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THE LEGISLATIVE COUNCIL SELECT COMMITTEE ON THE DAIRY INDUSTRY IN TASMANIA MET AT 2 SOUTHBANK BOULEVARD, SOUTHBANK, MELBOURNE ON MONDAY 8 MAY 2017

DISCUSSION WITH Mr DAVID MALLINSON, EXECUTIVE GENERAL MANAGER, SALES AND MARKETING, MURRAY GOULBURN AND Mr BEN GURSANSKY, GENERAL MANAGER, POLICY INDUSTRY AND GOVERNMENT, MURRAY GOULBURN

CHAIR (Mr Hall) - Welcome, David. You are protected by parliamentary privilege within this hearing. We instituted the inquiry into the Tasmanian dairy industry and we have taken quite a lot of evidence over time. We are all members of the upper House of the Tasmanian Parliament. Mr Farrell comes from the Derwent Valley and has strong dairy linkages in his family. Leonie Hiscutt is Acting Leader of the Legislative Council at the moment and comes from a farm on the north-west coast of Tasmania. Tania Rattray comes from the north-east and she also comes from a rural background. I am a former dairy farmer. We still farm and run a lot of dairy cattle and beef. The committee has two independent members, one Liberal member and one Labor member. We have gender equity and political equity.

Mr MALLINSON - Is what we are talking about here today going to be published?

CHAIR - Yes, it will be transcribed. You can elect, if you want to, to give your evidence in camera. We can talk about that.

Mr MALLINSON - If there is any commercially sensitive -

CHAIR - Yes. We are not here to go down the track of Australian Competition and Consumer Commission - ACCC - and all the things the Senate inquiry went down. Our terms of reference are much more positive than that. We are looking forward, not back. That is the reason we are here. Given your space in the Australian dairy industry, we wanted to speak to you. We know your company has had a few little trials and tribulations. These things happen in the world and we all know about that. We also accept that with your submission, which you sent to us on 2 December, the landscape has changed to some degree.

It is all about addressing our terms of reference. I invite you to make some comments and then we could have some interchange between yourself and the members, if you are happy with that.

Mr MALLINSON - Yes, that is fine, and thank you very much. Obviously the landscape has changed quite a bit between 2 December and right. Much of that is around the competitive situation now in dairy in Australia. Yes, Murray Goulburn has been through some trials and tribulations, but that is not just Murray Goulburn, that is the dairy industry in total, and not just in Australia but globally. At the moment we have a global over-supply of product, and we know that. We see that with prices here and in Europe and New Zealand, last year more so than this year. It is well documented. I am not going to go into the history of the latest step-down last season and the ramifications of that. Obviously at the moment we are trying to put the company back on a footing where we can pay a competitive farm-gate milk price. Ultimately dairy does not survive unless the processor and the farmer can both make money. That is fundamental.

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CHAIR - In terms of branding - that is one of the main issues which has been covered, and we have had quite a bit of evidence about that - do you think there is an opportunity for Tasmania to differentiate itself with Tasmanian product? Much of your product has gone under the Devondale banner and a lot of Fonterra stuff in the same way, so you get that generic branding.

In Tasmania we have developed a uniqueness with our food products, and a lot of that attracts a premium. Do you see any opportunity in what you are doing at all in being able to differentiate that branding? I know you will now be left with a milk powder plant at Smithton and you are going to sell Edith Creek.

Mr MALLINSON - Putting it into a Murray Goulburn perspective, last year we processed about 3.4 billion litres of milk, of which about 220 million litres came from Tasmania. This year we will finish around 2.7 billion, and of that, 190 million will come from Tasmania. Tasmania as a percentage has a small portion of our total milk intake. We need to put that on the table. The Devondale brand is a brand that has been going for many years. It is our mainstream brand for most of our products. Tasmania has an opportunity that is not so much in the mainstream and scale-volume brands but is more in that niche branding position. At the moment our focus is really the volume and scale brands both in Australia and overseas.

CHAIR - Do you think that can apply to milk powders as well? They are probably more of a bulk commodity. I understand that. I am from near Deloraine, by the way, to put the geographical context in; we are not far Latrobe.

In that respect, can we differentiate those bulk products at all by having a higher quality? I know your Smithton plant is pretty well state of the art.

Mr MALLINSON - It is a little bit harder with a commodity product to differentiate, because most customers around the world buy a specification. That specification is really around fat, protein and chemical balance and milk minerals. Ultimately when we talk about bulk commodities, most people are buying bulk commodities around the world to put that into future products, whether it is their own consumer products or for baking purposes and stuff like that. Generally, they are more focused on the organic or chemical specifications of the product than a branding position. If you go around the world for bulk commodities, whether it is New Zealand, Ireland, the Netherlands or Victoria, most people presume the product is going to be safe and is going to come from a clean environment. It is a lot harder to have a point of difference on a bulk commodity than it is on a consumer position.

The consumer position is interesting, but then Bellamy's is one that has gone very hard after that Tasmanian image, although a lot of their product is not actually from Tasmania. It is very difficult. The one that has done the best is probably King Island cheese; we are just not in that field down in Tasmania.

CHAIR - Lion has kept that brand, haven't they?

Mr MALLINSON - They have, and Tasmanian Heritage is the other one.

CHAIR - With the Edith Creek plant, I would have thought you were producing a fairly niche product and as CEO you had to do some rationalising. I understand that. We went through that probably about four years ago. I am quite impressed with the amount of capex since you took

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it over. You spent more there. Am I reading into that sometimes the niche products are not the be-all and end-all? That is more a niche market that you are selling here or domestically, as I understand, on supermarket shelves?

Mr MALLINSON - No, Edith Creek made both domestic and exported products but the focus was primarily domestic, you are right. But when you look at what is running through that plant, a lot of it is our Liddells brand, the lactose-free brand, which is not specific to any geographical footprint. It is around lactose-free products.

A lot of the other product going through there is quite specialised, but a lot of it is contract pack Cerberus custard, pet foods for Uncle Ben's and stuff. They are unique products, not so much in our own brand, but in other people's brands. It is more of a contract-packing position.

CHAIR - You will still keep those products going, but probably out of Leongatha?

Mr MALLINSON - We are still working through that; we have not come to a landing yet.

Ms RATTRAY - Is there any opportunity to move any of what you were doing at Edith Creek through to your other facility in Tasmania?

Mr MALLINSON - The other facility is just down the road from Edith Creek at Smithton. It is a milk powder dryer and the process is totally different. The only thing they have in common with any dairy plant is the milk reception area. Once it goes into a silo, everything from the silo to the finished product is totally different. If we wanted to expand Smithton - and certainly if we expanded, that would be the place we would expand - you could put other types of processing on there, but there would not be many processes complementary with the current drying plant.

Ms RATTRAY - Other than the input"?

Mr MALLINSON - Yes.

Ms RATTRAY - There is no issue for suppliers with the input, you have plenty of capacity?

Mr MALLINSON - At the moment we have at Smithton, yes.

Mrs HISCUTT - I know you are pulling out of Edith Creek so some of the questions might be a little bit irrelevant. In your mind's eye, can you see, or could you have seen, any way that the Tasmanian product - like the clean green image Tasmania produced and marketed - ever happening in a bigger company like yours, from Tasmanian-specific product as opposed to generic stuff? Your Devondale brand is very good. Can you ever see something like that coming out of Tasmania for some of the bigger suppliers such as yourself?

Mr MALLINSON - I pause here because this is me speaking, not so much Murray Goulburn. I will qualify that: for that to happen, it will not be in the Australian marketplace; it would have to be overseas, and you would almost need a partner to help facilitate that. Obviously China is the most likely market that would come from. You need scale.

Mrs HISCUTT - Are you talking about the sort of thing happening now at Woolnorth?

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Mr MALLINSON - VDL, do you mean? They are exporting a bit of fresh milk out of Lenah Valley at the moment.

CHAIR - Maybe.

Mrs HISCUTT - So you see it as needing a partner?

Ms RATTRAY - When you talk about scale, David, is Tasmania really in that space of scale? That is really the question, isn't it?

Mr MALLINSON - It is a good question. I started in dairy in Tasmania back in 1992 so I have a reasonably long association. It has never really taken off to the extent everyone thought it could have, even back then, in milk production. When we talk about scale, if you look at the world's best, it is probably Fonterra in New Zealand. They have plans in New Zealand to do 3 billion litres on one site. We had 3.5 billion litres going through 10 sites. That's subscale on today's global set. What is it in Tasmania now, a bit over 1 billion litres? We have about five sites down there. That's to put some perspective on it.

Mr FARRELL - As to the logistics of getting product from Tasmania, how much of an issue is that for your company? Is that something which is factored in?

Mr MALLINSON - It used to be a major issue for anyone who operated in Tasmania but when they extended the freight equalisation to cover export products as well, that was of huge benefit. I do not see it as a real barrier these days.

CHAIR - I noticed in your submission there was an issue with gas, that the gas pipeline did not go right through?

Mr MALLINSON - At a milk powder drying plant, the primary way to take water out of milk is with gas. When you are using LNG versus natural gas, there is quite a cost impost. We are not in a position to afford the funding of a pipeline.

Mr FARRELL - If the state government were to develop the pipeline, would that benefit your business?

Mr MALLINSON - It would certainly reduce our input costs. If we needed to do future investments, it would make it a hell of a lot easier to justify, too.

Ms RATTRAY - Would that justification for increasing whatever products come out of Smithton rely on some change to your power input?

Mr MALLINSON - That would be a small factor, but the biggest thing we would have to see down there is sustainable growth in dairying. It cost us a bit over \$60 million to put up the Smithton powder plant. If you want to put up another one, you want to be certain you are going to fill it over time. You need to see a sustainable dairy industry in Tasmania for that to happen.

Mrs HISCUTT - You do not see that?

Mr MALLINSON - Not the sort of growth we would need. You need 200 million litres to fill up a dryer of that size. You would need to see growth over and above what is already down

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there, and it would have to come reasonably quickly. Otherwise the longer it is empty, the longer the payback on the investment.

Mrs HISCUTT - Do you think it is possible for that capacity to be built?

Mr MALLINSON - Absolutely it is. Of all the areas in Australia, Tasmania probably has the greatest platform to do that. If they got irrigation right, the ability to grow grass cheaply down there and convert that into milk is still there.

CHAIR - Being a Tasmanian, David, you are starting to see some rollout, albeit fairly limited, even in the Midlands.

Mr MALLINSON - The Fingal Valley is interesting. I am not a dairy person, so forgive me here, but the ground down there needs a lot of work. They might have the water, but to grow grass you need fertile soil as well.

CHAIR - I am dwelling on where we go next.

Mrs HISCUTT - I am interested in your ideas and opinions on organic farming. Do you think Tasmania has a niche? Do you think it is possible? Has Murray Goulburn ever looked down that avenue? There are two questions there: one for a company and one of your image. What you think Tasmania might be capable of, and is it capable of that?

Mr MALLINSON - Organic is an option. It certainly has a following. The thing about organic farming is the huge cost base to do that. Your stocking rates are a lot lower and your cost of producing grass is higher; therefore, you have to make sure the return you get for the market can compensate for that as well. Unfortunately, the way we run, we are a consolidated milk pool. For organic to work we would need to be able to segregate that milk out.

Mrs HISCUTT - It has never been an idea of Murray Goulburn to to go down that -

Mr MALLINSON - It is there. But there is about a three-year lead time to certify a farm to get organic, at the back end. At the same time you also have to develop the front-end marketing side.

Mrs HISCUTT - Your companies have rarely gone down that avenue?

Mr MALLINSON - It is very hard for a company of our size to look at organic because it probably suits the niche players more than the larger companies.

Mrs HISCUTT - Stepping away from your company and looking at Tasmania, as you are a Tasmanian, can you see that being viable in Tasmania? Or is organic just not viable on a commercial scale? This would be your own personal opinion.

Mr MALLINSON - That's right, I'll qualify that, yes. When we say 'viable', anything is viable. If you have six farms banded together and you took fresh milk into Coles and Woolworths, that is viable. It might not be of scale, but it would be viable. You need to -

Mrs HISCUTT - I was thinking bigger.

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Mr MALLINSON - If it is bigger, it becomes a bit more of a challenge because you have to find that market somewhere.

Mrs HISCUTT - You do not sound overconfident.

Mr MALLINSON - It is a challenge. It is one that is there, but it is just a hard nut to crack.

Ms RATTRAY - Following on from Leonie's question, it has been suggested Tasmania, from what we know, already has as good an organic supply for the market anyway, and that is really what people expect. You touched on it when you mentioned countries that have that clean and sustainable image. Do you already see that as a point of difference, if you like?

Mr MALLINSON - I do, but not just for Tasmania. I will qualify that: in Tasmania, New Zealand, Victoria and Ireland, we have pasture-based cows. That is what the world likes to see. Barn- or feedlots just do not go down well. I think we have a great advantage. It is not just Tasmania, though. It is not unique to Tasmania, but it is unique to probably four or five geographical spreads around the world.

Ms RATTRAY - We sit within that group?

Mr MALLINSON - Absolutely.

Ms RATTRAY - We have that rating. Through this inquiry, it has been suggested that we pretty much have a standard which is at the top of the tree.

Mr MALLINSON - Yes, whether you call it free-range - with cows on pasture 100 per cent of the time - the Chinese like that. That is why, if you talk to any of the big multinationals around the world, whether it is Friesland, Mead Johnson, Nestle, they actually source quite a bit of milk from New Zealand and Australia for that reason. The Chinese consumer quite likes that.

Ms RATTRAY - Because of the conditions that our animals live and exist in, so to speak. Is there any more the Tasmanian dairy industry could do to lift ourselves, short of the organic sort of space? It has been suggested you need two farms because if you have a sick cow you need to be able to take it away from the farm you have certified as organic. It is a pretty costly exercise, not to mention the three years that go into being certified. Can you see anything we could improve on or do better which would lift us anywhere above where we are?

Mr MALLINSON - The one thing Australia and Tasmania have going for them is food security. That is going to be the most important thing. Whether it is organic or non-organic does not really matter as long as it is safe to consume. As an island Tasmania is well positioned there. The one thing to do, if I were giving you any advice at all, is keep your quarantine up as well. If anything ever happened and there was an outbreak of something, then that is an option for Tasmania, although you are part of Australia -

Ms RATTRAY - Biosecurity. Make sure we continue to be at a high level of biosecurity that we could elevate at any stage should something go amiss.

Mr FARRELL - Following the comments about the pasture-fed milk and the Chinese wanting that and the areas that produce it, is there any cooperation between those areas or companies in those areas to try to get a brand like organic that states the quality of grass pasture-

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produced milk? Do you see a competitive advantage for companies that could somehow brand it - whether it is called something catchy such as 'organic' - to increase the sales of products from Australia rather than only regional Tasmania, tied in with New Zealand and Victoria?

Mr MALLINSON - Dairy Australia does quite a bit of this. That is part of its trade work. That is where it is putting forward the Australian industry rather than specific companies. I do not think they go as far as extending that to New Zealand. Fonterra is a powerhouse on its own. I believe there is no lack of awareness from overseas customers. I do not think it needs a huge amount more.

Mr FARRELL - What we have seen with organic compared to what we do in Tasmania and Australia more broadly is that it is a really good product. Organic can be from non-pasture origins so it is a fairly clever marketing exercise. It would be good if we could somehow compete with that with what we have.

Mrs HISCUTT - When you are in negotiations or deliberations with your customers, do many of them talk or ask about a Tasmanian product? Or is it something you seek as an Australian producer? Do they talk about products from Tasmania?

Mr MALLINSON - The Japanese are probably the most focused in this area because they look at the points of difference as well. As I said to you earlier, you are selling bulk ingredients and it ends up going into a final consumer product anyway. If you take cheese, for instance, the Japanese buy bulk cheese all around world and blend it so they get the right mix. What they are looking for first and foremost is secure food, where food safety is paramount.

Mrs HISCUTT - So that would be Australia in general anyway?

Mr MALLINSON - Or New Zealand.

CHAIR - Going back to your Devondale brand, where did that name come from? Is that a place known in Victoria, do you know?

Mr MALLINSON - I am going to be totally embarrassed here - I have no idea.

CHAIR - I have always wondered, but I always thought it was a town in Victoria.

Mr MALLINSON - I am jumping here. Devon being probably UK-based, a big milk area in the UK, 'dale' being the hills.

CHAIR - With regard to branding, we have also heard that any brand needs to be defensible. If you try to trick the marketplace and you are caught out - I am referring to Bellamy's, which has corporate issues. A lot of people found out that there was absolutely no product coming out of Tasmania and that what was being put in their product was coming from South America and god-knows-where else. It was all being processed up at Tatura. That does not help.

That is the sort of situation where I think - you may agree or not - you can end up by destroying a brand or reputation of a particular jurisdiction or a place like Tasmania, or not do it any favours.

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Mr MALLINSON - I have to be honest: to put a brand up these days is a costly exercise. The world is seeing fewer brands rather than more. I will go back: to get a scale, mainstream brand up in even Australian retail is almost mission impossible these days. Find a niche product of reasonable scale - it is not that hard. The retailers are looking for that. Ultimately, the retailers want two private labels, two branded players and some niche players. Unless you can be number 1 or number 2 in that category, you are not going to get there. There is a great opportunity for some niche. It might not be big enough for us, but there is plenty of opportunity there and that is where I see the big opportunities as well.

Ms RATTRAY - Research and development. Does Dairy Australia do some R&D? Do they work with you as a major player in the industry? How does that relationship work?

Mr MALLINSON - I will qualify here that I am actually a director of Dairy Australia. I need to put that on the table.

Ms RATTRAY - That's good - you will have all the facts, and probably worked really well. I am really interested in that.

Mr MALLINSON - Nearly all of Dairy Australia's R&D is pre-farmgate, so not post-farmgate. Their mandate or charter is really around grass developments and animal welfare. The amount they put in post-farmgate is really around trade and market development rather than product. The product has been left to the companies.

One of the challenges in dairy with margins being so thin, or in any retail business in Australia, is that it is very hard to find the money to put back into investment, so generally R&D gets starved, because you are trying to get as much money out to farmers as we can. That is why it is a challenge.

Ms RATTRAY - In that case you have to rely a lot on your producers to come up with new initiatives and feed them into what might be the best way forward for the industry?

Mr MALLINSON - In the 24 years I have been in dairy a lot of the product development initiatives have come from the equipment suppliers because they are trying to sell new equipment. They tend to come along with these great ideas. Some come out of Europe and some come out of the United States. They deliver most of the development. It is very hard for a farmer to give product development advice to a company, because they sell milk in a liquid format and to get that into a product is a lot more specialised.

Ms RATTRAY - They would most likely put their ideas and initiatives into their local - say in Tasmania - Dairy Tas? When they have their conferences or something, that is where they would talk about things that might be useful for the industry?

Mr MALLINSON - I am not associated with the relevant bodies you talk about, but a lot of the conversation I hear at farmer meetings is around how they can reduce their costs on-farm. Ultimately that is where they make their margin. That is around breeding programs, foliage and grass seed. That is where most of the discussion is and that is really what they have to do best.

Ms RATTRAY - Being part of the dairy industry has not always been an employment of choice for a lot of young Tasmanians. There has been a concerted effort over the past couple of

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years to make it appealing to try to encourage people into the industry, to want to milk cows seven days a week. Do you have a view about how we could make the industry more attractive?

Mr MALLINSON - It is a huge challenge for dairy in Australia. I spent a few years in New Zealand with Fonterra many years ago, but over there it is almost prestigious to be a dairy farmer. As a matter of fact, most of the dairy farmers have a degree from Massey, and the government gives them a huge helping hand. There is no stamp duty going in and there is no GST coming out. Most farmers, as you know, are asset-rich, cash-poor, so they rely on that asset build to get them over the line. We seem to have missed that here in Australia.

It is very hard for young people now to go onto the farm, especially with milk prices where they are because of the global oversupply. To get banking and government funding to get onto a farm is just hard. You are right - most people migrate to Melbourne and Sydney. The last place they want to be is out in a rural community, and that is a real challenge for any agribusiness.

Ms RATTRAY - It is interesting though, - and I do not know if it is the same in Victoria, I do not know a lot about the dairy industry in Victoria as such - but we have quite a lot of New Zealand farmers come to Tasmania to take up share-farm opportunities in the hope they can eventually buy into the Tasmanian market. Normally there is no hope in New Zealand. It is interesting they get support from the New Zealand government.

Mr MALLINSON - The problem with the New Zealand model, and it is probably over the last five years that it has come to the fore, is that land values because of the profitability of a farm have gone through the roof. On top of that, if you want to supply Fonterra, you must buy your shares upfront, which means the actual hurdle is huge but the returns are quite good when you get there. The share-farming is interesting because that has been New Zealand's claim to fame in the past for getting people onto farms. It is something this country could do a lot better, not just Tasmania but Victoria as well.

Ms RATTRAY - To help people to get into the industry?

Mr MALLINSON - A starting point, buy a herd or buy half a herd or buy something because it is accumulation of assets over time that gets you there and that takes hard work.

CHAIR - I think you are quite right. The land value has been a driver. If you buy something per hectare in the Waikato, you can buy something for a fifth for the same land or equivalent in Tasmania, on the north-west coast of Tasmania, for example. That has been a driver for that.

Ms RATTRAY - Interestingly we have companies coming into Tasmania and setting up greenfield sites from scratch for dairy, particularly up in the north east. We have just had another one recently out in the Waterhouse area; I do not know if you know that. It is between Bridport and Tomahawk, out that way, formerly a soldier settlement block. Pretty hungry country my dad would always say, but they are doing things with it that are obviously working. They have New Zealand managers so they have the qualifications - you talked about that university qualification from New Zealand. That is something we seem to be lacking somewhat in Tasmania.

Mr MALLINSON - I know Dairy Australia has courses here too. The TAFE system has fallen down a little bit too. I do not know how we get that back because doing courses on how to dairy farm is interesting, but it would be nice to have a qualification attached to those along with some level of prestige. That is an opportunity, I think.

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Ms RATTRAY - I heard recently - this is an aside, Chair - that Tasmanians were doing a bit of basic agriculture, like learning how to ride a four-wheel motorbike and the like, and were doing it out of a TAFE college in New South Wales. I will talk to the Acting Leader about that on the plane to New Zealand. It was something I thought was quite odd.

Mrs HISCUTT - Chair, I would like to take a different tack if everyone is finished there. Genetically modified organisms: what is your opinion on GMOs, mainly seed, I suppose, grass seed and stuff like that, for milk production? Do you see the GMO-free status in Tasmania as being an advantage or a hindrance when it comes to grasses for producing milk?

Mr MALLINSON - It is a huge debate - gene-editing or whatever you want to call it. They are quite different. At some point the industry will need to land on this, not just here in Australia but also globally. While one of the ways for farmers to be efficient is being able to use hybrid grasses that can survive droughts, can survive floods, and while I personally am not for around GM modification, there is something around gene-editing where you can take -

Mrs HISCUTT - You are saying gene-editing?

Mr MALLINSON - Which is a new terminology. With gene modification they can take and put genes back into the organisms. With gene-editing, they can only take out, they cannot put back in. So gene-editing per se is not modification.

Mrs HISCUTT - That is a clever play on words.

Mr MALLINSON - It depends on what side of the science you come from. Ultimately the food has to be safe, and farmers and companies have to be viable. If it can reduce the cost on-farm, we have to keep exploring it, but while Europe is GM-free, we need to maintain that status as best we can.

Mrs HISCUTT - Are you saying Murray Goulburn does not have GM grasses feeding the cows on the farms that you collect from?

Mr MALLINSON - We advocate that we try to be GM-free where we can but we can't always certify what our farmers do.

Mrs HISCUTT - Okay. I hear what you are saying about the continent, but do you see it as being an advantage to Tasmania, or do you see it as a hindrance, or would you rather not say?

Mr MALLINSON - If the science lands on the side of gene-editing or gene modification being bad, I think it is a great advantage. If it goes the other way, I think it could be a hindrance.

Mrs HISCUTT - I see what you're saying - hard to say.

Mr GURSANSKY - There are no commercially grown GM rye grasses being grown in Australia commercially. There has been some in the R&D programs but it is not grown commercially.

Mrs HISCUTT - There would be some GM stockfeed like canola and things like that?

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Mr GURSANSKY - Protein sources in stockfeed is a GM source, so that's right, but not in terms of grass.

CHAIR - Just digressing slightly, it is interesting what they are doing in Ireland with their branding with Kerrygold butter. They turned a lot of their industry around by putting it in a gold package and calling it Kerrygold - same product. They were exporting supposedly organic or GE-free product, but at the same time getting GE grain - feedstock - in from Eastern Europe, so not all the continent is GE-free by any means. It's a tricky world, isn't it?

Mr MALLINSON - It is, and I don't have the answers. We have to keep a foot in both camps because ultimately we need everyone to be viable and safe. It is tough.

CHAIR - With the milk powder you talked about, you are sending more bulk powder to China and then breaking it down into sachets?

Mr MALLINSON - We ran a trial of making a Tasmanian product out of China.

CHAIR - Have you pulled stumps on that now?

Mr MALLINSON - We have at the moment.

CHAIR - Okay.

Mr MALLINSON - Can I clarify why?

CHAIR - Yes.

Mr MALLINSON - What the Chinese want is safe food, number one, but they also want to eat the same food westerners eat. If they ever buy something from Australia or New Zealand, the first thing they do is jump on the internet to see if that product is produced in Australia or New Zealand or wherever the source is. With the commoditisation of brands globally, the big are going to get bigger and the small have to be either niche or die. Our focus is on making Devondale strong. We are the number one imported milk powder brand in China, and it is important we keep that. By the way, most of our whole powder comes from Tasmania - that blue pack sitting behind you would be close to 90 per cent Tasmanian powder going into China now. It is very important for us to maintain that.

Mrs HISCUTT - I was amazed, when going through the international airport recently, to see they had pick-up packs of powdered milk to take back to China.

Mr MALLINSON - Six- or four-packs, yes.

CHAIR - How big is the lactose-free market?

Mr MALLINSON - That is interesting. I personally think it is bigger than we make out. You are also fighting against soy and other types of milk products in that area. I am not an expert in this area, and I might get shot down here, but I think the younger Chinese tend to be less lactose intolerant than the older Chinese. The young ones will drink normal milk while the older ones struggle with it a bit. If it is introduced in the diet young enough, your system can adapt or deal with it.

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CHAIR - I have a young grandson in Melbourne who fits right in that category. The fridge is full of all that stuff; that's just the way it is. I am told that intolerance will change within a year or two, most likely.

Mrs HISCUTT - Just looking at your submission and the role the Tasmanian Government can play in our inquiry, you have a few things here like ensuring effective tax reform, government regulation and investment in critical infrastructure. What sort of government regulation do you envisage we could help with? I checked the website for Australia and Tasmania for their self-imposed regulations, which were very extensive, which had nothing to do with government. What do you see as government regulation that perhaps could ease all this to make it easier for dairy farmers to get in?

Mr MALLINSON - I don't think I have anything specific in mind.

Mrs HISCUTT - You have to have something specific; you can't just say 'government regulations'. You had nothing in mind in particular when you wrote that?

Mr MALLINSON - No, it is more that generally we are looking at those challenges businesses can find from governments.

Mr GURSANSKY - The main one when we looked at Tasmania was the freight equalisation, which David mentioned before, which, with those changes, has improved. Probably the other main one we looked at from a factory perspective was obviously the energy one, which David touched on as well. The other one for a business like Murray Goulburn is probably more on the farm side. That is going to be dealt with and looked at more by some of the dairy farmer groups, et cetera. In terms of the growth aspect, particularly the irrigation side of things, improvements around that and access to land and water for farm production are probably the main areas in which we see growth opportunities for the area.

Mrs HISCUTT - You mentioned critical infrastructure. I presume you meant irrigation?

Mr GURSANSKY - We are also talking critical infrastructure around energy supply.

Mrs HISCUTT - The gas pipeline?

Mr GURSANSKY - It is those enabling utilities that -

Mr MALLINSON - Three-phase power has already gone on-farm. I don't know about Tasmania, but getting three-phase power to farms in country Victoria is very hard. The other one is roads, because getting tankers onto roads is critical as well.

Ms RATTRAY - Have you been on the B-double route in Tasmania, in the north-east? It is as good as a goat track.

Mr MALLINSON - Right.

Mrs HISCUTT - You also mention the ongoing management of increasing climate variabilities and access to fodder and all that sort of stuff. Did you have anything else in mind? You cannot control the weather; you can only control its effects. I know that in the far north-west

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you get a lot of boggy country where some cows sink during certain circumstances and food is a problem, but that sort of stuff has to be managed at the time. Did you have anything specific in mind when you put that to paper?

Mr GURSANSKY - That was more a longer-term view, looking at the changes and the effects around the variabilities and how we prepare for that future. It is more that consideration. We have done some work in the last year with bringing some feed and fodder across our supply relations team, and our MG Trading business in particular did some work in bringing some feedstock across to support farmers.

Mrs HISCUTT - During those hard times?

Mr GURSANSKY - Yes, just in the last 12 months. It is that type of thing. We obviously go through all the appropriate biosecurity processes, but it is making sure you've got those. If the seasonal conditions are really bad in Tasmania, the feed and fodder might not be available and you may have to look to bringing that in from the mainland. We have been able to do that in the past. It is just making sure we can continue to do that into the future.

Mrs HISCUTT - Are you indicating that it is a Tasmanian government responsibility to have that plan B in place, as opposed to the company?

Mr GURSANSKY - I do not think it is one in isolation from the other. It is around making sure that in those situations you have industry and government being able to work together in a way to be able to ensure that. In this case what we are talking about specifically for farmers in those tight conditions is being able to make sure we can get those resources in there to support them through drier conditions.

Mrs HISCUTT - If something like Biosecurity Tasmania wants to have a list of mainland suppliers who we could draw on in times of need, those names could be put out to either the company or the farm?

Mr GURSANSKY - Yes. We managed to facilitate it through a fully owned subsidiary business of Murray Goulburn, MG Trading, and we managed to do that because we have some people with that feed and we facilitated it through that. I am not suggesting there was any hiccup or any delay in the supply there. It's more about ensuring that as you have these seasonal peaks and good conditions sometimes and then drier conditions, we have the availability.

Mrs HISCUTT - Is there anything you envisage that the government could be doing?

Mr MALLINSON - There's one I'd put on the table. A problem you might want to watch - I am not sure whether it is real or not - is with the irrigation scheme development down there. Be careful you do not have water barons going down there buying up all the rights because it becomes very hard then to get access.

Mrs HISCUTT - It's a catch 22, because if you don't get enough sales, you can't put it in. That's a tough call. I hear what you're saying.

Ms RATTRAY - The federal government has such tight restrictions around funding these schemes that it's hard to bring the lower ones across the line.

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Mrs HISCUTT - Have you seen that happening in other districts?

Mr MALLINSON - I know up in the north of Victoria when the drought came through, they have five years basically where, through necessity, many farmers ended up selling their water rights. The bigger got bigger, and the smaller -

Mrs HISCUTT - So the prices were pushed up?

Mr MALLINSON - They do, if people want to buy it back on a temporary basis.

CHAIR - We see it on a lower scale of production in northern Victoria now because of the Murray-Darling buyback. I suppose some of your suppliers would have been in that boat, as well as horticulture and everything else. Once that water right is sold back into the federal system, that dry ground becomes pretty much worthless.

Mr GURSANSKY - Then they become reliant on the temporary water market as well. They haven't a high reliability share so they're relying on the temporary water market and depending on the seasons and conditions. In the allocation of water, that market can go quite high.

CHAIR - Last winter helped but, as we know, another drought is around the corner and we will have that problem again.

Mr GURSANSKY - That's right.

CHAIR - The irrigation scheme has held up well. For example, we're on the Meander scheme and that's virtually 100 per cent guaranteed to fill every year and we had no restrictions.

Mrs HISCUTT - We're on the Dial Blythe irrigation scheme and that was the same this year; it was good.

Ms RATTRAY - I live in Bridport. We've been on water restrictions since before Christmas and we're still on them.

CHAIR - As you rightly point out, we are a minnow in the global milk supply. Australia is a minnow and Tasmania is an even smaller minnow. I have been in that game for a long time and it's always been cyclical. At the moment we're in the bottom of a trough because demand is slow. What's the company's view? Where do you think things are going?

Mr MALLINSON - Australia will be down to about 1 billion litres this year, so we will be down from about 9.5 billion to about 8.6 billion. A lot of that is seasonal impact. That will recover over time. With cattle prices being quite high and milk prices being low, I think there were a lot of extra cows culled this year. Over time we will see that bounce back. Europe looks like it's flattening out; no further growth there, which is good. They have generated, since post-quotas came off, 6 billion to 7 billion litres more milk which, with Russia closing its door, has hit the China market. That's what has been the biggest suppressor of prices. Demand will keep growing in China, and if Europe keeps its milk products flat, you will see that start to come back in the next two to three years.

CHAIR - And the United States?

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Mr MALLINSON - The United States is funny at the moment. Their milk is growing but there's not much hitting the export market so domestic consumption is growing as well.

CHAIR - Should we move away from not only focusing on China because India is the next one?

Mr MALLINSON - India is a big challenge for anyone, though, because it is half-buffalo, half-bovine. The milk they consume is a 50:50 split. We are talking about the bovine part, not the buffalo part, for what we can send there. The other thing with India, having spent a bit of time there with my old employer, every province has its own state laws, so there is no way you can go nationally in India. It almost has to be state by state. It is not as easy as China, but you are right that it is a huge market. Indonesia is still a market that I do not think we have tapped into properly either.

Mr FARRELL - On another matter, your company started off as a small farmer's co-op, which people suggest is something Tasmania could look at. Originally it had a range of small farmers' co-ops and factories throughout the state. Do you think the days of small co-ops have disappeared? Do you have to play in the big paddock or niche? Is there no middle ground? Is that where you see it?

Mr MALLINSON - If I put my hat back on and go back 20-odd years to United Milk Tasmania, which was the last bastion down there, which I worked in, they were at about 350 million litres and you are trying to bat against two, billion-litre co-ops in Victoria called BonLac and Murray Goulburn. The milk price we paid was generally five cents a litre under and there was nothing we could do about it because we were selling the same quantity products onto the same market with subscale. Again, if you want to play the commodity game, you need scale and efficiency. If you can find a niche position that is when you can see those smaller co-ops start to spring up.

Mr FARRELL - Maybe producing cheeses and butters and that type of thing on a niche scale?

Mr MALLINSON - Ashgrove Cheese is probably the one that has done better than most down here in the last 15 years. I do not know where that is now - do the Bennetts still own it?

CHAIR - They are still expanding.

Ms RATTRAY - They are still going well.

CHAIR - They are next door to me. In terms of co-ops like yourself, you often have equity partners. I know you had Mitsubishi for a while. Is that still something you see as part of your future business that will occur at times? I know you are going through another -

Mr MALLINSON - That is okay. Mitsubishi to the best of my knowledge has never been an equity partner of Murray Goulburn. It was an equity partner in Tasmanian Dairy Products when it was a standalone company.

CHAIR - Okay, yes. You bought that share out, as I recall?

Mr MALLINSON - Yes. There were two shareholders down there.

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Mr GURSANSKY - Tasmanian Dairy Products Farmers.

Mr MALLINSON - And Mitsubishi, so we bought both those out. Our biggest equity participants at the moment in the unit trust are China Resources and JDD.com; China Resources being a state-owned enterprise based in China and JDD.com being one of the big trading platforms in China. That is what we will see if you are going to form partnerships in the future.

Ms RATTRAY - Somewhere you can get a foot in elsewhere?

Mr MALLINSON - They are a passive investor in the unit trust. They don't have voting rights. We talk to them all the time. We have a shop on JDD.com, which puts all our products on there. China Resources is one of our customers as well. There is a two-way relationship there as a unit holder and also a customer. We have a flagship store on JDD.com. That is where I see it into the future. If you look at JDD.com, Alibaba or Tmall, which are two big trading platforms in China, those platforms have been designed specifically to allow small manufacturers to go to market in China. As long as the product is shelf-stable, you can get a foothold in China. That is where a niche or small player can get a foothold.

CHAIR - That is interesting.

Ms RATTRAY - That's not a trade secret?

Mr MALLINSON - No, they are out there pushing their wares. They are quite proud of that. That is Jack Ma's claim to fame - the guy that runs Alibaba - helping the small people go to market in China.

CHAIR - Before we go to an organisation called Brand Tasmania, which gets about \$700 000 a year in funding, have you heard of it or had anything to do with it all?

Mr MALLINSON - I have heard of it, but I have had nothing to do with it, so I apologise for that.

Ms RATTRAY - With the changes to your direction and the Edith Creek announcement and so on: I believe that will close by about the end of the year, is that correct?

Ms RATTRAY - Is there any possibility that some of those employees will move to Smithton? I don't represent that area, but as a Tasmanian I always have an interest.

Mr MALLINSON - If there are positions available, our current employees will be offered first chance to take those up, yes.

CHAIR - Your plant at Smithton is well by design as I understand it. It has not got an array -

Mr MALLINSON - Yes, for the dryers it has a very small staff number.

Ms RATTRAY - So it is possibly not going to have any increase of any significance.

Mr MALLINSON - It will not have a material impact, I wouldn't have thought.

Ms RATTRAY - Are negotiations going along as best you could hope for with employees at the moment?

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Mr MALLINSON - We are working with the unions, we are working with our employees. Obviously it is a very difficult time for Murray Goulburn. The welfare of our staff is fundamental and we are working hard with that.

Ms RATTRAY - I know with your ties to the north-west in Tassie you would be mindful of that.

Mr MALLINSON - Absolutely. It is tough to do these things, but ultimately our priority and focus has to be on the long-term future of the company and that is being sustainable in the global environment.

Ms RATTRAY - You don't know what is around corner. You might come back and open up in a different area. I have been trying for a long time to get you in the north-east and have not been successful, but I am not going to give up yet. There is a lot of milk trucked out on those terrible roads. When you are talking from Pyengana to Spreyton, it is a long way.

Mr MALLINSON - I remember the old Ledgerwood plant when we had that years ago.

Ms RATTRAY - It is a water plant now - Love From Tassie water.

Mr MALLINSON - Is it doing well?

Ms RATTRAY - It has a market - a big red love heart. I wouldn't say it is doing exceedingly well, but it is there and at least the facility is being used. It is not just falling away. It is always difficult.

Mrs HISCUTT - I want to go back to your submission. On page 5, you talk about marketing opportunities for the Tasmanian brand. In your last paragraph, you suggested that the Tasmanian brand is too hard, too small - or words to that effect - and that we should be concentrating on brand Australia and being part of the big picture. You do not see much, if any, opportunity for a brand Tasmania product in the dairy sector?

Mr MALLINSON - I qualify that. That is written by MG, us. If I go back to Devondale milk powder, our priority is to maintain it as the number one imported milk powder in China. The fact is, a lot of the product in there is Tasmanian. That will be our focus. To launch a Tasmania-only brand of scale, we couldn't do that. We just couldn't, with the cost of doing it. That is the Australian part. Having said that, if the small players out there had the fortitude and the ability to get small brands up on some of the trading platforms in China, they could do quite well, but it is a tough environment out there, it really is.

CHAIR - Thank you very much for being open. We appreciate that it is a moveable feast for the whole company at the moment and you have to ensure your future and the right strategic decisions have to be made. It has been a bit of a moveable feast since we started this inquiry. We will be seeing Dairy Australia this afternoon as well. We are going to New Zealand and looking at some of the matters over there.

Mr GURSANSKY - Thank you for coming to Melbourne and meeting with us. We really appreciate it. We couldn't line it up in Tasmania and we appreciate you making your time.

DISCUSSION CONCLUDED.

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THE LEGISLATIVE COUNCIL SELECT COMMITTEE ON THE DAIRY INDUSTRY IN TASMANIA MET AT LEVEL 5, IBM TOWER, SOUTHBANK, MELBOURNE ON MONDAY 8 MAY 2017

DISCUSSION WITH Mr CHARLIE McELHONE, GROUP MANAGER - TRADE AND
INDUSTRY STRATEGY AND Mr IAN HALLIDAY, MANAGING DIRECTOR, DAIRY
AUSTRALIA

CHAIR (Mr Hall) - Thank you very much, gentlemen. The committee appreciates your seeing us. I might say that we are being transcribed, so you are covered by parliamentary privilege in that respect. Just to introduce the members of the committee, we have Tania Rattray, who comes from the north-east and has a rural background.

Ms RATTRAY - A farming girl.

CHAIR - Leonie Hiscutt is also from a farming background in the north-west coast, and Craig Farrell, who comes from the Derwent Valley down south, has farming connections as well.

Mr FARRELL - Yes.

CHAIR - I am in the mid-north, Deloraine, and I am still farming there. We were dairy farming, but we do a lot of dairy background and stuff. We have a mixture. Leonie is now the Acting Leader of the Legislative Council and is a Liberal member, the conservative side of politics. Craig is on the far left, he is a Labor member. We have two independents here, so we have a gender mix and political mix on the committee.

Thank you for seeing us. We have taken quite a bit of evidence, including from Dairy Tas, as you would probably be aware. You have probably spoken to Mark Smith at some stage. You have seen our terms of reference, which are quite specific. We are looking forward, not back, even though it was a bit uncomfortable talking to Murray Goulburn today.

For the purposes of Hansard, could you introduce yourselves?

Mr HALLIDAY - Ian Halliday, managing director of Dairy Australia.

Mr McELHONE - Charlie McElhone, group manager for trade and industry strategy at Dairy Australia.

CHAIR - Thanks, Charlie and Ian. If someone would like to make an opening statement, we would be very pleased to hear that, and then we will have some interchange with yourselves and members of the committee.

Mr McELHONE - I can start by giving a bit of a broader overview. Thanks very much for coming to meet with us today. Dairy Australia is the service provider for the industry. We work across all eight major dairy regions across the country. A vital component of that is in Tasmania, which has just over 400 dairy farms with around 2000 people employed across farm and factory, contributing about 9.3 per cent of the total milk pool. We provide services across the whole

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country. Ian might give a bit of a broader background about our strategic plan and our strategic priorities.

Specifically talking to your terms of reference and particularly looking at the branding issue and opportunity for dairy products more generally, but also being a significant exporter, we are also involved in that space within our annual operating plan. That falls within my area. Dairy Australia provides the underlying services to support industry in tapping into the international marketplace. We do a lot of work, particularly in the regulatory environment, not just looking at the free trade agreements - which has been an unprecedented period with the finalisation of free trade agreements with Korea, Japan and, more recently, China - but also at the technical market access level. We do a lot of work working with the exporters on issues like infant formula regulations into China, liquid milk regulations and opportunities into China, stemming right through to issues like product age restrictions in the Middle East, geographic indications - and obviously that is a key one as we look to potentially having a free trade agreement with the European Union - and also issues like halal certification across markets in Malaysia and Indonesia.

There is a whole raft of different technical barriers to trade. We quantify the costs and have done some work with David Harris looking at the costs of these technical barriers to trade, which quantify out to about \$1.57 billion a year in opportunity lost for the dairy industry. It is a significant cost to our industry and significant opportunities there. That, combined with some of the opportunities through reducing tariff barriers and quotas through mechanisms such as the free trade agreements, means there is a significant opportunity for the regulatory space there as well in the trading environment.

The second component is working with industry on market development programs. We have been running programs in markets in China, Japan, South-East Asia and the Middle East for around 20 years now. The core focus of that is around the scholarship programs we have been running, particularly in China and Japan, for around 20 years now, where we invite people from dairy companies residing in middle management positions within many of the major dairy importers within those markets to come out to Australia. We provide them with a whole range of information about our food safety and quality assurance systems and introduce them to our farmers and our factories. They get exposure to our industry that we hope they take back to their home markets, so that as they go up through the chain they continue to understand the Australian production system and see it in a favourable light. We have some really great case studies of how that program has operated over those many years and good stories about how that has provided good opportunities for Australian dairy exports into those markets.

That is also complemented by some in-market activities that we run with seminars, working hand-in-glove with the exporters themselves. We provide an underlying framework talking about Australian dairy where they can talk about their individual branding and marketing strategies. We talk generally about what is happening in the Australian industry and then Murray Goulburn, Fonterra Australia, Burra Foods, Lion and Parmalat can take a specific company view, so it provides a baseline of information for them to leverage. We also run those programs in those four key regions - China, Japan, South-East Asia and the Middle East - and that really underpins our marketing programs.

The one final thing I will mention is this issue of Brand Australia. Obviously we had the agriculture white paper from a number of years back and the discussion around the opportunities of a Brand Australia approach to engaging international markets. While there has been much

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discussion around logos, in conjunction with our exporters who had their own logo and branding strategies, we started working with other commodity organisations such as Meat and Livestock Australia, Wine Australia and Horticulture Innovation Australia, in conjunction with AusTrade, to look at how we could tell the story of Australian food and wine better in a collaborative sense in the market. Bear in mind that we are running in-market programs and those other four organisations are also running in-market programs. We are looking for those opportunities to align our messaging. We are not talking about a logo. We are talking about making sure we are aligning our top-line messages, which we believe are very consistent across those four commodities anyway, with an opportunity to expand that as we go further. We are starting with a pilot looking at China but, provided that is successful, we are also looking at implementing similar strategies across other markets.

We are listening to the whole push towards Brand Australia. We do believe there are real opportunities in doing that, particularly to get ahead of the game. It's a competitive market out there. It is a competitive environment with the New Zealanders, Americans and Europeans in particular all vying for market share in these critical markets, particularly markets such as China where it has been well reported about the largest and fastest-growing market for dairy globally. There are huge opportunities there but everyone has their eye on it. That is just a top-line overview of our trade programs in particular.

Through Dairy Australia we have also recognised, particularly in recent years, the interest around investment in dairy. In a bid to make sure we can streamline that conversation and make us as a dairy industry easier to engage with for those potential investors - and I am not just talking about China, although China has been of significant interest - it's also about domestic institutional investors. If you look at the investment through our processing sector in particular in recent years, if you look at the major players - Canada, Japan, France, China and New Zealand - there is a fairly broad cross-section. In a bid to be more streamlined in the way we engage those investors and provide information we have pulled together a raft of information, which we had translated into Mandarin because of the extent of demand we had from that market.

We have hosted dairy investment forums here in Melbourne to start that conversation and make sure the investment community realises we are keen to do everything possible to attract the right type of investment into the industry and ensure that investment coming into our industry is well advised. It is not as if any kind of investment is good investment; there are good and bad investments everywhere. We wanted to make sure the investment coming into the industry was well informed. We see that as our role as Dairy Australia, to make sure people are making fact-based decisions - and that includes the investment community. There has also been an ongoing engagement with the banking sector, which is a significant investor in our industry. We want to make sure we are providing them with the latest information based on farmer performance and activity. We get a lot of benefits out of that as well, with the feedback coming back the other way. That has been incredibly important and valuable over the last year or two.

Mr HALLIDAY - It is connecting the dots with the respective jurisdictions as well, so it's not playing favourites around geographies. We were finding probably up until about three or four years ago lots of inquiries were coming here or going to respective jurisdictions. Charlie and the team worked with the respective jurisdictions about how we could work better in a more collaborative environment, so that if people are coming to look at investing in dairy: what information are they seeking and what help and support? I think that's been a fairly good process.

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Mr McELHONE - The final component within that investment piece has been the investment and governance workshops we have run for farmers, particularly large farmers who were making a lot of inquiries about this whole investment space. We want to inform that discussion and we are finding that much of that discussion evolves into getting their own books in order and their governance mechanisms together. This then puts them in a better position to work out whether they want new investment, what comes with that investment as to decision-making and governance and the impact that might have on their businesses. We also run case studies across the country to really inform that whole investment piece. There has been a lot of noise in the investment space. There is a lot of opportunity there but we want to make sure that people are going in with their eyes wide open.

CHAIR - In terms of Dairy Australia, you talked about exports and overseas interaction and everything else. You are not doing anything on the domestic front? Do you have any focus?

Mr McELHONE - Not my team.

CHAIR - You do have a focus on -

Mr HALLIDAY - I will just explain a little bit about Dairy Australia per se from an organisational perspective. We are one of 15 research and development corporations. Others are like MLA, Australian Wool Innovation, GRDC, et cetera. We are all a little bit different and we do cover across the whole value chain, but most of our spend is very much in the pre-farmgate area. This is doing research and development for farmers to help improve profitability. Probably 70 per cent of our spend is in that area.

Our annual spend is around the \$52 million to \$53 million mark, of which two-thirds comes from farmer levies and the remaining third comes from the federal government. Those two funds do leverage additional funding. The Tasmanian government, for example - we have a very long and strong relationship into the Tasmanian Institute of Agriculture. That is a great leverage of levy payer funds, federal government funding for R&D for Tasmania.

If I focus on R&D at the pre-farmgate level, we have about four key research institutes nationally. We have a national RD&E - research, development and extension - framework called Dairy Moving Forward. That helps guide our investment in the pre-farmgate area. Elliott Weather Station in Tasmania is a key research facility for us from a national perspective. We have a facility at Latrobe University in Melbourne, another one down at Ellenbank in Gippsland, and another one at Gatton in Queensland. That covers the subtropical foragers area. That is the network that we have. All up, our spend - on top of the \$52 million to \$53 million - would be another \$10 million to \$15 million that we get in additional funding either from the Tasmanian government or the Victorian government. We also have a collaborative agreement with the Queensland government, and currently one with WA.

For Tasmanian farmers it is very much about supporting farmers in Tasmania with the Tasmanian government investment. That partnership goes from strength to strength. We are 18 months into another five-year program now.

We have three strategic priorities. The first one of those is very much about how we help farmers become more profitable. The second one is about how we build capacity across the value chain. We spend a lot of time and effort building people capability at farm level because we understand that is one of the impediments. Our third priority area is about promoting, protecting

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and having dairy as a trusted source. Within that there is also the work Charlie and his team are doing around overseas market development.

Within that area we also do some domestic marketing and promotion but, like the downturn in the industry in the last 12 months, we used to do TV advertising and we had to cut that this year. We were planning this year to spend \$62 million to \$63 million of which a fair amount was going into TV advertising. With the milk price drops and the volume drops we have had to take out about \$8 million to \$9 million per year for the next three years out of our budget. Overt TV advertising has been cut.

We do research around trying to demonstrate the benefits of dairy in diet. We are hooked into an international network. There has been quite a bit of research that has come out in the last four or five years that demonstrates the benefits of dairy in diet, which we then use to talk to well over 40 000 health professionals. We have a database of GPs, nurses, dentists with whom we are constantly in contact. They are what we call the key opinion leaders. We are all visiting dentists, nurses or GPs. So how do you help try to influence those people that might be influencing us around our diet? Then we do some digital marketing particularly targeted towards mums of young children. Again, we see an under-consumption of dairy, particularly in that 5-to-12-year age group, which is when they should be consuming it. Only 20 per cent of children in that age bracket are consuming sufficient dairy. We do target it. We have school programs and we target mums. It is a fairly low-cost economic process. That is the sort of work we are doing for our marketing perspective from a domestic point of view.

CHAIR - Thank you for that it puts it all into perspective from the committee's point of view and into *Hansard* on what Dairy Australia does. That sorts that well. If I just go back to Charlie, we might talk about different facets of it. In regard to the export market, what sort of interaction do you have or are there any cross-purpose with Austrade? I have been to Austrade in Shanghai. I remember meeting with them there, and they were doing bits and pieces. How does all that work?

Mr McELHONE - Our model is that we don't have in-market staff as opposed to MLA, which has a lot of interglobal offices. We run all our programs out of Australia. We have one consultant who works three days a week for us up in Japan, but that is a bit of an anomaly in our system. As a result, outside that we utilise Austrade quite extensively in-market to help us with our in-market programs, particularly those in-market seminars and the alumni around staying in touch with many of those people who have been through scholarship programs here in Australia. We work hand-in-glove with Austrade at commercial rates, I would note. They do a lot of the on-the-ground implementation of a lot of our programs.

CHAIR - You mentioned Brand Australia. Under one of our terms of reference we are looking at marketing opportunities for the Tasmanian brand. We are bit more specific there and a bit more parochial, not to put too fine a point on it. We are a small jurisdiction, an island state, and therefore we do have some points of difference in a lot of our food. We have been recognised on the world stage for having those points of difference, and other small jurisdictions have done that. Do you see an opportunity for a smaller jurisdiction like us to have a more specific selling point for Brand Tasmania or something like that? Not necessarily organic or whatever, but clean and sustainable, et cetera?

Mr McELHONE - Undoubtedly there is a recognition of Tasmanian production and the clean, green value-added elements within that. The word of caution, I would say, is that other

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states and jurisdictions are also seeing similar benefits and are actively pursuing their own branding strategies in-market. There are opportunities in each of those strategies, but there is also some risk there as well. We are seeing that.

We do note that New Zealand, with its Pure New Zealand brand, is getting a lot of cut-through. It is a unified, cohesive story, and increasingly so. We are seeing similar approaches with the United States and European producers as well.

My point is that, sure, there are opportunities and there is undoubtedly a point of difference that each dairy production region brings to the table, including Tasmania. We need to make sure that we leverage each other and that we don't cut across each other in the market to a point where the message gets washed out.

CHAIR - Do you see a greater benefit in the holistic Brand Australia in the end?

Mr McELHONE - That is something that we need to cut through the noise. We need to be cohesive. There are not enough marketing dollars to go around. There is too much activity and noise in the market, and we need to be more unified in doing that. That is our approach in working with the other commodities. We said we have to put our money where our mouth is and if that is what we think, we need to also look at ourselves and that is what we are doing.

Through that process we are seeing opportunities. As I said, the logo can become a bit of a distraction. There has been a lot of focus on the logo, but one thing I note is that, particularly in dairy, we have strong brands within the companies.

Mrs HISCUTT - Like Devondale?

Mr McELHONE - Sure. The Devondale brands, the Fonterra brand, the Parmalat brands, or I should say Paul's and Pura. Each of those companies has its own individual branding strategies, particularly around how they want to utilise the logo.

CHAIR - More in a domestic market than an export market?

Mr McELHONE - I would say both. In terms of their international strategy, yes, their advice to us was, 'You do not need to come in over the top with a logo for Australian dairy. Most of us are using the Australian Made, Australian Grown'. If we see that there is a branding opportunity to do so - the other thing is that the majority of our exports go into the ingredients trade, or the food service or the industrial trade. Sure, in markets like China we are seeing an increasing amount going into UHT or liquid milk more generally, and they are more consumer-branded products. But the majority of the volume is still dominated by the ingredients trade which has no consumer-facing component. Japan: we supply maybe 40 per cent of the processed cheese market, but for all intents and purposes you would not know there is any Australian cheese up there. It all gets repackaged and reformulated into the trading house brands. It has been a very successful trade for us for many years. It has been a real partnership approach. A logo in that perspective really is not a key focus.

The other thing I would say, is unlike meat where the meat is the centre of the plate - you have this piece of Australian steak - with dairy products, there does not tend to be the same kind of drive behind our products. Sure, you might have a couple of speciality cheeses or the like, but generally speaking, that is not high-volume trade.

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CHAIR - I was going to say, do you get -

Mr McELHONE - Absolutely. I am not saying country of origin does not play a part, but that works in conjunction with the company-branded strategy. Undoubtedly, the Australian brand does count for something significant when it comes to the clean and green and safe perception in markets like China.

CHAIR - To get some cohesion across all those commodities, like meat, milk, horticulture, we have all those things, can I put it to you that is a fairly difficult ask and something that would almost have to be driven by a federal government? Is the federal department of primary industries or anything else driving?

Mr McELHONE - They are not driving, no. We are taking this on ourselves. Austrade is right behind it too, and is providing some in-kind support in terms of looking at some of the -

CHAIR - Do you talk to the MLAs and other people -

Mr McELHONE - MLA, Horticulture Innovation Australia and Wine Australia are the three RDCs that are collaborating with us on this project specifically. We think it is a big job, but we are really pleased with the results we are already getting in trialling this process. We are committed to it, but it is a big job.

Mr HALLIDAY - It is not to say that - and we caught up with Moon Lake last week - there are not opportunities from a Tasmanian brand, Tasmanian origin perspective. That is where Moon Lake is looking from a China perspective to grow that brand. We are just, I suppose, signalling caution around the size of the opportunity relating to the umbrella of Australian origin.

We certainly get feedback from overseas customers: they know where Australia is, they are still not quite sure where each individual state is. That is going to take some time. The question then is: how much effort do you put in about segmenting each state, each jurisdiction? If there is effort going in, is it better to go in from an Australian perspective? That is what generally Chinese customers know.

There is some credit given to our safe and clean and green image, but we also know there are many other countries going in with the same credentials or trying to support the same credentials. How do you create that point of difference?

CHAIR - You have to be able to defend that brand. It has to be absolutely defensible through QA programs and the like.

Mr McELHONE - It's similar to what we are talking about with the commodity approach, where we are saying there is a consistent Australian food and wine story that underpins all of us. Coming out of the top of that is our individual dairy story, our individual meat story, horticulture, wine, et cetera. Then out of that comes the individual companies' stories - their points of difference. From a government perspective, you can look at it the same way: there is a national story but you will each have your individual state stories that emanate from that as well. The main thing is that they are dovetailing together and leveraging each other.

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Mrs HISCUTT - How does Dairy Tasmania work with you? Do we have a dairy Victoria and a dairy New South Wales?

Mr HALLIDAY - In every region we have what we call a 'regional development program'. Dairy Tasmania sits under the auspices of an RDP. In Victoria, we have three of those and that is only because we have the sheer number of farmers - about 4000 farmers. We have a regional development program - and it's a funny name for an organisation but that predates Dairy Australia. We have one in the northern part of Victoria, one in the south-west and one in Gippsland. In every other state where we have a dairy region, we have an RDP. Most of the focus of an RDP is very much about pre-farmgate as far as R&D is concerned. However, Dairy Tasmania, for the last three or four years, has had the Into Dairy program. It has been about attracting investment, getting predominantly milk volume growth. It was on the back of quite significant investment by the processing sector in stainless steel. With the Lion factory at Burnie and Murray Goulburn and Fonterra, I think there was a need for about an extra 300 million to 400 million litres of milk. Dairy Tasmania approached the dairy processors; they approached us and the Tasmanian government - and I think they had some federal government funding - to help drive milk production growth to support the investment in the processing sector.

CHAIR - To fill the factory's program or whatever it was.

Mr HALLIDAY - That was the program. Until this year, they had great success. It was going exceptionally well. They'd had 8 to 10 per cent growth on an annual basis, but it was about supporting the existing processors in trying to grow milk volume. We have eight of these RDPs on a national basis, and you'd probably say most of their activity is about helping farmers at a pre-farmgate level. They work very closely with the processors; they don't work unilaterally from the processors. Dairy Tasmania, certainly in the last three or four years, has been unique in trying to support the processing sector, but you could probably say that most of their activity is at a pre-farmgate level. It's about attracting new investment up through the middle where the new irrigation is and helping farmers who want to do conversions - the ways people need to go through the red tape and what some of the pitfalls are. That's the sort of work they've been involved in.

Mrs HISCUTT - Do they pay levies to you?

Mr HALLIDAY - We pay them. Levies and the federal government funding comes to us, then we provide funding support to Dairy Tasmania. Most of the RDPs then leverage that funding to seek additional funds - that is the way they approached the Filling the Factories program. That is why leveraging is terribly important. Governments are saying this - and we're seeing it everywhere - 'We'll only put money in if industry is prepared to put money in'. I think that's a pretty good model.

Mrs HISCUTT - Is there a reference you give to Dairy Tasmania to direct their energies? If they were to go off on a tangent to look at regional GIs, Tasmania particularly, would that be frowned upon or is that encouraged?

Mr HALLIDAY - As part of the funding arrangements we are talking to them all the time. We get to sign off their annual operating plan and most of their activity is very much in the pre-farmgate area. If they were going to redirect a lot of their funding towards marketing, we would probably take a different perspective. I think farmers would as well because, particularly when we have challenging times, we don't get asked to do less. In the last 12 months we have been providing a lot of support, particularly across south-east Australia through the Taking Stock

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program, on how we help farmers understand their true position and how we help them develop a plan.

If there is a marketing program around, we would be open to having a conversation, but it is within the confines of budgetary constraints. As I explained before, we have had to take out 15 per cent of our total cost and we have all had to share that burden.

To Charlie's point, there is this role between government, industry and processors. We have learned, over many years, that you can't do it yourself and you shouldn't do it yourself - it is how you leverage off that. The processors have their markets. There might be some smaller processors that need a bit of help and support, and that is more around facilitation. It might be in-market or outbound-type arrangements. We have been told quite specifically, 'Do not come in and cut across what we are doing from a processor perspective. We have our contacts, we have our distributors'. Help facilitate and support the scholarship programs; it is a great opportunity. That is where we bring people down and introduce them to the processors, but the processors, to us, have said pretty clearly, 'Do not cut across what we are doing'. When I say 'we', I am talking about the collective DA and the RDPs.

Mrs HISCUTT - A random question about something you said earlier about bankers' investments. Were you talking about banks investing in farms, as in the way of loans to the farmers that go into debt, or were you talking about banks buying farms?

Mr McELHONE - As in providing loans. It is changing the mindset of investment in our industry. Quite often people only think about it in the context of a Chinese investor or an American investor or someone else, whereas there are investments coming from all angles, and the banking sector is a key one of those super loans they make.

Mrs HISCUTT - I would put that in two different baskets. If I see a Chinese investment, there is money coming in as a physical purchase. Whereas what you are saying is a banking investment is a physical loan. I see what you are saying.

Mr McELHONE - It is not even necessarily about a Chinese purchase; we are also looking at equity-sharing models. We have examples across the country now where the existing farm is still being managed by the existing farmers while leveraging investment from China and elsewhere in a similar way to what bank debt allows you to do. It is trying to change that mindset. That is why it is important for whoever the investor is - be it the bank, be it a foreign investor, be it an institutional investor or others - to get the governance in order. That is important for all those targets.

CHAIR - While some Chinese investors tend to look at things in a much longer term, domestic institutional investors, like superannuation funds, tend to look at things in the short term, which has always been a difficulty, hasn't it?

Mr HALLIDAY - Also the liquidity of the assets.

Ms RATTRAY - Ian, you talked supporting farmers and Taking Stock. How do you do that when we have a global oversupply? How do you keep farmers positive about the industry when we are in this situation where nobody knows what the future holds? Do you grapple with that somewhat?

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Mr HALLIDAY - Yes, we do. We have a lot of good support networks. The RDP model we have is probably a bit unique to many agriculture sectors. The RDPs have been in place for many years. It is very much about having people on the ground and not talking to, but listening to what farmers are looking for. It varies depending on where a farmer is at from a career perspective and debt levels. Mark and the team are pretty well connected across the entire market. I have just talked about Tasmania with 400 farmers. We have had nearly 25 per cent of the farmers participate in Taking Stock. It is reaching out to farmers to say, 'Don't feel as though you are on your own in this situation; there is support and help there.'

We also recognised in the past two or three years that farm business management skills is an area that hasn't been strong among a number of dairy farmers, so we've stepped up and in the last two years launched a software system called Dairy Base. It has proper standard chartered accountants so a farmer can either individually put their numbers in or get their accountant-adviser to put them in. They can benchmark their performance from year to year or benchmark comparable farming systems.

We are always asking farmers about what they are looking for and what help and support they need. Improving skills around farm business management and benchmarking is something we've been embarking on. We have 20 per cent of farmers now enrolled in Dairy Base. A lot of farmers come to us and say, 'We struggle with attracting, retaining and developing people', so we have spent a lot of time and effort trying to help address some of those issues with farmers. It is a challenge.

Taking Stock has probably just been one initiative under a broader program called Tactics for Tight Times. There could be social functions. I know discussion groups have been going for some time, but new discussion groups have been formed. These are just more informal, social settings where farmers go along to learn and to also share their thoughts and ideas. A lot of effort has put into some of those areas.

Mrs HISCUTT - Sounds like Rural Alive and Well.

Mr HALLIDAY - Yes. It is a challenge, particularly in the last 12 months. We've talked to a lot of farmers. It hasn't just been the price downturns - Tasmania also had a very wet summer two summers ago, and then it had floods. I was visiting some of the farms that were badly impacted by the floods in June last year. Then you had the milk price drops, so it has been a very difficult time for a lot of farmers. The challenge is how we help farmers deal with that adversity.

Ms RATTRAY - We've heard some evidence from our New Zealand friends that most of the farmers there have very good educational qualifications and run their farms a bit differently. Is that something that not only Tasmanian farmers but Australian farmers need to -

Mr HALLIDAY - That's why we brought in Dairy Base, to try to help improve farm business management skills. We survey 1000 dairy farmers every February, of whom a fair percentage are Tasmanian dairy farmers, and last year less than 50 per cent of farmers did a budget and probably only around 20 per cent - that is a bit of a guess - might use that budget. Part of what we are trying to do through Dairy Base is to get more farmers really starting to look at their physical financial data, how they can compare from year to year, and start to focus on those areas.

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One of the biggest challenges we have if you look back over the last 10 years - and a lot of this is to do with what is going on on an international basis - is that we have had more price volatility in the last 10 years than we had in the last 30 years. A lot of that is because what they call 'intervention stock' in Europe has disappeared, so the global marketplace is now far more open to the vagaries of oversupply against demand. When you overlay that with climatic volatility and the fact that now we have 70 per cent farmers employing people, as opposed to 15 years ago only 40 per cent, there is now so much more complexity on farms. We are trying to encourage farmers to get much more involved in running the farm as a business rather than just milking the cows.

Ms RATTRAY - I know we are not necessarily looking back here, but do you think that is why there was such a big outcry with the price situation last year, because people hadn't done a budget?

Mr HALLIDAY - No, I think it was different to that.

Ms RATTRAY - I mean, part of it? I had a particular farmer said to me, 'We always put some away because we knew the price wouldn't stay at this level', but then others spent without much thought.

Mr HALLIDAY - In fairness to farmers, I think it was the lateness of the call. Most farmers would say, 'If I had been told in December of the preceding year that this was going to be the price, I would have made very different decisions.' It wasn't just in Tasmania; it was in other areas where, even in March, farmers had made decisions to buy seed and plant that seed in readiness for autumn, and then all of a sudden, with two months to go, they couldn't respond. That was probably the biggest issue.

Mr FARRELL - Do you feel there is sufficient support for the dairy industry through like TAFE and training systems? I know questions have been raised, particularly in Tasmania, about the level of support, level of training and the subjects available to people who want to work in the dairy industry.

Mr HALLIDAY - It's a good question. TasTAFE has been very good for the dairy industry and we can't complain. We've had a National Centre for Dairy Education for just on 10 years now, so we've been providing a national curriculum to partner TAFEs, and TasTAFE has been one of those. We're just doing a review at the moment and all the partners are involved, so we have TAFE institutes all around Australia getting access to the national curriculum, which is where we codify research.

I believe the demand-driven model and process that every state has gone down has caused some challenges. It has been little bit that way in Tasmania. There are other entrants. You have private RTOs that can come in, and we've seen this probably more on the mainland than we have in Tasmania. If you are a registered RTO, you can go to a farmer and say, 'I've got the best training package that is going to cost you hardly anything and I can deliver it on your farm.' As much as we've tried to encourage farmers to go to selected, traditional TAFE institutes, the market has sort of outrun us. We're having a good look.

Through the RDPs we run a number of what we call 'marquee'-type programs like Countdown Down Under, which is about reducing cell counts and improving mastitis management, and other farm business management programs that are still accredited, but many

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farmers now are looking for skill sets, not full qualifications. I don't have the stats for Tasmania, but in Victoria up until 10 or 15 years ago, 70 per cent of training was delivered through a formal TAFE institute. Now it is down to 20 per cent, so the whole infrastructure has come into question. There is a challenge across many jurisdictions now about delivery of formal training to the agricultural sector. Farmers want it at a low cost; they want flexibility; and they want the most appropriate person to do the training, and that may not be a TAFE teacher. If you get the best technical expert but they haven't the qualifications to get the accreditation, you have to have a TAFE person in the room and that then becomes a cost issue. We are looking at how we can end up with a flexible outcome involving the existing institutions. How do we get something that is going to be something farmers are looking for? We are doing a lot of work around training, education and extension.

CHAIR - Point 2 of our terms of reference is about the processing opportunities in Tasmania. Unfortunately we have just seen the closure of the Edith Creek plant. We've just been talking to Murray Goulburn, which has had to make some pretty tough strategic decisions to save the business. In terms of smaller entities, if you have the right investors, a collective of 30 or 40 farmers or whatever, do you see any of those -

Mr HALLIDAY - I think already there are some new farms, and Mark would have talked about some of the conversions from the processing sector. I still see an opportunity for processors to come in, smaller players. We've seen in many states a proliferation of small processing companies pop up.

CHAIR - Mainly to service a domestic market or international market?

Mr HALLIDAY - No, not necessarily. It will probably start off in the domestic sector, and as they grow and build and get more confidence, they are going to the export market. Part of the challenge - and Charlie probably has detail here - is that they are both an opportunity. Sometimes they are a risk because - I am thinking about it from a food safety quality perspective - as they do grow, how do they make sure they are keeping abreast of food quality and safety standards?

We have a bit of federal government funding we are helping roll out. We need to know if they are export-ready type programs, and you need to be aware of things from a food safety, food quality point of view. You only need one issue - this is one of the risks about promoting an individual jurisdiction: you have one quality problem and that could be to the detriment of the whole industry. If one small processor has a major quality problem, that could be the detriment of the industry as well.

CHAIR - Yes.

Mr HALLIDAY - That is why we are spending a bit of time in how we build capability within the processing sector as well.

CHAIR - For those small entities to get going, I think it is pretty well established that if you want to play the commodity game, you must have scale. That is the bottom line, full stop. If you are going down the track of being in a niche market or a smaller entity, you need something pretty special. That takes a lot of capital and infrastructure to set up and get going. Can you comment on that? You said there are still some opportunities to do that.

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Mr HALLIDAY - Absolutely. In every jurisdiction we are seeing smaller players coming up all the time. I do not have the numbers for Tasmania, but across Adelaide and the Adelaide Hills there are about 28 to 30 small, cheap dairy manufacturers. In Victoria and all the way up the east coast only the last four to five years there has been a proliferation of small dairy companies. I am sure the same thing applies in Tasmania.

CHAIR - How many suppliers do those have? It would vary from one to, say, 10 or 20?

Mr HALLIDAY - Maybe, yes. That would be about tops.

Ms RATTRAY - Do they all make a living or do they come and go as quickly as -

Mr HALLIDAY - I am not sure. I do not know.

Ms RATTRAY - Is there any way that we can get some hard data?

Mr HALLIDAY - We could get the data, yes. We could get it from the Food Safety Authority in Tasmania. We are in the process of pulling that together.

CHAIR - I am thinking it is a bit of a diversification away from having them supplying either MG or Fonterra. If there are those opportunities, I realise it is only going to help a small cohort of farmers.

Mr HALLIDAY - Ashgrove has been a great success.

CHAIR - Yes, it has.

Mr HALLIDAY - They are getting into more mainstream. They are certainly getting some scale about themselves now.

CHAIR - Yes. They are still probably one family. It is one family, but they are increasing and they are next door to me, so I know, but they are after more milk.

Mrs HISCUTT - Betta Milk might be an example.

CHAIR - Yes.

Mr HALLIDAY - Part of the challenge for larger processors - and this is not unique to Tasmania - is that when they put additional stainless steel there is a lag time between that investment and when the milk comes through. That is why Into Dairy or Filling the Factories were probably such important programs to try to reduce the time frame around plant utilisation. Otherwise, it is a long time to get return on that investment. That is always a challenge.

In the current environment with the present situation, farmers' preparedness to invest in growing, and to what the future is going to hold, I think trust and confidence is at a bit of a low ebb at the moment. It is going to take 12 to 18 months to two years for that to come.

CHAIR - Where does Dairy Australia see the global markets in the short term?

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Mr HALLIDAY - It is starting to come back, somewhat. There is starting to be a better supply-and-demand situation. We know that most major dairy regions around the world have pulled back on production in the past 12 months. Europe - I am sure you know all about what caused the problem, but Europe only grew by about 0.6 per cent last year. This year I think they are only talking about a similar sort of volume growth. New Zealand was down about 1 per cent to 2 per cent on production volume last year. That has only just finished. This year they are probably not talking much more. We are going to be down nationally about 7 per cent to 8 per cent. Most dairy regions - I will leave the US to one side and come back to it - are down on production last year. Yet China has come back into the market from a demand perspective. There is getting that rebalance, which is taking shape at the moment with prices starting to come back, but cautiously. I think that trend will continue; even in Australia, we are starting to see milk prices recovering somewhat. This year the national price will probably be \$5.20 per kilogram milk solids. Some people are suggesting probably \$5.70 to \$5.80 for next year or thereabouts. Prices are coming back, but they are not going to rise rapidly. As much as farmers are probably looking for that -

Ms RATTRAY - It is better if they do not.

Mr HALLIDAY - The problem is if you get such a rapid improvement in price, everyone is going to chase it again.

Mr McELHONE - There are still a lot of stocks out there globally. As Ian mentioned, intervention stocks in Europe are 350 000 tonnes of skim-milk powder sitting in storage, and that is overhanging in the industry, particularly for protein. Fat is very different; the butter market is extremely strong. Those stocks in Europe are holding back the protein market.

CHAIR - That has happened plenty of times before, hasn't it?

Mr McELHONE - It has, but in the past. A significant outcome over the last couple of years in Nairobi for the WTO, they have now put a ban on export subsidies. In the past there would be supply-demand imbalances in Europe and they would implement the intervention stocks to try to take that product off the market. When they got to a certain level, they would implement export subsidies to wash that onto the global market. They do not have export subsidies any more. The question is: what are they going to do to try to get rid of those interventions stocks? They have already tried to do some open auctions on the European market, but both of those failed to meet the minimum reserve prices.

It is a bit of a quandary. It is still hanging over the market. As that product ages, it becomes more and more downgraded in terms of its value, more towards that feedstock price range, which is a positive thing from our perspective. It takes it out of that premium market.

Ms RATTRAY - The US?

Mr HALLIDAY - They are growing. They grew about 2 to 2.5 per cent last year. This year a similar forecast -

CHAIR - In production? Domestic consumption has come up as well.

Mr HALLIDAY - That is exactly right. With the global prices dropping off, they pulled back exports. If export margins return, they could be back in the market again. When the

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margins were there, they were chasing what we would call our traditional markets. They are probably just as big a threat as Europe.

Mrs HISCUTT - Rules and regulations. One of our terms of reference was the role of the Tasmanian government, and one person said we could do with fewer rules and regulations. When you look into it, Dairy Australia has massive amounts of rules and regulations, like the *Australian Animal Welfare Standards and Guidelines for Cattle: A Guide for Dairy Farmers*, pages and pages of it. How was that received by your growers?

Mr McELHONE - Standards and guidelines for animal welfare for cattle?

Mrs HISCUTT - Guidelines for dairy farmers.

Mr McELHONE - For cattle, we have been talking about that today - that has been adopted as the industry policy. While that has not been passed through state legislations yet -

Mrs HISCUTT - Will it go to state legislation?

Mr McELHONE - We understand it will. That is the intent. That has gone through a negotiation process. It has been supported by the dairy industry for implementation at a state level.

Mrs HISCUTT - Are your growers happy with it?

Ms RATTRAY - Do they understand it?

Mr HALLIDAY - Most are; I would not say all growers are happy with it.

Mrs HISCUTT - This is an industry-formulated standard you expect a government to adopt and enforce?

Mr HALLIDAY - It is a negotiated outcome worked through in conjunction with industry. That is the landing zone. Some elements within the cattle welfare status and guidelines are confronting to the industry. At the same time, there is recognition that there is also a community expectation about how we engage in this space. It is finding that balance. Those standards and guidelines have gone through a very long and drawn-out process of consultation between the industry and government to get to the place they are.

Mrs HISCUTT - Are you talking about the federal government or state by state?

Mr HALLIDAY - State jurisdictions as well as the federal government.

Mr McELHONE - That was done a couple of years ago now. It was finalised in 2014, but it is now just awaiting implementation by the states.

Mrs HISCUTT - Why wouldn't you leave it just as guidelines? Do you think it is not enough?

Mr HALLIDAY - In some situations it is not enough.

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Mr McELHONE - Those standards and guidelines will be distributed to all farmers. All farmers should be aware of those standards and guidelines. I have no doubt that some have slipped through to the keeper. It has been a very involved process.

CHAIR - On behalf of the committee, thanks very much, Charlie and Ian. We appreciate having this dialogue with you. It has given an overall bigger picture. We have a little bit of work to do, including seeing how our cousins across the water go. We are going tomorrow morning. We are going to Auckland first and then going down to Wellington straight after that, and then home. We will talk to different players over there. In particular, we will also talk to them about the Pure New Zealand brand, which does not just embrace agriculture but also tourism. As you said, it cuts through right throughout Asia and the rest of the world, doesn't it?

Mr HALLIDAY - A more homogenous geography from that point of view without so many states.

CHAIR - Thank you very much.

DISCUSSION CONCLUDED.