Australian Dairy Industry

Represented by

Australian Dairy Industry Council Inc. and

Dairy Australia

Response to

National Food Plan Green Paper

Contacts

DA: **Charles McElhone** — Group Manager Trade & Industry Strategy
03 9694 3763 I CMcElhone@dairyaustralia.com.au
Level 5 IBM Centre 60 City Road, Southbank Victoria 3006

ADIC: **Natalie Collard** — Chief Executive Officer, Australian Dairy Farmers
03 8621 4200 I ncollard@australiandairyfarmers.com.au

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The Australian Dairy Industry

The dairy industry is one of Australia's major rural industries. Based on farm gate value of production, it is ranked third behind the beef and wheat industries. There are approximately 6,900 farmers producing close to 9.5 billion litres of milk annually, for a farm gate value of just under $4 billion.

The dairy industry welcomes the chance to present this submission in response to the National Food Plan green paper.

This is a joint submission from the Australian Dairy Industry Council (ADIC) and Dairy Australia.

The ADIC is the national peak policy body for the Australian dairy industry and represents all sectors of the industry on issues of national and international importance. Its constituent organisations – the Australian Dairy Farmers Limited (ADF) and the Australian Dairy Products Federation (ADPF) – represent the interests of dairy farmers, manufacturers, processors and traders across Australia.

Dairy Australia is the dairy industry-owned service company, limited by guarantee, whose members are farmers and industry bodies, including the ADF and the ADPF.

Key points

Australia's food policy framework

- The National Food Plan needs to achieve an integrated vision for food, beyond just DAFF's sphere of influence. A Ministerial Food Forum, and arrangements with states and territories through COAG, should be structured to support this.

Australia's food security

- A State of the Food System should be undertaken on a regional basis, to properly reflect regional issues and needs.

Safe and nutritious food

- The National Food Plan should put forward specific strategies to improve integration with National Nutrition Policy, and to improve partnerships between government and primary industry bodies to increase consumption of core foods.

A competitive and productive food industry

- A working group to prepare a workforce development strategy should be established as proposed in the green paper. This should extend beyond the agriculture sector, and explicitly acknowledge and address employment and training issues across the whole food sector.
- Government should develop a national strategy on the consistent application of modern biotechnology (including genetically modified crops) in agriculture.
- The current rural Research and Development Corporation (RDC) model (particularly as it applies to dairy) remains fundamentally sound. It is an effective avenue for addressing cross-sectoral issues by way of strategies developed through the RDC network. Additional government funding should be directed to these areas of cross-sectoral investment.
- Alignment of research and development post-farm gate is also critical. The dairy industry supports the National Food and Nutrition Research and Development and Technology Transfer Strategy as a vehicle for better collaboration, as well as sector-specific, industry-led innovation hubs such as Dairy Innovation Australia Limited (DIAL).
- Government should introduce ongoing mechanisms to identify regulatory reform opportunities and should reaffirm commitment to the Best Practice Regulation principles and approaches. Reforms to the regulation of minor use chemicals should be pursued as a priority.
- Australian Dairy Farmers (ADF) is keen to participate in a forum to examine options to better manage supplier/supermarket chain relationships that results in action to balance the market power of the major retailers.

A strong natural resource base

- Further research into soil and water, and other natural resource base issues is supported − the existing RDC network offers an avenue for investing in this research

Food trade and market access

- The capacity for direct representation on specific trade issues in key markets should be increased, particularly through the DAFF International Agricultural Counsellors. Vietnam, Philippines and Saudi Arabia are high priorities for expanding the Counsellors network.
- The Imported Food Control Act 1992 should be reviewed, and the review should also consider the need to develop an Imported Feed Control Act to manage risks from imported animal feed.

Strategic policy priorities

Dairy supports the National Food Plan's key outcome of:

> *A sustainable, globally competitive, resilient food supply, supporting access to nutritious and affordable food.*

Achieving this outcome requires a truly integrated vision across government. While the green paper has recognised the breadth of influences on food, the proposed practical actions are concentrated in areas within DAFF's direct sphere of influence. This is a missed opportunity.

The Australian Government needs to broaden its approach. To this end, dairy has identified the following priority strategic policy areas:

- Investment in research, development and extension
- Market access
- People
- Health and nutrition
- Supply chain issues

While some of these fall outside what is covered in the green paper, the dairy industry believes it is nonetheless important to highlight how practical government action in these areas will improve the National Food Plan's capacity to achieve its key outcome.

1. Investment in research, development and extension

Substantial ongoing government investment in agricultural and food processing innovation is required to keep boosting productivity along the supply chain.

The current rural Research and Development Corporation (RDC) model (particularly as it applies to dairy) remains fundamentally sound and effective. Strong, industry-based RDCs are uniquely positioned in their capacity to translate broad, high-level knowledge into effective, industry-based solutions. The existing rural RDC network also provides an avenue for increasing research in cross-sectoral issues.

Cooperative Research Centres also play an important role in developing new science and research and development capacity within the industry. Their close association with industry enables industry-relevant commercial outcomes. The Dairy Futures CRC in particular is making a valuable contribution to the dairy industry,

Alignment of research and development post-farm gate is also critical. The dairy industry supports the National Food and Nutrition Research and Development and Technology Transfer Strategy as a vehicle for better collaboration, as well as sector-specific, industry-led innovation hubs such as Dairy Innovation Australia Limited (DIAL).

The design of investment is also important, particularly translating research findings on new technologies and farming systems into general productivity gains. Any review of research investment models also needs to consider appropriate support for development and extension.

2. Market access

Increasing use of non-tariff barriers in international markets is constraining market access for dairy exports. DAFF Agricultural Counsellors play a major role in removing or lowering such barriers, because they can more effectively engage directly with local officials to address access issues as they arise, and work proactively to identify and prevent non-tariff barriers affecting dairy imports.

Increasing the number of Agricultural Counsellor postings is among the most effective measures the Australian Government (DAFF) could take to maintain and expand market access. To this end, the dairy industry urges the government to expand the Agricultural Counsellors postings program into the following three key emerging markets: Vietnam, the Philippines, and Saudi Arabia.

3. People

The future of dairy depends on recruiting, training and retaining the next generation of farmers, food scientists, processing workers and industry service providers.

The dairy industry has been actively engaging in strategies to attract, retain and develop a skilled workforce. However, government policy and funding decisions are undermining industry programs to attract and retain people in dairy. Specific issues include:

- Lack of priority of Vocational Education and Training (VET) funding into courses targeted at industries with acknowledged skill shortages, such as dairy.
- Red tape in the visa approval system leading to long delays in recruiting skilled employees from overseas to fill skills shortage gaps – a review of this process is necessary, in particular 457 Visas, to streamline and improve industry access to overseas workers to fill skills shortage gaps.
- Fair Work Australia Modern Award Review minimum engagement provisions not reflecting working practices on dairy farms.

The industry welcomes the National Food Plan proposal to establish a working group to prepare a workforce development strategy focusing on ways to better use existing labour and skills initiatives.

The strategy should extend beyond the agriculture sector, and explicitly acknowledge and address employment and training issues in food processing.

4. Health and nutrition

The dairy industry recognises the need for policy and regulatory initiatives to address the increasing rates of obesity and related non-communicable diseases in Australia. It is critical that these policies and initiatives recognise the health benefits of diets based on nutrient-rich, core foods such as milk, cheese and yogurt, rather than focussing on a narrow range of negatively perceived nutrients. This is consistent with the most up-to-date scientific evidence as recognised in the evidence statements used to develop the National Health and Medical Research Council (NHMRC) draft Australian Dietary Guidelines.

Poorly targeted or non-evidence based efforts that reduce dairy consumption are a regulatory burden on industry, and could be counterproductive in achieving the desired health outcomes. The Australian Government needs to support an evidence-based approach to encouraging healthy eating, starting with the Australian Dietary Guidelines based on the NHMRC's own evidence statements showing consumption of milk, cheese and yogurt is linked to positive health outcomes. Low dairy food intake is a serious problem in Australia. Most Australians don't currently consume enough core dairy foods to access these health benefits.

5. Supply chain issues

Australian Dairy Farmers (ADF) is keen to participate in a forum to examine options for better managing supplier/supermarket chain relationships that results in action to address and balance the current excessive market power of the major retailers. It is vital that farmers and farmer representatives are involved in this forum from peak bodies such as the National Farmers Federation and the ADF.

In particular, the ADF supports:

- A code of conduct for supermarket companies in their dealings with processors and farmers; and,
- Establishing an ombudsman to enforce compliance, investigate complaints from a whole-of-supply chain perspective, administer a cost-effective dispute resolution process with appropriate penalties, and publicly report.

Response to questions in the green paper

Chapter 3 – Australia's food policy framework

3.1 Do you agree with the proposed outcome and objectives outlined in this green paper to guide the Australian Government's development of food-related policy and stakeholder consultation mechanisms?

Integrated vision

Government activities that affect food cover a wide range of areas including policy, regulation, education and training, investment in research and development, and industry development. Currently this involvement is piecemeal, inconsistent, sometimes overlapping and often defined by capability and available policy tools rather than any shared understanding of roles and responsibilities or overarching strategy.

The National Food Plan needs to achieve an integrated vision across multiple departments, beyond just DAFF's sphere of influence. While the discussion and objectives in the green paper recognise the breadth of influences on food, the practical options proposed are concentrated on actions in areas within DAFF's direct influence, missing an opportunity to achieve a truly integrated vision across government.

The dairy industry is concerned that while 'objectives' are set in areas beyond DAFF's direct influence, there is no indication that the relevant agencies support these objectives or the integrated vision for food policy. Actions in other areas of government may undermine or compete with the National Food Plan's overarching objective. Our response to Chapter 5: Safe and Nutritious Food, and Chapter 7: A Strong Natural Resource Base provides some examples.

Whole supply chain approach

'Food' industries need to be viewed as integrated supply chains. Milk is a perishable product, which must be processed before it can be sold commercially. As a result, dairy production is integrated across the supply chain: dairy farmers cannot operate without domestic processing capacity, nor can processors survive without domestic farm milk supply. While the rhetoric around an 'integrated approach' acknowledges this, few of the practical actions proposed address issues that cut across the supply chain.

Our response to Chapter 6: A Competitive and Productive Food Industry provides some examples of actions that should be extended to other areas of the supply chain.

3.2 The Australian Government is seeking feedback on a number of alternatives to improve leadership and stakeholder engagement on food policy issues. These alternatives are set out in Section 3.4.1.

Do you have a preference for a particular alternative or a specific suggestion for another mechanism that would provide better leadership, coordination and stakeholder engagement on food policy issues in Australia?

A robust and long lived commitment to an integrated vision for food policy and commitment to implementing the actions proposed in the National Food Plan will be essential to encourage investment in the long-term future of the food industry. The mechanisms proposed are less important than achieving better engagement and alignment across all policies impacting on food. This needs bipartisan support, and commitment beyond short-term political cycles.

Ministerial Food Forum

To the extent that a Ministerial Food Forum is structured to ensure an integrated vision of food policy, the dairy industry supports the establishment of a forum.

The forum should include key Ministers (such as: Agriculture, Health, Industry and Innovation, Environment, and Trade) to reflect the integrated food supply chain and the potential for food to provide health solutions. Others should also be able to be included when actions within their portfolios will affect the food industry (for example, the Chemicals of Security Concern work in the Attorney General's portfolio, which is aimed at terrorism activities but has potential implications for food production), or where otherwise relevant (for example, Infrastructure, Education and Training, Climate Change).

The terms of reference for the forum should focus on ensuring all impacts of policies affecting food are considered, that the policies are not undermining efforts in other areas, and providing a mechanism for developing cross-cutting solutions.

Stakeholder Committee

A Stakeholder Committee to provide advice on food issues would need to comprise representatives from all supply chain sectors, including primary producers, processors, and retailers. While the committee may provide one useful avenue for engagement, it should not be seen as a replacement for wider industry consultation.

COAG arrangements

These mechanisms also need to coordinate with food policy setting through COAG and associated Ministerial Councils, recognising that states and territories have responsibility for much of the policy affecting food.

Current arrangements, as stated in the green paper, are through the Standing Council on Primary Industries (SCoPI), and the Legislative and Governance Forum on Food Regulation.

In practice this means that the avenues through which 'food issues' are addressed are either focused only on the primary production end of the supply chain, or are about regulation.

For many of the challenges the system is being called upon to address, regulation (in the form of formal standards etc) will not be the best outcome, nor are they just primary production issues.

As it currently stands, there is no way for any improvements in integration at the federal level to be reflected at COAG, except through the Legislative Forum on Food Regulation. Recognising that 'food policy' does not equal 'food regulation', the dairy industry supports the green paper proposal of 'increasing engagement with states and territories, through COAG, on food-related policy using the National Food Plan as a reference point for improved coordination.'

Chapter 4 – Australia's food security

4.1 Do you agree with the analysis that, broadly speaking, Australia is food secure? If not, why not? Please be specific and provide evidence to justify your position. What additional data could the government draw on to measure Australia's food security?

Food security

The dairy industry broadly agrees with the green paper's analysis of Australia's food security.

The future of the food supply is tied to the ongoing viability of food industries. Food businesses along the supply chain must be both profitable and sustainable in the long term to ensure Australians continue to have access to a nutritious, secure food supply. To support this, consumers need to value the food they purchase, beyond short-term price concerns.

Dairy's strong trade position supports its competitiveness and sustainability, which are essential for maintaining domestic and global food security.

Our responses to Chapter 7: A Competitive and Productive Food Industry, and Chapter 8: Food Trade and Market Access are also relevant here.

State of the Food System report

To be useful, a State of the Food System report should be undertaken on a regional basis, to reflect regional food system issues.

For example significant regional differences continue to characterise the Australian dairy industry – based on market and product mix, farmer confidence as well as current and future growth prospects.

Like the national economy, the dairy industry continues to be characterised by "two speeds" – growth and consolidation in exporting regions, contrasted with faltering confidence and contraction in domestic milk regions.

For most farmers in south-eastern Australia, international conditions determine prices and industry confidence.

In Queensland, central and northern New South Wales and Western Australia the industry is geared toward domestic fresh milk supply. Ongoing intensity in retail competition, unsustainable pricing of milk at $1 per litre, disruptions caused by changes in private label supply contracts and uncertainty surrounding processor milk requirements have undermined farmer confidence and supply stability.

While overall supply remains good, these regional differences affect the food system within regions, and ultimately the sustainability of a local fresh milk supply. Analysis at the national level fails to show this nuanced picture.

The data collected for a State of the Food System report will be important to support evidence-based policies and programs in the future that properly reflect regional issues and needs.

4.2 The Australian Government is seeking feedback on the option of working with state and territory governments and the food industry to develop strategies to mitigate risks and maintain continuity of the food supply in a major emergency. Section 4.5 of Chapter 4 outlines some options. Do you support these options? Do you have specific suggestions for other options or strategies?

Food supply in an emergency

The dairy industry is actively engaged with and supports current efforts to maintain the continuity of the food supply in a major emergency, and is keen to contribute to further work, as outlined in the green paper.

During an emergency/natural disaster, transportation and particularly road access are critical to ensure milk can be moved from farm to factory, and final products can be supplied to retailers

and on to consumers. This also applies to the transport of emergency supplies for livestock welfare and ongoing production.

In recent emergencies (for example floods in Victoria and Queensland) the industry worked with authorities to ensure transport access was maintained wherever possible. Communication with industry and practical flexibility (for example mapping safe routes and allowing milk trucks through otherwise closed roads) are important in an emergency.

Resumption of power is also critical to allow continued milking and alleviate animal welfare issues, as well as for cooling milk so that it does not have to be discarded.

4.3 Do you agree with the analysis of the factors that contribute to individual food security? Do you support the approaches outlined? Do you have specific suggestions for other options or strategies?

Individual food security

Clear integration is important between the National Food Plan, a National Nutrition Policy and efforts to ensure that all Australians consume healthy amounts of nutritious core foods.

Currently individual food security tends to be measured by access to fruits and vegetables. However, Australians generally do not consume enough dairy foods to get their minimum recommended intake of essential nutrients. Under-consumption is even more marked in vulnerable groups such as teens and the frail elderly, for whom the health implications of poor nutrition are even more serious.

This issue needs to be addressed with a clear integrated policy framework, as discussed in our response to Chapter 5: Safe and Nutritious Food.

Chapter 5 – Safe and nutritious food

5.1. The Australian Government has strategies, policies and programs in place to:

- ensure all Australians have access to a safe and nutritious food supply
- support healthy lifestyles
- reformulate foods, improve food labelling and educate consumers
- improve nutritional outcomes for Indigenous Australians
- provide a comprehensive and effective food safety regulatory environment
- build capacity to control known and emerging food safety risks.

This green paper provides details of these initiatives and outlines the Australian Government's future policy directions, including the development of a national nutrition policy.

Are there additional issues the government should focus on in its future policy directions? What factors should the government consider in developing new, and reviewing existing, polices and programs?

Nutritious food

The dairy industry recognises the need for policy and regulatory initiatives to address the increasing rates of obesity and related non-communicable diseases in Australia. To successfully address these important issues it is critical that policies and initiatives recognise the health benefits of diets based on core foods, rather than focussing on a narrow range of negatively perceived nutrients. This is consistent with the most up-to-date scientific evidence as recognised in the evidence statements for core dairy foods (milk, cheese and yogurt) used to develop the draft Australian Dietary Guidelines.

Efforts to encourage healthy eating (such as front of pack labelling, school canteen guidelines, health claims regulation and the Food and Health Dialogue) should promote and recognise the health benefits of core foods recommended in the Australian Dietary Guidelines, particularly those that are currently under-consumed.

The health and economics case to encourage increased dairy consumption is strong. Low dairy intake is already a serious problem in Australia – seven out of ten females and six out of ten males (12 yrs +) fail to get their minimum recommended intake[1]. The situation is worse for teens[2]. New research indicates the estimated healthcare cost attributable to low dairy product consumption is comparable with total spending on public health in Australia ($2 billion in 2009-2010)[3].

Poorly targeted or non-evidence-based efforts that reduce dairy consumption are not only a regulatory burden on industry, but could be counterproductive in achieving the desired health outcomes.

Integrating the National Food Plan with National Nutrition Policy would have real benefits by putting nutrition policy in the context of the food system, and the foods people actually eat, rather than focussing on a narrow range of nutrients.

The National Food Plan should put forward specific strategies to improve integration. The proposed Ministerial Food Forum may go some way to achieve this, but given the increasing pressure to pursue nutrition outcomes through food regulation, a more structured collaboration may be required.

Australian Dietary Guidelines

The National Health and Medical Research Council (NHMRC) is proposing to encourage Australians to consume "mostly reduced-fat" dairy products in its current review of the Australian

[1] Doidge & Segal (2012) Most Australians do not meet recommendations for dairy consumption: findings of a new technique to analyse nutrition surveys. *Australian and New Zealand Journal of Public Health* 36: 236-40.
[2] Baird, DL, Syrette, J, Hendrie, GA, Riley, MD, Bowen, J and Noakes, M. (2012) Dairy food intake of Australian children and adolescents 2–16 years of age: 2007 Australian National Children's Nutrition and Physical Activity Survey., *Public Health Nutrition*.
[3] Doidge, Segal & Gospodarevskaya (2012) Attributable risk analysis reveals potential healthcare savings from increased consumption of dairy products. *Journal of Nutrition* 142: 1-9 (*In Press*).

Dietary Guidelines. This proposal ignores the NHMRC's own evidence statements confirming that the many health benefits of milk, cheese and yoghurt apply to all dairy products, not only reduced fat varieties. This perpetuates a perception that regular fat milk, cheese and yoghurt are somehow unhealthy and linked to obesity – when in fact, the NHMRC 2011 review of the evidence confirmed that the many health benefits of milk, cheese and yoghurt apply to all dairy products, not only reduced fat varieties.

The Australian Government needs to support an evidence-based approach to encouraging healthy eating, starting with Australian Dietary Guidelines based on the NHRMC's own evidence statements.

Addressing all core foods

Initiatives devised to encourage healthier food choices also need to address the range of core foods that are under-consumed, not just fruit and vegetables.

For example, the COAG National Partnership Agreement on Preventative Health provides funding to state health departments for implementing nutrition policy. One desired outcome is to increase the proportion of the population who meet national guidelines for healthy eating. However performance measures are focused mainly on fruit and vegetables. As a result state health departments focus their activities only on fruit and vegetable consumption, rather than reflecting all core foods that are under-consumed.

The National Food Plan should consider ways to improve partnerships between government and primary industry bodies (including rural Research and Development Corporations) to increase consumption of core foods.

Improved data

Evidence-based policy making in the Australian context requires regular, coordinated population health and nutrition surveys, along with a robust health and nutrition research program.

The current Australian Health Survey 2011-13 is urgently required to update the data from the 1995 National Nutrition Survey, and the extension of the health information collected is a useful step forward. To properly support evidence-based policy this information needs to be collected much more frequently and consistently.

Food safety

The dairy industry has a history of working with federal and state regulatory agencies to ensure food safety regulations are outcomes-focused, science-based and proportionate to risk. This streamlines the common objectives of both government and industry for safe dairy food production, without added regulatory burden. Furthermore, it allows businesses to innovate and incorporate technology changes while continuing to identify and manage their food safety risks.

The Australian food safety system needs to be actively promoted and all supply chain participants encouraged to continue to undertake their responsibilities.

Chapter 6 – A competitive and productive food industry

6.1 This green paper sets out the government's proposed approach for supporting productivity growth and global competitiveness in the food industry, which includes: a market-based policy approach; ongoing reforms to improve biosecurity and help industry adapt to climate change and drought; fostering and investing in innovation; building human capability and a skilled workforce; better regulation along the supply chain; effective competition laws; and broader infrastructure investments and regulatory reforms.

Are there gaps or deficiencies in this proposed approach?

Australia sells almost half its annual milk production directly into export markets as manufactured food products and ingredients. At the same time, Australia applies minimal barriers to commercial dairy imports. The dairy industry therefore recognises the importance of remaining competitive in a global market. Regulatory burdens and high costs in areas such as labour, energy and infrastructure all affect the competitiveness of the industry.

In addition to responses to questions below, human capability and a skilled workforce are among the most important issues that will affect the dairy industry's future. The adoption of new technologies and added complexity will place increased demands on the people in dairy in the future. Priorities include leadership development; assisting the development of skills on farm, in the service sector, and in processing; and, further development of formal training and education and career pathways in the industry.

Farm workforce development

Dairy farms have become increasingly complex to manage. As farms grow, reporting and compliance requirements grow more complex, and technology plays an expanding role in milk production, the skills of the people required to successfully run a dairy farm are changing.

The 2012 National Dairy Farm Survey paints the changing picture of farm management and labour structures. The proportion of dairy farms operated by a single person, or with a partner, was 29% in 2012 compared to 43% in 2007.Nationally, some 68% of farms operate with paid employees, up from 64% in 2011. An estimated 32% of paid staff are employed on larger farms (comprising 301 to 500 cows), which represent 24% of all dairy farms across the industry.

Thus people management skills, as well as animal and technology management, are becoming more critical.

Food processing workforce development

People issues are not just confined to the farming sector. The analysis in the green paper is focused on issues in the primary production sector, but the labour supply issues also facing the food processing sector should not be ignored

Reforms to agricultural education alone will not address issues facing food processing – such as shortages of skills in food science and technology, microbiological risk, and process optimisation. The food industry requires people with skills to enable multidisciplinary approaches to allow companies access to appropriately trained problem solvers and innovators.

Industry and government actions

Dairy's future depends on recruiting, training and retaining the next generation of farmers, food scientists, processing workers, and industry service providers.

The dairy industry has been actively developing and implementing strategies to attract, retain and develop a skilled workforce (for example Cows Create Careers, National Centre for Dairy Education Australia, Dairy Innovation Australia, postgraduate scholarships).

However, government policy and funding decisions are undermining industry programs to attract and retain more people in dairy.

Specific issues include:

- Lack of funding priority for Vocational Education and Training (VET) courses targeted at industries with acknowledged skill shortages, such as dairy. Specific issues (mostly state-based) include the need to recognise 'Agriculture dairy farmer workers and managers' on skills shortage lists for eligibility to state and federal programs, and the ineligibility for funding of people with existing qualifications, even in areas of skills shortage.
- Red tape in the 457 Visa approval system leading to delays in recruiting skilled employees from overseas to fill skills shortage gaps.
- The Fair Work Australia Modern Award Review (Pastoral Award [MA000035]) minimum engagement provisions, where no minimum engagement provisions or a minimum engagement of two hours instead of the current three hours would better reflect the working practices on dairy farms and facilitate employment and productivity.
- Structural impediments to teaching of food science and technology by universities, including cost of appropriate teaching models.

The industry welcomes the National Food Plan proposal to establish a working group to prepare a workforce development strategy focusing on ways to better use existing labour and skills initiatives. While industry has an important contribution to make, the dairy industry's experience has shown the importance of government involvement, at both state and federal levels, to ensure that policy and funding decisions support industry programs.

A workforce development strategy should extend beyond the agriculture sector, and explicitly acknowledge and address people issues across the whole food sector.

The strategy should consider how to address areas of skills shortage, such as food science and technology, food safety and microbiology and agriculture, for example through targeted scholarships.

The strategy should also consider the importance of making living and working in regional areas attractive to the next generation. Dairy employs more than 40,000 people directly on farms, in factories and in associated transport roles across regional Australia. Strategies for upskilling this regionally based workforce are critical, and would be facilitated by infrastructure such as high speed internet in regional areas through the National Broadband Network.

6.2 The government is seeking to increase the value of Australia's food exports from across the supply chain, including the value-added component.

a) Do you think that a target of doubling the value of our food exports by 2030 is achievable? If not, what target would be?

b) How could this be achieved in a market-driven economy like Australia? What would government and business need to do?

c) What would be the costs and benefits of these actions?

See response to Chapter 8: Food Trade and Market Access

6.3 The use of new technology in food products is likely to be increasingly important in Australia and around the world, helping to meet evolving desires and needs of sophisticated consumers and ensuring an adequate global supply of food for a growing population. However, some people are concerned about new technology despite substantial regulatory arrangements to manage any potential risks.

What should governments, businesses, peak associations and consumers be doing in response to this trend?

New technologies

Innovation and the use of new technologies will be essential to improve productivity, differentiate and improve existing products and expand export opportunities.

Support for research and infrastructure to translate basic science to practical applications will be essential to enable Australia to be truly innovative and reap the benefits of investment through the application of new technologies in the food sector. With a perishable product, the dairy sector is particularly reliant on processing to open opportunities to increase returns. Government support for sector change through the introduction of new technologies should be considered.

Regulation of new technologies

The dairy industry supports the need for a robust regulatory approach to assure consumer confidence and safety with regard to new technologies.

At the same time, regulation must be evidence-based and proportionate to risk, and should encourage rather than stifle innovation that benefits both consumers and industry.

The dairy industry recommends that policies be developed that allow the integration of innovative new products and processes into the regulatory framework without impeding competition or trade (both domestically and internationally) and that apply equally to imported and domestic products.

This includes a role for government agencies such as Food Standards Australia New Zealand (FSANZ) in managing consumer perceptions so that a requirement for a pre-market assessment is not misinterpreted as indicating an unsafe product. If a new technology is deemed safe, it is a responsibility of regulatory authorities to communicate effectively to all stakeholders, including consumers, to help allay unwarranted concerns and anxieties.

Biotechnology

The dairy industry considers that biotechnologies offer significant potential benefits to producers, processors and consumers, and to Australia.

Through the Dairy Futures Cooperative Research Centre, the industry invests in research into pasture and animal biotechnology applications.

A clear and transparent regulatory system is required for the confidence of all stakeholders. The current regulatory arrangements through the Office of the Gene Technology Regulator (OGTR) and FSANZ are appropriate. The dairy industry supports current requirements for labelling, but would be concerned if the standard's provisions were extended to foods that may be produced using gene technology but do not in themselves contain any novel DNA or protein.

As well as ensuring these rigorous safety requirements, government also has an important role to play in supporting new technologies such as biotechnology and addressing barriers that constrain development and adoption.

The dairy industry fully supports a national strategy on the consistent application of modern biotechnology (including genetically modified crops) in agriculture, including considering constraints to adoption and the path to market. This should also look at the potential advantages offered by biotechnology developments, review consumer expectations and consider communications to allay consumer concerns.

6.4 One option to increase agricultural productivity to help the sector meet future export growth opportunities and challenges, such as increasing productivity growth in a changing climate, is to increase rural R&D investments over a number of years. This would be in addition to continually seeking better ways to increase the overall benefits of this investment.

a) Is this the best way to help the agricultural sector meet the challenges and opportunities of the coming decades? Why/why not?

b) What would be the costs and benefits of this approach?

c) How could any additional investment be targeted to achieve the greatest overall benefit to Australia?

Substantial ongoing investment in agricultural and food innovation, including research, development and extension (RD&E), will be required to keep boosting productivity along the supply chain.

Research, development and extension model

Increased funding is critical, and well-supported by the evidence of significant benefits to industry and the Australian community through productivity growth, higher living standards and a wide range of social and environmental spillovers from investment in rural RD&E. These include a safe and stable food supply, improved human health and nutrition, an enhanced national knowledge and skills base and improved environmental conditions arising from sustainable on-farm management practices.[4]

Investment program design is also important, particularly in translating research findings into new technologies and farming systems to generate whole-of-chain productivity gains.

Declining state financial and policy support for development and extension services is shifting responsibility for leading, funding, and managing development and extension. Continued government investment in these areas, driven by industry needs, is required to keep boosting farm productivity.

Any review of research funding or investment models also needs to consider models for development and extension.

Rural Research and Development Corporation network

As recognised in the Australian Government's Rural Research and Development Policy Statement, the current rural Research and Development Corporation (RDC) model (particularly as it applies to dairy) remains fundamentally sound and effective.

Strong, industry-based RDCs have a key role to play in delivering desired outcomes because of their unique positioning and capacity to translate broad, high-level knowledge into effective industry-based innovation and solutions.

Challenges such as climate change will require increased cross-sectoral collaboration in research, development and extension. The existing rural RDC network provides a funding framework for addressing these cross-sectoral priorities based on strategies agreed between government and the RDCs. Dairy Australia is actively engaged in this work through the RDC network.

Pursuit of these cross-sectoral strategies should not be at the expense of industry productivity growth, and additional government funding should be directed to these areas of cross-sectoral investment.

Cooperative Research Centres

Cooperative Research Centres (CRC) play an important role in developing new science and R&D capacity within the industry. Their close association with industry enables industry-relevant commercial outcomes.

The Dairy Futures CRC has taken extremely positive steps towards developing technologies that will potentially double the rate of genetic gain of the Australian dairy herd. Similarly, the development and use of CRC technologies to boost pasture productivity are also yet to realise their full potential but may deliver transformational improvements to Australian dairy industry productivity.

While the Australian dairy industry is hopeful that the technologies being developed within the Dairy Futures CRC will be available for industry use by the end of the CRC funding period, it is vital that government closely monitors programs such as these to ensure that funding streams are secured so that research programs can fully reach their potential.

[4] Mullen, J.D. (2007) 'Productivity growth and the returns from public investment in R&D in Australian broadacre agriculture', *Australian Journal of Agricultural Economics*, vol. 51, pp. 359–84.

Food processing innovation

The green paper focuses on rural R&D and in doing so fails to acknowledge that much of the value in the food industry is generated post-farm gate; significant innovation occurs here, too.

The dairy industry adds value through processing to produce drinking milk, cheese, butter, milk powders, cream, yoghurts and a range of specialty products. The estimated value of farm production is $4 billion annually and total value-added production (ex-factory) is $12 billion.

Increasing productivity for food therefore relies on research, development and extension/ commercialisation all the way along the supply chain. Milk, unlike many other raw materials, must be processed to preserve its integrity; this strengthens the focus on a supply chain approach to value-adding in this industry. With comparatively low domestic dairy prices and a competitive international market, innovation to drive improvements in dairy manufacturing and processing is imperative.

Research and development-led innovation includes improvements in all parts of the processing chain – improved equipment and processes that create production efficiencies as well as new product development.

Accordingly, Dairy Australia invests in innovation across the supply chain. In particular Dairy Innovation Australia Limited (DIAL), established in 2007 and led and funded by the dairy processing industry in conjunction with Dairy Australia, responds to this need for innovation. Working as a single entity with multiple Australian dairy companies, DIAL provides a precompetitive research capability much greater than could be achieved through an equivalent level of individual company R&D activity.

Sector-specific, industry-led innovation hubs such as DIAL have proved successful in generating and directing R&D investment in areas of market failure, and translating this collectively funded research to commercial outcomes.

An increase in government investment is needed if the food industry is to overcome the many challenges of globalisation and realise the growth opportunities in meeting the consumer drivers of health, convenience and premium foods. Government funding for ventures like DIAL should be considered as an opportunity to capitalise on existing industry investments .

The National Food and Nutrition Research and Development and Technology Transfer Strategy considers the entire food supply chain from farm gate to the consumer. It has focused primarily on post-farm while ensuring a close alignment with the sectoral commodity plans that cover on-farm production. This strategy aligns with the goals and objectives of the National Food Plan and will link closely to the sectoral strategies to ensure impact across the entire value chain.

Government also has a role in ensuring that taxation and regulatory settings support innovation, including continued commitment to the research and development tax credit.

6.5 The Australian Government is interested in identifying and evaluating future regulatory reform opportunities. How could food industry stakeholders best help to achieve this? What do you believe are the merits (costs and benefits) of the possible options in section 6.7.4?

Regulatory stocktakes

The dairy industry welcomes ongoing mechanisms to identify regulatory reform opportunities. This should include regular stocktakes that look at the burden of the sum of regulations – individual Regulatory Impact Statements miss the cumulative increase in regulatory burden.

The Productivity Commission's series of annual reviews of the burdens on business have been useful, but need to be continually renewed. The dairy industry supports the option put forward in the green paper of the Australian Government working with the states and territories through the Standing Council on Primary Industries (SCoPI), to undertake a qualitative analysis of regulatory changes since the 2007 Productivity Commission report on the regulatory burden on primary industries, and identify and scope potential further improvements. This should be extended to also consider regulatory changes since the 2008 report on the manufacturing sector. As stated elsewhere in this response, proposed actions need to consider the rest of the supply chain, service sectors and people issues, and not just concentrate on the primary

production sector. As discussed below, a stocktake of regulations also needs to consider other requirements, including commercial and importing country requirements.

Existing mechanisms for best practice regulation

While the green paper and numerous other government statements talk about reducing the regulatory burden, and the importance of evidence-based regulation, a gap remains between the agreed best practice principles, and what actually happens[5]. For example in 2010-11 only 75% (decision-making stage) and 71% (transparency stage) of Australian Government regulatory proposals complied with government's own best practice regulation requirements[6]. This demonstrates a lack of commitment to best practice regulation processes which is at odds with the rhetoric around reducing the regulatory burden.

Government should reaffirm its commitment across all government sectors to the Best Practice Regulation principles and approaches.

Private sector standards, self, and coregulation

Regulatory issues faced by the dairy industry go beyond formal regulation, and in many cases commercial imposts have far greater impact.

The green paper states that the government will 'continue to limit its involvement' in private sector standards. While government does not have a role in developing these, they can't be ignored when considering regulatory burden and impacts.

The dairy industry generally supports self-regulatory and co-regulatory approaches, where appropriate. However, these can also have a regulatory burden (including reporting burdens) and still need to be evidence-based, well-designed, practical, consistent with good regulatory principles and respond to actual market failure.

Government mandating of industry-developed voluntary systems can lead to significant burdens – for example, duplication between related industries with different systems – and should also be subject to proper regulatory impact assessment.

6.6 One way for food businesses to add value is through increased quality, such as high product standards, new traits or nutritional attributes. Governments in Australia generally adopt little or no role in regulating quality, except where required for public health reasons.

a) What opportunities are there for businesses to add value through quality attributes?

b) Is there a role for government to encourage this or remove barriers such as regulation? (please explain/elaborate).

New process and product technologies

The key to achieving additional value from consumer driven demands lies in research and support for developing and implementing new technologies to identify, capture and preserve value-added traits and quality through processing, for delivery to markets. Government support for processing innovation needs to recognise the value of these quality attributes, as well as product safety.

Health claims

As the green paper discusses, one way to add value through innovation that offers significant potential for the dairy industry is through nutritional attributes.

Developing these attributes relies on effective research and development to support innovation. To make this investment worthwhile, communication of innovation is also critical. Current and proposed regulations regarding health claims make it difficult to communicate to consumers

[5] Productivity Commission (2012) *Regulatory Impact Analysis: Benchmarking*, Draft Research Report, Canberra
[6] Office of Best Practice Regulation (2011) *Best Practice Regulation Report 2010-11*, Department of Finance and Deregulation, Canberra

both the inherent benefits of dairy and improved nutritional attributes gained through innovation. This risks disadvantaging Australian manufacturers and processers competing in global markets. It can also put foods at a disadvantage compared to supplements with the same health benefits.

This reinforces the need for integrated policy development in the food space, so that positive actions in one area are not inadvertently impeded by actions in another.

6.7 The Australian Government welcomes further specific feedback about particular regulations that significantly affect food businesses, by imposing direct and/or indirect costs and by limiting commercial opportunities.

a) Where possible, information would be appreciated about: the specific regulations of concern; the nature and size of the impost (time, cost and lost business opportunities); possible ways to improve the regulation and the likely benefits and beneficiaries; and the most important benefits of those regulations.

b) Are there any areas in which stakeholders feel improved regulation is needed to help the market function properly?

Increasing regulation

The range of regulations and regulatory issues affecting the dairy industry is expanding each year.

There are opportunities to streamline current regulations, and reduce their burden through: harmonisation across commodities, nationally and internationally; reducing reporting requirements; reducing overlapping or duplicative regulations; and improving poor or inconsistent enforcement resulting in patchy compliance and a playing field that is not level.

The overview of 'Government interactions with the food industry in food safety regulation' on page 162 of the green paper is useful and shows the complexity and breadth of regulation in this area. However, the pressure to increase the food industry's regulatory burden is mainly coming from interests outside traditional areas of food regulation, such as environment and public health. For example:

- A trend to regulated programs requiring actions to 'save' energy, water or waste instead of using market place mechanisms (for example, Container Deposit Schemes being considered by COAG's Standing Committee on Environment and Water).
- An apparent disconnect between the drive to achieve public health objectives through food regulation, and the efforts to reduce the regulatory burden and pursue evidence-based policy (for example, health claims; front of pack labelling).

The potential for regulatory burden also comes from the combined impact of many small regulatory changes that, when considered by themselves, are not overly burdensome, but in the context of the range of existing regulations and other requirements add unnecessary complexity and cost. All proposed regulations should look at the context and existing regulations first.

One recent example is the Attorney General's proposed approach to *Chemical Security: Precursors to homemade explosives*. The dairy industry has argued that a comprehensive set of controls and processes already exist to protect national security in relation to nitric acid and hydrogen peroxide directly and incidentally. Therefore no further intervention in dairy business operations is supported. The burden of demonstrating this has so far fallen on the industry. Rather, the onus needs to be on government to demonstrate something new is needed.

Current reforms

The dairy industry notes that the proposed way forward includes implementing, as a matter of priority, reforms to regulation of agvet chemicals, food labelling and biosecurity. These examples illustrate the tension in any review of regulation between reducing regulatory burdens, and meeting ever increasing societal expectations. None of these reviews can be

said to reduce regulation. In each case increased requirements or government powers have the potential to increase regulatory burden. The dairy industry recognises that 'better regulation' is not always less regulation; however, these kinds of reviews should not be considered to reduce regulatory burden, or counted by government as such.

The processes underpinning current biosecurity amendments, and the reforms to agvet chemicals regulation have been particularly problematic. In both cases documents were released piecemeal, and a coherent overview of reforms was lacking. There was also a lack of systematic analysis of costs and benefits of reforms.

Agvet chemicals

The last few years have seen a significant amount of work on reforming regulation of agricultural and veterinary chemicals. As it stands it is unclear whether these reforms will actually be an advance on current agvet regulation, for example by facilitating access to useful chemicals and reducing usage costs.

It is disappointing that these processes have achieved so little, and have not been better integrated.

Issues with improving access to useful chemicals, especially for minor uses, so that responsible usage is on-label and legal, have not been addressed. The green paper raises the potential for a reform to 'examine options to improve the regulation of minor use chemicals'. The dairy industry supports this examination, but notes how unsatisfactory it is that these issues have not been addressed in the existing reforms.

It is also an example where a more integrated approach to address problems may have led to better solutions. Issues with permissions to use chemicals in ways not detailed on approved labels ('off-label' use) at state levels are partly due to registration processes at the national level that do not support sensible and responsible access to chemicals for some uses. Without due consideration of all the issues in an integrated way, progress in one area may constrain opportunity to find solutions to existing problems in other areas, such as registration. There is also potential for unintended consequences and/or large total costs in relation to benefits, once all the reforms are considered together.

6.8 Competition issues are canvassed in the green paper. Generally speaking there is evidence that competition can benefit consumers in various ways, including placing downward pressure on prices and encouraging innovation and greater choice.

a) What are considered to be some of the regulatory or structural barriers to competition in the food industry?

b) How could the operation of the industry's voluntary Produce and Grocery Industry Code of Conduct be improved?

c) What would a regulatory approach such as a mandatory code and/or supermarket ombudsman achieve over and above current arrangements (bearing in mind that any investigation would need to be based on a complaint)?

d) How might the projected growth of private label products affect competition within the food industry, either positively or negatively? Who do you consider will be affected and in what way?

Private labels

The expanded use of private label lines in supermarkets is a key component of retailer strategies. Deep-discounting on private label milk lines since January 2011 has had the following effects:

- A lift in sales of cheaper private label products, weakening the overall wholesale returns to processors with consequent flow-on impacts to dairy farmers. This has

occurred within the supermarket, and at the expense of convenience and food service outlets.

- Market share loss from branded milk to private labels in supermarket sales, with some categories, such as modified milks, losing 10%.
- Sharply lower sales of branded modified milk products that target a health-related proposition for consumers.
- Downward pressure on farm gate prices for producers supplying white milk processers in NSW, Queensland and WA. Where new supply contracts are being negotiated with farmers, prices are lower to reflect the pressure on processor margins and the changing requirements for milk supply.

As already stated in response to Question 4.1, regional differences continue to characterise the Australian dairy industry. The impact on average retail sales and, ultimately on wholesale returns has varied state-to-state, due to the differences in retail prices, brand and sales channel mix between states.

Options for managing supply chain relationships

The ADF is keen to participate in a forum to examine options for better managing supplier/supermarket chain relationships.

It is vital that farmer representatives from peak bodies such as the National Farmers Federation and ADF are involved in this forum.

In particular, the ADF supports:

- A code of conduct for supermarket companies in their dealings with processors and farmers; and,
- Establishing an ombudsman to enforce compliance, investigate complaints from a whole-of-value chain perspective, administer a cost-effective dispute resolution process with appropriate penalties, and publicly report.

6.9 The government is seeking feedback on the possibility of building the evidence base on food industry trends and market changes. This could aim to inform private and public sector decision making, including for infrastructure planning and future food industry needs. This could help ensure Australia has adequate resources in place to support food sector growth.

Are you aware of any critical information gaps, particularly about growth opportunities such as in Asia? How could these gaps be addressed, and if they were, how might this help planning?

Infrastructure

Growth in the dairy industry relies on improved road, rail and port infrastructure, infrastructure to support efficient water use, a reliable and expanding power supply, infrastructure to support research, development and training, and infrastructure for supporting industries (for example, feedmills).

Road infrastructure examples relevant to the dairy industry include: stock underpasses to assist in managing biosecurity risks; maintenance of bridges identified as crucial for access to farms in an emergency; rural road capacity to enable more efficient milk collection, transport, and expanded operation of B-triples to reduce truck traffic and improve efficiencies.

The dairy industry supports efforts to build the evidence base on food industry trends and market changes to inform infrastructure planning.

Chapter 7 – A strong natural resource base

7.1 Pressure to increase food production in coming years, in response to increased demand from a growing global population, could place additional stress on Australia's natural resource base. What further initiatives could the government consider to encourage sustainable farming and fishing practices that balance economic, social and environmental benefits?

Cross-sectoral approaches

Achieving the productivity growth required, while not increasing environmental risk, requires funding for research, development and extension. New skills, new technologies and new ways of doing business are required to balance increasing competition for resources, while remaining profitable. The dairy industry therefore supports further research into soil and water, and other natural resource base issues. One avenue for this research is the existing rural RDC network, which is already developing cross-sectoral strategies in areas including water, soils and climate change. Dairy Australia is actively engaged in these strategies and is leading strategy development in water.

Water

The dairy industry is a major water user for irrigation and in the dairy. Across Australia, water availability, security and efficient use are critical drivers for agricultural productivity and food security.

However, policies and research to improve agricultural water management and efficiency are undermined by competing policies to recover water for the environment using market-based mechanisms that undermine the commercial viability of shared irrigation districts. The reliance on buybacks to recover environmental water in the Murray Darling Basin is a case in point. A partnership approach is more appropriate, where the government invests in on-farm water efficiency measures in return for a share of the savings for the environment. This supports increased dairy productivity and regional development, as well as improving environmental health.

Low carbon economy

Similarly, policies to support a low carbon economy risk leading to a decrease in the intensity of production (e.g. reduced fertiliser use, lower stocking rates, promotion of organic farming) and thereby increasing the amount of land required to produce the same amount of food.

Government policy needs to take into account the tension between the need for both increased sustainability and increased production by providing policy and research funding support for technologies that maximise production intensity. Precision farming technologies, new molecular breeding techniques and more targeted use of inputs could play a role in increasing productivity whilst minimising impact on the environment. Development of these resource efficient technologies will not necessarily be supported by the market due to the potentially long time frames and the risk of government policy favouring ecosystem services rather than production.

Biofuels

Demand for natural resources to support increased food production will also be affected by the increasing use of resources for non-food crops such as biofuels. Policies that mandate and/or subsidise biofuels production will increase feed grain prices, and may decrease the capacity of the Australian dairy industry to adapt to increased climate variability.

Sustainable landscapes

Research into sustainable landscapes rather than just focusing on sustainability at the farm scale is also important. At a landscape scale it may be possible to identify areas that are best suited to providing ecosystem services and other areas suited to high-intensity production. Current policy tends to focus on the farm scale and not the landscape scale.

7.2 Australian society places high expectations on the environmental and social responsibility of Australia's food industry, although this is not always reflected in purchasing behaviour. What is preventing markets from encouraging (via price signals) the food industry's responsible management of the production base?

Sustainability Framework

Sustainability encompasses more than just natural resource management. The Australian dairy industry is currently developing a Sustainability Framework with the vision to enhance livelihoods, improve wellbeing and reduce our impact so that the Australian dairy industry is recognised worldwide as a responsible, responsive and prosperous producer of healthy food.

The dairy industry is focusing on the following areas:

- Enhancing livelihoods:
  - Creating industry prosperity – Goal: *Improve the profitability and competitiveness of the industry*
  - Supporting communities – Goal: *Enhance the resilience and prosperity of communities*
  - Investing in dairy people – Goal: *Enhance the expertise of and prospects for our people*
- Improving wellbeing:
  - Ensuring health and safety – Goal: *Produce safe dairy foods and ingredients*
  - Maximising nutrition – Goal: *Provide valued nutritional products that contribute to food community health outcomes*
  - Caring for our animals – Goal: *Deliver best care for our animals*
- Reducing impact:
  - Minimising our environmental footprint – Goal: *Maximise resource use efficiency* and *Minimise waste*

The industry's sustainability work is well aligned with the objectives articulated in the green paper.

Returns for environmental and social responsibility

Dairy farmers and processors have a strong track record, working to be economically viable while improving the health of the environment, workforce and the broader community. They understand the interdependencies between sustainability and industry prosperity.

Requirements to meet environmental and social responsibility do not translate into direct dollar returns. Most businesses wanting to demonstrate their credentials place the burden to do this on their suppliers – and it ripples along the chain.

Consumers expect environment and social issues to be looked after, but are generally unwilling to pay any premium.

Government needs to look at this wider context of drivers and actions for environmental and social responsibility when considering any regulations in these areas.

7.3 This green paper outlines a number of initiatives aimed at reducing food waste across the food supply chain in Australia. What specific further waste management measures could the government consider that would meet the multiple objectives of increasing food security, providing healthier diets, improving environmental performance and addressing climate effects?

Reducing waste

The dairy industry is actively investing in projects to benchmark and reduce inefficiencies in milk processing, particularly in water and energy use. This work has multiple benefits in reducing waste, while also reducing costs and improving efficiency.

This is an example where rural RDCs are actively working to achieve environmental outcomes. Support for the RDCs is an effective way for government to facilitate this kind of work.

Regulatory burden

Profitable supply chains enable actions to be taken to deliver environmental stewardship as well as economic, community and animal care outcomes.

As already stated, measures and regulations with environmental objectives need to be consistent with good policy making and regulatory principles.

A recent example is the Container Deposit Scheme being considered by COAG's Standing Committee on Environment and Water (SCEW). The dairy industry participates actively in food and beverage container recycling programs with the specific aim of demonstrating responsible food packaging stewardship and practices, and ultimately reducing the volume of packaging entering landfill and contributing to litter in the streets and Australian environment generally.

The SCEW is currently looking at policy options with potential to increase packaging recovery rates and decrease public littering. Versions of a Mandatory Container Deposit Scheme have been aggressively promoted, above alternative stewardship options that offer more cost-effective ways to reduce beverage container waste problems, with comparable performance in litter reduction.

Carbon tax

Environmentally driven policies like the carbon tax mean dairy farmers and processors will pay more for energy. The interaction of these new policy initiatives with commercial markets and existing trade policies is complex and multi-layered.

Inadvertent imposts of government strategies on export exposed industries, which do not have the opportunity to recover costs, could significantly affect the international performance and competitiveness of Australian food industries. These impacts must be acknowledged and considered in policy development.

Chapter 8 – Food trade and market access

8.1 The Australian Government is seeking to expand its food trade relationships in Asia over the medium to long term. This will require access to markets and a reduction in trade barriers for food exports. This objective could be pursued in a number of ways, including through further free trade agreements, strengthening Australia's agricultural counsellor network, as well as pursuing improvements to the multilateral rules-based trading system.

a) What could government and business do to expand food trade opportunities with Asia?

b) What kind of benchmark should Australia aim for? For example, should we seek to double our food exports to Asia by 2050?

c) How could this be achieved, and what would be the costs and benefits of doing so?

d) Which further countries in the Asian region should Australia seek to pursue trade agreements with?

Trade opportunities

The Australian dairy industry's long-term growth and profitability is linked closely to its status as a world competitive producer that can develop and retain global market positions.

Demand for dairy products will continue to grow with the expanding middle class in emerging markets such as China, changes in diet and increasing urbanisation together with a rising global population.

Given the right environment, the Australian dairy industry is well positioned to capitalise on this growth. While the opportunities offered by growing international dairy demand are well understood, a key question in the medium term is whether the Australian dairy industry's growth rate is sufficient to maintain relevance in an expanding global market for dairy products. A large proportion of dairy farmers are signalling little appetite for growth as the pressures on management, cash flows and profitability increase.

Therefore much of what government can do to facilitate exports has been discussed in response to Chapter 6: A competitive and productive food industry.

Within this context a goal such as doubling exports is meaningless. Concentrating on increasing profitability along the supply chain through exports is a more useful goal than continuing to increase the volume of low-value commodity goods.

Government should focus trade development programs on increasing the value of what is exported, rather than just increasing volumes. This is linked to the importance of innovation in process and product technologies to achieve additional value, and government's role in supporting this innovation, including through a food regulatory framework that encourages innovation.

Trade strategies should also focus on helping existing exporters increase exports, rather than simply seeking to expand the number of exporters.

Trade agreements

Internationally, with no multilateral agreement on trade reform in sight, Australia's ability to negotiate significant free trade agreements will be critical to maximising returns for the industry. The bilateral agreements negotiated by competitor countries will also have an important bearing on trade flows and access to – and profitability in – markets of choice.

Government should pursue comprehensive trade agreements with all relevant countries and regions (within Asia: Japan, China, Korea, Indonesia, and India). This is critical to building long-term business partnerships and defending existing commercial positions. Korea has already completed bilateral trade agreements with two of our biggest competitors: the United States and the European Union. Those deals have left Australia's dairy exporters at a significant competitive disadvantage in that market. Similarly, the NZ-China FTA has given New

Zealand, one of Australia's largest competitors in dairy products trade, preferential market access in China.

In negotiating these agreements, streamlining requirements and technical barriers is also important. For example when Tariff Rate Quotas are used, the administration of these quotas in Australia or in the importing country can be so costly and burdensome as to undermine any competitive gains from having access to the quotas.

Beyond Asia

As well as opportunities in Asia, the dairy industry sees significant opportunities in the Middle East. A comprehensive trade agreement with the Gulf Cooperation Council (GCC) should also be pursued. This is critical not only to open up new opportunities, but to defend existing share given that the NZ-GCC FTA, once ratified, will give New Zealand preferential market access in the GCC countries.

From a competitive perspective, EU and US policy reforms will also play a role in shaping future dairy trade flows as the removal of EU production quotas and the likely development of a new US Farm Bill signal a new type of engagement with the international market. This in turn may change the markets in which Australia competes.

8.2 The Australian Government proposes to continue to improve coordination of market intelligence across government and food export businesses to improve market access, address technical trade barriers and strategically position the Australian food industry to exploit potential trade opportunities.

a) What specific mechanisms should the government consider to achieve this outcome?

b) How would you foster greater cooperation and coordination between industry and government to improve Australian market access for foods?

Increased use of non-tariff barriers in priority markets is affecting trade in agricultural goods – including dairy products.

The Australian Government should increase its capacity to work (in collaboration with industry) to identify and react to existing and new non-tariff barriers in order to minimise impact on trade.

Agricultural Counsellors

The DAFF Agricultural Counsellor program needs to increase regional coverage in South East Asia and the Middle East. In addition to existing posts, the program should be expanded into the following three key emerging markets: Vietnam, the Philippines, and Saudi Arabia. These countries are high potential growth markets whose needs can't be adequately met through existing posts (for example, the Thailand post's coverage of key growth areas in South East Asia).

Agricultural Counsellor posts play a major role in Australia's efforts to: remove or lower market access barriers for agricultural products; facilitate trade; monitor emerging international issues; help resolve quarantine issues; and, provide briefings and assist with visiting delegations.

Where DAFF Agricultural Counsellors are located in markets, they can more effectively engage directly with local officials/government representatives to address access issues as they arise, and work proactively to identify and prevent non-tariff barriers affecting dairy imports.

As well as representation in key markets, representation in key competitor countries is also of benefit. Given the role of the EU and the US as agricultural policy setters, on-the-ground representation for Australia means issues can be addressed before they develop. Moreover, in the case of the EU, the Commission is reluctant to engage directly with industry so government representatives are needed as facilitators. A case in point is consultations on Geographic Indicators. Expansion of Agricultural Counsellor positions in emerging markets should not be at the cost of existing posts.

Support structures

The structures that protect Australian exporters' ability to defend against technical and regulatory barriers also rely on a capability to operate effectively in:

- World Trade Organisation (WTO) dispute settlement processes;
- International standard setting forums (Codex, OIE, WCO);
- Monitoring and responding to WTO Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) notifications
- FTA and bilateral review committees.

The effectiveness of Agricultural Counsellors also relies on being able to draw quickly on expertise back home, in DAFF, as well as agencies like FSANZ and APVMA. These resources are also critical to responding to technical barriers and need to be maintained as a priority.

As an export-oriented industry, international regulatory frameworks are important to Australian dairy. The dairy industry invests significant resources in monitoring and contributing to international standard setting, but much of this can only happen at a government-to-government level. It is a critical role for the Australian Government to continue to actively contribute to and take a lead in these international processes to support exports.

Government also needs to continue close collaboration with industry to ensure its efforts are focused on priority issues and achieve practical outcomes that can be implemented by industry.

Consistency of approach

Like other food industries in Australia, the dairy industry needs protection from exotic diseases. A strong, science-based biosecurity and quarantine system is non-negotiable. However, another element of maintaining our livelihood is access to overseas markets. To maintain this access we need to ensure Australia does not leave itself open to criticism, complaint, challenge and ultimately trade sanctions because of an unnecessarily harsh quarantine regime.

Australia's leadership in international forums also means maintaining a commitment to both the spirit and the letter of WTO agreements in biosecurity and quarantine systems, and to international standards such as Codex Alimentarius.

The dairy industry has consistently argued for regulatory harmonisation at national and international levels, whenever possible. To facilitate exports, Australia regularly asks other countries to adopt Codex standards as a matter of course, and to adopt standards that allow for good agricultural or veterinary practice in Australia, where this is not already covered in Codex. In the interest of facilitating trade, the internationally accepted standards (Codex) should be adopted as a matter of principle wherever possible. Australia's credibility in negotiating access relies on a consistent and science-based approach.

Cooperation and coordination between industry and government

The dairy industry welcomes better cooperation and coordination between industry and government on technical market access issues.

Where this already occurs, it has allowed market access issues to be resolved that may have otherwise resulted in refused shipments. However, while positive when it does occur, this sort of cooperation is not always the case.

One barrier may be the potential conflict between the role of DAFF as both a regulator, and the coordinator to respond to market access issues. Often issues arise with shipments sitting at a port, for example, so a clear avenue to address issues quickly that is somewhat separate to regulatory structures would be useful.

Dairy Australia is keen to be actively consulted in any developments in this area.

8.3 The government is developing a white paper on *Australia in the Asian Century*. It is anticipated increased productivity and wealth in Asia will result in increased demand for high value foods.

What specific initiatives should the government consider to ensure Australian food exporters participate fully in these emerging opportunities?

Promoting the Australian food safety system

Government should more actively and consistently promote the Australian food safety system, seeking greater acceptance of our system as meeting importing country requirements, and reducing costly additional requirements (for example audits, port of entry testing).

DAFF also needs to actively promote the Australian food safety system and seek acceptance by importing countries. The Codex framework offers opportunities to support these principles with importing country governments and seek to streamline overseas requirements. This would reduce the regulatory impost on food exports from Australia.

Equally as important, the Australian dairy industry has sought to have a streamlined approval to domestic and international food safety regulations. DAFF, as the competent authority for approving dairy exports, has accepted the national dairy food safety system where national food safety standards are implemented by state food authorities and DAFF recognises the state systems. Dairy businesses, while still having multiple commercial audits, are now subject to a single food safety audit for domestic and export requirements. This is a good model that needs to be actively promoted.

Electronic certification

The dairy industry also seeks to increase the use of electronic certification to streamline import requirements. This was a priority identified during the Dairy Export Ministerial Task Force and is actively being pursued by the dairy industry. The export documentation infrastructure within DAFF needs substantial upgrades to meet developing e-commerce needs.

The Australian Government also needs to prioritise promotion and advocacy for this approach in discussions and negotiations with trading partners. Electronic certification was identified in the Beale review, but resources have not been provided by government to implement the recommendation.

Regulatory reform

In addition to the regulatory issues already discussed, government should more consistently consider and prioritise potential impact of regulatory requirements on trade. This includes considering the impacts of policies like the carbon tax on the competitiveness of Australian exports.

It also includes considering international implications when setting domestic food regulations.

The Australian dairy industry has maintained a world competitive position in relation to low cost, high quality milk production and has earned a reputation for reliable supply of safe, high functional dairy ingredients on world markets.

Although many importing countries have their own food standards, they look to Australia for information on best practice regulation, and some countries require products to meet the exporting country (Australia's) requirements.

While the market for some high value functional ingredients within Australia may not support their development, the potential for these in some Asian markets may make the investment in innovation worthwhile – provided they can be marketed.

8. Additional points

Review of the Imported Food Control Act 1992

The dairy industry supports a review of the Imported Food Control Act 1992. The review should clarify the arrangements made to ensure imported foods meet Australian standards. This should include review and verification of systems and controls throughout production and processing, rather than just end point inspection of a percentage of imports. This would be consistent with the arguments Australia presents internationally for acceptance of our

production and processing systems to produce food to meet market requirements, over port of entry testing.

The review should also consider the need to develop an Imported Feed Control Act to manage risks from imported animal feed.

Review of the Export Control Act 1982

Government and industry accepted all recommendations from the Beale Review. It is important that these be implemented to streamline exports. Again, government needs to promote the consistent food safety outcomes provided by the Australian food safety system and harmonise domestic and international requirements. Importing requirements should be outcome-focused and proportionate to risk. There appears to be a move by some countries to more prescriptive end point testing requirements. The Australian Government should resist this and promote the Australian system.

Chapter 9 – Global food security

9.1 It is in Australia's national interest to promote global food security. The Australian Government considers Australia can make the most effective contribution to global food security by focusing on: technology and expertise transfers to developing countries; trade-related development assistance; advocacy and support for appropriate policies at the global, regional and national level; and short-term emergency food assistance. Do you support the Australian Government's analysis? If not, what are the key gaps? Please be specific and provide evidence to justify your response.

Global food security

The dairy industry supports the analysis of global food security in the green paper.

In particular we note the green paper's statement that foreign government policies that distort world trade in food commodities adversely affect food security. The Australian Government should work internationally to ensure the food security debate does not become a vehicle for hidden protectionism or a means of imposing arbitrary barriers on access to export markets.