenty-foot equivalent unit (TEU) which will severely handicap most shippers and some claim this will potentially make them uncompetitive in the market place. At $100 per TEU this will add approximately $4.6 million to the Australian dairy industry’s logistics costs.

The Port of Melbourne is being privatised by the Victorian government. ACCC chairman Rod Sims has previously signalled concerns over allowing monopoly infrastructure providers to significantly increase prices just before or after privatisation, warning that it could erode support for privatisations.

Visy, a major exporter from Melbourne, are already making moves to shift cargo away from the Port of Melbourne.  Losses to the Port’s revenue will create impacts in the Transport and Logistics sector which in turn will add to the costs of manufacturing sector like dairy.

The Victorian dairy industry is concerned the sale of the government-owned port to the private sector could lead to higher port charges. Agriculture is the economic driver of regional Victoria, so handing the food and fibre export gateway to a private corporation, which is driven by shareholder returns, raises alarm bells for farmers.

Consequently, the UDV believes there should be strong independent oversight of port access and charges. Currently the Essential Service Commission’s role is restricted to monitoring, rather than setting, Port of Melbourne charges. The Victorian dairy industry is concerned that a simple monitoring role is insufficient to guarantee that food and fibre producers won’t face hefty hikes in port charges and loss of access following privatisation. Even with the proposed Webb Dock development, the Port of Melbourne is still likely to face major capacity constraints in the next 10 years. These constraints will in effect create unmet demand that could be exploited by a private-sector leaseholder. The Victorian dairy industry is therefore calling on the Victorian Government to implement some form of Essential Service Commission or other agency oversight of Port charges and its access regimes. This oversight would become even more important if the lease is sold to one of the existing stevedores – to prevent the leaseholder from charging exorbitant fees to its competitors.

## Energy

ABARES has identified that electricity accounts for 2.4% of total dairy farm operating costs, compared with 0.8% in livestock/cropping enterprises. This is because electricity is dairy farming’s main energy source, not the transport fuels on which cropping, sheep and beef grazing rely.

Analysis commissioned by Dairy Australia indicates that typical dairy farmers are now spending between $20 and more than $100 a day on electricity to power their dairies. Rising tariffs, renewable energy incentives schemes and rising network charges have contributed to daily costs rising 33-100% for many farms since 2010.

The industry is also a large user of both electricity and gas in manufacturing. Dairy processing companies are among the top 300 energy users in Australia. Their international competitiveness is highly sensitive to changes in energy costs, but also inadequate reliability of supply in regional areas where most factories are located.

Government has a critical role to play in regulating the energy sector to ensure that Victorian regional industries can access reliable, secure energy supplies at prices that enable them to remain internationally competitive.

Energy efficiency is a significant opportunity for reducing energy costs as well as greenhouse emissions in the dairy industry.

Dairy farmers are already embracing renewable energy technologies, with 40% of farms in 2012 having installed some form of renewable energy installation (such as heat pumps or solar water heating).

Dairy manufacturers are also embracing new clean technology. For example, dairy manufacturing projects that were part of the Clean Technology Food and Foundries Investment Program in the 2012- 13 year included more than $25 million investment in equipment upgrades including installing heat exchange, solar PV and/or gas alternatives for water heating and power, and equipment upgrades for refrigeration and lighting. Investment in clean technology is expected to reduce emissions intensity at some dairy plants by up to 50%.

But for all these opportunities, there are significant capital cost barriers. In many cases, federal and state rebate programs assisted farmers with the upfront capital costs, and thereby increased their participation.

The emerging question is how to finance large, up-front capital costs for equipment upgrades and renewable energy options in tight economic conditions. For example, installing heat recovery pre-heaters and variable speed drives on vacuum and milk pumps on dairy farms have an estimated capital cost of $5000-$17,000, with a 4 – 20 year payback period. Similarly, for a dairy manufacturer to upgrade to new energy efficient refrigeration or to switch to solar power could require a capital cost of several hundred thousand dollars with a payback period of 3 – 20 years.

## Biosecurity

The Australian dairy industry enjoys the favourable animal and plant health status and production environment in Australia which contributes to profitable production and benefits in trade and market access for dairy products and more broadly to the Australian economy.

It is vital that Australia maintains a strong quarantine policy that provides reasonable protection against diseases and pests which could destroy our livelihood. An outbreak of an animal disease such as foot and mouth disease would be a real disaster for the dairy industry.

This must be supported with a proactive, strong biosecurity system, including activities at, pre and post border, which is appropriately resourced by all jurisdictions under an integrated national framework.

The biosecurity area of DEDJTR plays a critical role in this national system that must be maintained.

## Regulation

The dairy industry supports minimum effective regulation based on science and balanced risk assessment, and recognises that in key areas such as food safety regulation current systems (while they can always be improved), play a vital role in ensuring a safe food supply, as well as supporting our access to international markets.

Dairy Food Safety Victoria

Dairy Food Safety Victoria (DFSV) plays a vital role in enhancing and protecting the enviable food safety reputation of the dairy industry. This helps facilitate national and international trade with the Australian dairy industry being seen as a preferred supplier because of its safety record. The Dairy Act 2000 provides the powers necessary for DFSV to do this at the State level.

The partnership DFSV has with industry is essential to ensure the food safety outcomes required by all can be achieved in a practical and cost effective way without compromising food safety.

As Victoria is the leading dairy state for domestic and export production and sale of dairy products, there is a need to maintain efficient and effective capability and expertise to deal with dairy food safety issues across the supply chain both in Victoria and nationally and also as part of the export market access system.

## Working with other departments

DEDJTR has a role to play in ensuring the value of regional industries like dairy is understood, and embraced, by the community and a key role in establishing a framework to ensure sustainable growth through a productive economy and healthy environment for the benefit of future generations and our natural resources.

Water

The dairy industry is a major water user for both irrigation and in the dairy. Across Victoria, water availability, security and efficient use are critical drivers for agricultural productivity and food security.

In looking to improve water infrastructure and markets it is important that government does not just focus on big-ticket projects, like dams, but also examines projects to increase water efficiency. For the dairy industry these kind of farm level upgrades will make a more long term difference to improved water infrastructure. There is clear evidence that the benefits of government co-investment in farm irrigation upgrades, in terms of farm competitiveness and regional economic activity, far outweighs the costs.[[2]](#footnote-2)

NRM

The Australian dairy industry has a history of working closely with communities and natural resource management (NRM) agencies to deliver environmental and productivity outcomes, an example being the highly effective Dairying for Tomorrow program; [www.dairyingfortomorrow.com](http://www.dairyingfortomorrow.com).

The challenge for the Australian dairy industry is the resources required to develop relationships and partnerships with the large number of Catchment Management Authorities and Water Corporations in which dairy is located. There is a role for the Victorian Government to support industry led programs that work across catchments and water regions and are not confined to working with individual Catchment Management Authorities and/or Water Corporations.

1. Available at: [www.dairyaustralia.com.au/investment-guide](http://dairyaustralia.com.au/Standard-Items/Media-Releases/2014/September/09-16-Dairy-Farm-Investment-Guide-now-available.aspx) [↑](#footnote-ref-1)
2. Cost Benefit Analysis of Farm Irrigation Modernisation , RMCG 2013. Available at:  <http://www.dairyaustralia.com.au/Industry-information/About-the-industry/Recent-industry-topics/Murray-Darling-Basin.aspx> [↑](#footnote-ref-2)