Australian Dairy Industry Council Inc.

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Australian Dairy Industry

2019 Federal Election Policy Statement

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Foreword

On behalf of the Australian Dairy Industry Council (ADIC), the peak body representing over 140 dairy processing companies, 5,500 dairy farms and 42,600 dairy staff, we are pleased to present our priorities for an incoming Australian Government and other elected officials at the 2019 federal election.

In recent years we've all heard the stories of hardship in the Australian dairy industry. Drought, pricing and a loss of competitiveness has seen our profits decline and farmers exit the industry.

The ADIC has not accepted these outcomes. We have been working collaboratively with government on implementing an effective code of practice, providing meaningful drought support and removing discounted dairy products from our supermarket shelves. While further work is required in these areas, we are demonstrating our commitment to putting value, fairness and empathy back through the supply chain.

Dairy is Australia's third largest agricultural industry with a gross value of $4.3 billion. This comprises around 6 per cent of Australia's $60 billion agriculture industry.

In October 2018 the National Farmers Federation (NFF), our peak body governing all of agriculture, launched its *2030 Roadmap*. This establishes a target of increasing the value of agriculture to $100 billion by 2030.

We do not see any reason why our industry should not continue to play a major part in achieving this target.

Back in 2015 Deloitte Access Economics said Australian agribusiness is better positioned than any other Australian industry for future growth and prosperity. This was based on strong competitive advantage, as compared to other countries, for a product range that is in high demand globally. What sparked our interest from this work was that dairy, alongside aquaculture, oilseeds, and red meat sectors of beef and lamb, were identified as having the highest opportunity for growth.

That's why at the ADIC Industry Leaders' Breakfast on 30 November 2018 we launched the Australian Dairy Plan. We see this whole of agency strategic policy initiative as a means to strengthening unity, profitability and competitiveness of our industry.

We recognise government needs to play a role in the plan and in supporting our farmers and processors to become not just viable but thriving businesses. It is for this reason why we have developed this 2019 election policy platform – to articulate what the most important priorities are for our industry over the near term.

Congratulations to all politicians elected at the 2019 federal election. We look forward to working with you on delivering this statement and improving prosperity in the dairy industry.

Terry Richardson

Chairman

Australian Dairy Industry Council

Grant Crothers

Deputy Chairman

Australian Dairy Industry Council

Executive summary

The ADIC, the peak advocacy body for Australia's dairy industry, has identified a list of priorities and actions it would like to see a 2019 elected Australian Government (and other elected officials) deliver over its office term. While the action list is small in number, they are critical to improving the competitiveness and sustainability of the dairy industry. They have been developed consistent with the NFF's *2019 Federal Election Platform*, which covers all of the agriculture policy spectrum. Below is a table that succinctly summarises the priorities and actions, including rationale and alignment with NFF policy.

ADIC priority		ADIC action	NFF priority	Dairy industry outcome
Trade and market access	Free trade agreements	Ratify the Indonesia-Australia Comprehensive-Economic Partnership Agreement and Peru-Australia FTA.	Pursue an ambitious trade agenda	Increase market access Improve international competitiveness Mitigate revenue and job loss (EU FTA)
		Ensure high quality, comprehensive outcomes for dairy in the India, Gulf Cooperation Council, Taiwan, Pacific Alliance and the Regional Comprehensive Economic Partnership FTAs.		
		Minimise the upfront, negative impacts on the Australian dairy industry in the EU FTA.		
		Develop a trade agreement with the UK post exit from the EU which reduces barriers for dairy and mitigates the potential for non-tariff measures to evolve.		
		Ensure the EU27 and UK FTA schedules mirror the existing EU WTO schedule.		
		Better leverage the World Trade Organisation's Most Favoured Nation clause system, to secure the same trading rights as other countries.		
	Non-tariff barriers	Partner with industry on the development and implementation of the action plan to remove non-tariff barriers.		
Sustainability and resource management	Climate change	Continue to invest in climate change mitigation research, development and extension programs for the dairy industry.	Help farmers respond to climate change Maintain investment in rural research and development	Reduce emissions
	Drought	Invest significantly more funds in drought preparedness initiatives.	Establish a comprehensive national drought policy	Reduce impact of drought
	Water	Continue the bipartisan agreement for delivery of the Murray Darling Basin Plan consistent with the recommendations of the Productivity Commission's *Five-Year Assessment of implementation of the Murray Darling-Basin Plan Murray Darling Basin Plan*.	Bipartisan support for the Murray Darling Basin Plan	Policy certainty Balance water use Improve Basin health
		Commission the CSIRO to develop a transformational water supply blueprint for Australian agriculture.	Commit to maintaining the National Water Infrastructure Fund	Reduce impact of drought Secure water supply
	Energy	Provide tax relief to businesses installing or upgrading to more energy efficient or renewable energy systems.	Help transition agriculture to renewable and affordable energy	Energy cost savings Reduce emissions
		Implement all of the ACCC's 56 recommendations outlined in its *Retail Electricity Pricing Inquiry*.		Electricity cost savings
		Apply the recommendations from the *Independent Review into the electricity and gas retail markets in Victoria* in areas where the ACCC did not cover across the country.		Energy cost savings

Introduction

Australian federal elections are a key milestone for advocacy bodies. When these events are called the House of Representatives and generally half the Senate are dissolved, and the Australian Government enters a caretaker period until the election result is confirmed. During this period all contesting political parties and independents announce policies they will be seeking to deliver if successful at the ballot box. If advocacy bodies can articulate their policy priorities prior to announcement the chance of adoption increases.

The ADIC has taken up the opportunity by announcing this election policy statement. Market volatility, drought, rising input costs, in particular fodder, electricity and water, and subdued farmgate prices from step downs and retail price wars has contributed to a decade long flat milk production volume (around 9 billion litres per year), poor profitability performance ($30,000 average per year and around 60 per cent of farms returning a profit over the past three years), poor farmer health and low farmer confidence in the industry's future (47 per cent are currently positive). Despite the issues the outlook for dairy is positive. There is growing demand for high value dairy products from a rising Asian middle class domestically and abroad. Advances in genetics, digital and other technologies can significantly improve farm productivity, supply chain efficiency and traceability and enhance consumer purchasing power across the globe. Realising these opportunities requires industry and government to work collaboratively on addressing barriers to growth.

ADIC has accepted this leadership challenge by committing to releasing an industry development plan that generates jobs and growth in the second half of 2019. This will cover the entire supply chain and involve multiple agency delivery and collaboration. An incoming Australian Government is a key part of this agenda given its role in agriculture policy, regulation, research and extension. For this to be effective the government needs to look over the horizon of the immediate election cycle, step away from the unproductive nature of personality and identity politics and pursue an agenda geared to making the dairy industry more prosperous and globally competitive now and for the future.

The ADIC have focused this statement on delivering a small number of high priority priorities to support the plan and achieve industry outcomes. These priorities align with the NFF *2019 Federal Election Platform*, which covers the broader agriculture policy spectrum. They also support implementation of several areas of the *ADIC Investment Plan 2016-2019*. Each priority is based on an issue or opportunity (rationale) and an action or set of actions to address the problem or realise the benefit. This statement is impartial of political ideology. It draws on a comprehensive evidence base and objective analysis to identify and recommend policy change that has, and can, strengthen Australia's dairy industry.

Policy Statement

Trade and market access

The global market for dairy products is currently strong and growing due to demographic shifts, demand for food (and in particular health food products) and an increasingly open trading market. Global milk production is projected to increase by 177 million tonnes by 2025, with an average growth rate of 1.8 per cent per annum.[1] Per capita consumption is expected to increase at a similar rate.[2]

Australia has benefitted from these shifts in global trends, exporting excess dairy not consumed domestically; currently nearly 34 per cent of domestic milk produced[3]. Australia's dairy trade partners are mainly comprised of those we have trade agreements with, including the eleven countries in the Comprehensive and Progress Trans-Pacific Partnership (TPP) and China.[4] In fact, the Greater China region (including Hong Kong and Macau) imports nearly a third of Australia's traded dairy products.[5] Demand for dairy globally from the Asia-Pacific region at a global level is high too, with the market importing 42 per cent of global milk volumes traded.[6] Within the region, demand is strongest in China, Hong Kong, Indonesia and India – countries that struggle to produce enough domestic product themselves.

It is not only fresh and/or conventionally packaged drinking milk that is in high demand. Organic drinking milk and products, dried milk products such as baby formula and whey powders and fermented or processed products such as yoghurts and cheese (favoured for their health benefits) are becoming more and more popular. In the instance of organics, the global milk market is currently estimated at $4.3 billion USD alone.[7] While the benefit of these non-conventional milk products is typically higher retail value, their costs of production are also higher, and this will need to be monitored closely as markets continue to expand and grow.

In terms of Australia's export supplies we are the fourth largest trader of milk, accounting for less than two per cent of production volumes but a six per cent share of production value.[8] This can be compared to New Zealand, which has a share of 40 per cent, European Union (EU) at 28 per cent and the United States of America (USA) at 14 per cent.[9]

While the annual growth rate for the global dairy market is positive, that is not to say circumstances are expected to remain optimal. Current global trade and climatic conditions as well as market access restrictions are presenting possible hurdles to growth. The current US-China trade war and ongoing impacts of uncertainty around 'Brexit' and other issues in the EU dairy industry (such as Russian import bans and protectionist government behaviours) are emphasising the need to pursue stable multi-lateral and bilateral trade agreements with key export markets.

1 Food and Agriculture Organization of the United Nations. (2016). The Global Dairy Sector: Facts. Retrieved from https://www.fil-idf.org/wp-content/uploads/2016/12/FAO-Global-Facts-1.pdf

2 Ibid.

3 ACCC (2018) *Dairy Inquiry final report*

4 Myers, P. (2017). *The Australian Dairy Industry*. Dairy Australia .

5 Dairy Australia. (2018). *International Market Overview*. Retrieved from Dairy Australia: https://www.dairyaustralia.com.au/industry/exports-and-trade/international-market-overview

6 Mordor Intelligence. (2018, May). *Dairy Market - Segmented by Product Type, Distribution Channel, and Geography – Growth, Trends, and Forecast (2018 - 2023)*. Retrieved from Dairy Market : https://www.mordorintelligence.com/industry-reports/dairy-market

7 KPMG. (2018). Global Organic Milk Production Market Report. Australia: KPMG

8 *International Market Overview*. Retrieved from Dairy Australia: https://www.dairyaustralia.com.au/industry/exports-and-trade/international-market-overview.

9 Ibid.

Free trade agreements

The Australian dairy market will need to stay abreast of these global trade shifts through effective use of Free Trade Agreements (FTAs), ongoing establishment of new trade relationships, overcoming technical barriers to trade and improving supply chain competitiveness. Without improved policy to support international trade, surplus supply will inevitably begin to effect trading prices and demand domestically – having a domino effect on farmgate prices.[10]

Australia has entered into FTAs with 11 countries or groups of countries. These and other trade liberalisation avenues pursued by Australia has lowered the average (importweighted) tariff rate from around 7 per cent in 1986 to under 1 per cent in 2016.[11]

There are two FTAs that Australia has signed but not yet ratified which are important to the dairy industry.

Australia and Peru signed the Peru-Australia Free Trade Agreement (PAFTA) on 12 February 2018. Peru is currently a small market for Australian dairy with 118 tonnes of dairy products at a value of $USD529k being exported in 2017. This is predominantly due to larger supplying nations - Chile, European Union and United States, being more price competitive because of having bilateral agreements in place. The PAFTA reduces 99.4 per cent of the tariffs Australian exporters have previously faced with Peru. For the dairy industry, tariffs are eliminated on 7000 tonnes of product per annum, growing to 10,000 tonnes (capped amount) in year five. Based on current export volumes, this provides Australia with significant export growth potential.

Australia and Indonesia signed the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) on 4 March 2019. Australia is the fourth largest supplier of dairy products to Indonesia at around $200 million per annum. The Association of Southeast Asian Nations (ASEAN) Australia New Zealand Free Trade Agreement (AANFTA) has now eliminated most tariffs on dairy products to Indonesia, although those for liquid milk, skim milk powder and fresh/ grated cheese are fixed at 4 per cent up to 2020. Comparable World Trade Organization (ETO) tariff rates on the major dairy products are predominantly 5 per cent. Barriers to trade are predominantly non-tariff and pervasive; hampering the potential for growing dairy exports especially by small and medium sized dairy processors. The IA-CEPA provides an opportunity to introduce a systemic approach to resolving non-tariff barriers (NTBs); with the application of sound science and international standards and cooperation between respective regulatory agencies as guiding principles.

The ADIC would like the Australian Parliament to ratify the Indonesia-Australia Comprehensive-Economic Partnership Agreement and Peru-Australia FTA.

There are several other FTAs in negotiation that have stalled for various reasons.

The Gulf Cooperation Council (GCC) represents six key countries in the Middle East: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE). The council has been experiencing internal tensions since 2017. As a consequence, negotiations for an FTA that would benefit the export of in-demand dairy products, have stalled since.

A Taiwan FTA is critical to restoring Australia's dairy competitiveness. Australia is the third largest dairy product supplier but is losing market share to New Zealand due to an FTA they signed with Taiwan in 2013. The New Zealand FTA eliminates tariffs on all dairy products from New Zealand to Taiwan. This compares to Australia's tariffs range between 5 and 30 per cent depending on the type of dairy product exported.

Negotiations are underway with the Pacific Alliance (Chile, Colombia, Mexico and Peru), with the sixth round most recently held in September 2018. The proposed agreement would reduce non-tariff barriers to trade, noting Australia does already have arrangements in place or underway with Chile and Peru.

Ten out of Australia's top 15 trading partners (China, Japan, Republic of Korea, New Zealand, India, Singapore, Thailand, Malaysia, Indonesia and Vietnam) are participating in Regional Comprehensive Economic Partnership (RCEP) negotiations, and together with the other six participating countries, account for over 60 per cent of Australia's two-way trade. This presents an opportunity for Australia to extend its trade and market access into the ASEAN region more extensively than the current AANZFTA.

India is a large domestic producer of dairy, however, still has an overall trade deficit and thus presents a market for Australian dairy exports. Negotiations for an FTA between India and Australia have been ongoing since 2011 and most recently the Australian Government formally endorsed the *India Economic Strategy* to provide a pathway to achieving open trade and a freer flow of goods and services to the country.

10 Hunt, P. (2018, October 31). *Drought and Weakening Global Prices Drive Down Australian Dairy Production*. Retrieved from The Weekly Times: https://www.weeklytimesnow.com.au/agribusiness/dairy/drought-and-weakening-global-prices-drive-down-australian-dairy-production/news-story/3e78739e5c87cc40958eeb6044808871

11 CIE (2017) Australian Trade Liberalisation – analysis of the economic impacts

The ADIC would like the Australian Government to fight for high quality, comprehensive outcomes for dairy in trade negotiations with the Gulf Cooperation Council, Taiwan, Pacific Alliance, Regional Comprehensive Economic Partnership and India.

Negotiations to establish an FTA with the EU began in 2018. This market is not a priority for Australian dairy exports and is unlikely to become one in the foreseeable future, especially with the pending 'Brexit'. It is difficult for Australia to compete in the EU market due to its high trade protections and distortions. This is mainly due to its:

1. chronic under fulfillment of Uruguay Round Agreements in relation to agricultural quotas, particularly for dairy products (e.g. tariff rate quota administration)
2. enforcement of its laws globally creating non-tariff barriers (e.g. the current trialogue between the EU Commission, Parliament and Council on the use of antibiotics. The law, as currently drafted would ban the importation from third countries of farm animals, meat or products if the exporting countries have authorised the use of antibiotics not permitted in the EU)
3. promotion of EU animal welfare standards at a global level, irrespective of actual, on-the-ground adherence to these standards in the EU itself
4. application of the Common Agricultural Policy to subsidise EU agricultural production thus enhancing the import and export competitiveness of EU-origin agricultural products
5. commitment to extending geographical indications (GIs) recognition and protection for its dairy products in FTAs (secured with Korea, Japan, Singapore, Vietnam, Canada, Mexico, Colombia and Peru).

The ADIC believes the Australian dairy industry could lose up to $650 million in a worst-case scenario if the EU FTA removes tariffs on EU dairy imports into Australia and includes GI protections. This would translate to significant job losses across the country.

The ADIC would like the Australian Government to take every step possible to minimise the negative impacts on the Australian dairy industry in the EU FTA. This includes protecting common food names that are part of the public domain in Australia and opposing the use of trade restrictive geographical indications (GIs). Any agreement on GIs, including on evocation, would be strongly felt by both consumers and producers. The ADIC is also concerned with the misappropriation of Codex Standards for certain cheeses. As a matter of principle – and as a minimum, all cheeses produced in Australia that have Codex Standard status should be exempt from any FTA coverage under GI protection. More broadly, a FTA should benefit both sides, and aim to free up the trade relationship rather creating barriers.

Possible implications for Australia's dairy trade and investment relationship post-Brexit are complex. Whilst the UK will negotiate a trade agreement with the EU it is also required to establish a schedule for multilateral (WTO) access as their membership of the then EEC predated by over two decades the conclusion of the Uruguay Round Agreement. The two negotiations will run in parallel, once Article 50 is triggered.

Australia, along with other major dairy exporting nations New Zealand and the USA have expressed an interest in negotiating a bilateral agreement with the UK. Sequencing of bilateral negotiations may have an important bearing on the quality of dairy market access.

The impact of 'Brexit' upon the EU and its dairy industry will need to be monitored and managed over the near future as the UK's exit from the EU plays out. The UK and EU will need to review their trade flows, and associated agreements relating to dairy.

As it stands, WTO assisted renegotiation of EU and UK market access is at a stalemate with no interest from either party in working efficiently towards a mutually beneficial understanding (e.g. working towards fill rates). A taskforce has been appointed in the UK to review the impact of 'Brexit' on the under-negotiation EU-AUS FTA. Currently, the trading relationship between Australia and the region is imbalanced. Both tariff and non-tariff barriers hinder trade into the EU (including, for now, the UK) for Australian exporters.

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The ADIC would like to see the Australian Government develop a trade agreement with the UK. It is important that this liberalises dairy products from date of implementation with a substantive compound annual growth rate, provides comprehensive dairy product coverage, makes quotas a transitory measure to free trade within a short time frame (5 years maximum) and in-quota tariff rates zero, makes non-tariff measures based on international standards and sound science with a mandatory requirement for regulatory cooperation that can lay the basis for harmonisation of standards. These conditions will mitigate the potential for non-tariff measures to evolve.

The ADIC would also like both the EU and UK schedules to mirror the existing EU WTO schedule. For dairy, a 'mirror' outcome would entail doubling country specific quota access for Australian origin cheddar and processed cheese.

FTAs are written to create facilitated and economically favourable trade conditions, however there is a lack of data and monitoring on the use and success of agreements over time. For example, the South East Asian region is well covered by FTAs for Australian exporters, however there is minimal data on the number of exporters who have actually benefitted from the FTA. Agreements generally have written into their terms regular 'review and improve' checkpoints, to address the suitability of the agreements to treaty parties. There is scope to clarify the effectiveness of these provisions, or to better understand their ability to lead re-drafting of trade terms.

It is already well known that the EU has negotiated an Economic Partnership Agreement (EPA) with Japan which has more favourable terms than Australia's agreement with Japan (JAEPA). For example, the tariff being charged on dairy from Australia into Japan is currently decreasing from 25 per cent in 2018 to 7.5 per cent in 2023 under the TPP. The EU however, under the EU-Japan EPA has significantly more preferential open trade conditions in place. A similar outcome has also ensued with Korea, where more recent negotiations between the EU, NZ, USA and Korea have improved their dairy access to Korea.

The ADIC would like the Australian Government to better leverage the World Trade Organisation's Most Favoured Nation (MFN) clause system, to secure the same trading rights as other countries. Currently, some countries (e.g. China) have allowed MFN status alongside ChAFTA; which means that more favourable arrangements made for other countries are extended to Australia. Taking the MFN approach, if Australia had MFN status with Japan under an FTA, then the Australian dairy industry would be able to benefit from the EU negotiated EPA terms instead.

Non-tariff barriers

While FTAs provide the necessary architecture to reduce the costs of exporting goods to market, technical barriers are now emerging as a more significant hurdle. Markets with protocol requirements (even those with FTAs in place) are difficult to export to due to their additional certification, registration and assurance processes (such as labelling and nutrition information) and requirements. These non-tariff barriers to trade are emerging as more of a hindrance than tariff barriers and are increasing the overall difficulty, time and cost of exporting goods. For example, China has protocols in place in relation to daily pasteurised milk requirements, labelling requirements, exporter registration regulations and local certification with government officials' rules.

ADIC acknowledges that the Australian Government has started to put in place legislation to support 'good' export practices and to assure importing countries of the quality of Australian foods including dairy produce. For example, *Export Control Bill 2017* and *Export Control Rules*, exporter registration systems (EXDOC) and declarations of compliance. However, these are not necessarily meeting importing country standards. For example, the *Export Control Bill 2017* (Cth) is not yet operational, certification processes in EXDOC can be completed by the exporter ('self-certification') and certificates have been known to be rejected in Malaysia and Vietnam.

The Australian Government is also taking action to remove non-tariff barriers for Australian businesses in overseas markets. The roll out of an action plan based on the barriers reported by business (through DFAT's trade barriers website) provides a solid foundation for government and industry prioritisation and delivery.

The ADIC would like to see the Australian Government partner with industry on the development and implementation of the action plan to remove non-tariff barriers.

Policy Statement

Sustainability and resource management

Climate change

The International Panel on Climate Change demonstrated that the earth's climate is changing. In its 2013 report it reported a surface warming increase of 0.85 °C from 1880 to 2012, ocean warming by 0.11°C per decade from 1971 to 2010 and global average sea level had risen at the rate of 1.7 mm/year between 1901 and 2010.[12] The panel attributed these changes to the earth's natural weather cycle in addition to atmospheric concentrations of the greenhouse gases carbon dioxide, methane and nitrous oxide increasing by 40 per cent since 1750.

The consequences of climate change vary depending on location. Rising sea levels, changing precipitation patterns and more frequent, extreme weather events (like heat waves and flooding) will occur across the globe as temperatures increase. Some countries, like Russia, will benefit while others, like Bangladesh, will be severely impacted. Generally, countries closer to the equator will be more negatively impacted with less developed or low-income countries having the lowest adaptive capacity.

In Australia, rainfall patterns are changing as the tropic region has expanded. In southern and eastern Australia where dairy is most prominent, rainfall has decreased since the 1950s. This has given rise to the increased frequency and extent of drought, which along with heat stress and other natural disaster events, lead to reductions in yield and productivity.

The *Dairy Businesses for Future Climates* project, a partnership between Dairy Australia, Australian Department of Agriculture, University of Melbourne and Tasmanian Institute of Agriculture found that the Australian dairy industry will be required to make significant changes to adapt to climate change.[13] At the farm level (if no competitors were negatively affected by climate change), the annual rate of productivity gain required on base farms to achieve historical profit in 2040 would be: Gippsland (Vic) = 0.6 per cent per year (but could be as high as 1.2 per cent), Fleurieu Peninsula (SA) = 0.6 per cent per year (but could be as high as 1.1 per cent) and Tasmania = 0.3 per cent per year (but could be as high as 0.6 per cent). These numbers have been calculated for a farm business that has been adapting to climate challenges and making required productivity improvements over the last 15-20 years. This suggests the rates of productivity gain required to counteract climate change impacts on farm profitability need to be achieved over and above what would be considered 'business as usual'.

According to the Australian Government's Department of Environment and Energy, agriculture accounts for approximately 13 per cent of Australia's total greenhouse gas emissions. Emissions from dairy farms represent 12.5 per cent of total agriculture emissions or 1.6 per cent of total national emissions. Dairy farm emissions comprise 57 per cent enteric methane, 20 per cent from manure and urine, 6 per cent from nitrogen fertilisers (both application and production), 9 per cent from fuel and electricity and the remaining 8 per cent from purchased feeds.[14]

The ADIC would like to see the Australian Government continue to invest in climate change mitigation research, development and extension programs for the dairy industry. Key priorities include installation of methane digesters on dairy farms and the use of captured biogas as a source of energy, enhanced efficiency fertilisers, use of Estimated Breeding Values (EBVs) for low methane emitting animals, and use of novel feed additives, for example 3-nitrooxypropanol inhibitor (3NOP). It is only when these or other relevant initiatives are commercialised should the dairy industry be included in Australia's emission reduction target.

12 IPCC (2013) *Summary for Policymakers. In: Climate Change 2013: The Physical Science Basis. Contribution of Working Group I to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change* [Stocker, T.F., D. Qin, G.-K. Plattner, M. Tignor, S.K. Allen, J. Boschung, A. Nauels, Y. Xia, V. Bex and P.M. Midgley (eds.)], Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA.

13 Hennessy, K., Clarke, J., Erwin, T., Wilson, L. & Heady, C. (2016) *Climate change impacts on Australia's dairy regions*, CSIRO Oceans and Atmosphere, Melbourne, Australia.

14 Christie, K., Rawnsley, R., Phelps, C., & Eckard, R. (2016) 'Revised greenhouse-gas emissions from Australian dairy farms following application of updated methodology', *Animal Production Science*, CSIRO.

Drought

Australian dairy farmers are currently experiencing a second year of drought. Significant rainfall deficiencies over most of New South Wales, eastern and northern Victoria, southwestern Queensland, southern Northeast Pastoral and Murraylands districts of South Australia and the coastal areas of the Southwest Land Division in Western Australia has seen shortage of feed and water. This has translated to increased cost of production, decline in milk volumes and farm profitability and increased farm debt.

In its submission to the Productivity Commission's *Inquiry into Government Drought Support* (2009) the Australian Institute of Family Studies quantified the impacts of drought on farm families based on the *Rural and Regional Families Survey*.[15] They estimated average farm household income in a drought affected area to decline between $4,267 and $10,784 per annum. This is in addition to drought affected farmers experiencing declines in their physical and mental health.

A lack of water severely impacts dairy production, both from a volume and value perspective. On a dairy farm water is required for yard cleaning, milk cooling, activities in the pit, fixed cluster and platform sprays, milking machine and bulk tank/vat cleaning and other tasks such as pasture irrigation. Similarly, dairy processors require water to manufacture dairy products and clean and maintain processing systems. The recent drought has seen the cost of performing these activities increase significantly. For example, the Volume Weight Average Price (VWAP) for water in the South Australian Murray region was $3,972 per megalitre in September 2018[16] as compared to $1,628 per megalitre in September 2014.[17] Such increases have led to changes being made to herd numbers, dairy shed type (rotary, double up herringbone, swing over herringbone) or both.[18] Despite the change's efforts have not been enough to offset an overall increase in the cost of water for dairy production.[19]

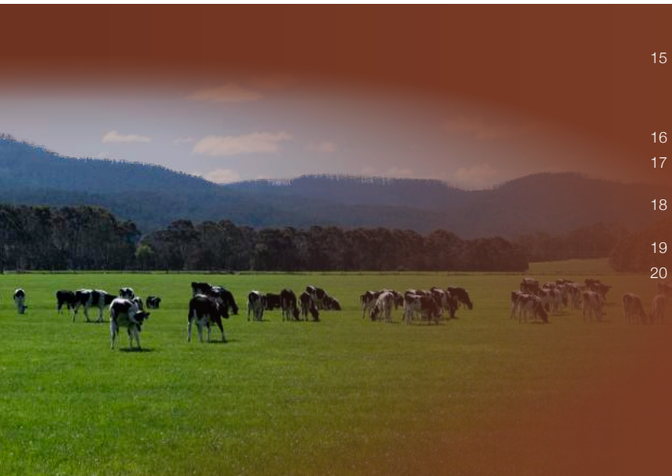
The drought policies of the NFF and Australian Government list preparedness as their overarching objective. This focus has been in place since 2008 when Australian, state and territory primary industries ministers, as part of the national review of drought policy, agreed that drought support being provided based on a region being drought declared or in exceptional circumstances (a reactive policy objective) was no longer appropriate given climate change projections. Consequently, drought assistance programs needed to be restructured to help farmers prepare for drought rather than waiting until they are in crisis.

Despite this policy change Australia's drought initiatives are heavily weighted in favour of drought support i.e. geared towards supporting a reactive / response policy objective. The Australian Government's *Agricultural Competitiveness White Paper* (2015) includes ten drought initiatives under the strategy of 'strengthening our approach to drought and risk management'. Over four years up to June 2019 $33.2 million was being spent on three preparedness initiatives compared to $333.6 million on seven in drought support initiatives. Similarly in the May 2018 Federal Budget $139.1 million was allocated to drought initiatives.

Of this amount $903,000 was allocated to one preparedness initiative (a managing farm risk program) with the remaining amount (over $138 million) allocated to four in-drought support initiatives (concessional loans, farm household allowance, rural financial counsellors and disaster financial support payments). The in-drought support initiatives were expanded more recently on 19 August 2018 when the Minister for Agriculture and Water Resources announced in a media release over $1.8 billion had been allocated by the government to the current drought support package. These events demonstrate a significant difference between drought policy and delivery in Australia. A similar observation was made in the *Review of the Intergovernmental Agreement on National Drought Program Reform* in 2018 where the panel recommended the government place greater emphasis on the changing climate and preparedness when delivering drought initiatives.

The ADIC would like to see the Australian Government invest significantly more funds in drought preparedness initiatives. This should include delivering large scale water efficiency and capacity projects to reduce evaporation, percolation and runoff across the farm irrigation network; supporting farmers to (a) build water storage systems that hold water during the irrigation season (b) store water in ditches along fields (c) install systems that are less water dependent than their current system (d) use water from deep aquifers instead of surface water and (e) install water measurement devices that keep track of water use in real time on digital platforms; supporting farmers to use conservation tillage to increase soil moisture and reduce evaporation (practices that reduce runoff and encourage infiltration of water into the soil), rotate pastures in ways that increase the amount of water that enters the soil; installing devices to monitor soil moisture real time on digital platforms; providing incentives for farmers to maintain and establish riparian buffers, filter strips, grassed waterways, and other types of conservation buffers near streams and other sources of water; supporting farmers to enter into feed contracts early to make sure they have enough hay during drv times or find alternative feed sources. raise animals that do

These investments are more aligned with current drought policy. They increase drought resilience in Australian farms, which eventually leads to less demand for and expenditure on, in-drought support.



15 Edwards, B., Gray, M., & Hunter, B. (2008) 'Social and economic impacts of drought on farm families and rural communities' *Submission to the Productivity Commission's Inquiry into Government Drought Support*, Australian Institute of Family Studies.

16 Aither (2018) *Water Entitlement Market Prices – Summary Report*, September.

17 PSI Delta (2014) *TER entitlement market prices summary – Murray-Darling Basin*, September.

18 Callinan, L. (2009) *Dairy Shed Water Use in Victoria*, Agriculture Victoria, Victorian Government.

19 Dairy Australia (2018) *Dairy Situation and Outlook*, October.

20 Productivity Commission (2018) *Murray-Darling Basin Plan: Five-year assessment draft report*, Australian Government, Canberra.

Water

A key government policy intervention devised to combat climate change and overallocation of water is the Murray-Darling Basin Plan. Since its inception in 2012 there has been significant debate over water recovery, program delivery, regulation and enforcement and governance. On occasions this has led to policy uncertainty fracturing stakeholders and discouraging investment.

The plan is about to enter a significant and difficult delivery phase. A package of supply and constraint measures designed to recover 605GL in water recovery for the environment are required to be delivered by 30 June 2024. Over the same period a package of efficiency measures designed to recover 450GL in water recovery for enhanced environmental outcomes also need to be delivered. To date the plan has recovered around 2,000GL of the 3,200GL requirement. While there have been improved environmental outcomes as a result of this recovery there are significant issues surrounding the costs, benefits and timeframes of surrounding the measures.[20]

The ADIC believes it is the quality of the business case that should determine water recovery amounts and methods. A project costing the taxpayer exorbitant amounts of money, adversely increases the price of water for communities, provides advantage to some people at the expense (cost or no benefit) to others or cannot demonstrate improved environmental outcomes beyond water flow should not be pursued. Alternatively, where net benefit can be demonstrated at the planning phase, the project should be pursued. These go/no go decisions can only be made at the project level by affected stakeholders and subject matter experts.

These and other issues were identified by the Productivity Commission in its *Five-Year Assessment of implementation of the Murray Darling-Basin Plan* (December 2018). Most of the recommendations made in this report involve incremental improvements to current arrangements. Several others, in particular the recommendations relating to governance, planning and management are designed to strengthen foundations for the plan to succeed.

The ADIC would like to see the Australian Government continue the bipartisan agreement for delivery of the Murray Darling Basin Plan consistent with the recommendations of the Productivity Commission's *Five-Year Assessment of implementation of the Murray Darling-Basin Plan Murray Darling Basin Plan*.

The Australian Government's *Agriculture Competitiveness White Paper* established a National Water Infrastructure Fund. $580 million is currently allocated to the fund for detailed planning to inform future water infrastructure investment decisions ($59.5 million) and co-funding the construction of water infrastructure projects in partnership with the state and territory governments and their project partners ($520 million). Seven water infrastructure projects are being delivered across five states – the Mareeba-Dimbulah Water Supply Scheme, Nogoa Mackenzie Water Supply Scheme, Northern Adelaide Irrigation Scheme, Scottsdale Irrigation Scheme, Macalister Irrigation District modernisation, South West Loddon pipeline and Sunraysia Modernisation Project 2 and Myalup-Wellington Project. When delivered these projects will predominantly enhance water efficiency and quality for affected communities.

In 2015 the Australian Government also released its white paper for developing northern Australia. This 20-year plan for investment and growth seeks to build a trade and investment gateway, a more diversified northern economy, indigenous entrepreneurship and businesses, world-class infrastructure, water investments and research and innovation. A key initiative in this agenda was the completion of an investigation of opportunities for water resource development in the Fitzroy, Darwin and Mitchell catchments of northern Australia by the CSIRO in 2018. This found that each study area offers the possibility of irrigation developments exceeding the scale of the lower Burdekin in north Queensland. In the Mitchell catchment alone, large instream dams could support 140,000 ha of year-round irrigation or alternatively, water harvesting could enable up to 200,000 ha of irrigation with one dry-season crop per year.

Policy Statement

There are currently six major desalination plants built and operating in Australia. When needed they are 'turned on' to supply residents in the cities of Gold Coast, Sydney, Perth, Melbourne and Adelaide. In the six to eight years of operation these plants have rarely operated above their minimum production level requirement yet contracts between state governments and plant operators requires significant payment of taxpayer funds regardless of whether water is supplied or not. For example, the Victorian desalination plant at Wonthaggi requires a $1.8 million per day fee payable to the construction consortium, AquaSure, for 27 years after completion (the facility was built in 2012 and is the largest of the six Australian plants). Even if no water is required, the total payment is between $18 and $19 billion,[21] creating a significantly underutilised asset.

The ADIC would like to see the Australian Government commission the CSIRO to develop a transformational water supply blueprint for Australian agriculture. This should include an economic, hydrological, engineering and environmental analysis of dams, desalination, catchments, network connections and other water supply proposals to determine priority infrastructure projects. The goal is to deliver a permanent water supply for farmers, regional communities and environment. When assessing the value of these projects it is critical the CSIRO identify direct and opportunity costs and savings offsets. For example, the $13 billion spent on the Murray Darling Basin Plan would be a savings offset given the blueprint would increase water volume in the Basin, making the plan redundant.

Energy

Energy is a critical resource for water delivery and production in the dairy industry. It is also the major source of Australia's greenhouse gas emissions (around 82 per cent). On a dairy farm the main source of energy consumption is electricity. This is mainly used for milk cooling (34 per cent), hot water heating (24 per cent), milk harvesting (20 per cent) and other applications such as lighting (22 per cent).[22] On a gigajoule (GJ) basis, energy use in dairy processing is estimated to be 80 per cent gas (for process heat) and 20 per cent electricity. For a milk-only plant, however, the breakdown is more like two thirds electricity, one third thermal (usually gas). Security of energy supply is required to ensure unfinished dairy products within process lines and storage vats do not become unusable and processors are able to meet supply contracts.

The current cost of energy (electricity and gas) for dairy processors is approximately $170 million per annum. In 2017-18 Dairy Australia estimated this cost to have risen between 50-70 per cent - an additional $100 million.[23] This translates to a reduction of around 1¢ per litre less that processing companies can pay farmers, which is an average of $15,340 per farm. Across Australia's 5,800 dairy farmers at the time this translates to an aggregate $89 million decline in the total farmgate price received. Dairy farmers also face paying up to 20 per cent more on their own power bills for dairy sheds. This could add an average $4,840 to Australian dairy farmers' shed annual power bills, which have averaged about $24,200 a year over the last three years. The net result for dairy farmers is they effectively pay twice: with lower farmgate milk prices and higher power bills.

The dairy industry has limited capacity to respond to rising energy costs. Milk flow is constant, it cannot be turned off and on at the flick of a switch. There are significant logistical and operational challenges associated with changing farm practices to take advantage of lower pricing options energy retailers may offer. Some companies with multiple processing sites may have the ability to divert milk to alternative sites to help alleviate localised demand on a network, shift demand to different times of the day to leverage off-peak rates or install their own energy generation system e.g. solar, to become more efficient or self-sufficient. However, pursuing such options often incur additional costs like higher staff wages for operating during off-peak times and interest rates on loans for new or upgraded systems.

21 Lauder, S. (2012) 'Victorians pay dearly, but not a drop to drink', *ABC News*, 18 December.

22 Dairy Australia (2015) *Smarter Energy use on Australian Dairy Farms*.

23 Dairy Australia (2017) *Australian Dairy Industry in Focus 2017*, Southbank.

The ADIC would like to see the Australian Government provide tax relief to businesses installing or upgrading to more energy efficient or renewable energy systems. This will not only mitigate the excessive cost of energy, it will contribute to Australia's emission reduction targets.

Unfortunately, excessive energy prices are now commonplace across Australia. What was traditionally a source of competitive advantage has been eroded by gold plating the supply network by distributors and excessive wholesale and retail margins. Despite various government reviews highlighting these concerns public policy debate has focussed on generation type (fossil fuels versus renewables) in the context of mitigating climate change. While this has played out, energy generation and retail companies have been allowed to continue to increase energy prices unabated, shifting public wealth into a small group and forcing what were once viable farms and businesses into closure.

Privatisation and deregulation of Australia's electricity sector occurred from 1990 to 2016. Initially, government owned vertically integrated (generation, transmission and retailing) businesses were broken up into separate private companies in an effort to introduce competition and increase efficiency across the chain. Up until 2009 state governments set a regulated price (known as a standing offer) for retailers to compete by offering prices lower than the regulated price (known as market offers). Victoria was the first state to remove price regulation in 2009. Other states followed through to 2016. Retail electricity prices remained relatively stable until regulated prices were removed. The four drivers of price were generally in sync and proportionate; including wholesale and network costs, environmental costs and retailer costs and margins. This relative stability enabled farmers to have confidence in the accuracy of their budgets and investment decisions.

From 2007-08 to 2017-18 residential consumers in Australia experienced an electricity price increase of around 56 per cent.[24] Increases occurred across all four retail price drivers with some states experiencing disproportionate increases in one or more drivers. In NSW, Queensland and Tasmania significant over-investment in state-owned networks are now costing residential customers between $100-$2000 per annum.[25] In Victoria profit margins of electricity retailers are now considerably higher than those of any other retail sector. This has resulted in retail becoming the largest component of a Victorian bill. Historically, it was the smallest.[26]

Policy Statement

The ADIC would like to see the Australian Government implement all of the ACCC's 56 recommendations outlined in its *Retail Electricity Pricing Inquiry*. These span the entire supply chain, focussed at boosting competition in generation and retail, lowering network, environmental schemes and retail costs, enhancing consumer experiences and improving business outcomes. The ACCC estimates that small businesses can achieve savings of 24 per cent on 2017-18 prices if their recommendations are adopted.

The ADIC would also like the Australian Government to apply the recommendations from the *Independent Review into the electricity and gas retail markets in Victoria* in areas where the ACCC did not cover across the country. A key priority is for all retailers to provide consumers with a Basic Service Offer at a low or regulated price.

24 ACCC (2018) 'Restoring electricity affordability and Australia's competitive advantage', *Retail Electricity Pricing Inquiry final report*, June, Australian Government, Canberra.

25 Ibid.

26 Wood, T. & Blowers, D. (2017) 'Price shock – is the retail electricity market failing consumers?', *Gratton Institute Report No. 2017-04*, March.