Queensland Dairyfarmers' Organisation

Queensland Dairyfarmers' Organisation Limited ABN: 90 090 629 066

Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600
Email: rrat.sen@aph.gov.au

9th November 2009

Dear Committee Secretary,

Re: Competition and Pricing in the Australian Dairy Industry

The Queensland Dairyfarmers' Organisation Ltd (QDO) welcomes the opportunity to submit the following comments to the Senate Standing Committee on Economics to assist with its inquiry into competition and pricing in the Australian dairy industry.

The QDO is the peak industry organisation representing the interests of dairy farmers in Queensland. The QDO is a member of the Australian Dairy Farmers and the Queensland Farmers Federation.

Background to the Dairy Industry

Australian Dairy Industry

There are around 7500 dairy farms in Australia and 1.8 million dairy cows producing 9.1 billion litres of milk annually. This makes the dairy industry Australia's third largest rural industry with a farm gate value of $3.5 billion, which has been significantly reduced in 2009/10 due to the decline in export prices for dairy commodities. The dairy industry is one of the largest value added rural industries with most milk produced in regional areas and generating $9.2 billion in ex-factory sales each year (Dairy Australia, 2008).

Approximately 45-50% of annual milk production is exported to a large number of different countries in a range of different dairy products. Due to the effects of several years of drought, national milk production has reduced below the peak reached in 2001/02, and there has been minimal growth in output over the past few years. With steadily rising demand from the domestic market, which offers more stability over time in pricing, the volume of exports has declined. The Australian market has offered good value and volume growth, although the recent economic downturn has also weakened consumer markets as households have economised on food spending limiting the gains in average unit selling prices across the dairy category.

The Australian dairy industry is unregulated and has no trade support mechanisms and has to compete in the world market in a trade environment which is often deemed to be the most distorted of any agricultural commodity, with many countries using export subsidies, tariffs and a range of other protectionist mechanisms which distort the international supply and demand functions, price and resource flows.

Many protectionist trade policies have heightened the impact of the Global Financial Crisis on international prices and trade of dairy commodities.

The Northern Dairy Industry

The northern dairy region incorporating Queensland and northern NSW supports approximately 820 dairy farms producing around 834 million litres of milk annually, (Australian Dairy Industry In Focus 2008, Dairy Australia). Within the region there are seven major processing plants operated by three companies and more than 50 minor processing factories (refer to Figure 1 for location of farms and processing factories). The northern dairy industry employs approximately 4600 people, incorporating 2700 on farm and the remainder in processing and distribution. On an annual basis, the northern dairy industry is valued ex-factory at approximately $1billion.

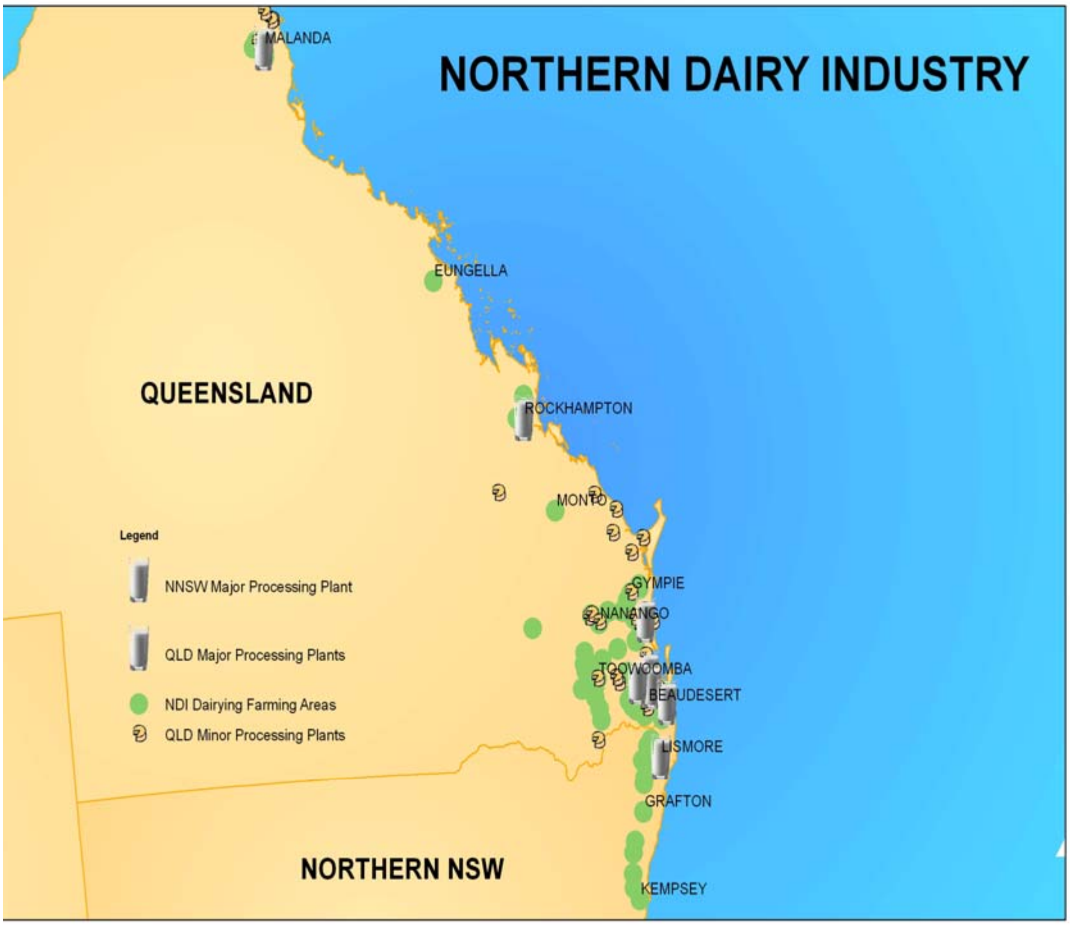


Figure 1: Map indicating the location of northern dairy industry farms and processing plants.

Healthy population growth in the coastal regions of Queensland and northern NSW is driving ongoing expansion in fresh milk and dairy product markets in retail and food service sectors. At the same time, increases in per capita consumption of fresh milk products and effective brand marketing of flavoured and functional milk products have also contributed to this increase (Freshlogic, 2008).

Fresh milk sales growth for Queensland has over several years been the fastest of the Australian states, with sales volumes in the year to June 2008 up 5.5% over the prior year, compared to a national volume increase of just 2.0% (Dairy Australia, 2008). In the past year, the economic downturn has influenced an easing in the demand growth in milk sales in the Queensland market as consumers tightened their spending on discretionary purchases. Sales growth in Queensland for the year to June 2009 slowed to 2.2% but nonetheless remained the highest in Australia.

Queensland dairy industry

The Queensland dairy industry is made up of approximately 610 dairy farms producing around 520 million litres of milk annually.

- The dairying regions of southern Queensland, including the Wide Bay Burnett, Darling Downs and South East Queensland regions combined have some 486 dairying enterprises. The majority of these farms supply one of three main processors including Parmalat, National Foods and Norco.

- Far North Queensland dairying region of the Atherton Tablelands is made up of 74 dairy farms supplying one processing plant at Malanda owned by National Foods. The region also has a few small niche market processing plants producing cheese and organic dairy products.

- The Central Queensland has approximately 50 dairy farms that supply the Parmalat owned processing plant at Rockhampton.

Prices paid to dairy farmers in Queensland have generally been higher than to producers in southern dairying regions due to the fact that the Queensland dairy farmers are supplying a fundamentally different market than their southern counterparts.

Producers in Queensland are paid to supply milk all year round to meet fresh daily drinking milk market demand and that to produce milk year round in northern subtropical production environments is a higher cost production system. The only alterative would be for processors to transport milk long distances to service Queensland markets which would be at a high cost. In addition, the southern dairy industry seasonally produces milk and would at times of the year not meet the volume or quality requirements of the northern industry for fresh daily product.

Industry economic analysis

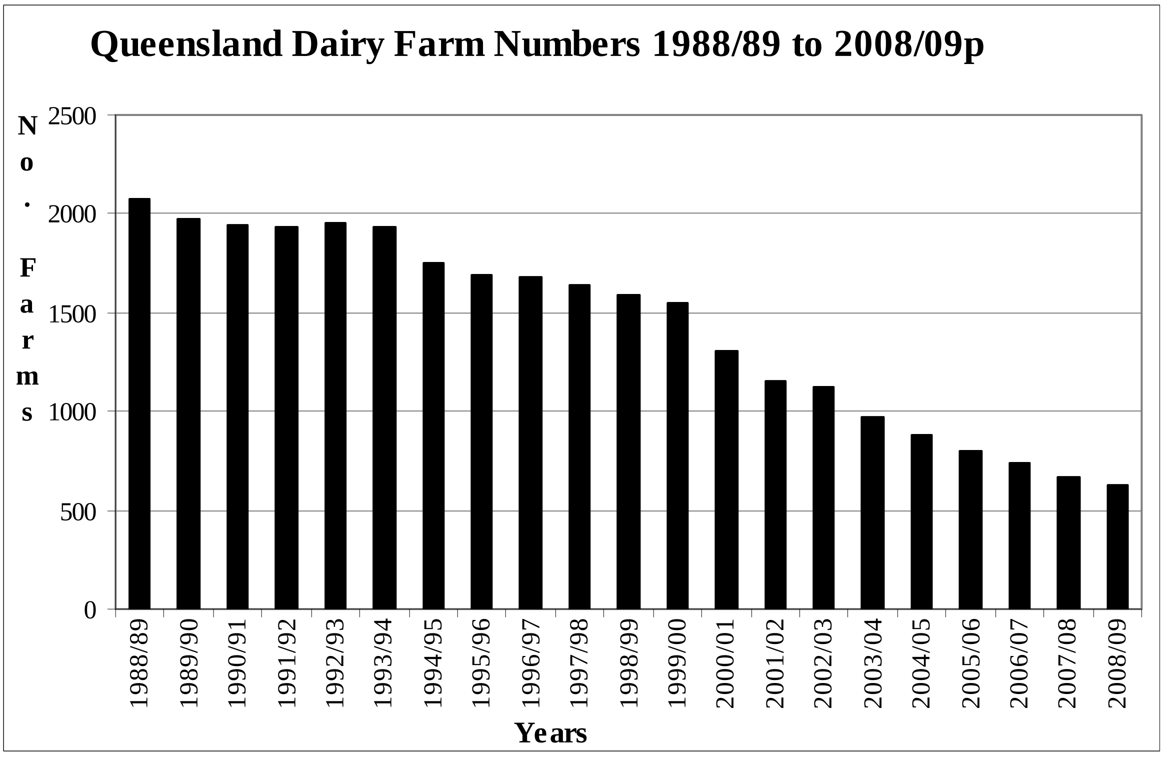
The dairy industry in recent years has been through a tough period due to severe climatic conditions and rising input costs without significant increases on milk return. 2008 however has seen a return to confidence in the industry with increases in milk price and expanding consumer demand. This confidence was reflected in the 2008 National Dairy Farmer Survey results with 80% of respondents in the northern dairy region responding to a national dairy farmer survey expressing a positive attitude. Along with this improved confidence attributed to higher milk prices, 54% of surveyed farms in the region indicated investment intentions across a variety of asset types including improving farm systems, machinery, dairy and feed infrastructure (Freshlogic, 2008). This sentiment however has declined in recent months due to the impact of the GFC on world dairy prices and signals from processors of reducing farm gate prices for domestic market supply.

The Queensland Dairy Accounting Scheme (QDAS) is an industry program developed and delivered by Queensland Primary Industries and Fisheries (QPI&F) to improve the understanding of business principles by providing farm management accounting information and analysis to northern dairy farmers and advisors. The results are based on the analysis of 89 dairy enterprises across Queensland.

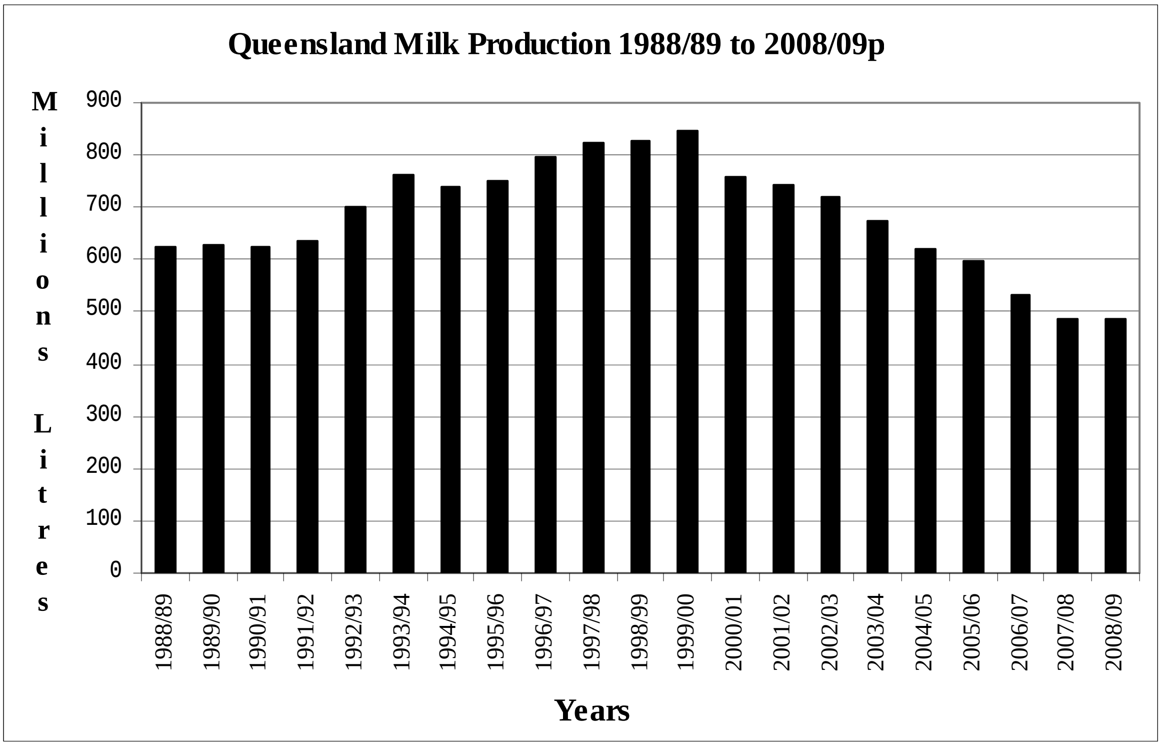
Major findings for 2007/08 indicate (QDPI&F, 2008):

- Average Return on Assets of 10.3%, (2006/07 = 1.1%, 2005/06 = 3%, 2004/05 = 3.3%),
- Average Return on Equity of 10.7%, (2006/07 = -0.3%, 2005/06 = 1.9%, 2004/05 = 2.3%),
- Farm equity remains strong at 83%, (2006/07 = 84%, 2005/06 = 84%, 2004/05 = 83%),
- Rise in milk price of 14cpl to 54cpl in Southern Queensland and an increase of 9.6cpl to 45.4cpl in North Queensland,
- Feed related costs increased by 5.5cpl to 30.2cpl and accounted for 59% of every dollar earned, (2006/07 = 24.7cpl, 2005/06 = 20.4cpl, 2004/05 = 19.8cpl),
- Total Variable Costs equated to 33.7cpl or 62.4% of every dollar earned, (2006/07 = 28.1cpl, 2005/06 = 23.9cpl, 2004/05 = 23.1cpl)

Farm Numbers and Milk Production for Queensland



(2008/09 figures are forecast estimates)



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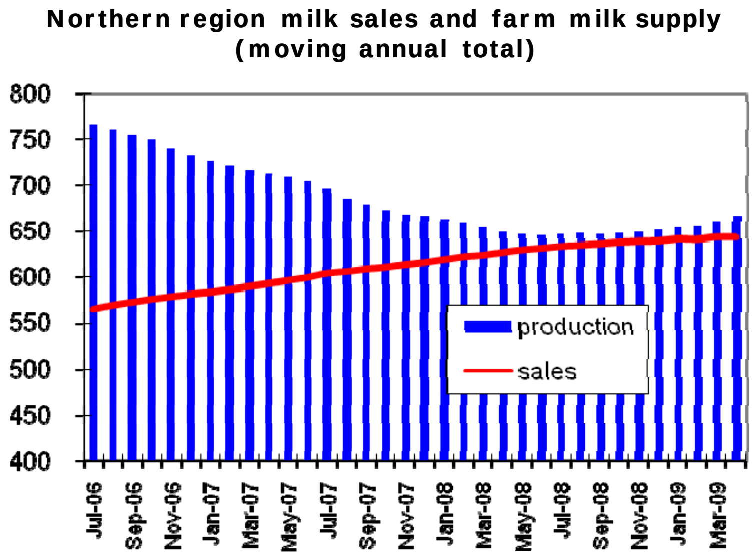
Regional Demand and Supply

Milk production in the northern region (Southern Qld and Northern NSW) steadily declined for about 8 years. This was due to prolonged drought, relatively low milk prices, irrigation water shortages, farm size constraints, rising input costs, and the incapacity of farm operators to cope with an increasing complex operating environment. The conditions and milk pricing signals exposed producers to volatility in returns, weakening confidence in returns from the regional supply chain.

Regional milk supply fell to levels barely sufficient to meet local fresh milk demand, affecting processors' ability to manage their supply chains and confidently meet customer requirements. Alternate milk supply options were also under stronger competitive threat due to the lack of growth in southern milk supplies and the strong export demand for dairy products at historically high export prices.



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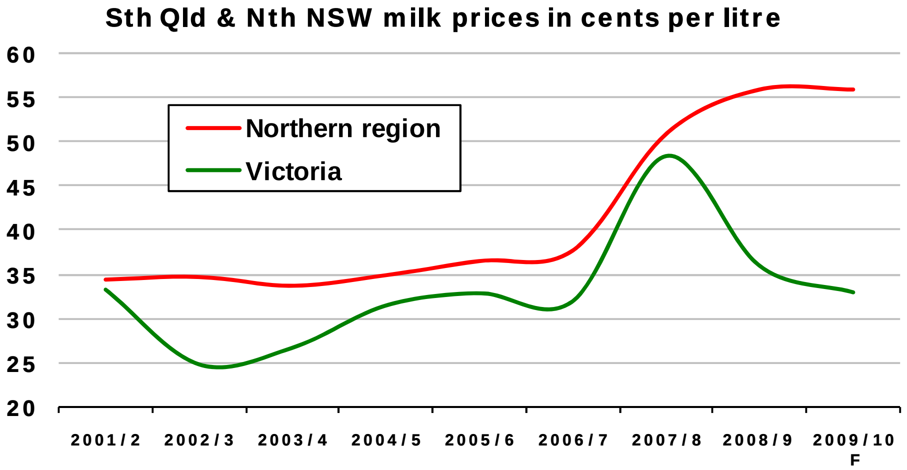
Due to a lack of economic milk throughput, processors closed plants that processed milk excess to fresh daily demands into cheese and milk powders. As a result, the region no longer possesses production facilities that can cope with converting milk, that is in excess of fresh product demand, into storable dairy products, requiring careful logistical management and milk balancing to avoid incurring excessive costs.

The absence of any material volumes of milk being converted into commodity dairy products enabled processors to offer milk prices that better reflected returns from the fresh milk market. In effect, regional milk prices had been suppressed for many years because of the existence of a "surplus" of milk above economic processing volumes, as regional manufacturing plants were small in capacity and therefore less able to compete with the cost and reliability of the supply of product from larger southern facilities in the marketplace.



Source: Freshlogic, Dairy Australia

After some delay in farmgate prices reflecting the fragility supply/demand situation, milk prices in the northern region rose significantly in 2007/08 and have been reflected in milk supply contracts of up to 5 years in length being offered by Parmalat, the largest processor of milk in the region, which compelled other companies to match these levels. This has resulted in a "decoupling" of milk prices in the Northern region from the strong influence of southern milk values.

In 2008/09, a combination of the higher milk prices, existence of long-term milk supply contracts and the best seasonal conditions seen for many years and reduced bought-in feed costs has resulted in stronger milk supply and a strong improvement in producer confidence in the past year.

These conditions have also allowed many producers to restore their feed reserves and improve their on farm feed ration regime for their herds. However parts of the Northern Darling Downs and the wider Burnett region are still suffering from drought conditions. In addition high input prices continue to push up farm operational costs and constrain dairying operations. Security and access to water will also play a critical factor in the sustainable future of the dairy industry in Queensland.

Supplier numbers appear to be stabilising back to normal, long term consolidation trends. Small numbers of new producers started up during the last year, however processors are not taking on any new suppliers at the present time due to the regional over-supply of milk.

Queensland milk production estimates and forecasts by region 2006–07 to 2009–10

	2006–07 million litres (e)	2007–08 million litres (e)	2008–09 million litres (e)	2009-10 million litres (f)	Change from 2008–09 to 2009–10 (%)
South East Queensland	419	377	406	438	8%
Far North Queensland	82	77	76	76	0%
Central Queensland	33	31	30	30	0%
Total Queensland	534	485	512	544	6%

(e) Estimate.
(f) Forecast.
Source: Dairy Australia.

The recent strong recovery in milk production coupled with a slowing in demand growth has created an over-supply of milk to regional milk processing plants (based on regional market demand). With the absence of regional manufacturing plants to process such surplus, processors have incurred higher costs in moving milk to plants in NSW.

While the permanence of price signals is important to future producer and investor confidence, over-supply of milk in the region may weaken milk prices if suitable returns for surplus milk volumes cannot be sustained.

For the current cost structures of an average dairying enterprises operating in the Northern Dairy Industry, a farm gate milk return of more then 50cpl is required in order to sustainably maintain the enterprise long term and to see further investment in dairy farm enterprises.

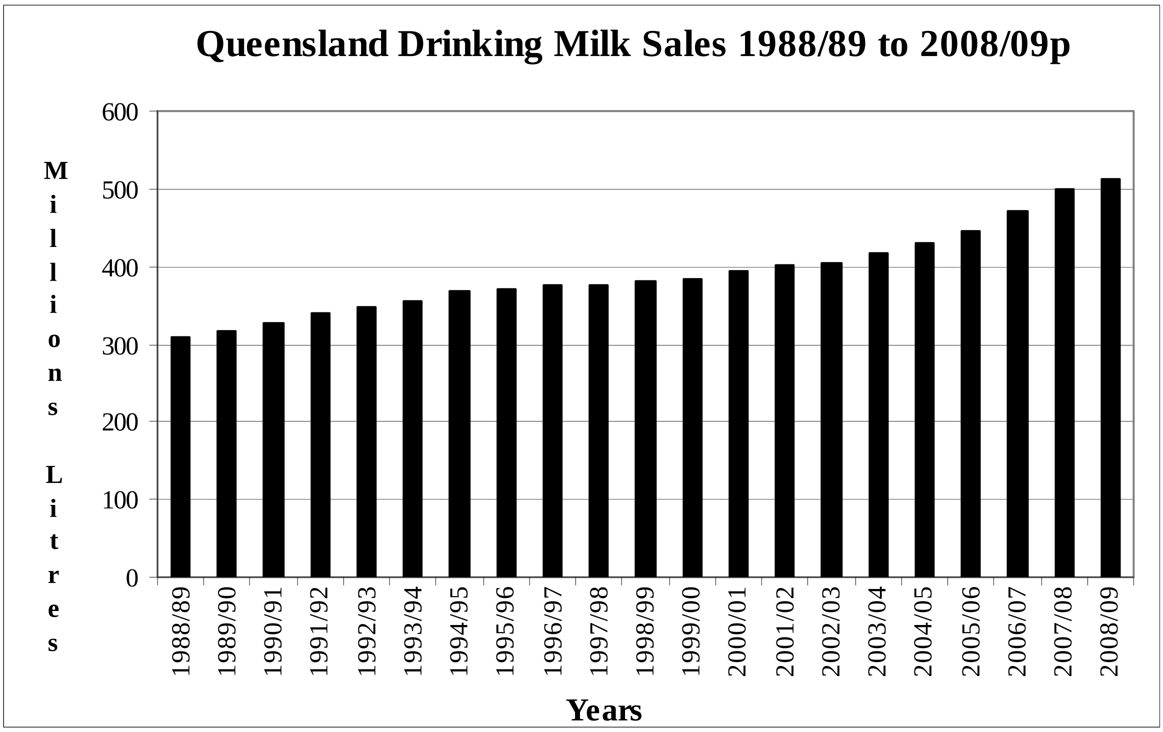
Regional Demand Forecasts

Consumption Data

Ongoing milk sales growth continues to provide the industry with the opportunity for further production growth in order to meet market demands.

The following graph presents the annual figures for drinking milk sales for Queensland over the last two decades.

Over the last two years the growth rate in drinking milk sales or demand has exceeded milk production or supply during certain periods of the year and thus milk has been required to be supplied from southern milk production pools to fill local supply gaps.



(2008/09 figures are forecast estimates)

Population Growth and Growth of the Domestic Market

The population of South East Queensland (Brisbane and Moreton Statistical Divisions) is projected to increase by 2 million people to 4.4 million people by 2034, up from 2.4 million people recorded in 2001. With this forecast growth in population over the next two and a half decades there is expected to be an equal to greater increase in the regional domestic market demand for dairy products.

It is estimated that for every one million people in the domestic market there is a demand of more than 105 million litres per annum of drinking milk. In addition to this there is also a demand for manufactured products which we have factored on the same ratio above. As such with the forecast population growth over the next two and a half decades it is estimated that there will be an increase in demand for milk and dairy products in excess of 210 million litres of milk.

The impact of the concentration of supermarket supply contracts on milk market conditions

Over recent years the major players in the grocery sector, the two major supermarket chains (MSC), have increased their market share of total milk sales and accordingly their influence over the value of milk achievable through all retail channels.

For the 2007/08 the supermarkets were reported to have approximately 57% share of drinking milk sales at the retail level.

MSC vigorously compete with each other and new entrants to the grocery market, as well as the growing networks of smaller, independent supermarket chains. This intense retail competition has led to these businesses embarking on major growth, product procurement, transport and distribution strategies to derive greater market share, procurement and pricing power.

Within this overall market share of drinking milk sales at the retail level, the major supermarkets have in the past 10 years dramatically increased the market share of sales of their own ‘private label’ products. The share of private label sales by supermarkets, as a portion of their overall milk sales share, has increased from 25% in 1999/00 to some 56% in 2007/08. The majority of this growth has occurred in the larger 3 litre bottle range.

The shift in share towards private label has reduced average prices achieved in the marketplace. Dairy Australia, in its 2008 Australian Dairy In Focus Report, reported that in 2007/08 that the average price for drinking milk is significantly less through supermarkets than the rest of the market, and that the average price of branded milk sold through supermarkets was $2.09 per litre while the supermarket ‘private label’ lines achieved $1.22 per litre, with the average price for all milk sold through supermarkets being $1.60 per litre.

As the MSCs’ have increased the market share of the grocery market they have been able to use their market position to their advantage in a number of different ways. The major recent example being MSC implementing tendering processes for the packing and supply of ‘private label’ milk supplies. These tenders have ranged in size, but due to their increasing size in overall milk sales volume, has pressured processors to secure these important volumes of product sales turnover to ensure plant efficiencies in key capital city plants.

The widening price differentials forced on the industry through MSC tendering tactics translates to lower processing margins for the processing sector, affecting the affordability of milk prices paid to their milk suppliers.

While consumers on the whole have benefited from the shift towards cheaper milk product in this scenario, while a range of choices currently exist between ‘branded’ and ‘private label’ products, the increasing market share enjoyed by the MSC brands creates a risk that at a future point in time start to limit choice as it will not be economical for processors to support ‘branded’ products and the innovation in speciality milk products that service a range of preferences for a smaller volume of sales. This effect over time may limit product choices for consumers and prices could well increase to consumers over time, with no ability from suppliers to influence price other then offering competing products through other outlets. With the MSCs taking a larger share of the fuel convenience retail market, the alternate channels to the consumer that are not affected by these influences has also declined.

In recent times with the impact of the economic downturn, MSCs’ have benefited from consumers seeking to economise by moving to lower cost products within product categories such as moving from purchasing ‘branded’ milk to purchasing ‘private’ label milk. This transition places processors under further pressure as average returns per litre from processors declines and thus places pressure on processors to reduce prices paid to dairy farmers.

In recent years, the pressure on processors has been a significant factor in further rationalisation and concentration of the processing sector, which has the consequence of presenting fewer options for dairy farmers to negotiate with for supply of their highly perishable fresh milk product.

For processors to seeking to retain margins, this has meant that they have had to increase wholesale prices to other retail channels. This however has had the impact of placing other retail channels under further price competition with MSC. The long term affect of such an environment could be to the detriment of competition and consumers choice.

From recent investigations into the pricing and competition within the grocery sector, the ACCC has determined that while ‘buying power’ is present in the Australian grocery market; this did not translate into a breach of the Trade Practices Act 1974 “at this stage”.

The QDO considers that, given the information provided and the current trends in the market place being driven by MSC strategies, a further and regular investigation of these issues by an appropriately authorised body, such as the ACCC, is warranted, especially given the ACCC’s acknowledgement that “prices paid to primary producers and the terms of trade for such produce are significant issues”.

The economic effect on the dairy industry of announced reductions in prices to be paid to producers by milk processors

Queensland’s GVP of milk, at farm gate, for 2009–10 is forecast to increase slightly too around $286 million, from $280 million at the end of the 2008-09 financial year and 15% higher then the finishing GVP at the end of the 2007-08 financial year of $255 million.

The impact of the Global Financial Crisis (GFC) on international dairy trade and subsequent decline in dairy product prices globally; coupled with the recovery in milk production in the Northern region as outlined above, has, in the last six months put downward price pressure on farm gate milk prices for milk supplied to the domestic market in Queensland. While most producers benefit from long-term price contracts, suppliers who did not elect that option, or supply companies not offering contracts of that length are facing some reductions in farmgate prices.

Prices paid to dairy farmers in southern Australia have already been impacted significantly and also for some Northern dairy farmers who entered into short term contracts with processors.

This domestic farm gate price pressure has largely occurred due to:

- the impact of the economic downturn on consumers has seen consumption move to cheaper options within dairy product ranges, reducing processor margins,
- the margin processors can derive from milk surplus to the daily market needs.

These factors have seen processors seeking to renegotiate price and supply conditions in a range of different ways, depending on the processors existing supply arrangements and system. Some examples include; a reduction in price in return for longer term contracts, reduction in price for the milk quantity supplied above the contracted supply volume, changes to seasonal and new milk incentives, reducing the price for farmers that only take on short term contracts.

Pricing for the year ahead, will depend on a range of factors including;
- the rate of recovery of international dairy trade and prices,
- exchange rate,
- seasonal conditions,
- Government policies such as CPRS and Water reform,
- regional milk production,
- market growth.

The majority of dairy enterprises in Queensland have forward supply contracts with fixed base prices, however for one significant supply group these contracts fall due in mid 2010.

It is seen that this will limit the impact of the GFC on domestic farm gate prices in Queensland. It is hoped that the worst of the impacts of the GFC will be over prior to farm gate contracts being up for renewal.

Overall in the current environment over the next year it is estimated that dairy prices in Queensland will ease on average by around 2-3 cents per litre, in southern part of the State and potentially more in the northern region of the State.

It is expected that the demand for dairy products internationally will see further recovery in the year ahead. However, a high Australian dollar will slow the recovery for the Australian dairy industry overall.

It is forecast that milk production in the northern dairy industry will continue to grow in the first quarter of 2009-10 but then stabilise with the influence of forecast drier seasons ahead and the impact of lower farm gate price signals. Other potential impacts may affect this forecast including heat waves and other climate and market risks.

A concern exists that some processors may seek to lag the passing on of higher prices with the recovery of the world dairy market and returns, in order to recoup losses caused by the GFC and reduced margins caused by the further loss of brand market share to MSCs'. Such a scenario would translate into dairy farmers incurring and carrying those losses, if there does not exist other supply options for the dairy farmers.

The impact of the concentration of ownership of milk processing facilities on milk market conditions in the dairy industry

In recent years the pressure placed on processors from a declining milk supply in Queensland and in other states including NSW and South Australia, as well as the increasing intensity of competition in the retail market as outlined above, has been a significant factor forcing further rationalisation and concentration of the processing sector, which has the consequence of presenting fewer options for dairy farmers to negotiate with for supply of highly perishable fresh milk.

The significant step in industry consolidation occurred with the merger of National Foods and Dairy Farmers businesses in 2009. This results in a reduction to just three major buyers of milk for some sub-regions of the Northern industry region, but for many in southern Queensland there is a choice of just two processors. National Foods itself however provides the choice of two different supply arrangements – through direct milk supply contracts or supply through the arrangements negotiated on behalf of suppliers by the farmer-owned supply co-operative Dairy Farmers Milk Co-operative (DFMC) which has a long-term supply agreement with the company as a result of its merger agreement with Dairy Farmers.

While there is a limitation of choice arising from the rationalisation of the processing sector, it is hoped that the process will lead to a number of efficiency gains, while the effect over time of potentially fewer contract suppliers of MSC 'private label' remains to be seen.

The impact of the consolidation of the ownership of the market or drinking milk sector with the manufacturing milk sector on milk market conditions in the dairy industry;

In Queensland there has been a long history of processors bottling milk and utilising excess milk supplies above daily demands for fresh drinking milk to manufacture a range of dairy products. The decline in milk supplies has led to a consolidation of processing facilities and the retirement of several manufacturing plants.

Prior to 2000 when the industry was regulated, there existed a two-tiered pricing system, a regulated price for drinking milk and a manufacturing milk price set by manufacturers.

Currently in the unregulated environment processors are offering a range of pricing systems to suppliers. There is a risk that unless milk supplies revert to a situation where they are in alignment with regional market requirement, processors may, in a need to send signals that reflect the realities of handling surplus milk, again revert to a two tiered price system, with a set contract price for the supply of a contracted volume of milk for drinking milk supplies and a differential price for milk supplied in excess of that volume. That second price would in most cases be likely to be lower than the fresh milk price.

Equally, some processors which currently operate in both fresh milk and manufactured products have felt greater pressure from the impact of the GFC and the down turn in international trade and prices. In the last year some dairy products which would have normally been exported, for example cheese, have been offered into some sectors the domestic market at lower prices than prevailing domestic wholesale prices. This has had some effect in lower returns for dairy products in the domestic market.

Whether aspects of the Trade Practices Act 1974 are in need of review having regard to market conditions and industry sector concentration in this industry;

Milk producers in Queensland avail themselves of a number of collective bargaining arrangements in their negotiation of milk supply arrangements with processors, including the following:

- Premium Milk Group which supplies Parmalat's South Queensland operations. Premium operates within an ACCC-approved arrangement,
- Port Curtis Dairies which supplies Parmalat milk for the Rockhampton plant,
- DFMC, which negotiates on behalf of its members with National Foods,
- Collective bargaining groups that operate under the arrangements administered through ADF Limited, which include the National Foods suppliers group and Progressive Dairies,

The ACCC ruling achieved by ADF in 2006 facilitates this option on a regional level. The authorisation also permits:

(a) groups of dairy farmers to form collective bargaining groups through which they may collectively negotiate terms of supply, including price, with a dairy processing company that each member of the group wishes to supply and,

(b) the ADF to hold general, non-specific discussions with supermarkets, on an individual and voluntary basis, regarding the impact of tender processes on dairy farmers subject to the certain conditions.

QDO supports continuity of these arrangements to support achievement of fair returns to dairy farmers in a consolidating dairy supply chain.

The QDO has supported the collective bargaining provision authorisations which were originally given to Premium in Queensland and then nationally to the Australian Dairy Farmers.

The QDO believes that this provision by the ACCC is essential for groups of dairy farmers to be able to be able to collectively discuss and negotiate outcomes with the processor they supply. This provision has provided the means for dairy farmers to be able to negotiate in a more balanced 'market power' environment.

There currently exist some good examples of effective collective bargaining groups whom have developed good working relationships with the processor they supply and have used the collective bargaining provisions to not only negotiate on issues of price, but to develop a better understanding of each others business needs, to collectively seek to improve systems to reduce costs, and to structure business arrangements to better reflect the needs of both businesses, which can cover supply arrangements, transport, seasonal incentives, risk management etc. Recently a collective bargaining group negotiated for a slightly lower price in return for longer contract conditions.

Over recent years the processing sector has continued to consolidate and with this the market share that remaining processing entities hold, has increased. With this consolidation within the processing sector the QDO believes that the Collective Bargaining provisions for farmer groups should be reviewed to ensure that the current provisions provide a reasonable balance for farmer group collective negotiation in the current processing sector environment. Some Collective Bargaining groups are severely constrained by regional boundaries and now with the consolidation of processors and expansion of their milk collection base these regional limitations on dairy farmer Collective Bargaining groups should be reviewed.

One of the critical requirements for Collective Bargaining groups to be successful over time is that they have sufficient professional skills development and support.

The Australian Government should consider making resources available specifically to assist farmer collective bargaining groups to increase their skills and knowledge and business acumen for the role of collective bargaining, managing a collective bargaining group and developing effective working relationships with processors.

Any other related matters.

As presented previously the returns to the whole Australian dairy industry, whether supplying milk for export products or milk for the domestic market, is influenced by the international dairy market and protectionist policies of countries which impact international dairy trade.

As the Australian dairy industry is unregulated and receives no trade assistance or protection and must compete in the world market with dairy products from other countries which do receive export subsidies and other forms of protection, the Australian dairy industry must be cost competitive and continue to produce a high quality product at the best possible internationally competitive cost structure.

As such, any policies and or actions of Government which result in increases in operational costs of Australian dairy farm, place the industry at a direct disadvantage on the world market.

Government policy makers need to understand that to have a sustainable dairy farming industry, dairy farmers need to receive sustainable returns for their effort, investment and taking of risk.

Issues which we see as risking increases in costs to dairy farming systems in Australia include the following;

- even if agriculture, including dairy farming, in Australia is excluded from the Carbon Pollution Reduction Scheme (CPRS), the inputs used by dairy farmers and CPRS cost imposts on processors will mean that, dairy farmers, as price takers, will have increased CPRS costs passed onto them in full or part. This ‘flow on cost’ impact has been estimated at a cost of between $5,000 and $13,000 per annum for an average dairy enterprise depending on the cost of carbon. These additional costs imposed on dairying enterprises will be ‘dead’ costs, and not assist the farmers to yield any additional productivity. As such this cost will undermine the Australian Dairy industry’s competitive advantage on the world market. Any loss of competitiveness of Australian dairy exports will also affect the Australian domestic market.

  The Dairy Industry is taking a number of proactive initiatives to assist farmers to reduce their green house footprint and to minimise the risks of climate change, however ‘dead’ CPRS flow on costs will not assist this process at farm level.

- Water security for the dairy industry is critical now, and even more for the future. Government policies which impose additional costs and restrictions on water use by the dairy industry will also impact on the industries international competitive advantage. The dairy industry agrees with the need to protect the health and functionality of our water systems. The dairy industry would like to see the following;
  - That any water management / buyback / environmental flow programs are underpinned by scientific evidence,
  - Any Government water allocation adjustment or environmental flow recovery, recognise individual land and water property rights,
  - There is an urgent need for an open and efficient water trading market, without artificial barriers to trade, combined with timely and transparent market information,
  - Investment from the Australian Government into the Queensland dairy industry’s Water Use Efficiency Program, Dairy Water for Profit, which has over the last decade assisted many dairy farmers to implement new irrigation and reuse systems, deriving significant water use efficiency savings, with many being in excess of 20 percent, as well as a range of other benefits,
  - The Government coordinate buyback programs, efficiency and infrastructure reform programs and also recognise the difference between achievable efficiency gains and structural adjustment and target support program accordingly,
  - That industry and regional and rural communities are properly engaged with and that the issues and impacts of water reform on these groups are properly assessed.
- That national harmonisation processes, for example the Award Modernisation and harmonisation of Work Place Health and Safety legalisation and regulation, seek to derive costs reductions to industry through the improvements in systems.

The QDO urges the Australian Government to pursue policy reforms and initiatives which will assist the Australian dairy industry to become more competitive and sustainable and to be able to profitably operate in the world market.

The QDO would like to see the Australian Government increase its investment and effort in;

- Supporting resource use efficiency programs within the industry, such as the QDO's Dairy Water for Profit program,
- Developing further multilateral and bilateral trade agreements to increase the access of Australian dairy product trade to more markets and to facilitate the breaking down of both tariff and non tariff trade barriers,
- Increase the investment from the Australian Government into research, development and extension, which is critical to ensuring the Australian dairy industry continues to make advances in productivity and sustainability, which is critical to maintaining the industry's international competitiveness,
- Provide further support to the Australian Dairy Industry's Natural Resource Management program, Dairying for Tomorrow, which is critical for the industry's future sustainability and dealing with impacts such as climate change.

We would welcome the opportunity to discuss any of these issues with the members of the Senate Inquiry.

Yours Sincerely,

Adrian Peake
Chief Executive Officer
Queensland Dairyfarmers' Organisation Ltd