

5 March 2021

Senator Glenn Sterle
Chair
Senate Standing Committees on Rural and Regional Affairs and Transport
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Chair,

Dairy Australia appreciates the opportunity to provide supplementary information to respond to comments made in relation to Dairy Australia operations and activities in the 2nd March hearing to the Senate in its inquiry on the performance of the Australian Dairy Industry.

The recently completed Independent Performance Review by Anwen Lovett Consulting is referred to in a number of our responses to the issues raised. This report presents the findings and recommendations of the four-yearly independent performance review which Dairy Australia is required to undertake under its Statutory Funding Contract (SFC) with the Commonwealth. The independent review considers Dairy Australia's performance during the period covered by the current SFC which is 2017- 2020.

This report has been tabled as part of this Senate inquiry and we believe provides strong endorsement of the way that Dairy Australia operates and the methods by which levy income and matching government contributions are governed and managed.

We remain available to the Committee should you have questions or require further information in the compilation of your final report.

Yours sincerely

David Nation
Managing Director
Dairy Australia

CC: The Hon David Littleproud MP, Minister for Agriculture, Drought and Emergency
Management
Andrew Metcalfe, Secretary Department of Agriculture, Water and the Environment

Topic	Points from Hearing	DA Response
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Farm Numbers

For example, in New South Wales we now have about 500 farms, down from over 3,000 in 2006. think the figure was from 2006. We had 3,000, and I think we're down to around 500 at the present time.

New South Wales has continued its volume of milk production. It's probably as stable as any state in Australia.

Dairy Australia estimates that the number of dairy farms in NSW was 924 in 2006/07 and this number has reduced to 534 in 2019/20. Milk production during the same period has fallen by 5.4%.

Table 2 Number of registered dairy farms

	NSW	Vic	Qld	SA	WA	Tas	Aust
2006/07	924	5,346	734	354	222	475	8,055
2007/08	886	5,422	664	332	186	463	7,953
2008/09	860	5,462	648	320	183	451	7,924
2009/10	820	5,159	621	306	165	440	7,511
2010/11	807	4,588	595	286	170	437	6,883
2011/12	778	4,556	555	275	162	444	6,770
2012/13	731	4,284	518	268	160	437	6,398
2013/14	710	4,268	475	264	156	435	6,308
2014/15	704	4,127	448	252	157	440	6,128
2015/16	690	4,141	421	246	151	430	6,079
2016/17	661	3,889	406	240	148	427	5,771
2017/18	626	3,881	393	228	159	412	5,699
2018/19	575	3,516	356	212	150	404	5,213
2019/20	534	3,462	327	206	135	391	5,055

Source: State Milk Authorities and Dairy Australia

Pathways – Cows Create Careers

One that I understand has recently been withdrawn was called Cows Create Careers. You talked earlier about what we do with young people. Let's engage with them at the secondary school level. Let's find mentors for those that are on the farm at the current time.

In 2021 there will be changes to Cows Create Careers. Dairy Australia is stepping back from investing in the Cows Create Careers school activity. We expect that Cows Create Careers will continue with their existing leaders, with some investment from Dairy Australia and with ongoing community support.

Dairy Australia has a long history of promoting careers in dairy to school aged children through a range of initiatives including more closely connecting and leveraging schools and regional led activities. Initiatives include:

- Our Discover Dairy education platform include careers education curriculum based resources and activities.
- Strong branding and positioning of careers awareness under the 'Discover Dairy' brand e.g. Discover Dairy Careers.
- Regional careers programs that provide resources and tools to assist in the delivery of regional initiatives.
- Broader business communication campaigns that drive awareness of careers in dairy.
- Virtual incursions and other higher reach delivery mechanisms to promote careers.
- Farmer ambassadors that champion careers awareness in schools.

In addition to careers, Dairy Australia has a well-established 'health and nutrition' and 'farm to plate' curriculum linked resources and programs targeting primary schools. There are plans to extend this education into secondary schools.

Accuracy of Data

However, the farms selected do not fully represent the average dairy farm population

Dairy Australia undertakes the Dairy Farm Monitor Project (DFMP) each year that provides an analysis of 250 farms

and may represent above average farms as the participant farms were not chosen to be statistically representative.

This statement goes to the very core of the accuracy of statistical data collected by DA. How can they claim to represent all the industry when they themselves admit that their data is not chosen not to be statistically representative?

across each of the eight dairying regions across Australia. This data, provided on a voluntary basis by dairy farmers, informs decision making and prioritisation by key stakeholders across the industry including Dairy Australia itself, government bodies and other stakeholders in the industry.

The data collected through the DFMP provides the high quality data that allows for comparison of farms, which can be used to identify areas for improvement. The DFMP remains an invaluable service for industry as a management tool to inform the key drivers/levers of farm profitability and performance over an extended time period. These insights are not only extensively used by farmers but also then help to shape the programs and services that are delivered by DA, government, consultants and other services providers.

The DFMP is not, nor had it been promoted as being, a representative sample of Australian dairy farmers but it does still give a good indicator about the trends in farm profitability across the country.

In addition to the DFMP data, Dairy Australia provides an extensive variety of highly valued data, analysis and insight services to a wide range of stakeholders for the betterment of the industry.

Membership

It's been put to you that all dairy farmers have a right to vote. This is incorrect, as only those who have applied are eligible to vote and can only vote for those who have been vetted by the group B members. The outcome is predetermined. The dairy farmers just formalise the process.

Dairy Australia encourages all levy payers to become members of Dairy Australia. Becoming a member is as easy as making a phone call or responding to an email or social media post. Dairy Australia actively communicates every year to farmers about how easy and important it is to become a member.

Legally under the Corporations Act, DA cannot require any farmer to be a member of an organisation without their consent. This process is consistent across RDCs and member organisations. Refer examples:

- [SRA](#)
- [MLA](#)

Levy Review Changes

The legislation that Barnaby Joyce introduced basically took away dairy farmers' rights to vote on the levy for Dairy Australia.

Prior to 2016, the dairy industry was one of only two rural industries, (the other being wool), legislatively required to conduct polls on levy rates on a periodic basis.

In late 2015, all dairy levy payers were asked to vote in a poll based on the recommendations of the Dairy Levy Poll Process Review undertaken earlier that year. Levy payers supported the removal of the compulsory requirement for Dairy Australia to convene a levy poll at least every five years. Instead, a Levy Poll Advisory Committee (LPAC), comprising an independent Chair and majority of representative levy payers would be convened to determine if a change to the levy should be recommended.

In early 2016, legislation passed the Federal Parliament to amend Section 9 of the Dairy Produce Act 1986 (the Act) and effect this change. The new legislation also provides an option for Group A members to petition for a change if they disagree with the decision not to conduct a levy poll.

As per the explanatory note in the legislative instrument: “The dairy industry expressed concern about the regulatory and financial burden associated with holding a poll every five years, which is required, regardless of whether a change in levy rate is to be sought.” The new legislative process is seen to be a much more effective use of levy payer funds.

Employment Costs The dairy farmer loses approximately 50 per cent of their levy to the employment costs of Dairy Australia before a dollar is allocated to R&D!

In FY20, total DA employee benefits totalled \$16,016,000. This represented 28.4% of total DA revenue. Many employees are actively involved in R&D, especially activities related to development and extension of research, 80% of revenue is allocated to R&D related expenditure.

2.1. Summary of revenue that funds the delivery of services

	Note	2020 \$'000
Revenue		
Dairy service levy	2.2	31,643
Government matching payments	2.3	21,857
External contributions	2.4	1,923
Interest revenue	2.5	261
Distributions from investments	2.6	231
Royalties	2.7	9
Other income	2.8	456
Total revenue		56,380

3.2. Employee benefits

3.2.1. Employee benefits in the statement of profit or loss and other comprehensive income

	2020 \$'000
Salaries and allowances	13,866
Superannuation	1,246
Long service leave	579
Termination benefits	222
Workers compensation costs	103
Total employee benefits expenses	16,016

Australian Dairy Plan and Structural Reform Finally, on the proposed dairy plan, recommending an inclusion of processors into the advocacy for dairy farmers is like putting a fox in charge of the henhouse. The reason is we have seen processors fail to pass on step-ups in a reasonable time when the economic circumstances are warranted.

The four industry partners – Australian Dairy Farmers (ADF), the Australian Dairy Products Federation (ADPF), Dairy Australia and the Gardiner Foundation, have worked collaboratively to develop the Australian Dairy Plan which identifies five key commitments to deliver increased industry profitability, confidence and unity. A key priority is the reform of industry organisations which aims to deliver greater leadership of the industry, including a stronger ability to advocate.

This process commenced with the appointment of the Joint Transition Team or JTT, comprised of representation from dairy farmers and processors) to explore reform options. Their recommended model was the creation of a single, whole of industry national dairy organisation supporting

industry services including policy, advocacy, research and development (R&D) and marketing.

While this model presented a solid foundation from which to build a new structure, there are several challenges subsequently identified through feedback and consultation. It was clear that further exploration, consultation and consideration around design of a new model was required, particularly in the areas of governance, advocacy and funding.

An Engagement and Design Team comprising Ernst & Young and former Meat & Livestock Australia Managing Director David Palmer – along with ADF, ADPF and Dairy Australia – are leading the consultation and design effort through a phased approach. The intention is for a new model to be determined in 2021 prior to an industry vote.

Profitability	Based on their own research and selected data, Dairy Australia can confirm that the percentage of profitable farms has fallen from 63 per cent in 2013-14 to 16 per cent in 2018-19.	<p>The fall from 63% to 16% quoted does not represent the number of profitable Australian dairy farms within the Dairy Farm Monitor sample as suggested. Instead it represents the percentage of farmers who have attained the \$1.50/kg MS EBIT target that has been identified through analysis under the Australian Dairy Plan process as a profitability level that would accommodate growth in the industry.</p> <p>This profitability target has been recommended in the current low/moderate interest rate environment as a level that will allow most farm businesses to pay interest and lease costs, reinvest back into the dairy business, reduce debt or pay a dividend.</p> <p>Therefore, this figure is instead a “sustainable profit”, accommodating potential growth of a business, rather than just looking at farmers who have made any profit. It should also be noted that this target has been designed to be a rolling average over a 5 year period to take into account the volatility in returns witnessed in the dairy industry (and indeed all of agriculture).</p>
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Milk production	DA claim that by 2025 they want milk production to be at least 9.6 billion litres.	<p>Dairy Australia has never stated that it wants milk production to be at least 9.6 billion litres by 2025.</p> <p>Under the Australian Dairy Plan, analysis was undertaken to inform and stimulate discussion about the scope for the Australian dairy industry to grow. Under the medium growth scenario within this analysis, milk production in 2024–25 (FY25) was forecast to be 9.6 billion litres.</p>
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Independent performance review	I note that the most recent independent performance review of DA has been submitted to this inquiry. This document is irrelevant to these proceedings, as the results of DA's performance over the last 20 years were established prior to its release. It is noted	<p>The independent review is a condition of Dairy Australia's funding agreement with the Commonwealth and is required to address how DA is:</p> <ol style="list-style-type: none">1. meeting its obligations under the funding agreement and Dairy Product Act2. implementing governance arrangements and practices for ensuring proper use and management of the Funds;
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in the document, however, with some form of excitement, that nearly 100 stakeholders participated through interviews. If the best indicator of future behaviour is past behaviour, it's safe to speculate that these 100 were chosen not to be statistically representative. I guarantee I can go out tomorrow and find 1,000 farmers who will tell you a different story, who don't have the time to put pen to paper or appear in front of a committee, as they need to stay home and try to make a profit, because they know that, due to this strategic representation, the only ones who can help them are themselves. Thank you.

3. meeting the planned outcomes and targets of its Strategic Plan;
4. delivering benefits to members, Levy Payers and the broader community;
5. consulting with levy payers and industry representative bodies

To ensure farmers had the best chance to contribute to the review, the consultation period for farmer contributions was extended (with Government approval) and an online survey was provided to allow farmers to contribute in their own time (reflecting their farming commitments). This survey was promoted extensively including during the 2020 Annual General Meeting.

Board Selection

Group B members control the selection of the directors to the board, and by extension control Dairy Australia. Group B members is made up of processors. The constitution supports this. The board selection committee charter supports this. Dairy Australia confirms in their submission that they also support it.

In line with ASX Corporate Governance Principles of governance, Dairy Australia has a Nominations Committee (recommendation 2.1).

The Board Selection Committee composition per the DA Constitution comprises:

- a director or other person appointed by the Board to chair the committee; and
- 4 other persons appointed by the Board. If there are 4 or fewer Group B members: (A) all the Group B members may, jointly, nominate up to 4 members of the Selection Committee.

The Group B members are Australian Dairy Farmers (ADF) and the Australian Dairy Products Federation (ADPF).

The current Board Selection Committee has one DA director (non-milk producer) plus 2 representatives from ADF and ADPF.

Independent Performance Review Comments:

The independent performance report is satisfied with the Board selection process:

“Board selection committee takes the responsibilities of the nominations committee. Five members and all directors are deemed independent. Charter of the committee sighted. Membership of committees specified in the annual report as well as the number of meetings attended” p.119.

**Board
Candidates**

Questions were raised as to how farmers are eligible for Board vacancies.

As noted by Senator McDonald, Rimfire Resources assists with the candidate selection process and there were 74 applications for the vacancy for a director with agribusiness, change management and innovation skills.

As outlined in the independent performance review (p.24) The Constitution sets out a rigorous process for the identification of Board director vacancies and the process by which candidates are nominated for selection as directors.

Milk and non-milk producer vacancies are advertised.

There are two paths to nomination:

- The first and most commonly used route involves a Selection Committee made up of a Dairy Australia Board appointed chair plus four Group B member nominations. The Dairy Australia Board is required to provide a brief to the Selection Committee outlining the target skills of the director nominees; this ensures that the total Board has the right skills mix and the four milk producer directors have the right producer skills.
- The second pathway within the Constitution allows anyone to nominate as a director candidate if they have the support of 100 Group A members as evidenced by signature.

Independent Performance Review Comments:

The independent performance review notes:

- The Group A “process does not mandate that nominees meet any skill set requirement, and in taking this path, potential directors miss the comprehensive board nomination process and the associated ‘fit and proper person’ tests and background checks. When nominations are received by this route, the Board is required to allocate a Board nominated director candidate to stand against the Group A nominated candidate at the AGM.” P.24

“The result of the 2020 elections (where the three Board nominated candidates were successful) poses no problems for a complete and satisfactory board skills matrix.”

**Farmer
Candidates
on the Board**

It was noted there were three milk producer farmers on the Board

DA’s Constitution requires that the Board must strive to ensure that the Board:

- a) as a whole has an appropriate balance of skills and experience, having regard to the nature of the business and affairs of the company; and
- b) has at least four directors with milk producer skills

There are currently four milk producers on the DA Board along with four other directors and the Managing Director.

The Funding Agreement (SFA) requires DA to have a skills-based board.

Independent Performance Review Comments:

The independent review noted “The reviewers consider these processes around ensuring the right mix of skills and

experience fully satisfy Dairy Australia's SFC requirements around board skills" p.20.

Independent project evaluations

There seems to be a number of independent reports done on Dairy Australia and some of the programs they've implemented. We have heard some reports were negative, but when you ask Dairy Australia, 'Can we see those reports?' the answer is no, because they determine them as being in-house reports, I think.

Dairy Australia conduct up to four ex-post project evaluations each year – the exact number depends on how many projects have completed or have reached significant milestones during the year

The evaluations are conducted either fully by independent economists or peer reviewed by them to ensure independence and accuracy.

An executive summary of these evaluations, which contains all key findings and recommendations, is published each year on the Dairy Australia website as part of Dairy Australia's Annual Performance Report.

<https://www.dairyaustralia.com.au/about/strategy-and-performance/performance-report>

Robotic Dairies

Dairy Australia run a number of programs promoting robotic dairies when they're not really fit for purpose in Australia. They keep saying it's a great thing, and you go on their website and you'll see advertising from DeLaval—it's advertising; they're obviously getting paid for it, which is a commercial transaction. So they're spending all this money, which is farmers' money, promoting robotic dairies. Why, when there's no real seen benefit? There have been a couple of stories of late from some saying how great they are, but the uptake by Australian dairy farmers is minimal at best. They cost millions of dollars, and one of the plants, as we know, resulted in contaminated milk that was released to the public.

They've spent in the last 12 months \$2 million still trying to encourage dairy farmers to go with robotic dairies. It was noted in the last independent report in 2016 that Dairy Australia needs to do more post-ante calculations and let

Automatic milking systems (AMS), or "milking robots", are a milking technology that allow cows to be safely and efficiently milked without human intervention in the milking process as seen in conventional milk harvesting. The AMS technology has passed through multiple generations in the past 28 years with resulting advances in efficiency, animal welfare and milk handling safety. There are approximately 38,000 individual AMS units worldwide with continued growth in uptake on commercial dairy farms being reported worldwide. Over 2.6 million cows are milked successfully each day with this technology.

The majority of research into the application and performance of AMS has been undertaken on commercial farms with animal confinement systems – that is, milking cows are housed during the lactation and have easy access to an individual AMS, their loafing areas and feeding areas. Very little research into the application of AMS in pasture-based production systems (as is common in many dairying regions of Australia) had been undertaken. Dairy Australia has focussed its investment on applications in pasture-based production systems over the past 15 years.

"Milking Edge" is a RD&E project, centred in NSW and a co-investment between NSW Department of Primary Industries, De Laval (a global milk harvesting original equipment manufacturer) and Dairy Australia. The DA farmer levy investment in this 4 year project totals \$1.128m. The rationale for this project, and the associated investment, was the need for extension of information on the application and performance of AMS within a pasture-based system. For farmers already operating AMS, the outputs from this project assist them in optimising AMS as an integral component of their individual farming system. Milking Edge has built a comprehensive suite of extension

the farmers know, and that's the biggest killer. You stumble on for years.

materials on AMS general use and specific application in pasture systems. This work is ongoing.

Currently, there are 40 farms operating AMS in Australia with a further 8 farms in the process of installing or commissioning AMS units.
