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THE LEGISLATIVE COUNCIL SELECT COMMITTEE ON THE DAIRY INDUSTRY IN TASMANIA MET AT BURNIE ARTS AND FUNCTION CENTRE, BURNIE, ON THURSDAY, 16 FEBRUARY 2017.

Mr SIMON ELPHINSTONE, CHAIR, AND **Mr MARK SMITH**, EXECUTIVE OFFICER, DAIRY AUSTRALIA (DAIRYTAS), WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Mr Hall) - Welcome. What you say here is covered by parliamentary privilege within the committee hearings, and it transcribed by Hansard. Anything you say outside is not afforded such privilege.

Mr SMITH - DairyTas is funded through the national levy and our role is a service provider for dairy farmers across research development extension. Because we are a regional body within Australia our focus tends to be on extension and development not so much on research, which happens in larger organisations.

Our constitution does allow us to get involved in matters of industry development, education and training around the industry and a whole range of things, but one thing we don't do is directly advocate on behalf of farmers for things like milk price or contracts with processors, as I mentioned at the Senate hearing. We don't generally go beyond the farm gate. Because we are a farmer levy funded body our focus is on delivering programs for dairy farmers. Whilst we work on programs like the Dairy Industry's Strategy Plan, which has an element to it that encourages supply chain co-operation, value adding and how we work together with processors.

We have no responsibility for what happens to milk once it has left the farm or influence directly over what processors might do in value adding the milk. Being a fairly big player in the Tasmanian industry we have a reasonable understanding of the issues and activity that happens in relation to what dairy farmers are doing.

The industry's growth has been driven essentially off the back of export markets and with major processors who are investing in stainless steel to produce products that go globally. Being businesses that have production bases across a number of regions in Australia, and in the case of Fonterra, internationally, sometimes their interest to promote a local brand isn't particularly strong.

The quantum of product coming out of Tasmania in cheeses, butters, powders and so on generally tends to come out not in a branded - a generic product, which is what you are aware of. We are nearly 10 per cent of national production now, and that is nearly a billion litres of milk. That milk has to find a home so if there is more value adding it is probably not going to be a quantity thing, it is going to be niche, smaller scale, and we are still going to need those export markets driving our industry. I think that is an important point to make.

I suppose the background to that is the four major processors are all multinational companies.

Mr ELPHINSTONE - Except for Murray Goulburn, as the major cooperative in Australia.

PUBLIC

Mr SMITH - The main conclusions we have come to - we believe broadly there are opportunities for building the Tasmanian brand across the dairy industry and these will require existing or new processes to take advantage of this brand. I think generally, yes, that probably has not occurred to the degree it could. There are examples now starting to emerge of businesses doing that. We have made reference to what VDL have planned and to the possibility of further development around organic milk supply, which will feed directly into a product that hopefully will have a Tasmanian brand, whether that is a company like Bellamy's or others in the organic space.

We think this can compliment what the existing industry is doing now in terms of its export base. That is going to continue and the Tasmanian Government and perhaps Brand Tasmania may have an opportunity to play a greater role to help promote the opportunities for further value adding around the Tasmanian brand.

CHAIR - In regard to Brand Tasmania, do you have a view as to how well they have performed? Have you seen much activity from them at all in the dairy industry?

Mr SMITH - Not directly, no, but as I said at the start it is not a space that we, historically, have ever had a role to play. I would imagine they would have played a role with some of the smaller scale operators who might be looking to promote their local brand elsewhere, perhaps Pyengana, for example.

Mr SMITH - I am not sure how well resourced they are and how much involved they can get with supporting businesses. It might be more a flagship type of role.

CHAIR - We will be talking to them anyway next week or so.

Mr SMITH - We are meeting with them tomorrow to talk about this project, called Providairy. It has come to DairyTas from a private individual who is interested to set up. It is like a dairy gourmet guide, so it is promoting local dairy operations people can buy different Tasmanian dairy products from.

Ms RATTRAY - Like a food trail, perhaps?

Mr SMITH - A bit like that, yes. I have a couple of copies. I am sorry to do that at the last minute. We provided a small project grant. The concept was developed by Rachel Brown, who does some contract work in the NRM space for DairyTas and is an agricultural consultant. She came to us with a plan she thought was an opportunity for us to do more to showcase dairy to the tourists and to visitors to Tasmania.

CHAIR - Sorry that name, having not seen it yet - it names specific businesses, small niche businesses within that?

Mr BROWN - Yes, it will identify locations of businesses but would then have advertising.

Ms RATTRAY - There is a problem though, Mark, it only has a corner of Tasmania on it.

Mr BROWN - It is very much a draft, an example, that concept. It has some issues around how it can be funded. For example, Rachel as a private business and hasn't been able to secure funding to get it to a point where it can fly. That could be an example of something the State

PUBLIC

government might be interested to support as a way to help promote some Tasmanian dairy brand, if you like.

Mr FARRELL - Following on from that, do you feel that maybe there is a gap where Tasmanian dairy is not being marketed? If you are getting private people coming in, is it a little ad hoc, do you feel? From your point of view, even though you are not in that space, do you think there is room to improve the marketing of Tasmanian products?

Mr SMITH - My sense of it is there are certain businesses that are doing a good job in that space, but there is nothing happening in an overall sense, really. Some of those small businesses probably could benefit from a little bit of a framework that they might be able to operate in and something like this might help them along that pathway.

Mr FARRELL - We heard yesterday that the wine industry, for example, has a good encompassing body that pushes that Tasmanian brand for the producers. It seems that with the dairy industry there is a bit of a gap there.

Mr SMITH - Yes. No organisation has got a real brief to pursue that objective, I don't think. We come from a position of being a service provider for farmers to help them run their businesses, whereas Wine Tasmania has probably got a wider brief that they are there to promote - sales of Tasmanian wine and development of local businesses, cellar doors.

CHAIR - Following on from Craig's question, he is saying is that there is an opportunity for an expanded brief or somebody to perhaps do something like that.

Mr SMITH - That is why DairyTas thought they would put in a little bit of money to look at the feasibility of this. It has probably worked out that to make it happen, it is probably bigger than was contemplated and it actually needs a little bit of shoulder to the wheel from some of the major players, supporting this type of concept in Tassie.

Mr FARRELL - Do you think that is something that would fit under your auspices, to branch from just being an industry group into a marketing body? Is it something you could see DairyTas expanding to do?

Mr SMITH - It is probably something for the board to consider, but it is not seen as any part of our historical activity. Certainly Dairy Australia do not see our role in that space. It would need to be considered and resourced. We are flat out servicing what we are doing with farmer programs and industry development broadly in education and training, and helping build career opportunities, those things; this would be another dimension which would require expertise as well as some resourcing. I am not sure how that might play out.

CHAIR - I understand what your brief is, Mark.

Mr SMITH - The other way to answer that question is that it is not fitting anywhere now. It is falling between the cracks.

CHAIR - In the any other states like Victoria, the main dairy state, are you aware of any similar programs to this at all or not?

PUBLIC

Mr SMITH - No, not directly, but there could be a local region or body that might take something up to do it, like Cradle Coast for example. If they saw a value, they could take a role to play. I imagine some of the regional bodies like in South Australia, the Fleurieu Peninsula, they have probably got some of this type of thing around the value-added local food and beverage activity.

Mrs HISCUTT - It seems like it is an evolution. It was milking cows, total commodity, off to the factory, and this is like the artisan coming in and maybe it is an evolution and it will get going. Do you reckon that is possible?

Mr SMITH - I would hope so. I think essentially that's why the board was prepared to put something behind it initially, but we have got to another level and now the question is, how can it proceed, because we can't resource it, and at the moment it hasn't got enough private sector backing to make it fly.

Ms RATTRAY - Who has got the strongest shoulder to push it?

Mr SMITH - It really has to come back to the state government. Are they serious about the Tasmanian brand, and supporting value-adding clearly fits quite well with that tourism side of agriculture, which is probably something that has potential.

Mr ELPHINSTONE - There are two spaces in the Brand Tasmania as well. We have got the artisan cheese makers, that kind of tourist-based kind of document - that's great but that it's never going to consume all the milk we produce. Then there is a branding opportunity around our commodities and can we add value through quality and where do we produce those kinds of things in Tasmania and add value to our commodity products as well?

I think there are two pieces to the puzzle. There are the tourist, artisan, smaller manufacturers but then there are the big manufacturers as well and these add value in the Tasmanian brand for them as well and it's probably something we should explore.

CHAIR - Outside that space, do you think there is an opportunity - it is always commercial - for a private investor to come in and say, 'I want to set up a factory and produce specialty cheeses and I want 30 suppliers' of whatever? It is always a possibility. The commercial figures have to stack up, don't they?

Mr SMITH - Yes, and hopefully we will see more of those things. For example, one of the investors in one of the new dairy conversion farms from Europe is keen to be able to look at value-adding the milk that they are now starting to get involved with producing off farms. European private investors who are partnering in dairy farm development in Tasmania with local people. I have had comments back that they see an opportunity for Tasmania's more small-scale, value-added product utilising that milk.

Some of our new dairy conversions have different capital sources and often it is in partnership with either local landowners or local investors. I just use that as an example of comment I had heard back from one of those investors who sees Tasmania having potential in that space that is underdeveloped.

CHAIR - I think you made clear in your submission, and I totally agree, that always we are going to have the bulk of our milk in those markets. What we are trying to do here is to find out

PUBLIC

any other opportunities to pick up any other smaller investors in the other niche markets. It might take a little bit of the milk out of that bulk commodity system. You also mentioned, I think, that you had to fill the factory's program - we had that a year or two ago, didn't we? Now we have a 200-megalitre surplus, it would seem.

Mr SMITH - Yes. It exceeds capacity.

CHAIR - Just at the moment. Do you expect that to change in the next year or two? It seems that world milk powder prices seem to be starting to move up a bit again. What do you think as far as our capacity goes at this stage?

Mr SMITH - We have to be careful there because the processors who own the capacity are the ones who make their decisions based on not just what is happening in Tasmania but what their other capacity situation is and what is happening in the world market.

Historically, we have seen them continue to invest in that capacity, both from the point of view of the volume they can handle, but also the technology that they are using. I think that shows a confidence and hopefully that will continue so they will invest as they see the opportunity. We don't know anything beyond that as to what they may or may not do.

They have to send the right signals to farmers to give them the opportunity to invest. Probably at the moment, farmers are going to be hesitant because confidence has dropped as a result of some of the events of last year. Processors have to be fully conversant that farmers can't just turn milk on and off. They have to be giving them opportunity in the longer term to participate with them in their business and not cut them off at the knees if something goes wrong and they have to make a change.

It is important that that partnership work well so the farmers have the confidence to invest. I think it will take a bit of time to come back. We are in a bit of a consolidation phase, overall, with milk production in Tasmania. I think that after next year they will go back up again but in the meantime the focus is on profitability of the businesses for farmers.

CHAIR - We had that rise in production for three or four years, but this year what are we down percentage wise on last year?

Mr SMITH - Year to date we are about 8 per cent down, but we think we will finish about 4 per cent down, because we will pick a bit more up in the last part of the season, compared to last year. There will be about 30 or 40 million litres of milk less than the year before.

CHAIR - It was also put to us that if you take other bits of volume out of the market then it could fragment the industry as far as the processors are concerned if they get less milk in. That may not help their cause either. Do you have a comment on that?

Mr ELPHINSTONE - Having factories full helps offset the fixed cost in running them. A full factory is going to be more efficient to run.

I've been a dairy farmer for four years. Prior to that I worked in the processing side of the industry. I converted a family farm from beef to dairy with automatic milking robots. We are currently milking a couple of hundred cows and still growing.

PUBLIC

Ms RATTRAY - Where is that?

Mr ELPHINSTONE - In Flowerdale.

Ms RATTRAY - It was suggested yesterday by one of the witnesses that the average that Tasmanian dairy farms operate at is at around 30 per cent capacity. He reckoned there was still a lot of capacity left in most dairy farms to produce more.

Mr SMITH - That might involve more cows or throughput of the dairy?

CHAIR - I think it might have been on a statewide basis.

Mr SMITH - Our industry is fairly intensive in terms of how we measure cows per hectare. Tasmania is probably the most intensive off the dairy regions of Australia. One issue we have to be mindful of is that level of cows per farm and per hectare, and the impact that has on the landscape. The future I think on that number is probably more the potential for other land to come into dairy farming to add to the total number of farms, not necessarily more on individual farms.

Ms RATTRAY - So most of the farms that you see are really at capacity for what they have?

Mr SMITH - It's hard to say what is capacity because that can depend on the season. The farmers are going to run an economic and profitable dairy farm. They have to have a certain stocking rate that helps drive that. Stocking rate is pretty important for driving the profitability of the farm in terms of what is produced on farm, what is consumed and then the impact that has on the bottom line.

Mr ELPHINSTONE - If you are under-utilising your asset, your farm, then you won't be profitable. Thirty per cent on current farms? I don't know.

Mr SMITH - I think farmers can tweak where they are at a bit, but I would have thought there is probably not a lot scope to say okay every farmer can milk another 100 cows, so away you go.

Mr ELPHINSTONE - There are always opportunities to improve our businesses and grow, and that is what we try to do everyday.

CHAIR - It usually involves perhaps buying next door and expanding and doing it that way.

Mr SMITH - Yes. The big advantage of Tasmanian dairy is pasture-based system, which is the lowest cost feed and probably good value nutritional feed for cows. If you are going to move away from a pasture-based system, you are going to pay more money for feed costs and probably change the nature of that operation. That then has a whole flow-on effect as to the risk around managing a dairy. Tasmania's advantage, and the reason it is probably a little more resilient with what has happened in the dairy industry nationally over the last 12 month, is that we have a lower cost system to run to. Farmers can pull that handbrake back a little when the price is down and when times are tough, whether it is seasonal or price, and then make an adjustment to that.

Mr ELPHINSTONE - That lower cost system is a result of pasture-based farming.

PUBLIC

Ms RATTRAY - Are you seeing a shift away from that in some respect and using more grain, for instance?

Mr SMITH - It is only at the margin. There is a little bit of a shift there but predominantly, no. It is still at that spring calving focus around farm production.

Mrs HISCUTT - I would like to touch on discussions with the processors. In your submission you have on page 2: '

It is unlikely that MG or Fonterra would be interested in marketing a branded product. Discussion with processors should take place to be clear on this point.

Bearing in mind that Fonterra does not brand New Zealand products at all, do you reckon there is any chance if we as a government, or whoever, was to talk to some of those processors to encourage them to brand some products as Tasmanian?

Mr ELPHINSTONE - I think Fonterra probably do brand. NZMP is their commodity brand, New Zealand Milk Products, so I think that New Zealand piece does play a part in branding of some of those products.

Mrs HISCUTT - Look at Lion, for example; their cheeses are Tasmanian Heritage. It does not say 'Lion'.

Mr SMITH - No, but they have made a decision to consolidate their cheese making into Tasmania and build on the Tasmanian brand in that way. Whereas Murray Goulburn is producing a product in Victoria under Devondale and they will put Tasmanian milk into a Devondale product, but it is not a regional brand.

Mr ELPHINSTONE - There has been brand consolidation happening over a number of years.

Mrs HISCUTT - Can you see in the future where one of these bigger processors might make Tasmanian products?

Mr ELPHINSTONE - If they think they are going to make a dollar, they will.

Mrs HISCUTT - We did hear yesterday that minerals coming out of Asia somewhere are not allowed to leave the country without being processed further down, value-adding before they leave the country. I am not suggesting legislation to make them do that; I cannot see that being a good thing. Have you got an opinion? Obviously I can see you leaning towards commodityism and that is the way it is.

Mr ELPHINSTONE - I think there is certainly value in Brand Tasmania.

Mrs HISCUTT - For the Tasmanian brand.

Mr ELPHINSTONE - Yes. It would be great if the processors could leverage that, but I think we are probably a little way off that. How we pull that together, I am not sure.

PUBLIC

CHAIR - We are going to talk to MG and Fonterra down the track, but MG have a new facility in Circular Head and whether or not they might consider changing their packaging, if you like or however they do it, to say 'product of Tasmania'. Whether that would attract a premium or not, I am not sure.

Mr ELPHINSTONE - I suppose that would depend on the customer, if we can find customers that see there is value in Tasmania.

Mrs HISCUTT - They would know the customers.

Mr SMITH - Yes. History tells us maybe that is not going to happen. They had the opportunity to do it and they have not done it.

Mrs HISCUTT - You talked about DairyTas looking at programs for dairy farmers. Does that include education and training for young and upcoming interested folk?

Mr SMITH - Yes. That is a big part of our operation now -to encourage young people into careers in agriculture and in dairy. We are doing a lot more in that space, supporting school programs. We ran a careers day in Burnie the year before last. We did not run it last year; with the way the industry was it was just not the right time.

Mrs HISCUTT - That was a very successful day. I came to that. Would you like to tell the committee a little about that day?

Mr SMITH - Yes. The point of that was to show what dairy was about, not just milking cows but the whole chain of service providers and value added to process as well. We brought together about 30 businesses and organisations that have a role to play in supporting the industry in one part or other of the value chain, going from milking cows through to production of an end product. To a young person at school, they can see that dairying offers an opportunity for agronomy, veterinary science, dairy technology in the factories, and there is a lot of use of science. It is not just about milking cows. There is an integration between those operations in the ways that people move in careers between different roles.

Mrs HISCUTT - What did you call it?

Mr SMITH - Cows Create Careers is a school program that specifically goes out to high schools to engage students in an activity, and they will raise calves for a period of time. They will research a project around industry. That is an ongoing program nationally that we support locally. We do additional things with the careers day. We are working with Beacon Foundation to run school programs. Subject to our resources and size, and we are only an organisation with four people working for it and a board and some contractors, we can only service so much, but we certainly see it as very important to continue to promote and make people aware of what dairy can offer them and understand it - to open the door to them.

Mrs HISCUTT - How is the participation going?

Mr SMITH - Cows Create Careers is going very well with schools that are participating - in the north-west, the north and some in the south. Schools make the choice of whether they are going to participate. A lot of those high schools continue to do it year in, year out, with students that come through their grades. We are more than happy with that.

PUBLIC

We are running a camembert in the classroom program, which is focusing around making the product, which adds a different dimension. That was a national program. Dairy Australia had to pull out due to funding constraints, but we decided to keep running with in it Tasmania in partnership with Lion.

Ms RATTRAY - In hindsight, do you think you probably should have held your Cows Create Careers option, even though there was some negative comments around the industry? That tells me we do not have that much confidence in it. Do you think you should have had that program running so that people could see we believe there is a future? Would that be fair to say?

Mr SMITH - The program for schools still ran; it was just the expo day. We had gone further and put on this dairy careers day where we invited in schools and set it up with the industry. There was a lot of pressure on the industry at the time. There was a lot of pressure on the service providers. We could not do it without their support. We had to make a decision with our own resources as well as to where we were focused. At the end of the day, our priority is our farmers. We had to put effort in to running a program that was going to help farmers - the Taking Stock program, for example. We can only do so much. It would be good to do everything.

The way things happened deflated everybody. It tested everybody's resilience. We had to come out of that and we have done that and will progress onwards.

Mrs HISCUTT - I would like to touch on organics for a moment. In your submission you have 'recent developments are of interest'. Your last point there was organic milk. It has:

Processor interest in sourcing Tasmanian organic milk has risen dramatically in 2016 and announcements are expected soon.

What announcements? Are you able to divulge?

Mr SMITH - They are not our announcements.

Mrs HISCUTT - They are not yours to divulge?

Mr SMITH - No. From discussions we have, in part, been party to about organic interest in farm milk, we have been led to believe there will be some opportunities coming one way or another with processing of organic milk.

Mr ELPHINSTONE - Organic milk is one of those chicken-before-the-egg scenarios. You have to have enough scale and enough organic milk to make it worthwhile for a processor to process it. Then you have to try to get farms to convert to organic before there is an option.

CHAIR - Also be able to provide some long-term supply contracts as well, otherwise you are just not going to do the conversion.

Mr ELPHINSTONE - Yes. There are a number of farms currently in conversion in Tassie, and I am one of them. It is happening and there is going to be some scale and there is going to be milk available.

Mrs HISCUTT - We heard there were four or five; does that figure sound about right?

PUBLIC

Mr SMITH - Probably a few more.

Mr ELPHINSTONE - At least.

CHAIR - I just want to go back to your point (3) - the Tasmanian government and Brand Tasmania need to promote these opportunities more widely. That is in regard to any further processing et cetera. That hasn't happened. I suppose it becomes something under the auspices of State Growth. Do you have any ideas on that?

Mr SMITH - Just going back to an earlier comment about something that has fallen between the cracks, it is like this sort of thing. Dairy Australia do a little bit of that nationally, but generally the industry doesn't have a body that supports that as part of their mantra. From a state point of view, it would appear that State Growth and their offshoots, like a Brand Tasmania, would be in a position where they could perhaps be a bit more proactive to encourage it to happen. They cannot do it, but they can encourage people to look at that opportunity. That has partly driven the organics, where people want to see a different future. They don't want to see a business that is going to be subject to regular volatility. Other farmers say, 'Well, can I look at value-adding in my business and going into that process'. Is a state body able to give them appropriate support, encouragement or whatever to help make it happen? As part of our AgriGrowth thing that certainly should get consideration.

CHAIR - It was suggested yesterday that perhaps to push our image for Tasmanian dairy that clean and sustainable was perhaps a clearer pathway than trying to get the organic bit in there as well. Do you have a comment on that?

Mr SMITH - I think there is space for both of them. Those two are quite compatible.

CHAIR - The clean and sustainable, as we stand right at the moment, without having to do any more work, we are probably sitting there anyway in terms of world dairy production, quality of milk, pasture-based and everything else.

Mr SMITH - If you have investors interested in supporting an organic industry here, then why wouldn't you? It is the ideal place to do it and we haven't had it. It happens in other areas of Australia, it happens globally, and it is just another segment of the industry that offers some potential.

Mr ELPHINSTONE - What a story to tell - Tasmanian organic GM free.

Mrs HISCUTT - You talk about things falling through the cracks for governments or someone to pick up on. Is there a lobby group that informs the government of what falls through the cracks, because sometimes you don't know until you are told. I do not know if the government would have known about anything like that.

Mr SMITH - This is a fairly recent initiative.

Mrs HISCUTT - Who is that someone? Is that your job as part of your brief?

Mr SMITH - Probably not directly. We take a role and work with TFGA, for example, on the dairy industry's strategic plan, which again focuses on farms, but it is going beyond that.

PUBLIC

Unless somebody is prepared to take a bit of initiative and push out there a bit, it won't happen. You will sit back and then you get the same as you have had in the past.

Mrs HISCUTT - That is a very interesting concept and I had never heard of it before.

Mr SMITH - It is new and is something that has come from a private individual who works around the industry and sees an opportunity. That is how things happen. With the right encouragement and maybe a bit of resource support behind it, hopefully it will work.

CHAIR - Thank you very much, gentlemen.

THE WITNESSES WITHDREW.

PUBLIC

Mr MURRAY JEFFREY, LION AGRICULTURAL PROCUREMENT DIRECTOR, Mr CAMERON BRUCE, GENERAL MANAGER, LION SPECIALITY CHEESE, AND Ms ELISE GARE, EXTERNAL RELATIONS DIRECTOR, LION DAIRY AND DRINKS, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED VIA TELEPHONE.

CHAIR - Welcome. What you say is covered by parliamentary privilege in this meeting. Anything you say outside is not afforded such privilege.

Ms GARE - With me today I have Murray Jeffrey, who is responsible for procuring more than 900 million litres of milk from farms under contract, and this includes 71 farms in Tasmania. Cameron Bruce is general manager of Lion Speciality Cheese business, which includes our speciality cheese manufacturing site, the Heritage, in Burnie, and the King Island Dairy.

Lion Dairy and Drinks forms part of the Lion group, a leading food and beverage company based in Australia and New Zealand. We enjoy a strong presence in Tasmania through both our dairy and our brewing operations. We employ directly around 460 people in the state and in our dairy business we have three dairy sites: dairy manufacturing site in Lenah Valley that makes white milk, flavoured milk and cream; and we have two speciality cheese manufacturing sites; as I said, the Heritage in Burnie, and King Island Dairy on the island. We work with 71 Tasmanian dairy farms, including 11 farms on King Island, and this includes the two farms we own and operate. We purchase around 131 million litres of milk annually in the state, and we also partner with independent, family-owned and operated chilled distribution businesses.

As a domestic brand of business, Lion is focused on building long-term, sustainable value in the Australian dairy industry through four key drivers. The first is putting nutrition at the heart of everything we do, to address the fact 90 per cent of Australians do not consume the recommended three serves a day.

We are seeing dramatic changes in nutrition towards full fat, higher protein, gut health and more natural and less processed products. We are prioritising the winning categories for flavoured milk, yoghurt and specialty cheese versus the white milk category when we lose money.

Quality brands and unique products that sell for a premium are key for us, and all of our dairy farmers. We are investing around \$200 million in our manufacturing assets across Australia to improve efficiency and this includes around \$4 million currently invested in our Burnie and King Island dairy sites. We value every drop of milk through our farmer partnership program.

I would like to share a little bit about how critical farm partnerships are to our business through a commitment that we term the 'three Ps' - competitive pricing, partnership and a clear purpose. In terms of competitive pricing, we detest the notion of retrospective changes in milk price as they undermine trust and damage farmers' ability to plan for and invest in their businesses. That is why, unlike some processors, Lion did not impose retrospective price cuts in response to market conditions last year and does not support them, as a matter of principle.

We have enormous empathy for those farmers who were impacted by these decisions. Lion offers all of our dairy farmers contracts that recognise local dynamics and offers secure pricing in a commodity driven southern region of Tasmania, Victoria and South Australia. We received very clear feedback from our dairy farmers that the volatility of pricing has highly negative impacts on their businesses.

PUBLIC

To provide greater certainty and clarity around price for our farmers, since 2013, Lion has offered its southern region farmers a range of fixed and variable farm-gate pricing options. We have also offered them a choice of secure contracts terms of one, three or five years. This was designed very much like a fixed or variable home loan where the farmer could choose the option to provide the certainty and reduce the risk to their business.

These options available include variable pricing, underpinned by a minimum pricing guarantee, fixed pricing for those who prefer a set and determined price. This involves the farmer fixing up to 50 per cent of their volume for a three-year period and then electing to fix the remaining 50 per cent of their volume for a period of one year, or they can opt for a combination of fixed and variable pricing. Our fixed and variable pricing options have enjoyed strong take-up. For the current milk season, we are seeing 89 per cent of our milk volume has been locked in on a fixed price for at least part of the volume they supply. That means that all farmers, including those here in Tasmania that supply Lion, currently enjoy a greater measure of price certainty than those who are wholly exposed to the market pricing.

Due to the carry-over of fixed contract from past seasons, we expect to pay the majority of our direct farmers in the 2016-2017 season in the southern region, the net weighted average price of \$5.67 per kilo of milk solids. This represents a premium of 27 per cent over the forecast opening price that was announced by the price setter in the southern region.

In the milk market drinking states of New South Wales, Queensland and Western Australia, we either pay the highest or the second highest price. Even though we are paying this, it has very little consumer or customer benefit to be supported.

We see partnership as a very important part of our business. We have a specialist dairy farm services team that work individually with all of our dairy farmers. Help them plan and improve their businesses and manage the natural variations in supply.

Last year we were very proud that we launched a new dairy farmers sustainability program called Lion Dairy Pride. Eighteen months in the making, this program offers our farmers a unique way to measure, evaluate and improve key areas of sustainability on their farm.

The program a website and has an easy to use online self assessment tool that look at their areas of the dairy business including quality, animal welfare, environment management, farm safety, labour management and effective business management. We see this as critical, ensuring best practise, improving the cost of production and ultimately, in years to come, we would love to see a consumer trademark that underpins a sustainable supply relationship.

We also partner Landcare Australia and we offer our dairy farmers the opportunity to apply for grants of up to \$10 000 to help improve on-farm environmental efficiency and profitability. Today, 52 farmers have received grants under this program.

In an initiative with our Lion beer business we have also gained access to a by-product of beer production called brewer's grain. We offer this for sale as stock feed for our dairy farmers, currently in Queensland and South Australia. Brewer's grain offers high quality nutrition for dairy cows and it has great benefits for farmers. As part of a balanced diet brewer's grain can help to increase milk output, enhance starch and protein composition, improve farm productivity and

PUBLIC

drive down the cost of production. This year we are looking to expand this program to farmers in other states and that will include Tasmania.

At Lion, we offer all of our employees and their families access to free, confidential, professional counselling services. The wellbeing of our farmers is paramount. We have extended this program to all of our farmers and their families. They can access it at any time, free of charge, without us knowing. We also believe that our farm services team has the opportunity at times to recommend help if they see individuals who are struggling at that point. We believe that the challenges and demands of work and personal life sometimes require that additional support and that is why we are happy to provide this.

Lastly, purpose. Lion has a clear and credible strategy that is focused on the long term and committed to driving value and profitability back into dairy. We want our farmers to feel part of our business. We want them to take the same pride that we do that we make some of the most iconic dairy brands in this country. Engagement with our dairy farmers is key. To this end we do a number of things. We have two roadshow presentations to our farmers in every state, every year. Our managing director, Peter West, hosts at least one of those in every state, every year, at which time we share our business strategy. We also share confidential plans around our future innovation, our marketing strategy, and we also take feedback from farmers and what we think they think we should be doing better in dealing with our business.

We host farmer visits at all of our factories and over the last 12 months I know we have had visits in WA, Tasmania, South Australia, New South Wales, Victoria and Queensland. We've had farmers at our Burnie and our King Island dairy site. We provide monthly informative newsletters. We have evolved easy to understand contracts that use plain English. We have also conducted 1500 one-on-one face-to-face farm visits through our farm services team in the past 12 months. We provide direct and timely phone conversations with every farmer on any changes to pricing.

We also believe that there is a significant opportunity for processors operating in Tasmania to leverage off and contribute to the brand growth of Brand Tasmania. The region has a strong reputation for quality and artisan products. We are passionate about this. We are also extremely proud of the role that we've played in helping to bring this reputation to life through our specialty cheese brands, such as the King Island Dairy, South Cape, Heidi Farm and Tasmanian Heritage. We welcome the opportunity to work closer with Government on this. With that, we're happy to take any questions, thank you very much.

CHAIR - I take the point you are paying end-of-season prices of \$5.67 for milk solids, which is fine. I suppose your major competitors, such as Murray Goulburn and Fonterra, are exposed to the world commodity markets and that is where the difference is in the pricing at the moment. As you know, it has always been cyclical and when skim milk powder prices increase in the world market it would probably be they will put pressure on you, because once again they may go up a dollar a kilogram, for example, and then you will have to follow.

Mr JEFFREY - Our business tries to take out that volatility. We're very passionate about that and that's why we do offer the fixed-term contract. When the market does move the other way, we might pay the highs of the others but we certainly don't want to pay the lows. We want to make sure that we underpin our pricing and that it be based on sustainability and shared wealth amongst both the farmers and the communities in which those farmers are operating.

PUBLIC

It is also fair to say, from a competition point of view, that Fonterra and Murray Goulburn pretty much play in every market that we do as well. We believe, because we have great brands and a lot of those brands come out of Tasmania, we allow them to pay what we do, but it doesn't make us immune to the competition from elements from those two parties.

CHAIR - Part of what this committee of inquiry is about is what we can do on the back of the marketing opportunities for the Tasmanian brand. I note that you have won several awards recently for cheeses based in Burnie. Elise has just said, and it is in your submission, that there are significant opportunities for processors operating in Tasmania to leverage off and contribute to the growth of Brand Tasmania et cetera. Do you see those as being medium, small-sized or large-sized? What do you see in terms of that statement?

Mr BRUCE - I would see those opportunities and I would use the term 'more ongoing' because, like Lion, particularly with our Tasmanian Heritage brand and with our King Island Dairy brand, I would say we have a lot of history of promoting the quality and purity that comes through having our products produced both on King Island as well as in the north-west of Tasmania. It is an ongoing opportunity that underpins the strength that those brands are for us.

CHAIR - Do you see opportunity with, say, a smaller scale investor? It might be a foreign investor coming into Tasmania and perhaps going into that specialty cheese market - which would be obviously in competition to Lion and others - do you see opportunities for some people like that to come in there and grab a nucleus of, say, 20 suppliers and then go to work?

Mr BRUCE - The way I would answer that is that the brand of Tasmania exists, and we know through our research and through the steps we have had with our products, that Tasmania is a shortcut to purity and quality. So, any processor who would enter the market and come off a platform of 'our products come from Tasmania' would benefit from the investment that we have made over a number of years around building the Heritage brand, if you like, of Tasmania and then also perhaps for King Island. The answer is yes; they would certainly benefit from that.

CHAIR - In terms of the actual organisation called Brand Tasmania which, as you know, has some public taxpayer subsidy in it, have you had any contact with that particular organisation?

Ms GARE - Not through our dairy business; we have through our brewing operations in the state.

Mrs HISCUTT - Elise, for clarification, throughout your submission you refer to Brand Tasmania. Would you say that you really mean the Tasmanian brand and not Brand Tasmania Council?

Ms GARE - That's correct.

CHAIR - To preserve the integrity of any Brand Tasmania or branding Tasmania, do you think there should be any sort of regulation or anything else that should apply to make sure that the actual product is sourced from and processed within Tasmania?

Ms GARE - We are certainly very passionate in ensuring that any prominent claims we make are accurate and can be backed up. Obviously there would be competition and more issues if you were unable to do that. We take it extremely seriously, particularly in regard to the King Island

PUBLIC

Dairy brand, and we would certainly never consider to make any other products and use the King Island Dairy badge if they weren't actually made on the island using milk from the island.

Mrs HISCUTT - I am looking on my iPad at pictures of your Heritage line and I see Tasmania is prominent and the Heritage is prominent. Obviously you see the value in pushing Tasmania as opposed to pushing the Lion name. How much of a dollar advantage do you see in that?

Mr BRUCE - We did a significant research piece on the Tasmania Heritage brand last year and I think for us Tasmanian Heritage as a brand is inherently linked to the providence of Tasmania. Tasmania and Heritage sit within the brand and we have the map of the island within our logo.

Mrs HISCUTT - Yes, I can see that.

Mr BRUCE - I would say that for us the brand Tasmanian Heritage is inherently linked to its origin within Tasmania.

Ms GARE - Moving on from that, we also, whenever we are talking about the specialty cheese business, we certainly do talk about the unique position that we have in Tasmania and how the purity of the milk and the environment does help to make what we believe are some of the best specialty cheeses on the market. Just last week, when we were presented with those dairy awards for our products, our head cheese maker certainly did highlight the unique positions that present themselves in Tasmania and why we believe it helps us make those fantastic brands.

Mrs HISCUTT - Elise, I would like to talk to you a little bit about your Lion Dairy Pride. We often get people complaining about red tape. This is industry-driven red tape which a government doesn't have any control over. Are you saying that it's necessary to cement your place in the market?

Mr JEFFREY - For us, Dairy Pride is certainly about enabling our farmers to get the best tools available for them to make smart decisions for their business moving forward. It is certainly not a red tape program, it is certainly not a program that just provides added issues with farms because there is enough red tape out there already. We have 80 separate programs that run within that Dairy Pride, all around helping the farmers basically make smart choices and decisions for their farms and also to give them all the up-to-date tools around farm safety and also environment. We see it as a massive benefit. We are rolling that out currently in Tasmania but in the mainland area with 60 farms. We have now rolled out and completed 10 of those farms and the feedback so far has been very good.

Mrs HISCUTT - All your farmers at the moment, I presume, would have to go through a quality assurance program that is audited to be able to maintain supply to you?

Mr JEFFREY - That's right. That's part of a normal dairy licence, yes.

Mrs HISCUTT - Part of normal business.

Ms RATTRAY - This one is probably for you, Murray, but if it is not, please hand it to wherever it needs to go. Growth for your business: 71 farms in Tasmania, 131 million litres per annum. What growth is there that you see for dairy and for your company in Tasmania?

PUBLIC

Mr JEFFREY - I will answer the first part of that and might pass it to Cameron. Our business is a demand-driven business so our growth on farm is dependent on the brand that we invest behind and sell throughout Australia and overseas as well. Our growth opportunities, I think, are very sound. We don't have any restrictions on growth with our current farms as they stand today. Generally, most of our farmers are in a growth mode and in fact we have just signed an agreement with another farmer who has now invested on his third farm and is going to start supplying milk to us in about six weeks' time. We are actively talking to our farmers, we are communicating with them. When do look for growth, we talk to our farmers first and foremost and then, if they can't supply the milk we require, we then go to the open market and look for sources. From a brand growth point of view, I will pass over to Cameron.

Mr BRUCE - Basically, in terms of the numbers I will preface it with the fact that we are also publicly listed so I can't share our most recent performance numbers with you until they have been released to the market.

What I can talk about is the market data out of our grocery channel, because that is publicly available information. We are in the specialty cheese market. We are predominantly driven by what we would term key selling weeks or occasions, like Christmas, Australia Day and Easter, for example. I would say the market for specialty cheese as a whole has been growing at high single digits for the last three years and continues to grow. We are also growing alongside the market and we have just had a successful Christmas and Australia Day period. We've also just launched a quite successful new product into the market called Little Entertainers. If you get down to the local Woolworths store you will see them in there. They are currently only ranged in Woolworths and are smaller 85-gram portions of cheese. That has been very successful as an innovation to come into the marketplace. We certainly have been experiencing growth, as has the rest of the market.

CHAIR - A question regarding where your main markets are at the moment. Are you focusing just on the Australian domestic market or are you looking to do any export at all with your specialty cheeses?

Mr BRUCE - At the moment our business is predominantly domestic business into the rest of Australia. We do have a small amount of business across into the US and also up into Asia. Our focus remains predominantly into the domestic market with an emerging business into the international market.

Ms GARE - If you look more broadly across our business, whilst we are predominantly a domestic dairy company we are pushing more forward in select categories, mainly yoghurt, into South-East Asia and into China.

CHAIR - How difficult is that for you logistically and in a marketing sense to achieve, bearing in mind we are in a global economy and there is a lot of competition out there?

Mr BRUCE - I will talk about a specialty cheese standpoint. I think logistically it is quite difficult to get the product into another country beyond Australia, particularly with our bries, camembert and blue style of cheese, which is the predominant part of our business, because they do have a short shelf life. That is why the domestic market is logistically more sensible for us. We're still looking at opportunities to grow further internationally off the back of that.

PUBLIC

Ms GARE - If you look more broadly to our business, in our Lion International Dairy space we have been operating with yoghurt and also some extended shelf life milk in South-East Asia for about 10 years. Over the last couple of years we have seen a 30 per cent growth in what is called potted yoghurt. That is certainly the area we are playing with the brand of Dairy Farmers, Thick and Creamy, Farmers Union Greek and Yoplait. Getting up into the Chinese market we have in the last couple of years seen a real increase in cold chain compliance logistics networks being put in place for Australia into that market. At the moment we're doing a small amount of business, but it is mainly through that [inaudible] channel.

CHAIR - As we know, at the moment there is Moon Lake, in particular, and maybe one or two others, who are dabbling in the white liquid milk market into China and directly air freighting in there. That is not of interest to you at this stage?

Ms GARE - We're currently contract packing that for Moon Lake, as well as being their contract pack partners; we are doing that out of our Lenah Valley site. We are certainly watching [inaudible] to see how that is happening.

Ms RATTRAY - With export, and you talked about the 10 years in that area, do you find any impediments to export from Tasmania into that international market?

Ms GARE - So the 10 years that we have been in the South-East Asian market is predominantly in the yoghurt space, so that is coming from Victoria into South-East Asia, predominantly Singapore. We also have some cream cheese going out.

Mr BRUCE - We do have some cream cheese and some of our harder cheeses as well. They are shipped from Tasmania into our distribution centre at Laverton in Victoria and then exported from there. Obviously the logistics of moving the product out of Tasmania into Victoria adds to the lead-time. With these cheeses that have a longer shelf life we are able to manage that in terms of our supply chain up into international markets.

Ms RATTRAY - You have not come across any hurdles that potentially government might be able to lend a hand with in smoothing the road?

Ms GARE - More broadly we have probably looked at trade access issues. Free trade agreements have certainly helped with some of that but there has been quite a lot of trade market access issues to be able to get things through. Also, it's very hard at times to deal with regulators in those foreign countries. At times, the regulator will want to deal directly with the Australian Government and then the Australian Government will deal with us, so that can be quite a timely process if you need to work back through the regulator.

One of the things we have seen and have appreciated the support from the Tasmanian government recently was the King Island shipping. Even just being able to move our products from King Island onto mainland Australia, does come with its logistical issues. We certainly have been very appreciative of the government stepping in to ensure we would have a shipping arrangement. It would have become quite a difficult position for us and potentially unviable if we were unable to use ships and had to look at only airfreight options off the island.

CHAIR - Obviously you have built your business and are successfully moving volumes on the back of the clean and sustainable Tasmania brand at this stage. Do you see that you need to

PUBLIC

go down an organic pathway at any stage, or are you happy enough to continue with the model you have?

Mr JEFFREY - At this stage, our investment is relatively new within that the Burnie facility that has been now running for a year and a half. We see the opportunity for us now is really bedding in what we have, really make sure we execute very well through that supply chain and market those products the best we can. At the moment, organic is not on our short-term radar but you never say never.

Ms RATTRAY - In your submission, towards the end you say that the Australian mainland must be part of any strategy for the market for Tasmanian branded dairy goods. We heard yesterday in some evidence about how successful branding Tasmanian wine had been because it got into the Australian market and then flowed on into the international market. Do you want to elaborate anymore on that comment?

Mr BRUCE - I deal with specialty cheese. For us, we actually have just finished an advertising campaign up the eastern seaboard of Australia for Tasmanian Heritage products for Australia Day. The line we for that one was 'imported from Tasmania' and basically used the comment that the product has travelled overseas - to position the fact that our Tasmanian products are right up there to compete with international cheeses that are coming into our market.

Do we see the positioning of Tasmania as a premium product or a premium attribute? On our specialty cheese products that enables us to compete against these international cheeses.

Mrs HISCUTT - In your submission on page 10, dairy processing in Tasmania and the role of government, you have touched on some things about the federal government. Is there anything you think that the Tasmanian government can do? In your submission you said 'assistance for farmers to invest in technology and efficiencies'. What sort of assistance?

Mr JEFFREY - For us, we have a strong view that the technology on the farm over the next 15 years is going to revolutionise dairy. There is now quite a lot of investment in robotic dairies. We have now four robotic dairies now operating within our Tasmanian farmer group. In another 15 years time, there will be a lot higher percentage than that. There is a lot of drone technology around to take labour units out. There is a lot of evidence to suggest you can basically sit in a lounge room and run a farm, hands-free, for a period of time. Clearly that is not going to happen overnight but there is no doubt, as that technology improves, that capability will improve with it. With that sort of capability comes the opportunity for those farmers to really change the way they dairy farm in a very distinct manner.

The great opportunity that brings is to get young talent very interested in that area back into dairy farming. I think one of the challenges we have had is making sure that the young farmers coming through the network stay live and stay energised. Technology is one of those key tools of keeping young people engaged in that marketplace.

From a Tasmanian government point of view and what you can do, our advice would be really looking at farming for the future forward for now and making sure we have pathways to success for all of our young dairy farmers that have a real appetite for the new technology coming through.

Mrs HISCUTT - You are saying education and training is most important.

PUBLIC

Mr JEFFREY - Absolutely, and awareness of what is happening because there are some very exciting things going on.

Mrs HISCUTT - We have just had a briefing from DairyTas who indicated they get into the high schools and encourage that sort of thing. So you are saying more of that?

Mr JEFFREY - Absolutely. In fact, our farm services guides do high school and private school talks now as well. The more education, the better. The amazing thing that has changed in the Australian landscape over the last 30 years is the disconnect between farming and the actual consumption. I think it is fair to say that 30 years ago people were probably one or two steps away, now it might be three or four steps away and really don't understand what goes into producing a litre of milk. We are extremely passionate about it and making sure that education is certainly one element and also on the back of that education, researching development in new technologies, I think, is exciting for young people to be attracted to, say, dairy farming. I see it as a key platform moving forward, especially for education on young minds as they come through.

Mrs HISCUTT - Your other point was steps to ensure the cost structures faced by processes to be as competitive as possible. How do you see the Government stepping in there to help the competitive nature of the private sector?

Ms GARE - A great example of that is how you stepped in when the King Island shipping looked like it wasn't going to go ahead. That would have put a huge risk to our business and it would have made it very difficult for us to have delivered on some of our consumer volumes, so certainly that was one thing.

I think when you look at some of the other things, it is just helping to ensure any cost of doing business, whether it is energy costs or whether it is freight and transport costs, that when they do come through they are fair and reasonable and not to the extreme. It is all about making sure that they are acceptable to all.

Being on the island, we certainly find it very difficult. Unfortunately when there have been instances where the ship went down, having to airfreight a number of planes off that island does add additional cost to our business.

Mrs HISCUTT - One point you have here is business taxation. What are you suggesting that the state government could do?

Mr JEFFREY - With all active processing opportunities you want to be making sure the taxation fits the purpose. It is always regularly challenging ourselves to make sure that the right tax is paid through the supply chain.

CHAIR - Sometimes people criticise multi-nationals, but your parent company is Kirin, and therefore there is opportunity for investment in terms of capital. At our Burnie site, for example, do you expect to increase the volume or the capacity of that site in the short/medium term?

Ms GARE - As you would be aware, we have invested \$150 million in that site and we opened that about 18 months ago now. What we are looking to do is grow volumes and where we can grow volumes. At that moment that site is not at capacity, so we would look to be able to try to improve and grow our business so that we can ensure more volume going through that site.

PUBLIC

Mr BRUCE - There is a lot that is commercial-in-confidence that comes on the back of that, but we are absolutely exploring multiple pathways and how we continue to increase the volume coming through the factory. It is a focus for us.

Ms GARE - One of the only other things we have noticed is we recently applied for a state government tender for milk with one of your departments, the Department of Health. One of the things we added to that submission is we noted that it wasn't something you were required to do, to include in that around the sustainable, ethical supply chain that would be required to bring that milk as part of that tender. One of the things we were thinking would be quite good is if any state government milk tenders could include a section where the companies would have to include what their sustainable supply chain is. Just so there is real transparency around how that milk would go from farms into being processed and out to the relevant government department.

Mrs HISCUTT - So you are suggesting more red tape?

Laughter.

Ms GARE - We added it ourselves this time.

Mr JEFFREY - Our expectation is a fair go at all tenders when we do the right thing for our farmers, and others may not.

CHAIR - Thank you all very much.

THE WITNESSES WITHDREW.

PUBLIC

Mr ROBERT WOOLLEY, CHAIR, TASFOODS AND BELLAMYS AUSTRALIA WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR - Welcome. What we say is transcribed by Hansard, and any evidence you do give is protected by parliamentary privilege. What you say outside is not.

I think you know that what your company has been doing is applicable to what we are looking at, as compared to what is perhaps a Senate inquiry, which is looking back into ACCC matters and all sorts of business. We are looking forward to what can be done locally. I will hand it over to you and if you would make some comments and we will ask you some questions.

Mr WOOLLEY - I chair two public companies in the state, both involved in value add in dairy, so I'm quite open to any questions to do with Bellamy's Australia and/or TasFoods Limited. They are entirely different businesses in terms of the product and style of product, but I thought it best to come along and you can ask me any questions.

I've had a deep role in the development of both of those businesses and the philosophy that sits behind them, which is in value add. One of them is organic and one, TasFoods, is very early in its days of going forward, but Bellamy's has been very successful in growing a business from nothing to a very large business. We've had a misstep or two lately, but it hasn't changed the fact that it is still a very good business.

We aspire in Bellamy's to develop an organic dairy industry. The fact of the matter is that people think that can be done with a switch. The fact is that it can't be done at a switch. It requires a lot of infrastructure build and requires a group of farmers to make commitments. There is no organic dairy industry of any consequence in the whole of Australia. To put it in perspective, if all the organic milk was turned into powdered infant formula it would barely cover two months of our production requirements.

The reason why there isn't an organic industry is interesting to reflect on, but part of it I think is that Australia has such a good food safety history. The other part of it is, and we always complain about the Europeans, for instance, having protection, but they have been able to build an organic industry behind that protection because they haven't had manufacturers being focused on volume. Here we have manufactures focused on volume and commodity, if you really scratch. I think your previous people are an outstanding example of value add, but it is not big volume when you get down to it. We've lost some wonderful brands as a result of that, because the manufacturers were really focused on getting volume out and that's been a pity.

I think it is both those things, so when we've tried in the past to get production going with organic milk for the factories in Victoria, for instance, and there isn't equipment here that can do infant formula. For the factories there to turn their machines on they need so much milk and it has to be fresh, or reasonably fresh, for it to work or it just doesn't happen. It can't happen and we tried earlier on. What we have to do is build from the ground up and we're working at Bellamy's to do that. You hear all sorts of fictions and half-truths about this, but the fact is to build a reasonable industry you're going to have to take three years to convert a farm, to convert the animals, to convert the ground and to change things.

CHAIR - Was it two or three years?

PUBLIC

Mr WOOLLEY - Three years. There are very limited circumstances you can do it for less, but not the sort of volumes we're talking about. If you think about it we want really good dairy farmers to convert. It is the only way it will work. The farmer has to take time to think about it and work through it, because they're going to have to change their whole capital structures, they are going to have to change the way they farm and the way they think about it. They also have to be confident they will be able to source the necessary ingredients into the farm, whether it is feed or other things at a price that makes it economic. It is a chicken and egg situation and it needs people like us and people like the big manufacturers to join together to make it happen, so it will take time.

Bellamy's has had a misstep, but we still aspire to do that. I think that gives you a flavour of my thinking, because my thinking is all about the fact Tasmania is a small volume producer. We have the good fortune to be in some of the best growing areas in the world with the temperate climate, and the change is on. The change takes time, but the change is on where value-added product is coming out. You only have to drive down the highways to see all the covered farmland with the small fruits and so on.

At TasFoods we have invested in chicken, where we will be announcing a release of further value-added chicken products towards the end of March, and that comes from a variation of farming practices. We've got the wasabi business, which is the only one in the Southern Hemisphere, I think - or it is the only one in our region of any volume, and we are doubling that production now. If you look at it, you've got saffron, you've got wonderful changes in the wine industry with sparkling wines coming to the forefront, probably some of the best in the world. There is a lot of change happening. It will take time. It is gradual. I look across here and you are all experienced in the farming industry. You can't change farming practices quickly. Unfortunately, it doesn't change within the political cycle, which happens really quickly.

CHAIR - I understand it is a difficult pathway. One of the previous presenters put to us that there may be a role for State Growth to look at the feasibility. I don't know whether that has been done or not within the Department of Primary Industries for conversions of conventional dairy to organics. Are you aware of anything that has been done at all?

Mr WOOLLEY - No, I am not aware of any particular things. The actual work that has been done at Bellamy's has been done by the management team. The fact is, there is an organic industry in New Zealand and that was pioneered by Fonterra. It was created by Fonterra committing to it. I think they probably did it by mistake because it was such a small part of it. Someone took it into their head and it is really viable. If you think about it, if it is viable in Europe it has got to be viable here.

CHAIR - As you pointed out, to get people to make a commercial decision to change from a conventional dairy operation to an organic operation is a bit of an arduous task. Going back personally, we did a bit on raspberries at one stage and there were many hurdles, I might say, too many. Anyway, that is beside the point. You would need to have to provide some long-term supply contracts, I would have thought. That is going to be number one. A lot of people are going to think about that in a commercial sense first up.

Mr WOOLLEY - Yes. I think that has to be done in conjunction with one of the manufacturers. We don't own any supply chain. What we rely on is being able to build a relationship from the farm through to the tinning. We do that off the back of brand, interestingly enough. It will require rolling contracts that make the farmer feel confident to be able to do it.

PUBLIC

I would add one side bar to all this. The work we have so far indicates that a lot of dairy farmers actually farm with very close to organic practices and that is probably as a result of the fact that in Tasmania we have so many of the weather and environmental aspects that make organic farming easy. We don't have to farm dairy cows intensively. We can grass-feed them and do all the things that really are fundamental to an organic industry. A lot of them want to do it, in other words. That is our interpretation. There are some good bases there but you are right, Chair, it does need contracts and that's what we are looking at: looking at how they can be put in place to make sure that everybody bears an appropriate amount of risk through the supply chain.

CHAIR - I suppose the other side is, as a commercial dairy farmer you do have to look at potentially that there can be a loss of production for a while or loss of income, so therefore you do have to achieve that premium to make the whole exercise worthwhile.

Mr WOOLLEY - You do, and that is one of the initial challenges because you are rolling it to 10, 20, 30 farms all at once where somebody is subsidising the milk production for that period.

CHAIR - What sort of volume of milk or how many dairy farms would you need - it is a bit hypothetical - to make the job work here?

Mr WOOLLEY - Those numbers don't stick in my head. It would have to be 15 or 20 dairy farms with 300 to 400 cows each.

We will prefer owner-operators. You might find this comment a bit peculiar when you think back on some of the things I have done in the last two years, but I do believe that farming is better in the hands of the owner-operator. They do a better job, they pay much more attention to things. When you look at the dairy industry, as I understand it, the quality milk production primarily comes from owner-operators when they actually measure the performance in the milk.

CHAIR - Would you agree from your company's business point of view, and there has been some criticism that has come through and obviously we know the reason why, because there is not an organic industry here, you are not sourcing or processing within Tasmania and yet, by most perceptions, people think that it all comes from Tasmanian milk and it is processed here et cetera, that is something you would like to obviously address?

Mr WOOLLEY - We have never ever attempted to hide from the fact that we have been bringing milk in from overseas. That has always been on our websites and so on. We have been proud of our Tasmanian heritage. We have some 40 people in the Launceston office. We have built it up from three. The answer is that we have never hidden from it.

When we look at how our customers view the brand, there are two aspects to it. First, the domestic customer looks at it and says it's organic. We don't make a big fuss about the fact that we source all our food from Australia - all our food lines, with very few exceptions. The only exception I can remember is when we had a drought we had to go and get some rice from somewhere else for our products. The customer looks at it and says it's organic. While we don't make a fuss from the fact that we always try to source from western countries, the reason we don't do that is that a lot of our customers aren't in western countries, so we don't want to be insulting about it. The domestic customer knows that because we do not hide from it. We don't just promote it in our marketing.

PUBLIC

The Asian customers, in China and elsewhere, they look at it and say - and it's changing a little bit now - it comes from Australia. We have some of the best food safety. We shouldn't be delusional, they'd do the same for Western European products and if you look at the volumes going into China, you can cut through it, a lot more comes from Europe and elsewhere than here in Australia. They look at it from a food safety point of view and they are gradually moving towards this organic concept. When we went to China in 2007 there wasn't a word for organic. Things are changing, but that is the two ways they look at it.

We would love to turn the key and have a Tasmanian organic product. That would be, personally and for the company, a great achievement. We can't do it quickly, we haven't been able to do it to date but we are working on it.

CHAIR - Have you had much assistance from or dialogue with Brand Tasmania?

Mr WOOLLEY - We have a good relationship with them. I'm not sure whether the management has used them much, I don't think so, but Brand Tasmania has done a terrific job and we do benefit from that.

I remember the first in-depth focus groups we ran, where all the advice we were getting was that Tasmania wasn't going to have a big impact as far as custom was concerned. Once we did the focus groups, we were quite confident that Tasmania would be well recognised as a really good source. Part of that is Brand Tasmania and part of it is just the way people view Tasmanians.

Mrs HISCUTT - Are you saying Brand Tasmania or the Tasmanian brand?

Mr WOOLLEY - Both, but Brand Tasmania has done a terrific job, I think.

CHAIR - We ask that because we have had some adverse comments on some different things.

Mrs HISCUTT - On your plight in Tasmania, do you have some farmers on board, the conversion, and how long a process do you think it may be?

Mr WOOLLEY - We've had to step back, as you know, at Bellamy's, and reset our production levels and reset our whole marketing approach. We have been accused of misstepping in terms of our channels to market, which is absolutely wrong. What happened to us - if I can be longhand in answering - for many years there weren't adequate ingredients for organic milk in the world, so we were always limited. Whilst we continued to grow our quantities we never grew it at the demand levels.

In 2016, we knew we were getting some new techniques of developing whey product in Europe. It allowed for that to be developed much more quickly so we had extra volumes. We took a lot of volume out, but we hadn't set our marketing properly. Our marketing didn't lead the volumes, the volumes got into the market and by September/October we were in a discounting cycle to manage volumes that were not there. We are resetting that. We have stepped back a little bit and we will stay there, I suspect. Some time in the second half of the year we will renew the project. We slowed the project down because we have too many other things on our plate.

The other point about organic is that it is a five-month lead time from the time we put the order in to the time we see a tin. Our competitors are all conventional A2 milk, conventional milk

PUBLIC

with a marketing twist; it is a month. They can reset easily, we cannot reset easily. That is a strength in a growth environment but if you want to slow things down, tell me. You have a mountain of milk coming at you for a little time. We are managing all that.

Mrs HISCUTT - Just moving away from Bellamy's for a moment and onto TasFoods Limited, you have acquired the great chicken place, what other sorts of foods or products you envisage having in Tasmania that you can market as a Tasmania brand? Or are you pretty well busy at the minute?

Mr WOOLLEY - They're pretty busy at the moment because they only took the chicken on in June last year, and the wasabi the same. The wasabi is three-quarters of the way through its first real harvest in the greenhouse we've got down there near Port Sorell. Jane is developing some really nice value add, high value dairy products in goat and cow, so we are working on those. We would like to keep evolving those.

Mrs HISCUTT - TasFoods Limited is not particularly going down the organic path?

Mr WOOLLEY - No, at this stage we have no organic production. That doesn't put it off the agenda, because organic is high value, they will look at that too. There are lots of really good value add opportunities out there. I don't think we will go into aquaculture. I like a lot of the value add products, the cider and there is the wine and things like that, but we haven't looked at anything in particular. We are very open to something, but we would only take it on if we could see that we could add value to it and that we could grow it.

Ms RATTRAY - I am interested in something I heard yesterday from a dairy farmer who has spent a long time in the industry. He said he would like to see somebody with credibility measure the dairy product that Tasmania has, because he felt it was as close to organic as you could possibly get. I know the Chairman as referred to clean and sustainable, if you like. Has your company ever done any evaluation on the quality of the product we have?

Mr WOOLLEY - No, I don't know we have done anything I can hand over to you. As I said earlier, the quality is really good.

Ms RATTRAY - You mentioned that. You said it is very close.

Mr WOOLLEY - The interesting thing about organic is - and I think I have said it to you casually - you can argue, scientifically, this product is as good as organic but it doesn't matter. The only thing that matters is what the customer wants. The dairy farmer can tell me - and I am not going to argue with them because they are probably right - we have seen all the scientific argument, it doesn't matter - it only matters what the customer wants.

The customer in Bellamy's case is a mother, primarily, but a mother and family making decisions about their children. We talk about China valuing their children but, trust me, everyone values their children. I look across this table - you all value your grandchildren and the children - and that is how they make their decision. You can talk all you like about 'this is as good as that', but the fact is they will pay more for 'that', and we can't get around it.

Ms RATTRAY - Thanks, I appreciate that. It was an interesting comment and he was a long time in the industry.

PUBLIC

Mr WOOLLEY - We are really proud of the Bellamy's brand and we are working on the brand in TasFoods because the brand drives the value. You can have the best product in the world but if you don't have a brand - you have to distinguish between the name and a brand.

When Bellamy's started I remember we looked at this and they were all pretty proud of the name, but the reality was they had a name. We have developed that into a brand and a brand is something where you say, 'What does Bellamy's mean to you?' to the customer and they talk about it being quality and things like that. When they can define what the brand means to them, then you have a brand.

Mr FARRELL - Rob, you mentioned how the commodity-driven market had probably watered down the Tasmanian brand and we heard yesterday from a dairy farmer that Fonterra bundle all the Tasmanian milk into a generic homogenised product. There was some talk before about in the old days when we had co-ops and small Tasmanian companies. Do you feel the horse has bolted to a certain extent now we have these big companies selling Tasmanian product? Do you feel there is a way to step back with smaller companies and really focus on the Tasmanian product?

Mr WOOLLEY - I could talk to you about that for a long while. Seriously, we get really good relationships with Fonterra, and in Bellamy's case with Bega, and they like working with companies that have a brand - it is interesting. But we are not taking the volumes they need.

One of my early brand experiences was when I was involved with the old UMT. They appeared, and perhaps the Chair may correct me on this, to put a lot of their brands aside and started to sell their cheese through the Dairy Corporation, I think, wasn't it Mr Chairman?

CHAIR - It might have been back in Bob Campbell's day, I think.

Mr WOOLLEY - That was when I had a bit to do with it, but it was, 'my way or the highway' in those days. I remember they used enter their cheese in the Singapore Cheese Competition. Someone said to me, 'We always win the best cheese'. The same bloke said to me, 'But we had a call the other day' - this was when it became Bonlac - 'and people wanted to buy our Tasmanian cheese'. We said, 'We can get you hard cheese but we can't guarantee it will be Tasmanian'. He said, 'No, you can have a big order as long it is that cheese', and they couldn't provide it.

You think about that for a minute. They pushed their brand - the old Table Cape, all those, all gone - and that is because of the way they wanted to market it. In many ways the way the Dairy Corporation functioned. They essentially, as I remember correctly and I might be wrong, funded UMT. If you have a funder, it hides all the final decisions. It is not easy to run a brand. Bega is a great cheese brand. Fonterra sell most of their product through Australia. Bega sell it elsewhere. It is hard to manage a brand and if you have a factory, which works? The factory works or the brand works. Which drives the business?

CHAIR - Following on from Craig. The points were made yesterday that Fonterra, they are a New Zealand company so they will look after the shareholders of the long white cloud most of the time and still produce a lot of that basic commodity product, even though they will branch out. As you have said you have some sort of relationship with them but I suppose in terms of where the commodity markets go it has always been cyclical like that. Whilst the price is down now, in a couple of years time people will forget about some of the speciality stuff again because they will

PUBLIC

be getting \$7 a kilogram milk solids. Suddenly everything is rosy again and they will be after great volumes of milk and everybody will say, why bother about trying to do this other stuff? That sometimes happens. That has been the nature of the business.

Mr WOOLLEY - I have often reflected on exactly what you have said. There was quite an interesting survey and I would have to get the details, it was done by a federal department on farming on the north-west coast. Whilst it came up with a lot of very positive things, one of the negatives was that the farmers themselves aren't culturally aligned to work together. They tend to compete.

CHAIR - Rugged individuals, they have been described as.

Mr WOOLLEY - I think you might have seen the same survey I saw. If you think about it that is a real barrier to getting on. I do not think cooperatives are a bad thing. People say cooperatives are for the past but I am not sure about that. I think you have a wonderful cooperative here in the Yolla Cooperative, very successful, but it sticks to the netting. It is not getting outside the netting. Cooperatives that tend to evolve and then someone gets a thought bubble and we will go this way and that way and they get too big, that is when they get into trouble. Cooperatives are a good and sensible way of farmers working. Whether it is getting their supplies together, or working out how they can put enough milk together to get it to market in a branded form. The one thing rugged individuals find it very difficult to do is to be a farmer and to sell their products. You see these farms that have a little brand, and there are many of them, but once they have to try and get outside the farmers' market as a point of distribution it cannot do it. When you talk to them after they have been at it for three or four years they say too hard, I cannot do it, I haven't got time to argue with the freight people, I have not got time to do this because I have got to milk the cows. It is a killer.

CHAIR - Yes. It is.

Ms RATTRAY - Following on from that, you mentioned farmers don't appear in your view to work together I thought the Farmer of the Year Award and the Share Farmer of the Year Award. I thought here is something promoting the industry to trying to get a step ahead of the next person or the next farmer. In some respects that does not help the industry work together. Would that be fair to say, Rob, or am I clutching at straws here?

Mr WOOLLEY - It may be in evidence. We should not be hard on farmers. I think they really do a fantastic job.

Ms RATTRAY - I agree.

Mr WOOLLEY - I feel uncomfortable starting to be too critical and too general. There are many times they will work together, particularly around education and development, that type of thing. They get together really quickly to work on that. It is just when they do things like the Chair said - the milk price is really high so we will stop supplying that one, we will supply that one.

Chair, you will remember one of the early things Bellamy's did was that we owned the factory at Parramatta Creek. We had on our board then Bob Wilson who is as a good a factory operator as you will get in this state, but we could not find supplier of vegetables, for instance, where they were prepared to supply us year in, year out. We could not even have the

PUBLIC

conversation with them, and there were some big ones. I saw them all, several times - where they would supply us year in, year out. We didn't even get to the price. They just said, 'No, if we have good-quality fresh vegetables, we are selling them there, and if it's seconds we will sell them to you. If we haven't got enough seconds, bad luck'. We can't run a factory like that. Your factory has got to be running six days a week, two shifts, then you make money. We failed. We quite openly failed. We lost a lot of money but we tried.

Mrs HISCUTT - I was looking for your opinion and comments on one of our terms of reference on the roles of government. Can you see anything there other than education and training - we have got that message - that governments can do? Everyone saw it as red-tape reduction, but we have gleaned the fact that a lot of the red tape is industry-driven, not government-driven. Have you got any ideas?

Mr WOOLLEY - I do. Infrastructure is important. One of the really great infrastructure projects in Australia has been the irrigation. You all ought to be very proud of the fact that it has been done by two different colours of government and they have been able to be very coordinated and very fixed on a project that has been 15, 20 years in the making. The value-adding that is bringing to Tasmania is enormous. That is infrastructure.

Fixing infrastructure, I heard them talking about the problems on King Island. That island is so productive. I go over there, as you know, from time to time and it is unbelievably productive and it is really throttled by the freight issues. Infrastructure is really important and a preparedness to do that.

I think focused R&D is an area where the state could spend a lot more time. We have got a really good university now that, in the last few years in particular, has engaged with the community and the state. That is a huge opportunity if we could do that, if we could change the focus of the research done at the university to be much more commercial. That is something that can be done, working with the state. That would be really good.

Mrs HISCUTT - Do you have a comment on the university associate degrees? I know they have agricultural ones.

Mr WOOLLEY - I think they are big. I have been interviewed by them and I think they are really good. That's the sort of thing we should be doing. If we can up-skill people, then people will do things.

The one thing government should be very wary of is trying to pick a winner. They don't have a very good record, it doesn't matter whether it is your side of politics or your side of politics, fail time and again.

Mrs HISCUTT - Are you talking grants?

Mr WOOLLEY - Grants, yes. Don't take grants off the table completely but be aware that picking a winner is -

CHAIR - There are probably other models that are more certain than the grant system.

Mr WOOLLEY - When the winner gets into trouble and business is cyclic, I can assure you I know that, they come back to the government and then there is a political pressure to make sure

PUBLIC

it looks all right. All it does is waste our money. You shouldn't try to pick winners too much. We should celebrate when we get investment that actually adds value to the country to us. Where we are getting investment in factories and things like that, that is really adding value. I heard you talking about it to the people before.

I don't celebrate people coming and being land bankers. I have got a land banker next to a property I have on the east coast, which Tania knows about. He has visited that property once in 20 years and it has got a really good crop of gorse on it. I don't like those sorts of things and I don't celebrate people that do that. They might be able to put a lot of money into property, but I only celebrate that if that property is enhanced and improved.

Mrs HISCUTT - How can the government help with that?

Mr WOOLLEY - I just make the comment because there has been a lot of talk about bringing investment into the state in terms of Chinese or Middle Eastern or something. You can get English land bankers as well. I make the comment that it is not to be celebrated. What is to be celebrated is something that really adds value. I don't care whether the corporate comes from China or wherever they come from. I prefer it to be here because you make much more money in the state if your head office is here. We jump too quickly if someone comes and spends a lot of money on land - well, prove it to me, show me that you are enhancing it and improving it.

Ms RATTRAY - A really good point.

CHAIR - Thank you for appearing.

THE WITNESS WITHDREW.

PUBLIC

Mr BASIL DOONAN, MACQUARIE FRANKLIN, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

CHAIR - Thank you very much, Basil, for appearing today. What you say here is protected by parliamentary privilege and what you say outside is not.

Mr DOONAN - I have had 20-odd years experience in the dairy industry. I started with the Department of Primary Industry as a dairy adviser. I have a degree in agricultural economics and a masters in farm business management. The last 10 years-plus I've been consulting privately and I have dairy, beef and sheep clients primarily. I have my own property and we also have about 6000 dairy cows and approximately 3000 dry dairy animals under management directly. They are no issue; the 22 people who go along with the cows are the issue.

CHAIR - You also consult overseas as well.

Mr DOONAN - That is correct. I spend quite a lot of time in South Africa consulting.

The main issue is around the Tasmanian brand. From what I heard on the radio it is going all directions, so it is all things dairy, but I will try and stick to the brand stuff. I will also speak briefly about the issue of commodities versus niche products and where they fit in because they link to branding and that sort of thing.

I do think there is some value in the Tasmanian brand, but it has to mean something. I think we already have some meaning around it in terms of a lot of the compliance stuff that dairy farmers and ourselves are forced to do. We do not seem to get any real recognition for that because it is not put under a brand to say that if this brand is on a product or ingredient or whatever it actually does mean this.

The second part is that more and more brands need to be defensible, because if you cannot defend them then they are not worth anything. If we say we have product being produced or represented under this brand, it will be reasonable and only a matter of time before a consumer or a group of consumers say to prove it, show me. One of the things that the beef industry through the processors does do a lot better than the dairy industry is to put their product on show around their brands. I will use Greenhams but JBS do it as well. Greenhams have Cape Grim and Never Ever, but they mean some very specific things. They are more than happy, as well as their Aleph brand, to take you to a farm and say here is the program around how cattle are treated. Here is all the prescription around they administer drugs, or if they are or not, and here is how we record it and demonstrate it. It is highly defensible and they have got unbelievable mileage out of them, whereas I do not think we are doing that.

I do not think whether that sticker or brand or whatever it appears on matters whether it is a commodity product or a niche market product. It is a fundamental way of producing milk that ends up being consumed by people, but infants in a lot of instances, which then brings a totally different perspective to it, that it is produced in a safe manner for people, animals and the environment.

In my experience I have found the consumer to be a liar. They will tell us that they will pay for all these extra things, but my experience is that they don't. There are heaps of examples. I also think that we as an industry misinterpret a lot of the time what the consumer wants. We

PUBLIC

caught up in philosophy rather than practicality. Right at the moment I think the consumer just wants a safe product that is produced sympathetically to animals and the environment, and the people working on the farms and processing and all that. A good example is organics. There is organic milk, transitional milk and I guess there is conventional. With transitional they were looking for a name, and I think they called it antibiotic and chemical free. They had to drag milk back from the organic pile to satisfy the market. With organics, people I do not think really know. They suspect it might be produced a certain way but the quality is a bit iffy versus being very clear about what this is. It is safe, there are no antibiotics and there are no artificial chemicals being used. They are the things we can say. There will always be a few bad eggs, but primarily in my experience we produce milk outdoors; the animals are really happy or they do not produce. We have come a heck of a long way in the environment space. In addition we are now starting to get on top of a lot of the people issues. Many farmers now have workplace health and safety plans and those sorts of things. That is my statement.

Mrs HISCUTT - I am a little stunned because it is almost opposite to what we heard in the last one, really.

Mr DOONAN - Now you don't know who the idiot is.

Mrs HISCUTT - We have heard in evidence that the consumer is looking for organic brand. They want to make sure that is organically sourced. They were very savvy, we were told. You don't think that is case for the whole of the industry?

Mr DOONAN - I think organics in a consumer's mind is code for safe, well-produced and sympathetic to the environment. My experience is there is as much diversity in how organic stuff is produced as conventional. I don't think the underlying principle of consumers wanting safe, sympathetically produced food varies. If organics can tighten up their certification and more clearly demonstrate the quality is up to spec it will have a strong home. I know the day that happens the corporates will swoop. Right at the moment the corporates are sitting there saying it is an untidy rulebook. We don't know what the market really wants. We don't really know how you want us to produce it. If we run 4000 cows on a farm in a herd that the philosophy over here is going to be, 'that is not the organic philosophy' so we want to change the rules.

I think there are some issues around organic production that they need to look out five, six, seven years and ask what the issues are going to be. We are also buying market share as much as the demand is there for organic. A lot of the time the price premiums that exist now will be eroded over time as more and more production comes into that space. The price premiums at the moment for both organics and transition milk are great. Literally, you can do whatever you like as long as it is produced the way you want to and make money.

My fear always is because dairy farmers are so focused on price they often forget about margin. You are always going to have someone buying that milk that is going to try to buy it for the least amount they can. That is where the price will level out. When I look at variations in production systems with different prices for the product, it is nearly always less than what it costs you to supply it.

I will give you a good example. We basically produce commodities in Tasmania because we have seasonality. We like to calve them in spring and when all the feed turns up and we can feed them very cheaply. We have, fundamentally, one of the lowest costs of production in the world. We have one of the lowest associated populations with that, so we can't send it all fresh. If it has

PUBLIC

to be shipped there needs to be not too much water in it, so we end up with powders, butters and hard cheeses and those sorts of things.

I think that is a really great platform for our industry. We have to be a producer of bulk commodities to be able to grow our industry going forward. The issue is the milk there is no different to the stuff that can be value added. There are great opportunities to target niche markets with our bulk commodity production and then to pay individuals, who have a resource base - say coastal farm, warmer farm or non-frosting farm, to really capture those benefits.

At the moment we have people who are autumn calving. If they're on the coast they probably do okay out of that. If they're suited to spring calving, every autumn cow they milk costs them \$300. That is how much divergence you can get within 20 to 30 kilometres in Tasmania. We don't get that, all we get for autumn milk is \$6 and, currently, for spring milk you get \$4. I would rather have \$4 for spring milk production, unless I had a coastal farm that was really suited to autumn production and then I would be going flat out for autumn production. I don't know what question that came from.

Mrs HISCUTT - Do you have any ideas you can share with us on how to encourage the larger companies to change their branding - or to have a section of Tasmanian brand? Can you see it being worth their while? Lion do it very well.

Mr DOONAN - Yes, and the Bennetts do it very well as well, but smaller. I could say that, no, I don't but I think the way to do it is start with that generic approach of fundamentally saying that the brand, initially, represents clean, safely produced food, which is little or no cost to them. Then they will take it forward and say, 'Tasmanian-derived butter', and bang. Usually until there is significant demand over and above for some product, you don't get differentiation in the market. So this year hay will be very cheap because there are stacks of it. Last year it was very expensive. There is no issue of quality but in this year people will start demanding, as purchasers, for them to differentiate the products so, say, 'Please do a test for me', and the seller will go and do a test. It is the same with butter, cheeses, and all of those.

Until there is someone saying, 'We've had a scare with South American butter, where does yours come from?', or, 'We can send you all this stuff from Tasmania and premiums won't exist'. I do know, when I go to South Africa and other countries that we produce much more safely, much more environmentally sympathetic and much more sympathetic to the staff engaged in both producing the milk and processing it.

I think you have to start with something big as a platform rather than go to the niche market because it will branch out from them and they will say, 'The core business is commodities and we don't want to get these little specific areas where we have to have five producers, then it becomes a levelling of the supply curve, another milk supply officer and it is all cost.

CHAIR - I think what Leonie was alluding to, Basil, was the fact that, say, Murray Goulburn, they own most of the shares in the plant at Smithton and that is a fairly new plant. Could they brand what they produce down there as being commercial? Is it worth it for them to brand that as being Tasmanian rather than generically mixing it up with all the other stuff out of Victoria? That is a commercial decision for them, isn't it? I suppose the question is, would they get a premium out of it? Otherwise it wouldn't be worth it.

PUBLIC

Mr DOONAN - I don't think they probably would. It is so close to what they have in Victoria and the Victorians would go, straight away, 'We have to do that, we just have to get that same level'. So we would be sort-of competing internally.

I think it is more a case if you are going to get Murray Goulburn and Fonterra, they are going to go across their whole product range, Australia wide, and say, 'Tasmania is going to do it, Victoria is going to do it'.

In my mind the first bit of the brand is already being done. We have [inaudible] care, we have dairy [inaudible], we have dairy inspections, we have the Animal Welfare Code of Practice, Bobby Calf Code of Practice, NLIS, lifetime identification - all that stuff is being done as small data. It just needs someone to go, 'Well, it is a big data issue', type in their name, and then they are compliant. We have something, at very little cost, to go forward with. Then we could keep building on the brand or say, 'That is brand one' - no one supplies without brand one.

Brand two is now a differentiation in the market. It could be Tasmanian organic, it could be Tasmanian low input - the big is just grass-fed. People out in the real world, way, way out, just love the concept of grass-fed cows outside. We have to do that anyway. We are missing opportunities that cost us nothing.

CHAIR - In regard to that contentious one, GM, we have that moratorium sitting there at the moment. Have you seen any premiums being paid by having that regime in place? The other issue is if we have Murray Goulburn and Fonterra, and Victoria are moving down a pathway, it would seem, and we are going to have all our stuff mixed in together, how do you see that whole business working down the track?

Mr DOONAN - Currently, most of our animal production systems, in the high rainfall and in dairy, are based on rye grass. They now have a GMO rye grass that is one megajoule higher. There are about 11 to 13 megajoules in a kilo of dry rye grass, so it has gone up one, so it is less than 10 per cent. It doubles profit. That is the genetic merit benefit. What that means is, because they have got access and we don't, it halves our profit, relatively speaking, which will mean their cost of production will halve and ours would remain the same. The premium we have to get is very high.

I don't care whether we are GM-free or not. I have no scientific personal bias. What I do know is that the premiums are going to have to be significant and we need to start doing stuff to offset it. That is one piece of genetic modification in one species.

CHAIR - In terms of organics, we have touched on that already. You talk about a conversion to full-blown organic, as you said, it is a bit all over the place at the moment. What is your understanding of how long that would take and the hurdles that you might have to jump, and then also the feed products that you might need to sustain that business?

Mr DOONAN - The analysis we have done is that the average length of time, because there are differences in how long it would take you depending on history and that sort of thing, I am not expert on organics but the average we worked on was about a three-year conversion. The issue is the conversion phase historically, whereas now I think they have got quite smart about that and said that the product is different, even in the conversion space. My feeling is that it will have a market of its own. There will be conventional, conversion and organic. They will be three different products, just like Never Ever for Greenham.

PUBLIC

Going forward, the transition phase is going to be quite a bit easier than it has been historically. When you had all the costs of organic and the price of conventional, it certainly didn't add up. It was really hard to get through that phase. But now, what I am hearing, is that there are premiums being paid. I know there are premiums being paid. I have had contact with a couple of people that have been getting that premium. I know it is real in that middle space, but it certainly wouldn't be everyone who is trying to make the leap. Everything is a cost on the other side. It is all available, everything you need to do organics. It is just more costly to find organic forms of fertiliser.

The other thing is, with organics in America in particular, they have adopted very much more a corporate and scientific philosophy or approach. Ours has been a bit more philosophical in terms of how you do it. There is a vast amount of really credible scientific data now available about treatment of ailments for cattle, pasture production, fertilisers and those sorts of things. To me, it is nowhere as hard to run an organic production system as it was because there is now a body of science that says these things work and these don't - apple cider vinegar either does or it doesn't anymore. It's not a case of 'Grandma reckons it does so you are getting it'. There is hard data on a lot of that stuff now.

CHAIR - A recommendation we had put forward by one of our people was that perhaps the government or TIA or somebody else ought to look at the feasibility of doing that. But you are saying it will probably be done in a commercial sense, and is the data out there or could TIA do something like that and go through that exercise? Or is that a waste of public money? What is your view there?

Mr DOONAN - The big issue in farming is the system stuff. It's how you run the whole system. I think TIA would be well positioned to address those issues. The pure science is okay. We'd send a couple of postgrads over to America to poach it all and then bring it back and we could then clearly demonstrate it at a systems level. The other thing is that transitional period. If you are going to transition, here are the things you need to do and here is best practice around that.

Then you have the support industries. If you think back to when Woolnorth was converted and the influx of kiwis and all that, it was not the land, not the cows, not the people to milk the cows, but rather the service industry that couldn't keep up. My feeling is, you are going to drive into Roberts and ask for a bag of organic something or other, and they are going to look at you -

Mrs HISCUTT - 'We'll have to get it in.'

Mr DOONAN - Yes. Whereas, if we were going to push down that organic or lower-input track, then we need to prepare the whole of the industry, the vets, the fertiliser guys and all of that. We need to say it is coming, get it on your radar, start to get some information and be ready to go as we progress. Normally we take care of science and the fundamentals quite well, but we forget about all the flow-ons.

Mrs HISCUTT - Do you think Tasmania is on the cusp of that or not?

Mr DOONAN - No, we're never on cusp of much, I don't think, in that space, and nor are any other industries. Everyone wants a demand pull before they react. Whereas, at the governmental level, if there was a decision made - and you can't make a decision that says we're

PUBLIC

going organic - but you can certainly make a decision to support that process based on some economic principles, that these are the strategies that are going to be in place. A good example is the inter-dairy one, where it was a whole-of-government, whole-of-industry approach to filling these factories. We didn't have any conflict. The factory capacity was there, we needed to grow the industry, the government took care of some red tape stuff, training stuff and provided some money in the form of a co-ordinator. Industry put in some money at the grassroots level and away we went. We got conversions done and all of that. To me, it just needs a focused approach. Of course the processors have to be on side. They were quite naturally on side when it came to filling their factories, but in this one it is probably a bigger challenge.

CHAIR - In regard to organics, too, for a farmer to make a commercial decision, obviously they are going to need a long-term contract. It is a big decision to make. Unless you are not carrying any debt and you have plenty of land and you think from a philosophical point of view you would like to go down that track, you are going to have to have a processor who is going to give a long-term future contract, I would have thought.

Mr DOONAN - That would definitely help. When you are talking about a production system that you are winding down, for want of a better word, all the costs in winding it down you will get back quite quickly, but it is the winding down so you would at least want three- to five-year contracts. I don't know if you guys are still in the business of guaranteeing that sort of stuff.

Members - No.

Mrs HISCUTT - Do you have an opinion on the effectiveness of Brand Tasmania, as opposed to the Tasmanian brand, the Brand Tasmania Council, within the dairy industry and getting that brand out there?

Mr DOONAN - I don't think in my dairy circles I've ever heard Brand Tasmania mentioned.

Mr FARRELL - One that came up before about education in the dairy industry. You have obviously been in other countries, do you think we are doing enough to encourage people to go into the dairy industry?

Mr DOONAN - When I go to other countries I reckon our average level of education is so far behind it's not funny. I don't always see that as a big negative. I differentiate education from training. I think we are caught in this dilemma around training and making it good training, ticking all the boxes on the training rather than saying, 'What do you need to know on day one on a farm, what do you need to know on day two, and how do you progress and what is the career path?'. Then we get caught up on the tools to get there rather than the capability. They are really different.

I am saying this from our comparative analysis/benchmarking data, in which we monitor farm business performance and we link that to skill development. We run skills audits on the majority of our clients. We always get invited to businesses that aren't going that well. We can confirm that it is not going well and they will want to say, 'What do I need to do differently?'. We have to change the focus to how you are going to do it differently, which moves from all the things on the farm, like the soil and the cow yard and the stocking rates to, what are you going to do, because you are the limiting factor. They will say, good, now we have identified that and I haven't been laid out on the floor for pointing that out, we move forward and then it is really hard

PUBLIC

to get the practical training. I know that TAFE organisations, universities, they have rules they need to abide by. Sometimes they are not flexible enough.

It is hard in my commercial world to develop a training package to satisfy a dozen people a year. There is a big hole there. TIA are doing some really good stuff in the pasture management space. That is using up what I call a supported learning model. It is theory plus practical application. You have got a coach. You need that, because in dairy production systems and all farming animal production systems, they are really complex. There are animals, plants, soils and environment, climate, all that sort of stuff, and people. To put it altogether is mind numbing at times. They need support. We would not say to our kids, you only learn times tables at school. We have got to bring them home and go through and go through, so it is supported learning. We need to have that approach in dairy.

In my beef and sheep clients, they have a much higher level of education, cope much more quickly with concepts and theory, and often get stuck on the practical application. For the dairy clients practical application is generally no worry, but theory and that is a bit of a struggle. We have to know what we are trying to help people with. It is not a case of more training. I always think we have got to have something good to encourage people into. It is a bit like those Army ads a few years ago with the cool music and running around. Everyone joined the Army and got short and went, gee, it is nothing like the ads. We are a bit like that. We go, oh dairy is great, you can earn all this money and you are outside and all that. After the pouring rain, you are in the mud, it is long hours.

Ms RATTRAY - Working seven days a week.

Mr DOONAN - Yes. So, we have got to tell people that. If you want the big money, this is the reality of it, and so if you are encouraged in, you know that. Then you know there is a point in five to six years where you can come back a little bit and you might only second weekend working or you might have every weekend off. These things are all possible.

We will often go to the tool. You start off with this, then you are an apprentice, then you are third manager, farm manager, share farmer, farm owner. There is no capability requirement associated with it. You are going to get shoved in a pipe, pop up the other end and own a farm and it just does not work like that. We have to be much more frank. We have to have really practical and supported learning packages for them.

Mrs HISCUTT - On the back of that, do you think the apprenticeship system, the teaching could be improved or do you think it is just part of the process?

Mr DOONAN - Not necessarily the teaching per se, because I wouldn't have a clue who is up there doing what, but the content -

Mrs HISCUTT - The subjects, yes?

Mr DOONAN - I do. I often look at it and go, that looks like a function of the people who had to do the training. One year they are doing a sheepdog in there and I am thinking, we don't have sheepdogs on dairy, so why are they doing that? There are not the core things like animal husbandry, animal welfare, calving a cow, mastitis.

PUBLIC

Mrs HISCUTT - So this is something the government could do to help is by having a look at those courses and tweaking them where necessary.

Mr DOONAN - Yes. Dairy Australia have made a huge effort in that practical space and linking with TAFE, it is getting the right people in front of the students. There is almost a pre-requirement, they need to spend a week or two on a dairy farm and see if they are up for this. At the moment, we are doing that at an employment level. We are employing them and running revolving door policies because we do not know if they are going to like it. They do not know if they are going to like it and it is not a good look for industry. We have got to be better prepared than them and then marry up the training.

I am aware there is a dairy farmer in the room. I want to be a dairy farmer who has a person coming to me that on day one, can ride a motorbike, so can go and get the cows and can get cups on a cow - and won't put caps on one with mastitis. I would be so happy if they could do that and they were keen and green and we will take them from there. They really need to be productive on day one because it is busy and they will just get -

Mrs HISCUTT - That is why you pay apprenticeship wages, though.

Mr DOONAN - Yes. You do not lose too much but just the whole induction. It is a big time commitment to get a person embedded on farm.

Mrs HISCUTT - I am wondering how you can do that. Are you talking about pre-training training? Because most young adults that have an aptitude come off farms already, so they can ride motorbikes.

Mr DOONAN - If they haven't got an ATV certificate, so technically they cannot ride a motorbike on most of our farms anymore. It is just stuff like that. It is like work experience.

Mrs HISCUTT - But you have to get work experience somewhere and you have to have that first job. How do you get that first job without that experience?

Mr DOONAN - You don't. I am saying rather than us employing them to find that out it is a work experience kind of activity, but structured.

Mrs HISCUTT - Okay.

CHAIR - You talked about other countries where the education levels were lower, but I would also make an observation and I have travelled around, bike riding and doing all those sort of things, in those third world countries particularly in Asia there is a lot more connectivity. I suppose it is because we are such an urban society here but people in towns understand the seasons, understand the crops and understand the lifestyle. We have that disconnect here between urban and rural Australia, haven't we?

Mr DOONAN - Yes. Long ago have I given up worrying about what anyone in the city thinks. They don't say to country people, you don't understand what we put up with, but we are always saying to them, you don't understand what we do out here producing your food. They are not saying you don't know what I put up with to do your tax accounts, or represent you in court, or all these other jobs that I wouldn't have for quids and I don't even care and want to know, and that is why we give them jobs. Now I am saying I am just going to look my own bailiwick in that

PUBLIC

space. There is a lot of effort to get them to connect now that we have lost it. I reckon we internalise the investment and effort and money, and if they want to show an interest, cool, well come and have a look. If not, I am not going to worry any more, no. I think we have lost it as an urbanised country.

CHAIR - Yes. Too hard to get back. Anything else further you would like to say, Basil, in regard to what we are trying to do? I think you have capsulated it very well and the baseline is we are reliant on and always will be on the commodity side of things. If we can get those extra little bits of cream on the top and do a bit of diversion, well and good, but it is not always easy or simple to do.

Mr DOONAN - Yes. I do not think anyone knows whether we can or can't. I commend the process and if we find out that we can't that is as valuable as finding out we can. I do not think this process is a failure if we don't end up with a brand that we can sell. We have just got to say there was not money in it, but we know. We are dealing with an industry that is under a fair bit of pressure so there is always a desire to either kick someone else or clutch at straws and that sort of stuff. When everything is going well you can do these sorts of things. I can imagine the diversity of issues that are being raised but I think we can boil it down to the brand, there is either value or there is not. I suspect there is because we are doing a lot of it anyway. If we do not end up with a brand I am not disappointed, I am very happy that we know that it is not worth the effort.

CHAIR - Thank you very much for your time.

THE WITNESS WITHDREW.