Agricultural Competitiveness White Paper –
Submission IP685
Queensland Dairyfarmers' Organisation Ltd
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Submission to the

Agricultural Competitiveness White Paper

Prepared by

Queensland Dairyfarmers' Organisation Ltd

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Introduction QDO

The Queensland Dairyfarmers' Organisation Ltd (QDO) welcomes the opportunity to provide input into the Agricultural Competitiveness White Paper.

The Queensland Dairyfarmers' Organisation (QDO) is the peak industry body for the Queensland dairy industry, with approximately 65 percent of all Queensland dairy farmers being members. The QDO provides a wide range of advocacy, support and information services to its members and the industry across Queensland.

The QDO is a member of the Queensland Farmers Federation (QFF) and Australian Dairy Farmers (ADF), which is a member of the National Farmers Federation (NFF).

Queensland Dairy Industry Snapshot

The dairy industry is a vital part of many rural and regional communities of Queensland, providing employment and economic benefits, and product value-adding through food processing and manufacturing, transport, wholesale and retail industries.

The Queensland dairy industry at farm gate generates some $225 million worth of milk production each year from some 500 dairy enterprises and after processing, this value increases to approximately $700 million in drinking milk and other value-added dairy products. The industry covering dairy farming and manufacturing employs more than 3,000 Queenslanders.

The Queensland dairy industry has six main processing plants and a number of smaller processors producing niche market products. The two main milk processing companies in Queensland include Lion Dairy and Drinks and Parmalat and then there is the medium sized Norco Cooperative based in Northern NSW, with a milk processing plant in Queensland.

Virtually all of the milk produced by Queensland dairy farmers on a daily basis is consumed by Queenslanders as fresh milk.

The Queensland industry is currently at a crisis point. It is facing serious challenges, including the impact of recent natural disasters, the ongoing impacts and market failure caused by the supermarket 'milk price war' (SMPW), increasing costs of operations, and the need to compete for resources.

Of major concern is that due to these impacts over the last three years farm gate prices have been forced down while Queensland milk production has continued to decline, falling further and further short of meeting the requirements of the Queensland market, while freighting milk for other regions to fill the gaps is occurring at a higher landed costs then Queensland farmers are currently getting paid, clearly representing a case of market failure.

In order to meet the current shortfall and to meet the demands of a growing population, investment in milk production is required. For this to occur, farm enterprises need to be profitable into order to make that investment to increase production.

The QDO has made a number of recommendations in this submission, but in particular seeks urgent action from the Australian Government to outlaw the predatory conduct by the major supermarkets through the pricing of their store brand fresh milk at below cost of $1 per litre which has subsequently caused market failure in a number of areas in the domestic market.

The QDO is available to provide more detail on any of the items presented in this submission.

The QDO sees the top issues as follows;

- The urgent need for the Australian Government to take action to stop the 'milk price war' and outlaw predatory conduct by major supermarkets and to restore the function and fairness to the domestic milk market and sustainable returns to the domestic fresh milk supply chain and dairy farmers that supply that milk,
- The work in partnership with the Australian dairy industry to develop new export markets with higher returns and to protect existing markets,
- For the Australian Government to invest more resources into R, D & E that specifically targets improved profitability in partnership with industry,
- For the Australian Government to target infrastructure development, including water, transport and communication that will underpin agricultural growth and profitability,
- The Australian Government invest sufficient resources to develop an Australian Agricultural Development Strategy and to deliver targeted outcomes in partnership with industry.

QDO Responses to Whitepaper Questions

1. Ensuring food security in Australia and globally

What opportunities exist to expand agricultural production in Australia and how can we take advantage of them?

The QDO sees that there exist a range of opportunities for the expansion of agricultural production in Australia, with growing domestic and international populations, particularly across the Asian region. Harnessing this opportunity would help diversify, strengthen and grow Australia's economy. However Australian agriculture faces many challenges to expand production ranging from climate variability and resource limitations, to having high developed nation cost structures and community expectations, competing with countries with lower costs and expectations and support programs and import barriers which distort markets.

Opportunities to expand production exist, but depend on numerous factors including;

- ability to compete in international markets in a distorted and unfair market environment,
- gaining better access to existing markets and development of new export markets that derive higher and more reliable returns,
- ability to derive competitive profitability and returns on investment,
- ability to compete for resources – finance, labour and skills, land, water,
- ability to successfully manage a wide range of risks, including increasing climate variability,
- ability to make continuous productivity and efficiency gains,
- investment in the development of new water storage and management infrastructure for irrigation water,
- investment in improving transport and electronic communication infrastructure,

To take advantage of what is arguably the next potential boom period for the Australian agriculture there needs to be;

- The development of a well-resourced Australian Agricultural Development Strategy that will support innovation, investment, sustainable profitability and growth, which could include a range of strategic targets such as;
  - Development of more profitable markets, both domestically and internationally,
  - Additional investment into research, development and extension to drive innovation, productivity and competitiveness,
  - Incentives to support capacity and skills development and career paths in agriculture,
  - Targeted incentives to assist primary producers to overcome impediments for growth such as increasing risks from climate variability, ability to successfully utilise new technology to harness efficiency and productivity gains,
  - Investment into improving existing and building new infrastructure critical to agricultural growth including irrigation water storage and management infrastructure, transport and electronic communication networks.
  - Finding more cost effective means of delivering government programs and services in partnership with industry.

How can farm businesses, food manufacturers and the retail sector be more responsive to domestic and global food demand and better integrate into domestic and global supply chains?

The QDO believes there needs to be;

- Greater transparency through the value chain to allow for fair business dealing.
- The Government should not allow market power concentration that does not derive net benefits for the Australian economy and its population. Case in example is the current supermarket 'milk price war' which has devalued fresh milk nationally, lowered the profitability of the supply chain and driven investment out of the production sector, and which has now lowered the amount of exports of dairy products as milk is having to be transferred to fill gaps in the fresh milk sector.
- Australia must become more competitive in both primary production and manufacturing to compete in the international market and with imports into the Australian domestic market.
- The Australian Government should not provide support for multinational groups which have operations based in Australia but transfer potential trade opportunities for sourcing Australian products to their other overseas operations to gain higher profits at the detriment of Australian trade and economy.

Do farmers have access to timely, relevant and accurate information to fully inform production decisions to meet domestic and global food demands?

The QDO believes there needs to be;

- Improved information services to farmers to support better decision making particularly around risk management such as climate.
- With improved information services there needs to be incentives to support capacity and skills development to enable the effective use of information and information services.

- The Australian and State Governments have reduced investment into data collection and analysis services for agriculture over recent years. This erosion of data collection and analysis has had implications across many different areas including policy. This needs to be reversed or Government needs to hire industry to collect the necessary data for government purposes.
- Data collection and analysis services for agriculture will be critical to supporting an Australia Agricultural Development Strategy and benchmarking the performance across sectors and internationally and analysing different initiatives and policy proposals.

What opportunities exist for exporting Australian agricultural technology, marketing skills and expertise to improve global food security outcomes?

- The Australian dairy industry currently has a range of collaborative information sharing arrangements for example with New Zealand. These sharing arrangements assist with research and developments activities and comparing industry performance.
- Additional opportunities currently exist but are not being realised due to the lack of a connective strategy between Australian agriculture and different Government agencies.
- More effort is needed to link Australian Government support packages with developing nations to agricultural development projects and market and trade development opportunities.

2. Farmer decisions for improving farm gate returns

What are the drivers and constraints to farmers adopting alternative business structures, innovations or practices that will assist them in improving farm-gate returns?

- The major driver to allow for the adoption of change and innovation, and to be able to compete for resources and skilled staff is sustainable profitability,
- Research and development that leads to innovation, higher productivity and competiveness, is critical for the future growth potential for Australian Agriculture. The CRC R&D model is a good example of investment commitment to R&D that can provide major gains for industry. An example in dairy is the research into new higher productivity pastures, which would also benefit the beef industry.
- R&D outcomes need to be delivered to farmers with practical extension, skills development and adoption support programs. Unfortunately over recent years Government have reduced their investment in extension services. With this environment extension requirements need to be imbedded commitments within R&D project proposals and investments.
- The current State and Federal R&D Framework needs to be reviewed as over recent years State's with responsibilities to lead R&D nationally for certain industries have reduced their funding commitments to that R&D, thereby exposing industries in other States to those cut backs. The QDO sees that the Australian Government needs to take a lead role is resolving this deteriorating situation.
- Education to provide increased skills and capacity to manage more complex agricultural systems and technology is required that is specially matched to needs of modern agricultural enterprises.

What tools, skills and advice do farmers need to effectively adapt and respond to the risks they face?

- Farmers need a wide range of skills, tools and support initiatives to be able to effectively respond and adapt to a wide range of risks, which can vary greatly in different industries.
- Providing sufficient investment in extension and education services is critical to ensuring the uptake of R&D outcomes which can assist farmers. Over recent years the investment in extension services by the Government sector has declined.
- In a number of fields there is a need for independent advice for farmers which require support from Government programs to address market failure gaps.
- In some cases incentives can provide the catalyst for the adoption of new technology and innovation. The QDO, with funding support from Government, has utilised a combination of independent advisory services, skills development and financial incentives through the Dairy Water for Profit program to help farmers to adopt new technology and techniques to make significant energy and water efficiency gains and which have derived greater profitability for farming enterprises.
- In some scenarios discussion groups have provided very effective mediums for helping farmers to develop skills and experience over time, particularly in highly technical areas such as animal nutrition. Again these approaches while very effective need sufficient extension funding support.
- New electronic communication platforms, such as webinars and YouTube, are now providing cost effective means delivering information to farmers and holding discussion and education forums. For these services to be truly effective, the speed and reliability of electronic communication platforms need to be improved across regional areas.

What alternative actions or measures by governments, farmers or others would result in improved financial performance at the farm gate?

- For the domestic fresh milk market the Government needs to take action to rebalance market power to provide a market that functions properly and is transparent and fair. The current concentration of market power held by major supermarkets has allowed them to use that power to manipulate domestic markets to their benefit. The current example of the ongoing supermarket 'milk price war' has devalued milk at retail level by an estimated $220 million per annum, leading to processors losing brand share to supermarket $1 per litre store brands and with that processor profitability has fallen, which has led to lower farm gate prices and farmers and investment being forced out of the industry when milk supply in Queensland is short of demand. Milk has then had to be freighted from southern regions into Queensland to fill the market gap at a higher landed cost, which has meant less milk being available to be manufactured into dairy products for export.
- The Federal Government needs to implement a Mandatory Code of Conduct and to strengthen the Competition and Consumer Act to stop the current predatory behaviour of major supermarkets and to restore fairness to the value chain and to ensure the market is functioning properly.

What approaches could be used to encourage improved drought preparedness?

The recent decade long drought took a major toll on the Australian dairy industry, from which the industry still has not recovered to previous production levels. The loss of farmers and production due to drought caused major implications for the whole industry including the loss of export customers.

The QDO supports the approach of preparedness but also the need for a ‘safety net’ policy for exceptional events that are beyond the ability of good managers to cope with. While the QDO works with industry stakeholders and Government to support farmers to prepare for and manage through droughts, the QDO believes there are options to consider providing additional preparedness support including;

- Further enhancement of FMD’s to encourage more farmers to use them and to allow larger operations to increase the size of the deposit relative to the size and risk of their operations.
- Provision for accelerated depreciation for investments which improve drought preparedness across such investments as in water and feed reservoirs.
- Linkage of industry specific skills development packages for drought preparedness and risk management with other drought preparedness incentives provided by Government.
- A Government / Industry taskforce to work on improving climate forecast and other information support services to assist farmers to make more informed drought and extreme weather risk management decisions.

During drought, what measures are most effective in supporting long term resilience?

The QDO sees that in severe drought conditions;

- the current State based system of freight subsidy support for freight costs for movement of fodder, water and livestock should continue as is helps maintain breeding herds in severe drought and protects against animal welfare risks.
- grants for livestock water infrastructure is welcomed as it will not only assist many farmers to manage through the current drought and help to maintain core breeding herds, but it will also help with drought preparedness for future droughts.
- the new Concessional Loans to provide for debt restructuring, carry on finance and drought recovery, will provide many farmers with an option to reduce debt pressures on their enterprise during severe drought and this will help reduce debt risks during and beyond the drought. The criteria for the loans needs to target helping farmers affected by drought and not exclude farmers because of externalities such as that caused by the ‘milk price war’. The criteria also needs to be applied consistently across different States and have clear eligibility guidelines and criteria.
- for drought affected farmers whom do not have the requirement to restructure debt or wish to borrow more funds, the provision of an equivalent grant for drought recovery expenditure would assist many producers with drought recovery efforts.
- it is important to maintain a ‘safety net’ income support system to provide farming families with basic living necessities through severe drought periods.
- provision of employment support grants to help retain employees on farm through severe drought periods, which would also support local communities in drought affected regions.
- the QDO would like to see the provision of resources to industry groups to provide targeted drought support and recovery services to farmers, as has been a successful initiative following natural disasters such as floods and cyclones.
- drought support initiatives should be investigated that provide net community benefits from CSO provisions. For example reducing the cost of electricity to enable farmers to be able to afford to undertake irrigation to produce a crop, which otherwise would not be produced if the power cost was not reduced and the energy sale was also lost.

These scenarios can produce net benefits to communities and the economy while being cost neutral to the power supplier.

- the provision of well-resourced financial counselling and social support services to support drought affected farming families and communities is extremely important.

How can new farmers be attracted to agriculture and how can they succeed?

The QDO sees that to attract new farmers to Australian agriculture;

- there needs to be ability to make a sustainable competitive return on the investment of human and monetary capital.
- greater incentives could be provided for 'first start' farmer loan support schemes such as that provided through QRAA.
- similarly additional taxation incentives could be provided to assist farmers in their early more critical years of establishment of a new farm enterprise.
- investigate potential additional tax / superannuation based mechanisms to provide incentives for retiring farmers to lease and or with the option to purchase over time, to younger new farmers, while still living on the farm in their retirement.
- removing stamp duty of farm asset transfers which are part of succession planning and or new farmer owner establishment.
- reduction in red tape to establish new or to change the material use of farming operations would assist new investment in agriculture.
- the Government could provide additional support to initiatives such as the Young Dairy Network, which has been established to specifically support young farmers and people within the dairy industry.

3. Enhancing access to finance

How do we better attract private capital into farm investment?

Within the dairy industry value chain, investment at farm level makes up by far the largest proportion of investment of the whole industry. Over recent years poor returns to farmers, particularly over the last three years due to the effects of the 'milk price war' has seen investment lost from the industry. Over the last three years Queensland has lost approximately 100 dairy farmers, at a time when there has been a shortage of milk to meet the Queensland fresh drinking milk market. This loss of farmers equates to the loss of some $300 to $350 million in fresh milk production capacity.

The QDO sees new investment in dairy farming as critical to achieving additional efficiencies, production and productivity growth. However the current market failure in the domestic fresh milk market caused by the major supermarkets selling fresh milk for $1 per litre this investment will not be likely to occur at farm level.

The QDO sees that to attract private capital to be invested into dairy farms would need to;

- deliver reliable competitive returns for that investment, which is difficult to achieve when many private capital investment funds commonly seek returns on investment of some 20 percent.
- the Government could outlaw the predatory conduct of major supermarkets and return the true free market function to the domestic fresh milk market, which would see better returns for processors and farmers and reinvestment into processing and farm operations.

- the Government could consider incentives to make investment in the agricultural sector more attractive for superannuation investment funds which hold a huge amount of Australian investment funds.
- the Government could consider additional investment incentives for dairy farmer owned co-operatives. In particular the Australian Government needs to ensure Australian owned co-operatives are not disadvantaged in proposed takeovers approval processes when competing against foreign investment. The recent takeover of Warrnambool Cheese and Butter serves as a case example.

What examples are there of innovative financing models that could be used across the industry?

- in the dairy industry in New Zealand, the banking sector allows cattle to be used as an asset to borrow against without the need for fixed assets such as land, which provides a good opportunity for young farmers to lease farms and borrow to build their herd which is their productive asset.
- investigate potential self or hybrid models to provide incentives for retiring farmers to lease and or with the option to purchase over time, to younger new farmers, while still living on the farm in their retirement.

What would encourage uptake of new financing models?

- Provide support services to assist new and retiring farmers to take up opportunities.

What alternative business structures could be developed for farming that also retains ownership with farm families?

- Providing more attractive succession provisions that allow movement of assets into new structures to provide for succession that do not attract stamp duty.
- Develop support packages to support the uptake of share farming models, particularly with an increasing rate of farm owners reaching retirement without their own interfamily succession options.
- Re-establish the tax concessions for family trusts to provide an incentive for farming families to maintain family involvement in farming operations even if they are working part time off farm and then to use the trust structure as a succession vehicle.

How can foreign investment best contribute to the financing and productivity growth of Australian agriculture?

- Ideally foreign investment should be through Australian controlled entities or through joint ventures with Australian entities so that the benefits of that investment are retained as much as possible for the Australian economy and population.
- Equally Australian agriculture should be outward looking seeking strategic opportunities to invest in other countries, for example through joint ventures, to provide long terms benefits such as market access and bilateral trade arrangements.

4. Increasing the competitiveness of the agricultural sector and its value chains

How might existing laws and regulations be changed to address any market power imbalances in the agricultural supply chain, without limiting prospects for global-scale firms developing in Australia?

The QDO strongly advocates the need for the Competition and Consumer Act (C&C Act) to be strengthened, particularly in areas to outlaw predatory conduct that has negative effects on competition, value chain suppliers and ultimately consumers. We also fully appreciate that to do this review properly will take a reasonable amount of time. However this is time Queensland dairy farmers do not have in the current market environment.

As such we believe the Australian Government should implement a Mandatory Code of Conduct as a matter of urgency to address the immediate problems, while work is carried out on reviewing and implementing improvements to the C&C Act or alternatively amend section 46 of the C&C Act to outlaw predatory conduct while the proposed Code is further considered by Government and the C&C Act is fully reviewed.

In the current environment Collective Bargaining provisions are failing and as such the QDO also wants stronger collective bargaining provisions to further balance the excessive market power of the major retailers by allowing for larger farmer groups to be formed and to allow for the collective boycott of supply.

As virtually all of Queensland milk produced is used as drinking milk, Queensland farmers are highly susceptible to impacts from manipulation of the price of drinking milk by major supermarkets and as such the ongoing supermarket 'milk price war'.

With only two main processors in Queensland, combined with the requirement to supply milk in a flat supply system with high quality standards for only the domestic fresh milk market, it makes for a difficult operational environment for dairy farmers with limited or no alternative supply and production system options.

When the milk price war started on Australia Day 2011, fresh milk was discounted to the unsustainable level of $1 per litre, which was started by Coles and then followed by the other major supermarket chains.

This marketing gimmick has sacrificed the value of fresh milk right across the nation and this has had major knock on effects for the domestic fresh milk industry and the dairy farming families that supply fresh milk for Australian consumers.

It is hard enough that Queensland dairy farmers have had to battle three major natural disasters over the last three years, but it is completely unfair that they have to battle a man-made disaster which has now gone on for more than three years. This disaster could be easily resolved if the major supermarkets would simply restore the retail price of fresh milk to a fair and reasonable market price and provide sustainable returns to processors and to farmers. The QDO has requested this action repeatedly from both Coles and Woolworths, to no avail.

The impacts of discounting fresh milk by up to 33 percent to $1 per litre have been wide spread, including;

- devaluing fresh milk at retail level nationally by an estimated $220 million per annum,
- forcing a larger price difference between supermarket store brands and processor proprietary brands to some $1.12 per litre,

- causing the loss of market share of processor proprietary brand milk sales to discounted $1 per litre supermarket store brands and with that the loss of processor profitability,
- forcing processors to discount their own proprietary brands to try and slow the loss of market share, with a further loss in processor profitability,
- reduction and ongoing suppression of farm gate prices, along with the reduction in contract periods over the last three years and tightening of contract conditions, quality penalties and addition of freight charges, while farm operational costs have continued to go up, forcing farmers into the red and out of the industry,
- preventing the recovery of milk production following the severe flooding in Queensland in 2011 and 2013 and driving milk production lower, when Queensland has seen a major shortage of milk to meet its own needs since the start of 2011,
- small independent retailers and processors have been placed at a huge disadvantage on price, particularly in regional areas, where major supermarkets use national cost averaging and sell milk at a loss at $1 per litre in regional towns (for example Mount Isa or Darwin) and neither processors or small retailers can compete on price. In fact processors are currently losing money servicing some regional centres which may not be able to be continued, meaning a potential lack of supply of fresh milk and consumer choice. This implication was forewarned by the processing sector during the Senate Inquiry in 2011.

In 2007, Queensland milk supply was close to the regional market demand line, caused by many years of severe drought impacts combined with low farm gate prices. The processors responded to this tightening fresh milk supply, by increasing the prices of their products in the market place, enabling them to then afford to pay farmers a much higher farm gate price as well as providing longer five year term contracts.

This initiative allowed milk production to stabilise and recover. However in the current environment, if processors acted to increase prices in the current market environment they would lose further market share to the supermarket discounted $1 per litre store brand milk and with that, profitability.

This ‘catch 22’ for milk processors caused by the supermarkets use of fresh milk as a sacrificial discount marketing agent and to grow the market share of their own store brand milk at the expense of processor brands means that the market supply and demand function has not been able to operate as it should in a free, transparent and freely functioning market. This is solely due to the excessive market power of the major retailers.

In 2011 and 2013 with severe flooding impacting many Queensland primary production areas, unlike the other industries such as the fruit and vegetable industry when the supply to the market was impacted the price via the function of supply and demand rose to stimulate supply, with the Queensland fresh milk industry supply was impacted significantly below demand, but prices did not rise but instead fell due to the market power interference by the Coles led supermarket milk price war, which has not allowed the market supply and demand function to properly work.

In Queensland alone, we have now lost more than 100 dairy farmers since Coles started the milk price war in 2011, and we arguably should not have lost any, as we have been short of milk in Queensland to meet the needs of Queensland consumers since the start of 2011.

This is not just a loss of generational expertise in dairy farming and upcoming young farmers, but equates to a loss of some $300 to $350 million investment in milk production in Queensland and some 340 on-farm jobs, let alone the jobs lost from cuts backs by the processors and job losses from regional Queensland as service work to the dairy industry is lost. This is a clear case of regional market failure.

Over the same time, farmers and their farm investments are being forced out of our dairy industry, in Queensland we are short of fresh milk to meet the daily needs of consumers. This year we are forecast to be more than 20 percent or more than 120 million litres short. This figure will get worse unless the current market failure is addressed.

Also at the same time domestic milk processors are freighting milk longer distances from NSW and Victoria, at a much higher landed cost, than they are currently paying Queensland dairy farmers, to fill this supply gap.

Sourcing milk from the southern Australian regions to fill the domestic market gap is effectively diverting milk away from being manufactured into dairy products for the export market. This is a net loss to the Australian economy as a whole and will have long-term ramifications.

The QDO and Australian Dairy Farmers (ADF) foresaw and presented these possible implications to the Senate Inquiry in 2011, however the growing impacts and their causes are still being ignored by many within Government and the retail sector.

The forecast population growth in Queensland over the next ten years translates to the need for another 110 million litres of fresh milk to meet the needs of Queensland consumers. To achieve that goal, let alone take advantage of the opportunities in the growing Asian market, farmers and investment need to be attracted to our industry not driven out of it.

This year's opening prices for southern dairy farmers supplying the export market is up 25 to 30 percent and now international prices far exceed farm gate prices being paid to Queensland dairy farmers. For example New Zealand dairy farmers are being paid 15 percent more (in equivalent AUD terms), for low cost seasonally produced milk than that being paid to Queensland dairy farmers.

All of these are factors should be having a positive influence on the Queensland milk price, but are not. If a truly free market operated, then common sense would dictate that prices should increase, so Queensland dairy farmers have a viable means to produce more milk for the local market.

The latest price offer for Queensland dairy farmers has been an increase of between 1 and 4 percent with many being worse off with the addition of higher freight charges to have their milk collected. The majority of farmers currently are operating at a loss as a result.

Some processors are currently looking at a drought support payment for a few months of 4 to 5 cents per litre, which is unlikely to prevent many farmers from exiting the industry if conditions, farm gate prices and contract offers do not improve significantly.

Over the last twelve months many of the dairying regions in Queensland have experienced the worst rainfall deficit on record, unfortunately for many, this directly followed a record flood. The extra costs from drought have burnt into farm margins, particularly with very high feed prices and increased electricity consumption with irrigation.

The impacts of the drought and market failure can be clearly seen in the results of a survey of Queensland dairy farmers we carried out in January this year which achieved a response rate of 46%. The survey confirmed that farm confidence remains extremely low and fragile due to negative farmgate returns and low milk prices, which is now being exacerbated by the tightening drought and rising input costs.

The survey responses presented that;

- the majority of Queensland dairy farmers are not confident about or were uncertain of the future of their dairy farming business and whole northern dairy industry,
- 50% of the State's dairy farmers said they could not confidently expect to be dairy farming any longer than 12 months and only 23% presented that they expect to still be dairy farming in 5 years' time,
- 90% of those people with an expectation of possibly leaving the industry listed "lack of profitability" as the major reason for considering leaving the industry,
- 71% of farmers could not pay all of their monthly bills with their monthly milk cheque, and that a similar percentage has had to increase their level of loan or overdraft debt over the past year and had been forced to postpone vital repairs.

These are the lowest levels of confidence recorded since the inception of the NDFS in 2004, a year that followed a significant market downturn and widespread drought.

Farmers on average presented they need a farm gate price of 66 cents per litre to make their farms sustainable. This figure directly aligns with analysis QDO carried out last year in which for farms to achieve just a 5% return of assets they would need at least 65 cents per litre, particularly when cash costs of production are over 55 cents per litre as set out by the 2012/13 Queensland Dairy Accounting Scheme (QDAS) report. The QDAS report for the 2012/13 financial year reports the cash costs of production are 55.2 cents per litre, compared to farm gate milk prices of around 51.3 per litre, leaving the dairy farmers in the red.

The QDO has yet again recently written to the two major supermarkets to update them on the worsening crisis for Queensland dairy farmers and the ramifications for fresh milk supply and to seek their agreement to stop the 'milk price war' and to return fresh milk prices to a sustainable level and provide fair and sustainable prices through processors back to farmers. However, once again the supermarkets have ignored this critical request.

What has happened in the United Kingdom (UK) over the last decade and half can be used as a forecast of what is in store for the Australian domestic market if the current supermarket tactics continue.

It should be noted that the UK response was similar to that proposed by QDO and ADF; they instituted a Groceries Supply Code of Practice.

During this time in the UK, the supermarket brands have largely taken over the market place, supermarkets have taken control of the supply chain and from the data provided from the UK group DairyCo, it presents that from 1997 to 2009, or 12 years, the gross margins for;

- farmers has increased by only some 4 percent,
- processors increased by some 20 percent, however
- retailers has increased by over 600 percent.

At the same time, choice for consumers in the UK has declined and they are now paying a higher price. As this has unfolded more and more UK farmers have left their industry and now the UK imports dairy products from the Europe to meet its consumer's needs. Now in the UK the major supermarkets have started another 'milk price war'. The UK farmers are also seeking stronger Government intervention to bring about fairness in their market.

When the domestic milk price was deregulated in Australia in 2000, the Federal Government of the day introduced a financial adjustment package and collective bargaining powers under the then Trade Practices Act. Collective bargaining powers were introduced to help dairy farmers to legally form collective groups of farmers to negotiate with milk processors. This measure was about seeking to help moderate the imbalance in market power and to help farmers derive a fairer outcome in a deregulated market. Because of the current tactics of the major supermarkets the provision of collective bargaining for groups of dairy farmers has now been rendered ineffective. The Federal Government had agreed to support dairy farmers but clearly the agreement has failed. We would like to see the Federal Government act promptly to rectify this failure and to honour the original agreement. A key to collective bargaining is to further balance the excessive market power of the major retailers by allowing farmers to collectively boycott.

With the initiation of the of the 'milk price war' by Coles, the QDO and ADF have raised a number of issues with the Federal Government and the ACCC and that the tactics being employed by supermarkets are potentially in breach of the C&C Act, including;

- predatory conduct providing their store brands with an anti-competitive advantage over processor proprietary brands and small independent retailers,
- instances of false and misleading advertising,
- failure of the collective bargaining provisions,
- medium to longer term implications for the primary producers, the supply chain and consumer choice and price.

One of the core issues is the fact that supermarkets set the retail price of both processor proprietary and store brands on the supermarket shelf, which is in affect the market place of choice for consumers standing in front of the supermarket fridge. The supermarket has then discounted their store brand, by as much as 33 percent, to an unsustainable level of $1 per litre, in affect using fresh milk as a sacrificial discount marketing agent, to attract shoppers to grow overall grocery sales, but also to increase the supermarket's store brand market share and power.

By implementing this discounting the supermarket has created a huge difference in price between the two brand categories, which now equates to more than $1.12 per litre on average, which obviously provides the supermarket store brand with an unfair advantage on price in the eyes of consumers.

In addition to this, the use of 'national cost averaging' by major supermarkets places an even greater price difference between the two brand categories in regional areas. In many regions the price of $1 per litre at retail would be well below the costs of goods sold at the point of retail purchase by consumers.

And then there are a wide range of other tactics used by supermarkets to give their store brands advantages over processor proprietary brands including, but not limited to;

- manipulation of shelf space facing to give store brands much more exposure than that given to proprietary brands;

- selective replenishment of shelves to give the impression “ processor branded” products have sold out;
- brand mimicking where the supermarket store brand label is specifically designed to look very similar to the main stream processor owned proprietary brand labels;
- negotiating outside preset tender specifications.

The QDO believes these tactics are all predatory to varying degrees and need to be outlawed by the Federal Government.

The major supermarkets are no longer just retailers of groceries, they are brand owners as well and as such the test of the C&C Act should equally be applied to products on the supermarket shelf as it is to one major supermarket competing against another.

The QDO and ADF and other industry groups have been collectively working on proposed resolutions to the current problem. The QDO, ADF and the National Farmers Federation (NFF) have a firm policy position to have the Federal Government implement a Mandatory Code of Conduct.

The QDO and ADF have gone to considerable time and expense in drafting a Mandatory Code of Conduct in legislation and regulation to cover the whole supply chain from farm to the retail checkout. The Code is targeted at creating a fairer and more transparent trading environment and is to be headed by an ombudsman with the power to act and address unfair and unconscionable conduct.

This Code has been presented to the Federal Government and yet the Federal Government at the current time has only publically stated that it is considering the Voluntary Code of Conduct proposed by the two major supermarkets. The consideration of this Voluntary Code of Conduct is taking an extended period of time.

Our frustration is that as time passes more Queensland farmers are being unnecessarily forced out of our industry and others are under undue severe financial pressure.

The proposed Voluntary Code has some major fundamental flaws including;

- there is no independent Adjudicator or Ombudsman with the power to obtain information, documents and evidence,
- there are no financial or other penalties,
- it does not stop the ability for supermarkets to take advantage of their market power for predatory behavior that negatively affects suppliers, competition and consumer choice,
- does not stop supermarkets from undertaking unsubstantiated below the cost of goods sold at discriminatory pricing between store and proprietary brands that advantage store brands,
- does not effectively cover the whole supply chain or provide for third party complaints on behalf of others to avoid the risk of retribution on suppliers.

All of these issues are specifically addressed in the Mandatory Code of Conduct we have drafted.

Our dairy farmers should not be allowed to continue to suffer the effects of both natural disasters and the man-made disaster of the supermarket ‘milk price war’.

As such we believe the Australian Government should implement a Mandatory Code of Conduct as a matter of urgency to address the immediate problems, while work is carried out on reviewing and implementing improvements to the C&C Act or alternatively amend section 46 of the C&C Act to outlaw predatory conduct while the proposed Code is further considered by Government and the C&C Act is fully reviewed.

In addition in the current environment Collective Bargaining provisions are failing and as such the QDO wants Collective Bargaining authorisation for dairy farmers to be strengthened to allow for larger farmer groups to be formed and the provision to boycott supply.

We believe the Federal Government must take direct action to correct the market failure in the domestic milk market and limit the market dominance of the large supermarkets so as to restore a working market and sustainable returns to dairy farming families.

How can the agriculture sector improve its competitiveness relative to other sectors in the economy?

- The agricultural sector would have the capacity to improve competitiveness through the investment in new technology and techniques if there is sustainable profitability to support that investment risk.
- In this 'catch 22' environment investment into R,D & E is critically important to assist farmers to adopt change to make productivity gains whilst also being able manage the investment risk.
- The agricultural sector needs to investigate ways to capture more of the value chain returns to provide a better return to the production end of the value chain. The New Zealand dairy industry again provides a good working example in this arena.

Which examples of overseas approaches to improving agricultural competitiveness have relevance for Australia?

- See above example reference

5. Enhancing agriculture's contribution to regional communities

What impact does the growth of populations in regional centres and the decline in more rural or remote townships have on farming businesses and the agriculture sector?

- Impacts will be both social and economic.
- Social impact risks will relate to further isolation of smaller regional populations of Australian's and this further isolation will require more adaptation of service delivery in areas such as health, education and law enforcement.
- Further isolation will require more adaptation for the provision of workers and specialists skills and essential business services.
- These adaptations will no doubt rely on faster and more reliable electronic communication platforms and transport including for many regions air services.

How do we attract the next generation of farmers?

- The ability to derive a competitive reliable return on invested human and monetary capital will ultimately determine the attractiveness of dairy farming to the next generation of potential farmers.

- The Government could invest more resources into support industry training programs and Young Farmer networks which are targeted at helping young farmers and industry workers.
- Refer to previous comments in relation to share farming, enhancing 'first start' programs and succession programs.

Improving the competitiveness of inputs to the supply chain

How can land, water and other farm inputs be more effectively deployed to better drive agriculture sector productivity, while maintaining or enhancing the natural resource base?

- the current investment by the Australian and other levels of Government into R, D &E is critical for furthering advances in sustainable agricultural practices. These gains in this field could be boosted with additional R, D &E investment by Government and industry.
- The dairy industry has invested, with Government support, a great deal into sustainable farm practices. In Queensland the dairy industries NRM program has led the industries national NRM approach in a number of areas. Major gains have been achieved through the formation of local farmer groups to assess and prioritise NRM actions for their individual farmers and as a collective regional group. With technical support and financial incentives these groups have achieved significant advances in the adoption of improved farming practices that derive both NRM and productivity outcomes. The most recent module of the program, Soil and Nutrient Planning Service, is making major inroads in helping farms to improve nutrient / fertiliser use efficiency, improving crop and pasture yields and quality whilst also reducing risks to the environment.
- The QDO also, with funding support from Government, has utilised a combination of independent advisory services, skills development and financial incentives through the Dairy Water for Profit program to help farmers to adopt new technology and techniques to make significant energy and water efficiency gains and which have derived greater profitability for farming enterprises.
- The above programs provide stand out examples of how the Australian Government make further gains in sustainable agriculture by investing more resources into expanding these programs.
- In addition the QDO Dairy Water for Profit program provides a good program example which could be applied to the MDB region to help irrigators achieve additional water and energy use efficiency and productivity gains which would make their enterprises more profitable and resilient. These benefits would also have flow on socio economic benefits for the regional communities throughout the MDB. This approach would assist the current Australian Government's strategy to assist farmers and communities through the MDB adjust to a lower irrigation allocation environment.

What skills including specialised skills and training, will be required in the future and how can these be delivered and uptake encouraged?

- If profitability can be restored to the Queensland dairy industry and investment can again be sustained to regrow production to meet the Queensland domestic market needs then dairy farmers will require more, higher skilled employees. The next decade with population growth the Queensland dairy industry will need to produce more than 20 percent more milk to meet the demand and with the current downward trend in farm numbers in ten years' time the remaining famers would need to produce double the amount of milk. This will create a number of significant challenges in what is a relatively short time period. With much larger dairying operations the requirement for highly skilled staff will be significantly higher as dairy farm will be larger with much more complex and technically sophisticated operations. With these types of operations the management skills of owners and employed managers will need to be much greater in the areas of business, people, herd, risk and technology management.

How can we attract workers to agriculture – particularly in remote areas?

- Profitability and the ability for farmers to pay competitive wages is the first and most critical factor to attracting workers and promote career paths within agriculture.
- To be successful now and into the future our dairy industry needs to be able to compete for and attract skilled people to work in our industry. Even with a number of industry initiatives targeted at attracting and retaining people within our industry there still exists a shortage of willing employees.
- Government support to create industry specific traineeships and scholarships could assist in attracting new employees to the dairy industry.
- Additional tax incentives for remote area work could assist attracting additional workers to remote regions.
- Incentives to assist with transporting people into regions even on a seasonal work basis could assist attracting additional workers to remote regions.
- In relation to the current Pastoral Award the industry would like to see;
  - the minimum 3-hour engagement requirement removed or made more flexible to better suit the unique workforce requirements of dairy farms, and
  - that “milking” be included within the ‘essential services’ criteria of the Pastoral Award relating to penalty rate classifications, similar to “feeding and watering stock” to recognise that milking is an essential part of animal care.

How can we promote career pathways for the agriculture sector, including models to enable younger farm workers to gain broader industry experience?

- Refer to comment in 1st point above
- The Government could look at providing additional resources and ensure better linkage and alignment between Federal, State and industry training programs.
- The Government could provide support to create industry specific traineeships and scholarships to assist in attracting new employees to the dairy industry with targeted skills development and career path objectives.
- the Government could provide additional support to initiatives such as the Young Dairy Network, which has been established to specifically support young farmers and people within the dairy industry.

How can rural industries and governments better identify, prioritise and fund research, development and extension?

- the current investment by the Australian and other levels of Government into research and development is critical for maintaining the industries competitiveness and productivity growth and thereby supporting investment and job creation in the industry. Further investment by Government in partnership with industry would help boost the investment and job creation delivered by that research and development.

- R&D outcomes need to be delivered to farmers with practical extension, skills development and adoption support programs. Unfortunately over recent years Government have reduced their investment in extension services. With this environment extension requirements need to be imbedded commitments within R&D project proposal.
- The current State and Federal R&D Framework needs to be reviewed as over recent years State's with responsibilities to lead R&D nationally for certain industries have reduced their funding commitments to that R&D, thereby exposing industries in other States to those cut backs. The QDO sees that the Australian Government needs to take a lead role is resolving this deteriorating situation.
- The current dairy RDC structure with direct linkages to peak industry representative bodies provide a sound means of identifying and testing R, D & E priorities, providing that the required governance, transparency and accountability to Government and farmers is maintained.
- In terms of gaining funding efficiencies in R, D & E increasing government delivery is not cost effective due to relatively high overhead cost structures compared to the private sector. In many examples there now stands a sound case for Government investing into industry driven and delivered R, D & E and not using Government funds to deliver services through Government agencies.

What irrigation, transport, storage and distribution infrastructure are required to support the food and fibre production systems of the future and how should this be funded?

- New water storage and management infrastructure needs to be developed to support the growth of agricultural production and productivity to service the growing international demand for food and fibre and also to further the development of rural and regional communities.
- To establish modern dairies to produce reliable high quality supplies of milk and to be able to effectively manage increasing climate variability and feed price fluctuations and other associated risks, irrigation is fundamentally critical.
- The Australian Government could investigate new investment models that can attract private sector capital into developing infrastructure to underpin agricultural growth, for example assessing incentives that could attract investment from the superannuation investment fund sector. For example this could involve options of private sector investment developing higher security and value water in a catchment which then allows notional exchanges with existing storages to provide additional medium to low security water for irrigation and livestock.
- Opportunities could also exist for agriculture to better utilise water which is drawn from CSG developments to value add the water to grow crops and fodder.
- The Australian Government could provide funding support to industry initiatives such as the Dairy Water for Profit program run by the QDO which has helped farmers to achieved major efficiency gains in both water and energy use over the last decade through skills development initiatives, combined with independent professional advice and financial incentives to support the adoption of new technology.

6. Reducing ineffective regulations

The QDO see ineffective and costly regulations undermining the competitive viability of dairy farming operations.

How well do regulations affecting the industry meet their policy objectives?

- There are a number of regulations which could be refined and cost impacts reduced to dairy farmers in particular relating to food safety, OH&S and environmental standards.
- There also exists duplication, cross over and conflict of regulatory requirements across second and third tier levels of Government which have added costs and frustration to farmers having to deal with different agency requirements.
- In some cases regulatory changes have led to conflict with Government policy in other areas leading to sub-optimal outcomes and inefficient resource use.

What opportunities are there to reduce ineffective or inefficient regulation?

- With the inherent high cost structures of Government there may be opportunities for self-regulatory or co-regulatory approaches which could improve efficiency, reduce costs and deliver better outcomes.
- All proposed regulations should be subject to a ‘common sense’ test by suitably qualified independent expertise.

Which regulations are disproportionate to the risks they are supposed to address?

- Some food safety regulations could be reduced at farm level and effectively covered at the processing level, which would reduce costs for farmers.
- Some environmental regulations relating to dairy design and or change of material use are not based on dairy specific science and could be reduced or simplified and thus reducing costs to farmers.
- Workplace Health & Safety regulations could be refined to reduce costs to farmers without compromising safety standards.
- Refer to previous comments relating to the Pastoral Award.
- Cross over and duplication of regulations between 2^{nd} and 3^{rd} tiers of government could be removed reducing regulatory burden and costs to farmers.
- In relation to agvet chemical regulations the QDO supports the removal of the requirement for re-approval and re-registrations, where these products have a history of safe use. The reforms will reduce red tape and costs, improve efficiency and avoid the loss of established treatments.

How do we coordinate across governments to reduce regulations whose costs exceed their benefits?

- Establish a taskforce, with both Government and private sector skills, to review all three tiers of Government to identify high priority regulation reduction targets and develop ways to reduce and streamline these regulations to provide better outcomes for industry, the economy and community.

7. Enhancing agricultural exports

How can industries and government respond to the key challenges and opportunities to increase or enhance exports?

For the Australian dairy industry to be successful in the international market environment and to harness new export growth opportunities it must be competitive and offer a product range and reputation of first choice.

To capitalise on growing demand, in particular in the Asian region, work needs to be undertaken in the following areas;

- Increasing per unit profitability needs to be a central goal as it will drive new investment, innovation, efficiencies, scale, competitiveness and ultimately economic growth.
- Ensuring Free Trade Agreements provide real opportunities for Australian agricultural products to gain access to markets in a timely, profitable and competitive manner. The upcoming FTA negotiations with China will be critical for the future of the Australian dairy industry and the benefits of a truly effective FTA can been seen through the trade results the New Zealand dairy industry has gained through their FTA with China.
- As well as seeking to open new market opportunities we need to be vigilant in protecting existing market relationships to ensure we maintain a competitive status and market access.
- Focus needs also to be maintained on seeking outcomes in the reduction of non-tariff trade barriers such as technical and protocol barriers to trade.
- The network of Australian Government trade officers and agricultural counsellors in key markets needs to be maintained and enhanced with new target markets. The local presence and knowledge is critical in developing new and protecting exiting Australian agricultural export markets and also in assessing Australian importation risks.
- Focus should also not be lost on the ability of Australian agriculture to compete with imported products. In this space more effort is required to ensure imported products are not gaining unfair advantages over Australian products, to which labelling and product dumping are examples.
- Government to work with industry to support joint ventures which can lead to opening market access over time. New Zealand provides a range of good examples in this arena.
- Provide innovation investment incentives that enable specific export market needs to be met and that create new export opportunities.

How can the government take best advantage of multilateral and bilateral trade negotiations (including through the World Trade Organization and through free trade agreements (FTAs)) to advance the interests of the sector?

- Enhancing the investment in Government / industry trade development work and enhancing the Australian Government trade network internationally (linking Federal and State trade development resources more closely) to target the development and protection of Australian agricultural export markets.
- Government and industry collectively working in partnership to investigate additional agricultural trade development opportunities which can be included in international support and bilateral trade agreements.

How can engagement between industry and government on market access priorities for Australian agricultural products be improved, including to inform negotiations on FTAs?

- Establish dedicated industry / government task groups with the required skill sets and experience to drive work for identifying and targeting market access priorities and FTA outcomes.

What changes could be made to biosecurity arrangements, both in Australia and in other countries that would enhance global trade in agricultural products?

- Future opportunities for agricultural growth in Australia will be directly linked to maintaining effective biosecurity arrangements. Maintaining a relative 'clean' production environment provides Australian with marketing advantages, while also avoiding potential higher operational costs and lower productivity. In the longer term this will also directly link to food security.
- Maintaining a relative 'clean' production environment will also become more critically important in the future as some countries look to use more non-tariff technical means to create trade barriers.
- Maintaining a relative 'clean' production environment also directly links to Food Safety to which Australia has a sound reputation which needs to be protected and where required defended. This 'safe food' reputation provides direct export markets benefits which Australian agriculture in partnership with the Australian Government need to promote and exploit further.
- The QDO supports Government taking a leadership role for the nation's biosecurity system. The QDO would like to see a stronger national framework pursued to forge stronger linkages and resource commitment across Commonwealth and State jurisdictions together with stronger linkages to industry structures. The national biosecurity chain is only as strong as the weakest link.
- The QDO supports a peer reviewed scientific risk based approach to biosecurity, that there needs to be a seamless approach covering offshore risks, at border and within Australia, harnessing modern technology and approaches to deliver the most effective system possible in a working partnership between Government and industry.

How do we provide the appropriate biosecurity controls at minimum cost?

- The cost structures carried by Government agencies do not provide the most cost effective approach for delivering programs such as biosecurity. As such an investigation into opportunities for more biosecurity functions to be delivered by industry or the private sector with the use of new technology may derive additional costs efficiencies and or higher levels of biosecurity efficacy.

8. Assessing the effectiveness of incentives for investment and job creation

How well is the current set of government programmes and incentives directed at the agriculture sector meeting their objectives, in terms of both effectiveness and efficiency?

- the current investment by the Australian Government into research and development is critical for maintaining the industries competitiveness and productivity growth and thereby supporting investment and job creation in the industry. Further investment by Government in partnership with industry would help boost the investment and job creation delivered by that research and development.

- There are many areas whereby the Australian and State Governments could align programs to deliver better results.

Are government visa arrangements and programmes like relocation assistance, the Seasonal Worker Programme and Harvest Labour Services effective at channelling workers into the agriculture sector and what other approaches should be considered?

- To be successful now and into the future our dairy industry needs to be able to compete for and attract people to work in our industry. Even with a number of industry initiatives targeted at attracting and retaining people within our industry there still exists a shortage of willing employees. To fill this gap targeted immigration of skilled labour needs to be part of the solution.
- The current worker immigration system needs to be easier for farmers to access.
- The provision of additional support staff to help farmers access workers through the scheme would be beneficial.
- The streamlining and fast tracking of the application and approval process for 457 visas for skilled workers would assist farmers.
- Provide a simple means to extend the duration of 417 and 462 visas from six to 12 months would be beneficial to farmers.
- Include dairy on the list of eligible industries for the Seasonal Worker Scheme and on Schedule 1 of the Skilled Occupation List, and revise Australian and New Zealand Standard Classification of Occupations (ANZSCO) skills descriptions for dairy farmers to align with industry skills descriptions.

What have other countries done to inspire agricultural investment?

- Government investing more resources to gain good free trade agreements to provide greater opportunity for agricultural exports. Example being New Zealand's FTA with China and the major export and economic benefits which have been provided through this FTA to the New Zealand dairy industry.
- Government supporting the development of farmer owed co-operatives as opposed to foreign owned entities to facilitate greater wealth retention within the economy. Example being the New Zealand government providing direct legislative support to allow the formation of a major dairy co-operative which has led to significant economic gains for the whole New Zealand economy.

What has Australia done in the past that has had best effect?

- Continuing to invest in R, D &E in partnership with industry.
- Supporting industry initiatives by investing in them instead of seeking to deliver the programs through Government agencies which inherently have higher cost structures and less efficiency in delivery and outcomes.
- Government investment in effective irrigation schemes as a means of providing the catalyst for regional development, for example the building of Fairburn dam in Central Queensland.
- Government investment in key infrastructure to provide for industry and regional development including road and rail and telecommunication.