



COMMONWEALTH OF AUSTRALIA

# Proof Committee Hansard

## SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT  
LEGISLATION COMMITTEE

**Reference: Dairy Industry Service Reform Bill 2003**

MONDAY, 24 MARCH 2003

CANBERRA

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Monday, 14 April 2003

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**SENATE****RURAL AND REGIONAL AFFAIRS AND TRANSPORT LEGISLATION COMMITTEE****Monday, 24 March 2003**

**Members:** Senator Heffernan (*Chair*), Senator Buckland (*Deputy Chair*), Senators Cherry, Colbeck, Ferris and O'Brien

**Participating members:** Senators Abetz, Boswell, Brown, Carr, Chapman, Coonan, Eggleston, Evans, Faulkner, Ferguson, Harradine, Harris, Hutchins, Knowles, Lightfoot, Mason, Sandy Macdonald, McGauran, McLucas, Murphy, Payne, Ray, Santoro, Stephens, Tchen, Tierney and Watson

**Senators in attendance:** Senator Heffernan (*Chair*), Senators Cherry, Colbeck, Harris and O'Brien

**Terms of reference for the inquiry:**

Dairy Industry Service Reform Bill 2003.

**Committee met at 5.09 p.m.**

**CHAIR**—I declare open this public hearing of the Senate Rural and Regional Affairs and Transport Legislation Committee. The committee is meeting today to consider the Dairy Industry Service Reform Bill 2003 and the Primary Industries (Excise) Levies Amendment (Dairy) Bill 2003. On 19 March 2003, the Senate referred the bills to this committee for examination and report by Wednesday, 26 March 2003. The purpose of the Dairy Industry Service Reform Bill 2003 is to merge the Australian Dairy Corporation and the Dairy Research and Development Corporation into a single privatised company to be known as Dairy Australia Ltd. The Primary Industries (Excise) Levies Amendment (Dairy) Bill 2003 will provide for the imposition of a new levy, the dairy service levy, to replace the current dairy promotion, research and corporation levies.

The committee has received two submissions on the bills and authorises them for publication. Today's hearing is open to the public and a *Hansard* transcript of the proceedings is being made, which will be available from the committee secretariat or via the Parliament House Internet home page next week. It should be noted that the committee has authorised the recording, broadcasting and rebroadcasting of these proceedings in accordance with the rules contained in the order of the Senate of 23 August 1990 concerning the broadcasting of all committee proceedings.

Before the committee commences taking evidence, let me place on the record that all witnesses are protected by parliamentary privilege with respect to submissions made to the committee and evidence given before it. Any act by any person which may operate to the disadvantage of a witness on account of evidence given by him or her before the Senate or any committee of the Senate is treated as a breach of privilege. While the committee prefers to hear all evidence in public, if the committee accedes to such a request, the committee will take evidence in camera and record that evidence. Should the committee take evidence in this manner, I remind the committee and those present that it is within the power of the committee at a later date to publish or present all or part of that evidence to the Senate. The Senate also has the power to order production and/or publication of such evidence. Any decision regarding publication of in camera evidence or confidential submissions would not be taken by the committee without prior reference to the person whose evidence the committee may consider publishing.

[5.11 p.m.]

**STANDEN, Ms Sally Therese, Manager, Industry Operations and Reform, Wool and Dairy, Food and Agriculture, Department of Agriculture, Fisheries and Forestry**

**WILLIAMSON, Mr Gregory John, General Manager, Meat, Wool and Dairy, Department of Agriculture, Fisheries and Forestry**

**CHAIR**—The committee today will hear from the Department of Agriculture, Fisheries and Forestry, the Australian Dairy Corporation, the Australian Milk Producers Association and the Australian Dairy Farmers Federation. We will commence with DAFFA. Mr Williamson, would you like to make an opening statement before we go to questions?

**Mr Williamson**—Yes. As senators may be aware, in December 2002 the government agreed to an industry proposal to convert the Australian Dairy Corporation and the Dairy Research and Development Corporation into a Corporations Act company. This proposed reform follows a long line of previous reforms in the red meat, all horticultural, pork and egg industries and is consistent with the government's policy of providing agricultural industries with greater responsibility and ownership of industry service delivery arrangements.

The government's decision on the dairy industry reforms followed a comprehensive scoping study process that confirmed that the reforms were feasible and that they did not present any significant risks to the Commonwealth or the industry. Legislation was passed in September last year providing for the Australian Dairy Corporation to fund the conversion process.

**CHAIR**—The bells are ringing for a division. I apologise, but unfortunately I personally have not got leave and I do not know whether the other senators on the committee have.

**Mr Williamson**—I understand.

**CHAIR**—This might be an interrupted process, and I sincerely apologise on behalf of the committee. It was not that you were not making a good opening statement!

**Mr Williamson**—Thank you, Senator. It is called Murphy's Law!

**Proceedings suspended from 5.13 p.m. to 5.23 p.m.**

**CHAIR**—I reconvene the committee and apologise once again for the interruption. Thank you for your opening statement.

**Mr Williamson**—Thank you, Chair. I will continue. The bill provides for the conversion of the Australian Dairy Corporation into a company limited by guarantee under the Corporations Act 2001, to be known as Dairy Australia Ltd, and for all the assets and liabilities of the Dairy Research and Development Corporation to be transferred to this new company, in effect, merging the R&D and promotion arms of the dairy industry. It is important that the bill be considered as part of a package of key provisions which establish and maintain Dairy Australia. The Dairy Industry Service Reform Bill 2003 is before the Senate. The other key documents in the package are the constitution of the company and the statutory funding agreement between the Commonwealth and the new company.

In summary, the legislation deals with the creation of Dairy Australia, staffing issues, payment of levies to the company and the treatment of the Dairy Structural Adjustment Fund. The constitution deals with matters relating to the membership structure of the company and members' rights, and board composition and appointment procedures. The statutory funding agreement will set out the accountability requirements and reporting obligations for expenditure of levy funds. The one difference between this conversion and previous conversions is the movement across of the Dairy Structural Adjustment Fund, which is a regulatory function we have tasked the new company to undertake on behalf of the Commonwealth.

**Senator CHERRY**—At what stage would a draft of the statutory funding agreement be available?

**Mr Williamson**—A draft of the statutory funding agreement was provided to the minister's office this morning. We are informed that the minister will be considering the statutory funding agreement as soon as possible. We are hopeful that something can be provided to the committee before Thursday, but that is ultimately in the hands of the minister.

**Ms Standen**—The draft of the statutory funding agreement that was provided to the minister's office is very much a first draft. It is still the subject of discussion and negotiation with industry at this stage. So it is certainly not a final document in any shape or form.

**Senator CHERRY**—With the shift from a statutory authority to a privatised company, what accountability mechanisms will dairy farmers and the public—even senators—lose?

**Mr Williamson**—In fact, farmers gain in terms of accountability. They effectively become members of the company. The company is accountable to farmers, fundamentally, under the Corporations Act. So accountability back to levy payers is enhanced. Moreover, the bill provides for a levy poll to be conducted.

That provides a further accountability mechanism back to levy payers in general, as opposed to members of the company. In terms of accountability to the Commonwealth, at a general level the company is accountable under the Corporations Act. In terms of parliament and the government, there is a statutory funding agreement between the company and the Commonwealth that underpins how funds are spent and how they are accounted for. In respect of the Dairy Structural Adjustment Fund, there is a specific provision in the bill that provides for audited accounts to be laid before the parliament each year on the maintenance of that fund.

**Senator CHERRY**—Will there be an administrative review process on the Dairy Structural Adjustment Fund moneys?

**Mr Williamson**—In terms of how those moneys are expended?

**Senator CHERRY**—Yes.

**Mr Williamson**—Currently the system works in two parts. We have a Dairy Adjustment Authority, to which there are no reforms happening whatsoever. The Dairy Adjustment Authority makes all decisions in respect of the payment of the entitlement to structural adjustment funds. The Australian Dairy Corporation, on the instructions of the Dairy Adjustment Authority, provides those funds to the farmers. Any administrative appeal process would be back to the Dairy Adjustment Authority, as is currently the case, not back to Dairy Australia.

**Senator CHERRY**—A number of concerns were raised about the Dairy Australia structures and processes by the Milk Producers Association in a letter to the minister last February. Do you know whether they have been taken up by the government?

**Mr Williamson**—I am aware that the minister has considered the issues raised. We have looked at those issues in terms of accountability. We believe that the bill addresses those issues raised by certain people.

**Senator CHERRY**—What consultation arrangements are you aware of that have been gone through in industry and how do you check those in terms of ensuring that the levy proposals have grower support?

**Mr Williamson**—We have been informed that representatives of the Australian Dairy Industry Council have met with the Australian Milk Producers Association on a number of occasions and discussed these reforms.

**Senator CHERRY**—Have you been provided with any reports on how those meetings proceeded?

**Mr Williamson**—No, but we have been assured that those meetings have taken place.

**Senator CHERRY**—At what point do you think the draft constitution of Dairy Australia will be available?

**Mr Williamson**—I understand that the constitution has been passed across to, at least, Senator O'Brien. I am sure it would be no problem for that constitution to also be passed to you and to any other interested senators. My understanding is that the constitution is to be provided to the committee on a draft in-confidence basis.

**Ms Standen**—I want to make the point again that the constitution is still in draft form.

**Senator O'BRIEN**—I have got draft No. 4.

**Ms Standen**—Yes, and it is still a draft.

**Senator O'BRIEN**—That is the latest draft, is it?

**Ms Standen**—That is right, yes.

**Senator CHERRY**—You are four drafts ahead of me.

**Senator O'BRIEN**—So the interim advisory board of Dairy Australia is doing all the consultation about the establishment of the new company, not the department?

**Mr Williamson**—In terms of the constitution, that is correct.

**Senator O'BRIEN**—Who is developing the funding agreement?

**Mr Williamson**—The legal advisers to the Commonwealth. There have been initial consultations with the industry on this first draft that has been produced by legal advisers, and I have to say that there are some issues between the two parties in respect of the draft statutory funding agreement.

**Senator O'BRIEN**—Does the minister have to approve the constitution?

**Mr Williamson**—Yes.

**Senator O'BRIEN**—And he is the one who proposes the funding agreement?

**Mr Williamson**—I suppose that, in the first instance, the Commonwealth proposes the funding agreement.

**Senator O'BRIEN**—And he is the responsible minister?

**Mr Williamson**—And he has to approve it, yes. The agreement has to be approved by both parties, obviously.

**Senator O'BRIEN**—Who proposes the regulations?

**Mr Williamson**—Again, the minister.

**Senator O'BRIEN**—Has work commenced on the preparation of regulations?

**Mr Williamson**—We have draft drafting instructions that are not available to the committee at this point in time, unfortunately.

**Senator O'BRIEN**—The draft of the constitution I have says in clause 6 that the new company is prohibited from undertaking agripolitical activity. Is that prohibition at the request of the minister or the department?

**Mr Williamson**—It is a prohibition with the joint agreement of the industry and the Commonwealth at this point in time.

**Senator O'BRIEN**—It may be at this point in time, but who initiated it?

**Mr Williamson**—It is general government policy, as I understand it, that the service delivery companies do not engage in agripolitical activity.

**Senator O'BRIEN**—So the minister initiated it?

**Mr Williamson**—The minister is in agreement with that clause, as far as I know.

**Senator O'BRIEN**—So the department initiated it on the minister's instruction; did it?

**Mr Williamson**—It would be fair to say that the department initiated that clause in the first instance.

**Ms Standen**—But this draft of the constitution has been prepared by the interim advisory board and presented to the government.

**Senator O'BRIEN**—They are hardly going to present an agreement that is deficient with regard to one of the Commonwealth's key requirements.

**Ms Standen**—I think it probably indicates that they are supportive of that particular clause.

**Senator O'BRIEN**—They may be; they do not have much choice, do they?

**Ms Standen**—I guess it is a matter for negotiation.

**Senator O'BRIEN**—They do not have much choice, do they? That is the fact of the matter, isn't it?

**Ms Standen**—It is government policy not to fund or participate in agripolitical activities.

**Senator O'BRIEN**—And the minister has to tick the constitution?

**Mr Williamson**—That is correct.

**Senator O'BRIEN**—That is a pretty big hurdle to get over if you want the constitution ticked and the government wants this clause in. Is that right?

**Mr Williamson**—Yes.

**Senator O'BRIEN**—So is this the form of words developed by Blake Dawson Waldron or was there a proposal by the department?

**Mr Williamson**—I think you would need to ask the dairy industry later on, but those words were the subject of much consultation within the IAB and, I suspect, somewhat wider than that. I do not know what the initial words were that were proposed by Blake Dawson Waldron.

**Senator O'BRIEN**—Do you know how we would define agripolitical conduct?

**Mr Williamson**—That is an issue that we have all been grappling with. As I understand it, at this point in time it has not been legally defined. It is more a concept that sets a broad parameter for the behaviour of the company.

**Senator O'BRIEN**—But this prohibition ties in with the fact that the company is intended to be the services body. It says: 'So long as the company is the services body, it must not' et cetera.

**Mr Williamson**—That is correct. In other words, if the government were to, in effect, de-declare the company as a service delivery body, the company itself could continue to function and it could engage in agripolitical activity under those circumstances. I should say that the statutory funding agreement will also contain a complementary prohibition on agripolitical activity, and there will be further definition of that statement in the funding agreement.

**Senator O'BRIEN**—What sort of behaviour by the company would not be allowed? Can the board express a view on policy matter which affects the industry?



**Mr Williamson**—As a general rule, I think informing the government on issues is not something that would be seen as agripolitical activity as such. However, effectively opposing the government on an issue would be seen as being agripolitical activity.

**Senator O'BRIEN**—So it is not agripolitical if the government agrees with it?

**Mr Williamson**—No. It is not agripolitical if it is simply informing the government of an issue of concern to the industry.

**Senator O'BRIEN**—But if you disagree with the government, that is being political.

**Mr Williamson**—Essentially.

**CHAIR**—That would be fair enough.

**Senator O'BRIEN**—The chair thinks that is fair enough—and he probably would.

**Ms Standen**—I guess you can look at the definition in broad terms as the difference between providing information of a factual nature and trying to influence through political means the views of people for political purpose. We would assume that the industry services body would have an interest in ensuring that the government and the public generally are properly informed about issues in relation to the dairy industry and the work that they undertake, but we would not expect that they would then undertake a campaigning type role that is not based on providing factual information.

**Senator O'BRIEN**—Who is the arbiter on whether the information is factual?

**Mr Williamson**—I think it is taken as given that they are providing factual information.

**Senator O'BRIEN**—So would it bind individual board members if a board member makes a statement—that is, the government has done the wrong thing by the dairy industry because it has extended the current levy for another five years and given us a bad name—which is clearly political? Would that sort of statement be political? Would that offend the provisions that relate to the company if those comments were made by a board member?

**Mr Williamson**—I am sure it would not if they were not speaking as a director of Dairy Australia. If they were speaking as a director of Dairy Australia and on behalf of Dairy Australia, I think that may well—

**Senator O'BRIEN**—You can do the two things separately, however. If a person said, 'I'm a director of Dairy Australia. I've been elected by the board, but I'm speaking on my own behalf,' would that offend this provision?

**Mr Williamson**—Not that I am aware of, Senator—not the intention anyway.

**CHAIR**—It could offend me.

**Senator O'BRIEN**—It depends on what it is about apparently, Senator. Will the prohibition differ from prohibitions on other industry bodies, like APL?

**Mr Williamson**—As far as I am aware, this is the first prohibition we have inserted in our constitution—as distinct from simply putting the prohibition in a statutory funding agreement.

**Senator O'BRIEN**—So this is new ground?

**Mr Williamson**—This is new ground.

**Senator O'BRIEN**—According to the minister's statement on 19 December announcing the go ahead for Dairy Australia, the company will manage around \$15 million in levy funds and \$15 million in matching Commonwealth expenditure every year. Is that still correct?

**Mr Williamson**—Yes, as far as I know.

**Senator O'BRIEN**—How will the company report to parliament on the expenditure of the new dairy service levy?

**Mr Williamson**—The company will have reporting obligations to the Commonwealth, which will be set out in a statutory funding agreement. It is still not determined whether those reporting obligations will apply every six months, every three months or annually.

**Senator O'BRIEN**—Reporting to whom—the minister, the department, the parliament?

**Mr Williamson**—They will report to the department.

**Senator O'BRIEN**—So it is not intended that there be a report to parliament?

**Mr Williamson**—We would, of course, make the minister aware of the content of those reports and it would be a matter for the minister if he wished to inform the parliament of the progress of a company.

**Senator O'BRIEN**—How will a company report to parliament on the expenditure of matching Commonwealth R&D funds?

**Mr Williamson**—In the same manner.

**Senator O'BRIEN**—So it is a matter for the minister whether the company will report to parliament on the expenditure of matching Commonwealth R&D funds?

**Mr Williamson**—No. The company will report to the department in the same way for matching R&D funds as it has for levy funds. The same process will apply whereby the minister will be kept informed by the department of the expenditure of those funds. It would be a matter for the minister to determine whether or not he wishes to inform parliament.

**Senator O'BRIEN**—So the parliament's opportunity to scrutinise a company's activities will be more limited than is presently the case in respect to ADC and DRDC?

**Ms Standen**—Yes.

**Senator O'BRIEN**—In what way?

**Ms Standen**—Documents such as annual reports will not be laid before the parliament. It is not really the intention, because this is going to be a private Corporations Act company controlled by its members rather than by the government. The reporting requirements need to be different—essentially and predominantly they need to be to the members of the company. After that, in terms of the expenditure of levy funds and matching contributions, they will be reporting to the government, which provides that funding source to the company.

**Mr Williamson**—I should add that under the Corporations Act the company is required to produce an annual report, which is a public document.

**Senator O'BRIEN**—They do not usually come before estimates, do they?

**Mr Williamson**—I am sure we can supply any report for any privatised company to estimates if required.

**Senator O'BRIEN**—So the department will never say, 'This is a private company now. This is not a matter for the department to be reporting on.' Can you assure us of that?

**Mr Williamson**—That we will not refer to this company as a private company? I do not think we can actually do that.

**Senator O'BRIEN**—And that that limits your ability to report to the parliament on the expenditure of Commonwealth R&D funding?

**Mr Williamson**—It is always difficult to answer that question, even with statutory authorities.

**Senator O'BRIEN**—But they can come before estimates, can't they?

**Mr Williamson**—They certainly can. That is correct.

**Senator O'BRIEN**—In fact, they often do, don't they?

**Mr Williamson**—Yes.

**Senator O'BRIEN**—But private companies never come before estimates?

**Mr Williamson**—You would have better knowledge of that.

**Senator O'BRIEN**—I have never seen them. Perhaps we can take some advice on that. Under the statutory funding agreement, will there be any requirement for special reporting to the Commonwealth other than the normal Corporations Law requirements for the presentation of an annual report to the members of a company?

**Mr Williamson**—Yes. As I indicated previously, there will be a requirement to provide regular reports to the Commonwealth on the expenditure of levy funds against performance indicators set by the department and agreed to in the funding agreement. As to how regular those reports are, they will be at least annual reports but quite possibly six-monthly reports. There is also a requirement, as I indicated before, for the financial statements in respect of the Dairy Structural Adjustment Fund to be laid before the parliament annually.

**Senator O'BRIEN**—Is the new dairy service levy considered a new levy in the context of the government's levy principles?

**Mr Williamson**—No. It is an amalgamation of three existing levies, and the rate will not change in the first instance.

**Senator O'BRIEN**—So we do not need to test it under those principles?

**Mr Williamson**—No.

**Senator O'BRIEN**—Would it pass a test if those principles were applied?

**Mr Williamson**—Possibly not, because farmers have not been canvassed, which is one of the key tenets of the levy principle, as I understand it—but it is an existing levy, or an amalgam of existing levies.

**Senator HARRIS**—With the formulation of the proposed Dairy Australia Ltd, what was the actual process used in consultation with the levy payers?

**Mr Williamson**—It would probably be best to address that to the Australian Dairy Industry Council or the Australian Dairy Farmers Federation, who I understand are appearing before the committee. As I understand it, however, there were various farmer meetings held with respect to the possible formation of Dairy Australia.

**Senator HARRIS**—Would your department currently have a list of the assets and liabilities of the Australian Dairy Corporation?

**Mr Williamson**—I am not aware of that. I suspect we would not. The bill provides for all assets and liabilities to be transferred across to the new company. In that sense, it was not necessary to compile a complete audit of all the assets and liabilities. As I understand it, there are around \$15 million worth of net assets that will be passed across to the new company.

**Senator HARRIS**—When this entity actually comes into existence, will the liabilities that will be transferred be transferred to Australian Dairy Ltd?

**Mr Williamson**—Yes, all assets and liabilities—it is government policy.

**Senator HARRIS**—Who will then be responsible for those liabilities?

**Mr Williamson**—The board of Dairy Australia.

**Senator HARRIS**—Will there be any transfer of liability to the levy payers under the legislation?

**Mr Williamson**—No. It is a company limited by guarantee. The most liability the members face is \$2.

**Senator HARRIS**—Would there be a differentiation between the levy payers and any of those producers who chose to become part of the company?

**Mr Williamson**—That is an important question. There should be a distinction made between levy payers in general and levy payers who choose to become members. The liability I referred to earlier relates to levy payers who choose to become members.

**Senator HARRIS**—So a levy payer who contributed to the pool but chose not to become a shareholder or a participant in Australian Dairy Ltd would not be exposed to any liabilities of Australia Dairy Ltd?

**Mr Williamson**—That is absolutely correct.

**CHAIR**—To put all that on a positive note: if, the day after this was all constructed, for some unknown reason it was all shut down, where would the \$15 million go? Senator Harris is talking about debt, and I am talking about—

**Mr Williamson**—It would be assets.

**CHAIR**—Owned by whom?

**Mr Williamson**—Owned by the company.

**CHAIR**—And who owns the company?

**Mr Williamson**—The members.

**CHAIR**—The levy-paying members?

**Mr Williamson**—Yes, the levy-paying members—not the levy payers per se but the levy payers who choose to become members.

**Senator CHERRY**—Do you have any figures on levy-paying dairy farmers by amount of levy paid?

**Mr Williamson**—No, we do not have those to hand.

**Senator CHERRY**—My guess is that the vast bulk of the levies would be paid by a fairly small number of dairy farmers.

**Mr Williamson**—I think that is probably a fair statement. I do not know what the proportions are, though.

**Senator CHERRY**—Do you know who would have that information?

**Mr Williamson**—The department would hold that information, I think. It would be difficult to compile in the first instance.

**Senator CHERRY**—Would you be able to provide the committee with whatever information you can compile in a very short period of time?

**Mr Williamson**—We will give it our best endeavours and see what we can do.

**Senator CHERRY**—Sure; that is fine.

**CHAIR**—Thank you to the representatives of the department. We hope you enjoyed that, and we will see you next time.

**Mr Williamson**—Thank you, Senators.

[5.52 p.m.]

**ALDRIDGE, Mr Edward John, General Manager Operations, Australian Dairy Corporation**

**DOYLE, Mr John Laurence, Acting Managing Director, Australian Dairy Corporation**

**PHILLIPS, Mr Christopher, General Manager International Trade Development, Australian Dairy Corporation**

**CHAIR**—Welcome. Would you like to make an opening statement and tell us how many cows you have all milked in your lives?

**Mr Aldridge**—Apart from a few cows I had about 40 years ago, I have no dairy industry—

**CHAIR**—You do not have to answer that question.

**Mr Doyle**—I will make a brief opening statement. The first thing I need to say is that the Australian Dairy Corporation and the Dairy Research and Development Corporation are supportive of the merger and the privatisation. We see a lot of benefits in the merger, in particular to industry. It is a matter of the focus of investments and levy funds being improved. We see an ability to work strategically across the value chain as an improvement. Through the merger, we will see some cost savings to levy payers and some synergies because of the single-service structure. The privatisation actually does give greater direct accountability, as it is designed to do. For the employees of both organisations, there are benefits as well. We see some enhanced best practice human resources policies and procedures and improved career opportunities.

There has been a significant effort put into this merger activity. It has been well planned and well implemented to date. The submission that I have presented to the Senate inquiry highlights the human relations elements, in particular. That has been put there so that you can understand what we have done to make sure that Dairy Australia hits the ground running. We look forward to support for passing the legislation through the Senate. We feel that any failure to do so or delay in doing so would be a major demotivator to the people of the ADC and the DRDC. We do see substantial benefits as a result of it, though.

**CHAIR**—Does the new company have a valued share? If I have a share as a levy payer, do I have something I can sell for worth?

**Mr Phillips**—As a company limited by guarantee, the shares will not be transferable or tradeable.

**CHAIR**—We have not had the benefit of seeing your constitution. So they are not transferable. What happens when—

**Mr Phillips**—To be a member of the new company, the basic rule is that you would have to have paid a dairy service levy in the last financial year or, prior to set-up this year, a corporation research or promotion levy in the—

**CHAIR**—Is there a circumstance where the processors could own all the shares?

**Mr Phillips**—No. The only shareholders will be levy paying dairy farmers, or the only members of the company will be levy paying dairy farmers.

**CHAIR**—So it all gets wound up. The A-class shareholders get the benefit.

**Mr Phillips**—The A-class shareholders, being the levy paying dairy farmers, will be the ones who will exercise votes in the company. The B-class shareholders, who are the representative organisations, have limited functions in terms of developing strategy and roles such as that but not votes in the company.

**CHAIR**—So when I sell the dairy farm, I do not sell the share that I have.

**Mr Phillips**—The shares are not transferable or tradeable. They will be revised each year according to the amount of levy you have paid in the previous financial year. In effect, the membership base will get renewed each year to dairy farmers who have paid levy in the previous financial year.

**CHAIR**—In the construction of two into one, as it were, and the bringing together all the employees, will there be much duplication? How many employees, for instance, are in the two organisations now versus what is going to be in the new one? Is there some sort of a process for people to say, 'I've got a more senior role now; I want more money'?

**Mr Doyle**—There are about 100 people in the two organisations. In terms of redundancies, there is an estimated number of nine. It is not a matter of seniority. It has all been reviewed on a fair and equitable basis with the incumbents who may apply for a particular job, where there might be two people applicable for that job.

**CHAIR**—Is there a panel if there is disagreement?

**Mr Doyle**—There is a dispute resolution procedure put in place.

**CHAIR**—Thank you very much.

**Senator CHERRY**—With the synergies that you talk about in your submission, why does the merged body need the same amount of levy as the current two bodies?

**Mr Doyle**—It does not necessarily need the same amount of levy. All we are saying is that there are synergies in putting the two bodies together through personnel savings; there is a cost in terms of duplicate activities. You have one board instead of two, for example, and there is a saving there as well.

**Senator CHERRY**—I understand that the role of the ADC has changed somewhat since deregulation in terms of its offshore activities in terms of the dairy single desk. Also, in the proposal in this bill, the ADC will also have hived off its quota management functions as well. How much did those activities cost the ADC a year?

**Mr Aldridge**—The commercial trading activity was not a cost but, rather, a service it provided to the industry and, in fact, any profits remaining at the end of the year were passed back to the manufacturers in proportion to the business done on their behalf.

**Senator CHERRY**—So no money from the levy was needed to be allocated to those activities at all?

**Mr Aldridge**—Correct.

**Mr Phillips**—The quota administration exercise was a relatively small task given the small size of Australia's quota access into Europe and the US. The allocation of administration was probably less than half of one person operating that system on an annualised basis, so it is not a major change.

**Senator CHERRY**—Are there changes to your offshore operations planned as a result of moving to Dairy Australia?

**Mr Doyle**—Nothing different from what we are currently planning.

**Senator CHERRY**—How is planning going for the change in the accountability regime? As ADC employees now, how do you think your accountability will change under a privatised corporation model, and what preparations are you putting in place for that?

**Mr Phillips**—The main step we are taking actively at the moment is the creation of the member register. We are doing the planning work on the understanding that legislation will pass through the houses. We have been required under the legislation that was passed last year to do the planning and facilitation work in relation to the creation of that member register for Dairy Australia. So we are doing the initial planning work and program to set up the member register to go forward and to basically establish application kits for individual farmers to invite them to take up their membership in Dairy Australia and to take a direct and active role in overseeing the operations of the company. So the main issue going forward for us, from a management point of view, will be that there will be increased direct accountability of stakeholders, because we will have direct members who will be able to vote on issues related to the new company.

**Senator CHERRY**—How will those stakeholders be able to hold the new organisation to account? There is, I suppose, the election of directors, but beyond that—

**Mr Phillips**—It would be in the normal way a Corporations Law company's shareholders or members of companies hold their board and management accountable for their activities. Primarily, that will be through election of board members, but ultimately and periodically there will be direct votes by all levy payers on the level of levy going forward for Dairy Australia.

**Senator CHERRY**—What lessons have you learnt from the privatisation exercises in the meat and wool industries—pitfalls to avoid and so forth?

**Mr Phillips**—Each industry has its own unique characteristics, so lessons learnt in one particular privatisation do not necessarily translate. The department would probably tell you the lessons they have learnt in the process they have gone through. For us, it has been mainly the importance of widespread communication and discussion of issues before going forward with agreed positions. We have learnt a number of operational things, using the experiences of some of the other bodies, in how they would set up their management registers to maximise stakeholder participation in the company on an ongoing basis.

**Senator CHERRY**—Do you have any statistical information on dairy farmers in terms of levy paid or even size of farm or production?

**Mr Phillips**—There is no definitive number or list of levy payers by farmers. The way levy is collected at farm base at the moment by Levies Revenue Service is that they collect the information aggregated at a company level and then audit that at the individual company. So there is no one list of levy-paying farmers at the present time. I guess the anecdotal information would be that the top 25 per cent of farmers in terms of milk production would probably pay around 50 per cent of the levy income. One of the issues in setting up the membership applications and voting rights for Dairy Australia is that it will actually create that list going forward, because in order to assign voting rights in the new company we will have to collect that information via Levies Revenue Service in order to assign votes to individual members in the company.

**Senator CHERRY**—Is there any information on milk production by farm?

**Mr Phillips**—No, not official statistics in that sense.

**Senator O'BRIEN**—How has ADC engaged in consultation with the dairy industry?

**Mr Phillips**—Our primary consultation mechanism has been the same as we have carried out for a number of years in the corporation—that is, primarily through the main industry representative bodies of farmers and manufacturers. As part of the facilitation process for the establishment of Dairy Australia, the corporation and senior management have participated in industry restructure working groups, in the Dairy Restructure Management Committee, which is a combined industry and government forum, and also in general discussions with the ADIC and its member bodies.

**Senator O'BRIEN**—So individual dairy farmers have not played any role in the development of this model?

**Mr Phillips**—The corporation's activity is not so much at that industry policy level. Basically, we are here to implement existing policies and legislation. We have been working with the industry representative bodies to facilitate their consultation, meetings and exercises, such as the publication of articles in the broad stream of farmer journals like the *Australian Dairyfarmer* magazine. But the corporation's role has primarily been consultations with representative groups.

**Senator O'BRIEN**—So dairy farmers who are not members of industry groups that make up ADIC have effectively been excluded from consultations.

**Mr Phillips**—As part of the process, we have set up the 1800 phone line. We have publicised that for all farmers and general members of the community who are interested in the creation of Dairy Australia to see whether or not there are questions or issues that they wish to raise in that process. We publicised that line widely in regional Australia to give people, whether they are members of the industry organisations or not, the chance to raise the issues they wish to raise with the ADC and DRDC as part of the process of establishing Dairy Australia.

**Senator O'BRIEN**—How do you advertise that that mechanism is available and that these are the issues you need to be consulted about?

**Mr Phillips**—That was done through articles put forward in the Rural Press, such as the *Australian Dairyfarmer* magazine, which goes out to all dairy farmers. There have been discussions on radio programs and so on publicising the existence of the 1800 number. On any documentation that is being prepared in relation to Dairy Australia, that 1800 number is highlighted to allow anyone who wishes to raise issues or questions to bring those forward.

**Senator O'BRIEN**—Was there ever any consideration of an industry-wide ballot?

**Mr Phillips**—I am not aware of that situation, but the corporation has not been involved in that process.

**Senator O'BRIEN**—How many people are employed with ADC and DRDC?

**Mr Doyle**—Approximately 100.

**Senator O'BRIEN**—What will the impact be on them, in terms of job numbers and employment conditions, from this proposed change?

**Mr Doyle**—Job numbers will reduce to the low nineties—91 is our current estimate. Employment conditions remain the same; in fact, I think there is an improvement for transferring employees. They do transfer on the same terms and conditions that the constitution, at least, allows.

**Senator O'BRIEN**—Have the work force been consulted on the changes? Have they made their views known on the model?

**Mr Doyle**—Yes. There has been consultation and communication with the employees over the last period. There are regular meetings with all of ADC and DRDC staff to bring them up to date with what is going on, to talk through the process of transferring employees across and whether there is redundancy going forward as well.

**Senator O'BRIEN**—Has there been some negotiation with employee organisations about that?

**Mr Doyle**—No, there has not, to my knowledge.

**Mr Phillips**—Employee unions?

**Mr Doyle**—Employer organisations.

**Mr Phillips**—Mainly the discussions have been with the Commonwealth—we are still a statutory body at the present time, so we put together an HR restructure plan, which has gone through the Department of Finance and Administration and the Department of Employment and Workplace Relations for their consideration, to make sure that we meet all of our statutory obligations—but not with private employer organisations.

**Senator O'BRIEN**—No, I said employee organisations.

**Mr Phillips**—In terms of private employee organisations, most of the ADC and DRDC staff are contract employees. I think there is only one person in the organisation at present who is a member of a union, and they have not raised any issues about wanting consultations on that.

**Senator O'BRIEN**—So you are saying that, basically, most of the people are not employees, or are they contracted—

**Mr Phillips**—They are employees on fixed term contracts.

**Senator O'BRIEN**—I understand that employees will not be able to contribute to Commonwealth superannuation schemes. What new arrangements will be established to replace them?

**Mr Doyle**—That is currently under review. We have some external advisers with experience in other models to advise us on this one. That process is under way and should be resolved within the next month or two. This affects about 12 people in total.

**Senator O'BRIEN**—Are those 12 people happy? Do they know what the alternative arrangements are?

**Mr Doyle**—They do not know yet, but the objective is not to make them unhappy, I can tell you that.

**Senator O'BRIEN**—Are they members of the CSS scheme?

**Mr Phillips**—There is one member of the CSS scheme. The others are all members of the PSS scheme.

**Senator O'BRIEN**—How much money has been spent on developing the reform model so far?

**Mr Doyle**—If you look at the reform model in two parts, you will see that there is the privatisation aspect, which covers aspects required for due diligence, consultants' reports on behalf of government and the establishment of the register. The estimated budget for the total reform project on that aspect will be about \$2.5 million. Our estimate is that probably \$2 million or maybe a little bit more has been committed to be spent on that right now. In terms of the merger activities—

**Senator O'BRIEN**—Where is that money coming from?

**Mr Aldridge**—It is coming from the reserves of the ADC.

**Senator O'BRIEN**—Is that levy money or Commonwealth money?

**Mr Aldridge**—It is levy money from the reserves.

**Mr Doyle**—The other half of that equation is the costs for the merger—bringing the two bodies together. The capital costs forecast is around \$2½ million for that. Current commitment to expenditure is in the order of \$1 billion at this stage. So there will be more money to be spent on that into the future.

**Senator O'BRIEN**—So \$3 million of the \$5 million overall has been spent, and \$5 million is expected to be spent?

**Mr Doyle**—Committed to be spent.

**Senator O'BRIEN**—So it is \$3 million committed to be spent and \$5 million expected to be spent?

**Mr Doyle**—Yes.

**Senator O'BRIEN**—And is all of that levy money?

**Mr Doyle**—Yes, it is.

**Senator O'BRIEN**—I understand there is a refit of the ADC offices under way to consolidate the activities of ADC and DRDC ahead of the commencement of the new company's operations; is that right?

**Mr Doyle**—That is correct.

**Senator O'BRIEN**—Is the funding of that work part of the \$5 million?

**Mr Doyle**—Yes, it is.

**Senator O'BRIEN**—And is that part of the \$3 million that is committed or is that part of the as yet uncommitted \$2 million?

**Mr Doyle**—That is part of the committed amount.

**Senator O'BRIEN**—How much is that going to cost?

**Mr Aldridge**—It is in the vicinity of \$400,000 for the fit-out to take the combined two organisations.

**Senator O'BRIEN**—And there are fewer people with the combined two organisations?

**Mr Aldridge**—That is correct.

**Senator O'BRIEN**—So that \$5 million will cover the stage right through to the set-up of the new company?



**Mr Aldridge**—It will.

**Mr Doyle**—It may actually go a little beyond that. For example, if there were some redundancies after that date, it would cover that as well. But near enough to it.

**Senator O'BRIEN**—And it is all from levy moneys?

**Mr Doyle**—Yes.

**CHAIR**—You are responsible, I take it, for the promotion of milk?

**Mr Doyle**—We are responsible for promotion of the dairy industry.

**CHAIR**—One of the great curiosities in life for me is why, if I go down to Aussie's in Parliament House, 600 millilitres of water will probably cost me \$2, and 600 millilitres of milk—where there are lots of pellets, silage, work, effort, early morning rises and late nights to bed—will cost me \$1.40, which is a lot cheaper than the water. What does that say? Does that say that the promotion of milk is poor, that there is too much cost cutting or cutthroat marketing, or just that the promotion of water is a lot better than the promotion of milk? Because I know which is the hardest to produce.

**Mr Doyle**—Our role is the promotion of the dairy industry to increase and protect the consumption of milk. It is the role of the dairy companies and the processors to set the pricing models with retailers. I am not really in a position to answer that question. Is there anything you could add, Chris?

**CHAIR**—It is a curiosity, if you think about it. Water comes out of a tap and, they allege, out of a freshwater spring or somewhere. It just seems, shall I say, arse about face.

**Mr Phillips**—I think there would probably be a lot of people in the dairy industry who would agree with you, Senator, in that circumstance. The corporation's role, though, as John has said, is to try and create the most favourable environment for the consumption of dairy products, both domestically and internationally. There may be a question about the amount of funding available for that relative to the money spent by larger private corporations in the promotion of not only water but other substitute beverages such as fizzy drinks and cordials. Dairy is a relatively small component of the advertising spend. It probably reflects the nature of the Australian industry.

**CHAIR**—I will not burden you further with it.

**Senator HARRIS**—You said earlier that, to be eligible for an A-class share, the person will have to have paid a levy within the preceding 12-month period. Is it a single voting right in relation to having paid the levy or does the amount of the levy involve multiple votes?

**Mr Phillips**—The provision is that you will receive a vote for every dollar of levy that you have paid. So if you have paid \$10,000 in levy you will receive 10,000 votes.

**Senator HARRIS**—The make-up of the actual board itself is a combination of A-class shareholders and B-class—that is, the industry representatives. Am I correct?

**Mr Doyle**—I think the decision is yet to be made in terms of board membership.

**Mr Phillips**—The intention of the legislation is that it would be a skills based board, not a representative board of A-class and B-class members in that sense. There may be members of the board who are A-class dairy farm levy payers or representatives of the industry representative bodies because they bring those skills to Dairy Australia, but that is not a requirement. It is a skills based board.

**Senator HARRIS**—Who will be involved in the selection of the board?

**Mr Phillips**—That is not an issue that the corporation will be directly involved in.

**Senator HARRIS**—I find that a rather amazing answer, in that it is your entity that is being rolled over into a corporate company and you are telling this committee that the Australian Dairy Corporation cannot even tell us how those directors are going to be selected.

**Mr Phillips**—I understand there is a selection process being established. The industry representatives who come later will be in a better position to explain the details of that to you. What I was saying was that the Australian Dairy Corporation management does not have to have a direct role in the choice of the inaugural board for Dairy Australia.

**Senator HARRIS**—So Australian Dairy Corporation again had nothing to do with promotion of this process with the actual producers?

**Mr Phillips**—The corporation has been through a number of reviews of industry services with the industry bodies, and independent reviews, over the last three to four years. It has been an ongoing process of reviewing the value of particular services and the structures for delivering those services. As we put in our submission, the corporation has been supportive of a streamlining of the service delivery to maximise the value we can generate for our stakeholders, who fund our operations. Individual members of management have been involved in that review process, in coming forward with the agreed position with industry and

government that streamlining service delivery via one privatised, corporatised structure will deliver the best outcomes for industry.

**Senator HARRIS**—You said that you had consulted with industry representatives, but as a corporation have you consulted directly with the producers in industry?

**Mr Phillips**—We have not talked to all 12,000 dairy farmers directly; that is not practically possible for the corporation. We have participated in a number of industry discussions at regional meetings and other meetings which have discussed future directions for industry, and have drawn on participants from both the farmer and manufacturer communities. We believe that we have participated in consultations with our stakeholders going forward as to how the company should be structured and deliver its services going forward.

**Senator HARRIS**—In your submission, you made the statement:

After consultation with industry, the ADC wound up its single seller role for cheese and skim milk powder to Japan in July 2002, and is in the process of completing the wind up of its single seller role for cheese to the UK.

How would you convey to the actual producers in the industry that it is in their best interests that the Australian Dairy Corporation—or the new proprietary limited entity if that continues down the road—move from the single-seller desk?

**Mr Phillips**—The single-selling desk has been wound up. The decision was taken last year. It is not an issue for us to talk to new members about how we would go forward. That is a fact that has already happened. We had broad consultations with a whole range of stakeholders on the issue of our single-desk arrangements, and the general agreement was that the single desk was a reflection of the historical structure in operation of industry, that the industry structure had changed sufficiently over the last decade that the companies could take direct responsibility for their own exporting of product, which they do in all markets outside Japan. We came to the conclusion that, in the case of Japan, it was also reasonable to allow the companies to reflect the current industry structure, by allowing the companies to take direct responsibility for the marketing of their product. So we wound up the single-desk operations.

**Senator HARRIS**—A document put out by the World Trade Organisation states:

Exports of almost all wheat, barley ... rice, and sugar have remained under the exclusive control of statutory authorities or public firms operating under single-desk arrangements. By contrast, the dairy sector has been deregulated, and producers have received a structural adjustment package; they have apparently thrived as a consequence.

Are you aware of this document? Do you support those statements?

**Mr Phillips**—I am not going to dispute them. They are factually correct, if they are relating to Australia. Unlike the grain industries you are talking about, most dairy produce is actually traded internationally by private companies—not only in Australia but internationally. Whereas grain may have a number of statutory trading operations working internationally, that is not the case in the dairy industry internationally. The corporation's position on industry restructure is that we support, as we have for the last decade, the phased restructure of the industry and the progressive management of industry towards a purely commercial trading footing. We believe that, in the long term, that delivers the most competitive industry, given that we have to live off international market returns. The best way for us to achieve that viable, profitable growth is through a privatised, corporatised structure—that is, the way the industry is going.

**Senator COLBECK**—You mentioned before the aims of the ADC. Is there any benchmarking of the expenditure of the various programs that you conduct against the outcomes?

**Mr Phillips**—In terms of benchmarking against performance indicators?

**Senator COLBECK**—Yes.

**Mr Phillips**—The answer is yes.

**Mr Doyle**—Yes, there is. The planning process actually allows for that, and they are reviewed on a regular basis.

**Senator COLBECK**—You mentioned that one of the objectives was to increase dairy consumption. How does that measure up against reality? Is it going up, or is it going down?

**Mr Doyle**—It is actually going up. To say that the Australian Dairy Corporation was solely responsible for that is probably drawing a long bow, but milk consumption is starting to grow again, cheese consumption is growing at a healthy rate right now and butter consumption is growing and taking market share off margarine. A high-growth segment is the yoghurts and dairy desserts segment, which is growing at double digits. So it is going well.

**Senator COLBECK**—What other factors would you attribute those growth factors to?

**Mr Doyle**—The individual marketing and sales campaigns of the manufacturers and processors. There is a large weight on that as well, of course.

**Mr Phillips**—In the end, consumption reflects a number of factors. There are demographic trends which also have an impact on final consumption figures. There are issues in relation to the general health and nutrition arguments and debates that go forward about dairy. Ten years ago, the industry was not as well placed in that debate as it is now, and that is one of the fundamental areas where we worked to underpin the consumption environment for dairy by promoting the health and nutrition of dairy products, in support of the work that companies do at the individual brand level. There is another measure, although it is not a conclusive measure in its own right. The industry, in terms of production, has doubled in size over the last 15 years and has basically been able to find a profitable commercial home for all that growth. As an export industry, we have gone from \$300 million of exports in 1980, trebled through the eighties to \$1 billion in the early nineties and trebled again over the last decade to reach just over \$3 billion at the present time. So the industry is a very viable, successful industry, generating both employment and production growth here in regional Australia and overseas sales.

**Senator HARRIS**—Can you explain to the committee the existing structure of the Australian Dairy Corporation? Does it currently have a mix of industry and producer representatives on the board?

**Mr Phillips**—Under the legislation, our current board is selected by a ministerial selection process. There are a number of skills and criteria that have to be met, two of which, amongst about seven or eight, are a knowledge of dairy manufacturing and a knowledge of dairy production. So we do end up having farmer and manufacturer representatives on the current board but it is because of their particular skill base rather than as a representative of the Australian Dairy Farmers Federation or the Australian Dairy Products Federation. Those representatives are on the board because of their particular skills.

**Senator HARRIS**—You may want to take this on notice: would it be possible to give us a breakdown of the current board members, their skills and whether any of them are actually producers?

**Mr Doyle**—I could answer most of those questions right now. Three of them are producers. One was a producer as well. So there are four members of that board who have had actual dairying experience. Other members have expertise in corporate governance, commercial arrangements, manufacturing and marketing.

**Senator HARRIS**—How many representatives would the manufacturing sector of the industry have?

**Mr Doyle**—Three.

**CHAIR**—I thank the witnesses for their time.

[6.28 p.m.]

**CARTWRIGHT, Mr John Edward, National President and New South Wales President, Australian Milk Producers Association**

**HARTWIG, Mr Glen Charles, Vice President, Queensland, Australian Milk Producers Association**

**KEARNEY, Mr Michael, Executive Officer, Australian Milk Producers Association**

**McKENZIE, Mr Alexander Francis, Victorian President, Australian Milk Producers Association**

**CHAIR**—I welcome witnesses from the Australian Milk Producers Association and invite you to make an opening statement.

**Mr Cartwright**—Thank you. AMPA has already made a submission, and because there are four of us to speak I will keep this statement brief. We have representatives here from Queensland, New South Wales and Victoria. I guess it is fair to say that one of our biggest objections to the process to this stage in the setting up of Dairy Australia has been the lack of consultation with the entire industry.

We hear a lot from the minister that he is talking to and liaising with peak industry bodies, but it seems to us that the peak industry bodies do not represent all the farmers in Australia by a long shot. Having regard to our endeavours in AMPA, many people do not belong to either organisation and are not getting a chance to be heard. They are not even aware of what is going on in the first place to even want to be heard. So our biggest criticism probably relates to consultation, because AMPA has a raft of objections to what is being proposed. If we cannot get consultation to air them, have them taken on board and acted upon, we are just a voice that is not getting heard.

We have tried to talk to Minister Truss and it has taken nearly 12 months to get him to reply to letters. One of the things that concerned us greatly, as this has been proceeding through parliament, was that his office rang us the day after it was read a first time in parliament. They said, ‘Oh, we’d better have you come and see the minister seeing that it is already going through parliament.’ That prompted them to arrange a visit personally with Mr Truss. It concerns us that he is the only one we seem to be able to talk to, yet we cannot get to see him. That is a big concern for us.

Let us backtrack a little and talk about some of the things we are concerned about in New South Wales. One concern is whether this organisation or company is needed. Another thing that concerns us is the role of the Australian Dairy Corporation. If there has to be research, so be it. As we have just heard, most of the role of that industry has been played out. The single desk has gone. I think it would be fair to say that what is trying to be incorporated here is jobs for the boys. Their role has nearly gone. Looking at the proposed structure, the board will have nine members on it, yet it has a turnover of only \$30 million. Putting that into perspective regarding other companies in Australia, it is a ridiculous amount of representation to have. Of course, we have no say in who those people are.

Predominantly, we are objecting to the fact that we cannot get our voice or our objections heard. One of our representatives from Western Australia is not here, so they have tabled a submission. I would like to read the last two paragraphs, from paragraph 6:

The most serious concern that I have is with the word so often used “Consultation”

I have never been consulted, nor has there been any channel that I know of that would have allowed me to have my opinion heard or to voice my concerns before Dairy Australia was presented to the Federal Government.

I hope that you take these points into consideration when you are making your deliberations ...

That sums up what we are all about—that we just cannot get our voice heard. I would like to leave it there because other colleagues wish to add some remarks.

**CHAIR**—Bear in mind that the longer you take with all of this, the less time there will be for deep and meaningful questions.

**Mr Hartwig**—I would like to follow on from what John was talking about and raise my concerns with regard to the Queensland industry. Regarding consultation, I would like to express this to the committee today: do not delude yourselves for one moment in believing that there has been consultation in Queensland. I am not aware of any public meetings where Dairy Australia was ever to be discussed. I had a meeting with Minister Truss just last Thursday where two other farmers were present. I would regard those farmers as being better informed about industry issues than the general farmer. When it came to Dairy Australia, I made the statement that consultation had not occurred. I asked these two farmers, ‘What do you guys know about it?’ One of them said, ‘Well, I know it’s something they are trying to bring in,’ and the other one said, ‘Well, I know nothing of it.’

Minister Truss is well aware that no consultation has taken place. I have attended a number of meetings across Queensland, including the dairy crisis meetings where over 1,000 people attended. When you talk to

farmers at these meetings and mention Dairy Australia, it is like you are talking about a foreign subject. Farmers simply have not been consulted about any matters relating to Dairy Australia. I would like to impress upon the Senate committee today that I believe that for too long the dairy industry has been led without any farmer input. It is time for a change in the direction of the industry. There needs to be adequate farmer consultation. That simply has not occurred.

**CHAIR**—Thanks very much for that.

**Mr McKenzie**—In Victoria we are also concerned, amongst a lot of other things, about consultation. On 20 March, which is less than a week ago, the south-west branch of our organisation organised a public meeting—and it was a public meeting, not an AMPA meeting—to discuss Dairy Australia. The meeting was called because the local UDV organisations that are affiliated with the AFF and the ADIC would not call meetings to discuss the situation with dairy farmers. To be brief, that public meeting, after considerable discussion—and you have the list of who the speakers were at that meeting—moved the following resolution:

... that the forming of Dairy Australia be deferred for 12 months so as consultation can be held with levy payers.

I will leave my statement at that and wait for questions. Thank you.

**CHAIR**—Thanks very much.

**Mr Kearney**—One of the previous speakers here from AFFA, in answer to a question, said, ‘This is not a new levy.’ When we met with Minister Truss on the 10th of last month, his response to this very question was, ‘It is a new levy.’ In relation to the subsequent issue about it coming under the guidance of the principles for establishing new levies, we asked him about the vote, and he said, ‘Yes, it has to be a majority vote of prospective levy payers. It has to be more than 50 per cent plus one, but it wouldn’t have to be 100 per cent.’ So he basically says that it is a new levy. This document, ‘A brief for the government: Dairy Industry Service Reform Bill’, which was introduced on 19 December 2002, in part says:

The Primary Industries (Excise) Levies Amendment (Dairy) Bill 2003 will establish a new levy called the dairy service levy which will replace the current dairy promotion levy, the dairy research levy and the dairy corporation levy.

I do not know what that guy was on when he came in here. I will not say that he was lying, but I am saying that what I have said is the truth, which is different from what I believe he said to you. Therefore, the principles and guidelines for the establishment of levies do apply.

There has been a fair bit of stuff about consultation, and on a number of occasions—I think two—AMPA met with the Australian Dairy Farmers Federation. We had some discussion on issues that we disagreed with. One of the key planks was the levy vote: whether it should be one vote for every dollar or whether it should be one vote per levy payer. The answer to us was, ‘This is Corporations Law—that is, it has to be one vote per dollar paid.’ The implication from that is that there is nowhere else to move. We have been in touch with the Australian Securities and Investments Commission, which has told us that you can have whatever you like as long as it is written into your constitution. So, if you wanted to have one vote per levy payer, that is legitimate. But if you do not write anything in, the one vote per dollar automatically goes into your constitution.

**CHAIR**—Thank you very much. With respect to the meeting at the Simpson Hall the other day—and I was there; there is quite a good season still!—do you think that was representative of all the various energy groups in the dairy industry?

**Mr McKenzie**—I would suggest that at that meeting there was a good cross-section of dairy farmers: some of the younger farmers and some of the more, shall we say, mature people.

**CHAIR**—One of the curiosities out of this is that plenty of people come to us and say, ‘We’re not represented,’—and there is a group of people not far down the hill here who say the same thing. What do you do with your local member?

**Mr McKenzie**—We have had considerable discussion with our local member, who happens to be David Hawker. I would suggest that, while David has always been prepared to meet with us, we have never achieved any satisfaction from our meetings with him. He has never come back with anything. He says, ‘I will take that on board,’ but nothing ever happens.

**CHAIR**—How is the Australian Milk Producers Association constructed? Do you raise a levy to be a member? Does everyone pay a levy? How many members do you have?

**Mr McKenzie**—They pay a levy.

**Mr Kearney**—We have 2½ thousand members.

**Senator CHERRY**—Can you recall what processes were used to get producer support, or to envisage producer support, for previous dairy levies?

**Mr Kearney**—I cannot recall, but ever since I have been dairying, which is 23 years, it has always come off my milk cheque. So it was obviously in vogue prior to that as well.

**Senator CHERRY**—When the 11c levy was introduced three years ago, what consultation was undertaken for that levy compared with this time?

**Mr Kearney**—I cannot remember any consultation on that levy in terms of getting dairy farmer support. It was probably part of an agreement between the ADIC and the federal government on how to raise a quantum of money over a time that most people may have agreed on.

**Senator CHERRY**—You said that you had met with the minister on a number of occasions about this bill.

**Mr Kearney**—No; we have met once.

**Senator CHERRY**—Have you had other communications with the minister?

**Mr Kearney**—Yes. In fact, earlier the Chair asked about our local member. My local member is Peter McGauran, and certainly on two occasions when we wrote to him to get a response from Minister Truss he assisted us in getting that response within a very short time after we had written to him.

**Senator CHERRY**—Have any proposals changed as a result of your meetings with the minister or with the government?

**Mr Kearney**—I would say no.

**Mr McKenzie**—I would suggest that, since our meetings with the minister and our meetings with our local members and the ADIC and the ADFF, there has been no change whatsoever.

**CHAIR**—What percentage of the industry do you think you represent?

**Mr McKenzie**—We have 2½ thousand members.

**Mr Kearney**—We have 2½ thousand out of 11,000; have you got your calculator?

**CHAIR**—No, I have not.

**Mr McKenzie**—But there are 2½ thousand to 3,000 more who do not belong to anyone

**CHAIR**—That is normal behaviour for farmers.

**Senator CHERRY**—Do you believe that moving from a statutory structure to a corporate structure will make the new dairy organisation more accountable to dairy farmers?

**Mr McKenzie**—No.

**Mr Kearney**—No.

**Senator CHERRY**—Why is that?

**Mr McKenzie**—Because of the levy paying system where you have some levy payers who are members and some who are not, under the voting arrangements being proposed—that is, one vote per dollar invested—people will soon realise that, if they do not milk 400 or 500 cows, their voice is not going to be heard. We had a situation with Bonlac Foods where 18 per cent of the suppliers controlled 51 per cent of the shares and safely controlled the company. Our fear is that the vast majority of people will not even bother to sign on and will have absolutely no say at all. Also, from the information that we can gather from the ADFF and ADIC documents, the board will be selected by a committee made up of two representatives from the ADIC and two representatives from the product section, plus the first board chairman. They will select the board to go to the AGM for ratification. I understand that there is another process whereby, if we do not agree with that, we can nominate somebody to that board, but we have to get 100 signatures from farmers to support that nomination to go before the committee, which people will not bother to do.

**Senator CHERRY**—Has the ADIC proposed a consultative arrangement to fold you into their decision making as a group B shareholder?

**Mr McKenzie**—No.

**Senator CHERRY**—Have you sought an arrangement where you could be involved in the industry as a group B shareholder?

**Mr McKenzie**—Not at this point, no.

**CHAIR**—Why is milk cheaper than water?

**Mr Kearney**—It depends which end of the chain you are talking about. If you are talking about someone selling water—

**CHAIR**—I am talking about in the bottle at the shop.

**Mr Kearney**—One of our AMPA members sells water. He gets 1c a litre for his water. So whatever the rest of the cost is, that is just market pressure—if you put the price up and people still buy it, then why not crank it up to see how high you can get it?

**CHAIR**—Do you think there are any lessons for the dairy industry in all of that?

**Mr Kearney**—No, there are not really. The other thing about milk is that we are a captive market. These blokes here who milk cows know that when they put milk in a vat it has got about a two-day life—maybe a four-day life.

**CHAIR**—I understand all that.

**Mr Kearney**—We kept water in our tank for about five months over the last period of time.

**Senator HARRIS**—One of the submissions that you have put in is from Kingsley Palmer. He states:

I am particularly disturbed by the following.

1. The voting system which allows the voting at the Annual General Meeting to be on the basis of the amount of levy paid.

Why do you view that as a problem?

**Mr Kearney**—Just on the basis that it allows a much smaller group than 50 per cent to control a vote.

**Senator HARRIS**—So what you are clearly saying is that, even though the smaller producers may make up a larger majority of producers, because their volume is less than the larger producers the larger producers would ultimately control the decisions within the corporation.

**Mr Kearney**—That is one of the reasons. But for any vote that you blokes are in it does not matter how much tax the electors pay—they still only get one vote. If I am a ratepayer at the shire elections I still only get one vote, irrespective of the rate I pay. Even the state organisations that belong to the Australian Dairy Farmers Federation—no matter how many cows they have or however their levy is collected on a pro rata basis of milk production—still only give you one vote per farm et cetera. That is the type of thinking behind it.

**Senator HARRIS**—Mr McKenzie, you say in your submission that a meeting was called by the Australian Milk Producers Association because the local United Dairyfarmers of Victoria rejected a proposal to hold a public meeting on Dairy Australia. Are you aware of any other areas where there has been a refusal by United Dairyfarmers of Victoria to hold a public meeting?

**Mr McKenzie**—I did hear of one case in Gippsland where I was told that an approach to the UDV had failed to get a meeting.

**Senator HARRIS**—A public meeting?

**Mr McKenzie**—Yes.

**Senator HARRIS**—How would your organisation propose that Dairy Australia reflect a more balanced view of the industry and how would you see a balance struck between the larger producers and the smaller producers in relation to Dairy Australia?

**Mr Kearney**—Part of the argument in Dairy Australia is that you have people paying higher levies and people paying lower levies. If you are paying levies into research and development—let us say, for instance, that you are paying \$10,000 and I am paying \$1,000—and if that research and development is not returning, say, 10 per cent, then it is probably hardly worth investing in. But if you have got \$10,000 invested, you get \$1,000 a year back from it, and for my \$1,000, I get \$100. You are still getting a 10 to one ratio out of the value of the research and development because of the size of your operation. We are contending that that is your advantage because of your size, and not necessarily that you should have further advantage in your voting capacity.

**Senator HARRIS**—How would your association see a proposal for a direct correlation between the number of producers and the proportion of board members they elect? Do you have an idea of how that could be achieved and, if it could, what would be an acceptable balance on the board between producers and other members?

**Mr McKenzie**—Personally, I would suggest it would have to be a 50-50 ratio. But before we talk about electing the board, we have to look at and investigate the actual value of the Dairy Corporation to the industry today. Much of the work that we have heard the Dairy Corporation will do is actually the work of the manufacturing sector—promotions, sales and those types of things. So the manufacturing sector ought to be contributing in proportion to the value they get out of it. The gathering of statistics is of little or no value to us, so those who get the value out of it ought to be paying for it. The idea that dairy farmers should fund something like that, which they get nothing or little out of, is quite unacceptable to us.

At our meeting down in the Western District last Thursday night we had the case of a farmer—and this will give you some understanding of the plight of the industry now and the crisis that we are in—who, with his son, operates a 1,500 cow enterprise and is being threatened with having his power cut off. He is paying \$45,000 a year in levies and he cannot pay his power bill! There has to be a review of the whole situation before we go ahead with his company, so that we get can a structure that does not have any dead wood in it and is going to return something to the farmers.

**Senator HARRIS**—I was recently speaking to a dairy farmer in Gympie. Prior to deregulation he had a herd of 250 cows and had a share farmer. Subsequently, post-deregulation, he has had to dismiss the share farmer and increase his herd by 100 head. Now his milking period is 12 hours per day—six hours in the morning and six in the evening. Is this happening across the industry or have there been productivity improvements in the industry as a result of deregulation?

**Mr Cartwright**—No, it is not. With the effects of deregulation, the problems in the industry are now starting to come home big-time. We have run a series of meetings across a fair part of the country. That is the feedback and the concern of farmers; they are in dire straits at the moment. That is why we say that these levies have to be justified. Levies are an input you cannot do away with. With the industry in such dire straits, they are seen as just another burden that is not returning benefits to the farmer and, therefore, whether it should even be there needs to be looked at very closely. But you are dead right—the industry is in all sorts of financial trouble. We get feedback from the top of Queensland, Western Australia, South Australia and everywhere they are saying the same thing. I know it is a little bit off the track, but you are 100 per cent right. We are getting that feedback from people. At meetings all across the country people are coming out expressing their concerns about the problems in the dairy industry at the moment. You could not say that deregulation has given them a very rosy industry.

**Senator HARRIS**—Do you see the establishment of Dairy Australia as a positive step for the industry? How could it be made a positive step for the industry?

**Mr Cartwright**—I do not think there is a great lot in it that is positive for the industry. We have said research, but we feel that that those particular avenues could be covered elsewhere. There are good research facilities in Australia through the CSIRO. Most of the companies are capable of doing adequate research themselves. As you have heard, the role of the DRDC has nearly gone out, and we believe that this is something that may not be needed in the dairy industry. We think it can be picked up by other bodies and handled much more efficiently.

Talking about efficiency, one of the reasons Mr Truss indicated to us for allowing negotiations to merge the two bodies was that it was pointed out to him—even though he cannot provide us with the figures—that there had been a survey into the synergies and savings from merging the two industries. Most of the role of the Australian Dairy Corporation has now been handed over to people from proprietary companies, such as Warrnambool Cheese and Butter Factory, Bonlac Food and Murray Goulburn. They have their own people in their respective companies to do marketing. Once, they used to be paid for out of the funds of the Australian Dairy Corporation. Now, the levy is going to be the same, but they are not going to be doing all the work they used to do before. Mr Truss is talking about transparency and seeing where your money goes. In actual fact, we are going to be conned into paying exactly the same levy—there was no talk of the levy being changed—to do less work. So that means the levy has gone up for the farmer.

**Mr Kearney**—Can I just answer a question you asked before? You asked whether the industry is in a bit of financial strife. Deregulation was only about market milk. It is often clouded by manufacturing milk prices, but it was about market milk. There was an article in the *Australian* on 3 March, written by Robert Gottlieb. Talking about the CEO of Woolworths, Roger Corbett, he cited Mark Westfield's description of how, in a masterly stroke of market power, Woolies was able to extract \$500 million out of the market milk sector from the processors and dairy farmers. Well, I do not care who the hell you are. If \$500 million is taken out of your industry, unless there has been a price rise to you, you are worse off. Maybe individuals within it are not—I do not know—but certainly the industry is worse off. And he did not mention what Coles had been part of, either. So that is a significant amount of money per annum out of the industry.

**Senator O'BRIEN**—We do not know which sector paid that, do we?

**Mr Kearney**—I can tell you, but would you like to take quick guess?

**Senator O'BRIEN**—I know that the farmers would say that they paid it—

**Mr Kearney**—No, they would not have paid it all.

**Senator O'BRIEN**—and the processors would say that they paid it. We are not really sure how it breaks down.

**Mr Kearney**—Some of our processors are cooperatives as well.

**Senator O'BRIEN**—I gather you oppose the legislation in its entirety. Are you saying that we should not pass this legislation?



**Mr McKenzie**—We are asking that it be deferred for 12 months while there is a proper review of it.

**Senator O'BRIEN**—Who should conduct that review?

**Mr McKenzie**—It should be a broad review with better input, and more input, from the people who are going to pay the levy. The corporation would have to be involved, along with the DRDC and the industry leaders. It has to be a broad inquiry and not just a select few people saying, 'This is what we are going to do for the industry; hope it suits you.'

**Mr Hartwig**—In relation to who paid that \$500 million, I do not think it takes a rocket scientist to realise it is farmers. You only have to look at the price we are being paid to realise that that \$500 million has come straight out of our pockets. That is the only point I wish to make.

**Senator O'BRIEN**—Some of it might be, effectively, funding a component of the 11c a litre levy, mightn't it, Mr Hartwig?

**Mr Hartwig**—I would not say that that is the case at all. That \$500 million has been taken out of farmers' pockets and prices have dropped significantly. Whether that 11c levy was there or not, because of the environment farmers are in and because we can only keep our milk for a short period of time, the price we are getting now is the price we would get anyway. Whether or not that 11c a litre levy was there would not change the fact that the money is still going out of farmers' pockets.

**Senator O'BRIEN**—That seems to run against your argument that the farmers are paid the \$500 million. If the price you are getting now is the price you would be getting anyway, why do you say that farmers are funding the \$500 million?

**Mr Hartwig**—Because we were receiving a premium for market milk. That premium is being eroded at the farmer end and is being taken up elsewhere. Deregulation was just a shift in wealth. Money that was once given to the farmer has now been passed on to the big end of town. That is all deregulation has done. It has not resulted in cheaper milk or other products for the consumer. If you look at the statistics, you will see that people are actually paying more for milk now than they were when the industry was regulated. All we have had is a shift in money and the money has not been given to the people on the ground—the ones who do the work—that is, the farmers.

**Senator O'BRIEN**—Are you talking about the Queensland situation?

**Mr Hartwig**—I know for a fact that that is the Queensland situation. But I think I could go out on a limb and say that that is the case probably right across most of the country.

**Senator O'BRIEN**—I do not think that is quite true.

**Mr Kearney**—Also, two billion litres at 11c is \$220 million. So it is at least 300 million, because the levy has been reconfigured back into the DSAP funding.

**Senator O'BRIEN**—I am just suggesting that it is not as simple as saying that it has come out of any particular pocket. Certainly, it has not been an exercise in market power. Mr McKenzie, you are reported as opposing all levies such as the R&D levy on dairy farmers. Is that the view of the national organisation or just the Victorian farmers?

**Mr McKenzie**—I am not opposed to all levies as such. What I am opposed to is the system that we are going through now. A few years ago I was very much involved in the research issue and there has to be some research. But we must be mindful that we are now in a deregulated industry. What was relevant and collective a few years ago before deregulation is no longer the case. So it has to be viewed in that light. What we have to look at now is what general research ought to be done and what research is private. The private research ought to be handed over to the private sector. We should not be paying for it.

**Senator O'BRIEN**—I take it you would welcome the opportunity for dairy farmers to vote on the levy rate as provided in the reform model?

**Mr McKenzie**—Yes.

**Mr Kearney**—Providing the minister does not have a veto power.

**Senator O'BRIEN**—Providing the minister does not have a veto power on the vote—is that what you are saying?

**Mr Kearney**—No. You mentioned a vote on the levy. As we understand it, there are supposed to be several offerings, of which one is zero. The minister is required to make sure that, whatever financial impost might be put on the organisations, there is enough levy to cover any of those offerings. Dairy Australia assumes some debt that currently resides with the ADC. There is some conjecture as to whether the debt, with the Asian venture, is zero or \$20 million. If the minister assumes that it might be \$20 million—or even if it is \$10 million—he has to ensure that there is enough money in the levy to cover that exigency in the year. He could not accept a zero while that was still out there.

**Senator O'BRIEN**—Who should pay for that?

**Mr Kearney**—I presume it is the dairy farmers' responsibility. The government is certainly not going to pick up the tab. It was a decision on behalf of dairy farmers by the Australian Dairy Corporation. To me, that is legitimate.

**Senator O'BRIEN**—So the veto is reasonable in that sense?

**Mr Kearney**—Yes, it is reasonable to expect that.

**Senator O'BRIEN**—If the bill were passed by parliament in its current form, how will individual dairy farmers be affected by the proposed changes—that is, the transfer from a statutory authority to a corporation or company?

**Mr McKenzie**—They would still be paying levies and getting doubtful returns, putting more and more pressure on their own enterprise. Take the example of the chap who is paying \$45,000 levy and cannot pay his SEC bills. That would make a big difference to his operation.

**Senator O'BRIEN**—Presumably he is having difficulty because his operation is not profitable for some reason, which could be the drought or could be something else. I don't know.

**Mr McKenzie**—Yes, that is true but we are in a deregulated environment now. We are in a deregulated industry. We are proposing changes so this change ought to take place in light of what has happened over the last couple of years. Let us have a change and let us weed out those things that are not necessary and those things that are not returning us money. If we have anything in our business that is not returning us money, small and all as returns may be at this stage, we pass them out and try to concentrate on things that are profitable to us. This proposal as it is now is just a continuation of the same without any real reform and without any real consultation with the people. While we are talking about consultation, I would like to refer to the 1800 number that has been referred to here previously. A number of people have rung this 1800 number, believing they were going to talk to somebody who had some knowledge of what the proposals were and they found it was just some answering service that had a list of questions that might be asked. They just run the spiel. The 1800 number was just a farce and a publicity stunt.

**Senator O'BRIEN**—Are you saying that you did not have a means to present your view if you rang that number?

**Mr McKenzie**—Not if you rang that number.

**Senator O'BRIEN**—Did you the number yourself?

**Mr McKenzie**—Twice.

**Senator O'BRIEN**—Your experience of that was that you got a recorded message?

**Mr McKenzie**—No, I got a person on the other end, a woman one day and a gentlemen the other day. I asked them the questions and I could hear the woman flick over the pages of the papers she had there to come to the questions that I asked.

**CHAIR**—That is what you call a call centre.

**Mr McKenzie**—Yes. There was absolutely no satisfaction whatsoever.

**Senator O'BRIEN**—I see. Have you made representations to the minister about the company structure? You express some concerns. You have told us about what has been said and you would have heard the evidence today that effectively the minister has significant influence on the memorandum and articles of association for this company.

**Mr Cartwright**—Yes. Some of the answer to that is we do not like the company structure. It is supposed to be a company. First, you have shares that do not earn you any money. If you leave the industry you lose your share, so you are nothing more than just a name. If you are a shareholder, unless you nominate that you want to be a member, you are just a nothing. It is in the nature of a lot of farmers that they will not fill in the necessary forms or make the application to say they want to be a shareholder. You are only going to get a select few who have been wised up.

**Senator O'BRIEN**—I do not think it is a shareholder position. It is a member of the company position.

**Mr Cartwright**—Yes, but the shareholder has to apply—

**Senator O'BRIEN**—I do not think you are shareholders. You are members.

**Mr Cartwright**—Whatever terminology you want to use, but it is the same thing.

**Senator O'BRIEN**—It is not what I want; it is what I understand the position is.

**Mr Cartwright**—It is the same thing. You have to nominate that you want to be a member of it. A great number of farmers will not do that. Those in the know will. They will be informed and get the right information and keep voting. But there is nothing in it for the average farmer. They say they are going to a proper company. Usually in a proper company, let us say, if they did research—this is one example I have got—and they had a medical breakthrough and it involved millions of dollars in profits, in proprietary rights

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to the research, you would think that company would own it and that would come back ultimately as a dividend or something to the farmer, but it just stays in house and if the farmer leaves the industry he gets no share of that whatsoever.

The selection criteria worry us greatly. The word has just gotten out in New South Wales who some of the members of the interim board are. There is a great move afoot to try to remove at least one of those people from that board, and it has not even got off the ground yet. It was through a nomination process, probably done by the minister, that these people are put on the board. There has been no consultation with the membership as to whether members think a particular person will serve them well on this board. I can assure you that people are ropeable about the appointment of some on the board. If that is the type of thing that is going to go on, we do not want it.

**Senator COLBECK**—How many people were at the Simpson Hall meeting?

**Mr McKenzie**—I would not know the exact number, but it was over 60.

**Senator COLBECK**—What is the relationship of AMPA with state farm organisations?

**Mr McKenzie**—Do you mean the UDV?

**Senator COLBECK**—I mean the state farming organisations in each of your respective states. You might each like to make a comment on that. For example, the relationship with the VFF or the New South Wales Farmers Association.

**Mr Cartwright**—The Australian Milk Producers Association would like to work in harmony with all organisations across the country, but it is not working out that way—and we will see further evidence of this in the future. Whilst other organisations say they want to be cooperative, they have their own agendas and we do not seem to be able to see eye to eye at the moment. We would like to think that, on major issues, we could all come to a common agreement, but that has not proved to be the case at the moment. We seem to be poles apart. There is something going on in New South Wales at the moment, and I can assure you that the two organisations have not come to any agreement on the major issues. It is extremely difficult to get organisations to sit down and say, ‘Let’s pick the best of both ideas,’ and try to get a consensus of opinion.

**CHAIR**—So do you think you are rebels with a cause when you describe yourselves like that?

**Mr Cartwright**—We believe we are providing a very sensible alternative view to what the industry is proposing. We will continue to do that and hope that people will listen to us, because we do represent a large chunk of Australian farmers, who have selected us to be their representatives. We want people to listen to us.

**CHAIR**—You have a few cousins in the wheat industry.

**Senator O’BRIEN**—How do dairy farmers give you the instructions to say what you are saying and do what you are doing?

**Mr Cartwright**—We go through branch meetings, we go through the executive, we go through board meetings and we have state meetings; so the feedback comes in quite a democratic way. We go out to public meetings and talk to our farmers in large numbers, particularly when an issue arises. We go out and talk to the farmers and get feedback about what they want. We also have telephone conference calls all the time. We are a grassroots run organisation.

**CHAIR**—So if we asked the Australian Dairy Farmers Federation if your group represents farmers in a true and representative way, what would their answer be? Answer for them—what would they say?—because we will ask them later.

**Mr Cartwright**—Do we represent farmers?

**CHAIR**—Yes.

**Mr Cartwright**—I would say absolutely. We represent a great many farmers.

**CHAIR**—Do you think you do it better than the Australian Dairy Farmers Federation?

**Mr Cartwright**—No, we would not claim to represent as many as the Australian Dairy Farmers Federation collectively. All I can say is that our membership is still increasing. We are only 2½ years old and people are still coming to us, so obviously they see us as useful.

**CHAIR**—Might is not always right. You reckon that you fairly represent the views of farmers?

**Mr Cartwright**—I would say that we are definitely representative of farmers. We are a national organisation so we have farmers from all over Australia giving input to us.

**CHAIR**—What do you reckon the return to the grower is, versus the return to the manufacturer and to the retailer, on a research dollar?

**Mr Cartwright**—If you look at the state the dairy industry is in at the moment, if research is helping it, heaven help us if we didn’t have it! I would think most of the research is probably helping the cooperatives. They get lots of things about which you might say, ‘If it benefits them, it flows back to the farmer,’ but one of

the things we object to when you get down to all the fine details—and we have not covered any of those today—is that there is so much duplication in research. They will do a rye-grass study in Gippsland and then they will move to another town and do the same thing all over again. There is so much duplication going on. It is deemed to be a waste of money.

**CHAIR**—Would you describe your members as classic price takers?

**Mr Cartwright**—Yes, we certainly are.

**CHAIR**—You say that that is because you have a product that you have to get rid of every day.

**Mr Cartwright**—It is perishable.

**CHAIR**—Do you think there is any hope of research and technology overcoming that hurdle so that you are not such price takers?

**Mr Cartwright**—Not for the big majority of the milk. They can spray-dry product and reconstitute it, they can do UHT treatment—there are lots of things they can do to put it away in store—but legally it is not fresh milk if it has been separated or dried and reconstituted. It does not come under the fresh milk banner. We are beaten by health acts anyway.

**CHAIR**—So you are always going to be price takers?

**Mr Cartwright**—Yes.

**CHAIR**—As there are no further questions, I thank you. Do you have anything to add, Mr Hartwig?

**Mr Hartwig**—No.

**CHAIR**—Thank you very much for your contribution.

[7.17 p.m.]

**BURGESS, Mr Allan, Board Member, Australian Dairy Farmers Ltd**

**McQUEEN, Mr John Henry, Chief Executive Officer, Australian Dairy Farmers Ltd**

**ROWLEY, Mr Patrick Desmond, President, Australian Dairy Farmers Ltd**

**DORNOM, Ms Helen, Executive Officer, Australian Dairy Products Federation Inc.**

**CHAIR**—I welcome Australian Dairy Farmers Ltd. Do you have any comments to make on the capacity in which you appear?

**Mr Rowley**—I am also Chairman of the Australian Dairy Industry Council.

**Mr Burgess**—I am also a dairy farmer from Shepparton.

**Ms Dornom**—I have been invited by Australian Dairy Farmers Ltd to be here representing the Australian Dairy Products Federation.

**CHAIR**—I invite you to make an opening statement.

**Mr Rowley**—Thank you. To put this in perspective, I think it is important to put the structure of the Australian dairy industry to you. Out there in the farming community, we have a lot of members who belong to branches who then belong to district councils who then belong to state organisations and then come through to Australian Dairy Farmers Ltd. More importantly, we have an Australian Dairy Industry Council, which is made up of eight farmers, eight processors and a member of the ACTU. That council has a responsibility, for example, to set the levy, to recommend to the minister the size of the levy. It has responsibility to look at the plans of the Australian Dairy Corporation and the Dairy Research and Development Corporation and make recommendations. That is the line of command that is in the system.

We had full deregulation of the industry on 1 July 2000. This industry sat down and said to itself: 'The world has changed. We have some commercial processors now who are going to be very focused on commercially looking after the affairs of the industry. We also have farmers who are very much linked to those processors, but we need to get a system in which every farmer in Australia participates.' In putting forward this proposal, we tried to do just that. We went through reviews, since 1999, on promotion, information, trade policy development, commercial trading, research, development and extension. We had a good look at the whole shooting match and what we came up with was that we could not afford to have two statutory organisations and we should roll them into one to get some efficiency on that performance.

We also decided that all farmers in Australia would pay a levy, which is 0.32c a litre, based on a payment on protein and fat. Right now, the minister has asked us, the ADIC, to make a recommendation and we have said that the levy should be maintained. So the new levy rolls at the same rate. I make the point that we believe that all levy payers ought to have the right in the future to decide the size of the levy. We take the view that the new structure should allow those levy payers to become members and to participate—each one of them—in all of the decision making of that new organisation. We have also looked at the other industries that have made this change to try to see where some of the weaknesses were, particularly in participation in the selection of board members et cetera, so that we could overcome some of those problems. I would like to ask Allan Burgess to present to you the principles we looked at in putting this forward.

**Mr Burgess**—I would like to reinforce three things. The first one is that, as Pat portrayed, our industry has changed; it has very little involvement of government these days and is largely deregulated. We thought the first principle should be that dairy farmers should take responsibility for their industry and, therefore, in the case of levies, they should be the ones in control of how the levy is set and of the organisation that invests in it. Secondly, we felt that having two service organisations was likely to be very inefficient and that, if dairy farmers were to take control of the industry, they would want an efficient system that was one organisation. Thirdly, 80 per cent of our industry is owned by dairy farmers right through to manufacturing, through the cooperative sector, and we felt that this new structure should give the opportunity for both sides of the industry to have input to that. Dairy farmers are in manufacturing as well and we wanted to make sure that that voice was also part of this new structure. There is a range of other principles, but they are the three most important ones.

**Mr Rowley**—Before you go to questions, let me sum up by saying that, as we went through those reviews that I outlined earlier, we would have reported to the industry right across all the annual meetings of the state organisations and the district councils. We were in every rural newspaper as well as our own newspapers. We reported consistently what the thinking was and we sought responses back via the system that I outlined to you earlier.

I will just make one comment before I close and that is that, with a very big drought across Australia, this has not been a first-order issue for a lot of people; survival has. So I wrote to all dairy farmers in Australia, I

think in November, and outlined the broad principles of what we were proposing. From that I received two letters.

**CHAIR**—How many pages were in the letter?

**Mr McQueen**—One and a half pages.

**Mr Rowley**—But it outlined the principles. I would admit that it is difficult to get face-to-face meetings across the whole of the industry. You run into these very things in government and in opposition; you know how difficult it is to get to people. I would like to be able to get out there in public meetings, get a white board and let everyone have a go, but it is not physically possible. Over three years we have been outlining, step by step, this proposal. I leave my comments there.

**Senator CHERRY**—Do you have a piece of paper that has the process for consultation that you went through over that three-year period?

**Mr Rowley**—I will refer to John McQueen, who has the piece of paper and would like to speak to it.

**Mr McQueen**—I have a summary of speeches and communications that we have undertaken over the last few years, which I can leave with the committee. The detail is embraced within that to a large extent and, if the committee so wishes, we would be happy to provide copies of it; but we felt that, at least for this point in time, a summary of the consultative processes we have been through—a couple of pages, I hope—might be a better first step.

**CHAIR**—Much appreciated.

**Mr Rowley**—I follow on by referring you to Helen Dornom, representing the processor sector.

**Ms Dornom**—I have been invited along, and the manufacturers have asked me to come, to put their view that they are fully supportive of the proposals that are out there. They believe that the strategic partnership that they have had with the production sector has been to the benefit of the industry over the years. They are very keen for that partnership to continue. They see a great deal of merit in putting the two industry services bodies together to provide the industry with efficient collective services. They have also agreed that they will be out there actively encouraging all their member suppliers to become members of Dairy Australia, as they believe that it is very important for the individual dairy farmers to take responsibility for and to be able to influence the direction the dairy services company is going.

**CHAIR**—What proportion of marketing of product do you think the manufacturers undertake compared to what used to happen under the old scheme of things? What proportion of all the marketing in dairy is done by the manufacturer?

**Ms Dornom**—It is very difficult to guess on it, but you have to look at it in the context of the budget of the ADC, which has been around \$20 million over the last four to five years. Of that, approximately \$8 million to \$10 million now goes into what is called promotion, but it is actually promoting health and nutrition. That was as high as \$17 million until about three years ago, when the industry agreed that generic promotion was not providing the benefits that industry believed the expenditure warranted. If you look at what an average campaign might be for a manufacturer to promote their product—a single brand—where you are talking about a single television commercial costing \$3 million to \$5 million, that puts into perspective the amounts that, across the 21 companies that are members of the ADPF, they would spend on advertising and promoting their particular product. They are supportive of the promotion activities continuing in the new Dairy Australia to the extent that they believe the market failure is such that individual manufacturers will not be able to promote the generic health and nutrition ideals of dairy products. It is very important that the industry does do that. They will be working with Dairy Australia, as they do now with the ADC, in ensuring that the right messages go out so that they can complement their own advertising on the back of what the industry is providing.

**Senator CHERRY**—Why can't membership of Dairy Australia be deemed for all dairy farmers from day one?

**Mr Rowley**—We argued long and hard with the legal advisers on this issue and were told very firmly that you cannot, under Corporations Law, simply push people into a company without them voluntarily doing so. We have a statutory levy and we will be asking people to tick a box and become a member. It would be a far simpler operation from our point of view if our levy payers could automatically become members, but we exhausted every argument we had with our legal advisers to no avail.

**CHAIR**—Bloody lawyers!

**Mr McQueen**—As Senator O'Brien commented, the company used to be a company limited by guarantee rather than a company limited by shares. As a company limited by guarantee, to become a member you sign up to guarantee a certain sum. It will be a nominal sum of \$2, but nevertheless the law says that you cannot deem someone to be liable to something without them agreeing to do so.

**Senator CHERRY**—Was there much argument about the voting system you will use?

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**Mr Rowley**—Yes. There was a lot of debate about the voting system—the single ‘one farmer, one vote’ versus the number of dollars. The industry strongly came down to the position of having votes in proportion to the number of dollars paid in terms of levy. The industry is used to this system through the cooperatives. The vast majority of support has been there.

**Senator CHERRY**—Traditionally the setting of levies—and I am thinking about the new mango marketing levy that the government is looking at at the moment—is done by taking a simple ballot of producers. It is quite a significant change. I know this is the third instance in which it has happened: wool and meat moved to this system beforehand. Was it a very strong view in your membership to move to that system?

**Mr Rowley**—Very strong. I will refer to Allan Burgess, a Victorian dairy farmer who is used to dealing in the cooperative system.

**Mr Burgess**—I think you need to understand the uniqueness of the industry. Around 20 per cent of our industry move in and out of the industry in any one year, particularly share farmers but also people who change ownership and move farms. So one of the things that was important for us was to keep the link with people who were moving in and out. You could get in a debate about which day they are in and which day they are out. For example, with the drought at the moment we have a lot of farmers who have parked their cows in other places and are working at something else but are intending to come back in the industry. Under this system they have that opportunity because they have contributed the levy at some time during the year, whereas if you have them on the basis of in or out, then you have to make a judgment about when they are in and out. That was certainly one of the issues.

I equally agree, though, that there is a debate about it. There has always been a debate about it, whether it be one vote per person or on the basis of contribution. There was also that debate at the AMPA meeting I was at the other night. Some farmers believe their vote should be based on what they contribute and others believe the opposite. In the end, the industry came down to the same system that operates in the wool and meat industries and the same system that operates in the cooperatives.

**Senator CHERRY**—They have had the mailbox full of complaints about the system in the wool industry after the board changes last year. I think, from memory, that 72 per cent of growers supported the current board but that 28 per cent had the numbers.

**Mr Burgess**—I am not that familiar with it.

**Senator CHERRY**—You talked about the efficiencies you will make when moving from two organisations to one. Why can't that be reflected as a lower levy—or do you think that would be reflected as a lower levy?

**Mr Rowley**—It is a lower cost, but can I put it to you this way—0.32c a litre, together with the government contribution on research, generates \$50 million. That is the budget. All we are saying is that we will have less money spent on administration and more money spent on the issues. That is our argument.

**CHAIR**—What do you think they should be researching?

**Mr Rowley**—My view of the world is that—because we are price takers, as has been said already here today, because we are at the mercy of the world price, the exchange rate and a bloke with a fountain pen in Washington and Brussels—the only way this industry can get gains is with research that gives us more milk for the dollars we spend or with improvements to the trade rules in the world. At the moment we spend about \$30 million in research: we contribute \$15 million and the government contributes \$15 million. We are trying to get those productivity gains, because they are the issues that will give this industry some advantages.

**CHAIR**—Give me an example of what you are talking about.

**Mr Rowley**—For example, one of the big things we have already done, but we are still doing, is put together the Australian Dairy Herd Improvement Scheme in 1984. Not only the genetic improvement of the dairy herd but also the nutrition, better classes of rye-grass, better tonnages per hectare of palatable rye-grass—which generates more milk for the dollar—has seen production in the Australian dairy industry double between 1982 and 2002. And in that period of time the number of dairy farmers has come down from about 22,000 to 11,500. They are productivity gains that would not have been achieved had it not been for the research and development spend. We take the view that we cannot stand still in doing that now.

**CHAIR**—Are there more cows or is there more milk from the cows?

**Mr Rowley**—Both. Farms are getting larger. The average farm at the moment has 205 cows. In the year 1982 the number was 111. The issue is that you need activity in cow nutrition, genetics and cow handling. They are the three issues that the money has been spent on in research, and it has achieved that sort of result.

**CHAIR**—Do you think the product is a lost cause for research?

**Mr Rowley**—No, I do not. I do not think we can stand still on that.

**CHAIR**—Do you think the manufacturers should put most of that in?

**Mr Rowley**—The manufacturers can contribute. I think I will throw the ball to Helen to comment on this area.

**Ms Dornom**—I think the manufacturers do contribute. In fact, some studies that have been done of the manufacturers themselves show that there is \$140 million plus spent on research in the industry. As Pat said, \$30 million is spent through the DRDC currently, and \$15 million of that is from levies. Of the levy funds that go in, approximately \$6 million goes into manufacturing research per se. The manufacturers themselves are already contributing \$2 million plus into the DRDC, which is separate from the levy, which is used for that generic research.

Manufacturers believe there is a large chunk of work that needs to be done that is precompetitive, that as a group they can all benefit from doing the work in that area. We talk about commodity marketing, but the manufacturers are looking at differentiating products and functionality; they are looking for added value on the products they produce. They do not want the research to focus on the close to market areas where they themselves believe they are the best people to determine what needs to be spent and what needs to be done.

Likewise, they also believe there is a need for manufacturing research dollars to go into maintaining the infrastructure of our research establishments to provide the critical mass and to retain the good research scientists we need to give us that intellectual capacity to go on and build our industry. That is where they see that collective activity going, so they can then go individually to those research establishments and become involved with projects that will benefit them directly.

**CHAIR**—So with the sum of all that wisdom, is there any hope for the poor old dairy farmer getting any more per litre? Or does the world market say, 'Sorry, you've got to produce more off less'?

**Mr Burgess**—Unfortunately, dairy farmers are in the same well as all other farmers in the world: we have got reducing terms of trade. Probably in a deregulated environment the only way we can deal with that is through R&D and other collective investments to try to influence that in some way. So that is our only defence. We have to do things at a quicker rate and better than our reducing terms of trade. That is our only protection.

**Mr Rowley**—Mr Chairman, I heard you ask the question of why water is dearer than milk. Let me make this observation: we are in full CER with New Zealand, and New Zealand exports 94 per cent of their milk onto the world market. They can also import here off the same base. The New Zealand import parity on a litre of milk sets the base in Australia. That is why our milk is the price it is. And the price of milk manufacturing in Victoria is the base price of milk. In my part of the world in Queensland it is that plus the logistics of serving the market. That is the bottom line.

I often say, and I will take this opportunity to say again, that a whole range of government policies have put us there—not that we disagree, basically. CER with New Zealand, floating the Australian dollar, deregulating a lot of business operations during the eighties, national competition policy—all those things took us into a position where we had to manage deregulation. I simply say to you that New Zealand import parity is the reason why milk is the price it is.

**CHAIR**—Why does New Zealand have a lower cost base than we do?

**Mr Rowley**—It is not exactly a lower cost base; it is a fact that Allan Burgess as a Victorian dairy farmer can equal any New Zealand dairy farmer—let me say that—but the fact is that New Zealand only has a population of 3½ million, and we have 19½ million. We are a far more attractive market here. Their 3½ million people consume only about six per cent of their national production. The rest of the production is out on the world market, which is pushed and shoved by every other factor that you and I know about, and they can also import into Australia in the same way. They are the factors that govern the system.

**Mr McQueen**—I would add, Chair, that one of the most critical issues in changing that scenario is that which the government and all the agricultural industries in particular are working very hard on at the moment—that is, world trade reform. Trade reform through the WTO is the way to get domestic prices higher, too.

**CHAIR**—But how come a bottle of water is more sexy than a bottle of milk, given that some people import water from France and put a sexy label on it and charge \$3 a bottle?

**Mr McQueen**—So we are net importers of water; water is import parity pricing.

**Ms Dornom**—The reality is that there are a whole lot of choices out there for consumers to make about what beverage they wish to consume. In the end, it is what the market will bear. Milk has to compete against the orange juices, carbonated beverages and alcoholic beverages. I guess that is the reason behind the water, unfortunately: water has been accepted by a sector of the consumer market and that means you can get a greater return for it.

**Senator CHERRY**—What is the total membership of your member organisations?



**Mr Rowley**—All of our state organisations are voluntary. Voluntary organisations traditionally are between 60 and 70 per cent of the membership. That is about where our state organisations are generally at. The state organisations are members of the Australian Dairy Farmers Federation, soon to become Australian Dairy Farmers. But, as to the member organisations, that is the range of people out there that we will get to. The people who were being referred to earlier have to read the distributed papers. We do not stop anybody in any state from coming to a QDO or a UDV meeting. But you will find that they are, at maximum, around the 70 per cent mark.

**Mr McQueen**—That is about 8,500 members.

**Senator CHERRY**—What issues have you taken on board in establishing this proposal as a result of discussions with AMPA?

**Mr Rowley**—We have had two meetings with AMPA. We have offered them a third meeting in recent times, but they refused to attend. We have no problem talking to AMPA at any time. We are prepared to take into account all views of all people on this particular issue. We believe we have tried to do just that. However—

**Senator CHERRY**—What has changed as a result of those meetings? Has anything changed in your proposal or your policy as a result of discussions or meetings?

**Mr Rowley**—Board selection is one thing. We have taken into account all sorts of arguments from people about board selection. Maybe I should just traverse that area a bit. We have looked at other organisations such as those in the wool, meat and horticulture industries. We have taken the view that we will go as far as we possibly can to give everybody an opportunity to democratically become involved in and influence the way this new organisation works. The selection process that we put forward under our constitution is that the two B-class members—the Australian Dairy Product Manufacturers and the Australian Dairy Farmers—will be asked by the board to nominate four people for a selection committee. We are proposing that a member of the board—in particular, the chairman—should chair that committee. It should be widely advertised and the skills base should be widely advertised. The board selection committee should be told by the board that they must have a nomination for those members in the board's hands within a given period of time. The nomination should be unanimous, by the way. The board should then go to the annual meeting with that recommendation.

We have suggested that there ought to be an opportunity for anybody else to nominate outside that system. So, if a person wants to nominate, he must attract 100 signatures on his proposal and he must do it within a time frame that is acceptable to the annual meeting. The ballot paper will include the three members who are rotating and who were selected by the selection committee as well as, let us say, one more person. So there will be four people there for three spots. We are proposing that the position on the ballot paper be drawn out of a hat—in other words, you just do not put the three from the selection committee on the top and the outside person on the bottom of the ballot paper. The ballot should be cast in such a way that a person must receive better than 50 per cent of the votes for the position. The three that have the highest percentage above 50 per cent should go onto the board.

We have gone as far as we possibly can to, firstly, give people an opportunity to go through the selection committee. If they are not satisfied with that, they can take the other course, which then puts them into the ballot at an annual meeting in a way which we think is as fair as possible. Secondly, we would say that if an annual meeting rejects one of the people that have been put forward—let us say there are only three up and no outsider has nominated—the board is obligated to go back to the selection committee. It does so bearing in mind the attitude of the annual meeting—and the annual meeting might say, 'We don't like this person because he has a conflict of interest' or something—and then another person is put forward to the board. That person would be taken on as a casual vacancy until the next annual meeting or duly appointed meeting where the process of the members could be then engaged to endorse or again reject that person.

We have tried to give absolutely the maximum opportunity for every member to have a say by being personally at the meeting or operating through a proxy vote. The proxy votes of course would be on the basis of those numbers of dollars of levy paid in the previous financial year. We put a lot of time into this. We think that is as fair as we can propose from having witnessed the other operations.

**Mr Burgess**—My memory of those meetings is that once we got past the discussion on deregulation, where it is fair to say there is a different point of view, and we started to discuss Dairy Australia there were probably three issues. The first issue was whether we all collectively agreed that letting farmers have a greater say in how they could direct their levy funds was right. We all did agree—I think AMPA and the ADFP did agree on that. The second issue was on the vote, and we have already discussed that. There are clearly two points of view. Both parties understand there are two points of view and there was a call made on it. The third issue was about how this should be implemented, whether we should be having the debate now—about spending money on R&D, trade or promotion—or in fact setting up a structure which allows farmers to have it. It is our view that this structure allows farmers to take that decision—it sets up a framework that allows farmers to have that debate rather than having the debate now. So it is a timing issue.

**Mr Rowley**—I would like to complement what you have said, Senator Cherry. There is an opportunity for people to apply to be B-class members over and beyond the ADFF and the ADPF. The proposition is that they must get 100 signatures and meet a set of criteria where roughly they must be servicing a substantial sector of the industry which is a significant part of the Australian dairy industry—or words to that effect; I might not have the words exactly right. The board will take a call on that proposition and put it to a general meeting. So there is an opportunity for more B-class members through that system.

**Senator O'BRIEN**—Whoever has the majority can determine whether you get in or not, irrespective of the merits of the organisation seeking to become a B-class member.

**Mr Rowley**—The board needs to take into account those criteria and make some judgments based on those criteria. The board, if they meet those criteria, should say to the annual meeting, 'They meet the criteria. They should be B-class members,' and make a recommendation on that basis. I do not know the exact words, but John McQueen might help me on what section of the constitution they are in.

**Senator O'BRIEN**—I am afraid—and you know this is my view—that this has a bit of a flavour of the MLA situation, which this committee has published some views about. I know that you have probably looked at them, because I drew your attention to them. Has AMPA expressed any views to you about those provisions?

**Mr Rowley**—No.

**Mr Burgess**—But I would add that, in terms of the B-class criteria, this is both for throwing groups off and putting groups on. In the end it is a majority view of the members. If 50 per cent of members decide that they want a B-class member on, they are on; if they want one off, they take them off.

**Senator O'BRIEN**—That is 50 per cent of the members in proportion to their milk levy payments.

**Mr Burgess**—That is right.

**Senator O'BRIEN**—It is not 50 per cent of the members but 50 per cent of the levy payments—

**Mr Burgess**—It could be 70 per cent or it could be 30 per cent.

**Senator O'BRIEN**—That is right. The reality is that it will be a smaller number than 50 per cent if it is based on levy payments, won't it?

**Mr Rowley**—I would just add that a significant issue with B-class members is that they do get involved in consultation on the strategic and operating plan of the new company. They also get to be on the selection committee.

**Senator O'BRIEN**—Do all of the six state members support the proposed model?

**Mr Rowley**—Yes.

**Senator O'BRIEN**—Were any other reform models seriously considered?

**Mr Rowley**—The answer to your question is that we had a good, hard look at all those that had gone before. We tried to look at the strengths and weaknesses and we tried to match them up to the structure of the Australian dairy industry.

**Senator O'BRIEN**—Is there a paper that sets out the alternatives?

**Mr Rowley**—I might flick that one to John McQueen. My quick response would be no—but, John or Alan, you might correct me.

**Mr Burgess**—There was certainly a lot of debate about whether we should stay statutory. For quite a while that was probably running ahead, but over time we took a decision that the industry should take control, as I said before. This was the model that evolved. It did not happen overnight; it evolved.

**Ms Dornom**—There was a paper developed—going back about three years ago now, when the discussions first started—that actually looked at about eight different options, I think, on what could be a particular model. Over the time that has gradually been moulded into where we are now—looking at all of the advantages and disadvantages of the various models. So there was that initial discussion on those different options.

**Senator O'BRIEN**—Can we get a copy of that?

**Mr Rowley**—I think we can try to get that.

**Senator O'BRIEN**—Thank you very much. We need it fairly quickly, I think. What is your view on the agripolitical prohibition to be contained in the memorandum and articles of association?

**Mr Rowley**—The definition of 'agripolitical' varies between everyone that wants to get into this debate. But our views are along the following lines. We recognise that the government is using a taxation power to provide the lifeblood to this organisation. Blatant political activity is obviously out and any attempt to oppose a government on their broad policy position is obviously out. The very fuzzy lines begin where industry starts

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to give advice to and has discussion with government. I think that perhaps you and I, Senator, would know when we are over the line, but it is terribly hard to put down on paper that absolute definition. Having operated for a long time in this job, I have been in all sorts of positions where I think we have given sound advice to governments—and, I hope, to oppositions—but we refrain from ever getting into a political situation. I am comfortable with the way we have operated, but I find it very difficult to put it down on paper.

**Senator O'BRIEN**—Indeed. Is that one of the problems—that whatever happens someone may point the finger and say, 'That's prohibited under the constitution while you're a service organisation,' and will not the government of the day, whatever it is, therefore have very strong persuasive powers over Dairy Australia in terms of their activities and the views of government?

**Mr Rowley**—If we get to a position where we are depending on the wording of the definition, we are in trouble. I would seriously believe that a minister of the day would pick up the phone fairly quickly and say to this organisation, 'I would like to have some discussions on your activities.' I would be relying on that sort of sensible discussion to get us through what I think is an impossible definition. There is not a lot else I can say that makes a lot of sense.

**Senator O'BRIEN**—I am sure there is a lot you could say that would make a lot of sense, but we will not pursue that for the moment—I think we are getting deeper and deeper.

**Mr Burgess**—I would just add that farmers would not want Dairy Australia to be an agripolitical organisation; they think that is for the farmer organisations to do. They want it to get on with servicing the industry and staying out of agripolitics. But, of course, there is that grey area of advice, and we will all have to manage that, as I think we have in the last 20 or 30 years, through existing structures.

**Senator O'BRIEN**—You have managed it without this provision and these arrangements. You are entering into a new regime.

**Mr Rowley**—At one stage the Australian Dairy Industry Council was funded by funds out of the Australian Dairy Corporation. We knew full well the definition of that in that category, so we have operated with that sensitivity.

**Senator O'BRIEN**—I understand that it is proposed that ADFF will join the company as a peak organisation member, a B-class member. Is that correct?

**Mr Rowley**—Yes.

**Senator O'BRIEN**—To your knowledge, which other organisation's will join as B-class members?

**Mr Rowley**—The Australian Dairy Products Federation, the ADPF.

**Mr McQueen**—The current structure of the industry, as Mr Rowley has commented, is that the Australian Dairy Industry Council is the peak policy body of the industry and has been recognised in legislation since 1986 as the body that makes recommendations on industry policy to government. The two prime industry body memberships of that have been ADPF, the Australian Dairy Products Federation and the ADFF, the Australian Dairy Farmers Federation. What is proposed here is for that structure to continue, in terms of the membership of B-class members of the company, but ensuring that the opportunity to apply to become a member is available to any industry organisation that chooses to do so.

**CHAIR**—So if the Australian Milk Producers Association continue their membership drive and end up with 50 per cent of the industry, what would happen?

**Mr Rowley**—We would suggest that they could apply for B-class membership.

**CHAIR**—Have you suggested that they apply now?

**Mr Rowley**—No, we have not.

**CHAIR**—So how do you make a judgment? If they claim they now have 2,500 members out of 11,000, say that is a quarter, at what point do you think they should apply?

**Mr Rowley**—That is a judgment they have to make, not us. They would have to demonstrate that they are a substantive organisation servicing members and, on the criteria that we have in the constitution, the board will analyse it and make a recommendation. But the call is theirs.

**Ms Dornom**—The industry is trying to put in place a structure that will accommodate all of these things. It has gone down the path of its existing representational structure, which has worked well for the industry to date, and to provide for that structure, but allowing for any other newcomers on both the manufacturing and production sides—the ADPF will be subject to the same rules and regulations for B-class members as the ADFF will be. Someone has to make a start, and the industry's view was that we have a current structure in place that has full accountability back to the individual members of those two organisations, and that should be in place until such time as we get our new structure going.

**Senator HARRIS**—Mr Rowley, it has been mentioned before that you have assessed your membership at approximately 8,000. Would that be members you have on a database who respond back to you on issues?

**Mr Rowley**—The state organisation would have those people on a database, yes.

**Senator HARRIS**—Are they producers who actually participate and respond back to those organisations or is it just a generic list of everybody in the industry?

**Mr Rowley**—I would like to refer that question to Allan Burgess, who is part of the biggest farm organisation in Australia.

**Mr Burgess**—The first point is that they all respond back by paying their levy every month or their annual subscription every year—they have to take positive action to do that, because it is voluntary. The second point is that at times you could think that there is a small group, probably in Victoria, of 1,000 farmers that are more directly involved at different times. But if you hit the right issue they are all there and they are all at public meetings. Deregulation is an example of that. We saw 70 per cent and 80 per cent involved; 95 per cent of the farmers voted on the deregulation. So it depends on the issue, but they are all there and they are actually members, so they have the chance to participate.

**Senator HARRIS**—You mentioned that 95 per cent of them voted on the issue. My understanding is that the question they were asked was whether they wanted deregulation with or without an adjustment package not whether they wanted deregulation. In those situations, how do you justify saying that the dairies said, ‘We want to deregulate’?

**Mr Burgess**—I am not sure I would agree that the question was quite like that. The point is that in the end they could have voted against it anyway.

**Senator HARRIS**—Mr McQueen, you have a folder there that you said has an overview of the consultative process. Could you tell us how many meetings were held and where they were held?

**CHAIR**—As a division has been called in the Senate, proceedings will be suspended for a short period.

**Proceedings suspended from 8.01 p.m. to 8.10 p.m.**

**CHAIR**—I reconvene the meeting, and we are going to finish in two minutes.

**Senator HARRIS**—Then there are going to be a lot of questions on notice.

**Mr McQueen**—If I may provide an answer to your question, there is a brief summary of the material that we have used for consultation, including meetings of various state farmer organisations—I have been invited to various states to give presentations over the last three years—in this. We also have a number of communications not just to Australian Dairy Farmers Ltd members but—

**Senator HARRIS**—Pardon me for interrupting. This is directly in relation to Dairy Australia—

**Mr McQueen**—That is correct.

**Senator HARRIS**—not deregulation?

**Mr McQueen**—No, nothing to do with deregulation. There are presentations directly on Dairy Australia; issues at state organisation level and down to branch level; magazine articles over the last three years with regard to this; as the chairman commented, a letter from him to every dairy farmer; and a number of state communications. As was also mentioned earlier, for the last six weeks there has been a 1800 number. In the period that that has been operating, since 1 February, there have been 32 calls.

**Senator HARRIS**—Chair, in recognition that we are almost out of time—

**CHAIR**—I was only trying to bluff you out of a few questions. Are you trying to tell Mr McQueen to shorten his answer?

**Senator HARRIS**—Thank you, Chair.

**Mr McQueen**—I think it is important to acknowledge, though, that the 1800 number is not a call centre number; it is staffed by professional agricultural people who were trained for more than a week on this issue. There have been 32 calls to that number since 1 February, and those farmers who have not felt satisfied with the answers that they have been provided with have been asked if they are prepared to have their names and phone numbers passed on to one of our industry people, who would get back to them. Three have taken up that offer and they have been responded to by the industry organisation.

**Senator HARRIS**—Does your information also include how those meetings were advertised?

**Mr McQueen**—No.

**Senator HARRIS**—Would it be possible to get a brief overview of that advertising? Mr Rowley, you have gone to great lengths to emphasise the fact that the Australian Dairy Farmers’ position has been that the levy payers ought to have an input into the level of the levy. You also took great pains to give us an understanding of the association’s position in relation to directors. If neither of those issues in the final bill resemble the position of your organisation, will you oppose the bill on behalf of your members?

**Mr Rowley**—We do not expect that to be the case.

**Senator HARRIS**—Finally, you have given us a figure of approximately 8,000 members. Is it possible to give us a rough, state by state, breakdown of where those members would be? I understand that there are privacy implications, but if 6,000 of the 8,000 are sitting in Victoria then we may not have a representative balance through the other states. This is my reason for asking for that, state by state.

**Mr Rowley**—I think John McQueen would better answer this than I, but my analysis would be that 60 to 70 per cent of all dairy farmers would be members of state organisations, give or take a little.

**Mr McQueen**—As I said earlier, there are about 8,500 members of state organisations and approximately 5,000 of those are in Victoria. Victoria represents about 65 per cent of the milk production in Australia and approximately 65 per cent of the dairy farmers in Australia, so that 5,000 on 8,500 is approximately the same representation as you would get on a state by state basis with numbers of dairy farmers rather than dealing with it as a specific number within each state.

**Senator HARRIS**—You have continually referred to ‘the industry’ in your responses. Could you give the committee an overview of what you mean by ‘the industry’?

**Mr Rowley**—Our overview of the dairy industry would be the producers, the processors and all those sectors through to the consumer. In saying that, we are not segregating anyone out just because they are not attending members of one of the organisations. I am sure you would agree that in all sections of the community you have people who are involved and members and those people who choose not to be.

I might also say, as you come from the same state as I do, that until not very long ago the Queensland Dairyfarmers Organisation was a statutory organisation and everyone was a member. Those times have passed and we are now dealing with people’s voluntary right to be a member or not to be a member. That is why it is quite within the rights of people to choose to become members of AMPA. By the way, we are happy to listen to those people’s points of view. I am not saying that we will agree or disagree, but at the end of the day, from where I and Allan Burgess sit, representing people on councils, we have a responsibility to take decisions that we believe are in the best interests of the industry.

**Senator HARRIS**—And, on the balance of there now being two industry representatives, could you explain to the committee why in the proposal that has been put before us at the present moment your association will automatically become a B class member and that other organisation will not? I am just a little perplexed about why, when you have two industry groups, both of those would not automatically become B class representatives.

**Ms Dornom**—Currently, our industry has had a representational system in place with the Australian Dairy Industry Council, which, as we have said before, has served it well. Its two peak group members are the Australian Dairy Farmers Federation and the Australian Dairy Products Federation. The ADIC will continue as a forum for the industry to come to whole of industry agreement on policy issues. What the industry believed was the best way to go to start the restructure process, to allow for individual farmers to have more direct say, was to move with the current existing organisations, where anyone can choose to be a member of those organisations. We have had a process in place where the ADIC, with its two groups, has been responsible for recommending levies to the minister in the past, so it has had a fair degree of responsibility—and individuals have known that, so they could have chosen at any time to become members of those organisations. So the industry believes that the two groups under the ADIC should become the founding group B members to effectively continue for the time being the current roles that those two organisations serve, which is liaising with the ADC and the DRDC on the development of their annual operating plan, their corporate plan and on what the rate of the levy should be, and then going to the minister with recommendations.

So our proposal reflects the current position that we have, understanding full well that what we are putting in place with that current system is a new way to go forward that will allow any group who believes they have the numbers to come forward and participate more actively in the industry. We—manufacturers, in particular, as well as the farmers—believe that what is being proposed is a much better opportunity for all sectors of the industry to have a more direct say. As I said, manufacturers are actively encouraging their supplier members to become members of Dairy Australia so that they can participate more directly in where their service company will be operating in the future.

**Senator HARRIS**—You keep using the term ‘the industry’, and you have quite strongly emphasised that you have existing organisations representing ‘the producers’. Is it not correct that there are 2,500 members out there—2,500 producers—who choose to be part of a third representative group? Would it not be in the interests of your industry, as the manufacturers, to support them as a B class member of Dairy Australia?

**Ms Dornom**—As I understand it, the manufacturers had no representation from AMPA at any time to seek their support for that group to represent their farmer suppliers. The manufacturers had a look at where the future was going. There has been discussion about whether manufacturers could represent the farmers, but they believe that it is in the industry’s interest to have a strong farmer organisation—a national farmer organisation. At this point in time, they believe that the Australian Dairy Farmers Federation provides that

direct national representation for individual farmers, and they fully support that organisation. If, in the future, another organisation comes to the group, presents its credentials and is able to demonstrate that it has the support of the farmer members, I am sure they will support that group.

**CHAIR**—Does your organisation provide sponsorships?

**Ms Dornom**—The Australian Dairy Products Federation does not provide sponsorships. I am not even sure what you mean by sponsorships. Maybe you had better explain that before I say no.

**CHAIR**—Do you sponsor field days or free trips to the footy?

**Ms Dornom**—No. The Australian Dairy Products Federation is a policy group for the manufacturers. Membership is voluntary; companies choose to become a member and pay a subscription that effectively supports the executive office of that organisation. They use that forum to agree on policies that they wish to put forward on behalf of all manufacturers—anyone who has an interest in dairy manufacturing.

**CHAIR**—Do your members sponsor?

**Ms Dornom**—Individual members, as part of their companies—the Murray-Goulburns, the Bonlacs and the Warrnambools as individual companies—may well sponsor those.

**CHAIR**—Do they sponsor the Dairy Farmers Federation?

**Ms Dornom**—Not the farmers federation, no, they do not.

**Senator COLBECK**—I go back to the process for the election of board members. You mentioned your advertising process and that you advertise widely. What process would you see that being conducted through? What, in your experience, would be the most effective?

**Mr Rowley**—For the election of members to the two statutory boards, the management committee of the ADIC—which is virtually two producers and two processors, with an independent chair—makes a recommendation to a minister. It is widely advertised through the national media for people to apply. We would suggest that we go through the same basic process of advertising widely through the national media for people to apply to this privatised company. We need to be absolutely transparent in the way we do it, and every opportunity needs to be given to people. We would also suggest that we write to the various organisations in this industry to make sure that they are aware that this process is in train.

**Senator COLBECK**—You mentioned, when you were explaining the election process for the board, that you would have three nominated positions on the ballot paper and one that may come from the independent farmer process. Why limit it to four?

**Mr Rowley**—There is no limit. I will go back one step. The first board of Dairy Australia will be appointed by the minister. Because the government take the view that they are handing over an asset to an industry, there is some involvement there. After that, the board will roll over on a three-three-two basis, the two being because there will be a managing director who will have a contract of some description. So you will be rolling over a three, a three and a two. When it comes to the selection of the three members who are due to roll over in that first meeting, there will be a skills base which will be advertised, so you will go through that. To explain it a little better, the selection committee will go to the board and the board will recommend Smith, Jones and Brown. But right outside that basis, anyone could apply with 100 signatures et cetera and there could be another three.

**CHAIR**—Will it be ticks and crosses or numbering candidates 1, 2, and 3?

**Mr Rowley**—The way it would work is that you would make sure the names were drawn out of a hat—

**CHAIR**—Not the listing; how would you actually vote: numbering them 1, 2 and 3 or using ticks and crosses?

**Mr Rowley**—No, there would be two boxes: 'yes' and 'no'.

**Senator COLBECK**—To each name.

**Mr Rowley**—Yes. To be eligible, there must be more than 50 per cent yeses for any name. If there are more than three candidates with 50 per cent or more, the people with the highest percentages will be placed first, second and third.

**CHAIR**—So if you thought three of the people that were up stank and only one was all right, you just put 'yes' for them?

**Mr Rowley**—Yes. We are really saying that the annual meeting has an opportunity to say yes or no about the recommendations and throw it right back into the board's lap to come up with another name.

**CHAIR**—When you say there is going to be a general manager with a contract, will the terms and conditions of that contract become general knowledge to the growers in due course? Are they going to get a surprise of another million dollar incentive package and all that hullabaloo? That could be a potential criticism.

**Mr Rowley**—I chair the interim advisory board. We are going through that procedure right now. I take the view that people will want to know what those conditions are.

**CHAIR**—Thank you very much. That concludes this evening's hearing. We are very grateful for your attendance and presentations.

**Committee adjourned at 8.27 p.m.**