



Australian Dairy Industry Council Inc.

28 November 2014

Committee Secretary
Senate Standing Committees on Rural and Regional Affairs and Transport
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Committee Secretary,

RE: Australian Dairy Industry Council submission to the review of industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies in the agricultural sector.

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, delivering \$13 billion of value to Australia's economy each year. There are approximately 6,300 farms producing close to 9.24 billion litres of milk annually, for a farm gate value of approximately \$4.7 billion.

The dairy industry welcomes the opportunity to present this submission to the Senate Standing Committee on Rural and Regional Affairs and Transport review of industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies in the agricultural sector (the Agricultural Levies inquiry).

The Australian Dairy Industry Council (ADIC) makes this submission on behalf of the Australian dairy industry. 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.

This submission outlines the ADIC's response to several of the terms of reference that are of most relevance to the dairy industry. In particular, we highlight the close relationship between the dairy industry's research and development corporation, Dairy Australia, and industry representative bodies, and the extensive consultation Dairy Australia conducts with its stakeholders to inform levy investment.

Should you require any clarification of the comments contained herein, please contact the ADIC on (03) 8621 4250.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Noel Campbell', written in a cursive style.

Noel Campbell
Chair
Australian Dairy Industry Council



Australian Dairy Industry Council Inc.

Australian Dairy Industry

Represented by

Australian Dairy Industry Council Inc.

Response to

Review of industry structures and systems governing the imposition of and disbursement of marketing and research and development levies in the agricultural sector

28 November 2014

Submission to: Senate Standing Committees on Rural and Regional Affairs and Transport
rrat.sen@aph.gov.au

The Australian dairy industry

Australian dairy is a \$13 billion farm, manufacturing and export industry.

Australia's 6300 dairy farmers produce around 9.3 billion litres of milk a year, for a farm gate value of approximately \$4.7 billion¹. Based on farm gate value of production, it is ranked third behind the beef and wheat industries.

The Australian dairy industry directly employs 43,000 Australians on farms and in factories, while more than 100,000 Australians are indirectly employed in related service industries.

The dairy industry welcomes the chance to present this submission in response to the *review of industry structures and systems governing the imposition of and disbursement of marketing and research and development (R&D) levies in the agricultural sector*.

Our industry has the potential to grow substantially over the next decade to meet growing domestic and international demand. But to realise this potential, and remain competitive in the international dairy market, it will be critical to continue dairy research, development and extension and drive innovation through the industry.

The Australian Dairy Industry Council (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 (DA) is the dairy industry-owned service company, limited by guarantee, whose members are dairy farmers and industry bodies ADF and ADPF. DA is the dairy research and development corporation (RDC) and is making a separate submission to this Inquiry.

Contact for submission

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¹ Dairy Australia *Australian Dairy Industry In Focus 2014*

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Submission overview and executive summary

The Australian Dairy Industry Council (ADIC) provides this submission on behalf of its constituent organisations Australian Dairy Farmers and the Australian Dairy Products Federation, which are Group B members of Dairy Australia.

We note recent concerns regarding the imposition of levies, the way in which RDCs utilise levies, and the opportunities levy payers have to influence levy investment. The ADIC contends Dairy Australia has robust consultation processes that provide levy payers the opportunity to provide feedback on Dairy Australia's programs and initiatives, as well as its governance and operations.

The dairy industry has a single Services Levy where the amount, collection, change process and use of funds is governed by federal legislation and associated agreements and guidelines. The Dairy Services Levy Poll occurs every 5 years and provides farmers with the opportunity to vote on proposed options to maintain or change the levy amount, or remove it completely.

Dairy Australia (DA) invests the levy and Government contribution according to a Strategic Plan that is prepared in consultation with all key stakeholders, including ADF and the ADFP, and reviewed by Government. Levy payers have a range of mechanisms to influence the use of funds and the ADIC considers that the current expenditure approach generally reflects the dairy-specific investment priorities communicated from the market.

The Regional Development Program (RDP) structure, under the auspices of DA, further enables the targeting of research, development, and extension programs to eight distinct dairy regions based on need and priority. The structure of RDPs as eight independently constituted farmer boards in each dairy farming region facilitates two-way engagement with farmers, providing direct links between the regions and DA.

The DA Board comprises nine Directors including its Managing Director. Changes to the DA Constitution in 2013 mandate that four of the Directors' seats are reserved for farmers, providing further opportunities for farmers to engage with DA. By convention, the Chair is one of those farmer directors. Further consultation with farmers is facilitated through field consultation, stakeholder surveys, industry committee meetings (such as ADF Policy Advisory Committees), and the DA Annual General Meeting held each November.

Over the years, the levy and associated Government investment have funded a range of research, development, extension, and education programs that have been instrumental in improving the performance of the industry, and would not have occurred otherwise. As Australian dairy is a mid-sized competitor within an open and highly competitive international market, these continuous productivity gains are critical to maintain a competitive position.

The ADIC considers that the current structures and processes provide good visibility of levy use to all stakeholders, and place the onus on DA to perform. We note that DA is one of only two rural Research and Development Corporations required to conduct regular reviews and polls on levy rates (the other being Australian Wool Innovation). With this in mind, we consider that there may be scope for improvement of consultation processes within the RDC system to provide consistency across other commodity groups, particularly concerning levy polls. However, the focus of this submission is on the dairy industry RDC, Dairy Australia, and its consultation processes.

We acknowledge the submissions of the Queensland Dairyfarmers' Organisation (QDO), Dairy Australia, the National Farmers' Federation (NFF), and the Across Agriculture Group (AAG), and endorse remarks made in those submissions.

We would like to reiterate several points made in the AAG submission (to which ADF is a party) on the justification for collective action through RDCs:

1. Individual rural businesses cannot capture most of the benefits associated with successful rural R&D investment, meaning aggregate sector investment in R&D will be low, reducing regional and national economic wealth unless strong incentives are provided or government investment occurs.
2. There are multiple positive public good spillovers arising from successful agricultural research and development, which cannot be captured by individuals or the sector, and which provide social and environmental benefits both within Australia and internationally.

3. Risks and time-lags associated with R&D investment make such investment unviable for many businesses.
4. Some rural R&D investment is associated with the resolution of large-scale natural resource challenges, which would not be resolved without such investment, but which produce limited direct rural industry benefit.
5. Australia's engagement in global markets necessitates considerable 'compliance' R&D investment to ensure Australian produce retains international market access.
6. The maintenance of core R&D infrastructure and personnel provides a 'fire brigade' which can be activated in the event of biosecurity and other disease challenges, and which also provides the basis of a rural services export industry.

We refer the Committee to the AAG submission for expansion on these remarks. We wholeheartedly endorse the six principles above and note they are relevant across a number of the Committee's terms of reference.

Overall, the ADIC considers that industry's structure is an appropriate means of disseminating information to levy payers, in particular the RDP structure and the Dairy Levy Poll process, which provide an opportunity for levy payers choosing to engage in the process to participate. However, we note that overall there is significant scope to improve both ongoing consultation and engagement with disengaged levy payers and the efficiency and effectiveness of the Levy Poll process. DA is currently undertaking a comprehensive review of the Levy Poll process, to which the ADIC is providing a submission detailing some of the measures that could improve this process. These are outlined further in our submission.

We thank the Committee for the opportunity to provide comment on the agricultural levies system, and would welcome the opportunity to provide further comment if required.

The structure of the Australian dairy industry

The Australian dairy industry is multi-faceted, with many organisations working together to promote and implement programs and policies that will increase the long-term profitability and sustainability of dairy farming and manufacturing.

Figure 1 below summarises the dairy industry's support structure.

[Dairy Australia \(DA\)](#) is the dairy industry's service organisation, formed in 2003 by the merging of two statutory bodies, the Australian Dairy Corporation and the Dairy Research and Development Corporation. DA undertakes a range of industry service and support roles, investing the Dairy Services Levy, matching government funds and other income in activities across the dairy supply chain – from paddock to plate – to achieve the best outcomes for farmers, the dairy industry, and the broader community.

DA operates as a company limited by guarantee under corporations law. It has an independent Board, however is fully accountable to its members, comprising:

- *Group A members* – levy paying dairy farmers who choose to become direct members. Membership is voluntary and free to levy payers. Currently there are approximately 5,000 Group A members, of a possible 6,300 dairy farmers.
- *Group B members* – the peak industry bodies that represent dairy farmers (Australia Dairy Farmers Limited) and the dairy processing sector (Australian Dairy Products Federation). Group B members do not have voting rights but have formal roles in other DA processes.

DA relies upon an extension structure in which levy payers actively participate. A key element of DA's extension structure is the Regional Development Program (RDP). This consists of independent organisations in each of Australia's eight dairy regions. A Board comprising local dairy farmers governs each RDP. DA provides funding to each RDP and co-ordinates with them for the implementation of technology transfer programs of work as developed by DA. The RDP provides program feedback to DA which allows DA to adjust its focus and expenditure accordingly.

[Australian Dairy Farmers \(ADF\)](#) is the peak policy body representing dairy farmers. Its membership comprises the six state dairy farming organisations (SDFOs); the United Dairyfarmers of Victoria (UDV), the NSW Farmers Dairy Committee, the Queensland Dairyfarmers' Organisation (QDO), the South Australian Dairyfarmers' Association (SADA), the Tasmanian Farmers' and Graziers' Association (TFGA), and the WAFarmers Dairy Council. ADF also has direct business members, for whom membership is voluntary and free to SDFO members. Direct business members may run for Board positions, participate in policy committees, and vote in AGM matters including Board elections.

The [Australian Dairy Products Federation \(ADPF\)](#) is the peak policy body representing the commercial/non-farm members of the Australian dairy industry – its 22 member companies account for over 95 per cent of the milk processed nationally. To be eligible for membership companies must engage in the manufacture, marketing, or trading of dairy products in Australia.

The [Australian Dairy Industry Council \(ADIC\)](#) is the dairy industry's peak policy body. It co-ordinates industry policy and represents all sectors of the industry on national and international issues. The ADIC represents farmers (through Australian Dairy Farmers), dairy product manufacturers, and milk processors (through Australian Dairy Products Federation) and has the task of bringing these bodies together to form a united view on issues affecting the whole dairy supply chain.

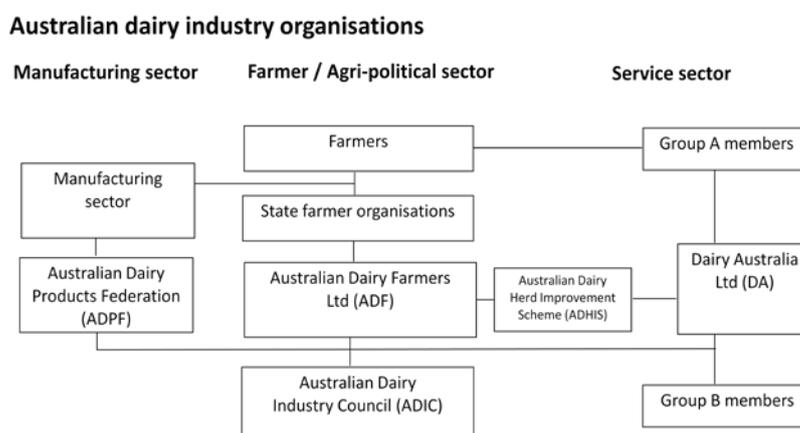


Figure 1: Australian dairy industry structure

ADIC response to the terms of reference

a. An audit of reports, inquiries and reviews relevant to this inquiry

The ADIC understands that Dairy Australia's (DA) submission will provide full details of reports, inquiries and reviews relevant to this inquiry, but would like to note in particular DA's Levy Poll Process Review currently underway (a process in which the ADIC is engaged).

The Dairy Levy Poll Process Review is being led by an independent panel, which is examining:

- The basis upon which levies are proposed and agreed;
- An analysis of the existing dairy levy poll process, including findings from previous dairy levy polls undertaken;
- Identification of the differences between the levy poll process and the process applicable to other industry services bodies or Rural Research and Development Corporations (RDCs), including the levy principles and guidelines published by the Australian Government Department of Agriculture;
- Industry governance arrangements, consultation and reporting frameworks as they relate to the levy poll; and
- Consideration of possible changes to the existing levy poll process, including the impacts (advantages and disadvantages) to levy payers of any proposed changes.

The Dairy Levy Poll Process Review is currently underway. All dairy farmers have been encouraged to provide a submission to the review. All industry organisations have also been invited to make submissions. We anticipate working closely with DA on the implementation of the recommendations generated by the review.

The ADF is still developing its full input to the review. This is further discussed in section (e) below. Key ADF responses include:

- The Levy Poll is an appropriate method of consultation with levy payers, and 5 years is an appropriate interval for conducting a review of the levy.
- There is an opportunity to streamline the consultation process to improve its efficiency and effectiveness.
- Industry representative bodies have a role in providing strategic direction for levy investment through formal consultation processes, as the representatives of all levy payers.

The ADIC also makes particular note of the 2011 report commissioned by DA and the then-Victorian Department of Primary Industries (now DEPI), [*The impact of innovation on the dairy industry over the last 30 years: Evaluating the contribution of industry and government investment in pre farm gate RD&E.*](#)

Key findings of this report were that major increases in on-farm production are estimated to have increased Victorian dairy farm profitability by around \$10 billion over the three decades from 1980 to 2010. Of this, nearly half can be attributed to on-farm RD&E, which is estimated to have increased farmers' profitability by around \$7.7 billion in net present value terms, whilst only costing approximately \$2.3 billion in net present value terms, representing an estimated cost: benefit ratio of \$3.30 economic benefit for each dollar invested in RD&E.

These increases were largely driven by increased pasture production and utilisation, increased supplementary feeding, and more efficient cows, all of which have been – and remain – key areas of focus for DA levy investment. This report reinforced the importance of RD&E investment, and noted that while much had already been achieved through dairy industry RD&E, there was still much more benefit to be derived from this research in years ahead. The report also found that improvements in RD&E had broader community benefits, particularly in the areas of natural resource management and nutrition.

The ADIC further notes the Department of Industry's review of the Cooperative Research Centre (CRC) programme, which is also currently underway. Without pre-empting the findings of that review, we note the importance of the CRC programme and the benefits the dairy industry has already obtained from the work of the Dairy Futures CRC. The Dairy Futures CRC and DA have a close partnership, and we note the relevance of the link between the commodity's CRC and RDC to the levy system.

b. The imposition, collection, and use of levies

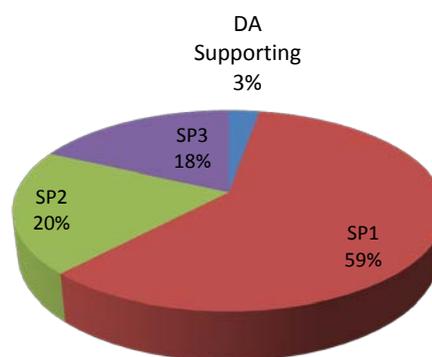
The Dairy Services Levy is collected to fund the activities of DA. In 2013/14, the rate of milk levies was 2.87¢/kg milk fat and 6.99¢/kg protein. Based on national average milk composition these combined levies were equivalent to approximately 0.352¢/litre of milk.

The levy is deducted from the payments manufacturers make to farmers, and paid to the Australian Government. The proceeds are then paid to DA under its Statutory Funding Agreement with the Government.

In the 2013/14 financial year, DA total revenue was approximately \$57.7 million, with the Dairy Services Levy comprising 57 per cent of total DA revenue, and matching government contributions comprising 35 percent. External contributions (4 per cent), interest revenue (1 per cent), dividend revenue (2 per cent), and royalties and other income (1 per cent) comprised the remaining revenue streams.

Levies are collected on behalf of DA for the purposes of research, development, education, extension, and industry promotion. Combined with matching government contributions and other external contributions, this revenue allows DA to invest in programs for the benefit of dairy farmers across three strategic priority areas, which are currently as follows:

- SP1: Increasing farm profitability and competitiveness (comprising 59 per cent of total expenditure)
- SP2: Protecting and promoting our industry (20 per cent)
- SP3: Grow capabilities and skills (18 per cent)
- DA internal projects (3 per cent)



The amount of investment DA directs towards each Strategic Priority is dependent upon the perceived strategic importance, potential economic benefit, the level of market failure, and the range of quality project investment opportunities. The DA Board approves the general allocation of investment into each Strategic Priority by approving the 3 Year Strategic Plan and associated annual operating plans (AOPs). Further comment about the use of the levy is made below, including on how farmers and industry organisations contribute to the DA strategic plan.

c. The competing pressures for finite R&D funds

DA is the lead RD&E agency for the dairy industry, with collaboration between DA, state governments, dairy companies, and tertiary and other research institutions on projects of benefit to the broader community.

Its position as the lead industry RD&E agency makes DA an attractive platform for co-investment from its collaborative partners, enabling DA to leverage levy investment with contributions received from those partners. Currently, the leverage on DA's external expenditure is ~1.8, which means that an additional \$30m spent annually on DA projects is received from external parties, including state government, research institutions, companies and others. With an average cost: benefit ratio of 3.3 on all projects (see section (a) above for supporting data), the benefit of leverage to the levy payer collective is around \$100m per annum.

The ADIC notes the increased pressure on DA's budget due to cost shifting from state governments cutting their own RD&E expenditure, particularly on extension programs. This has had a significant impact on resource allocation within DA's RD&E program.

Following a recommendation in 2005 from the now-defunct Primary Industries Ministerial Council for greater national collaboration between agencies RD&E, the Department of Environment and Primary Industries (DEPI), was nominated as the lead governmental agency for dairy under the national RD&E framework, with DA recognised as the lead industry RD&E agency. A recurrent funding agreement signed in 2009 formalised this relationship, which recognised DEPI's Ellinbank facility as the national centre for dairy excellence in RD&E.

In recent years DEPI has had its budget cut substantially, leading to a reduction in funding for its extension programs. This in turn has had an adverse effect on DA's ability to leverage its programs and investments against DEPI's extension programs at the Ellinbank facility, resulting in greater pressure on DA to meet the shortfall through its budget, ultimately leading to a reduction in DA resources available for other programs.

We note that the nomination of a lead government agency provides a clear point of focus and coordination, but has also resulted in other government agencies feeling a lesser need to prioritise dairy (and related program funding).

In allocating finite R&D funds, critical assessment of the cost: benefit/success of projects and programs is an important part of the strategic planning process. This process has developed over time and DA is now able to constructively discuss priorities and impact of changes to programs with industry organisations as part of the annual cycle.

d. Opportunities for levy payers to influence levy investment

Dairy Australia has a robust consultation process with both its Group A (farmer levy payers), and Group B (industry representative organisations) members. There are approximately 6,300 dairy farms across the eight dairy regions of Australia, with approximately 5,000 of those farmers electing to become Group A members of DA.

The ADIC contends that there would be significant benefit to DA in increasing the proportion of levy payers who are Group A members and therefore have the ability to make a formal contribution to the strategic direction and operation of DA.

Levy payers who choose not to become a Group A member when they enter farming may later decide to take up membership, particularly if they wish to participate in voting on DA Board elections or AGM resolutions. In some cases, this can be several years after they have been provided membership forms and associated paperwork, resulting in significant frustration at the application process for membership.

The ADIC considers that an opt-out membership system for levy payers is preferential to the current opt-in system, and that a clearer process could be established for levy payers that have declined DA membership but then decide to become a member later. The ADIC made this recommendation in its submission to the Dairy Australia Constitutional Review in 2013, and continues to endorse such a change.

Dairy farming businesses exist in every state of Australia and the breadth of dairy farming regions present DA with some challenges in effective engagement. Accordingly, DA collaborates with a range of regional organisations (both advocacy and extension) that extend its reach and enable it to engage with farmers more effectively.

The national and state based representative bodies provide an ability to consolidate issues flowing from levy payers, and DA is in regular contact with ADF and other state-based advocacy bodies (see figure 1 on page 3 for more information on the industry structure). This complements the work of DA's eight regional bodies in the feedback and directional guidance of the strategy and individual programs.

The ADIC's structure and activities aim to maximise farmer participation in industry organisations and facilitate two-way engagement between farmers and DA.

- **ADF Policy Advisory Group (PAG) membership** enables farmers that are ADF members to participate in the development of strategies and initiatives to support ADF's policy, advocacy, and representation across five key areas: Animal Health and Welfare, Farming Systems and Herd Improvement, Markets, Trade and Value Chain, Natural Resources, and People and Human Capacity. PAGs work closely with DA, who provides the PAGs with technical advice and research to support PAG activities. PAGs make policy recommendations to the ADF National Council, and also advise on the annual work plans for each policy area.
- The **ADF National Council** is the peak policy decision-making body within the ADF. Membership of the National Council is by proportional representation determined by milk production in each of the eight dairy regions, with each state entitled to at least one representative, and no state permitted to

have an absolute majority on the Council, per the ADF Constitution. ADF Constitutional changes in 2014 to recognise the eight dairy farming regions further strengthen links with DA's RDP structure, facilitating two-way information flow with farmers.

- **ADF strategic plan and annual priorities** are determined through consultation with its stakeholders, primarily its state members and with its farmers through the PAG structure. These priorities inform DA strategic planning, through the ADIC's Memorandum of Understanding (MoU) with DA, which is expanded on below.
- **Feedback to State Dairy Farming Organisations (SDFOs) and ADIC** from their members on DA activities further informs strategic planning, and complements feedback provided to DA through the eight RDPs.
- **Group B membership** enables the ADIC, through its constituent organisations ADF and the ADPF, to participate in key DA structures and consultation processes, including the DA Board Selection Committee, the DA Strategic Planning process, and industry strategic frameworks. Our role in these processes is expanded on below.

The ADIC considers that industry organisations have an important role in influencing levy investment. Under its statutory funding agreement with the Commonwealth, DA cannot engage in lobbying or political activity, meaning that Group B members play a crucial role in articulating industry objectives to government and advocating on behalf of the industry.

Industry organisations have a responsibility to set the strategic agenda and develop policies that support this agenda and the industry's objectives. The ADIC does this through collaboration and consultation with DA on both the DA and its own strategic plans, and engagement in DA's structure and consultation activities. Industry strategy then provides an important framework for developing RD&E investment priorities.

DA's structure and consultation activities provide levy payers with further opportunity to influence the direction of levy investment:

- **Dairy Australia Board:** While the DA Board is skills based, conventionally four of the eight non-executive Directors' seats are reserved for practising dairy farmers, with the DA Chair being one of those farmers. Each year, one-third of the Board is renewed and farmers are at liberty to nominate for the milk producer vacancies. Additionally, any levy payer who obtains the support of 100 other levy payers can nominate to be a Director. The Board Selection Committee, which manages the selection process, is comprised of representatives of ADF and the ADPF and chaired by a DA Director. The Board approves the Strategic and Operating Plans, and reviews and approves all projects with spend greater than \$750k.
- **DA Annual General Meeting:** The AGM provides a forum for levy payers to express concerns. Both the CEO and Chair provide an overview of DA's activity and performance and levy payers have the opportunity to ask questions. Levy payers who are also members have the right to vote on issues requiring resolution that are brought to the AGM, including the appointment of new DA Directors.
- **DA field consultation:** DA's Executive Leadership Team presents to and consults with farmers via field events and farm visits annually. Over the last year, the DA Managing Director and senior managers have spent more than 50 per cent of their time involved in field activities. A combination of formal and informal functions provides the ideal opportunity for levy payers to discuss DA programs and provide grassroots level feedback on what is useful or otherwise, and what other areas require central investment.
- **DA strategic planning process:** DA's constitution requires it to actively consult with its Group B members (ADF and ADPF). A MoU exists between DA and the ADIC that covers the process for consultation between the organisations including the preparation of the Strategic Plan. Under the MoU, DA must consult generally with ADF, ADPF, and ADF's Policy Advisory Groups (PAGs) as part of the strategy preparation process.

- **Industry committee consultation:** There are many industry committees (DMF Communities of Interest, PAGs, Dairy Industry People Development Council, etc), of which farmers are members (and in many cases act as Chair), and that drive or have strong influence over industry strategic direction. DA participates in, and consults directly with the Committees and uses the outcomes (e.g. DMF strategy) within its own strategic planning process.
- **Levy poll:** This is the ultimate forum in which Levy Payers can demonstrate their comprehension of the use of funds and provide feedback, and is discussed further below in section (e): *Opportunities for levy payers to approve and reapprove the imposition of levies.*
- **Industry strategic frameworks:** DA's own strategy (and investment priorities) is built on the back of industry strategies that have been developed with the broader industry:
 - **Dairy Moving Forward (DMF)** is the response to the national RD&E framework for Australia's dairy industry. The aim is to encourage greater collaboration and promote continuous improvement in the investment of RD&E resources nationally. DMF is governed by the DMF Steering Committee. The DMF Steering Committee is chaired by ADF with senior representation from the following:
 - Dairy Australia (DA)
 - Australian Dairy Farmers (ADF)
 - Department of Environment and Primary Industries, Victoria
 - Australia Dairy Products Federation (ADPF)
 - Gardiner Foundation
 - United Dairyfarmers of Victoria
 - Australian Government Department of Agriculture
 - Regional Development Programs
 - The **ADIC Sustainability Framework** (2012) sets the Australian dairy industry's sustainability targets across economic, social, and environmental priority areas. The Sustainability Framework was developed through consultation with farmers and stakeholders in every dairy region, with benchmarks established to measure performance against industry goals, priorities and targets.
 - The **Australian Dairy Vision** (2014) sets an industry-wide objective to have Australian dairy recognised as being prosperous, trusted, and producing world-renowned nutrition. The Australian dairy industry developed this vision following its inaugural National Dairy Farmers Summit, held in March 2014, which brought together over one hundred farmers, processors, and industry stakeholders to map out a strategy for the industry's future. The vision identifies five key elements and priorities for action in working towards achieving the vision by 2025.
- **DA Extension structure:** DA relies upon an extension structure in which levy payers actively participate. A key element of DA's extension structure is the Regional Development Program (RDP). This consists of eight independent organisations in each of the dairy regions. A Board comprising local dairy farmers governs each RDP. DA provides the administrative funding to enable each RDP and co-ordinates with them for the implementation of technology transfer programs of work as developed by DA. The RDP provides feedback to DA which closes the loop on effectiveness (or otherwise) of the programs, enabling DA to adjust its focus and expenditure accordingly. The ADIC understands that the Queensland Dairyfarmers' Organisation has expanded on their relationship with their RDP, Subtropical Dairy, in their submission to the Committee, and we endorse those comments.
- **DA stakeholder surveys:** DA undertakes and/or funds around 20 surveys annually across farmers, stakeholders, industry influencers, and consumers to monitor industry trends and stakeholder sentiment. These surveys provide farmers with the opportunity to provide direct feedback on their satisfaction with DA programs and other matters. This information feeds into the investment planning process.

e. Opportunities for levy payers to approve and reapprove the imposition of levies

The legislated mechanism for change in the Levy rates is the Dairy Services Levy Poll as defined in Section 9 of the Act and the associated regulations.² As noted earlier, the current poll process is only one of two prescribed by legislation, with Australian Wool Innovation the only other Research and Development Corporation required to conduct a levy poll.

Under the Act, DA must make recommendations to the Minister regarding any changes to the levy no later than five years from the date of the previous recommendation.

The ADIC considers that a regular review of the levy should be mandated (with an independent review as part of this), with 5 year intervals considered appropriate. However, we would suggest that it may not be necessary to conduct a poll unless the review recommends a change to the levy.

As per the current process, we support the role of an advisory committee of industry representatives and farmers making a recommendation on any change to the levy rate. If the recommendation is to increase the levy, a poll is an appropriate means for levy payers to have their say.

Any proposed change to the levy must involve consultation and support of levy payers. Each recommendation to increase the levy must be made following, and incorporating the result of, a poll of levy payers. All levy payers can vote, and are entitled to one vote for each whole dollar of dairy service levy paid.

The ADIC acknowledges that apportioning votes in this manner means that larger farms producing more milk are allocated more votes than smaller farms, giving them greater influence during levy polls than smaller producers. Larger farms also stand to gain more from the benefits of RD&E (proportionally).

The matter of the allocation of votes in the levy poll is being considered by the DA Levy Poll Process Review. The ADF submission to that review supports the current approach to allocation of votes.

The Levy Poll Process

DA is required to run the poll and conduct it in accordance with the Act and Department guidelines.³ A plan for the poll must be produced by DA and approved by the Department. The general process is as follows:

- **Establishment of the Levy Poll Advisory Committee:** The Committee is established to provide the management of DA with an industry perspective in relation to the conduct of the levy poll. In the last poll, the committee comprised of 24 members including DA management, ADF directors, and representatives of ADPF, state dairy farmer organisations, RDs, and dairy farmers. In practice, the ADF President chairs the Levy Poll Advisory Committee.
- **Independent review:** Prior to the poll, the Statutory Funding Agreement⁴ requires an independent review of DA's performance as a business be undertaken. In 2007 and 2012 an independent consultant, GHD undertook this review. The report was made available on the DA website and a summary version was posted to levy payers explaining the reason for the report, how it related to the levy poll voting process and the key recommendations.
- **Option selection:** The Committee determines the levy poll options to be voted on at the poll. Under the regulations, DA must propose 3-5 options for change, one of which must be a zero levy. These options are developed by the Committee via a 3-6 month consultation process with stakeholders and levy payers.
- **Information memorandum and ballot paper:** In accordance with legislative requirements, an Information Memorandum (IM) is produced to inform levy payers of the implications of the various options to be voted upon in the levy poll itself. This is a relatively complex and technical document that requires Ministerial approval. The IM and Ballot paper are posted to each levy payer.

² Dairy Produce (Dairy Service Levy Poll) Regulations 2006

³ Levy Principles and Guidelines: Policy for the management of new and amended levies within Australia, Jan 2009, DAFF

⁴ Statutory Funding Agreement Clause 11.4, 11.6 (a) & (b)

- **Consultation sessions:** For the 2012 levy poll, DA undertook face-to-face consultation sessions with levy payers, by holding “town hall” style meetings in appropriate locations, chosen in conjunction with ADF and the DA RDPs.
- **The vote:** Levy payers remit their ballot papers by mail for receipt prior to a set closing date. An independent third party (in this case the DA auditor) undertakes the count and reports to DA.
- **Recommendation:** Based upon the poll outcomes, the Levy Poll Advisory Committee prepares and submits a recommendation concerning levy rates to the responsible Minister. Following a 6 week consultation period during which levy payers have a final opportunity to raise concerns, the Minister gives the ultimate approval of a change to the levy.

The ADIC considers that the Levy Poll process provides an opportunity for levy payers choosing to engage in the process to participate, but notes there is significant scope to improve the efficiency and effectiveness of the process. As previously mentioned, DA is currently undertaking a review of the Levy Poll Process, to which ADF is providing a submission detailing some of the measures that could improve this process.

Key points we will be raising in our submission to that review are:

- A 5-year review cycle is appropriate.
- Consultation with levy payers is very important; however, there is scope to streamline this through changes to the consultation approach, including increased use of technology (for example, for consultation, Q&A sessions, and voting).
- A poll is an appropriate approach where any change to the levy is recommended, however a poll may not be necessary where the independent review recommends no change.
- There should be flexibility to enable stepped changes during the 5-year period. This would be part of the option(s) put forward to a poll.
- A committee comprising industry and levy payer representatives is important to lead the review, to ensure levy payers can be confident in its independence.
- It is appropriate that a zero levy be an option for a levy poll. Levy payers must be provided information on the options put to a poll to ensure that they fully understand the ramifications, costs and benefits for farmers, the industry, and implications on RD&E should a zero levy (and other proposed options) be successful.
- The independent review is important, but needs to be assured as being independent, and its Terms of Reference need to focus on the levy spend and information relevant for levy payers to consider levy options and implications.

The ADIC strongly considers that both the recommendation and setting of the levy poll options, and the farmer consultation, are a collaborative process between DA, the Minister for Agriculture and ADF. As the representative of the levy payers, ADF has a lot to offer DA in developing materials for the levy poll process and in the communication and consultation with levy payers that will assist in achieving a high level of involvement by levy payers in the levy poll.

Regular and ongoing engagement with levy payers is very important, not just at the time of the levy poll but throughout the planning and review cycle. Engagement involves disseminating information to levy payers, but even more importantly, involves genuine dialogue and feedback using mechanisms suited to the levy payers.

f. The transformation of RD&E into increased returns at the farmgate, and effectiveness of extension systems

Over the years, the Dairy Services Levy and Government-matching investment have funded projects that have been of critical importance to farm profitability and the international competitiveness of the dairy industry. These include (but are not limited to):

- **Animal performance and fertility:**
 - The [Australian Dairy Herd Improvement Scheme](#), established in 1982 to provide a national genetic evaluation of dairy cows and improve herd productivity and profitability through selective breeding. ADHIS produces the [Good Bulls Guide](#) twice a year to give farmers access to information on bull selection to maximise cow profitability under Australian conditions, and produces Genetics Progress Reports to assist farmers in monitoring and reviewing herd performance. Since the first release of Australian Breeding Values in 1983, Australian dairy cows have increased their genetic merit for profit by \$234 per cow per year.⁵
 - [InCalf](#), a program focused on increasing herd reproductive performance.
 - [Countdown Downunder](#), a suite of animal health management programs and tools aimed at reducing the incidence of mastitis to improve the quality of milk and the premiums received by farmers for their milk.

- **Feedbase and animal nutrition**
 - [Dairy Futures CRC](#), a research and development partnership between the Federal and State Government and Dairy Australia, the Dairy Futures CRC is working on the development of higher-yielding pasture with greater energy content and improved cow fertility. By the end of the CRC in 2016, the CRC hope to have delivered \$320 million in value to Australian dairy farmers, through improvements in pasture cultivars and breeding dairy cattle.
 - The [Grains2Milk](#) program provides dairy farmers with training, resources, and support to make informed decisions about using grains and concentrates in pasture based feeding systems. Since its initial launch in 2007, Grains2Milk has evolved into a web tool that generates a report to assist farmers in analysing their herd's diet and make purchasing decisions that complement the nutritional requirements of their cows.
 - Target10, an animal nutrition program that aimed to improve farm profitability through increased pasture consumption. This program evolved over its ten years of operation to cover strategic planning, cow nutrition, fertiliser use and pasture management, informing current Dairy Australia extension programs such as Fert\$mart and Grains2Milk.
 - Project 3030, a joint project between DA, the Victorian Department of Primary Industries (now DEPI), and the University of Melbourne that aimed to achieve a 30% improvement in return on assets through a 30% increase in the consumption of home-grown forage.

- **Resource management**
 - [Fert\\$mart](#), the dairy industry's national nutrient management guidelines and tools, developed to assist farmers in developing fertiliser and soil management plans to improve the efficiency and profitability of fertiliser use, and to improve soil health on farms.
 - [DairySAT](#), an environmental self-assessment and planning tool covering Soils, Fertilisers, Effluent Management, Irrigation, Greenhouse Gas Emissions, Biodiversity, Energy and Water in the Dairy, Pests and Weeds, Chemicals, and Farm Waste.
 - [Energy assessments](#), a project to audit farm energy use and recommend actions to reduce energy use and subsequent costs.

- **Farm business management**
 - [Taking Stock](#), a budgeting and farm business management tool to assist farmers with the financial management of their businesses
 - [Tactics for Tight Times](#), a series of workshops run by Dairy Australia during periods of financial uncertainty aimed at reducing margins to assist farmers with weathering difficult circumstances.
 - The [Dairy Farm Monitor Project](#), operating on selected farms in New South Wales and Victoria, in partnership with each state's Department of Primary Industries, provides valuable farm level data relating to profitability and production. The research project analyses the performance of farms across key districts to compare performance with other farms and identify areas for improvement.
 - The [Queensland Dairy Accounting Scheme](#) aims to improve the understanding of business principles among advisors and dairy farmers by providing farm management accounting and analysis, and also examines the business traits of profitability, solvency and efficiency to assist dairy farmers in making informed business decisions.

⁵ [http://www.adhis.com.au/v2/sitev2.nsf/\(ContentByKey\)/AboutADHISADHISHistory?open](http://www.adhis.com.au/v2/sitev2.nsf/(ContentByKey)/AboutADHISADHISHistory?open) – ADHIS History, accessed 6 November 2014

- **People development**
 - Workforce Planning and Action Committee projects aim to attract, develop, and retain a skilled dairy workforce. Recent projects include the [Employment Made Easy \(eMe\)](#) online employment tool connecting employers and job seekers, the [Stepping Stones](#) project, assisting young people embarking on a career in dairy to map out a career pathway, and the [Employment Starter Kit initiative \(ESKI\)](#), which provides farm owners with a tool to assist in navigating the legal requirements of employing staff. These projects are delivered through the Regional Development Programs (RDPs) and use pilot groups of farmers to test and evaluate the success of programs before wider roll-out.
 - The [National Centre for Dairy Education Australia \(NCDEA\)](#), a partnership between Dairy Australia and Goulburn Ovens TAFE to deliver vocational education and training tailored to the dairy industry.

- **Markets and trade support**
 - Dairy Australia compiles a quarterly [Situation and Outlook](#) report, which analyses current dairy industry conditions, and the outlook for key drivers that affect dairy operation and profits. This report assists farmers in preparing for market conditions by examining global supply, demand, and economy, exchange rates, Australian markets and input markets.
 - Complementing the quarterly S&O is the [Fortnightly Update](#) providing a summary of the most recent dairy markets news.
 - The Dairy Australia Trade and Strategy team also work on securing and maintaining access to offshore markets by providing technical assistance on market matters, such as work to remove regulatory barriers including technical barriers to trade (TBT), and facilitating greater engagement through supporting industry activities in key international markets.

These projects and programs are consistently monitored and reviewed for effectiveness, incorporating broad stakeholder consultation, with a particular focus on farmer evaluations. The value of these programs is also assessed as part of the DA strategic plan, to identify areas needing greater focus and resources. The 2011 DA/DEPI report outlined in section (a) also highlights some of the production gains and benefits derived from levy investment.

We have also provided comment on the value of RD&E in section (a) of the submission.

g. Collaboration on research benefitting multiple industry and research sectors

Dairy Australia has a strong record of collaborating with other RDCs, universities, international research organisations, and government agencies to address cross-sectoral challenges that affect the profitable growth and sustainability of the Australian dairy industry.

DA works with the other RDCs on eight cross-industry sectoral strategies under the Research, Development, and Innovation Committee of the Agriculture Senior Officials Committee (AgSOC) to support the RD&E Framework. The eight strategies fall into the areas of animal biosecurity, animal welfare, biofuels, climate change, food and nutrition, plant biosecurity, soils, and water use in agriculture.

Each strategy is led by a sponsoring AgSOC agency and sponsoring RDC, with support from the other RDCs. Sponsors coordinate work with other partners to determine the most appropriate governance and guide the direction of the strategy. DA is the RDC sponsor of the AgSOC Water Use in Agriculture strategy, with CSIRO serving as AgSOC agency sponsor.

In addition to the eight cross-sector strategies, DA acts as a lead agency, core participant or joint project funder and developer in a number of other collaborative projects with other RDCs. All joint research findings are assessed through a dairy-focused lens to ensure results are applicable to and support dairy sustainability and profitability.

DA also collaborates with dairy RD&E organisations internationally to the significant benefit of Australian farmers.

The ADIC considers that collaboration through current frameworks can work to provide efficiency in RD&E areas that relate cross-commodity. New structures or organisations are not necessary to support collaboration.

h. Industry governance arrangements, consultation, and reporting frameworks

While DA has no formal role in the governance of advocacy bodies such as the ADIC, there is regular communication, consultation, and reporting between the parties. A Memorandum of Understanding (MoU) between DA and ADF/ADPF formalises the interaction between the parties for the DA strategic and annual planning process and confirms the role of industry representative organisations in driving strategy. The MoU also delineates the role, responsibilities, and activities of both DA and the ADIC, minimising areas of duality and enhancing collaborative partnerships.

This MoU describes:

- Interactive planning activity
- Regular performance reporting meetings
- Participation in, and feedback from, industry Policy Advisory Groups (PAGs) as co-ordinated by ADF.

As discussed in previous sections, as Group B members of DA, ADF and ADPF representatives form a majority on the DA Board Selection Committee, providing further input into DA governance arrangements.

Consultation: As detailed in section (d) above, DA is in regular contact with all elements of the industry via its participation in a range of industry committees/groups and via its extension and communications structure. This includes:

- ADF/ADPF/ADIC meetings
- Policy Advisory Group (PAG) meeting participation
- SDFO meetings
- RDP monthly communication/ongoing management of extension staff
- Reference groups
- DMF Communities of Interest and DMF Steering Committee (represents all funding bodies including DEPI, Gardiner Foundation)
- Trade Reference Group
- Dairy Industry People Development Council
- Dairy Innovation Australia Limited
- Dairy Manufacturers Sustainability Council
- Direct consultation regarding generic marketing with Processors and Retailers
- Issues management: Risk Management Framework

These committees and groups comprise farmers, representatives from industry, and processors, as well as DA staff. This structure ensures a whole-of-chain approach on areas and issues of critical importance to our industry, and provides additional fora for farmer feedback and input into DA work programs and activities.

Reporting frameworks: Interaction between DA and the groups listed above occurs via a combination of verbal and written reporting. Formal reporting is as follows:

- | | |
|--|--|
| <ul style="list-style-type: none"> ● Federal Government: <ul style="list-style-type: none"> ○ 3 Year Strategic Plan ○ Annual Operating Plan ○ Annual Report ○ 6 monthly meeting with Department of Agriculture | <ul style="list-style-type: none"> ● Stakeholders (e.g. ADF / ADPF) <ul style="list-style-type: none"> ○ 6 month performance reporting ○ Draft & Final 3 Year Strategic Plan ○ Draft & Final Annual Operating Plan ○ Annual Report |
|--|--|

There is considerable additional informal reporting, for example at all PAG meetings and monthly meetings of staff interacting with policy work in DA, ADF and ADPF.

As part of its Statutory Funding Agreement with the Commonwealth, DA is required to commission an independent review of its performance before levy poll. The last such review was held in 2011, prior to the 2012 Dairy Levy Poll.

The ADIC considers that the industry's structure is an appropriate means of disseminating information to levy payers, both in the context of garnering feedback and consultation about dairy strategy and operational issues, through to individual farmer input to research programs and technology adoption on farm.

i. Other related matters

The ADIC notes recent commentary on the decentralisation of RDCs and the proposal to relocate RDCs to regional Australia.

The ADIC considers that Dairy Australia's current base in Melbourne is the most appropriate location for DA. The location of the DA office in metropolitan Melbourne is complemented by the location of other industry research bodies and organisations such as the Dairy Futures CRC, Dairy Innovation Australia, the Australian Dairy Herd Improvement Scheme, Australian Dairy Farmers, and the Australian Dairy Products Federation, also located in metropolitan Melbourne. It is also close to the Victorian DEPI (the lead agency nationally for dairy R&D) head office and regional centres, and within 1.5 hours of DEPI's National Centre for Dairy Excellence at Ellinbank.

As outlined earlier in this submission, each of the eight dairy regions has a Regional Development Program that is able to provide targeted programs, assistance, and support relevant to that region. An Extension Coordinator works with each RDP to coordinate the identification of farmer priorities and in the delivery of services to target farmers' needs. The ADIC contends that this structure ensures that DA has a strong regional presence. Accordingly, we consider that the decentralisation of DA is not necessary.