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### **THE LEGISLATIVE COUNCIL SELECT COMMITTEE ON THE DAIRY INDUSTRY IN TASMANIA MET AT HENTY HOUSE, LAUNCESTON ON WEDNESDAY 15 FEBRUARY 2017**

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**Mr ANDREW LESTER**, CHAIR, **Ms ELLEN DAVIS** AND **Mr GEOFF COX**, DAIRY COUNCIL OF TASMANIA, TASMANIAN FARMERS AND GRAZIERS ASSOCIATION, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

**CHAIR** (Mr Hall) - Welcome. What you say here is covered by parliamentary privilege, however, what you say outside the committee is not covered by parliamentary privilege.

**Mr LESTER** - We are grateful for the opportunity to put this submission in. One of the most important points out of that is that we are supportive of a Tasmanian brand and the dairy industry has been able to take advantage of it and actually get value back into producers' pockets along those lines.

At the moment we are producing a high-quality product which is going into commercial-type powders and butters. We probably don't see it as the best return to farmers in those lines; there are better value-adding lines that could be explored and pursued that would deliver more consistent returns to farmers.

We need to be careful - the commodity space has been a big player in the market for a long time and it has its ups and downs. We are a low-cost production state and we tend to supply those markets at a relatively consistent return but we see, in these times where global markets go up and down, that we could have a lot better product that would consistently give a higher return. We hope the industry can head that way in time.

**Mr COX** - I see there are probably two avenues where we could really increase on profitability in the industry. One is in the nutraceuticals, like high-valued powders, et cetera, where high-cost capital infrastructure is required for that sort of thing, and also high-tech. It's not something you can do simply, you really need to partner with a company that is already in that area.

In Tasmania we make the bulk powders. We don't have any specialist powder producers, it just takes a little bit more technical equipment to do that - and bulk cheeses and butters. That is one way. The other way, as Andrew suggested, is with the Tasmanian brand producing consumer products and capitalising on our inherent advantages. The Tasmanian image has never been better than now, especially in China and in South Korea as well. Tasmania is coming on the up whereas a few years ago it wasn't even heard of.

We see it coming inside with VDL with their Van Milk. This is just an indication of what can be achieved. That ought to be supported as much as you can. If you can get cooperation in the marketplace with the Tasmanian image or the Tasmanian brand, then you can really capitalise on the advantages.

But at this stage we don't have the capacity to produce specialist products in Tasmania - not specialist products, just consumer products. We are all set up for bulk powders and bulk cheese

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and butter but we can't package a whole heap of butter or cheeses as specialty-type cheeses and that sort of thing.

**CHAIR** - No. You are talking about the high capital costs of setting up processing facilities for high-value powders. Do you see that to be a Fonterra or a Murray Goulburn? You have to have somebody with a fair bit of capacity. Or could it be somebody else?

**Mr COX** - I don't think it would be a Fonterra really. They are a New Zealand company. They have to support their shareholders, which are New Zealand farmers. If they are going to make more money out of the dairy industry, it's probably not going to stay in Tasmania so much.

**Mr LESTER** - I think they are focused on driving their business, streamlining their product mixes and focusing on lowering their costs. At the moment they don't seem to have the appetite to follow specialist lines and add value.

One important thing that we probably haven't mentioned is our GMO status. The farmers, as we see it, are hardly gaining any benefit from having that. That is something that is pretty critical in the Tasmanian image.

If that moratorium is going to continue into the future, we really need to harness that and gain value out of that because we are in the pot with everyone else otherwise. I can't answer for those companies but they are mixed in with the rest of the country in how they develop a specialist line, and they don't seem to have the appetite to do that at the minute.

**CHAIR** - As you say, while it's being marketed generically in that case and Victoria are going down - they have opened up the field now and you are going to see other states open up the field for what they are growing. GMs are right throughout the food chain now anyway. If the Victorians are growing GM canola and so it is in a lot of our feed sources now, it would be pretty difficult, wouldn't it, to differentiate unless you had a processor here who was separate from Murray Goulburn or Fonterra?

**Mr LESTER** - Unless they were going to actually label and produce product separately in Tasmania, there would be the higher value, but they don't seem to have that. They seem to be wanting to streamline their production at the minute. They may have different views going forward, but that is what they have been leaning toward at the minute. If we can't actually gain value from that moratorium, we are going to need access to those rye grasses and those technologies that we haven't got at the minute, to be able to stay competitive.

**CHAIR** - It is a conundrum, isn't it?

**Mr COX** - There will be a lot of pressure coming from farmers to bypass that moratorium. It will clearly become quite a penalty to keep that in place, unless we are capitalising on the value of it. I really prefer to capitalise on the value of that.

**Mr LESTER** - Yes, I think we have a real opportunity.

**Mr COX** - It is probably equivalent almost, in the future, of being organic or something, having it GMO-free.

**CHAIR** - Have any farmers in Tasmania got a premium out of GMs yet that you know of?

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**Mr COX** - No.

**CHAIR** - No, nobody.

**Mr LESTER** - There might be some. I can't speak for everyone, but there might be small margin, but there is nothing actually on the market and advertised widely as GMO-free and getting paid a premium for it that I know of.

**Mrs HISCUTT** - The honey industry?

**Mr COX** - They are one big opposition to drop on the moratorium and it is because of those reasons they may be gaining something, but I cannot speak for them.

**Ms RATTRAY** - I had a different line of questioning so if Leonie has got something in the same area then I am happy to wait.

**Mrs HISCUTT** - With GMOs, is the moratorium worth pursuing with Tasmania or do you think that we should have another look at that?

**Mr COX** - From a marketing point of view I think it probably is and the processes are for GMO-free but from a farming point of view the opportunities that are going in the pipeline for farmers are quite tremendous really. By using rye grasses with special characteristics which may be pest resistant or grown in winter at lower temperatures than normal rye grasses. The value of GMO's to agriculture could be quite significant.

**Mrs HISCUTT** - Will GM feed from the mainland negate an organic status?

**Mr COX** - I would think so.

**CHAIR** - It is a conundrum. You have the buyer check advantages, we have to feed a hungry world. It was suggested by, whoever it was, I think at the Nuffield Scholarship dinner here and Professor - I cannot remember his name - but his suggestion was that the world had a population from when we first started producing food up until this year, within about 30 years we have to produce that amount of food again. His message was that because of reducing land use, deserts and reducing arable lands, that it will have to be done through biotech. That is the conundrum we face.

**Mr LESTER** - We are seeing with the beef industry with the no growth hormone promotants for years but they have not gained, or they probably are a little bit now, but it has been a long time before they have gained any actual advantage with that. They are competing with the rest of the country in the same market so dairy is going to be no different when the technologies become available and some of them are already.

Obviously there is research on rye grasses which are a big step towards sheep. As a Tasmanian industry, rye grass is the basis of our cheap production because we can grow it most of the year and we do not have to have as many import foods. It is going to be a big issue in the time to come if we cannot gain some benefits through returns from being GMO-free.

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**Ms DAVIS** - The TFGA currently support the moratorium, the continuation to 2019. As Andrew and Geoff have already touched on any new technologies that come through deserve a reassessment of the moratorium. There is not enough being done to support our status of GMO-free, alternatively if we were given more a market advantage with GMOs

**CHAIR** - That has been going on for some decades or for some time but we have done nothing to capitalise on it, nothing has happened.

**Ms RATTRAY** - Who's role do you believe that is to do more with that status if we are going to hold it?

**Ms DAVIS** - Being GMO-free?

**Ms RATTRAY** - Is it the industries role to do more? Is it government's role? Is it a joint role?

**Mr LESTER** - I think it is a joint role. Anyone that is producing a product is going to be in the position. If we can go down the line of perhaps a Tasmanian brand and having that brand recognised worldwide for those reasons and the Government has got some... if they do trade missions and whatever the Government is advocating for anywhere, it is their responsibility to do that. The industry itself would need to be marketing.

**Ms RATTRAY** - Would need to step up.

**Mr LESTER** - Yes, would need to be marketing. At the moment the bigger players aren't going to be even looking at market end because it is a bulk commodity, they can't differentiate it from a mainland product. The smaller producers would be able to get advantage now, the small cheese makers and that. I haven't seen them marketing as that but they would be in a prime position to do that now.

**Ms RATTRAY** - I was really interested in the submission where it talked about the potential for opportunity with the defence area. I have driven past the DSTO at Scottsdale for years and years and have always wondered why we still import our defence rations from New Zealand. It is a no-brainer to me.

**Mr LESTER** - It's a bit of bugbear.

**Ms RATTRAY** - I believe that the new Braddon MP has put a bill into parliament this morning, or last night, to try to gain bipartisan support for using Australian products for the defence rations in this country. Have you had any negotiations or any discussions around that because I think that is a really big opportunity?

**Mr LESTER** - It is something we are looking forward towards. It is an opportunity we have identified, so we haven't addressed it head-on. But it is something we put in the submission because it is an opportunity. We can see that as a role of government as well with the defence force to look to using more Australian products.

**Ms RATTRAY** - There have been some positive messages, and you have probably heard those as well in some respects, from different persuasions of politics in the past but they never seem to go anywhere.

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**Mr COX** - I come back to economics. We can get our rations cheaper from New Zealand, but has anyone ever worked through it with industry, from Murray Goulburn or Fonterra, as to how can we do this in Australia?

**Mr LESTER** - They are happy enough to negotiate with retailers on lower product milk - \$1 a litre or \$6 a kilo cheese. There has to be opportunities with the industry to be able to supply it. I am not sure, there have been no negotiations done or no-one has tackled it hard enough.

**Mrs HISCUTT** - Andrew, in your opening lines you talked about better value-adding lines could come out of Tasmania. Did you only mean for powdered milk? Would you like to expand on that?

**Mr LESTER** - As Geoff said, within the nutrition lines - speciality butters and cheeses.

**Mrs HISCUTT** - If the infrastructure was in place, do you think the market is there for that, worldwide? Do you think that is a goal?

**Mr LESTER** - In South-East Asia there is an appetite growing for Tasmanian products. We need to be capitalising on that and we need to be targeting those markets. Whether we need to partner with someone in those areas to get investment here to take product, like the Van Milk arrangement or whether you can get investment through Australia. You have to have a good strategy and a market that is going to accept the product that you produce. So you would probably need to find the market and perhaps partner.

**Mr COX** - If you look at Van Milk, their model is initially to send 50 000 litres of milk, once a week, to one city in China. That is one city, and that city should utilise that milk. Then their model is, if it is going well, to target another city.

**Ms RATTRAY** - It's not rocket science.

**Mr COX** - You have to get a company that will do that. Where government can help is to support that image. You would never say, 'Okay, we want to target China', because it is too massive. You would say, 'in this area', or one city of China to start with. I think that the market is really very small in the world scheme of things. The Tasmanian dairy industry is not that huge.

**Mrs HISCUTT** - Eighty per cent of our products are already on the international market. It is only 20 per cent that is used at home. I am thinking into the future. Can you imagine, if all of Tasmania was exporting their fresh milk to China, Asia, it is still only a boutique market, isn't it? The market is so huge. Can you see that as being possible?

**Mr COX** - Yes. The trouble would be continuity of supply. We are still very seasonally based. It would be only for short shelf-life products. There would only be so much you could produce. You would still need the powders, long -

**Mr LESTER** - Because the season peaks so high and then the winter time is very low, so it's difficult.

**CHAIR** - The logistics of sending huge volumes of fresh milk are almost - it would suggest - prohibitive. We couldn't do it. I think there was one other company from New South Wales or

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Queensland that got itself into a fair bit of bother recently. Somewhere the coal train broke down and they ended up with egg on their face, which was most unfortunate.

**Mr COX** - I don't see that as being the solution, sending fresh milk.

**Mr LESTER** - I think though that the industry does have to have a pretty balanced product mix if it is going to be diverse, so you've got a bit of diversity amongst it. That's only common business sense that you wouldn't put all your eggs into one basket, or you might have a steep decline if something happened.

**Mrs HISCUTT** - You also talked about being able to encourage corporate interest within the state. Have you got any ideas that you think may be able to be brought forward to encourage that investment? Of course governments help as much as they can but governments are not dairy farmers, so you need corporates in here. There are a couple of corporates there but what we are looking for is going forward. What are you thinking? Nothing?

**Mr LESTER** - We have to be careful too, with the big players that are in the state already.

**Mrs HISCUTT** - Yes. We don't want to discourage them, do we?

**Mr LESTER** - No. They have been pretty good supporters of our farming industry for a long time. I guess we probably need to pursue it more with those as well but to encourage a new entrant into the market. Because we are such a small industry really, you can't have too many players in the market. That will make the factories that are here or the ones that you build unsustainable if you don't have the throughput.

**Mr COX** - A lot could be achieved by taking what they produce already and putting it in consumer packs, and putting a Tasmanian label on it. We've got butter. At the moment butter is great. Sales are going up by 10 per cent a year in Australia of pure butter.

**CHAIR** - It is like the Irish did with their Kerrygold. They had white packaging and turned it into gold packaging and suddenly the price went through the roof.

**Mr LESTER** - Some of the big players now are looking at streamlining their brands and they are only getting rid of our local brands -

**Mr COX** - Going the opposite way.

**Mr LESTER** - Yes, going the opposite way, putting it in to their biggest main seller, which goes into the mainland.

**Mr COX** - Most of the cheese in Tasmania is probably from New Zealand for all you know, in the supermarkets. We produce great cheese here, though.

**Mr LESTER** - They are looking at producing cheese here that is branded New Zealand brand because they are streamlining their products. We are on the cusp of losing some of our iconic brands that we had that were only very small but, to the state, they are significant. If you want to have the Tasmanian brand, you've got to have Tasmanian product. They would be significance in that sense.

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**Mr FARRELL** - My question is related to that too. You mentioned about how some of the multinationals are obviously beholden to their shareholders who live in different countries and how that impacts on the Tasmanian brand in particular. We started to move down that path. A few years ago, and Andrew, you would remember when Tasmania produced butter - Ringarooma butter and Duck River - and everyone had their favourite butter and it was all very regional. Now we have moved away from that. How do you think we can influence the multinationals so that they should look at niche regional branding if it is not in the best interests of their shareholders? Is the answer to have more cooperative local networks?

**Mr LESTER** - When you talk about Ringarooma and Duck River, they are within the state. If you are looking at exporting or even on the mainland, people are not going to differentiate those two regions. But a Tasmanian brand as one would probably be more significant in other markets than those brands we have which are regional-based within the state. The company should be able to gain more value out of the products if people are willing to pay more for that brand.

**Mr COX** - Where the government could support that is supporting the brand itself, if there was a Tasmanian image - and to a certain degree I think the government has done that. We see things like New Zealand lamb - that's known all over the world - New Zealand ice cream, and perhaps Tasmania doesn't do that sort of image job nearly as well as New Zealand does. I think we have as much going for us as New Zealand.

**Mr FARRELL** - It wasn't all that long ago the McDonald's chain really promoted Tasmanian potatoes and because the product is now cheaper somewhere else, that's where they go. It just seems that other areas across the country have their own regional brands to a certain extent. The Victorian butters, for example - there are a number of different Victorian butters that we buy here.

**Mr LESTER** - I guess you have to have an overarching Tasmanian theme. You could still have the regional labels but an overarching Tasmanian brand on the packaging somewhere, or being sold as that. I think that is where we have to focus to try to gain a better return out of those products. If the companies see value in it and it will make a return, they are obviously going to go there, but at the moment they are not seeing a value. I know there is one particular product that one company is still producing - they weren't going to stop - but one outlet on the mainland wanted to stop it. They have kept producing it because they wanted to have the point of difference. It shows you that if there is a demand for the product, it will -

**Mr FARRELL** - To get that discussion happening initially, would that be a matter of the TFGA, for example, the state government and the multinational companies working together to work out a way to brand that?

**Mr LESTER** - I think so, yes. Probably need a collaborative approach to that.

**Mr FARRELL** - To get the support of the shareholders that are all over the place, I suppose.

**CHAIR** - I suppose in regard to multinationals, but if we are talking about Murray Goulburn, it is a farmer's co-op, and if we talk about Fonterra, it is sort of a co-op, isn't it? It is New Zealand-owned, as we know -

**Mr LESTER** - Yes, a New Zealand co-op.

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**CHAIR** - If we refer to Lion, who are coming to see us, they are a multinational. As you know, they are owned by the Kirin group, which is in turn owned by Mitsubishi. They are doing some great stuff and they are going to present to us in terms of branding Tasmanian cheeses so it is quite possible for a multinational to do that. That is the proposition I am putting to you.

**Mr LESTER** - That's what I said, if they can see value in it.

**CHAIR** - It would seem that they are doing good work.

You are from the north-east, Andrew, and I won't ask a parochial question to save the local member from asking a parochial question about the north-east, but you see all that milk going out every day from the north-east to Spreyton. Is there an opportunity for the north-east, which is an area which sits there by itself, if you could attract the right investment to do something, as Geoff suggested, in regard to higher value milk powders or something like that? I don't know. Or would it have too much impact on the existing milk supply going into Fonterra and Murray Goulburn and weaken their base? Is that something you might consider? I'm just throwing it out there; it's probably not an easy one to answer.

**Ms RATTRAY** - Headlines for tomorrow.

**Mr COX** - Yes, I think it is an opportunity because the milk is there. The north-east is a very reliable production area because we have a high degree of irrigation in the north-east.

**CHAIR** - You have a few other projects online as well up there, expansion?

**Mr COX** - Yes. It's getting a company that's prepared to invest and I think it would have to be a company with a unique advantage productwise rather than just a commodity. Yes, certainly. In the whole scheme of things that probably would not necessarily take a lot of production out of the Spreyton plant.

**CHAIR** - Is that something that farmers have talked about?

**Mr LESTER** - It has been talked about and there have been a couple of different ideas. Some of the biggest stumbling blocks are that most of these have been a co-op type of arrangement ideas. For farmers to get the capital and the risk that is involved is a bit of a hurdle that people have not jumped yet. I don't know whether the government could help with the marketing side or we need to be getting partners from other destinations that could take the product so there is more surety. Farmers are probably sceptical quite often about what can happen until they actually see it happen and then it goes forward.

We need some defined lines of marketing and destination for product and then an investor that is willing to back it and help out there. I think those sorts of arrangements could work really well. Fonterra obviously pick up the only milk and the north-east would lose out a little there. If you can encourage more competition, albeit you don't want too much because of the size of the plants that need to be kept full, there will be more investment in dairy and perhaps you will get more conversions going to dairy, so there will be more milk if you can get that more consistent return across the industry.

It has been the biggest problem. The industry has had a bit a push to expand the industry in the last four or five years. It has worked to a degree but obviously there is still volatility there and



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we need to make sure people can handle that volatility. A new process might add a bit more stability if it had a good destination to send the product and a good return for the product that it is producing.

**Mrs HISCUTT** - You mentioned earlier about the Tasmanian brand. I am looking here at Lion cheeses and they have Tasmanian Heritage. Are you recommending or perhaps thinking that things like Duck River butter should be 'Tasmanian butter made at Duck River' or something like that? Would that be branding the product?

**Mr LESTER** - I think that would be significant.

**Mr COX** - The current brands that are there, like Duck River, are so well known in Tasmania. I think they have always tried to market them nationally and there is no recognition of Duck River on the mainland. Maybe the opportunity to market Duck River butter is not that great nationally or anywhere else but everyone knows it in Tasmania, perhaps it's just a new brand of product.

**Mr LESTER** - Perhaps Lion has done a bit of research on that, the way they have done it.

**Mrs HISCUTT** - All over their cheese it's Tasmanian this or Tasmanian that.

**Mr COX** - I think you can't go wrong with Tasmanian products.

**Ms DAVIS** - In our submission we also talk about the Australian Made program, which I am sure you are all aware of. That has been a great success because that's what consumers look for now. Who is to say we can't have a similar thing but for the Tasmanian brand, as you're saying, that people are drawn to and make it consistent across products.

**Ms RATTRAY** - We do have an organisation funded by government called Brand Tasmania, yet here we are talking about attempting to brand Tasmanian products. Has there been any negotiation or working with Brand Tasmania?

**Mr COX** - At a processing level, I don't know. What we are saying is, so much of our product is sold as a commodity. Where Tasmania can have advantage probably more than anything, is to get those products into consumer packs with a Tasmanian brand.

**Ms DAVIS** - Be careful using the expression 'Brand Tasmania' versus 'Tasmanian branding'.

**Ms RATTRAY** - This is the organisation Brand Tasmania.

**Ms DAVIS** - Yes, but as the Brand Tasmania brand. To my knowledge, no negotiations have been made with them, no discussions have been had, but it is a great opportunity because so far, evidently it hasn't been that successful and it should be.

**CHAIR** - That is good because we will have an opportunity later on, in a week or so's time, to talk to Brand Tasmania. I hear what you are saying there.

Another quick question with respect to the role of the Tasmanian government. You say that you identified any government funds spent should benefit the dairy industry as a whole and you go on to say that government investment could be beneficial through low-interest loan programs.

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Personally, I would support that. Sometimes the borrowings have to be significant for infrastructure and all that sort of thing. You would rather see that spread across than pick a winner and have a grant type of thing, which usually upsets a lot of people anyway. Have you got any comment on that?

**Mr LESTER** - By supporting especially the local development, the state benefits from that significantly as well. I can see where a loan system is a better system than a grant system, on the low-interest basis, so that people can actually get started and then that encourages investment in the community, which would actually flow back through to government and it would get repaid over time. That would make sure that it's more economical to do the project than a grants-type system because it has to be done on a feasibility-type arrangement.

**Ms RATTRAY** - One question in regard to upgrade of power into the north-east, my understanding is that the north-east missed out on an upgrade and that is holding back some dairy development, particularly with the Agrilac situation. Would you like to make a comment on that, Andrew?

**Mr LESTER** - We support the infrastructure that is available, especially for new projects that are going ahead. We do need support and that is where the government can back some of these projects without direct financial contribution to the project. That one particular project was obviously a significant cost to them and that was weighing up whether they did the project or not or went with generators.

**Ms RATTRAY** - Which they have.

**Mr LESTER** - Which they have, yes. It's a much more sustainable type of production if you can have a power line put on and it makes that more reliable and much more user-friendly to whoever is running it. It is a big hurdle, especially when there is a significant cost. There is a return back to the government because there is going to be ongoing power use for a long time.

These projects are put in not for a short term, they are long-term projects. They do use quite a bit of power. You would think that there are ways around trying to facilitate those connections to be put on those jobs, which would encourage more investment. There is opportunity in those similar areas that would go ahead if they could get those projects up and running.

**Ms RATTRAY** - My understanding is that TasNetworks has supported that on the north-west coast, so it would only be fair that it be done in the north-east as well.

**Mr LESTER** - It was good that they did support it. Some of the infrastructure that was put in for some of those projects is underutilised totally. That might be where there is a shying away but if there is proper case study and actual money put in on the ground and already infrastructure in place to use the power, there is going to be a guarantee of usage and the opportunity for more expansion in those areas, so it would be very beneficial if we could get some backing there.

**Mrs HISCUTT** - As a rule of thumb, I have heard that of the cost of a kilo of milk powder, a third of that goes into power. Is that correct? Are you aware of that? That was a figure I heard the other day.

**Mr LESTER** - I am not sure of the exact cost but it is a significant amount.

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**Mr COX** - It would be pretty high.

**Mr FARRELL** - As far as any future opportunity goes, I wonder how, as an industry, you are keeping people interested in what is essentially a pretty, tough, hard, long, dedicated job. Are you having any issues getting younger people and younger farmers interested in dairy?

**Mr LESTER** - Labour is always an issue and I don't think it matters which industry you are in. Dairy farming might be a little more difficult because of some of the hours worked but there is some significant money from Dairy Australia being put into projects and education promoting the industry. DairyTas - and you will probably meet with them in Burnie - are running those jobs.

There was a lot of interest in the expansion of the industry prior to May. It has dampened spirits a little because of the downturn in the price but that hasn't stopped some projects going ahead. There is another one in the north-east being built right at the minute and they can see the long-term benefits of the industry. It is a hurdle and I think it is a big issue for young farmers in the industry. We are trying to encourage them and the industry is doing some work to try to get people more professional in their own business and to be able to employ people and be seen as a choice of employment for people looking for work because it is becoming more a professional industry. Perhaps in the past there may not have been the proper remuneration that other industries were giving but in this day and age everyone is stepping up to the plate. I think it should be more encouraging for people to come but it is still an issue to get people to come in. I don't know if there are any other promotions we could do to invite them but it is a difficult job and something we and the industry are working on most of the time.

**CHAIR** - I notice under 'Marketing opportunities for the Tasmanian brand' you have four dot points. The use of pastoral based systems is obviously a big advantage for us and the outdoor systems, unlike in Europe where they have to house their stock, and then the environmental benefits of the clean and sustainable Tassie brand. The one hiccup I see is the GMO-free environment. That is the one I see as being difficult, as previous governments keep saying that they are going to do it but they never have, so we have had no advantage out of that yet. Also there is the fact that our two major processors are still going to source their milk from other states where you are going to have a lot of GM product in it. Would you agree that is still a difficult hurdle to overcome?

**Mr LESTER** - Yes. It needs to be packaged and branded in the state, whatever the product is, and marketed as a product from this state, instead of being put into a basket with everything else for us to gain any traction out of that.

**CHAIR** - As far as the Tasmanian brand is concerned, it is very important for the integrity of the brand that the product, if they are going to market it on the back of the Tasmanian brand, actually comes out of the state and not from elsewhere. It is pretty much a given?

**Mr LESTER** - That would be very critical.

**CHAIR** - Thank you very much for your presentation today.

**THE WITNESSES WITHDREW.**

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**Mr JOHN WILLIAMS** WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED

**CHAIR** - Welcome, John. What you say in here is covered by parliamentary privilege. What you say outside is not.

**Mr WILLIAMS** - There is something I would like to say later that I would like to be private because it is highly confidential.

**CHAIR** - When you get to that stage, you can explain that and the committee will consider that and then decide.

**Mr WILLIAMS** - I was 13 years of age when I left school to go home to my parent's farm. I have had a pretty good, diverse background in farming all my life. I turned 40 in January.

I couldn't give you the exact timing, but I was young when the North-Eastern Dairy Co-op, North Western and UMP - United Milk Products - all amalgamated. If I go back and look at the history of the dairy industry and think of what has gone on, we got a lot of mistruths told to the cooperatives at the time and they were highly untruthful with the financial situation of the cooperatives, a couple of them. That whole thing was misled to the directors of those companies at those times. As time has gone on, over the years, I have seen a lot of farmers come and go. I have seen a lot of farmers amalgamate, and one thing and another.

Then you come back down the track to where we find ourselves back in the same position again where UMT evolved and became -

**CHAIR** - Bonlac?

**Mr WILLIAMS** - I think it was. They took external money at some stage. Again, there were lies told. They borrowed money from the NMRA and had to pay that money back with a very short time because they misled the MRA to what they could do. Finally Bonlac got themselves into trouble.

Somewhere in all this the dairy industry deregulated instead of re-regulating, in my opinion. It only needed to be re-regulated. If we go back to those days, we had the have and the have-nots of the dairy industry. I wasn't very well educated and I hated pie charts, but I can always distinctly remember these good co-operatives and management putting up these pie charts that I could never understand. They used to tell us, part of the pie was liquid milk and your local milk. I suppose, your milk consumed within Australia was a big proportion of how we got a reasonable return on our milk through the co-operatives.

All that was lost when we deregulated, which is fine, but we are going back down to that same track where we have got the haves and the have-nots. Because the big players of the corporate world, if you like, got to the stage where they have fragmented the industry because of their behaviour.

We have always had a few smaller industries pushing into the fresh liquid milk market. What they have done, especially with their last little episode 12 months ago, was they have now given those people a free hand to really grow their businesses. If liquid milk, that is Ashgrove Cheese.

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Woolnorth is now going, Pyengana milk and cheese and there are others. I am not against that. That is private enterprise. That is wonderful, but if you start splitting your pie chart too many times, you cannot pay your main backbone of the industry. I wonder where we go.

I have some ideas I will talk about later that will become private, that I want confidential. The thing is, once you become a non-cooperative use, your milk, it is all about shares and people getting a return on shares. They become more important than your supplier. In this case, your dairy farmers who are suppliers to these companies. They are interested in getting a return for the shareholders.

What they did, over the years, they enticed the farmers to have shares or it was compulsory to have shares, then as the corporates have taken over, you do not need the shares, if you don't wish to have them. They are trying to make money to pay these shares at the expense of farm gate, in my opinion. That is a brief summary of the industry, the way I see it. The problem I see now is how do we trade forward and how do we fix the problem?

**CHAIR** - That is what the inquiry is, and that is what we are looking at, yes.

**Mr WILLIAMS** - Yes. I really do not know I have got a good answer to that because whatever you look at, you fragment the industry again because you threaten Fonterra or you threaten Murray Goulburn sitting over there. I presume you have been told that my phone has been berserk this morning; the front page of *The Advertiser* tells me. I have not even read it, but something is going to happen at Legerwood but I will touch on that later.

What that does, it then fragments their supply. Do we need then to build the industry bigger? Do we need to get a new growth in a certain area to promote a co-operative or a sustainable industry in the north-east, the north-west on? I am not 'pro' any area. Do we need to grow that milk to form another way of doing it?

If you look back at some of these blokes and what they are doing with milk and all the rest of it, I get very annoyed with the industry itself, especially Dairy Australia. The amount of levies we pay and everything is told: how to manage in a tight time, how to manage in a drought, how to manage in a wet time.

Our energy should be focused on - I believe that our milk in Australia and particularly Tasmania, and I know the yuppie word - organic, but it is not viable. I will stand and argue until I am blue in the face that you cannot buy farm and farmland and make it viable, straight up, to produce milk organically. However, I believe if there was some research done by CSIRO or governments - it is too much for farmers to do. It costs far too much and they have not got the drive, a lot of farmers haven't got the drive to do it or the expertise they need. My understanding is our milk that is produced in Tasmania is as close as you can get as organic - and it would surpass what they call organic milk in America. So, what are we doing?

**CHAIR** - Clean and sustainable.

**Mr WILLIAMS** - Why are we paying all these levies? Why are we doing that and tell us how to manage our business, but perhaps they ought to be looking at what makes the dairy industry sustainable. The other thing that concerns me with all these levies we pay and all these experts that tell us how to farm, it is wonderful, but what they do not understand - we promote the top 10 per cent. If you are not up there with the top 10 per cent, you are not going to survive.

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I can tell you now. Pay the top 10 per cent in the industry and put them out here to one side and see if you have got an industry. The answer will be no. If you haven't got the average of the industry making money your industry is at threat. I do not care what anyone says, because your industry will be at threat if your average cannot make money. You are always going to have below average, you are always going to have above average, but you have to have your average of your industry.

All the data from all these so-called experts tell us the top 10 per cent. If I am in the bottom 1 or 2 per cent, I don't know, up there looks a long way for me to get to the moon but if I am going to get to the top 10 per cent I don't see it as achievable. However, from there to the average of the industry I probably can see that it is achievable. Once they get to that point, well, they have achieved this, they can then grow. Why the levies, why is everything exposed, to telling us how to manage ourselves when it is hard. I think most of us who have been farming for a long understand how to farm.

I do not mean this in a derogatory way but I think a lot of the corporate farming and people that come into the industry that don't understand the industry, the climate or Tasmania's climate conditions have the problem. That is why there is so much focus on those things to prop that side of the industry up, in my opinion. I am only looking at it from layman's terms as a farmer.

I think we should be really focused on getting some help to push the quality of our milk. Push what quality our milk is, particularly in Tasmania, I think we have been undersold for a long time. It is not just milk, I could go for hours but I am here to talk about milk. I think we are so undersold in Tasmania with the quality of our products it is unbelievable.

**CHAIR** - Take the word 'organic' out and talk about clean and sustainable, that is where our thrust should be. What do you reckon?

**Mr WILLIAMS** - Yes, it is clean and sustainable and we have some of the strictest controls that I know of in the world of animal welfare as well, and regulations. We haven't used a lot of the drugs in our operations, I believe - and I will stand to be corrected - that have been used in other parts of the world to enhance production and all sorts of things. It hasn't happened in Australia as far as I am aware. A lot of it has been banned. We don't need to.

**CHAIR** - The problem is, and we talked about it with TFGA, whilst Fonterra and Murray Goulburn have taken most of our milk and it has been lumped in generically in one big heap, how do we differentiate unless those two companies in particular, those two big co-ops, would then differentiate by in their processing put a Tasmanian brand on it as opposed to what is coming out of Victoria?

**Mr WILLIAMS** - Fonterra wouldn't like to do that because that will hurt New Zealand Fonterra, won't it? They say the bigs are grand; that's how we make our money. I think last year proved that doesn't work, to a degree.

I will touch on - and someone will bring it up - the \$1 a litre of milk. The industry left itself wide open for that on deregulation. Don't blame Coles or Woolworths, the industry did that. That was a loophole that the industry left in it - well, it wasn't a loophole, Victoria wanted it so that they could put milk further north because they knew they could produce milk cheaper and they could capitalise on going into Queensland and New South Wales. So it wasn't a loophole, it was

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left open for them to be able to capitalise on the market. But they bastardised the market and sold it for \$1 a litre, out of Victoria, so don't blame Coles and Woolworths. The only problem with the \$1 a litre milk is that it's a bad look for our image because the consumer over there says they can produce milk for \$1 a litre. We can't. It's not sustainable at the farmgate. The only thing wrong with \$1 a litre milk is that it's a bad image. When you can buy milk cheaper than you can buy a glass of water, we've got a real issue.

We've got to somehow come up with either two things: you grow the industry by creating another cooperative and another method - which I will talk about but I can't at the moment - or you threaten the existing supplier, and should we worry about that? They are multinational, they're a corporate. Should we worry about that or should we be worried about our farmers in our communities? More so our communities, that's the biggest thing, because that's the threat. If you've got any questions, fire them.

**Ms RATTRAY** - I am particularly interested in John's thoughts about the north-east having its own processing facility, whether it does butter or whether it does cheese of a Tasmanian brand or whether there is some milk produced there. I see those trucks going in and out of the north-east day and night, because I'm on the road with them, and then they have the mothership on the three-mile straight where they load up and unload. It has to be an expensive exercise. Why can't we attract to that corner of the state a processing facility that will enhance the very good quality product and grow the industry in that area? Why can't we do that, what's holding us back other than what you talked about, the potential impact on Fonterra and Murray Goulburn?

**Mr WILLIAMS** - Farmers.

**Ms RATTRAY** - Not being bold enough?

**Mr WILLIAMS** - I can remember when I stood to be a director for UMT at the time, Bill Dikkenberg - and he stood after I did - said 'How do you do this? How do you do that?'. I wasn't successful, but that doesn't matter. Bill said to me - and he tried to get votes to get onto the board - 'Farmers just haven't got the time. Farmers are too busy running their own business. They are that flat out running their own business'. I think the other thing that has happened is that farmers' trust has gone. Over the years from our cooperative to where we are now, their trust has been lost. If I go around and say to someone, 'I'm going to build a plant at Legerwood and would you supply milk?', their first reaction would be, 'Yes, but hold on a minute'. Most people then sit down and say, 'That could be putting us at risk'.

I will go back to the Robin Dornauf days. Robin came and saw me, I did my numbers, and the only amount of money I could save on those days was that perhaps I didn't have to buy shares in UMT which I would have been forced to buy with no return on them at that time.

**CHAIR** - It was TQM wasn't it?

**Mr WILLIAMS** - TQM, yes. He also went and saw Alan Pye at Gladstone the same day because I went with him. He proved that you could move milk across Bass Strait, I would say viably, but what I'm coming back to is the farmers' trust and their time to focus. True farmers are good at what they do. We can all do so much and it was once said to me you can only do so much with a pair of hands - you need more pairs of hands. You employ people but if you take your focus off your business, your business will fail.

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If you try to do too much, and I don't mean this in a derogatory way but I bet you pound to dollar that Bennett's out there, Ashgrove, will end up like a corporate before much longer - well, they probably are now - and getting more and more corporatised because they're getting bigger and they can't manage it on their own. They're not their own boss in that area. That's natural, that's a part of business. It's not derogatory towards that business or anything else, it's the way that that will form up. The only way that we can do it, I believe, is to go back to a full-blown cooperative - that's the only way to do it.

**Ms RATTRAY** - You would still have to have the farmer or the producers being bold enough to say, 'We'll send our milk to the cooperative and forgo a guaranteed source of revenue from Fonterra in that north-east corner'.

**Mr WILLIAMS** - We've got to stop growing. Every time we get a price increase in milk on the world scene, Fonterra, Murray Goulburn, Warrnambool milk or cheese, whoever it is, we want more milk. The Government said we're going to have milk from here to Hobart. What a joke. I could see it wasn't going to work to start with because I wouldn't milk cows in the Midlands for all the tea in China because it's not viable, especially with the way our industry is on borderline as far as receiving what we get for our milk. It's just not viable. Yes, land is cheap, but now we've put another cost in, water, which we didn't used to have, so now you've got water, fertiliser and the rest of it. I don't care how cheap the land is, you won't produce milk down there out at Woolnorth and places like that where you've got to fertilise with no water. Sometimes they farm in the environment on good years and bad years. There's risk in that but if you know your risks and can manage them you can survive and make probably a reasonable return. Down south is totally different but we've got to grow it in the areas that we can and we've got to get the support back in those areas.

You're right, I agree, it's not only the milk, it's our potatoes, everything is transported out of the north-east, so to speak. I couldn't care less if the factory was in the middle of Tasmania, providing our farmers were getting a return at farm gate. The point you and Greg touched on is right. Fonterra puts it all in one bucket and out comes the milk under the Fonterra label. We are selling ourselves short.

I had an interesting conversation yesterday at home about Fonterra - Debbie Maurice. I can't think where she was but there was a meeting somewhere and I think Debbie said a Chinese lady said, 'What's with this milk?'. Funnily enough she said, 'It's sweet, your milk is very sweet'. I had a phone call three weeks ago from a bloke who said, 'Do the companies put sugar in the milk?'. I said no, not as far as I am aware. This Chinese lady said the milk tastes different. IGA light milk is a lot different to Ashgrove light milk. Then he said, 'I beg your pardon, it is the same milk. It is exactly the same milk, from the same place.' Again, it is the mindset of people, of branding.

I will talk a little bit about Bellamy's. I knew that that had to fail. They had no suppliers, they had no manufacturer. How could they go over there and buy milk and then put it on a market up at this level when you had your Fonterra and Murray Goulburn and people being in the manufacturing industry for years. If it was that easy, it would be done. If you get a price that goes like that, guess what? Everyone will jump on the bandwagon. And what has happened? You have got to be careful when you do set out to do something that your industry is sustainable, because this is what people are afraid of. There are too many things that can go wrong.

**Ms RATTRAY** - That can go wrong.



## **PUBLIC**

**MR WILLIAMS** - I do not think you can go wrong if you have got the right people steering it. It is the right people with the right intentions that you have got to have.

**Ms RATTRAY** - And the time and the dedication to it.

**Mr WILLIAMS** - You need two things. We used to get told by Bob Campbell that farmers were not good enough to be directors of a milk company, they were not smart enough. Well I think the farmers were smarter than they were in some format. What you really need is good management above a very strong board of management of co-operative. It is a bit like your footy club. Your footy club is only as strong as your leader.

**CHAIR** - Yes. What are the rules there? Just co-ops at the moment. Say, on the Murray Goulburn board, what is the percentage of producers. It comes under the constitution doesn't it?

**Mr WILLIAMS** - Yes, it does. They have got some external. I do not know what the number is anymore. I had a friend who used to be on the board of Murray-Goulburn. He is now pushing 80. He was there for a lot of years. He rang me as soon as they started trying to take this external capital that caused all this trouble with MG. I said you are going to end up in the same trouble as Bonlac did.

**CHAIR** - I was going to say, John, it has always been a bit of a trick and we used to supply UMT and the whole lot. You were supplying the old north-east co-op and some of those eventually ran out of steam as the world changed and they did not seem to have the marketing grunt or the management expertise to really compete. Would you agree with that or not?

**Mr WILLIAMS** - No. There was a little bit behind the scenes that I don't know that I have only come to light recently that I have been delving. The North-Eastern Dairy Co-op was actually selling a lot of their powder into Japan. Japan wanted to buy it direct off North-Eastern Dairy but were not allowed, because we had the Australian Dairy Industry as a pool. I believe that had the North-Eastern Dairy stayed probably, and supplied a Japanese company. It was roller dried milk at the time, the product they were chasing, and it was quite viable for them to do it.

They started at that level and grew. Everyone said what we got from the so-called expert external directors or whatever, but if you stayed small, you won't be viable. You probably would not have stayed small because if the industry was giving a fair return to the farm gate, your industry would have grown at pace that it could have held its own feet and grown within the north-east. Yes, we would have a manufacturing plant in the north-east at that rate.

**CHAIR** - There are all sorts of different models, aren't there? I can recall for some years we supplied Lactose, which of course is not a co-op. I was actually the shop steward for my area and I was known to go down and argue with the management every now and again - with Russell Patterson when Russell was running the show.

Our price was similar to what the co-ops were because it was predicated on the [inaudible] in Japan and it was always kept pretty well suppressed anyway. Once again you might comment on that. There is another model compared to the co-op which still sometimes is not -

**Mr WILLIAMS** - When I used a farm adviser from Victoria, Kevin Marr, for a lot years the family used Kevin Marr. He could run our figures and I suppose we were UMT days -

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**CHAIR** - 'More cows Marr' he was called.

**Mr WILLIAMS** - He was right in what he said, though.

**CHAIR** - He was.

**Mr WILLIAMS** - Very right in the way he managed it. It had to be UMT. We were always around \$1 a kg milk solids below MG. Kevin Marr would do the figures based on your calving pattern, the time of your calving and all the rest of it. That was a full blown co-operative back then. That was a full blown co-operative yet we were supplying UMT who was probably still a co-operative. Bob Campbell was in charge of it and doing some weird and wonderful things, or supposed to be, and we were always \$1 behind. I would raise it at a meeting and I would howled down that I wrong. Why was I wrong and why would Kevin Marr lie? There was no need to lie. That is what was happening.

The industry has had a pretty chequered, rough ride and we have seen another one in the last 12 months, which is pretty disgraceful.

*Evidence taken in camera.*

**CHAIR** - John, thank you very much for your evidence.

**THE WITNESS WITHDREW.**

## **PUBLIC**

**Mr JON HEALY**, DIRECTOR, PYENGANA DAIRY, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** (Mr Hall) - Welcome, Jon. The evidence you give today is covered by parliamentary privilege but if you go outside it is another story.

**Mr HEALY** - The first point there about marketing opportunities for the Tasmanian brand and something that has happened very quickly for all of us is that the world has become a really small place and all of sudden Tasmania marketing themselves in Australia isn't something that we look for at all, it is a worldwide marketing program that needs to take place. We're seeing the effects of Asian tourism and Asian investment in Tasmania and Australia, particularly around food-based businesses, and they're very excited about what they're finding. I think we need to put our caps on and say it is actually Tasmania they're looking for, not necessarily Australia, because we have some unique things down here and we need to hold onto those and not necessarily share them too liberally. For us, we see the Asian markets as massive things and we've all read bits and pieces about some of the produce that might or might not be going over there at the moment.

**CHAIR** - John, are you talking about your business in that respect?

**Mr HEALY** - Not only our business but the dairy industry in Tasmania.

**CHAIR** - As a whole.

**Mr HEALY** - We believe, from a small business point of view, that when we're looking at marketing our business outside of Australia we need to look at where the per capita spend on daily or weekly boring grocery items, if you like, is quite high. We need to look where the income level of average Joe is quite high and a big proportion of that is spent on daily spend, like your grocery items, your consumables. We feel there is a big market to be able to move our produce from Australia to wherever this might be because these people are not only looking to spend big money and talk about having this Australian cheese, milk or whatever it be, but they're concerned about what goes into making that product and where that product is from, the 'terroir' of the item. They've got time to spend shopping and sourcing this produce, and then they make fantastic things with it.

We believe that's a near gimme and a pretty easy way of finding where the market is. It's no good our going to where they spend 25 cents a week on the groceries and catch water off the roof and grow their wheat in the backyard. That is not what we're about. We have to be looking at the \$10 a litre milk; that's what we have to do. I think that's just a fairly easy way. We're all bombarded with a massive amounts of statistics with the internet and that sort of stuff and it's great to look at statistics and things, but I think it's such a simple thing to do to look at that aspect.

The next one was the processing opportunities for Tasmania. The dairy industry needs milk. It's pretty basic. There's no milk in Tassie yet. There's still no milk here. The businesses that we have are running at very low production levels. How do we get milk? We pay for the milk. That's all you have to do. You don't have to go out and canvass dairy farmers, you don't have to go to New Zealand and hunt down dairy farmers or to England or come up with any new theories or anything like that; all you have to do is pay for the milk. Have a basic rate for the milk and pay consistently for that product and Tasmania will get all the milk that they need for processing.

## **PUBLIC**

From a dairy farmer's point of view that is what is lacking, the waxing and waning of the dairy prices beginning since your dad was a pup.

**Ms RATTRAY** - That wasn't yesterday.

**Mr HEALY** - No, we've all seen it. The only sure thing that happens when the milk price goes up is that it comes back down again. It happens too quickly. Anybody with half a decent dairy farm now would have millions of dollars of debt. It's not like a domestic household looking to pay their house back over 40 years or anything like that. These guys have massive debt. How can you do cash flows and budgeting and forecasting with things like that? They've got to compete with grain prices going up and down each year and that's fair dinkum, because they have seasonal interruptions and things like that.

The milk price has to have a floor so that they can budget to that floor and make their business model work from there, and anything extra buys a new tractor or helps pay off some debt or buys the neighbour's farm or whatever it is. There has to be some sort of better floor. I'm probably talking ACCC stuff, but all you have to do is pay for the milk and you'll get more milk and I think Tasmania needs twice the amount of milk they've got. They would probably nearly process that through the existing infrastructure they've got. The problem I see with it is that the majority of it goes to powder and they all pay the international powder price. As soon as the powder price goes down it's, 'We're struggling, we can't pay so much for milk', but you shouldn't base a business on powder. That is such a poor man's model, I believe, nowadays.

This fresh milk has legs. The fresh milk into Asia has big legs. We're talking up to \$10 per litre retail and the market is huge. That's where we need to be looking. It would be good if we got \$10 per litre for the milk that we put into our cheese but we don't get that. That would be \$100 per kilo for the cheese. Fresh milk at that sort of rate is massive.

I think it's simple. We need to pay more for the milk and then we look at these fresh markets into these developed countries and they're talking hundreds of millions of litres of milk, just in fresh market. The beauty about fresh milk is that you milk the cows today and you get the money in 21 days. With the cheese, you have to store it, you've got lots of infrastructure, lots of costs. With the powder, we're playing a poor man's game, I believe, because it's going more to the developing countries and to the underdeveloped countries and they can't afford to pay massive amounts. I believe the powder market is a bit like the wool market, with massive stockpiles of powder in different countries. It is a no-go.

As to the role of the Tasmanian Government, well, you can never do enough. We find from a small business point of view, and we have been trying to export for probably five or six years, we have got the market. There is massive assistance for going to other countries to source markets, going to trade fairs. Really easy. I have not done any of them, but they're always offering \$5 000, \$7 000 - 'Just bring back the receipts'. It's really simple.

We don't find that's the difficult thing. We have internet requests for our product on a weekly basis. The problem we have is that you can have a really tight licensing program with the Tasmanian Dairy Industry Authority, and they're a very well-run organisation and industry funded, but we have to have another level of licensing, so for another level of licensing nobody talks to one another nowadays, so we have to have another group of people that come in on a different date and they have a totally different regime for their licensing programs. So we'd have the Dairy Industry Authority on the fifteenth and the export group would come in on the thirtieth.

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That could happen up to four times a year. For a small business, the impost on just your staffing levels are huge and our document at the state level of licensing is about 400 pages that we administer on a daily basis. It takes my wife two days a week to manage that.

Then when you go to export you've got another one. These two documents don't talk to one another because neither one wants to recognise that. If we're going to make a food product for a person to consume that is safe. It has got to be safe whether we are Australians, Asians or Indians.

**Mrs HISCUTT** - Is this your quality assurance process?

**CHAIR** - Reduction in red tape is basically what it is.

**Mr HEALY** - And get these two groups to talk to one another. Even for small businesses like ours nowadays, we have to look at exporting because the world has become a small place and there is lots of money outside of Australia. The cost to do this is astronomical. We are not talking about having to create a new building or put new signs up or anything like that. It is just paperwork; that is what is holding us back. We find, from a government level, people like DED or whoever they are now, but with those groups there is no assistance to help with that side of it. We can go on as many trade fairs as we want and we can get bunches of \$5 000 to do that but I do not think that is the mechanical piece of it.

**Mrs HISCUTT** - Do you call your QA systems your 'industry standards' or 'quality assurance'. What words do you use?

**Mr HEALY** - QA program.

I think that is the biggest way the government can assist. There could also be assistance with freight. Obviously we are on this little island and it is a nuisance. Everything has to get to Melbourne and it is time and money. When it gets to Melbourne it has to be unpacked and checked. More paperwork, then go back into another container and away it goes.

**Ms RATTRAY** - New shipping opportunities at Bell Bay.

**Mr HEALY** - Absolutely. It should be going direct from the state.

**Ms RATTRAY** - They are just starting.

**Mr HEALY** - Okay, if businesses could send fresh product straight out of the state.

**CHAIR** - You are talking about export, not just to the mainland at this stage.

**Mr HEALY** - Yes. Export.

**CHAIR** - The Tasmanian Freight Equalisation Scheme still works to Melbourne at this stage.

**Mr HEALY** - Yes. We claim on a regular basis and without that it would be really difficult. We claim both ways on that.

## **PUBLIC**

It is this fresh produce that takes so long. Sea freight is not real fast anyway, but if it has to get off one boat and then on to another one. For things like liquid milk or cheese or whatever, they are heavy, dense products so it is really expensive if you want to put them up in the air. It is a much more cost-effective thing if you can go via sea freight.

**CHAIR** - You talked about that liquid milk stuff which Moon Lake do and everything else, have you any idea of the market? It would not be huge, but it is logistics of getting them on the aircraft to get them there in a timely manner and with a cool chain and all that sort of stuff working. Have you got any thoughts on that and how you could do it? At this stage that will not start, as I understand it, until the extension to the Hobart runway is done at Hobart Airport. Should we be doing something here in Launceston?

**Mr HEALY** - Of course we should. There is plenty of land there. They could extend that without a problem. If you have the facility, they will come. If they have nowhere to land these birds, it is like 'how do we do this?'. We have been approached by three different places since Moon Lake, since that advertising. I do not know why since then, but by places in Hong Kong to supply fresh milk. They are talking about airfreight because of the time line on it. They are talking about putting about 40 000 litres in a plane, so they are putting fairly good volumes of milk in there. We did talk freight costs and things like that, but I believe the people who are buying the product would pay the freight. It is just that we cannot put these planes down; that is the big thing.

To get it to Victoria, which you can do, and send it out from there for milk, is just a little bit too long. We have got to get fresh milk with 21 days on it, which is a bit of an effort, so you have to have septic packaging if you are going to have non-homogenised milk so you get the cream content coming to the top more and that sort of stuff.

**CHAIR** - Yes. You need that direct flight; you do not want to have a connector. Besides, if you had to take it off, if you are looking at Launceston at the moment you would have to go on a smaller aircraft anyway, a smaller freighter. You need the 40 tonnes or thereabouts, which is the equivalent of what the old 747-type thing.

**MR HEALY** - All the inspections and things have to be done here. It is not like on Tuesday, Thursday and Sunday, because they are the days that we work. It is, no, at 4.00 a.m. the milk will be here and you need to come and check it and let us get on with this. We can't have time wasted. They are still looking for 10-day shelf life when it gets to the market so we can't have two days waiting for the weekend to get over before we have an inspection or anything like that.

We have been exposed to the liquid milk trade now for 20 years and it is no different to selling to the corner store here. It has to be available every day otherwise you lose the client. You do a lot of work trying to get you to buy the black and white milk and then one day it is not there and you have to buy the blue milk. Then your head is thinking blue and you lose that market really quickly. It is important that it is there consistently.

**Mrs HISCUTT** - When the Hobart Airport is extended, as it is being, would your company consider taking it to Hobart. How far - three to three-and-a-half hours - from your place?

**Mr HEALY** - Yes. That is not an issue. Anywhere in the state.

**Mrs HISCUTT** - You would utilise that, will you?

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**Mr HEALY** - Yes, absolutely. Definitely utilise it for our cheese without any problems at all.

**Mrs HISCUTT** - Fresh milk?

**Mr HEALY** - Fresh milk? We are not really that sure yet. We are little and these guys have got 80 trucks that deliver direct to households, people shop over the internet and they do all their grocery shopping -

**Mrs HISCUTT** - So you are talking about distribution of the finished product in Shanghai. Is that what you are talking about?

**Mr HEALY** - They want it straightaway, but we have got to get the big dates out of the milk and we have got to prove that we can do that, so we are going to have to change our packaging facilities and things like that. Yes, we would have a freight truck.

**Mrs HISCUTT** - So you would jump on board with cheeses as soon as you could?

**Mr HEALY** - Yes, absolutely.

**CHAIR** - The terms of reference to the committee are there and certainly we talked about the ups and the downs and the whole lot of the whole industry with the bulk commodity markets. It certainly has been put to us that we have to be a little bit careful if we get new processes starting up then it can fragment or impact upon the other existing -

**Mr HEALY** - I want to laugh because the idea would be you are going to create a high-value product. So you are going to be concerned about the animal husbandry. These guys want to come and visit the farms and it does not matter how big or small the operation is, they want to come and visit the farm.

For argument's sake, you set up a processing facility somewhere to package fresh milk and you have 15 farms that are supplying, you would have to have your QA program going from the grass all the way through. You would have to be able to advise these farmers of times when you want to have a visitation by these people, because they will want to see it. You have got to be able to pay consistently a higher rate than what we are seeing at the moment because it is not sustainable for a quality product 12 months of the year.

The problem with liquid milk is that it is a 12 months of the year program. Cows milk for 300, there are 365 days of the year; you have to have two herds. It just gets a little bit complicated and there are extra costs there. You just pay for those costs and it all comes out in the wash. You are going to have to pay, and you can pay more than what these other guys are paying. That is where the fragmentation is created, but for goodness sakes, get over it. Pay a reasonable amount and everybody gets along okay. We have to get over that. The farmers are the lost losers here.

**CHAIR** - Always.

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**Mrs HISCUTT** - When you say 'we', you have said it a few times. 'We' need to pay more for the milk, you have said it three or four times. When you say 'we', are you talking about the consumer who is the end-user of course, or the companies in the middle?

**Mr HEALY** - Yes. 'We' as a business, as a dairy business now. We have a share farmer operating our dairy at our farm and we, as a processor, purchase the milk from our farmer. The lowest price is guaranteed and if in commercial land the prices go up, for whatever reason, and it goes above our then we will match that price. We pay a 3-cent a litre quality incentive to that farmer as well, so that goes on top of it.

We are all happy to pay \$3 or \$4 for a 600 ml bottle of water and not question the shop about that. We pay \$4 for 2 litres of milk, it goes up 5 cents, and there is an article written about it in the paper - dairy farmers are flogging us now and we won't be able to afford to pay for our milk. Two litres of milk should be \$14 or something like that, but are we ever going to do that?

I talk about 'we' because we have been dairy farmers and now we are processors. I have done distribution and we have had the fight with the shops. This year the 'Save the Farmer' thing happened and we had massive interest in locally produced fresh milk. We were able to put our milk up 5 cents a litre in that time and we hadn't had a price increase for seven years. We were a bit excited about that, but it is a bit pathetic really. We should be able to get 5 cents a litre every year. We, as consumers, as dumbing down the milk all the time and the big supermarkets aren't helping that. The \$1 a litre milk thing isn't helping that. While ever that is alive and well, it is not helping the branded milks.

**Mrs HISCUTT** - Totally irrelevant to everything else, looking at your logo, it is 'Tasmania' in small letters and 'Pyengana' in big letters. If you were going to seek a larger share of the international market from your farm to that market, would you or have you given consideration to making the 'Tasmania' bigger and the 'Pyengana' smaller?

**Mr HEALY** - Yes, absolutely. We are doing work on them as we speak and, other than the fact the product is called 'Pyengana Cheese', you wouldn't see the name Pyengana on it. It is 'Tasmania'.

**Mrs HISCUTT** - You are going to sell 'Tasmania' as the brand as opposed to 'Pyengana'?

**Mr HEALY** - Absolutely. 'Tasmania' is the catchcry. It is not Australia. The rest of the world didn't know of Tasmania, but now they do, so 'Tasmania' is the catchcry.

**CHAIR** - Brand Tasmania takes some public money to make it work. What is your opinion on what sort of job they have done in promoting Tasmanian products?

**Mr HEALY** - About three years ago we were branded as the sixth or ninth best destination in Australia for food tourism. Personally, I don't know much at all about Brand Tasmania other than what I have seen on the TV or maybe read in the paper. We haven't had Brand Tasmania come to us and talk about how they could incorporate a logo - there is often a royalty you might pay to incorporate a logo somewhere. There is no sticker on our shop door from Brand Tasmania. We would see 200 000 people a year now but I am not seeing anything about Brand Tasmania.



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**CHAIR** - If Brand Tasmania is to work and the branding of Tasmanian product is to work successfully, I put it to you that for the integrity of that product, we must have Tasmanian produce, absolutely, and manufactured here as well.

**Mr HEALY** - Definitely.

**CHAIR** - We see some distortion, even in China with cherries, you see there is so much that goes on and even here locally. I won't go down that track at the moment but there is a problem there.

**Mr HEALY** - The cherry guys have done a fantastic job. Recently I went to Hobart to get our milk bottles and pulled up behind a semi-trailer. It was a 40 foot semi-trailer, it had a mezzanine in it so it means you can put two pallets, so there would be 44 pallets in this thing. It was going straight onto the boat and they were just putting on the last pallet of cherries. I said to the driver, 'What is the rest of the truck?', and he replied, 'She is all cherries mate, we have been to seven farms'. It was all cherries going to China. What a fantastic thing.

**Ms RATTRAY** - That is seven farms working together to provide a product they can hopefully cost effectively send out of this state with the Tasmanian brand.

**Mr HEALY** - The problem is, one farm hasn't got enough for these guys. One farm is a nuisance and they have a week's worth of cherries and that is it. They need volume and they need people to work together to get that.

**Ms RATTRAY** - Are you saying there was no middle man?

**Mr HEALY** - There was no middle man in this other than that group. The common denominator was the international purchaser.

**CHAIR** - The same thing has happened in the berry industry with Driscoll's. Costa's are there but Driscoll's run the whole business and that is the only way it works. Whereas for one farm it is a very difficult operation.

**Ms RATTRAY** - Those 15 farms that you talked about and you plucked that number. Is that a number you have thought about, that you would need 15 suppliers to make the same cherry scenario work for liquid milk?

**Mr HEALY** - These guys we have been talking to are looking for - we make 1.5 million litres of milk on our little place and that is tiny nowadays. We milk two lots of 200 cows seasonally; I do not know what the average statistics are out there. Say, the average farm nowadays maybe makes 3 million litres, which is 45 million litres. This guy wanted 50 million litres of packaged milk. I was only throwing darts at the dartboard, but that sort of number makes it work.

**Ms RATTRAY** - It is a matter of pulling like-minded dairy farmers who also want to get the best value for their product, together, and then getting it sorted.

**Mr HEALY** - If you just went up and said, 'Okay, we are coming in at a benchmark price, which is next to nothing, what you are getting now', you would need to say, 'I want to pick up 10 000 litres of milk from your property five times a week', or something like that. You do not

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tell them how to run their farm, but they just need to know they have to reap  $x$  number of litres of milk out of their property so therefore they put the infrastructure in place to do that. As a business, you need to know we have got that plane going  $x$  number of times, there is this much milk on it and this is how we are going to source it. You go to the farmers - young, keen, maybe generational where the younger people are more business minded - and approach those people and say we want this many litres from your property. We will pick it up and we will pay - and it has to be above, because there is more work in it.

That is where you can quieten off the people that are supplying the existing factories now. They have to milk in the winter, which costs a lot more money. They are going to have an absolute zero antibiotic traceability; they are going to have a sediment test every time they run. There is going to be a different QA program for these farms than there would be for a Fonterra farm, if you like.

**CHAIR** - On that very matter, if you are sending milk to a processor now - it goes there, it's tested and then it might be a matter of days when they say, 'Okay, you've been downgraded because of sediment', because of thermodurics, that sort of thing. With the model you are talking about, your testing facilities would have to be on farm basically before you put it on that plane.

**Mr HEALY** - A lot of them are now. As long as you spend the money on the truck, the milk comes in through the hose on the truck and the sample is taken as it goes past and they can have a printout and leave it at the farm nowadays. There are some cultures that they still have to grow still but the testing regimes now aren't what they used to be. They can get it very close - the fat and protein is done while it's loading and the sediment, et cetera, that all happens now.

Also, it's like us with the liquid milk. We only test our liquid milk each fortnight for all these things because we have a good history. You can't do that when you start off, you have to have a massive, stringent program and test everything but once you get a history and reliability in these 15 farms, somewhere in the processing facility you would have somebody who would go out to these farmers and visit them. It wouldn't be the only thing they did but they would be farm-ready and they would talk to them, walk down the track, look at the laneways, look at the condition of the cows, the pasture, look at their fertiliser regimes. You could go organic, that is another way. All the international markets are looking for organic and that is also another way you could get around saying we have to pay the farmers this because they're organic. It's a different product to what you are getting now. I guess that would be the way you would go as well. You would have to say, 'We're going organic', and that could be part of the inspection process from the person who is employed around the factory to check the organic status of these properties. In a lot of ways, I think it is a pretty easy business model and it would make money fairly quickly because it is a short shelf-life product.

**CHAIR** - It's just getting the right clusters of people to do it.

**Mr HEALY** - And you need to get the guys where it is going to on board. They've got to have skin in the game and then you can keep the market. We have seen issues with some international markets falling over but if they've got skin in the game, got an investment - and it's not the land; it's part of the business infrastructure, or whatever - get a contract in place and then you've got continuation.

**Mr FARRELL** - Jon, we have heard from other people talking about the Tasmanian brand, particularly with milk and butter - not the multinationals but the larger co-ops coming in, and how

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the New Zealand company, for example, is beholden to its shareholders. It doesn't really push the Tasmanian brand like it does, whereas with your business being a smaller Tasmanian business promotes the Tasmanianness. How do you preserve that? We have seen it with the timber industry, the vegetable industry and the dairy industry. It all gets to a size; it gets really big, it's a great little takeover target. Someone takes it over and then you are just in an homogenised market. It is a hard question but how do you think we can keep these things?

**Mr HEALY** - There's just got to be a measure put in place and keep it really simple. Whether it's what percentage of your business utilises that raw ingredient in their product and as long as that percentage is 100 per cent or whatever, then maybe it's okay. But you've got concerns about people who might have other processing sites doing it. It could be as simple as inspections and things like that.

**Mr FARRELL** - The mining industry probably did it quite well - started off as a small base and stayed fairly small. They have, I suppose it's an appellation system.

**Mr HEALY** - If you had some sort of a fee, a royalty, then you could employ somebody to keep an eye on it. It's a friendly inspection but you could be going around these places and confirm that they are the only places it's going into and keep an eye on them.

**Mr FARRELL** - Is that where a strong Brand Tasmania could help to keep that Tasmanian -

**Mr HEALY** - Yes, definitely.

**Mrs HISCUTT** - I was talking a while ago to a cafe/bakery owner and I'm pretty sure he said that his businesses use 20 000 litres a year - I thought he said 40 000, but that might have been over the top - he uses an awful lot of milk. His answer to me was he cannot afford to buy Ashgrove's and your milk because it is just too expensive at \$4.50 a cup. He has to go to Coles and he has to buy \$1 milk. What do you say to that?

**Mr HEALY** - Look at what you are making. It's a great way of pulling more margins out of your produce. I don't know, has the price of his produce changed? Was he the cheapest -

**Mrs HISCUTT** - No, he is very well -

**Mr HEALY** - It's a way of capturing more market and he wouldn't pay \$4.50. If he came to us and he said 'I want 20 000 litres of milk', that's not like dropping six 2-litre bottles off at the corner store. It's a couple of pallets a week and all of a sudden, 'Can we do that in bulk quantities? Can we do it in 10-litre buckets? Can we get some efficiencies here?'. It's a little bit about - does he really want to use it? I'm sure if he went to Ashgrove and sat down with Richard Bennett and said, 'I'm going to use this but really -'

**Mrs HISCUTT** - I was led to believe he'd had those conversations. Do you think that the consumer can be convinced to pay \$7 or \$8 for their cup of coffee? Do you think that could ever happen?

**Mr HEALY** - They don't need to. No. We would make up to 300 coffees in our cafe and sometimes we are using our bottled milk. We've done all the numbers on it. The expensive part of coffee is the coffee, the grinds - that's the expensive piece. You've got to be efficient with that. The milk bit is nothing, particularly if you're having a cappuccino, which is one-third froth.

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The only other thing that I wanted to share there is that we just recently found it really, really difficult taking samples to Hong Kong of cheese to find a market. We have done the numbers on what it is going to cost us to get export accreditation and we believe that we've got to be able to sell two pallets of cheese to this place to make it worthwhile. One will go for the export accreditation and the other will go to make the thing work. We couldn't send 60 kilos of cheese for a promotion around 15 stores in Hong Kong because of the restrictions because we're not export-accredited.

If we're looking to make this place export lots of dairy produce, things like that have to be made to be a bit easier. It was really, really complicated and cost us a lot of time to get a small volume of cheese out.

**Mrs HISCUTT** - With the two lots of QAs, which one in your opinion would you like to see overriding the other?

**Mr HEALY** - They only need the Tasmanian one. The Tasmanian guys do a fantastic job and it has all the ticks in all the right boxes to fulfil it and we're keeping it in house. We're employing some Tasmanian people.

**CHAIR** - When we look at that segment when we talked about any further processing opportunities, in your view, being in that game yourself as a boutique-type, smaller enterprise cheesemaker, is there much opportunity left in the state to do a lot of that? You don't want too many people competing with you, I don't suppose, do you? Or is the market fairly limited, do you think?

**Mr HEALY** - The market is tricky. When we started and we're talking about liquid milk, when we started packaging liquid milk 20 years ago, there were two other businesses in Tasmania doing it. Now I reckon there are more than 10 and some of them are quite extensive businesses. The purchasers have become better educated and in some ways have more cash to spend on branded produce, but then, all of a sudden, we've got this lower grade non-branded product as well at a very low price, which is picking up a decent amount of trade as well. There is massive competition. The problem with Tasmania's liquid milk is there are no people.

**CHAIR** - No, that is right.

**Mr HEALY** - If you drive a truck into Melbourne you would have more hope of getting rid of the milk than what you do around the state of Tasmania but you have all the costs of transport. Milk is one litre is one kilo, so it is all heavy and it all costs a lot of money to distribute. Liquid milk in the state is -

**CHAIR** - I am talking more about the specialty cheese type markets, not only here, there are plenty of them in South Australia, Victoria. You see heaps on different supermarket shelves and the smaller stores. Do you think there is a ceiling in that market and whether the Tasmanian brand would have an advantage if it was branded like that?

**Mr HEALY** - Definitely an advantage. Probably not the advantage there might have been 30 years ago because you have places like Kangaroo Island and places like that who are getting great food trails happening nowadays. So we have competition there as well. It would help but probably not the effect there would have been.

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**CHAIR** - Thank you very much, John.

**THE WITNESS WITHDREW.**

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**Mr TONY CLARKE**, WHITEWATER DAIRY, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** (Mr Hall) - Welcome, Tony. Anything you say in the hearing is covered under parliamentary privilege but what you say outside is not covered.

**Mr CLARKE** - I live in Westbury but I am a part owner in a large dairy farm in Circular Head. I have been involved in farming for most of my life, except for a period when I worked in hospitality as a chef. I was born on a dairy farm on the north-west coast. I also worked for a period at the TFGA.

The thrust of my submission is to make the pie bigger, if you like, to create conditions for greater investment. In recent times I have been dealing with a lot of outside investors in agriculture. My business partner is based in Sydney and we keep getting small inquiries to maybe purchase another farm and do it all again. I have probably gone off track a little bit, off the marketing side of things, but I will come to that in a moment. The Government does have a role in promoting the state but the greater role, I think, is ensuring we are competitive and we can attract more and more investment.

The state, at the moment, in terms of agriculture is probably only running at about 30 per cent. There is a lot of untapped potential, but we can't really get that potential unless we have more money coming in. We need to be creating better conditions to be competitive to be in that market of attracting outside investment because we can't do it alone within our own borders. There is simply not enough money. If we do it, it is with borrowed cash and that creates its own level of risk.

I will briefly go through my recommendations. Recommendation 1: I am a bit of a free marketer and I believe the free market, individual businesses, people who put their own money into it, are the best ones to create the opportunities. They have more invested and will also better target the markets they want to go to. The problem with a statewide marketing plan is it is going to be bland in its approach. When I was at TFGA we looked at this and there wasn't a lot of strong evidence, outside of small regions, that marketing on that macro level really hits the buttons. If you look at the success stories, they are specific brands targeted at specific markets. This means it is far more coordinated and doesn't get lost in the background noise.

However, if we did go down the path of a stronger Tasmanian brand, I am a strong believer it should mean something. If you look at what we do, we produce Tasmanian product. That's all we produce, because we are Tasmanian producers so, in a sense, we own that Tasmanian brand. If we look at the example of Bellamy's, who don't do that, they access their product from other sources but leverage off the 'Tasmanian-ness' of their business. They are taking some of our value without really putting much back in. In fact, that particular company probably delivers more value to Victoria in a real sense than it does to the Tasmanian economy because that is probably the seat of their operations, outside of the head office. Companies such as that represent a risk to the Tasmanian brand. If something goes wrong in their supply chain, because like it or not people identify that company as being Tasmanian with Tasmanian product - and I am talking specifically about the dairy industry.

Last summer I caught up with a bunch of people and I became aware there was this thing with Bellamy's. Over the course of summer you have a few drinks and catch up with people and I

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probably spoke to 30 or 40 people. In the course of conversation I was asking, 'Where do you think Bellamy's stuff comes from?', and uniformly, 100 per cent, they said, 'Tasmania'. There was this belief there were organic farms producing this great product, but it is a falsehood. If something goes wrong in their supply chain, that is going to be a blowback to the rest of us. Alternatively, even if there's not but the ordinary consumer of this product finds out where it comes from, there will be a blowback on that because they may feel duped. The thing with branding is it is a double-edged sword. We have to be very clear about what you want out of it and about what buys in and what doesn't. As to a Tasmanian brand, if anyone has ownership of that, it is not just Tasmanian people; it has to be Tasmanian product.

I will lump recommendations 3 and 4 together because they talk about the same thing. This is about where government responses should lie in terms of costs to our business. We have known that we are getting increasing cost structures within our business. We live, like it or not, as long way from our markets. Our markets are often on the other side of the world so that means we start with a natural disadvantage from the beginning. In recent years there seems to be a bit more of a move, particularly from government, to ignore that sort of thing and allow costs to simply increase. I think there needs to be more emphasis on that because when outside investors come in to look at this place to invest in, that is one of the things because we pay more in utilities and rates. In our business we pay \$15 000 in rates and for that we get a gravel road and a once-a-week pick-up for rubbish. It's about value. I guess from the other end of the supply chain we don't have many mechanisms to push back against some of these increasing costs, particularly around energy, water use and that sort of thing.

I was talking recently to a friend who did a dairy conversion in the Cressy/Longford region and part of the application, the planning he had to go through which was costed to start with, he was required to engage with TasWater and pay them so many thousands of dollars and they couldn't deliver water to his property anyway. It's that kind of attitude of, 'Just pay it, it's a million-dollar investment - who cares'. I think we've got to get off that and be more competitive and recognise that there is capital floating around out there and it doesn't know any boundaries. It can go to China, it can go to Victoria, it can go to New Zealand before it will come here, and we should be in the business of trying to get that to come here because we've barely touched the sides in the development of this space and I think we have some great opportunities but we can't sit back and hope they happen. I think we have to be active.

**CHAIR** - Thanks very much, Tony. The way the industry is at the moment we've always got that cyclical matter and that has always been the case. To try to alleviate that in some ways or mitigate that, do you see any more other smaller processing opportunities which would come up to do that? It is not going to take a huge volume of milk.

**Mr CLARKE** - That is true. From our point of view for my business I probably wouldn't go down that path because it's not a speciality of mine and I would view some of that stuff as a risk, but that doesn't mean other people shouldn't do it. I think there are some great opportunities. One thing that has happened in the last five years, I suppose, is this greater emphasis on food trails, but I think the greater opportunity is around tourism. People will come here to eat our product. I don't think it is going to be in an export sense. If it's going to be specialty cheeses people will want to be able to come and have the experience. It is a bit like hitting the wine trail. I think there are opportunities there.

You will notice I didn't talk about the current pricing at the moment because you're right, it's absolutely cyclical and there's not much we can do about it, supermarkets or anything, because

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what happens overseas affects us more than anything else. What I was driving at is that there are things government can do to not alleviate it but to make sure we're getting the investment into this place, because we will see a reduction in production this year and any developments that were on the books will probably be shelved for a little while. I know that's the nature of the business but, like I said, I don't think we can be too content sitting back on our haunches and saying Tassie is a great place and it will come to us naturally.

**CHAIR** - We will be hearing from both Fonterra and Murray Goulburn. As you know, they take a high percentage of our milk, virtually most of it, don't they?

**Mr CLARKE** - Between those two companies, virtually all of it.

**CHAIR** - Do you think there would be any capacity for either of those companies or both of them to differentiate some of their product which is processed here in Tasmania, as opposed to mixing it in with generic Victorian product?

**Mr CLARKE** - I would assume their marketing people, if they had identified that as a thing, would have exploited that.

**CHAIR** - It is a question we can ask them.

**Mr CLARKE** - We supply Murray Goulburn and they have their own brand. If they launch a Tasmanian brand that kind of devalues what they currently do. We went with Murray Goulburn because we can own part of the business. We wanted to be part of a co-op and there wasn't a local one and we think being part of a big co-op is probably the way to go.

I would have thought there is potential there but I still think the potential is going to be around more the micro level and selling to mainly tourists. I could be wrong on this but I don't think there is any great export potential to mainland China or even to other parts.

If you look at other brands like the Cape Grim brand which is very successful, I am not sure if people really buy it because it is Tasmanian. It comes as a package. It is grass-fed, it is Tasmanian and it is backed up by a quality assurance system which ensures you have consistent eating quality. I think those sorts of factors are probably more important than the provenance of that product. That's probably not what people want to hear. I think we do have advantages in that area, but in the dairy world we produce in the global market and whether we like it or not, that is price driven. If we sink a lot of money into a branding exercise we're only increasing the cost of that and you would need to be fairly certain you were going to get a benefit at the end of that.

You will probably hear from Murray Goulburn. They have a fairly well-recognised brand in the Chinese market where they sell a lot of UHT milk. I believe their price in China has been halved because they are basically getting swamped with European product at the moment. Whether we like it or not, I don't think the country or state of origin is fundamentally going to change that.

**CHAIR** - If we go back to the comment you made on Bellamy's who are in the news probably for reasons they would not like to be there at the moment, you mention they don't use product from here in Tasmania and they don't -

**Mr CLARKE** - Dairy products.



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**CHAIR** - Dairy products, that's right. What you were saying was that the risk to the Tasmanian brand is that they are already called out by the Chinese and you were saying it will cause a lot of damage to the Tasmanian brand right now.

**Mr CLARKE** - I think so. This is only a gut feel and I don't want to overplay it too much, but I think if you were in that market there would be questions as to whether you could guarantee what you are doing is a Tasmanian product. As I said, from a small straw poll of people I know and a few strangers as well, everyone identifies it as Tasmanian. You only have to go into the airport and see the big sign there. I think there is a risk people will feel duped and then they may call into question other products claiming Tasmanian provenance. That may disappear quickly and not amount to anything, but it is a very competitive world out there and you don't need hassles like that.

**Mrs HISCUTT** - In your opinion, do you reckon the conversion to organics for a company like that and to source from Tasmania is ever possible?

**Mr CLARKE** - A lot of people are looking at organics at the moment. I believe there are maybe four farms going through conversion at the moment. It's not just being an organic producer; it's also where that product then goes. If it goes into the baby formula market, where is it going to be processed? Not in this state. A factory like that would probably cost \$100 million. That's what I meant about the investment, but no-one is going to be putting money in - this is the thing. It would be interesting to get Bellamy's view on why they haven't made that investment themselves.

**Mrs HISCUTT** - But the investment, the infrastructure, is not as important as the sourcing of the raw product.

**Mr CLARKE** - No, that's true; I agree with that.

**Mrs HISCUTT** - In your opinion - and you may not have an opinion, you may not know - do you think that sourcing the organic milk from Tasmania is ever a reality?

**Mr CLARKE** - Yes, of course, but you have to be certain. People who want to do that will require longer-term contracts. We all know that going through an organic accreditation is a long, expensive process. There are some issues within the certification which I find a bit troubling, particularly around animal welfare. If Fonterra or someone like that would require that kind of commitment, they need to be putting their hands in their pocket and saying, 'We'll give you a 3-4 year contract'. We wouldn't do it on a promise and also, knowing how the market works, we only need to tip over a little bit on production and organic milk won't be worth a premium.

**CHAIR** - It's like any other product; once you reach saturation, suddenly the premium drops out, unfortunately, that's the way it works.

**Mr CLARKE** - Yes, it's simple economics. A friend of mine used to be the largest organic carrot producer in the nation and was based in Victoria. One particular year, a new supplier turned up, put in 20 acres of organic carrots and swamped the national market. The price of organic carrots for a short period of time was less than conventional carrots, but you need more. Some people are prepared to pay a premium for organic produce but some people aren't.

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**Mrs HISCUTT** - How many organic farms are you aware of that are organic in the real sense of the word in Tasmania? Are there any there yet?

**Mr CLARKE** - I only know of one dairy farm, and that would be Elgaar's - I think they are producing again now.

**CHAIR** - They haven't got their licence back to process at Elgaar's as far as I know. That's a matter between them and the TDIA.

**Mr CLARKE** - As far as I know they're the only ones; I know of maybe three or four other farms that are looking at it.

**Mrs HISCUTT** - Discussing it or doing it?

**Mr CLARKE** - They're actually in the process, apparently. I understand Fonterra is looking for organic production. I was talking to the CEO of VDL not long ago and they are looking to convert two or three properties at Woolnorth as well.

**Ms RATTRAY** - Tony, I am interested in the area of your submission where you talk about irrigation. It's not the first time I have heard the criticism that the capacity that has been promised is just for needs now and not really looking into the future - it's at a premium price. Do you think we should be going back to the federal government and saying 'your guidelines are wrong' instead of just accepting what they offer?

**Mr CLARKE** - I am not sure if the guidelines came from the federal government. I believe, to insure the value of those rights there was never ever an intention to create excess capacity in those schemes, to protect the investment of those people who invest in the schemes in the first place.

**Ms RATTRAY** - So you think it is a lost opportunity, would that be fair to say?

**Mr CLARKE** - Yes. It is probably not quite the right forum but I used to work in this area and we worked on the irrigation scheme down at Kindred. There were surveys done and it looked like it should have been a scheme of around about 14 000 megalitres to fully service that area. Of course, that's not an area where we were going to have salinity issues or anything like that but because of that narrow focus - and these are a 100-year schemes, they will last for a long time, they will see out generations - and the veggie industry was going through a sharp decline at that point, farmers just couldn't see their way clear to pay that kind of money and so they ended up with a 3 000-megalitre scheme.

A lot of those costs - well, it became a heavily subsidised scheme and you have to really question the efficacy of that. I think it's a lost opportunity for sure. It is a product of government policy and it is not this Government, it is the previous government, I suppose. When you see that kind of money going into a community and not delivering something for the future, that doesn't sit very well.

**Ms RATTRAY** - I note that I heard on the wireless, as Mr Hall would say, a couple of days ago that there is substantial amount of federal money again available for irrigation. When I read your submission I thought, is this an opportunity to re look at it?

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**Mr CLARKE** - I hope so and I would encourage the Government to look at some of these developments with fresh eyes with a view to, if we are stuck with the pricing model then I think it would be more beneficial if water rights were sold off in tranches within a scheme. It shouldn't be 'this is it and that's it'. I have heard reports of people buying only 20 megalitres of water rights and getting a 2-inch tap. There are not a lot of trading opportunities for other users within that scheme to sell more water onto that. To me it was really good when it started but it kind of lost its way.

**Ms RATTRAY** - We need to revisit some of the parameters, in your view, around that. Chair, my other question was, and it sparked some interest when you talked about creating an environment more conducive to private investment and eliminating stamp duty, streamlining the planning scheme - the stamp duty is obviously a government policy. Streamlining the planning scheme is underway, albeit it has been happening since I have been a member and that's a while now. Amalgamating councils, well, that is a pretty hard ask but I understand it. Reform of state legislature - would you like to expand on that?

**Mr CLARKE** - I guess a lot of these discussions tend to happen in isolation. We talk about council amalgamations, we talk about expanding the lower House and the relationship between federal and state and all that sort of thing, the upper House, but it is always in isolation. It's not about a reform that takes into account everything, like should the upper House be amalgamated with the lower House, or should it be single-member electorates in the lower House and multi-member electorates in the upper House, and that sort of thing.

**CHAIR** - There are many views around all that. We are probably moving off the subject.

**Mr CLARKE** - Yes, there are a lot of views around that and I won't go any further but I think you have to look at it in totality.

**Mr FARRELL** - On your ideas of the role of government, did you feel, with the Tasmanian brand and you mentioned before how that had probably not been well used, do you think there is a role for government to protect that, to have legislation as to what constitutes anything that can be branded as Tasmanian?

**Mr CLARKE** - I would be wary of putting in a heavy hand like that. Having said that, we do need to come up with an idea of how you protect what it is to be a Tasmanian product. What that would look like, I'm not 100 per cent certain on that.

**CHAIR** - Tony, you talked about the need for outside investment and that capital, as we know, sometimes it is hard to raise within Australia and I would agree with that. You have no aversion to Moon Lake or anybody else coming in?

**Mr CLARKE** - No, absolutely not.

**CHAIR** - And/or people who would come in with capital to provide the finance for processing plants and whatever? Is it whatever it takes?

**Mr CLARKE** - Whatever it takes. The company I supply, Murray Goulburn, has a processing plant down in Smithton. The original investment was made by some locals, Murray Goulburn and the Mitsubishi Corporation. Now it's only Murray Goulburn, but that's how it got its start and that has been a great boon for that district. I think we shouldn't be too nationalistic

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about where capital comes from; it is only dollars and cents. As long as they are building something and employing local people and growing - I'm a big believer of growth, making the pie bigger and creating opportunities. If we stay the size we are we will see employment and opportunities slip away. It is just the nature of the beast. We need to grow and we have the potential to grow, there is no doubt about that.

**CHAIR** - You may or may not have a view on this. Sometimes governments of all persuasions use the grant system as a pork barrel, the political pork barrel. There have been alternative options put out there. A lot like a HECS-type system, which is a loan, can be over a longer period of time, low interest and all that sort of thing. Do you see systems like that may be better to help an industry sometimes? There are some in the dairy industry, to set up a processor that requires a lot of capital?

**Mr CLARKE** - I guess a HECS-style system may have some merit. I am not a big fan of grants where it is just free money because most of us don't get access to free money. I can see some sense in a HECS-style system if you are trying to develop a system. I think it should be in conjunction with the processor, if you like. If we were to build a new butter factory down here or something like that and we need to grow the sector, then it would make sense to have those two factors tied in together. Just as here is another subsidy for farmers, I am not sure if it really is going to cut it either. I think it should be fairly well targeted.

**CHAIR** - Going back to Mr Farrell's question with Brand Tasmania, have you seen Brand Tasmania out in the field? Do you have a view as to how good they have been at their job, or if they haven't been good at their job?

**Mr CLARKE** - I'm not sure. I looked at their website not long ago. I remember when I went to the launch of the current iteration of Brand Tasmania and we had some nice canapés and that sort of thing, but I think it is something that kind of lacks teeth. Certainly, in my world it does not feature that highly. It is one of those things that sounds like a great idea in theory, but I'm not sure if it is quite hitting the mark. I am not sure. I certainly haven't seen any data that says it is creating a lot of value. There could be an argument it is under funded, I guess. It is one of those things, if you are going to back it you have to make sure it is properly funded otherwise it may not be worth having in the tent at all. Don't be too half-arsed about it. Like I said, I haven't seen any data on that front.

**Ms RATTRAY** - A question in relation to employment opportunities, particularly in the dairy industry. We heard from TFGA that DairyTas have been doing some work around making the industry look attractive. It is a choice and people are choosing to work in the industry. Do you have any experience about how difficult it is to get people in the industry and keep them in the industry, and perhaps any suggestions?

**Mr CLARKE** - We have not had a big issue around employing people. That has not been my experience. We have had a few issues with the people we have employed, but up until last year our manager was a guy from New Zealand, there was an Indian guy from Fiji who managed a big farm in New Zealand and then came over to us and is now a resident. It was great. He has moved on and we have replaced him with a 25-year-old guy who is having a crack. It is an issue I guess, but how much of an issue I am not sure because I know from my personal experience if we are short of labour because somebody has left, we ask around, we advertise and people seem to come along. Our goal is if we find good people we do whatever we can to keep them.

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To be honest I think there is a little bit too much made of labour shortages in the sector. I am not sure if they are quite true. It is more of a perceived problem rather than an actual problem. The reality is most of us are trying to do things that limit labour on the farms. In our situation we use a lot of contractors and we really focus on that labour efficiency. The reality is if the price goes up we can increase production just like that and we would not employ more people anyway. I guess from us it is not a huge issue.

**Ms RATTRAY** - What opportunities are there in Tasmania, or are there any opportunities, for managers? It appears nearly every manager I know has come from New Zealand.

**Mr CLARKE** - There are great opportunities in the sector for good quality managers and good quality two-ICs and other workers. We milk between 900 and 1000 cows so we are at the upper end of dairy size. Most of the recent conversions are in that ballpark. We are moving down a pathway where the people who own the land are not the people who are milking the cows. I think there are some great opportunities for people who can manage staff and manage livestock.

**Ms RATTRAY** - But they are not so much Tasmanians or potentially even Australians that are getting those jobs?

**Mr CLARKE** - Our guy is a local born Smithton fellow.

**Ms RATTRAY** - The 25 year old who is going to have a crack.

**Mr CLARKE** - The 25-year-old guy who is having a crack. I cannot say that. We tend to look overseas because we do not have an agricultural college in Tassie, so we cannot go and meet this year's output of potential managers. The university degree is agricultural science, so they tend not to go down that path. We are looking for a farm manager, which is a different concept.

**CHAIR** - Tony, a couple of the submissions have mentioned we still have a GM moratorium at the moment and the fact we ought to be able to leverage off that. Have you seen anybody get a price premium since the moratorium has been in? They might be able to get a bit more market access. My concern is that most of our milk is still mixed in generically with the Victorian milk where they are going down the GM path, it would seem. What is your view there?

**Mr CLARKE** - I have not seen any benefit from the GMO moratorium. I am more of a view we are locking ourselves out of a lot of technology we shouldn't be too afraid of. The issue for me around GMO is more around how we legislate and how we use that technology, not so much whether we should use it or not. Personally, and this is probably a minority view, I think we should be engaging with the world and using the available technology. We should not be closing the borders now. There are companies that are getting some advantage out of that moratorium. I understand Greenham's have that position. They love that sort of thing. It gives them access. I do not know whether it gives them a premium. Personally, I prefer it not to be there. I certainly, at my bottom rung of the world, we do not see any advantage to our business there at all.

In fact, I could argue, because we focus entirely on production we are being hamstrung in terms of potential advances in grass technology or something like that. We should be engaging in that sort of thing rather than shutting the door.

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**Mrs HISCUTT** - When you talk about conversions, are you talking about virgin land going into dairy or are you talking about cropping, farm going into dairy or little dairy farms getting bigger? What is in your mind?

**Mr CLARKE** - I am generally talking about an existing property that probably has irrigation already and putting a dairy on the place.

**Mrs HISCUTT** - An existing farm?

**Mr CLARKE** - An existing farm, moving from cropping and into dairying because they can make more money out of the grass, yes.

It is interesting you mentioned the small farm amalgamation, because that is probably a really big issue for Tassie. We have all these tightly held smallholdings. If they were put together, they would probably make a good viable economic unit, but because they are owned by individuals, they do not seem to want to do that. It is probably holding out and a step backward.

**Mrs HISCUTT** - Why do they not want to join in? Is it an age thing, dare I say?

**Mr CLARKE** - I think it is just the farmer mentality. We like to do things ourselves.

**Mrs HISCUTT** - Individual little businesses.

**Mr CLARKE** - Yes, that sort of thing. Once you start dealing with other people it is a complex thing.

**Mrs HISCUTT** - You lose control.

**Mr CLARKE** - You lose control, you have to negotiate everything; you cannot say, I will just go and do that. It is a complex thing.

**CHAIR** - It is like working in Parliament.

**Mrs HISCUTT** - Being a co-operative.

**CHAIR** - Tony, thank you very much for your presentation.

**THE WITNESS WITHDREW.**

## **PUBLIC**

**Ms KIM SEAGRAM**, PRESIDENT, HARVEST LAUNCESTON, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** (Mr Hall) - Welcome, Kim. Whilst you give evidence here you are protected by parliamentary privilege, but what you say outside of the hearing is not protected.

**Ms SEAGRAM** - I see an incredibly bright future for the dairy industry in Tasmania but we have to start focusing on value-adding to our fabulous milk products within the state. The Tasmanian brand has never been stronger. Demand continues to outstrip supply, which is a really good place for us to be in. We can create new career opportunities as cheese makers and yoghurt makers that will encourage kids to stay.

I have been involved in the wine and food industries in the state since I arrived here 24 years ago and I have never met a nicer group of people to work with. To start developing that culture around the dairy industry would be fantastic. We have the opportunity with new products that we create to create new businesses and the jobs surrounding those. With 9 per cent of the milk being produced in Tasmania - or 9 per cent of Australia's milk being produced in Tasmania - even if we just focus on 1 per cent of that we could make an absolutely massive impact.

I will give you a bit of a background on my experience. My history is with the fledgling Tasmanian wine industry when I first arrived here. Although we produced less than half a percent of the Australian crush, we produced about 10 per cent of that absolutely premium industry. We get the highest price per tonne for wine grapes in the country, with anywhere from \$2500 a tonne to \$6000-plus a tonne. If you turn one tonne of those grapes into wine, you are yielding 756 bottles or 63 cases. All of a sudden your yield of approximately \$40 per bottle retail goes up to about \$30 240. It is just a no-brainer.

Every winery in Tasmania - and it is the only state in this country or that is considered as a wine region - is profitable. There is no other region in this country that can claim that. The iconic Hunter Valley only has 30 per cent of their wineries that are economically sustainable. To do a bit of contrasting, there are 162 wineries in Tasmania but only 14 cheese producers. We have some absolutely top quality producers: Pyengana; Coal River Farm, which is doing a fantastic job with its new cheese production. We have Bruny Island, which has created a cult following. Nick Haddow has done an incredible job.

We have a few yoghurt producers. This is the fastest growing item in the dairy case in supermarkets right now. There are huge opportunities in that area. We haven't even started to touch things such as kefir and probiotics which, as gut health is really starting to be understood and the microbiome with all those fabulous little bugs inside your body, that are so important in your health, are being understood further and further, there is a huge opportunity and growth in that area as well.

We know this will never be able to use all the milk we produce in Tasmania but it can create an alternative income stream for our dairy farmers. With our marketing advantages, our GM moratorium, our limited use of antibiotics, I think there is a huge opportunity. There is an opportunity to almost create the champagne of the dairy industry in Tasmania.

An industry body is needed because one of the things I have found through my position as chair of fermentasmania, which is to create a world-class centre based around fermentation -

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which is essentially what I am talking about with value-adding to our dairy industry - there is no way to communicate directly with industry. I have talked to a number of dairy people and there is no way to communicate with those 14 cheese producers to try to help them grow to be more.

In the early days with the wine industry I worked very closely with Andrew Pirie. He understood just standing there and saying, 'Hey, we have some of the best wines in the country', - let me broaden that out to world now - that unless there were a number of other producers that were standing next to him saying the same thing, the message just does not get through. I think we definitely need an industry body that is very marketing-focused. I also think there is an opportunity to link with what we are doing with fermentasmania, to almost take on that role and that research and development side of things. We could certainly help facilitate that side.

**CHAIR** - Just in regard to industry bodies, obviously there are farmers' organisations, like there is Dairy Tasmania and there is the TFGA and all those sorts of things. What you are saying is that for some of the smaller niche producers, at the moment they need to do that because that is their job to do, you would suggest?

**Ms SEAGRAM** - Yes, it certainly is. As you can understand, when you are setting up an industry, and I have seen the Tasmanian Independent Breweries Association just set up and get up and running, because there is finally enough of them to bond together. They got a grant to be able to set up an industry body and have somebody lead that. Again, because everybody is still in such a fledgling state, it would be really nice to have somebody like a Nick Haddow or somebody to be able to lead the charge on that. I think that would provide a significant advantage to the industry.

**CHAIR** - Another matter I put forward to you, and it is just a matter of the way the industry is here at the moment - and our small population base. Probably only about something like 7 or 8 per cent of the total milk that we produce here in Tasmania is actually consumed within the state, whether it be fresh milk, whether it be in artisan cheeses, whether it be in yoghurt or whatever. That being the case, we are always going to have to contend - whether we like it or not - we are going to have to have quite a large sector of our milk which is still going to be generically branded on the international markets, and that is the way it is.

**Ms SEAGRAM** - Powdered and shipped off shore, yes.

**CHAIR** - That is right. The question to you then is, with regard to setting up a new, if you are a cheese processor, a new artisan cheese processor or whatever, you require a fair bit of capital and everything else for that -

**Ms SEAGRAM** - Correct.

**CHAIR** - How do you see the way through that? How can the government assist with those sorts of matters?

**Ms SEAGRAM** - Certainly helping bodies such as fermentasmania get up and running. We actually see the dairy industry as one of our major opportunities to be able to help people, and actually come into a facility where they can start making a product at a small scale, start to understand processes and learn how to do this. Then when they finally scale up to a point where they want to set up a facility, they will have already worked with the equipment, have all the contacts and things like that. Then they can go back into their regional community, which more likely they are from, and actually set up something on the farm.



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I think there is a huge opportunity to help in those fledgling years, because as you have just said, to be able to set up something with all the equipment you need is incredibly expensive. If there can be a shared facility where people can actually do the learning and the training, and on top of that, there is the tourism opportunity as well. I am sure there are a few punters who would love to come down and learn how to make fresh cheese or have a bit of a play making a hard cheese and coming down and visiting a few times while it is maturing.

**CHAIR** - Yes. That will obviously take a while to evolve, that sort of thing. It would take a small percentage of milk and probably a very small percentage in the whole big bucket. Some farmers would say, why would we bother going down that track? We will ride the troughs and the bumps and everything else and not get involved in all that sort of thing. That is what is happening. It has been happening for many years.

**Ms SEAGRAM** - I guess it is all the eggs in the one basket issue. When you do put all your eggs in one basket you are subject to the bumps. I think if you can actually start looking at alternative income streams, and it can be the cheese-making side of things, but then you can add agri-tourism onto it as well. Then maybe you could actually put your own little training facility in there, or encourage people to come down from other parts of the world and teach them how to make new cheeses and make new products.

What we need to be able to do is to give a lot of these people the confidence and the opportunity to start value-adding to some of their products. It may not be the farmer themselves. There may just be a fabulous young kid in town who thinks that she is making a great opportunity. At this point in time there is no real way for them to easily access the milk product on a regular basis to create a business.

**CHAIR** - What you are saying is it doesn't matter where the capital comes from, from China or wherever it is, but if somebody decided to come down here and set up a cheese-making business and go on that top-end scale as long, as they get a nucleus of farmers they can supply them?

**Ms SEAGRAM** - Yes. Again, it's not going to be the answer to everything, but I think if we can add another string to our bow, another income stream, it will help soften out the troughs and bumps. It also adds to the Tasmanian brand and offers new opportunities for them.

**Ms RATTRAY** - Following on from what you were talking about, Kim, a number of years ago when Dorset was struggling - and there are still a few challenges - it was mooted to set up a business hub centre that was going to facilitate entrepreneurs so they could all use the one central facility, if you like, and have little branches off that. That never came to fruition, unfortunately, but when you were talking I was thinking about that exact model, because it is so expensive to start up and have somebody to answer the phone and enough space to do whatever they need to do. Do you see something like that, wherever it may be, as being a good model to follow?

**Ms SEAGRAM** - Tanya, exactly. In fact we've been working with the Tasmanian School of Business Economics who really want to set up these incubators in both Launceston and Hobart.

**Ms RATTRAY** - That's the word.

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**Ms SEAGRAM** - Being the president of Harvest we work with a lot of fantastic producers who are very passionate about what they do but sometimes they don't have a skill set so we're trying to help these people who don't have that skill set either be able to acquire that skill set or be able to use somebody else who has that skill set. By having an incubator they can learn how to market or have somebody to market for them. They can learn to graphic design or have somebody to do it for them and just be able to plug those skills in. Quite often you have somebody who will become a really passionate cheesemaker but the business fails because they don't know how to run a business. In fact, I've had it happen recently with a gin business we've just set up. A passionate winemaker wanted to start a distilling business but needed marketing and sales and financial skills behind her to be able to do it, so she approached my husband and I and said, 'Would you mind providing that expertise so I can make a successful business?' That was the birth of Abel Gin.

**Ms RATTRAY** - There is a big opportunity.

**CHAIR** - As one travels around Australia you see plenty of artisan cheesemakers, not just here but in Victoria, New South Wales, South Australia - anywhere that can produce milk there are a lot of them. Where would you envisage the market? Would you say we should go on the back of some sort of Tasmanian brand for excellence to do this? If so, how would you do that and what sort of job do you think Brand Tasmania is doing at the moment, generally?

**Ms SEAGRAM** - That's a loaded question. I've always seen Tasmania's position as producing absolutely premium quality product, because we're just not of the size and scale to be able to do mass-market stuff. I think our opportunity is in that premium side of things. That's why I mentioned those three cheese producers, because I think they're doing an absolutely magic job. We have an incredibly talented cheesemaker down south who happens to just like teaching, so he does some TAFE courses and things like that but he makes cheese to rival the French. I think much like we've done with our sparkling wine, we're now not only rivalling non-vintage champagne, we're actually rivalling vintage champagne, so if we can take our cheeses and really start to beat the French at their own at making some of these. Let's not look at that supermarket commodity cheese, although nothing against them and there will be a place for them. For people who just want to make some tasty cheese out of a whole bunch of milk they have it's a fantastic opportunity, but let's look at that next layer above that really stands behind the Tasmanian brand and makes it sing.

**CHAIR** - Once again I suppose Ashgrove who are just around the corner from me do that, but they sell through the chains and everything else and have developed that model. You could also argue too that Lion at Burnie, who we haven't heard from yet, are doing it on an industrial scale, I suppose, Tasmanian branding, which is good to see.

**Ms SEAGRAM** - It is industrial scale. They bought up the Heidi operation and all of a sudden they were bringing absolutely world-class training and cheesemaking into that operation, so their Gruyeres and Tilsits and things like that really stand the test of being world-class, which is fantastic.

As for the Brand Tasmania Council, I was the deputy chair of it for about 10 years but haven't sat on -

**CHAIR** - I didn't know that when I asked you the question. I might withdraw the question.

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*Laughter.*

**Ms SEAGRAM** - That's okay - I haven't sat on it for a number of years. I have a very intimate knowledge of the council. In our day I think we had about \$650 000 or \$700 000 or something to do our annual budget around and to pay for an executive officer. Honestly, if you're going to seriously look at a marketing campaign similar to what New Zealand has done - and, of course, they have just changed from their Peer campaign into their Open Minds, Open Hearts, Open Spaces campaign - if you can help put resources around things like that, a lot of the producers doing those top-quality products can link into and use those resources to be able to market, which I think would be a huge advantage. In fact I was talking with the Heritage Council yesterday and they are looking at the same opportunity as well. Again, the cream that rises to the top in all of those sectors I think can sit very comfortably.

**CHAIR** - In terms of funding, how do they sit do you think at the moment? Do they get enough, not enough?

**Ms SEAGRAM** - I know the Brand Tasmania project has been headed up through the Coordinator-General's office and I believe Guy Taylor, who was the marketing director at Tourism Tasmania, is leading that project. It will be interesting because he is the one who really turned the tourism brand on its head with the Behind the Scenery campaign. The nice thing about that is he got us really owning who we are and what we are. I think Tasmania's advantage is in really being authentic. It will be interesting to see what comes of this but I think there is massive opportunity with what is going on. Again, once it is done I think it has to be resourced properly so we can stay at that level, understanding we have a state budget and competing against something like a national budget like New Zealand has, but horses for courses.

**Ms RATTRAY** - In relation to your comment about the role of the Tasmanian government, you talk about investing further in telling the Tasmania's premium dairy products story. Is that a Brand Tasmania role or a whole-of-government role they pick up and do something in that way? Is it a cooperative approach with Dairy Tasmania and the TFGA? I am interested in how you see that.

**Ms SEAGRAM** - I think a collaborative approach. Again, we have to understand what the consumer wants to hear to be able to buy our product because we have to be consumer-centric. I think it should be about getting some feedback from dairy consumers and then taking that back to the TFGA, taking it back to DPIWE, taking it back within government and taking it back within the brand project to be able to then form the message. Then it is not just the dairy farmers and the cheese producers who will saying this message. You want the consumer at the dairy case picking out what they want or going to the little local deli saying, 'Oh, that's the cheese I thought x y and z about', because it has become part of their thinking. You want that happening in Melbourne, Sydney, Singapore and Hong Kong and in Europe.

**Ms RATTRAY** - It was suggested this morning by one of our presenters that there are some very good figures we should be able to access that would tell us in Tasmania where the biggest spend on grocery items is and what areas that would be. I hadn't really thought of it like that. There is no point going where they have very little money because we are looking for premium prices for what we consider premium products. What do you think about that? Is that something you have any understanding of, where the best markets are?

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**Ms SEAGRAM** - I can certainly have a good stab at where the best markets are for cheese consumption. As for the breakdown as to what is being consumed from the supermarket and things like that I would hope we would be able to access that. However, because we have a duopoly they probably don't want to share that information too widely to give a competitive advantage to their competitor. I would talk to the different dairy producers around to see what they are selling and again it is going to be hard to get a lot of intelligence because they are going to want to keep a lot of that as commercial-in-confidence as well.

I think there has to be a little bit of exploring to be done to access that, but if you look at some of the major foodie markets around the world I think that is where you start. As with anything Tasmanian, we have such little product to spread. Until we get that volume, let us focus on the markets that are going to really support us well and let us not go into the great unknown. For example, the Chinese market are not big dairy consumers to start off with, and they are not that sort of premium dairy market at this point. However, in Hong Kong there is one hell of a good expat community and there are probably a few really good chain delis and supermarkets there and it would be fantastic to get the product in.

**Ms RATTRAY** - Confine it to an area or a district to start with and once you have more product in the market then you can expand your tentacles out.

**Ms SEAGRAM** - Much like what we did with the Tasmanian wine industry. We realised we had to sell it to the local community first. I still remember 24, 25 years ago when people were saying, 'Oh, it's very expensive', or, 'Love, you want something a little fruity?'. We have come a long way since then. At least there is an understanding we are probably the best value for money wine in the country, because the Tasmanian demand kept our prices as low as possible but again still very reasonable. All of that happened.

We built that Tasmanian grassroots, everybody sang from the song sheet and they are proud. I still remember the year I gave somebody a bottle of Clover Hill. The next day she rang up to say, 'Kim, Kim, Kim, I have got Clover Hill. I celebrated my birthday with it, I celebrated Christmas with it'. I thought, this is what it is all about. Then you build it and then the pull will be to the mainland very easily - your Melbourne, Sydney, Brisbane markets. When it comes to cheese I see WA as a massive opportunity because they do not have that same quality dairy we can produce down here. Again, it is just slowly, slowly, getting the market out there, making sure that you have really good solid foundations and then we can look at those export opportunities.

**Mrs HISCUTT** - Correct me if I am wrong, but I am picking up from what you are saying that you think that to improve the Tasmanian dairy industry we have to look at Australia as opposed to overseas. Is that what you are saying?

**Ms SEAGRAM** - To start, I think if you really want to build a brand and you want to have a brand that is very, very strong so that if you have somebody flying in from Singapore saying, 'Hey, love your Tasmanian cheeses' to somebody in Sydney and they look at you blankly it is not supporting the brand story. What you have to do is build that brand story within your state, within your country before you go out to the world. It is much like the abalone industry. Unless you have a recreational licence down here there are not many locals eating a lot of abalone because it is too expensive and it goes straight off shore.

**Mrs HISCUTT** - The very last statement in your submission talks about reducing red tape. Practical examples are always handy. This morning we heard there is a bit of duplication in

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quality assurance systems. Is there anything else you can suggest that is red tape reduction without hindering health?

**Ms SEAGRAM** - I guess at this point it would be more focus on accessing milk product for people wanting to explore this. There is a lot of angst with some of the major processors here to give up parts of their allocation.

**Mrs HISCUTT** - To whom?

**Ms SEAGRAM** - For example, for a small cheese producer to be able to access good solid milk supply.

**Mrs HISCUTT** - You are talking about a non-farmer?

**Ms SEAGRAM** - Non-farmer, yes. We have to talk about non-farmers as well because there are a lot of dairy farmers who would have no interest in the world, they get up first thing in the morning, they milk the cows, they put them to bed at night. That is all they want to do, but there may be a young kid, or it may be the dairy farmer's daughter who thinks that cheesemaking would be the best thing in the world to do.

**Mrs HISCUTT** - You think there is a big problem out there with the artisan person, who doesn't have the farm, to get the milk from a farmer?

**Ms SEAGRAM** - Just to be able to access it easily. Once you have that, where are the facilities that you are going to put together to turn it into cheese?

**Mrs HISCUTT** - So that is not a red tape reduction a government can create. That is access.

**Ms SEAGRAM** - That is access.

**Mrs HISCUTT** - Back to your last statement; governments can help by continuing to reduce red tape. What practical examples can you give us?

**Ms SEAGRAM** - With the red tape side of it, it would probably be more of the duplication. We have certainly seen a big example -

**Mrs HISCUTT** - We are talking about quality assurance?

**Ms SEAGRAM** - The quality assurance processes. We have seen a massive issue with a couple of our producers down at the market. They continue to stand a significant portion of their working time on compliance rather than getting out there, making more cheese and more yoghurt.

**Mrs HISCUTT** - I hear what you are saying. The last one we had was an example of the local Tasmanian red tape process to work through, as opposed to an export bunch of another quality assurance. The people you are talking about would not have that export red tape to wade through?

**Ms SEAGRAM** - Not at this point in time, however that will be the next stage, again as you are growing the industry we have to remove the hurdles and make it easier for people to export, but keeping it safe.

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**Mrs HISCUTT** - At the minute you are talking about the local cheesemaker at your markets or places like that. I do not mean to be flippant, but the bit of red tape they have is the Tasmanian health system and working through their way through their quality assurance?

**Ms SEAGRAM** - Correct.

**Mrs HISCUTT** - Is this what you are talking about, within this set of quality assurance papers?

**Ms SEAGRAM** - Correct. I have only talked to them, this is only anecdotal because I have only had a chance to speak to them. Is there an opportunity to create a digital system people can, real time live, enter things so things are streamlined and there is not a lot of duplication of filling in forms and submitting it et cetera?

**Mrs HISCUTT** - You are not talking about red tape reduction, you are talking about red tape ease.

**Ms SEAGRAM** - Yes.

**Mrs HISCUTT** - I am trying to find anything the committee can look at for reduction.

**Ms SEAGRAM** - Anything that will take the compliance burden off of the dairy producer and make it easier for them to do their job.

**CHAIR** - If you are supplying with the major chains like Woollies or Coles and I know when we had berries and everything else, we were up around six audits a year to meet SQF 2000, and all the other stuff that goes with it. Let alone if you start exporting, then you have all the other issues. I take on board what you say in regard to if you are a farmer or as a dairy farmer you are really focused on harvesting milk. I see a role in this instance - perhaps for State Growth or the Coordinator-General, whoever it might be - trying to attract outside capital, or wherever it might come from, to set up a processing facility to go for that top end and then get a nuclear self-producer. We talked about that before, didn't we?

**Ms SEAGRAM** - Correct. I have a gentleman coming down from the mainland to talk to me next week about the fermentasmania project. This person is interested in investing. This person came to me out of the blue. I have been talking about the fermentasmania project and working hard and things like that and they want to talk to me about potential. I would like to be able to create in this facility a triple helix, so I would like government, academia and industry all working together really supportively, cohesively, and try to create some new models going into the future.

**CHAIR** - When you start talking about brand, branding and Brand Tasmania, we need to keep our integrity with that and make sure everything we produce goes into that product.

**Ms SEAGRAM** - Definitely. If we are going to make a promise, we have to be able to deliver on it.

**Mr FARRELL** - With the marketing groups, is it worthwhile basing a dairy model on the wine model where they do have different overarching marketing bodies, which is missing in the dairy sector?

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**Ms SEAGRAM** - I think it would be really good to look at the wine model. I was involved in the Vineyards Association of Tasmania, which was very much R&D-oriented. It was looking at clones, where they are planted, qualities and producing the best wine possible, which was important at that point in time. However, there was a point in time where we kind of had our act together but what we needed was then to start focusing on the marketing side of things. That's when Wine Tasmania was created. I helped get some funds from government to make that shift. I was virtually doing all the marketing for the Vineyards Association off the side of my desk for about a decade. We then had to switch and go straight over into that full marketing. We had to hire somebody full-time because I couldn't do it off the side of my desk anymore. That's what Sheralee Davies is now doing and she is building our reputation in the market by leaps and bounds. To have had the international cool climate wine conference down here two years ago was a massive coup. To have Jancis Robinson come down here, one of the world's foremost experts in wine, and to extol the virtues of our industry and our wines, that is invaluable for our state, our brand and our industries.

I think the same thing can be done for cheese. There are those cheese experts out there, and those chefs. We'll have the top 50 chefs in the world coming down in early April to Melbourne and, fortunately, for one of our very resourceful TasTAFE employees, Christopher McGimpsey, went to Europe and is encouraging them to come down and work with our TasTAFE students beforehand. It's just taking those opportunities as they arrive and capitalising on them and not saying just because it's always how we have done it, we will keep doing it that way. We have to continue to explore new avenues.

**CHAIR** - In some ways, we are talking about different commodities and different business structures, aren't we? Some small vineyards rely on cellar-door sales. It's not cheese and wine.

**Ms SEAGRAM** - Exactly. I was also involved in the development of the National Wine Tourism Strategy with dear Ross Brown. He was sitting beside me at the first meeting when I was still a newbie in the industry. We realised that one of the advantages we had over France was the fact that we encouraged people to come into our wineries to learn and listen and become part of the experience. They then became our greatest advocates and ambassadors for our industry. That was the development of the whole national wine tourism industry. For somebody to come in and experience that wine, not only are they going to be your ambassador when they leave but they take what we call a 'liquid postcard' home. The next time they share that bottle of wine, they are going to be telling the person in front of them back at home about their fabulous trip. It's the same thing with cheese. We are probably more focused in the wine industry about turning those grapes into wine but we certainly do have just grape producers. Dairy is working a bit on the back foot because we have a lot of people producing a lot of fabulous milk but we don't have a lot of people turning it into fabulous products, so we just have to make that shift.

**CHAIR** - Thank you, Kim, that was very interesting.

**THE WITNESS WITHDREW.**

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**Mr GARY ROBERT ATKINSON** WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** - Welcome. What you say here is transcribed and is protected by parliamentary privilege. What you say outside is not.

**Mr ATKINSON** - I have 40 years experience in the dairy industry, mainly here in Tasmania but also interstate. I started out working with the old Bakers Milk in Launceston, moved to Peters Ice Cream, worked for Fun Foods Ice Cream in Hobart, worked for the Commonwealth Department of Primary Industries on export inspection for nearly 19 years, was the senior inspector for Tasmania for about 10 years, worked interstate in Victoria and South Australia and from time to time at head office in Canberra dealing with the export of dairy products. That's basically my experience.

One of the things, which follows on a little bit from the previous speaker here, was the lack of innovation in the Tasmanian industry, especially over the last 20 years. I have seen no major new innovation outside of the installation of the ultra-filtration reverse osmosis plant at Wynyard about 20-odd years ago. That produces a product that retails I think for something like \$80 a kilo, which is a long way ahead of a dollar a litre for milk, I can tell you. There has been very little innovation in that area. I see we have the member for Apsley -

**Ms RATTRAY** - And I reside in Dorset.

**Mr ATKINSON** - I would point out that I have noted on the highway from the north-east there heading towards the Batman Bridge I've counted 14 milk tankers in one day.

**Ms RATTRAY** - I'm usually following them.

**Mr ATKINSON** - I was going the other way towards Bridport. This indicates the complete imbalance in the manufacturing industry here in Tasmania. That cost is being borne by the farmers. There used to be quite a good plant at Legerwood and many, many years ago there was another plant at Scottsdale and Ringarooma, but all that has gone and now they are carting many thousands of litres of milk all the way to Devonport, or somewhere west anyway.

**CHAIR** - Yes, Spreyton.

**Mr ATKINSON** - Devonport, Spreyton. I think that's an imbalance in the industry that is not being addressed. I think one of the reasons it is not being addressed is because there is virtually no locally-owned major manufacturer of dairy products left in Tasmania these days. We have several small ones but most of it is international or interstate ownership, which does not encourage innovation in the local industry.

**Mrs HISCUTT** - Could you tell us your ideas to overcome that?

**Mr ATKINSON** - The first thing I would propose is that somebody should look seriously at building a new factory in the north-east of Tasmania.

**Mrs HISCUTT** - Somebody?



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**Mr ATKINSON** - A company or - I don't propose that the government build it, but yes, I think it should be encouraged whether it is with some government input as far as finances or something. I think the dairy farmers in the north-east must be paying huge transport costs, and if not being specifically allocated to those farmers in that area, it is being spread across the whole of the supply industry.

**CHAIR** - It is spread across the whole supply base.

**Mr ATKINSON** - Yes, but it's still at a huge cost.

**Mrs HISCUTT** - Someone is paying.

**Mr ATKINSON** - Yes, somebody is paying. To my way of thinking, it is a very inefficient way of handling the milk. The other thing is that the further you cart your milk, the lower the quality of the milk. The milk quality definitely deteriorates the further you cart it. The more you slosh it around, it causes problems in oxidation and breaking down of the membranes and everything around the fat globules and that sort of thing. Every time it sloshes around in a tanker, it's not good for the milk for sure. The sooner you get it processed, the better the quality.

**Ms RATTRAY** - On the three-mile straight at Scottsdale there is actually what they call the mothership and there is a big double-tanker that sits there and the tankers come in and fill up. Would that be affecting the quality of the milk by doing that?

**Mr ATKINSON** - Oh yes. Every time you pump milk you aerate it to some extent. By aerating it you're introducing oxygen and oxidising the fats and proteins and breaking the membranes and all those sorts of things. It is well documented that the less pumping and moving the milk, the quicker you get it to the end product, the better the quality of the product. Those tankers, the ones I was talking about are the big double ones.

**Ms RATTRAY** - This is an even bigger one. They call it the mothership and it sits out on the three-mile straight and they fill up.

**Mr ATKINSON** - Yes. One of the things that was raised prior to this afternoon was the red tape. I have been accused of that sort of thing in the past because I had to ensure the products met the export standards which tended to be higher than the standards for local use. I can recall several instances where product was rejected for export, which would have been exported, and if it had it would have ruined the reputation of the dairy industry, if not in Tasmania certainly Australia-wide. As a commonwealth officer I was charged with ensuring the reputation of the Australian dairy products, not just Tasmanian dairy products.

I would also like to draw the committee's attention, I do not know if you are aware of it, to the program on the ABC on 5 February about the Chinese need for Australian food. There was quite a bit about their dairy industry and their consumption of dairy products. I found that very informative and quite eye-opening actually as to what is going on there and what the demand is currently, and what it is likely to be as the standard of living in China increases. Despite what we were told, that Chinese people could not consume milk products because of lactose intolerance, there does not seem to be any problems these days. They have dairy farms there with 20 000 cows on them and growing every day. It was quite an eye-opener. There are obviously opportunities to be had for any company that can meet their demands.

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**CHAIR** - Thank you very much for the impromptu contribution.

**THE WITNESS WITHDREW.**

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**Mr JOHN LORD** WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** - John, you know all about these committees. You are protected under parliamentary privilege when you give your deliberations.

**Mr LORD** - My written submission really contains four points. One is it is my understanding that about three-quarters of the households in Tasmania receive their main income one way or another from the governments, federal, state and local. Given the private sector's job is to create the wealth obviously the state is right out of balance in that case. I think unless we change we are going to cede our sovereignty to those paying our bills. In other words, the status quo won't be able to continue. We either have to not have some of the things we are used to having, agree to lose sovereignty because someone else pays the bills for us, or alternatively lift our game and do some more work, earn more income and pay for the things we want to have. That is my first point.

The second point is I think primary industry is the big wealth creator in the state. It is usually quoted as being 6 per cent or maybe 7 per cent of the economic activity in the state. If you look at the private sector, which is about a quarter, that is in two parts, as I set out in my paper. There is what the economists call the non-traders sector, which is what goes on in the state. It could be about a quarter of that. The traders sector is when we sell and trade outside the state. Some information I have seen, which is fairly hard to get, may indicate that primary industry, which is both aquaculture and agriculture, could make up at least two-thirds of the state's wealth creation. We need to know this because if it is, those who are involved, farmers all the way up the line, need to be told how important they are. No-one seems to know this. I am assured some work has been done on this. That is my second point, that primary industry I think is a key wealth creator.

My own view is that if we want to lift wealth creation and employment opportunities we don't go and do new things, we look at what we're doing very well first. You can usually do that far more effectively, efficiently and faster than trying to do other things. Also, in primary industry we have our water and our climate type and they're not going to go away. The CSIRO people told me years ago that with the climate changing there will be water around Darwin and there will be water in Tasmania, but most of the rest of Australia is going to dry out, and that is actually happening now. Tasmania's sustainable competitive advantages are our water and our energy which includes food energy.

The third point is about irrigation. A lot of people who bought irrigation in the last eight years have done so not to grow more but to ensure they can supply every year. Given the farmers have stepped up to the mat and taken on huge debt to do this, the next step is for primary industry to value-add here. I think if we look at aquaculture I am told they do a pretty good job. The salmon companies I think, I may be wrong, basically take their product through to retail packs here in the state so the value-adding is captured here. If we look at the more traditional sectors in primary industry, the land-based animal production, vast numbers of animals are shipped live out of the state. We do not even get a slaughter fee here. There is no value-adding at all.

I think it is now time for those who are involved in the handling of primary produce, as I said the aquaculture may be doing a very good job, great. They are the example. But we need to say to the other sectors 'it is your turn now'. The farmers have stepped up and committed to investing water and all the things they do let us start value adding here and this would provide lots of

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worthwhile careers for our young people, which I think my generation has not done a very good job at providing. It would be a myriad of careers. All sorts of things if we could do that. Let's value add. That is the third thing, and I did notice that Indonesia has forbidden mining companies to export ore unprocessed out of Indonesia. They are saying that even something like mineral ores cannot just be mined and shipped out of the country. They have got to value add in Indonesia. It is causing some issues for the mining companies. In the past I know governments here have had policies of allowing things to start providing the developers commit to value adding in the state. That is my third point.

My fourth point is that there is a role for government. The government's role is in branding and appellation. I am not an expert in either of those but I have had occasion of sitting listening to people who I think are very good at it. The message that they have told or passed on has been the same. If I pass on their message it is that we as a state do a poor job at branding the state, compared with New Zealand.

My eldest son is establishing a business in Hobart, or trying to, and he knows a man who married a local from the Huon Valley. This man lectures in marketing and branding in Melbourne and travels the world. He, I think, he is the advisor for the Louis Vuitton group and Hennessy Cognac. In other words I doubt that anyone in Tasmania could probably afford him but his home base is the Huon Valley. James knows him quite well and I suspect he has taught James a lot. He says the same thing as well. I think there is a real job to be done with branding. My recollection is if we look at a New Zealand ad for anything there is a flash and a silver fern and then it is tourism or agricultural products and it ends with another flash. This is part of what do these silver ferns mean? It creates an impression in the viewers' mind. It is the bookends. I am told this is part of doing a good job with branding. It needs to be done really well because as a state we should not sell anything into a commodity market because that gets sold on price. We need to sell everything into a higher value market which means we need to have some value in our brand.

The other part of that is appellation. I know other jurisdictions have very strong appellation control. You cannot use this word or description or name. You just cannot do it. Where is our appellation control over the word 'Tasmania' or 'Tasmanian'? These last two I believe are roles for government.

The innovation, as the former witness was saying, is a matter for the private sector but the leadership and the branding and appellation is the government's responsibility in my view. The appellation if it is considered needs to have teeth and needs to be done properly.

**CHAIR** - Thanks, John. I will just read from your submission:

There should be a system in place that allows only those Tasmanian firms who are playing the game marketing produce produced and processed here to use the Tasmanian brand. It needs a system that has got teeth.

And that strong appellation control, I suppose?

Do you think there then should be some sort of regulatory control, something to put in there to make sure that it does happen? If you are going to use the Tasmanian brand you do source your product here and you do process here. What do you think?

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**Mr LORD** - That is the role for the government and whichever way governments do do this I would expect it would need to be regulatory. If I were a manufacturer wishing to use the word 'Tasmania' or 'Tasmanian product' or whatever it is, I might need to go to Tanya and I would need to trail my coat and she would need to check that I was absolutely playing the game and then she would allow me to use the appellation; and if I wasn't, I wouldn't.

**Mrs HISCUTT** - The wine industry went through the appellation system, which is GI - geographical indicators - but the federal government took over and the state couldn't do it. Do you envisage the state Government lobbying the federal government to give Tasmania Brand Tasmania? I am trying to work my head around what you are saying because appellation is the sphere of the federal government.

**Mr LORD** - I wasn't aware of that. I must confess, in the world I live in, I try to separate what from how. I try to work out first of all what we should have. I am very clearly of the view that what we need is jolly good branding and everyone in the state understanding branding. The advice I am clearly getting is that people say the word brand but they don't understand what it means. Secondly, what I would like to see is strong appellation - that's what. If we forgot about how for a moment and had a discussion about, 'Is that what we'd like?', if all of us in the room said yes, then good. Then the next step is to go to how, if, when, and we may fail, but we have to separate it. Boys are usually bad at that; girls are usually better at separating, in my experience.

I think if there were a strong body of opinion from an industry, for example tourism, or it might be that we need a strong appellation. Then and only then would there be any chance of any traction in Canberra at all. With great respect, there is no point in me coming to speak to you with my idea as a general thing, particularly if it was contentious. But if I have a whole cohort of people from the community, and you know that I have been doing that and you already knew before I came to see you; that is different. I would be having a discussion - forget who controls what - I would be having a discussion about what state does need. Don't be shy. If they don't want it, fine, if they do, then all the energy goes onto how. As you would understand, once the discussions as to whether what we want is settled, then when all the energy goes into how it is amazing, the options that then come forward when all the attention is on one level and is not all tangled up together.

**Mrs HISCUTT** - It does sound like a sphere of Brand Tasmania, as a few other people have discussed. Do you have an opinion on Brand Tasmania?

**Mr LORD** - No, I have never looked at it. I have never had anything to do with it. All I am passing on to you, and it is only hearsay, are the comments of experts - one from Melbourne, one from Sydney and one international - saying that what is going down here is not working. It is like not doing anything at all.

**Mrs HISCUTT** - So you have heard of Brand Tasmania?

**Mr LORD** - I have heard of it, certainly.

**Mrs HISCUTT** - And you haven't had anything to do with it?

**Mr LORD** - No, I am not able to offer anything. I don't know who runs it, where from and anything else.

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I don't believe that anything that is produced from Tasmania, sold from here, should be sold into what I call the commodity market. To me, what defines a commodity market is that - the major determinant in a commodity market is price. As I set out in my notes, someone is going to do it cheaper than us somewhere, for obvious reasons.

I am not aware of anything we sell from here that I think, 'Gosh, it's got to be sold into a commodity market'. I think because of where Tasmania is, that as an island and particular conditions, if we think about it for five minutes we are going to be able to come up with good reasons to differentiate everything we produce. If we are able to make that claim, and if we are going to do that we have to believe it, otherwise the people on the other side think we are snake oil salesmen. You might think I am really stupid but if you think I am an honest stupid man because I am carrying on about a particular thing being better, but at least you will say, 'He believes in it'. Because what we produce is so small in volume on a world scale, most of the market can keep going past, and they are not interested. But there will be someone, somewhere, who says, 'I want that'.

It is like non-GMO food products. The best thing for Tasmania is never to have GMOs here. It has nothing to do with agricultural production; it is simply because there will be part of the world market that doesn't want GMO foods, and they will progressively pay a fortune for it. So the worst thing we could do is to introduce GMOs here, on an economic basis, not a farmer production basis. Everything can be differentiated. This is about dairy industry, and I last milked cows about 40 years ago. You have to look and ask how are the cows in Tasmania fed, compared to even southern Australia. I think you will find there is a difference. What about the breeds? We have a lot of crossbred cows out here with a different composition of milk compared to other parts of Australia. We would, I suspect, be able to distinguish the Tasmanian production here on grounds that Joe Blow in the street would say yes, I understand that.

**CHAIR** - You say we shouldn't sell in the commodity markets, but we've got the Fonterras and the Murray Goulburns of this world, who take most of the milk, have already invested many tens of millions of dollars or hundreds of millions of dollars into equipment and processing, which produces exactly that. It is there at the moment. We can't change that unless those companies make some very large commercial decisions to try to produce something a bit different. Therein lies a large problem.

**Mr LORD** - With respect, Chair, I would look for opportunities.

**CHAIR** - That's what we're trying to do here.

**Mr LORD** - Let me pose something to you - and I have no commercial basis - but let us assume one of the two big companies is heavily invested here. Relative to the rest of their Australian investments I expect it is relatively small. Let us say one of them would prefer not to be in Tasmania because they would rather have the efficiencies of having most of this sort of product produced in Victoria, not Victoria and Tasmania. If that were the case it would enable a third party to come and potentially buy that company's investment in Tasmania. If that were the case, that third business could then set up a Tasmanian dairy business. That is the sort of thing I would look at if I were given the job of looking at what you could you do. I would not, with respect, say, oh well, the seats are all occupied by the two big boys. I have no basis for saying that, but that is the sort of thought process. As we all know, milk cannot be left for a week on the wharf and dealt with the following week, it has to be handled very quickly.

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**CHAIR** - Often it is hard to attract capital in Australia, as you know, but you would see no problem with foreign capital coming in, establishing a processing facility or whatever, and buying land? What are your thoughts on that?

**Mr LORD** - If you read the history of the wool industry, where did the big wool companies and stations come from? It was Scottish and English investment here. The capital came in from the UK in the early days. It has always been the case. What we have to do is to value-add here, so we capture the value here. Instead of producing something of high quality being sold off at a commodity price and then the value being added in another jurisdiction, what I'm interested in is producing it and as much value being extracted here in the state, and providing employment opportunities in the process. I think that has read potential in primary industry. Primary industry is not going to go away. It is a real competitive advantage.

**Ms RATTRAY** - John, it has been suggested today that our agriculture industry is only at about 30 per cent capacity in Tasmania. Have you looked at any of those numbers?

**Mr LORD** - No, I haven't heard that expressed. It depends how they define 30 per cent. I guess if you're talking about berry fruit, you could easily triple it because it requires such a small footprint. If you said we are going to triple the beef herd the answer is no, because the land is not there, which you understand. I think you need better advice as to what the 30 per cent means.

**Ms RATTRAY** - I will follow that question up. I was a little bit stunned and I should have questioned that then.

**Mr LORD** - What I would look at, if I can ask you to imagine a parabola, where at the bottom of the parabola you have designers, makers and in our case primary industry. A lot of time and investment and not a lot of economic return. Then as you go up, the next people up the chain are putting in less effort, usually, in capital and risk and tend to take a higher and larger slice of pie. It goes up like that. I think the aquaculture industry captures most of that curve here in the state. I fear that most of the traditional sectors don't and the rest of the parabola - that value is extracted and benefits other jurisdictions. I think we have the opportunities here. We have the raw materials let us make stuff. Let us brand it, do a really good job at it and charge accordingly. Otherwise, we will continue producing it but it will be a subsistence lifestyle.

**CHAIR** - There is probably a slow shift to do that, John, and it takes times. It's what we are looking at, exactly what you are saying, but it takes some innovation and the will to do it from an investor. A processing plant is very expensive to set up. I know what you're saying and we agree, it's just a matter of finding the right product.

**Mr LORD** - Let's look at vegetables. When was the last vegetable processing technology brought into the Tasmania? I remember as a kid stacking pea trash out of the back of stationary viners in the days when they were canned, grown around your district. Then they brought in frozen peas, and this was revolutionary. What has happened since then? The answer is nothing.

Various food-processing technologies have gone past Tasmania. Do you remember Professor Roger Stanley at UTAS bringing in his microwave-assisted thermal sterilisation technology, which is American army developed, which will take us to the front and out ahead of everyone else. They are keen a plant is brought here to trial it, from what I understand of all the military stuff that is being done. This will be the first time for 30 or 40 years we have gone to the front of

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the queue with technology, given he succeeds - and I think he will. We have to do those sorts of things.

We have to have vision and leadership. We have to be prepared to stand up and say, 'This is what we aspire to'. With great respect, I don't see leadership at the moment. I don't see vision or people saying to the young people or citizens, 'This is my hope for our state. This is my hope for young people. I don't know whether we are going to get there, but we are going to have a jolly good go'.

Politicians, with respect, are risk averse because if they say something and it doesn't happen their opponents will beat them up. The rest of the community is not like that; the community understands. If I am in charge of policy and say I want to go from here to there, I have an idea as to how but if anyone has a better idea, whatever colour you are, I would like you to bring it forward. As long as I am continuing in that policy direction, I am happy. Someone will probably have a better idea, which brings more fingerprints on the task as well. We have to have that sort of leadership and we have to start talking like this, with respect. Someone is going to join the dots.

**Ms RATTRAY** - Another presenter today posed the idea we need to own our brand and be very familiar with it, starting in our state and our country, before we necessarily expect it to be embraced in another country. Do you have a view? Do you think that is important?

**Mr LORD** - I don't know. I can't answer that, I am not trained in branding. I have been told occasionally not to talk about it because I don't even know the words to use.

**CHAIR** - Tanya is talking about incremental steps, proving yourself in one market before you progress to something else.

**Mr LORD** - With respect, if we had a problem with the lights here we wouldn't call a plumber; we would find an electrician who knew about electricity - someone who is trained in that area to fix the problem. With branding, you need to find someone who is trained and ask them to answer the question.

**CHAIR** - Thank you very much, John.

**THE WITNESS WITHDREW.**



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**Mr ALAN DAVENPORT** WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** - Welcome, Alan. In regard to proceedings with the witnesses, what you say is protected under parliamentary privilege. What you say outside is another matter.

**Mr DAVENPORT** - Rosie, my wife, and I started dairy farming as share farmers 27 years ago. We progressed to farm ownership and a very highly geared farm after five years. Due to a set of circumstances, we sold that farm and went into partnership with my parents a couple of years after that. We have been on the property that we are on now for 20 years. We are currently milking 600 cows. I have quite often described our business as now quite complex. We milk cows, run a couple of hundred beef breeders, grow potatoes, poppies, lavender, parsley, fennel. In all those years, of the [inaudible] dairies, the thing that pays for them are the bad habits. It has been the platform of our business.

We have looked for opportunities to expand the dairy side of our business from time to time. Our property is quite complex and we haven't found an avenue to suit. Dairy is the thing that we can most readily make the most money out of. The other things are a bit more temperamental, and riskier. Despite what people are saying about the catastrophe of the price of milk, we can produce milk for less than \$5 a kilo of milk solids. We don't want to, but we can and that's the beauty of farming in Tasmania.

That said, I think there is a lot of opportunity, or there should be a lot of opportunity, to make better use of the product that we produce here. We are quite comfortable to have the platform of our business be commodity-based but there should be opportunity to make a lot better use of a premium-quality product. Originally, when the Legerwood factory site was sold, a group of us got together to try to purchase it and take it on because Fonterra had a limit on what it could be used for and then it was further stripped and made not viable to use for dairy.

I see there is currently a proposal to use that site for baby formula manufacture. I don't want to talk too much about that because I don't think it will happen. I think baby formula is the flavour of the month and there are a lot of people doing it. I think it will turn into a riskier and riskier market and you are not going to get the sort of margins that are going to pay for a \$350 million factory for the throughput that you are going to get out of the north-east of Tasmania. I won't say any more about that.

I am a control freak. I fought tooth and nail to avoid the sale of Bonlac to Fonterra. I tried to explain to farmers what was happening in the process and how much control Fonterra had in that initial agreement, but most farmers are that busy farming that they really haven't got time to dissect the business. There was a clause that was as clear as day in that original agreement that said that Fonterra was going to get the rest of the company. I said 'within two years' and they started working on it within six months. That meant that we lost a massive amount of control of our business.

What it also showed was that there was value in our business that somebody else wanted to get hold of. Bonlac wanted to buy UMT because we had access to the Japanese market that they couldn't get. Fonterra wanted Bonlac because they'd get access to the Australian market and access to the Japanese market that they got through buying UMT. We were very attractive. We were attractive because we can produce milk cheaply and there wasn't a lot of competition for that milk and, particularly on the Fonterra side, access to the Australian market was good. We were a

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captive component of that market. When the run of supply happened at Bonlac and went to MG, Tasmania was an absolute underpinning force in the Fonterra business because we were supplying a third of their milk. It was quite extraordinary.

There has been a lot of push to go down the organic route from a few players in Tasmania. I think that is fine if somebody can do that and get a market advantage. But we already produce a product that is every bit as good as any organic producer's in the state, possibly better than some. We can continue to do that. We've been able to do that without really changing our system much over the 27 years that we've been doing business. The thing that we have changed is how much time we have to spend proving what we do - keeping records for what we do, completing our farm food safety audits, which, when we were doing potatoes, two different beef companies and the dairy company, completing the same things and paying for them directly or indirectly. We were doing all the extra work but we're not really seeing the value out of it.

I know they are theoretically market requirements, but when are we going to see the farms getting better value out of it? It's a significant impost on the farmers to do. It's time that we could better spend planting a tree or fencing off a stream, as far as I'm concerned; it would be more productive.

Apart from that, I would rather you ask me questions about what you want to know. I know you have been speaking to the TFGA and a couple of farmers this morning. I am sure that has raised some questions. I have been around the industry a little while, both at a political and farming level.

**CHAIR** - You touched on the organic side of things. That has been touched on in a couple of aspects today. Were you basically saying if you can convert to organic, that is fine and good, but really the basis of our industry in Tasmania should be the clean and sustainable brand?

**Mr DAVENPORT** - Absolutely. I think we need to promote the fact we are doing it properly already. Incidentally, I went to a dairy farm in China two years ago. 'Farm' is a term I use loosely. It was a potato farm that had 80 000-cow dairy in the middle of it. It was newly developed, so at the time they only had 30 000 cows there. That dairy was specifically for the production of baby formula. They were promoting it heavily to get over the melamine saga. They were saying dairy was being organically and sustainably run - 80 000 cows in basically one shed, one dairy with a factory on the other end. That is what you are up against if you are talking about trying to put a significant amount of product into that market, potentially. That is part of what may have happened to Bellamy's; they have priced themselves out of the market. They are \$30 000 a tonne for their formula, and when you put it on the shelf it is probably a fair bit more than that when you get it over there. The Thais can do it cheaper than that and they can put whatever rules around its production they like.

**Ms RATTRAY** - Just a question in relation to growth available in the industry. A witness suggested that probably the dairy industry in Tasmania is only at about 30 per cent of capacity. You talked about the fact that you have looked for growth and it has not necessarily been there for the dairy side of your business. Would you have any idea how much growth is available in the industry?

**Mr DAVENPORT** - I probably would not like to see it triple in size. Not that on its own it would necessarily be a bad thing, but Tasmania is quite unique and it is somewhat protected by the diversity of its agricultural businesses. When the price of milk drops 5 per cent, the

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New Zealand dollar changes - the Tasmanian economy does not change that much. I think there is significant room for growth, but not for growth's sake. We need to make sure it is structured and managed and filling a value need, not a commodity need. As I said, I am not worried about being a commodity producer, but if people want to get more money consistently and reliably, they have to consider how much they want to put into that market.

**Ms RATTRAY** - There are the Agrilac and Waterhouse expansions. The power in that area needs some significant upgrade. Do you have a view on whether Government should step up and put some pressure on TasNetworks, if you like, or what should happen there? They have already put some infrastructure there, so it is not as if it is a pipe dream. Do you have a view on that?

**Mr DAVENPORT** - I do not think the investment will be lost even if the dairy side - and I am not saying it will - the business is sound if managed properly. There is an opportunity to use that energy in other agricultural businesses if the dairy went by the wayside for pumping and other things. I honestly have not looked at the business case enough to know how much money you should throw at it. In simple terms, when I first went out and looked at Agrilac and I did the mental calculations on them running their diesel generator, it was cheaper - they were generating power for about the same price I am paying for it with the cover of costs - but who wants to be burning diesel as part of your clean green, sustainable market pitch? That is the reality, but it is a lot easier to flick a switch and have it come on.

I think we are heading into a time where there is some middle ground and it is probably an opportunity where we could really look at some proper using of renewables and storage. Why not try it there, it is an isolated spot, you have a few hundred thousand dollar head start. If you want to upgrade the network out there, well, you have got some money to play with and they can still use their diesel set if it stays dull for a week.

Most of those businesses don't make the returns people think they are going to in the short term. The consultants historically overstate the potential and it is only in recent years that Woolnorth started to turn the corner and manage to the conditions better. Putting a dairy on some of that ground and turning the water on does not change it from being \$500 an acre ground into a \$5 000 an acre ground. If you properly manage it as \$500 an acre ground, I think there is a world of potential out there.

**CHAIR** - With regard to Fonterra and Murray Goulburn and the fact they process most of our milk, do you think it would be helpful for the Tasmanian industry if they could separate the milk? A lot of it is generically branded at the moment. If they could, and I do not know if they would, should they brand a lot of their product as being out of Tasmania? Would that help?

**Mr DAVENPORT** - It is one of things that I did want to talk about. They already are, but they are not doing it under their banner, they are doing it through Ashgrove and Pyengana and Betta Milk. They are supplying all of them through arrangements, so I don't know how much Fonterra milk is going into Ashgrove at the moment. When Ashgrove first started Ashgrove were processing cheese and the milk they didn't use would go to Fonterra, which you were able to do as a farm. My understanding now is that it is quite a bit the other way so they are producing milk and Fonterra are dropping tankers in there to meet their demand.

**CHAIR** - Not a huge percentage?

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**Mr DAVENPORT** - No. When Fonterra were formed in New Zealand, they were going to hold 98.5 per cent of the national milk supply. To show they wouldn't be anti-competitive, one of the rules put into place was they provide milk to anybody that wanted to start up on an 'as needs' basis at their cost. There was no margin above what they were paying their farmers plus the transport, and there was a significant amount of milk made available. I cannot remember the number, the first probably 15 companies that started up after Fonterra was formed were able to ring up and say, 'I will have 20 000 litres today', or whatever they wanted, at cost. I am not suggesting we try and force them.

We probably would not be able to force Fonterra to do something similar. In a recent proposal I have been looking at with a couple of other people, they were saying we need to get supply and pull three or four significant farmers together and then we will have to force them to change our supply patterns into milk and flatten production. I said we need to think outside the box here and go and see Fonterra and ask them how much it would cost to supply that milk. One of the big fears for anybody who is leaving one of the companies is if it goes wrong, are they going to be able to go back?

It is not many years ago I was chairman of the Dairy Council when National Foods were saying they had 17 million litres of milk they didn't need and they wanted to drop the price. The TFGA said, and the National Foods Collective Bargaining Group said they wanted a higher price. National Foods said to me at the meeting, 'That is fine. We will drop off the 17 million litres we don't need and pay the price they want'. It happened the 17 million litres they didn't need were the ex-Lactos suppliers they had taken on that had spring production. At that time, Fonterra said our factory is full. National Foods were quite prepared to cut them loose. The people who were already supplying National into that winter market didn't really care or they pretended they did, but they really didn't care. We negotiated a deal, if we support their price position will they guarantee they will pick those supplies next year - and they did.

It shows how fragile it is. If you get some of those companies that say we are either full or we can't make margin above that point, and if somebody steps away from them they might say that is good, we can make more margin on the remaining milk. People have long memories as farmers have, haven't they Greg? You can understand people's nervousness about stepping out with another company.

If I was starting another company - I have seen a lot of farmers use some pretty bad behaviour, particularly in Western Australia where Challenge Dairy started up, changing the price of milk by 10 cents a litre in Western Australia overnight. As soon as the multinationals got ahead of them, most of the farmers cut and ran. It is not an easy game.

**CHAIR** - No. Hypothetically, getting back to the branding issue again. If, say, the plant at Spreyton was able to - with their milk powders - brand that Tasmanian brand and then market it as a Tasmanian milk powder, would you think there would be any sort of premium over and above what they might get instead of putting it all generically together with the Victorian powders?

**Mr DAVENPORT** - Why would they, Greg?

**CHAIR** - I don't know. If they could get a premium, that is what I am saying; I do not know whether they would or not.

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**Mr DAVENPORT** - If they could get a premium, why wouldn't they do it with their milk out of New Zealand? It is the risk I have always seen with Fonterra. If they control enough of the market they can put their New Zealand product into the premium end and fill the bottom with the rest of the world.

**CHAIR** - What about Murray Goulburn, if you turned that into another company?

**Mr DAVENPORT** - I think there is more potential.

**CHAIR** - More scope?

**Mr DAVENPORT** - Yes. The difficulty is getting their shareholders on board.

**CHAIR** - Yes, they have a new plant at Smithton.

**Mr DAVENPORT** - We should. I can't see any reason we can't. Whether they can get enough or how long a game you have to play to get that margin, I don't know. If we can't, we need to start being realistic about it and start pulling our heads in over GMOs and things like that. If we are not going to be differentiated on price from other places, why don't we just produce milk as efficiently as we can?

**CHAIR** - Yes. Do you have a view on Brand Tasmania and how well, efficiently or not efficiently do they work?

**Mr DAVENPORT** - You don't hear much about them. It is not us they are trying to sell to, is it?

**CHAIR** - Have they a role, do you think?

**Mr DAVENPORT** - No, I think there's some work to do.

**Ms RATTRAY** - I have a question in relation to encouraging people to come and work in the industry, being an industry of choice. I know Dairy Tasmania has done some work promoting that and I know you don't have any issue - Rosie and yourself - I don't believe, for employment. What do you know about other dairies that have trouble getting and keeping the workforce and having it as an employment of choice opportunity, and whether any of those marketing strategies are working?

**Mr DAVENPORT** - I don't want to bag out DairyTas too much on their Dairy 500 program, but it was ill-conceived with unrealistic targets, because there wasn't an end game or a target market that was any different to what we have had. The industry has a long way to go if we are going to be touted as a leading industry and going well one day and then there is a hiccup in the market and we are on our knees and crying all over Facebook about it, which is where the young people find out about things. The last job we advertised we only put on Gumtree and Rosie had her first response in 30 seconds. It is still hard to get good people because the industry hasn't been sold well.

We had a young girl who had been working for us since she was 13 years old. She was a casual worker, she would get off the bus on her way home and come and milk. When she was 15 she was doing work experience - she was working in a secretarial position in a lawyer's firm - and

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she called Rosie halfway through the week and said, 'I don't want to complete the week, can I come and complete with you?'. Rosie said, 'No, you should stay and complete what you have committed to'. At the end of it she told her teacher she wanted a career in agriculture. The teacher, or careers advisor, said, 'Over my dead body. You need to take one of these career paths.' To this young girl's credit she stood her ground and explained she had been working with us, had seen what we had been growing, and she had earned more money than any of her classmates in the time she had been there. She went on to university to study agronomy.

There are a whole heap of careers in agriculture, not just milking cows. While we have that mindset at a career level in a rural community, what hope do we have? The industry has to do more about promoting itself. DairyTas has tried but probably missed the mark a bit. They were trying to do the job side and grow the industry but the industry needs to grow itself to some extent.

**Ms RATTRAY** - Keep their focus narrower on what they are trying to do.

**Mrs HISCUTT** - I have been dwelling on what you said about New Zealand and Fonterra not marketing their milk as New Zealand made. Bringing it back to Lion, which is owned by the Japanese, they label their specialty cheeses Tasmanian Heritage and Tasmanian Camembert. Why would a big company like that do it and not Fonterra for Tasmanian produce, if they could?

**Mr DAVENPORT** - Lion bought local brands. That is the value in their business.

**Mrs HISCUTT** - But they were still marketing. They couldn't have put it into their generic milks?

**Mr DAVENPORT** - Their value is in brands. What I am saying is particularly internationally, not so much locally. A small percentage of the product will get value out of the Tasmanian branding in Australia, but if you really want to kick it up a notch you are going international. If I were a New Zealand farmer and a Fonterra shareholder I would be doing the long white cloud before I did the Apple Isle. They will always have a lower value market. While there is room in the international market it is easy because everything can be pushed aside whatever way you can find it. On the times when it is full, somebody has to do the cheapest sale. I am not saying they are not doing any investment in value but if I was on their board or on their advisory group I would be pushing -

**Mrs HISCUTT** - Are you talking about Lion or Fonterra?

**Mr DAVENPORT** - Fonterra. I would be pushing to make sure, if I had my nutraceuticals and my baby formulas and the new organic supplier, I could get my income directly back to my shareholders. Fonterra can make pretty good money out of half of their product just into the Australian brands that it has got now and it is probably not going to make a massive leap in profitability by marketing Tasmania to the mainland.

**Mrs HISCUTT** - We are not talking organic stuff, you know.

**Mr DAVENPORT** - No. Organics is a component of Fonterra's business but I am talking about the volume end more than the tiny end. As I say, I am a commercial producer that doesn't want to sell a pound of cheese; I want to sell a tonne at a reasonable price. The Ashgroves and the Pyenganas are fantastic, but they sell a lot of other milk in the state.

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**CHAIR** - If you are going to operate under the Tasmanian brand banner then you should be 'kosher'. Do you think there is any sort of regulatory control needed to try and make sure that does happen?

**Mr DAVENPORT** - Describe to me what might not be 'kosher'. Do you mean if the milk is produced in Tasmania?

**CHAIR** - It might be sourced from outside Tasmania, overseas.

**Mr DAVENPORT** - Yes. Don't pull punches, Greg. I think Bellamy's put the Tasmanian dairy industry at risk by promoting it was an Australian and Tasmanian product and just isn't. They tried to correct it but too late and we are long way away from having a significant organic supply in Tasmania. Again, they probably may have been able to take another path in the type of milk they promoted into the product but it was probably easier to promote organic. I don't know. It hasn't been a business disaster. The disaster is what happened at the share price. It went from nothing to way up there and suddenly came back here, hasn't it?

**Ms RATTRAY** - The shares were up three cents yesterday.

**Mr DAVENPORT** - It is scary. You have a couple of significant companies. TasFoods is another one that is taking a bit of a hit that you would hope would be doing pretty well at the moment. Agriculture is the long game. I have given up expecting overnight miracles.

**CHAIR** - Thank you very much for your time, and your knowledge and insight of the industry at a political and a practical level.

**THE WITNESS WITHDREW.**

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**MR DAVID ARMSTRONG**, AK CONSULTANTS, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** - David is an agricultural consultant with AK Consultants, based here in Launceston. David, when you give evidence to this committee you are protected by parliamentary privilege, but what you say outside is another matter.

**Mr ARMSTRONG** - My submission is about the bigger picture of agriculture in the state and not just the dairy industry. I think I have a better understanding of the overall picture. I am not a specialist in the dairy industry by any means.

I am an enthusiastic supporter of growth in agriculture in the state. We have the right resources, we have skills, and we have land and water and other things. We have potential to greatly increase agricultural output and I am very keen to see that happen.

My summary from the submission is that growth and the huge sort of growth I would like to see, is going to depend on exports, not local markets and not just the mainland market, but getting stuff overseas. In order to get stuff overseas we need to have producers organised or we need to have sufficient volume in order to be realistic in overseas markets. We need to have sufficient scale, our production needs to be internationally competitive as there will be lots of other countries looking at the sort of markets we are looking at, Asian markets in particular.

We need to have the scale, we need to have the price and our efficiency of production has to be internationally competitive. Wherever possible, we add the Tasmanian story, whether it is the Tasmanian story or the Australian story, it is the story of clean and safe production. That is really the thrust of the things I wanted to say in my submission.

You could ask what needs to happen for that to occur. I have given the statistics in my submission. So many farmers in Tasmania are very small scale and I do not think viable. My definition of viability is a farm that produces at least \$150 000 of gross income at the farm gate. At least that amount, and employs a person full time.

There are lots of arguments and discussion about what is a viable farm. You will have heard farmers say, 'my farm was too small to be viable', and so we in AK Consultants have worked that back from there. We do a lot of planning applications for houses and sub-divisions in the rural zone and we use that definition of viability.

You can imagine, at \$150 000 gross at the farm gate, I know two-thirds of that goes in the cost of running the business. There is \$100 000 gone. You have \$50 000 left, take out of that interest, capital replacement and something to live on, there is not much left. The \$150 000 in my view, is the minimum. I read a really good Victorian report a couple of years ago which I have not been able to find, which said that we need to have gross incomes of \$500 000 to be viable in the long term.

**CHAIR** - Yes. It is probably in the ballpark too.

**Mr ARMSTRONG** - I think so. We need the scale, we need producers working together one way or another, but more importantly we need marketers who can get produce from the farm gate and get it into the markets. We need to focus our research and extension onto those products that are going to be saleable into the international markets and have sufficient potential for growth



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to be active in those markets. I don't mean to be critical but there was a field day last week on hemp production for fibre production on the north-west coast. I thought, 'How can we possibly be internationally competitive in that market?'. Let's forget about those things. Let's put the money into the dairy industry or other things that have, in my view, huge potential for increase and let's work on those.

To give you a couple of examples - Greg will smile when I talk about the berry industry - but in 2014-15 total food production, including wine grapes at the farm gate, was worth \$115 million. These are DPI statistics. Strawberries were worth \$12 million at the farm gate. I had some correspondence recently from DPI - AgriGrowth Tasmania - that reckoned the berry fruit industry now is worth \$100 million-\$150 million at the farm gate. So in a couple of years it has gone from nothing to be worth as much or more than all the rest of the fruit industry in the state. That is absolutely amazing.

We know there is lots of expansion going on in the berry fruit industry. In the next couple of years I can see it being worth \$200 million at the farm gate, which is as much as the entire vegetable industry and twice as much as wool, in a matter of three or four years. You would have to ask how it has occurred. It has been discovered we have a very suitable climate for berries, soils and farmers and other things, but we have the right resources to do that. It is being driven by a couple of companies: Driscoll's and Costa's. These are the people who can take produce from the farm gate, get it into the market, bring in technology and advice, and ensure world's best practices are applied inside the farm. We have efficient production, businesses that can get it from the farm gate, but we don't have many producers. Greg may have a better idea of the number of berry producers, but I would have said it is between 10 and 15 at the moment. That is between 10 and 15 producing \$100 million-\$150 million at the farm gate and growing. It means there are a very few people with really good scale of production, best technology and all the rest of it. The fact we have low interest rates has helped us. A lot of capital goes into the berry fruit industry to get this sort of production.

In my view, there is a very important lesson here, and that is the value of bringing these sorts of companies - Driscoll's, Costa's - to the state and showing them what we have. If we are going to grow agriculture and be in these sorts of markets, we ought to be inviting more of them to come. Some of it goes on, I know, but in my view not enough. We need to bring those people here.

That is why I am keen on investment from overseas countries such as China. If we have a partnership with a Chinese company, for instance, to do things in Tasmania it is bringing people with access and knowledge about the markets into the state. They know how to get stuff there, and in the case of Driscoll's they have brought the technology for us to be internationally competitive in our production systems. It is appropriate, I think, for government to take actions to bring those sorts of people to the state, invite them here, and show them what they can do. We need to be very active in that.

There are two other examples if you think about the poppy industry and the pyrethrum industry and how they started. It was by companies being interested in the state. CIG was interested in pyrethrum. Tasmanian Alkaloids and GSK both started - this is 25 years ago, I guess - and here we had the people who could get us into the markets. It is another example of the production here being driven by someone or a business that knows how to get produce into the markets.

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The other point I would like to like to make relates to a paper published by Jonathan West in 2009, which I read at the time. Jonathan West was professor at the Australian Innovation Research Centre in Hobart and he wrote a 150-page report on the Potential for Innovation in Tasmania to Improve our Economic Position. There has been lots of discussion about it but I think what he wrote on agriculture in particular was fantastic. He listed a number of things we needed to do in order to grow agriculture output. He made, what some might say, a fairly crude estimate of what would be the economic outcomes of the sort of growth potential in agriculture he thought would be feasible.

He looked at the major industries; sheep, beef, dairy, horticulture, wine and high value horticulture, and I think for that you can include strawberries. He said, what is the level of production now? If we implement the sorts of things that would allow us to optimise the use of our natural resources, particularly land and water, and the adoption rate was fairly fast, I am not sure how fast he imagined that but I am figuring between five and 10 years. He reckons we could grow the dairy industry from 72 000 hectares to 200 000 hectares and that would increase the gross margin, not the farm gate value but the gross margin, which is farm gate value less your direct costs of production, from \$144 million to \$400 million. The total farm gate value I have extrapolated from his figures to increase from currently \$1.4 million to \$14 million - with no increase in the amount of land under agriculture use. With high value enterprises, crops and so on, expansion of water resources, adoption of technology and all those sorts of things we could get a ten fold increase in the value of agriculture, which is the Government's target by 2050. I know Jonathan West was not thinking about 2050. He was thinking about five or 10 years.

I will read one sentence in his report:

To conceive how great is this contribution, it is worth noting that additional value of this magnitude would roughly double Tasmania's total out-of-state sales and make Tasmania the richest state, per capita, in Australia.

He is including increased production and value adding of things like wine. That is 2009 and I thought it was a fantastic report and to me it reinforces the potential for us to greatly increase agriculture.

**CHAIR** - I notice you have a recommendation for term of reference (3), the role of the Tasmanian government and support feasibility studies - for example, the viability of producing organic milk in Tasmania. We have had mixed views on that today. We have asked the question a couple of times. Some have said leave the word organic out and make it clean and sustainable. That is probably an easier pathway for it ever to succeed. You might like to comment on that?

**Mr ARMSTRONG** - It has to be sustainable. I am thinking about the opportunities for us to differentiate our product. If we are just going to produce commodities then we have to be the lowest cost producer in the market, if we are going to grow, and the value of commodities declines over time. That is an historical fact. So we need to be continually increasing our productivity, our efficiency of production. That is fine for commodity.

I love the story of Moon Lake Investments and selling Tasmanian milk into China. I am not an expert in organics but it seemed to me that is another way to differentiate our product and it is worthwhile investigating to see whether it is going to be feasible. I do not know enough about that industry to say whether it is or not. I have heard there are some farmers on the north-west coast who are interested in it. To me it seems appropriate to put together a feasibility study to

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investigate it. I think the Government should fund that. We get all of the key stakeholders involved, so a processing company, maybe it is Murray Goulburn or whoever is already interested in that sort of thing. We need the producers involved. We would need TIA to look at the feasibility of producing organics, organic feed supplements, in the state. There are a number of things that could fit together into a feasibility study. Maybe it has already been done and it is pointless, I don't know. I would like to see it investigated.

**CHAIR** - I am not criticising at all. I am saying I noticed it there. That is probably a reasonable conclusion to draw. I think it was pointed out this morning if any farmers were to do that, they would be some guaranteed long-term supply contracts and all of that. Otherwise commercially you probably would not touch it with a barge pole. That is just a -

**Mr ARMSTRONG** - Those are the sort of things I think would come out of a feasibility statement. What do the farmers need in order for it to be viable in the long-term, all those sorts of things would be investigated.

**CHAIR** - Yes. The other matter some of the submissions raised was that we have an advantage because we have the GM moratorium in place at the moment. The question there - most of our milk as we know, 80 per cent or more, is generically branded through the Murray Goulburn/Fonterra mix. There are all sorts of mixtures of product in it. Unless the Tasmanian stuff that goes into Fonterra and Murray Goulburn is separately branded, how are we going to make any advantage, or do we have any advantage by being GM-free? Can you comment on that?

**Mr ARMSTRONG** - I read the Macquarie Franklin report of a couple of years ago on the value of GMs in the state, and their conclusion was it has cost us money. It is really tiring, this argument, because if you go back when the question of GMs in Tasmania was first considered, the government employed Rob Napier, who at that time was principle of Orange Agricultural College in New South Wales. He was a member and, I think, chair of the small committee the government engaged to report to them on GMs in Tasmania. His recommendation was that we should be smart enough to work out how to have GMs as well as GM-free production. I think that conclusion is just as, maybe even more, relevant now. We ought to spend the time working out how to meet those requirements so that we can have both. I think trying to pick a winner one way or the other is a mistake. I think we are sacrificing things. I think in the long term, consumers will accept GM produce.

**CHAIR** - I wasn't going to lead you down the ideological debate. I think Leonie asked the question about organics and GM, whether they could co-exist. I think you asked that question, or words along that line. I think that does happen in the states now.

**Mr ARMSTRONG** - My view is we find the ways, so they can co-exist.

**Mrs HISCUTT** - The line was, for example, an organic farmer in Tasmania importing grain that is, you know, canola GM. Does that still make him organic or does that threaten that organic status? Can it work side by side?

**Mr ARMSTRONG** - My understanding was that someone who claims to be a GM-free producer couldn't use GM grains from elsewhere. That is why my proposal was that dairy farmers would have to have access to GM-free grain. Then we would work out, in Tasmania, how do we produce that for them?

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**CHAIR** - Apparently that does not quite work that way in Ireland where they claim to have some organic dairy produce, yet they import plenty of grain from Europe with GM material in it.

**Mr ARMSTRONG** - Australia's protocols for defining GM are more stringent than anywhere else. That is a good thing. People can rely on it. When we say it is GM-free, they can rely on it. I think that is a good thing. Then we have got to work out how we produce things that can meet those requirements. I am not suggesting we weaken the standards. I think we can maintain the standards but work out how to do it for dairy farmers, in this example.

**Mrs HISCUTT** - It sounds like red tape is necessary. If you are going to guarantee your product, you need a process which to go through.

**Mr ARMSTRONG** - Yes. I would try and define the process and then manage the red tape so it doesn't become too burdensome.

**Mr FARRELL** - David, on the line you touched on, on education, where do you think we are falling down in education in the state as far as agricultural education goes? Do we need to reintroduce school farms, that type of thing, to get more people into the agricultural sector? Do you think there is a need to develop it from that level?

**Mr ARMSTRONG** - The answer is yes. I think we need to be more proactive at all levels. I think we have not been anywhere near proactive. Take the example of the berry fruit industry. It is growing hugely, so why aren't we, for example, at Longford or Cressy or somewhere, where there are now hundreds of people working in the farms - why isn't TAFE assisting in training those people who work there?

I am really pleased the university have some additional training for farm management skills. I think there is a new course starting up on business management for people in the horticultural industry. All these things are terrific. We should be able to anticipate these things and say, right, if we are going to get ten-fold increase in agricultural output, we are going to have to have more farm managers, more agronomists, and all the rest of it. We need to be proactive in working and directing that training to the industries where we see this growth appearing.

**Mr FARRELL** - Because we did hear from Alan previously that there was a young person who was interested and was steered away from that. It was only through determination this person kept going down that pathway. I imagine that is not a singular issue for the sector.

**Mr ARMSTRONG** - My question to Alan would have been, did you go and talk to the teacher? That is what I thought when he said that. I thought, that is terrible, getting that sort of reaction.

I have been involved with Hagley Farm School and done some reports for them about the sort of things they could do. One of the things another consultant and I, in fact it was his idea, would love to have seen would have been an automatic milking machine at Hagley. They had a dairy at the school. Only a small number of cows, about 50 cows, and it was a pain for everybody. Fifty cows. If you wanted to see it as a demonstration of best technology, then what about installing an automatic milking machine there and all the things related to that? It is probably a half-a-million dollar investment. It would have been great.

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**Mrs HISCUTT** - Yes, they are \$500 000 each, I believe. They have three at Pyengana.

**CHAIR** - Do you have a handle on what UTAS is churning out in terms of academics, if I can put it loosely that way, in agriculture at this stage? Has there been a drop-off, has there been a fall off in numbers?

**Mr ARMSTRONG** - I don't know, Greg.

**CHAIR** - Anecdotally I have heard that, there weren't as many people enrolling in agricultural science as what, for example, there used to be. We do need, if we are going to grow agriculture, we need managers.

**Mr ARMSTRONG** - Let me give you another example. In our business, AK Consultants, I have been trying to retire out of that for five years or so.

**CHAIR** - I thought you were.

**Mr ARMSTRONG** - I am almost there. We have been looking for a replacement. Most of my business work has been associated with farm business management, helping farmers with financial issues and the management of their farms. We have been trying for about five years and it has been almost impossible to find anybody.

The new graduates have not been coming out with those sort of skills. It is more likely now with the sort of training going on at the university but it has been impossible for us to find anyone. We have tried three or four people and we haven't been able to find someone. We have a square hole and all the other people have been round pegs to fit in, and it hasn't worked. It has been really difficult to find someone.

**Mr FARRELL** - On that, years ago, I do not know if it is still the case, I have not really had a good look around. Most of the regional centres had an office of the Department of Agriculture. Does that still happen or have they all shut the doors?

**Mr ARMSTRONG** - No, that is all gone. There used to be district extension officers. That was fantastic training ground for people to enter the private consulting business arena. That is not there anymore. How do we get people who have some experience? Broad experience in agriculture and know how to talk to farmers and all those sorts of things.

**CHAIR** - Craig is absolutely right. At Deloraine we had a deer extension officer, we had a sheep one, we had a piggy one; we had the whole shooting match, a whole office, with staff.

**Mr ARMSTRONG** - The government is not going to provide those so it is an opportunity for the private sector -

**CHAIR** - People like to swallow them up.

**Mr ARMSTRONG** - So the question now is, how do those like us in the private sector find people for those roles? It is very difficult.

**Mr FARRELL** - There were the Mount Pleasant laboratories. I don't know if that has been scaled back.

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**Mr ARMSTRONG** - Yes, it has been.

**Ms RATTRAY** - A question about export impediments. We heard this morning a very switched on operator said his biggest impediment to his market is the export area. He does not need so many opportunities to market his product, exporting the product that is the biggest issue. Do you have any experience from your clients? You did talk about it in your submission.

**Mr ARMSTRONG** - I don't have enough experience to answer that. The logic in the submission really is if we are going to grow the value of agriculture it is going to be based on exports therefore we need to make sure we have the protocols and procedures sorted out and that is a job for government.

**Ms RATTRAY** - Thank you, I appreciate that. I thought it was worth touching on.

We talked about the education system. Our education department doesn't seem to value school farms any more. Yet, they appear to be very, very good for some students who are not always academically focussed or don't excel in that area yet they shine through that. I cite the Scottsdale School Farm. They generally need a very committed school farm agriculture teacher and it is not always easy to find. I believe Sheffield has a really good school farm that is very popular. They do the circuits with the show. Is it a role for the community to ask for that commitment again, what is your thinking about that?

**Mr ARMSTRONG** - I haven't been involved with any others than Hagley Farm School. I read recently the principal and a couple of other agriculture teachers in schools around Tasmania may now be a way in the United States on a study tour. I think there were three people going and I only read it in the press.

**CHAIR** - I think you are right.

**Mr ARMSTRONG** - I thought that was an indication of increased support from the Government in that. In the Hagley Farm School it is the principal who is really keen on that. He is driving it with the support of the agriculture teacher at the school. As I have said, I think there is potential for huge growth in agriculture. We need to do all the things we can to facilitate that, including exposure of kids to agriculture at schools is really important. Based on Alan's story about what happened at Scottsdale, we need to talk to the teachers at schools and the people advising kids about their vocational opportunities.

**Ms RATTRAY** - I think that example might be Winnaleah District High. A lot of it depends on the principal and their interest in that area. The cattle handling at Sheffield, Scottsdale, Jordan River and Yolla is first class.

**Mrs HISCUTT** - I would like to think that is not a typical example of what is happening.

**Mr ARMSTRONG** - I did relate that image of what might happen in the dairy industry with robotics, drones and all those sorts of things. To me, that indicates potential for people with much higher levels of skills to be involved in all of these things. It is not just getting into the dairy and milking the cows or driving a tractor. There are lots of other things.

**Ms RATTRAY** - When your iPad breaks down you ask your grandchild how to fix it.

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**Mr ARMSTRONG** - I have seen some photographs of driverless tractors. They do not have a cab.

**CHAIR** - That is right.

**Mrs HISCUTT** - They do not need it, just a GP.

**CHAIR** - Thank you very much for a very comprehensive submission. I know you have moved a bit away from dairy. That is fine; it is all relevant to what we are talking about.

**THE WITNESS WITHDREW.**