



Department of
Agriculture and Fisheries

Reference: CTS 24245/16

11 OCT 2016

Mr Mark Fitt
Committee Secretary
Senate Economics References Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Mr Fitt

I refer to your email of 21 September 2016 concerning the inquiry into the Australian dairy industry.

The Queensland Minister for Agriculture and Fisheries requested that the Department of Agriculture and Fisheries contribute to the inquiry.

I am aware that in April 2016, Murray Goulburn reduced the milk price forecast for the 2015-16 season from \$5.60 per kg milk solids (per kg MS) to between \$4.75 and \$5.00 per kg MS. Murray Goulburn also introduced a milk supply support package with its funding cost to be recovered from supplier's milk payments for up to three years from the 2017 to 2019 financial years. It is also understood that the major processors in the southern milk region announced opening season milk prices for the 2016-17 season that are significantly lower than prices paid to their milk suppliers during the previous season.

Murray Goulburn and Fonterra Australia do not process Queensland milk. The three major processors of Queensland milk are Lion Dairy and Drinks, Norco Co-operative Limited and Parmalat. There are also a number of smaller milk processors in Queensland.

Lion Dairy and Drinks and Norco Co-operative Limited have announced they will maintain current farm gate milk prices paid to their suppliers in Queensland for the 2016-17 season. Parmalat is still to re-negotiate its milk supply contracts towards the end of 2016.

The Queensland and north coast of New South Wales dairy production regions are now operated as a single pool of milk that is subject to the supply and demand pressures of the national milk market as processors trade milk across the eastern seaboard to meet their own supply and processing requirements.

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In the medium term there is potential for the farm gate milk price in Queensland to be affected, if milk produced in southern states is shifted into the Queensland market at lower prices.

The Queensland Government has no role in the marketing of milk or in the setting of farm gate price. These roles are purely commercial activities, and are the responsibility of milk suppliers and milk processors. There are no existing legislative provisions that would enable the Queensland Government to intervene in milk marketing. Constitutionally, it is not possible for Queensland to limit interstate trade in this regard.

Since de-regulation of the national dairy industry initiated by the Howard Government in 2000, the Queensland dairy industry has been undergoing continual structural change. There were about 1 550 dairy farms in Queensland prior to de-regulation. Currently, there are about 430 dairy producers in Queensland. In 2014-15, Queensland's dairy farmers produced 411 million litres of milk with a farm gate value of production of \$236 million. In 2015-16, 405 million litres of milk was produced in Queensland. As the number of dairy farmers in Queensland has decreased since de-regulation, there has been a corresponding decline in annual milk supply.

The Queensland dairy industry predominantly supplies the fresh milk market. Producing milk to meet the consistent daily demand throughout the whole year is difficult, given the normal seasonal variation in the production cycle. The requirement of processors, for farmers to have flat production systems, for consistent daily milk supply to match fresh milk market profiles, has added to farm cost structures and risks, resulting in higher costs of production. On average, farm gate milk prices are higher in Queensland than in the southern states to reflect the increased costs of production.

The Queensland Department of Agriculture and Fisheries (DAF) research, development and extension (RD&E) is focused on improving the profitability of the northern dairy industry. Under the National RD&E Strategy for dairy, Queensland has prime responsibility for RD&E, focused on the tropical and sub-tropical production areas of Queensland and northern New South Wales. The Gatton Dairy Research Facility located at the Gatton Campus of the University of Queensland, jointly funded by DAF and the University of Queensland, is regarded by Dairy Australia as a key national research facility and is one of four remaining dairy research facilities in Australia.

Dairy Australia supports Queensland's RD&E under a major project focused on improving the efficiency of the feed base. As the feed base is the largest operating cost of a dairy, a developmental trial at the Gatton dairy facility is evaluating and demonstrating more profitable production systems for dairy producers.

DAF is also working on other projects supporting improved water use efficiency and industry business benchmarking. The Dairy and Fodder Water for Profit program is aimed at assisting dairy farmers and commercial fodder producers to improve water and energy use and nutrient management practices. This program is delivered by the Queensland Dairyfarmers' Organisation in conjunction with DAF. Support funding is provided through the Queensland Department of Natural Resources and Mines.

The Queensland Dairy Accounting Scheme is a service DAF provides that offers farm management accounting and analysis of various dairy production systems in Queensland. The analysis provides physical and financial information to help dairy farmers make better informed business decisions.

Queensland Government officers are available to provide a verbal briefing to your inquiry.

Yours sincerely

Dr Elizabeth Woods
Director-General
Department of Agriculture and Fisheries