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### THE LEGISLATIVE COUNCIL SELECT COMMITTEE ON THE DAIRY INDUSTRY IN TASMANIA MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART, ON 23 FEBRUARY 2017.

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Ms CAROLE RODGER, DIRECTOR, AND Ms HEATHER NEATE, ANIMAL INDUSTRY ANALYST, AGRIGROWTH TASMANIA; Mr MARK BOWLES, GENERAL MANAGER, CLIENT SERVICES, DEPARTMENT OF STATE GROWTH; Mr JOHN ROWLINGS, PROJECT MANAGER, AND Ms CHRISTINE LANE, BUSINESS PROJECT MANAGER, OFFICE OF THE COORDINATOR-GENERAL, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

**CHAIR** (Mr Hall) - Welcome, everyone. Whatever you say here is covered by parliamentary privilege but when you are outside of the hearing it is not. You have provided an extensive submission so I will hand over to you to make a presentation.

**Mr BOWLES** - I will start by talking from a State Growth perspective, primarily about the trade brand and the skills support. I will then hand over to the Coordinator-General's office to talk primarily about the investment facilitation functions, and then to DPIPW to talk about some of the on-farm support.

The dairy sector, being the largest agricultural sector, is a sector that attracts a lot of government attention. It is a very broad sector from the perspective that it covers a lot of local, national and international markets. It is quite unique in the sense that the Tasmanian sector is able to compete in both global low cost segment, such as milk powder, but also in niche branded, highly value added segments. Those highly valued added segments tend to be targeted at the local or domestic market, the cheeses and yoghurts, fresh milk and so on. The significant recent development is the Van Milk launch of branded supply chain, fresh, custardy milk into China. Each of those sub-segments is subject to its own unique market forces. In that respect, Tasmanian government interventions do need to take account of those unique factors. We do not believe there are one size fits all interventions.

As you would note, in terms of volume, it is dominated by the four large processors. In terms of value we have seen strong growth by the smaller processors who have been doing their own branded product lines. Twenty out of the thirty-two registered dairy factories in Tasmania are considered small processors.

Globally, we have seen over recent times, significant constraints to prices, being driven by an over-supply in milk products. We have also seen in some key international and technical markets, constraints that have adversely affected markets such as China, regulatory barriers to entry and also locally in terms of supply, floods and droughts.

We believe, after engagement with the industry, that the fundamentals for the long term remain strong. Factors such as the new FTAs for China, Korea and Japan represent one source of future market growth as well. The Government's sees its primary role in branding as working with the overall Tasmanian brand as it applies to all sectors.

**CHAIR** - We have Brand Tasmania coming in after this.

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**Mr BOWLES** - Through the department of State Growth we fund Brand Tasmania for \$400 000 per year. There are also two State Growth staff on work placements with Brand Tasmania. In the budget last year it was announced there would be a brand revitalisation project that has \$650 000 allocated to it. As part of that project, there is a brand audit underway. One of the primary objectives of that work is to try and introduce greater alignment across all of the sub-brands that exist within Tasmania, the sub-brands of food and tourism and other sectors as well. It is very much a broad perspective on the Tasmanian brand for the government.

Individual businesses within the dairy sector make branding and marketing decisions according to their own view of individual commercial returns. As you would know, many of the major processors do not necessarily sell under a Tasmanian brand. Smaller producers leverage very strongly from the Tasmanian brand. In some cases, they are using the Brand Tasmania trademark - including Van Milk, which has adopted the Brand Tasmania trademark into the China market. I will talk a little bit more about the Van Milk opportunity. It is one example of where the department of State Growth and the Coordinator-General's office has worked very closely with the new investor. It does open new markets, for that business and also other businesses as well.

**CHAIR** - They are also coming in this morning.

**Mr BOWLES** - Yes. In particular through the establishment of direct flights into China, we would see that as a key turning point because what it adds to Tasmanian products and the brand is the element of freshness in international markets which we couldn't necessarily guarantee previously.

In terms of broader international trade support, there is the new market expansion program which provides grants of under \$15 000 mostly to small businesses seeking to expand into new markets, both domestically and internationally, and that is available across any sector. As an example of work that that has supported in the dairy sector, we have had a grant to Grandvewe Cheese to attend a taste festival in Perth. Ashgrove Dairy has received a grant to support work for a city super promotion in Hong Kong. Westhaven Dairy received a grant for producing brochures and point-of-sale material, and Red Cow Dairy received a grant to facilitate them to travel to Melbourne, Sydney and Brisbane.

**CHAIR** - What was the quantum of those grants? Can you break those down individually?

**Mr BOWLES** - They are quite small grants. Grandvewe is \$2 900, Ashgrove is \$2 000, Westhaven Dairy is \$2 000 and Red Cow Dairy is \$3 000. Currently that is an ongoing program and we are still open to new applications as they come in. That also complements the Austrade EMDG - export market development grant - which provides grants of over \$15 000. So, in essence, the smaller projects are covered by the state government not the larger export project which are covered by Austrade in that respect.

The other area of focus for the government is facilitating both outbound and inbound trade missions. Over the past two years there have been four trade missions to China as well as missions to South Asia and Indonesia. Indeed, the Deputy Premier is in Korea today and will be travelling to Japan to undertake investment and trade promotion activities. Typically those missions cover a broad range of sector activities but food and beverage tends to be a focus because food and beverage is a brand championed for Tasmania. What we have seen in most of the international markets to date, wine and seafood have been the leading sectors into market but,

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certainly, the Van Dairy example is showing that dairy is able to follow in the footsteps of some of those other brand leaders, the constraint being a cold supply chain. You need very effective logistic systems to get into those export markets.

In terms of processing, broadly speaking the role of government in general terms has been around broad infrastructure support including roads, research and development, skills development and also strategic targeted investments. Our engagement with the processes has suggested that they do have capacity to absorb more volume when global markets turn around. Historically, there has been an emphasis on building production at the farm gate. While they are going through a consolidation phase in terms of the lines of products, the feedback we have had is that there is a strong long-term outlook overall. Tasmania continues to have favourable investment fundamentals including the capacity for milk supply growth, skilled farm workers and managers and a clean, well-regulated environment.

In terms of specific infrastructure support, through the Commonwealth government the Tasmanian Freight Equalisation Scheme is an important factor in domestic and international trade opportunities, as is the current government roads project.

Some examples of targeted support: through the Tasmanian Development Board in 2015 there was a \$1.5 million grant to Lion for a research and development centre for excellence at the Burnie Heritage Cheese Centre. That leveraged \$150 millions of private investment. Another example is through the Jobs and Investment Package, a \$257 000 to the Westhaven Dairy to assist in the development of their cheese and yoghurt processing facility. There is also the Intro to Dairy Project, which DairyTas runs with the support of the Tasmanian government, the Commonwealth government and also a process of financial support.

I would note also in terms of the development of the industry a growing interest in point-of-sale development in a similar way that the wine industry is able to leverage from growth in the tourism industry. Businesses such as Ashgrove Dairy and Bruny Island Cheese have developed successful point-of-sale outlets and are contributing substantially to the development of the Tasmanian tourism industry. Related to that is the government's ongoing financial support for tourism attraction and development as another indirect way of supporting that part of the dairy industry.

I will touch on skills. The Tasmanian government invests over \$100 million in vocational education and training and workforce development. It is primarily a demand-led system where a number of subsidy programs respond to industry and worker demand for particular skills. For the dairy industry, in particular, there is a current program called the Work Readiness for Growth Industries Program that provides subsidies for a number of sectors, including accredited vocational training in the dairy sector.

More broadly in terms of directing training funds into the dairy sector through the Skills Tasmania division of State Growth in partnership with the TFGA there is a \$450 000 agriculture skills planned partnership by which industry is able to influence how skill subsidies go into the agriculture sector. I also note that a Tasmanian vocational education provider, TasTAFE is a very important supplier of training services and offers a range of farm level and also processor-related skills and training, everything from certificates in farm safety through to diplomas and advanced diplomas.

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Finally, the government also administers a range of concessional loan programs primarily to the farming sector. The details of those have been covered in the Tasmanian government submission.

**Ms LANE** - The Coordinator General's office is the government's investment facilitation and promotion arm. We focus on three key areas: investment, promotion and facilitation; red tape reduction; and major project facilitation. We do that across a vast number of Tasmania's industries spanning both traditional and non-traditional sectors, all of which contribute greatly to the Tasmanian economy. These industries include agriculture, which of course includes dairy, tourism, energy and resources, forestry, as well as Antarctic sites, and research and digital services.

Our promotional efforts include the production and distribution of a wide range of collateral and I have examples here today. These include: information brochures on the various industries and we have specific ones for dairy; guides to investors, and we have two of those that we have produced for the dairy industry; and fact sheets on specific investment opportunities. Currently within our suite of investment opportunities we have two dairy opportunities that we promote to our investors. Each of these are translated into either/or Mandarin and Japanese. As I said I have copies available, but they are also available on our website, which is [www.cg.tas.gov.au](http://www.cg.tas.gov.au). We also participate in a variety of trade missions, as Mark mentioned.

In 2015 the Coordinator-General took part in missions to China, where he promoted agribusiness, including dairy. Last year he took part in the trade mission to India and Singapore where he again promoted agribusiness as one of the key Tasmanian industries. As we speak he is on a plane to Japan to take part in Tas Invest, which our office has organised, where he will promote agribusiness, tourism and renewables to Japanese companies which are interested in those areas.

We also host international investment delegations which visit our state to explore investment opportunities in each of our key sectors. We also facilitate investment transactions such as the Moon Lake Investments purchase of Van Diemen's Land company, which Mark has already covered. We also work closely with DairyTas to assist them with their investment promotion activities.

**CHAIR** - Do you think there is some duplication between what you are doing and the Department of State Growth?

**Ms LANE** - We work very closely with the Department of State Growth. For example, within this recent trade mission, the East Asia Trade and Investment Mission, the Coordinator-General's office has been responsible for the Tas Invest component, which is the Japanese leg of the trip. We have had weekly meetings with the trade and international relations team and we work very closely to ensure that we do not duplicate effort. State Growth uses our promotional activities but they certainly do not produce them. That is our responsibility and make sure it is up to date. We make that available to the broader department.

**Ms RATTRAY** - Supply of reliable energy for the dairy industry is absolutely vital and I am aware that there is a potential project in the north east that has not seen the line being upgraded into the north east. They have been asking now for about four years. They run their dairy on diesel generators and that does not fit with the image of Tasmania being clean and sustainable. Can you tell me if there has been any work done with DairyTas or the investors?

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**Mr ROWLINGS** - The office was asked to investigate that matter and look into that and provide a report through to Government. That is a matter of policy for Government to address but I can confirm that we have done a report, worked with DairyTas and various other stakeholders to provide that report to the ministers in order for them to consider what their next step is.

**Ms RATTRAY** - If I keep asking long enough there will be a report available somewhere, sometime, or will that report not be made available for members of parliament or elected members? Is it purely for the Government?

**Mr ROWLINGS** - I believe it is a briefing.

**Mr FARRELL** - You are talking about the strength of the Asian markets. What other areas are you working in apart from the Asian markets with the dairy brand, or is it just confined at the moment to the Asian markets?

**Mr BOWLES** - The focus in terms of international engagement has been the Asian markets. From 2014 leveraging from the visit of President Xi there was a very strong focus on China. Since that time the Government has made a deliberate decision to broaden its focus to other parts of Asia. I expect that will be the primary focus, but the Government is not ignoring markets such as the United States, which is an important market for investment in the agriculture sector.

**Mr FARRELL** - While the Tasmanian brand is being pushed through Asia, and seems to be well accepted, it doesn't seem that the Tasmanian brand is being pushed in the domestic market. Dairy processors, particularly Fonterra, which keeps pretty much to its New Zealand roots, don't push the Tasmanian brand but just the generic brand on the mainland states of Australia. Does this inhibit Tasmanian brand? Does that go against the base value of the Tasmanian product?

**Mr BOWLES** - The major factors in promoting the brand domestically are how Tasmanian businesses choose to develop their brand and, as a flow-on effect, the Tasmanian brand. The other key factor would be Brand Tasmania. They undertake some work in the domestic market - and Robert Heazlewood would probably be the best to talk to on the specifics of those. That is the main government investment. I would also point to the general destination brand development by Tourism Tasmania as a way of promoting Tasmania generally that we know also enhances food and beverage brands.

**CHAIR** - To add to what Mr Farrell was saying, 80 per cent or thereabouts of what we produce goes into Fonterra and Murray Goulburn, so that Tasmanian product is generically mixed in with all the milk that comes out of Victoria. There is no differentiation for the Tasmanian brand or product which is produced here because it is all mixed in. That is obviously a commercial decision that Fonterra and Murray Goulburn make - and we will be speaking to them shortly - but it is stumbling block to differentiating a lot of our dairy product. Would you agree with that?

**Mr BOWLES** - I wouldn't use the words 'stumbling block' for the reason there are multiple channels to market. There are multiple ways of raising awareness of the Tasmanian brand's features in the minds of consumers. You wouldn't rely solely on individual producers to undertake that work.

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**CHAIR** - The majority of what we do at the moment - and with this committee we are trying to find other avenues for locally processing milk, which we hope will take some of the volume out of the commodity markets. We are always going to be a commodity producer. We are always going to be reliant on the troughs of the world markets for those particular products, particularly the milk powders. That is the issue and if we can mitigate it somehow that is what we should try to do. That is problematic.

**Mr BOWLES** - It is certainly a constraint.

**CHAIR** - So unless another major processor sets up and exports on the back of the Tasmanian brand, most of our milk is still going to go into those major processors.

**Mr BOWLES** - Yes, that would be correct.

**Mr FARRELL** - I was working off your comment about how the small producers tend to leverage off the Tasmanian brand. We have had evidence from Lion and they tend to push Tasmania fairly strongly. I am trying to get my mind around whether we are better off with larger Tasmanian based producers. Every time we get a large Tasmanian producer, someone sees the benefit and takes it over and it becomes a multinational and we lose that. There is no quick answer to building up large Tasmanian companies that would really push the Tasmanian brand. I am trying to work around that really.

**CHAIR** - Apart from Lion, as you mentioned.

**Mr FARRELL** - Apart from Lion.

**CHAIR** - Yes, they are a multinational with heaps of resources.

**Mrs HISCUTT** - Mark, I want to touch on training. In your opening comments you said over \$100 million goes into education and training, which is a substantial amount of money. We did hear from a few people who presented to us that they reckon that training and education were difficult to access or get. They also cited the decline of getting people who want to work in the industry. You have gone through a myriad of stuff there which sounds like there is plenty of work going into it from the government end. Have you any ideas how I can equate the two? Have you noticed a decline in people trying to access education and skill training?

**Mr BOWLES** - Certainly, we know that in a number of sectors, including the dairy sector, there appears to be a mismatch between the demand for skilled labour and the supply. We do see coincidences of both unemployment and also demand for skilled labour that is not being met. The key mechanism by which State Growth seeks to address that is through the workforce development plans and partnerships that it has with industries, such as the agricultural skills plans. The methodology is for both government and industry to work together, not only to build and profile what skills needs there are, but also to demonstrate that those are attractive industries for Tasmanians. That is part of the challenge.

**Mrs HISCUTT** - Do you have an advisory group or a group of farmers to whom you turn to see what the needs are? How do you get your information?

**Mr BOWLES** - There is an advisory group related to the agricultural skills plan.

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**Mrs HISCUTT** - Is that through TFGA?

**Mr BOWLES** - Yes.

**Mrs HISCUTT** - Are they telling you at the minute that training needs to be ramped up?

**Mr BOWLES** - I would have to take that on notice.

**Ms RATTRAY** - Following on from the honourable member's questions around education and training and having the agricultural sector, particularly dairy, being a choice employment opportunity for young people, my understanding is that we have some very successful school farms, through the Education department, but they are a bit hit and miss. I am interested in what your department does in relation to looking at opportunities with the Education department and whether there is going to be a government focus on supporting school farms in the future.

My understanding is that you can be lucky and get a very good principal who supports a school farm, and then you can be very unlucky and get one that has no interest and then the whole thing falls off the radar.

**Ms RODGER** - Through the Department of Education, late last year the Government, launched the Tasmanian Agricultural Education Framework, under the banner of Grow, Make, Protect. That is about providing curriculum development linking school activity to community to the school farms et cetera. There is a program of work there that is rolling out at the moment, going from kinder through to year 6 and then 7 to year 12, and then on into the VET sector, to address exactly what you are saying. That is a collaborative effort between DPIPW, the Department of Education and the Hagley Farm School as a key driver of that. That is about identifying links between schools, primary producers, industry and the community. It is embedding curriculum resources to support the Australian Curriculum, develop awareness of interest in agriculture and an awareness of local industry context and career opportunities. It is really starting to promote agricultural careers back at that early level when people are making decisions about where to go, and making sure the building blocks are in place to support that and help people make those career choices as they move through the education system.

**Ms RATTRAY** - Is that being resourced by any of the departments, because at the end of the day it is going to take resources? When the school principal makes a decision about what program to put in place, it's either sport, music or potentially agriculture. There is a competing interest for school budgets now.

**Ms RODGER** - I understand that. It was launched late last year, I think it was September, and that is part of the push. There will be additional resources allocated. I don't have the detail through this program, but it is particularly there to raise the level of importance of this sector within that broader framework and to push it and make sure we have the workforce we need to support industry development, not only for dairy but across the agriculture sector as a whole.

**Ms RATTRAY** - Hagley School Farm has been a key piece of infrastructure for many years. Some schools used to go to the Hagley School Farm for an excursion or an overnight stay. Is that planned to happen again in the future?

**Ms RODGER** - I believe that is still part of it; Hagley School Farm has been part of this organising and reference group in influencing how the program may work. I am told there are 21

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schools that have a school farm in Tasmania at this point. The most prominent of those is Hagley and it has around 5000 school-aged visitors per year from kinder to grade 6. It is looking at expanding that model and taking it broader.

**CHAIR** - One of our witnesses talked about that before.

I will go back to Mark on State Growth. In terms of grants, I think you talked about those small grants to existing processors to help them market opportunities in Asia particularly. Then we go to the other side of the whole equation and talk about the larger targeted support. We went down to \$1.5 million to Lion. I think you probably know my views on grants per se, and I think it is TFGA's view and quite a few others, when you start to pick winners and losers and put people in a non-competitive space against somebody else who has received a grant. If you look at Lion, for example, you could argue they got \$1.5 million and they are doing a fantastic job, and don't get me wrong, but they are owned by the Kirin Group who are in turn owned by Mitsubishi, so they are a very large multinational. They have great access to banking facilities, finance, lines of credit and everything else. Is it better off to help those people? The question is for the industry itself and for smaller processors who might want to set up. Is it not better off to do - as I have pushed before - this HECS-type scheme whereby at least they are longer term low-interest loans, because a lot of those business take a while to get going, but at least the principal is paid back into a revolving fund and therefore that spreads the cash. I know all governments have done it for some time - the political pork barrel, without being too rude, but that is the way it is. You might care to comment on that. I know it is a policy matter.

**Mr BOWLES** - In the case of the Lion grant, that was based on an assessment by the Tasmanian Development Board. Those are case-by-case assessments, based on evaluations of the flow-on economic benefit of those grants. In terms of the loan support, as you suggest as a way of providing broad access to government support, there are three schemes that dairy farmers have benefited from: the AgriGrowth loan program, the Farm Business Concessional Loan Scheme for Drought, and the Farm Business Concessional Loan Scheme. Under the first one, in terms of dairy recipients there has been one loan to the value of \$880 000. Under the Farm Business Concessional Loan Scheme for Drought, a dairy-related loan of \$1 million is currently under consideration and two other dairy-related loans are being considered at the moment, each at a value of \$2 million. Under the Farm Business Concessional Loan Scheme, so far there have been \$254 000 worth of loans approved and others are currently under consideration. That pathway to support is certainly active.

**CHAIR** - Could you explain exactly how the interest margin works with those concessional loans? They are obviously under the commercial rate and there is an interest subsidy. Is that how it works essentially?

**Mr BOWLES** - Yes, they are below the commercial rate but I would have to take on notice the exact instructions.

**CHAIR** - If you would, please, the terms of principal repayment on those.

**Ms RODGER** - I can add a little bit to the AgriGrowth loan program because that was an initiative launched under the Cultivating Prosperity in Agriculture Policy framework. It was designed to do exactly what you are suggesting, Chair. It is a revolving fund, low-interest, HECS-style, if you like, in that repayments are deferred. It is recognising the lag between investment, revenue and cash flows so it is putting support in place that allows people to defer



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payments of principal, and sometimes even interest, until such time as the revenue stream support it. It is there to support those growth activities and, in particular, smaller growers, processors and operators. It was initially run as a \$10 million pilot to great success and was extended last year with another \$10 million into the loan pool. I believe the intent is if demand continues to proceed as it is, that will be revolving fund.

**CHAIR** - Mark, also on brands, a question that has been raised several times through our hearing so far. I think probably the most succinct way I can say it is from a consultant in Burnie - that whatever happens the brand must be defensible. Would you agree with that? It must be defensible, otherwise it can cause quite a bit of damage.

**Mr BOWLES** - Absolutely. That is one of the things that the brand audit is looking at. It has recognised that branding is not only about marketing and promotion but it is also about ensuring that the actual product or service genuinely reflects the promise. Robert Heazlewood could talk to this more but one of the activities of Brand Tasmania is to undertake constant media monitoring to be on the look-out for new stories that could damage the Tasmanian brand. Certainly from a regulatory perspective, one of the broad objectives of the government is to ensure that our food and beverage products are up to the standard that is promised.

**Ms RATTRAY** - Who undertakes that assessment of whether it is meeting the parameters of a Tasmanian product being promoted as a product from Tasmania?

**Mr BOWLES** - In order to be a Brand Tasmania partner, there is a set of criteria. Included in those criteria is that a minimum of 50 per cent of the production is undertaken in Tasmania and the Brand Tasmania Council makes those assessments for the brand partners.

**Ms RATTRAY** - What if someone is not meeting those guidelines?

**Mr BOWLES** - The primary regulator is the Australian Competition and Consumer Commission, so misleading and deceptive conduct in marketing can be prosecuted.

**Ms RATTRAY** - In Tasmania, wouldn't we have someone who would be looking at that? We wouldn't be waiting for someone on the big island to come along and say, 'Somebody is misusing the Tasmanian brand. Wouldn't there be someone in some department that would be alerting your department or Brand Tasmania that this is happening and that there needs to be some action taken?

**Mr BOWLES** - Certainly that is something we would monitor and there is close collaboration between State Growth and Brand Tasmania. If either organisation was made aware of an instance of the fraudulent use of the Tasmanian brand, then we would certainly be working with the industry to see what actions could be taken.

**Ms RATTRAY** - Have you got any examples of where that has been the case?

**Mr BOWLES** - I don't have direct examples of that. I could take it on notice to see if there were.

**CHAIR** - We will take that on notice, thank you.

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**Ms RODGER** - From DPIPWE's perspective, our responsibility is mainly focused on assistance and support to farmers and they are the core and driving force of the dairy industry. As we are aware, milk production has grown really strongly over the past decade and we are the third-largest milk producing state in Australia. In terms of statistics, the average growth rate in volume terms has been 3.7 per cent year on year over the last decade, which was quite a lift compared to an average of 2.0 per cent per year for the previous 10 years. In recognition of that, and perhaps there is a symbiotic relationship there, many processors have invested heavily in Tasmania over the last decade. That is in recognition of the fact that Tasmanian dairy farmers can reliably produce high quality milk at a low cost.

**CHAIR** - We have had a dip this year, though. Our volumes will be lower.

**Ms RODGER** - It does go up and down.

**CHAIR** - It has been on a rising plane but this year for the first time it dropped off a bit.

**Ms RODGER** - We have some statistics which give data from 1995 to 2015-16 on volume value and the split between export into butter, cheese and milk powder. Obviously businesses make decisions based on market forces and they change their mix depending on opportunity at the time. It is quite interesting reading.

The Government remains focused on the potential of dairy, which is a priority sector as we have heard. There are five key focus areas from DPIPWE's perspective. That is, government responding to the challenges of 2016; support for dairy RD&E, primarily through TIA; we are increasingly interested in the organic dairy opportunity; investment in irrigation; and there is an education and skills development piece.

As we know, the milk price drops last year came on the top of a very difficult season - drought and then followed by floods - which presented significant challenges in many dairying regions. Minister Rockliff was concerned by the actions of Murray Goulburn and Fonterra at the time and wrote to both companies to outline his concerns and he had follow-up discussions there. He also raised the matter with the ACCC and ASIC to encourage those agencies to investigate the circumstances and we know that work has proceeded as well.

The Government then continued to work to support the dairy farmers in various ways through the DairyTas-led farm-based feed budgeting sessions and the Taking Stock farm business reviews, which helps to build that farm management practice and capability; providing advice to affected employees and farm workers coordinated by the Skills Response Unit in State Growth; small grants through the Rural Business Tasmania Rural Relief Fund; and support through Rural Alive and Well for that mental health outreach. Then, as we have heard, there were various loan programs and products made available to support the industry to meet the challenges at the time.

**CHAIR** - RAW appears to be on the back foot at the moment.

**Ms RODGER** - Its future is unknown, as often happens with budget cycles, but I know ministers Rockliff and Ferguson are well aware of the importance of the service to Tasmania and there is active consideration for the future.

**Ms RATTRAY** - We just have to hope Primary Health Tasmania is aware of it. They are the key.

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**CHAIR** - A question was raised before - and I don't know whether it was part of your part of the submission - 'these tools include an organic feed, grains and dairy gross marginal report for developing an organic dairy operation'. There is an existing report that has already been done, has there been an analysis done somewhere?

**Ms NEATE** - The department provides a range of farm planning tools, gross margin analysis, and we now have organic dairy both from conversion and greenfields development. We provide that online available free to farmers.

**CHAIR** - Can that be tabled?

**Ms NEATE** - Yes.

**CHAIR** - There has been conversation on the pros and cons of the conversion to organics. One of the farm consultants said that was something the government could do, to provide that information.

**Ms NEATE** - It is a spreadsheet. It doesn't seek to either promote the opportunity or talk against it; it just allows you to put the numbers in.

**CHAIR** - That's right, it is just out there as a tool for somebody to use and look at the cash flows, to see whether it is worthwhile in an economic sense to doing it or otherwise.

**Ms NEATE** - That's definitely available.

**Mr FARRELL** - On the organic issue, we heard from one of the producers we should put more effort into saying we have a pure, clean and sustainable dairy industry in Tasmania. A lot of our product is grass-fed and our cows are housed in the open. A lot of the dairies have cows that are housed in barns and grain fed. Has the department given consideration to that type of thing? I know organic is a tremendously strong branding tool, but what of weighing off the strength of the clean and natural Tasmanian product?

**Ms RODGER** - We recognise our pasture-fed dairy industry is a competitive advantage as it stands, conventional production or organic, and we are fully supportive of that. That fits with the whole clean, green, premium brand proposition.

**Ms LANE** - We promote that element through all our collateral.

**Ms RODGER** - We don't make a differentiation between conventional is better than organic or organic is better than conventional. There are different market channels and we leave that as a business decision for people to make. What we do is provide tools for both parties to support development, conversion, establishment of new farms, and tools for the organic feed grains. The dairy gross margin report gives material on how you would develop an organic dairy operation from scratch, a greenfield development or to convert from an existing dairy operation. We fully respect the fact their business decisions and organisations need to make market-led decisions about how they wish to structure their businesses.

I will touch on the research, development and extension components because that is a key focus of government support to the dairy sector. That is delivered through the Tasmanian

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Institute of Agriculture's Dairy Centre. The state contribution to TIA on an annual basis is around the \$5 million investment mark. Dairy is a key focus there. One of the key programs they deliver is development of technologies and strategies for nutrient and fertiliser applications to help them manage and improve water catchment quality. We are aware of some of those issues in other dairying regions where it has expanded rapidly, so there is active and strategic work going on in Tasmania at the moment to make sure we maintain the quality proposition and social licence for dairying.

**Ms RATTRAY** - I have a question referring to page 6 of the submission - 'the GMO-free status offers potential opportunities'. We have heard some evidence to say the people in the industry do not feel like they are getting those extra opportunities. Is it time, if we are not getting those opportunities, to give it away? We are not gaining what was potentially cited as being a premium because of GMO-free status. Do you have a view, or am I treading into policy here?

**Ms RODGER** - Yes. GMO moratorium for commercial in food is state policy position and that GMO freedom is one attribute as part of the broader Tasmanian brand proposition.

**Ms RATTRAY** - Are we seeing those opportunities? Can we highlight and identify them?

**Ms RODGER** - I cannot quote you specific markets.

**Mr BOWLES** - I can make a comment about implementation. Certainly in Asian markets, when we are talking about agriculture, we certainly do promote GMO-free.

**Ms RATTRAY** - Are we getting any real premiums because of it? The people who are talking to us are saying they are not seeing those premiums coming back to their product for that.

**Mr BOWLES** - In terms of breaking down the Tasmanian brand into its different components, we do not have the evidence to do that at this stage. GMO is certainly one component but the observation that I make is, consumer sophistication of their understanding of product safety evolves over time. For the example of organics, consumers in China take that as a mark of safety. The reason we would say it could evolve as an opportunity is because consumers, the depth of their understanding of production, evolves over time.

**Ms RATTRAY** - We do not have any tangible evidence to say it is giving us a premium at this point in time?

**CHAIR** - It might give us some market accessibility but that is about it. The point is worth raising because a lot of our product is mixed in generically with Victorian milk. They produce 67 per cent of the nation's milk, with Fonterra, through their big factories at Durham and all those places. Victoria is going down the pathway of embracing GM pasture foods. We are going to be lumped in whether we like it or not. Farmers here are saying that if Victorian farmers have access to those genetically modified grasses, pastures, new species and we don't, we are going to be at a significant commercial disadvantage. I know this is a policy area, but the debate will go on. We will leave that there at this stage but it certainly is going to be out there.

**Mrs HISCUTT** - Christine, you touched on red tape. This might be a question for you or Heather. Looking here at DairyTas, their levies at work, 24 pages of standards and guidelines, a guide for dairy farmers. We heard quite a lot of people who submitted to us who said that the red tape in the government department was not particularly heavy, so that was good to hear. With the

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regulations that are industry set, do you people have anything to do with that or is that out of your sphere? Have you in the pipeline any red tape for dairy farmers that you are trying to get rid of?

**Ms NEATE** - My understanding is that all the QA systems dairy farmers have to meet for their processor or for certified organic organisation for example, are industry driven. Government has no control over it.

**Mrs HISCUTT** - Other than the Health department.

**Ms NEATE** - Yes.

**Mrs HISCUTT** - Do you have anything about red tape reduction?

**Ms LANE** - I would have to take that on notice. I will have to ask the Red Tape Reduction Coordinator.

**Mrs HISCUTT** - It would be nice if we could say we're going to get rid of this and this.

**Ms RATTRAY** - I have a question around freight. We heard from one of our long-time dairy industry operators about the impediments for freight, duplication in regard to Tasmanian compliance and then the Commonwealth compliance. I am just interested, is any work being done in that space around export? I wrote down a comment after this gentleman presented 'paperwork nightmare'.

**Mrs HISCUTT** - He was saying that one pile of paperwork could have done the lot.

**Ms RATTRAY** - Are we looking at ways to streamline these processes? We understand the Commonwealth role, but do we need to be duplicating it? We are all one.

**Mr BOWLES** - That's a question we would need to take on notice. I would say it would be a quarantine issue.

**Mrs HISCUTT** - Was it through the Health department?

**Ms RATTRAY** - It was around export for cheese, and the paperwork was just a complete duplication. I'm not sure where it fits, but certainly that was an issue that was raised by a long-time industry participant. We fill out the paperwork for Tasmania and we have to fill it out for the Commonwealth. The same questions - just duplication and more paperwork.

**CHAIR** - I thank you all for your presentations and your very extensive submission.

**THE WITNESSES WITHDREW.**

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**Mr JOHN TUSKIN**, GENERAL MANAGER, ROBERTS RURALCO, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** - Thank you very much for coming along. Whatever you say in here to the committee is protected by parliamentary privilege, but what you say outside is your business.

We are all aware that Roberts have been a very strong rural company in Tasmania for a long time and you cover not just dairy, but a whole range of things. We would be interested in your perspective.

**Mr TUSKIN** - As I said in previous conversations a lot of it will be my opinion. We are broad stakeholders in rural industries in Tasmania. I have only been in the chair for three months, which is probably a good segue into what Ruralco sees as positive investment in Tasmania, based particularly on water. They have announced, along with T P Jones and the Tas Irrigation branch, approaching \$40 million in investment in acquiring businesses in Tasmania. A lot of that is underpinned by the opportunities with water and what successive governments have done to make that available.

I suppose our commitment to the dairy industry under the Roberts brand and soon to be the IrrigationTas brand, and to a smaller part T P Jones, is quite broad but the majority of it is input supply. As a commercial business, our business relies on our customers to be viable and obviously their viability is being able to sell their produce. The dairy involvement for me personally directly has been light. However I have certainly been involved with the Roberts brand in a short period of time but also my previous role as director of Ruralco. The appetite of Roberts and Ruralco is very strong both in water and dairy, which is obviously a downstream.

I suppose having sat at a roundtable on Tuesday with ANZ delivering their paper on the opportunities in agriculture and what the challenges were and I think they were partly responding to the Government's desire of 10-times production in agriculture going forward, which brought some horrors around the table. I think the common theme from that was the big opportunity was dairy. The opportunities with berry fruits and viticulture and other horticulture enterprises were sound but the big dollars and the big opportunities were in dairy. I think it was partly driven around the fact that dairy farmers are probably more on a par with understanding their costs of production. They are able to build the scale into their business because obviously land size, and the big one which was the access to water. And the reality is relatively cheap water.

Certainly I think it is a long bow to draw but the biggest challenge they have is getting that premium for their product. If we talk about Brand Tasmania, which is what this is about, the biggest challenge is that they are really commodity takers and price takers. It does not matter whether it is the inputs with grain or their outputs with milk they do not set that price. Unfortunately they cannot set the premiums for their product either. So, yes, you can do niche markets and I am talking generally or a large scale, a lot of small operators can find a niche market. For the big dollars it is very hard for them to get into a brand that gives them a consistent premium on a large-scale basis. Reading about it you, have got people like Moon Lake they are building their own Brand Tasmania which is, I suppose, where personally I see that needs to happen. Industry needs to build Brand Tasmania.

I believe berry fruit is a really good example with what Costa's have done. Private enterprise, they have got the money, they have got the desire, they come down and they build a market and

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they build Brand Tasmania even though they are not promoting it as such, but they are building it around that. I think the turnaround in Simplot is another example where they have said we are going to have Australian-grown produce. In my mind, subliminally, they are saying Brand Tasmania because Tasmania is the clean and green. They have got the capacity and I feel personally that they are the ones who are going to drive it. I could spend a lot of time on a committee and talk about Brand Tasmania but I am not going to drive it. I can't drive it. You have got to have someone with the fast-moving consumer goods driving the brand. I am going away from dairy but I am seeing examples. We even have Tasmanian Feedlot. It is Brand Tasmania. It is HGP-free, antibiotic-free - that is what they classify as Brand Tasmania. I believe it is up to the processors to bring their cash to the table and say, 'Right, we are going to build this'. To make that happen, they need good partnerships with government, they need good partnerships with the growers. Dairy farmers know the cost of production is still high and access to capital is always a problem.

The biggest thing that came out of discussions is that to go the next step we need better logistics and processing facilities. You have 100 dairy farms each producing a certain amount of milk. Collectively they can produce a lot more by going into a single hub. Much like they do in the wine industry, they can brand it whatever they want and it is contract-processed. I am sure it has been mentioned about direct shipping to Asia and direct flights out of Hobart but also Launceston, having the processing hub close to that access to getting it out of the place. I think there are companies out there that can build Brand Tasmania if they have the support with that logistics infrastructure.

**CHAIR** - You see an opportunity, John, for a commercial operator to come in. I suppose Lion is the best example we have at the moment. It is a multinational but has invested heavily, it has a lot of resources behind it and is marketing its cheeses very successfully. To move away from the bulk commodity or to mitigate the bulk commodity products that go to Fonterra and Murray Goulburn, we need another Lion, for example, to come in and take a cohort of Tasmanian dairy farmers. I don't know whether it is 20 suppliers or 50 suppliers. As you know being the game, it is like wool and everything else, the world market is cyclical.

**Mr TUSKIN** - Yes, you are never going to take that out of it. I think the Driscoll's model is probably my best example. What they have done has prompted investment. A farmer will spend \$250 000 a hectare in setting up for berries but they do it on the back of guaranteed off-take, a known price. It still will be cyclical but they will know what their price is. They have an integrated, insulated market that they can go forward with confidence. Banks like it. You can talk about access to capital. You see Driscoll's on the top and I am sure they look at it and say, 'Right, this will be a no-brainer'. Obviously they are under cover so the vagaries of weather and all that sort of thing is certainly something. I use that as an example because I think it has been very successful, but it has also been very beneficial for Tasmania and of great economic benefit.

**CHAIR** - Driscoll's has decided to move its berry base out of the mainland to Tasmania. As we know, Driscoll's is a multinational. It provides the plant material, it does the marketing and it is vertically integrated in that respect. As you say, they have the wherewithal to do it, how big the market is and everything else becomes another issue down the track. That is the way it is.

**Mr TUSKIN** - I suppose it is the same thing with dairy. We have had a few processors that haven't succeeded. Tamar Valley Dairy is one that comes to mind. They had their growers. So the grower knew where the milk was going, how much he was going to get for it. He had a model and I think we need more of that. I certainly feel that the processing and logistics haven't worked

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in 30 years in businesses that rely on logistics to get the product there. The most economical way applies to everything we do if we can the logistics right. I have heard previous conversations talking about freight and all these things, we have to get that right.

**Mrs HISCUTT** - Your conversation covered co-ops and then you discussed the bigger manufacturers moving in. What do you see and where do you see it? Do you see a future for co-ops, because you talked about a group of farmers getting together, or do you see another major processor coming in?

**Mr TUSKIN** - Co-ops are a threat to my business, but certainly -

**Ms RATTRAY** - But the dairy farmers are an asset to your business.

**Mr TUSKIN** - Absolutely.

**Ms RATTRAY** - The co-op needs dairy farmers, so I think there is a win for you here, John.

**Mr TUSKIN** - Yes, we have a farmer co-op, which is a very substantial size. The farmer group doesn't deal through other commercial companies; it deals through its co-op.

**CHAIR** - Yolla?

**Mr TUSKIN** - Yes, the Yolla Producers Co-op. It provides competition, but when you're not a profit-motivated organisation versus a true business it is always very tough to compete. Rather than co-operative it is more that collaborative approach.

**Mrs HISCUTT** - Sorry, I'm thinking the actual product, producing something like the old UMT, and they come and get bought over. You were talking about this group of 100 farmers with their 300 or 400 cows. That's a lot of milk, so what are you talking about?

**Mr TUSKIN** - They might have different end places for their product, but it goes through the one facility.

**Mrs HISCUTT** - Keeping the Tasmanian brand in mind.

**Mr TUSKIN** - Also it is streamlining the logistics of it. I liken it to the wine industry. You have a huge number of boutique wines. They will send their grapes down here and they will get their produced with their own label on it. When you sit at the dinner table with your mates you are still bringing your bottle of wine with your label on it. It probably goes back to some examples of the old packing sheds when apples were a lucrative market for us. You would have a packing shed in the district, but you would have five or six bringing it into them, but putting it in their own boxes, or putting them together with a grouped order.

It is really a commercial packing facility. I apologise if I go away from dairy specifically, but it is the examples of other industries that do it. We look at it with wool. Roberts is the largest seller of wool in Tasmania. With the old fashioned model we had our own sales. Logistically that became unviable. Now we bring the wool in, we double handle it and send it to the mainland and it's sold. We have to look at that. That is a logistic item for us. You have other companies that purely do logistics. We could say, right, we will take it to this centre, they will take it off



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your truck, put it in a container, send it to Melbourne ready for the auction and that could save \$5 a bale, who knows. If you have an 80 bale clip well 80 times \$5 it is economic.

That is where I have gone with that rather than just having a straight co-op. Generally dairy is a little bit different, because they are a bit more sophisticated, because they have had to be. A lot of farmers are quite nostalgic about the way they do things. They don't like change and they tend to go it alone, whereas the dairy -

**CHAIR** - They are rugged individuals.

**Mr TUSKIN** - I suppose that is probably the key observation I have made and after discussion with others. There are a lot of smart people in Tasmania and you don't have to reinvent the wheel in a lot of cases. The other one is grain.

**Mrs HISCUTT** - I'm just thinking through the logistics and how you go about doing what you are saying. To put it through step by step. Mrs Smith is a farmer. She could bring her milk into your packing shed, and you could sort her milk out and put it out as Mrs Smith's Milk at the other end.

**Mr TUSKIN** - If you want it to be Mrs Smith's Milk, but it could go to a cheese manufacturer.

**Mrs HISCUTT** - Yes, anything like that. Then Mr Smith down the road can do the same thing at the same place with his own product.

**Mr TUSKIN** - Yes. It is a link in the chain that at the moment you basically have to deal with one of the processors.

**Mrs HISCUTT** - You can set your own price?

**Mr TUSKIN** - Yes. You know your cost of processing. A lot of people would still use that in a collective sense. There would be someone that has a contract to supply milk to China, for instance, so they would need more than one farm and four farms would feed into that. They are a logistic company, not a dairy company. They are all about manufacturing and logistics: go in, come out the other side, whatever it is, pack it, put it onto a jumbo jet in Launceston Airport and take off to China. That is how I see it.

People that want to have their own brand and have a niche market would still use it as well. It might be processing 50 000 litres of milk, which is relatively small, but it is still that part of it and then they get it back and put it in their cool store. They would no doubt have contract cool storage on the same site.

You see a site like the Statewide Independent Wholesalers building at Translink, which is a very good example. You would have a site like that which is a multi-use site and hopefully picks up the economies of scale.

**Ms RATTRAY** - And it supplies all the local supermarkets, whether they are IGA, Woollies or -

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**Mr TUSKIN** - We have just bought a couple of them. Ruralco have just bought T P Jones, which is a direct competitor to Roberts. I have told both teams of staff, because there is quite a lot of unsettledness because of change in two brands to market, that we need to pick up the synergies in our back-in. We will get it onto the shelf as cheaply as we can but then you can cut each other's throat and sell it, out at the front. It is Dan Murphy's and BWS - two brands to market. Again, it goes back to logistics. Get the back end of your business right. If you buy right you can sell right. We're talking about getting it produced right, then you can open up.

**Ms RATTRAY** - In one of by towns, Becks have just bought out the Mitre 10 Hardware - taken the competition out, reduced the hours.

**Mr TUSKIN** - Yes. It is probably a different story. Consolidation in agriculture is inevitable. There needs to be some consolidation even though, on the face of it, it reduces competition.

**Ms RATTRAY** - It is all about this.

**Mr TUSKIN** - Yes, but also scale. As a reseller, our biggest anti-competitive thing is when the neighbour buys the neighbour because then it is one less customer. When a large farmer comes down as one is at the moment, accumulating land, that is one customer taken away that we might have dealt with and one customer that someone else might have dealt with, conglomerated into one.

**Ms RATTRAY** - Aren't they still buying product for their properties though?

**Mr TUSKIN** - Absolutely, but we are talking about access to the majority of farmers - how many farmers are there in Tasmania? To get a definitive answer on proper scale is hard. I did an ACCC submission recently and it is still one store selling rural product to 60 full-time farmers. I don't think any business could survive on 60 customers unless it is 60 Moon Lakes. It's a digression; it's big competition.

The other one I touched on which is very significant to the dairy industry is grain. If you look around Tasmania, we are a net importer of grain. Brand Tasmania had the integrity in it. Nichols has announced since they have been taken over that they are going to have all Tasmanian grain for their product. That is what Brand Tasmania needs to lock into: it is not just the end product but the inputs. That gives the clean green image.

**CHAIR** - Of course there is a competition aspect of that. We have to be able to grow feed grain here in a competitive space compared to Victoria and New South Wales. It comes over in container loads, so dairy farmers are not going to go out and buy Tasmanian grain. There is a bottom line here to think about. That is the issue.

**Mr TUSKIN** - That is the freight equalisation scheme. That is the downside of the freight equalisation scheme for Tasmanian producers because they have to compete with the subsidised freight and grain rather than the actual cost of production. We have a large fund that has accumulated just shy of 5 000 hectares. They are going for 10 000 hectares and want to produce 50 000 tonnes of grain.

**CHAIR** - Here in Tasmania?

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**Mr TUSKIN** - Yes, that's their target. That is probably 80-90 per cent of what we are currently producing, almost doubling production.

**CHAIR** - Is that all feed grain?

**Mr TUSKIN** - Yes, all for feeds and some for malt. They don't target malt but if it does go to malt, it is a bonus. So do barley and wheat. This is a [inaudible]-backed fund, so it is a proper grain company and they understand grain. They see there is a small premium in growing Tasmanian grain for themselves, versus what they can grow a tonne of grain for in New South Wales and Victoria. They are looking at a site, so they will look at investing into a site because - and I will go back to logistics - there is not a place that could handle 50 000 tonnes. They would look at spending x million dollars in developing their own site, which then would become a commercial site for their 50 000 tonnes, but if it has 70 000 tonnes capacity it could prompt other growers to get into expanding their grain production because they can see the logistics are there.

If Brand Tasmania wanted to get extra integrity, I see the input side as well as the output side as part of the story. From an agricultural production perspective, our companies benefit but the farmers benefit and the economy benefits. As we know, farmers like spending money and hate paying tax.

**Ms RATTRAY** - If farmers are spending money, the rest of the community is usually quite vibrant.

**Mr TUSKIN** - I agree, Tania. Having most of my family in your area, I have seen it time and time again. In 30 years in Launceston I've seen the CBD a ghost town when agriculture is poor and vibrant when it's up. It is very fortunate to be in agriculture or tourism in Tasmania, you are on winners at the moment.

**Ms RATTRAY** - Getting back to Costa and Driscoll's, particularly marketing Tasmania because of what they do in their own business, you said you felt it was up to individual companies to do that, but can you see any impediments? I don't mean that you need to bag out the Government, but is there something they are not doing or that we should be looking at doing in that space?

**Mr TUSKIN** - Forgive me if it has already been done, but you have the logos, whether it is Brand Tasmania, if they want to they need to have access to it. To clarify what I said, a lot of them are doing it subliminally - 'It comes from Tasmania so it must be good.' It mightn't even have 'Tasmania' on it, but it is the local and imported ingredients thing, it might be quite generic. I think the Government needs to be embracing it where they can. There are certain things they have to be at arm's length with, but there are other things where they need to be able to embrace building the brand - almost hijack them. If they are coming in, like at Costa, put the onus on them to promote Tasmania as well. They have facilities all over Australia - if it's group-packed they can't do it legally, but make sure they are telling a story. They have more dollars and more reach -

**Ms RATTRAY** - Like Lion's Heritage cheese.

**Mr TUSKIN** - Yes.

**Mrs HISCUTT** - Are you suggesting legislation?

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**Mr TUSKIN** - I don't understand the intricacies of putting in legislation and how you would word it.

**Ms RATTRAY** - That's what you have the Office of Parliamentary Counsel for.

**CHAIR** - I think you will find for most of the Driscoll's and Costa farms it actually gives a Victorian address. It doesn't distinguish it as being Tasmania. We know it is grown here but it is not definitively stated.

**Mr TUSKIN** - As I say, whether the Government -

**Ms RATTRAY** - Has the opportunity or ability to do that is another thing.

**Mr TUSKIN** - And whether they have the right to do it. We don't want to be working under government oversight on everything but it is good when companies want to engage.

**CHAIR** - John, that was tremendous. It was a good insight and well done on grabbing the top job. I wish you all the best.

**THE WITNESS WITHDREW.**

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**Mr EVAN ROY ROLLEY**, MOON LAKE INVESTMENTS, WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** - Welcome, Evan. You know that anything you say now is covered by parliamentary privilege in the committee stage, and after that it is not.

**Mr ROLLEY** - I have been working with VDL now for five or six years.

**CHAIR** - Were you a former director with VDL?

**Mr ROLLEY** - Involved in an advisory role with the former CEO - from Nicola Morris right through to the current CEO. In a way, over the course of that five or six years it has given me a unique opportunity to make some comments around this because I've seen the whole change that has been brought about following the Moon Lake Investment's decision to purchase the assets back in April 2016. As you all know, it is a significant Tasmanian asset; with 25 dairy farms and now, essentially, Australia's largest grass-fed dairy with 100 million litres of milk or thereabouts being produced annually. It was the sort of combination of those factors, which led to the interest that Moon Lake - Mr Lu, and Sean Shwe, as managing directors - having the asset. They were able to see the natural beauty, the clean, green credentials, and the quality of staff on the farms. These were all factors that from their point of view provided a real opportunity for distinguishing an otherwise consumer good into a special and a branded product in a discerning market.

Sometimes you look at things and you see them as they are physically, or other times you look at them and you can see the potential and the opportunity. I think their investment is about seeing those farms in a different way. During the years I spent on Woolnorth our focus was very much on the conversion across from what had been a mixed farm. We had sheep and beef and dairy, and focused primarily on dairy and the progressive modernisation of each of those dairy units. The focus was behind the farm gate. It was all about improving the performance and productivity and getting a sole focus around how we managed the 25 properties. It is not just Woolnorth, obviously, we have got farms in Togari as well, but the total 25 include the Togari farms. That was very much the focus. In the course of the 12 months that the new owners have been driving the ship, it is very clear that the way they have looked at and seen that asset is a very different one than the former owners and it provides a wonderful opportunity.

Two things I really want to say on behalf Mr Lu and of Sean is that the support the company has had from the community, from the local community, the traditional Aboriginal landowners, the local north-west coast community, and from state and federal levels of government, has been another really very positive factor for them. This is in terms of saying not only does this property have particular values and an opportunity from a branding point of view, but there is very significant community support. I know there is a little bit of umming and aahing and up and down back last year, early last year, but the facts of the matter are that there has been an overwhelming embrace of the approach, the investment and the way the company has now gone about the last 12 months of operation in Tasmania.

I want to specifically address the three terms of reference, by way of introduction. April of last year FIRB finally provided the approvals and so Moon Lake was able to start to bring forward its thinking. When we have met with the TFGA board and the TCCI, Mr Lu and Sean had made it very clear that one of the things they saw as a real opportunity was building what is, effectively, a trade bridge between Tasmania and China.

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The expertise and knowledge they have about the supply chains and branding and marketing and how to take the Tasmanian product was one of the real values that they were going to bring to this investment. Already, you have seen the launch of Van Milk last year and that is an announcement of a partnership with Qantas to fly direct from Hobart to take product to the Chinese supermarket shelves. That subscription marketing model has already pre-sold \$3.8 million worth of milk product. It is not just a marketing statement or a broad commentary. It is actually a matter of substance that that has been achieved so far. It has planned to fly around 50 000 litres of fresh milk out of Hobart direct to the markets in China in the coming months.

**CHAIR** - In the coming months?

**Mr ROLLEY** - Yes, during the period of March, April and May, it is about 50 000 litres into the Chinese market. That is very much a subscription model for sales. Last week in Perth, Sean Shwe, managing director, announced another initiative in marketing using around 80 000 Chinese Australians who are here and make purchases on behalf of families and friends in China. That daigou, as it is described, opportunity provides for a very credible purchase by a local Chinese family that provides reputational support for that product back in the market, whereas today a lot of that daigou approach works around them making a purchase and then posting a product. This opportunity will use their networks to arrange for the delivery of their product, because it is a fresh milk product -

**CHAIR** - I was going to clarify that. We are talking about fresh milk at this stage?

**Mr ROLLEY** - Yes, it is fresh milk in this first instance. It provides an example of another one of the marketing channels that are potentially available if you start thinking deeply around the concept of brand and the importance of brand, and then understanding the purchasing habits in the market of wealthier Chinese families, and understanding how you connect these together in a way that provides support, reliability and product value. That has been announced and this further roll-out of briefings to the Chinese-Australian community over the next three or four weeks.

In addition to that, and this goes to my point that the company is bringing a deeper understanding of the importance of the values that sit behind the brand, three farms have been identified with the aim of producing the lowest somatic cell count of any of the dairy farms in the country and using that as a leveraging point for premium in the market.

The second project that has already been initiated is to convert a number of the existing dairy farms - around four of them - across to organic farms and the work on that has already commenced. To me, that speaks to a business that understands strategically the values that are necessary to capture value in what is otherwise a commodity product and to bring value, effectively, back to the farm gate.

In all the years I have been working there, our focus has been behind the gate working on how to improve the operations of the farms. This, to me, is a quantum change in thinking: the way to get value is to think beyond the farm gate, and then take what we know of markets and the requirements of consumers in markets and inform what we do on a farm. That is two or three good examples of where in the 12 months since the purchase already there is a significant change happening and one that I think will be a benefit more broadly to Tasmania.

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In relation to the three specific key terms of reference for your committee, in terms of marketing opportunities for the Tasmanian brand, the comment we would make there is the only limitation is the imagination of entrepreneurs. If you can pay attention to the chain of custody from the farm through to the consumer and manage any brand risks then there are limitless opportunities.

The Tasmanian brand has been building, as you all know, over the last 15 or so years. When Jim Bacon established the Brand Council a long time ago now, there was that vision that this will be a long-term thing, that Tasmanians had to gather around it, stay the course. It wouldn't change things overnight - it is a 40-50 year project, it is not a five year project. Frankly, the support that we have had as a company, Moon Lake, from Brand Tasmania, from the chair and the staff of the Brand Council have been very important in helping us with this very early positioning, particularly being able to get some of the collateral together that is necessary to communicate about the brand values.

One thing we would be saying is that it is very important to keep a focus on the investment that has been made to date in the Brand Council and make sure that that it is unifying across the sector. There is a lost opportunity not to specifically brand Tasmanian milk products and link them to the values that have been established. As you know, Tasmania has invested significantly in environmental systems, GMO-free status and a range of regulatory initiatives. If you don't get some value from that and take that through into your marketplace, you haven't captured any economic value. You have just bound farmers up in lots of red tape and regulation and lost opportunity, and not garnered the opportunity that is there by leveraging off those values. We see a significant opportunity there in leveraging off the Tasmanian brand.

The second term of reference goes to the role for the Tasmanian government. As I have indicated, we strongly believe the Brand Council should be supported, particularly for branded product, for supporting launches of product, particularly in the export markets. The gravitas that comes in market from having the support of the Government, particularly in Asian markets they look for the gravitas that is there from government.

In addition to that aspect of brand, there is the opportunity to exploit what we call 'market intelligence'. This refers to the Tasmanian exporters who have been successful in penetrating overseas markets. They have market intelligence, market tips, successful marketing strategies that could benefit other exporters. That general concept of exploiting market intelligence and the know-how is something the state government export council, Brand Tasmania, really do need to pursue more actively and try to incorporate into state development strategy.

Other key roles for government include investment in strategic infrastructure so that the dairy businesses are cost-effective. That recent investment that was a joint investment between the federal and state governments, cooperation of local government, in electrifying Harcus Road, for example, provides a real opportunity to get additional dairy investment because you have to have efficient infrastructure. Support for local council on some of the key transport routes so we are able to most cost-effectively get product to processing is a critical role for government in maintaining the competitive position.

There is also a key role, we believe, in investing in the skills of the Tasmanian workforce. Think about where our dairies are. They are in regional Tasmania and there are skills shortages. There is unemployment but there are skills shortages. I can tell you from my experience with Ta Ann and VDL over the last 10-15 years there are serious skills shortages that need serious

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investment in education and skills so that that workforce is capable from the pastures and farms, through the milking systems, transport and processing to really add value.

They have to have an understanding that the chain of custody is ultimately dependent on attention to detail at every part of the process. You saw what happened to Fonterra a few years ago in the China market with just one mistake around an impurity in a product, so you can't just say these are difficult jobs, you have to be up at four in the morning milking and so on. We have to have instilled into the training of every part of that value chain an understanding and knowledge that if you are going branded everything has to be done and we depend on people to make that happen. The paddocks have to be good, the grass has to be good and the girls have to be well-fed, but you have to have a good commitment to the skills.

As to strategic water infrastructure, the whole TI investment has been a critical one for regional Tasmania. There are ongoing opportunities. You would all be aware of the most recent one with Duck River. It is beyond our farm gate but there are further opportunity. That is another role for government. The way TI has gone about its environmental assessments and so on, even though it has frustrated some people, has meant it comes with a social licence. There are no short cuts in developing a social licence. You don't buy a social licence, you earn it by the way you act. TI has done a good job in that and there are more opportunities.

The one emerging concern for all dairy farmers is the significant increase in electricity charges, fuelled in part by government policy on renewable energy. It is vital we keep in mind the cost of any of these farming activities, and particularly dairy, is very dependent on having the most cost-effective utilities. It boils down to modelling what we're doing in this energy space, understanding what those impacts might be and understanding the critical importance of maintaining cost effective operating costs.

As to the third one, which is the processing opportunities in Tasmania. Our view is there is already scope in the existing processing sector to further process more volume and more branded product. As you would be aware, we are going to bring this milk down from the north-west to Lion, here in Hobart. They hold a licence to be able to operate, an export licence to China, the milk will be packaged here in Hobart and then out to the airport and Qantas takes it off to China. There is latent capacity in the existing processing sector. We don't believe it is a role for government to try to pick winners in terms of new investment in production and processing, but we do believe that working with the existing capacity to get that up to full utilisation, because that is when we are going to be the most cost effective, is very important. There is an opportunity. Having simplified planning, the whole concept of having a simplified planning system that applies across the whole state is an advantage to the private sector in terms of investment in processing.

I think in the end the main focus has to be on Tasmanian branded products and supporting the risk management strategies needed to protect reliability. Social media offers a great opportunity to communicate about your branded product in new markets, but social media also offers you a huge risk. There is a role here for government to provide leadership in co-ordinating contingency planning for brand risk. This is something in terms of the whole sector.

If you take the brand journey you are only as good as the last litre of milk you sold. Understanding that at every point in that supply chain there are risks associated with maintaining your brand values. There is clearly a role for government to take leadership in the industry to have contingency arrangements that are co-ordinated by government and can protect the brand



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over time. Once you go the brand route, you have to absolutely make sure the i's are dotted and the t's crossed and you do manage circumstances that will occur, either through weather or accident or whatever. You have to have good contingency planning. Thank you, Mr Chair.

**CHAIR** - As you know, most of our milk is predominantly going through Fonterra and Murray Goulburn. What we are looking at is the great opportunity that entities like Moon Lake have entered into and that is terrific. I suppose it requires a lot of capital to do something like that. Would you see other opportunities for people to come in, like Moon Lake, and take up around 20 or 30 suppliers and produce something on the back of the Tasmanian brand, like a specialty product?

**Mr ROLLEY** - Those opportunities are there. I think it is also about encouraging some of the existing players to see the opportunity and to review whether or not there aren't strategies where they can continue with some of their ongoing base cash flow positions they have developed over years, but incorporating into their production thinking and their market opportunity, some of these things. There is no reason that either of the two or three larger processors could not, of themselves, take some of these opportunities, continuing with their current arrangements and supply for the range of product, but also saying hang on. This is about getting value back to the farm gate, from our point of view. I think this is about business, imagination and thinking about opportunity, but it is there for existing players.

**CHAIR** - Lion are well down that track and that is good for the Tasmania branding. When you look at Fonterra and Murray Goulburn, who are basically in those commodity markets of the powders and everything else, it is all mixed in generically with the Victorian stuff. There is nothing which is branded separately; to offer milk powder, on the back of the Tasmanian brand, that it comes out of Tasmania, and is clean and sustainable or whatever. That is a commercial decision and we will be asking both of those entities later.

**Mr ROLLEY** - I think that is a good question to ask them. Every good company is looking to maximise return to shareholders. That is what we are trying to do for our shareholders. You are constantly looking at your business strategy and thinking is there a better way to do this? They are good questions to ask. From our point of view, those questions have been asked and the opportunity was not to do business as usual, the opportunity was to take it to another level and do things differently with a proportion of our milk. This is a good way. I am a great believer, from a business point of view, in doing these things in step-by-step fashion and doing them in a scale where you test and get on top of it and get a sound basis for an ongoing business. We are not putting 100 per cent of our product into that case. We already have long term supply contracts with Fonterra, but we are taking a proportion of the milk, 10 per cent thereabouts, and looking at how we can do this value adding around the brand and potentially other products that might be developed from there, and learning from that. We're testing these new supply arrangements and new marketing channels and building confidence in them.

**CHAIR** - What is a quantum of fresh milk you intend to package and send on an annual basis, at this stage? Is it 50 000 litres?

**Mr ROLLEY** - It would be about 50 000 litres.

**CHAIR** - Is that for 12 months?

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**Mr ROLLEY** - That is a 12-month period. Let us get into this, let us have a volume that will give us a real feel for market up-take for the value proposition to see. You can imagine the regulatory side of this - out of Australia and then into China, and then making sure the products are going to be fresh. That is absolutely the critical point. Mr West has given me a note here - per week, it is 10 per cent of total production.

**CHAIR** - You are producing about 100 million litres there. That leaves about 90 per cent still go to one of the bulk to Murray Goulburn?

**Mr ROLLEY** - Predominantly to Fonterra.

**CHAIR** - You talked about the other sales model of selling. One of the critical things about our brand is it has to be defensible. Point of origin, the whole thing. We saw there was quite a run on the baby food being bought up here and then being packaged and sent off. You would try and have some tighter controls?

**Mr ROLLEY** - Yes, but as I was explaining to you, with the application of this daigou model in our case, we are not selling Van Milk in Tasmania or Australia.

**CHAIR** - No, I realise that.

**Mr ROLLEY** - What we are doing here is saying, here is an existing very important model that is currently supplying middle and upper class Chinese with a range of consumer goods from Australia. The big advantage of that model is that the purchasers in China have confidence around the advice and purchasing behaviours of the suppliers, the Chinese Australians who are supplying them. It is using their connection, their contacts, their friends and extended family and so on, who are the ultimate purchasers.

It is using that existing supply chain and, where effectively, delivering to those. They are taking responsibility for the ownership and sale of the product. It is thinking about it in a different way. It is thinking about how to utilise connections, which are different from the ones that we would use as Australians, but using those cultural connections that are important in a Chinese context to help broaden the potential distribution network.

It is not for me to comment in detail about the Bellamy's matters, but if you read some of the review of that, there has perhaps not been as much understanding about some of the impacts that certain approaches can have. They have to work their way back through that. I do not think we should be pessimistic about this. There are lessons we all learn from these things, but there is still a very good prospect for making those things work.

**Mrs HISCUTT** - Tasmania is based on clean, sustainable production. You have four organic farms in transition. Does Moon Lake see the clean, green image as paramount or do they see the organics as paramount? Are you hoping that your four farms will be 10, will be 20? What is the direction here?

**Mr ROLLEY** - I think it is about building a number of different elements. It is not one size fits all. Clearly, there are opportunities across the spectrum but they are different products, essentially different markets, and they are presented and marketed in different ways. This is about saying here is 100 million litres of milk annual production, there is an opportunity here in this organic space for a particular consumer market, let's make sure we have a capability of delivering

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to that particular consumer supply. I have always believed in business that it is not what you think you should do, it is what the market is suggesting or the consumers are looking for. That is how you have to place your business. This is about understanding there is a market for that. It is not large but it is there; let's make sure that we have a capacity in the range of production processes that we have to meet that segment of the market.

**Mrs HISCUTT** - Does Moon Lake have in mind a particular figure or an amount or number of farms?

**Mr ROLLEY** - Not at this stage but there are four we have identified as being four of the farms where conversion is made most easily. As you know, the business of VDL has been there since 1825 so there is a long history of land use and organic credentials sit around a fairly detailed and quite specific set of auditing processes. The selection has been around those that are the easiest to make the conversion to.

**Mrs HISCUTT** - When it comes to niche markets, it has been put to me over the years, if all of Tasmania was to grow this, that or the other, in the Chinese market it is still a boutique market. Does Moon Lake have any plans of expansion or are they happy where they are at the minute? Can you see the business growing here?

**Mr ROLLEY** - I think the focus that the board has identified in the short term has been on trying to maximise the productive capacity of the existing farms. That is where we are going. At this stage that is not the focus. The focus over the next few years is to consolidate that and get real productivity off those existing farms. Dairy farming is not an easy business. It is a very tough business and one of our next key challenges is dealing with our summer water deficits. We have a big difference between the Togari parts of the farms and the farms that are in the north part. If you know Circular Head, you will know that anywhere north of the Harcus it dries out in the summer months. If we are thinking about our farms and how to get a better return for shareholders, the first and most important thing to do is to focus on those existing farms and try to make sure that we get them all up to being models in their productive capacity, their sustainability, et cetera. That is the focus.

**Mrs HISCUTT** - Are you welcoming the new Duck Irrigation Scheme that is coming on line?

**Mr ROLLEY** - We absolutely welcome that. It does not directly ask as we're off the Welcome and the Harcus rivers but there has been a lot of discussion around options for the Arthur, Welcome and so on, and we are obviously keen to be part of those discussions. As I indicated earlier, we are very supportive of the leadership that TI have provided for rural Tasmania in that regard and we have already had meetings with TI around some of those opportunities.

**CHAIR** - On the back of that, there has been quite a bit of criticism from some farmers that the scale of thinking with TI in what they are putting in there has been too small and it should have been extended further. Do you have a comment on that at all?

**Mr ROLLEY** - Not really because from our point of view, the Duck Scheme was not one that we have a particular commercial opportunity around. We had worked with TI and I worked with TI in previous iterations around the Arthur opportunities. We have reviewed some of the potential opportunities with the Welcome. We hold winter off-take licences for the Welcome

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with the idea of putting some dam storage in and we have had approvals for that. That would be a potential on-farm opportunity. As you know, the north-west gets most of its rainfall in those winter months and to be able to try to find a way to make better use of that additional winter flow and have it available for the drier summer months would be quite advantageous.

**Mrs HISCUTT** - You mentioned Brand Tasmania Council, how much interaction has your board had with that council?

**Mr ROLLEY** - Right from day one, the very first meetings that the new owners had included with the Brand Council, both the chair and executive team at Brand Tasmania.

**Mrs HISCUTT** - So Moon Lake approached them?

**Mr ROLLEY** - Yes, we had meetings and briefings with them. They have been extremely helpful in working up some of the collateral that has been used as part of the branding work. They have been very helpful in working with us around product launch and so on, and very supportive in terms of the projects we have going on now in China to inform the Chinese market about the brand.

**Mrs HISCUTT** - When you say they are very supportive, in what way are they helpful?

**Mr ROLLEY** - Firstly, in terms of putting us in contact with a range of people who were able to assist us; secondly, in the collateral they have. They have a fantastic photo library, they have a video collection and they have a whole lot of detailed material. We are members and we joined the council to indicate the sort of support that we had as a company towards their objectives. The chairman has been very supportive with us on the journey that we are taking. They have run some articles, which have been useful in terms of communicating through social media and so on around what we are doing on the brand journey. We are very supportive of their approach.

**Mr FARRELL** - Evan, with your market in China, who do you compete with in China and is there anything similar? How important to your market in China is the whole Tasmanian link?

**Mr ROLLEY** - The Tasmanian link is very important. There are other Australian dairy businesses that are providing milk to China, so we're not the first to do that. The first market where the focus is is Ningbo, which is Mr Lu's home town, a big home town and the focus there is very much around the 'Tasmanianness' and there is no significant competitive pressure for that. If you are in Shanghai or Beijing, then there are markets where there is other Australian product but not Tasmanian product. The real value of this proposition is at the beginning: it is the 'Tasmanianness' around it. Scan the carton and you will be taken to Woolnorth and Cape Grim and the wind farms and the fresh air and beautiful pastures. Most Chinese consumers buy products with their phone. They scan a product. That branding is a very important part.

**Mr FARRELL** - Does your company have any plans around farm tourism? It obviously will create great interest in Tasmania.

**Mr ROLLEY** - This is a subject our managing director should be here to discuss. Sean Shwe is absolutely positive about that and sees that as being one of the things that will be a direct result of this. If you buy your milk and you scan it and you see this fantastic place - and you have all been to Woolnorth so you know how spectacular the scenery is - that will become a very

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important potential. We are going to work through that very carefully and we've been in discussions with a number of parties about that. It's a good opportunity.

**Ms RATTRAY** - You talked about the constraints and challenges for skills in the industry. We heard this morning that there has been \$100 million put into skills development in particular areas in Tasmania and it is a demand-led system. If the industry is asking for the skills and we are putting that much money into it, \$100 million, what is not happening? Do you have a view about where we are falling short?

**Mr ROLLEY** - I don't know about that number -

**Ms RATTRAY** - That is what I heard this morning - I wrote it down.

**Mr ROLLEY** - Presumably it is a department number or government number that comes from a combination of TAFE, education, Skills Tasmania and so on.

It sounds trite but in the end it is about talking to the people who are on the farms making the employment decisions and getting the feedback from them about where those skills are lacking. For example, it has surprised me that in Smithton, where there is high youth unemployment, we have not been able to get together the training packages that get some of those kids out of school and into a training environment, and then onto farms or into production earlier. Maybe it is a question not about the quantum of money that is there but about how we are looking at the micro-level. How is this actually happening? Maybe the approach has to be slightly different in Smithton than it is in Scottsdale or in the Huon. There are different factors regarding the way the schooling is set up and the way the training is delivered that you have to do in slightly different ways. We need to be flexible enough to think at the local level, talking to those key dozen or so employers and making sure that we have tailored it. So it is not about more money, it is about trying to make sure that that is closer to the actual experience that employers in those sectors are having day to day.

**Ms RATTRAY** - Whether it is getting an ATV licence and the appropriate skills that go with it or whether it is looking at more technology-based equipment which is coming into the dairy industry.

**Mr ROLLEY** - There is more technology coming into every dairy shed and it is important to understand how to operate that safely and with a good environmental understanding. It is not just, 'We will do dairying because we want to leave school' or, 'We will do dairying because there is a career opportunity'. It is the employers responsibilities too. We have to be able to define that there is a career path in there so you look at it and think, 'Oh, it's not just something because I don't want to go on any more'. We need to make sure that both sides of that equation are working together.

**Ms RATTRAY** - I appreciate that. I am very interested in that aspect because if you pose the question to a young person about going into the dairy industry and they see the alarm going off at four o'clock in the morning and then they have no licence to get there, it just doesn't happen.

**Mr ROLLEY** - Correct. That is what I am saying to you, they are the micro levels that we need to better understand. It is not just the big \$100 million, it is about what we are doing at that micro level. It is about understanding that if an irrigator falls over in the back of a paddock and it is running into a creek and someone photographs that and puts it on social media, your quality

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assurance and your environmental has suddenly gone, so everything matters. Attention to deal matters.

**CHAIR** - We will move on from what Tania was talking about, Evan. You talk about that micro level, let's just step up one level. There has been quite a bit of criticism, but I think there has been a fall off there, of people doing an ag science degree and of UTAS producing what some people call unkindly 'lab rats'. Perhaps we need an institution in Tasmania that trains people in agricultural managerial skills in some sort of a diploma course. Do you have any comment on that at all?

**Mr ROLLEY** - You would need a mix of these things. Personally I am not one for creating institutions, I am one for using these institutions and reshaping them so that they deliver what we need.

**CHAIR** - In that context, that is fine.

**Mr ROLLEY** - I think it is a mix. We need the 'lab rats' to be able to do some of the R&D that is necessarily to underpin the changes that are there, but we also need the people with the practical management and business skills to manage these enterprises and we need the people being trained in the technical skills who can see a career, an opportunity through the business to build their skills. I don't think one size fits all, but there is an opportunity for a mix of those. We need to make sure we have the diploma training as well as the higher academic side in that total mix.

**CHAIR** - You are quite right. You need a very strong culture of good managers to impart that knowledge.

**Mr ROLLEY** - Everything rises and falls on people. We look at systems but at the end of the day it rises and falls on us as people. It is the leadership we provide to people and how we coach and mentor them on the farms. It is the same with occupational health and safety. We still have a way to go with safety on farms. That is about deeply embedding into the culture on farms the importance of safety as a number one priority - so safety, environmental practice and business skills.

**CHAIR** - Have you had to use backpackers for work on the VDL farms or are you established with the share farmers and existing staff?

**Mr ROLLEY** - We are pretty well established with the existing staff. From time to time there is some casual work but it is a tiny proportion. The majority of it is with the share farmers and managed farms. David Becker has done a lot of work on building within the teams on each of the farms a strong mix of managed farms, share farms and permanent-casual, casual staff.

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

**THE WITNESS WITHDREW.**

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DISCUSSION WITH **Mr RENÉ DEDONCKER**, MANAGING DIRECTOR, AND **Mr MATT WATT**, GENERAL MANAGER OF AUSTRALIAN MILK SUPPLY, FONTERRA, VIA TELEPHONE.

**CHAIR** (Mr Hall) - Thank you very much for your submission. You are a very key player in the industry here.

**Mr DEDONCKER** - Fonterra is a dairy cooperative, owned by 10 500 farmers. We take dairy to the world, 140 countries, and significantly, the second largest market outside of New Zealand is Australia, where we have significant investments on the ground.

In Australia we have approximately 1 500 people, we have seven very large-scale factories that employ over 1 500 people. We have about 1.6-1.7 billion litres of milk at the moment, which is about 20 per cent of the national dairy market. A little bit more than half of that stays here and we make household brands like Western Star and Perfect Italiano that we have in our fridges. That is a consumer business. We have a very significant service business here where we sell to chefs and restaurants. We also have a massive ingredients business where a little bit less than half of our product goes off-shore into South-East Asia, China, partly the Middle East, where we work with customers around the world to solve their dairy needs.

A big part of our value proposition is that of our seven factories, two of them are in Tasmania and we source about 520 million litres of milk, which is about 60 per cent of the total dairy production out of Tasmania.

We have some great local brands, like Duck River, that complement our national brands like Western Star. We are heavily invested in that market space. When this opportunity came up to participate in the review, we are very keen stakeholders, not just in Australia but in Brand Tasmania, and the future of Tasmania makes a huge difference to the role of Fonterra.

We are very keen to progress this discussion and together, work out ways to make some breakthroughs. It is worth stating that our commitment to Tasmania has been over many years and our connections back into our global network give us some very interesting opportunities when we think about provenance and promoting a brand like Tasmania. We have had experiences like that in the Fonterra network around the world and we can draw on some of those to facilitate this discussion. In terms of the last 12 months, it has been a rocky road.

**CHAIR** - You talked about the Duck River brand, a well-known brand. You are the biggest receiver of milk in Tasmania, about 60 per cent -

**Mr DEDONCKER** - That is correct.

**CHAIR** - I understand that Duck River is branded Tasmanian, but most of your supply that you take in, in terms of powders and everything that is manufactured at Spreyton et cetera, is generically mixed in with milk coming out of Victoria for example. So it is not branded under the Tasmanian label at all. Is there any opportunity that you can see from a commercial sense, to leverage on the back of the Tasmanian brand to be able to brand some of that as Tasmanian, separately from Victorian milk, for example?

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**Mr DEDONCKER** - You are right. We had a national business and we had a number of product streams, particularly butter, cheeses and our powders which includes nutritional as well as whole milk and skim milk powder. We have customers that require certain specifications and a common branding. You are correct in the sense that, in our current portfolio, we do not specifically promote a Tasmanian source, other than some specific brands like Duck River. Is there potential to change that mix? The answer is yes there is potential. It does come down to both consumer need and also the provenance story around Brand Tasmania. I can give you some examples of other parts of the world and where we have managed to make some breakthrough.

The potential does exist and I think there is a genuine appetite for consumers both in our country but also in export nations that truly value clean, green, trusted source, the purity and all of the connotations that go with that. There is opportunity and we have got evidence of being able to execute against that in different parts of the world, so the potential does exist.

**CHAIR** - That is very interesting. Is that something that you would think that the Tasmanian Government or departments, or somebody else, could help facilitate or is that something that you would follow through commercially yourself?

**Mr DEDONCKER** - Where there is an opportunity for Fonterra and its stakeholders, that is our farmers, our communities, our consumers, our customers, we would pursue activities in that space if there was benefit for all of them. We do have an energy to do it anyway. Could we be faster and better as an industry if we raise up a level with government support? Absolutely. I have seen that with the role that I play in New Zealand where we have had government-led initiatives for the benefit of New Zealand Inc., not for any particular player, but where they have brought agribusinesses together at the highest level to promote brand New Zealand to the world.

There has been some significant and material deliverables and that movement, it used to be called the Primary Sector Boot Camp; it is now called the Te Hono Movement. There is a full website dedicated to that and it is all about the benefit of New Zealand and New Zealanders to the world. It is not about any particular beneficiary. What that has enabled is all of the agribusinesses in New Zealand to ride the coat tails of that and that was government-led. Then very clear sub groups within that that took ownership of key activities and priorities. As a template it is a really interesting case study about what could be possible in Tasmania where the government could lead a program that had all industry stakeholders, particularly in agribusinesses, come together for the greater good. I see a real parallel there.

**CHAIR** - There is that umbrella, that pure New Zealand, I suppose that we see more often than not that covers a whole gamut of industries and everything else. Is that what we are basically talking about? That marketing image?

**Mr DEDONCKER** - Yes, it is. They tend to put an umbrella right across the entire agricultural space from fisheries, wineries, clearly dairy, meat production. Everything from that agricultural basis. That is correct.

**Mr WATT** - I think the other aspect from a role of government that I wanted to highlight would be to protect and promote [inaudible]. There are aspects around production right back to farm gate that are really important to our consumers and customers. Things like GMO-free and other things that differentiate production systems from other parts of the world. Hormone use in animals, those sorts of things. I think it is important, and an opportunity particularly for a place



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like Tasmania, to be really conscious of protecting that because that becomes the differentiator in terms of how you then start to talk to these markets about why Tasmania is different.

**CHAIR** - We have a GM moratorium here at the moment. That has been contentious in some circles because obviously some producers see the advantages of embracing new technologies for production, particularly if I talk about rye grasses. If we continue to go down the track, unless the Tasmanian product is differentiated from the Victorian product, if it is not mixed in, then you would probably understand that we would lose that brand differentiation, I suppose. Do you see what I mean?

**Mr WATT** - Yes, I do. Just to recap what you say, if companies like us weren't marketing Tasmania separately and we were mixing that product or didn't have a single source of origin with products that did have attributes such as GMO or other things, then there wouldn't be a premium to be made. From our perspective, the reverse is true. If we can demonstrate something that is very clearly preferred by our customers and we can demonstrate the trust in source right back to Tasmania, we know there is value in that.

**Mr DEDONCKER** - To perhaps close out on that, the cheese production, for example, at Wynyard where we have spent significant capital recently to enable that to produce 45 000 metric tonnes of cheese, that is all using Tasmanian milk. We are very clear and we can identify and trace all of that product. That is primary production. Secondary production will turn that into table cheeses, shredded cheeses, various applications, and that is where it has the potential to be mixed with the same spec cheese from other factories that we have, but it doesn't need to be. We do have the traceability and the ability to segregate that.

A great example very recently is that we have a reasonably significant business in Japan where we have some joint ventures on the ground. We have some customers who are very specifically wanting to source Tasmanian cheese. We are dealing with them and we are giving them a trust in source and traceability to ensure that they know that the cheese they are buying is specifically coming from Tasmania, from Fonterra production just in that market. There are very good examples where it exists and we can do it.

**CHAIR** - Yes, thank you. I will finish off with one more question. We have had some evidence from an agricultural consultant who is well known and he talked about the GMO matter. He talked about the GMO rye grass and that is now being developed and is going to be released in Victoria that is '1 megajoule higher'. He talks about how essentially it can double the profit of a dairy farm because of those technological advances. These are issues that have to be taken into account.

**Mr WATT** - Certainly that is a very real consideration. We need profitable farmers. However, we also know that these decisions only get made once. Once a decision is made to allow genetically modified rye grass or whatever the specific issue is, you can't retract from that. Whilst it may well improve production, our role in this is to be very close to what that means for customers and demand. If we are improving production but at that same time it has a negative impact on demand or our ability to extract premium or access particularly markets, then the net result to the value chain doesn't come back to just that production piece. That is the view that we have to take when we assess any technology.

**CHAIR** - It is an assessment process, I understand that. You could also argue that by denying that technology, significant premiums would have to be paid on the non-GMO course if

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you went down that way if you don't accept those new technologies. That is the conundrum, isn't it?

**Mr DEDONCKER** - It is. Just in case you were not aware, the Dairy Australia and DairyNZ, along with the CSIRO, are doing an independent review of the role of GM and genetically modified feed. I am not exactly sure where they are at in their milestones, but they are actively working on that. It might be something worthwhile checking, rather than from an industry perspective, an independent perspective of the benefits.

**Ms RATTRAY** - What sort of capacity is left at your processing facilities in Tasmania? I live in the north-east and am a daughter of a dairy farmer. It's quite a while back now when we had a dairy farm but I understand dairy farms. I also look after the Pyengana area. I know that it is about a four-hour trip for milk to be taken to Spreyton for processing. I am interested in those couple of areas: the capacity left in your factories and the logistics of getting that milk to the processing factories.

**Mr WATT** - We still have capacity in Tasmania. As René has spoken about, we have the cheese plant at Wynyard and the butter and powder plant at Spreyton. What we are doing is investing further in the expansion of Wynyard. It has moved from producing around 30 000 tonnes a year towards 45 000 tonnes into next year. That will build our capacity at the Wynyard plant by about 50 per cent. Also, at the Spreyton plant we have capacity to uptake at this point. When we do see the expansion come through in Wynyard, and combined with the existing capacity in Spreyton, we still see significant capacity headroom in order to take up what we would see as projected growth in terms of Tasmanian production on current tracking rates over the next few years.

Clearly, we will bring on line and modify that production capacity and capability that we have to optimise the value. Without going into too much detail, there are decisions we can make about the kind of production we do at a particular site, which may limit its capacity but add more value so things like fat-filled milk powder and the likes do alter the capacity of the plant but if they have a net adding of value, we will make those kind of decisions if we can extract more value from the raw milk product.

**Ms RATTRAY** - What about the logistics of getting the milk to the processor? Four hours is probably one of the longest trips but I know it also gets taken out of one tanker and put into what we call 'the mothership' in the Scottsdale area. My understanding is that would actually impact on the integrity of the milk.

**Mr WATT** - We have to be very careful and we are very conscious of that. One of the things we focus heavily on is our quality control processes. It does mean additional focus on tanker cleaning processes and traceability programs to ensure that we can maintain that. When we implemented the pilot for that aggregation and transport across the state, as you talk about, we piloted and made sure that we could be absolutely confident in the integrity of the product. It does work for us.

One of the opportunities that we have been looking at and working with the Tasmanian Government on is load limits and those sorts of things. You are right, four hours is a long way and freight efficiency across that sort of distance around load limits, road infrastructure and so forth, does make a difference in the costs through the supply chain.

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**Ms RATTRAY** - That is one of the issues. I recently went on the B-double route out of the north-east to the north-west and couldn't believe that we actually put B-doubles on that road. That is something I will take up with the minister and obviously you will be doing that as a company as well. There must be a better way, in my view. Is that something that you have discussed with the Government?

**Mr WATT** - Yes, it is.

**Mr DEDONCKER** - That is correct; we have taken that up directly. While there is progress in the discussions, the reality is we have not seen the effective change just yet. We are increasing our attention to that, both the infrastructure and to your point the standards our drivers need to deal with on a daily basis. The flip-side is these are fantastic dairying heartlands where we are producing fantastic milk, so we need to solve it. If we can make the economics work with the conditions today, the efficiency improvements have huge potential for opening up more supply. We would appreciate any leverage you could also apply.

**Ms RATTRAY** - I have another solution, René, and that is to build a processing plant in the north-east. I have a solution but I'm not sure if you want to talk about it. It's a real solution.

**Mr DEDONCKER** - We have an open mind to the future of our presence in Tasmania. There are challenges. We are 60 per cent of milk and to make further inroads we would like to increase our milk supply. That will have a natural cap, however, to make sure there is the right competitiveness in the state. There is an appetite to work with our customers. We will get different milk pools, the potential of organic is on our radar, the potential to partner with customers on specific applications that may not exist in our existing processing plants. We do have an open mind and, as we return this business to be economically sound for our farmers and shareholders, those are real opportunity we are considering and real choices are on our strategic agenda.

**Ms RATTRAY** - That is very encouraging.

**Mr FARRELL** - In your submission you mentioned that the major threat could be the introduction of a particular bovine growth hormone. Could you expand on that and give us some idea of what your company is doing to either lobby the Tasmanian or Australian governments and make them aware of your concerns about the possible introduction of it?

**Mr WATT** - The hormone is one that is used in some geographies globally in the production system of dairies. It enables higher production from cows that are using this hormone. The US is a very good example of where it is heavily used in the system. It is one that has been introduced by the company that makes it as an option for the Australian market. We have been heavily engaged at an industry level - through the ADIC, the Australian Dairy Producers Federation - lobbying government around the potential trade and customer impacts of that. If we look at the US example, what we now see is a marketing proposition of companies marketing milk as rBST-free. The challenge we would have is if rBST was allowed to be introduced into the Australian market, we would have to create another segregation to separate farmers using rBST and those not. That would clearly add cost along the supply chain. If it wasn't introduced to the geography or a specific geography such as Tasmania, that is a non-issue because you know it is rBST-free. We have been quite focal in a number of submissions, particularly at a federal level. The process will be APVMA releasing this product or enabling this product to be sold in the Australian market. That is the pending decision we are actively focused on.

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**CHAIR** - I noticed in the submission that during the peak milk production periods you do have surplus milk to your production requirements and you talk about how logistically that is very difficult to move, whereas in Victoria you can move it between factories. What do you do with that additional capacity at the moment? Maybe you have not had it this season but other seasons you may have done.

**Mr WATT** - That has happened historically. Prior to the new plant being built at Smithton three or four years ago we did have to ship a significant volume of milk in tankers across Bass Strait on the ferry. That is what we did at significant cost. The introduction of that capacity has meant that it has been able to stay within the state and we have not had that pressure. If we look forward - and we talked earlier about the expansion at Wynyard and us keeping pace with the production growth - it could conceivably get to a point where we would need to re-evaluate some of those options, such as to ship milk across Bass Strait so we could process in Victoria.

**CHAIR** - You have a couple of options there: you would not take on any more new suppliers, or you could increase your capacity of your Spreyton plant or Wynyard plant.

**Mr DEDONCKER** - There are a number of ways we could look at this. One view would be that a worse case is that we have to ship it across Bass Strait. The in-state options are around the portfolio mixes that we have on site. If I take Spreyton as an example, capabilities around powder manufacturing there are quite significant. However, we could make choices around whether we extend that. For it to be a fully functioning nutritional site and to partner with some of our global customers would require further capital investments, but it would give us optionality on the use of milk and where we place that. The point is the portfolio mix that we apply to our milk has a very significant implication for how much milk is used for every kilo of final product. Those equations are very different whether we are making powders, skim milk powders or cheeses. One of the options here is to have more agility in our manufacturing capability. That is something we are also pursuing because we have an appetite for more milk. I think as an industry in Tasmania it is in its interests to be able to produce more milk. I would say it is the same for Victoria. I think as a dairy nation we have an enormous capability and there is a very hungry world to feed. If we can maximise the use of dairy in country and then play in that South-East Asia and Middle East market there is significant upside with the right product mix. We are solving that. Matt, I will refer to you but it has been a little while since we have had to even consider that.

**Mr WATT** - Yes, it is.

**Mr DEDONCKER** - I do not think in any of our strategic planning we will see that in the next three years. We have a lot of activation plans around that.

**CHAIR** - Thank you.

**Ms RATTRAY** - It has been suggested that electricity charges are going to be an issue in the future for the sustainability of business, particularly dairy businesses.

**Mr WATT** - Energy is a key part of dairy businesses and our business. It is one of many input costs that we will need to manage carefully. If I look at the Victorian situation, it was applicable across Tasmania. Part A of a program we ran over the last two years was: let's do energy assessments in dairy to help dairy farmers understand what best practice looked like and what their practice looked like. So we looked at such things as vat set up, milk cooling,

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equipment and how all those things were set up in their dairies. What we found was that in many cases with pretty minor adjustments, no capital investment but just some adjustments in how it was configured there were savings that made a difference.

Part B, which was only applicable in the Victorian scenario, was assistance in terms of tariff negotiations. Giving advice to our dairy farmers about what benchmark electricity rate charges might be. We could help them compare versus what they were paying. It remains an ongoing challenge for our farmers, as do other inputs like labour availability and cost and feed and so forth, and one collectively we will need to continue to manage.

**Mr DEDONCKER** - I think there is another component to this. There is a natural competitiveness here that does affect the cost of manufacture that not just the dairy industry but many industries are concerned about. I think the overlay, however, is - and this was also true when we were working on that Te Hono example in New Zealand - that if we market Brand Tasmania there is an expectation that that is all the way through to renewables. If we are using dirty coal, for example, to drive our utilities, versus clean coal or the renewables, whether it is hydro or wind stations, that has a significant impact. What we have discovered when we take a brand or provenance like Tasmania to the world, consumers judge in the moment. They will scan a barcode and they will see the trust in source that comes from Tasmania and a Tasmanian farming district. They are also keen to understand how it is made, not just the factory.

In Japan, for example, they will ask, 'What sort of labour are you using to manufacture this, where does your power come from?' There are great examples where you scan QR codes now and it tells you all of that. It says that it is clean and green and the farm it comes from. It talks about the source of power and utility and it talks about the way we manage the environment. I think there is an implication here on the net cost for manufacturers and whether it is sustainable. On the brand itself there is an implication because consumers and customers will judge. As you broaden that subject there are many implications.

**CHAIR** - I didn't know you could extract that much information off a barcode to be quite frank.

**Mr DEDONCKER** - It is frightening. Next time you go to a McDonald's, try scanning their QR codes and it will tell you a whole lot about the source of their products right down to a farmer. It is very interesting.

**CHAIR** - I suppose that is a whole other argument, that energy argument that we are having right throughout Australia at the moment. We also have to have security of supply and that base load capacity as well. Here in Tasmania we are well served, except last year when we had a significant drought, as you know, and our storages got down very low. Then Basslink went down and we were in all sorts of bother there. Anyway those things happen from time to time.

Thank you very much, gentlemen.

### **DISCUSSION CONCLUDED.**

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**Mr ROBERT HEAZLEWOOD**, EXECUTIVE DIRECTOR, AND **Mr MARTIN TURMINE**, SENIOR MANAGER, BRAND TASMANIA, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

**CHAIR** - Welcome, gentlemen. Whatever you say here is protected by parliamentary privilege; what you say outside is not.

**Mr HEAZLEWOOD** - From a Brand Tasmania point of view, the dairy industry has always been considered world class. It was always something that helped us tell the Tasmanian stories and build the reputation of the Tasmanian brand.

Going back over time, some of the key stories we were sending out through our database were always about wins in national and international cheese competitions, the quality of our milk and the quality of other value added products. It is in the value add area that we associate ourselves with with the industry and promote it. Given that though, the Lion foods operation at Burnie, which we also work with and bring journalists to and are very proud to talk about, is probably one of the best dairy factories in the world. I can remember when we were there not too long ago, Ueli the cheesemaker said, 'Well, when we put up our proposition for this factory, the timing was absolutely right and we got the wish list'. They are so proud of it and we are as well, as the product that comes out of there.

From a point of view of brand, we promote the excellence of that. As I said, for many years the industry has been one of the great contributors to Tasmania's brand and the brand reputation. Over recent times Martin has been running research projects under the brand to talk about and engage with database about how they saw the Tasmanian brand and the food safety of the brand. Martin has the ability to be able to deliver a little bit of background and an update on that, and it is all pretty positive stuff.

**Mr TURMINE** - A little over 12 months ago we commenced a brand health survey and it was specifically to gauge the perception of Tasmanian brand. What did people think about Tasmania? We went through our existing databases, which comprises the general public and also what we call our partners, and they are Tasmanian businesses. We have over 1 200 Tasmanian businesses we call our partners. They range from a sole trader that may sell at a Saturday market through to the size of an Incat or the big salmon producers. We put it out through our various channels and also through social media to solicit responses. We have now done that again and just finished the second follow-up survey 12 months later, measuring that perception of Tasmania's brand and it still remains a very strong brand. You in politics hear different sides of what goes on in Tasmania and we are very much aware of the challenges - the brand remains very strong. The perception is still very strong at about 8.4 out of 10. The perception that our reputation is improving is over 80 per cent and the confidence in the future of Tasmania remains very strong at 8.3.

We also asked what are the three words that would describe Tasmania. Twelve months ago those words were clean, beautiful and natural - 12 months later those words are beautiful, clean and natural, they just changed in order. 'Historic' came in the top 10, whereas previously that was further down the list. They are similar words that you will hear used across many sectors, pretty much traditionally used to describe us as a tourism destination, very much that advertisers have used for Tasmania for decades. The perception of Tasmania remains very strong.

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The perception of the sub-brands, if you talk about food brands, beverage brands, tourism, education and research, the perception of those brands may have changed over the time but our research has been predominantly focused at Tasmania.

In the middle of last year we did drill down to that next level of food and beverage because food and beverage is one of the major drivers of the Tasmanian brand, as is tourism. We were keeping it fairly general within that category but we did break up some of the beverages. We are small producer of all our value-added products, but some of those beverage products do get a tremendous amount of journalism attention. We asked about the wine and the beer and we asked about the food. The perception of our quality of food was 9. The perception of the value of our food was 8.1, and they are the highest scores out of all of the categories. Then we ask, 'You think highly about our products but how does that lead to your potential behaviour or your intent to purchase?'. When you go to a supermarket, a bottle shop, a restaurant or so on, what is your preference? With the food category, the preference to buy Tasmanian food was 78 per cent - 78 per cent of respondents said they would prefer to buy Tasmanian food when it's available. That is very high. We asked, 'Not every time you are buying, making that purchase decision, so why are you doing it and why aren't you doing it?'. With the food category, the main reason they buy our food is the quality. A lot of Brand Tasmania's content in our newsletter, videos and social media was highlighting the quality. That is where the stories about the awards and so forth with the cheese rings very true. The quality is a driver for purchase of the product.

The other key driver, which is very pleasing to hear, is a high desire to support local producers. When they walk into those establishments they are aware it is a Tasmanian product, whether it be here or on the mainland, and that is a main driver for making that purchase decision. Why aren't they - and again these aren't any surprise to any of you, I'm sure - the availability.

We know our premium value-added product in many categories has limited volumes; there is not a lot of it out there. Demand for some products outstrips supply - wine, whisky and so forth. If there is more of it being produced, which will require investment, more of it would be purchased. The other barrier is price. You will have heard that Tasmania is an expensive place to do business, whether that be bringing in the ingredients or the raw materials here, whether it be labour rates or whatever the inputs. To achieve the return on the investment, to achieve viability and profitability, our businesses need to change a price accordingly. The premium price they are charging is not always just because it is Tasmanian. They need to charge that price purely to be viable. Our food and beverage research and research on the top level of Tasmania really does confirm that Tasmania remains a strong brand and food and beverage remains a strong brand.

We have also solicited other comments with these surveys. People who visit continually say the fact they have visited gives them a greater awareness of Tasmania but the food and beverage is a major driver. They enjoy that wherever they go, being able to sample our food and beverages. The odd comment is highlighting that it is not always available or expensive when they compare it to produce from other regions. The research we continue to do allows us to validate and confirm what we believe are the attributes and values of the Tasmanian brand, especially in the food sector. Those are the attributes we will always be highlighting in our articles. Specifically about cheese, we leverage from those good-news stories. We do that in written articles, as well as bringing them to life in video productions.

**Mr HEAZLEWOOD** - Over time we were always convinced the brand was in a positive place and the reputation was growing in a positive way, and that is the case from market research. We were always aware, too, that the big problem was distribution. In an industry such as the

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dairy industry where you have 434 farms and only 12 have moved to organic and only 26 of those businesses value add. It is value add where we make the money and you're not hostage to the big players. If we can improve on that, and I know it is always a business decision, that would be a good thing. At the moment with players such as the Hill Street Grocer, through IGA, we are suddenly starting to see a change in the ability to distribute locally. It was always a difficult issue. They couldn't manage that, but now Hill Street has done a fantastic job allowing a distribution arm for those people who are pushing the quality and maintaining it.

**Mr TURMINE** - The other thing we have observed is that key inhibitors to getting your product to market is the distribution channel but also having enough product, which comes back to investment. In the last three or four years other channels of investment have become available other than just going to the bank. We have seen it from Chinese investment, which is the case with VDL and others, but there are other organisations, whether it be mainland-based or Tasmanian-based that are not offering investment alternatives - buy-outs, partial buy-outs, or straight loaning money. That is testimony to the confidence of the Tasmanian economy but also testimony to the confidence in the food and beverage sector. It is predominantly where we are seeing it. Over the years we have seen lots of people move to Tasmania specifically to start up a winery.

The values of Tasmania and agriculture some good foundations have been set. The other big driver, we believe, is the roll out of the irrigation. The thing about that is it is a viable project where the government is putting in money, farmers are putting in money and investors. The rewards of that seeing the water in the places where it is more needed enables growth in the various food sectors, but we still need more investment for those businesses to be able to grow so they have the right production facilities. It costs money to develop these distribution channels and it costs money to be able to market to those distribution channels. When those value-added products exist, and when they are doing well and winning awards, that is where Brand Tasmania is really able to come to the forefront and help tell their stories.

**CHAIR** - You talked about in the submission the large-scale irrigation projects that we have already talked about. The second one is the stabilisation of the price paid for milk at the farm gate level that ensures a viable income for all dairy operators. I would put to you that that is a very difficult one to achieve. Only 7 per cent of the milk that we produce in the state is consumed here and 80 per cent of what we produce goes through Fonterra and Murray Goulburn. We have always been a side core business there. I am hearing what you are saying if we can, and that is what the committee is looking at, are there other opportunities for other processors? Lion, as you mentioned, have done a fantastic job marketing on the back of the Tasmanian brand. Do you see the opportunities for more outside investment coming in, like a Moon Lake or a processor, who sets up and takes up a nucleus of farmers to then produce a specialty product? Can you see any opportunities in that respect?

**Mr HEAZLEWOOD** - We've had pretty regular representation over the last six to eight months from people with capital who are saying, 'can you let suppliers or producers know that we're in the business of loaning capital'. There are three of them that I know off the top of my head and of course Nekon Pty Ltd operations through Hill Street has shown with Westhaven that they can come in and make a substantial difference. TasFoods is another one. There are three or four other ones out there that have said we are interested in looking at opportunities to expand the opportunities for people in the dairy industry.



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**Mr TURMINE** - It is obviously a very competitive sector when we talk about the milk, and even value-added milk. One of the opportunities that does lie and you are starting to see a trend go towards more organic. That is an expensive undertaking for the farmer to transition to organic. You have to have processors that are able to process that organic milk, but also have the path to market set up and enough consumer demand.

**CHAIR** - Probably long-term supply contracts as well to make the business case stack up.

**Mr TURMINE** - Anecdotally that chicken or the egg and having that commitment or long-term commitment of sales, or be confident that there are going to be sales, for whatever the value-added product, whether it be cheese or organic milk, before a farmer can commit the finances to do that. It is a big challenge for them to seek that investment and make that quantum step if they wanted to do that in their own right.

**CHAIR** - One matter that has come up, and I am not pointing the finger at Brand Tasmania as such, but it has come up quite a few times in our deliberations so far. It relates back to Bellamy's and it has been raised by several people that particularly for Brand Tasmania that the brand has to be defensible. You just have to be defensible, otherwise you could destroy our whole reputation. I am not saying that Bellamy's have done anything wrong, but there is a very strong perception out there. You come into the airport, Bellamy's Tasmanian Organic, that is fine, and that is marketed very successfully. But as we all know, not a drop of milk has come out of here and the end product has come from all sorts of sources. I know a lot of institutional, and anecdotally, Chinese investors have realised that now. That is just one of those things. That is a real issue and particularly when there are no processing jobs here as well. How do we sort that out. It is a tricky business, isn't it?

**Mr TURMINE** - It is a Tasmanian registered business and that is the claim they have made all along. They have been very careful in the correspondence or marketing material I have seen and observed, to be very careful as to what statements they are making. It is an Australian product. Any misleading or deceptive claims about the origin of the product would be covered by the ACCC and I do not understand there are any issues with their claims of the origin of the product. As you say, it is the perceptions here.

**CHAIR** - They say it is manufactured in Australia but the origin of the product. *The Australian* did quite a feature on that recently.

**Mr TURMINE** - We have been very mindful of all of that. Any articles we may have written, which have been few about Bellamy's, because it has not been a Tasmanian product so therefore it is not a Tasmanian story from that side of it. It is a Tasmanian story from a Tasmanian business perspective, there are Tasmanian shareholders, and there are Tasmanian owners. We have been talking about it from that perspective in the past. Recent events has not been such a good news story from a Tasmanian business perspective, but we have been mindful of that. As far as protecting, there are regulations, federal laws in place to protect that, if there are any misleading or deceptive claims as to where the origin of the product is.

Where there have been instances in the past, of passing off King Island beef comes to mind, that case where we did make some representation to the ACCC at the time when that was apparent. It has come to light, other producers in other sectors that may be making misleading claims and we have simply asked the question, can you verify this? We are mindful of that. We have no authority to do anything in that regard, but we are mindful.

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**CHAIR** - Do you think there is a need for more regulation at a government level, state level to assist with that?

**Mr HEAZLEWOOD** - The ACCC covers those issues adequately for us. I understand, in the case of Bellamy's, they are moving as fast as they can to source organic milk in Tasmania. You would want that to be able to continue so you do not want any unintended consequences that would close off a change. In most cases, in every case bar about three, one was about carrots, one was about beef, we have been able to suggest people desist from making those claims and they do immediately, but there have not been many. You are right, Chair, it is a complicated one.

**Mr TURMINE** - There is a state based protection around that. If there is an appellation or some state based law, someone in a different jurisdiction could sail close to the wind. They might not be breaching federal law, but because they are doing it out of this jurisdiction, it is difficult for this state, if there was regulation, to do anything about it.

**CHAIR** - As we know, a lot of things are about perception. We had all that through the pulp mill debate and those sorts of things, and perceptions, and then people drive things politically and suddenly it all becomes unstuck, unfortunately.

**Mr HEAZLEWOOD** - I think in a previous hearing, Mr Lester from TFGA made the point they saw a need to probably align with the Tasmanian brand rather than regional brands, but once again that is another issue. I grew up eating Duck River butter and I am still loyal to that brand. The Tasmanian brand is the overarching brand and we would want to see people align with that.

**CHAIR** - It was of interest to the committee that when we spoke to Fonterra they did say they will consider looking at their bulk commodity products, looking at the providence of Tasmania and differentiating that. At the moment it is all generically mixed in with the Victorian milk, which was very encouraging for the committee to hear.

**Mr HEAZLEWOOD** - It would be a wonderful thing, because with a major player like that with distribution all over the world we believe they could ask a premium for the Tasmanian product. It has been hard for them to do that without a separation, but if they could say this product comes from Tasmania and it is supported by the Tasmanian brand our research we have done, it goes back into the 1990s, the Tasmanian brand was the strongest food brand in the country and it has only got better.

**Ms RATTRAY** - They are already doing it with their cheese. It is a Japanese market requirement that they can do the chain of custody right through, for their cheese. They know how to do it, you have just got to have the wherewithal.

**CHAIR** - It is costly to do business in Tasmania. We have all those extra impediments of freight costs and everything else, so to leverage on any sort of a premium is very important no matter what we do. If those major players can come on board and we are yet to talk to, or test Murray Goulburn, but we are going to do that so maybe there is an opportunity there. I do not know whether your organisation has spoken to them at all?

**Mr HEAZLEWOOD** - We had some early discussions back at the very start of the operation at Smith and once again it is a bit hard to keep track of those companies because the people you are talking to change. In that case there were ownership changes and things like that. With Van

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Milk, we were the first of the supporters for the Van Milk operation and we encouraged them all the way down the line because we could see they were wedded to the Tasmanian brand in a value added sense direct into a market, and they had the capital to be able to make sure that that was going to happen.

**Mr TURMINE** - The big change there is that they have the capital, from the production side, but they have the capital for marketing and they have the distribution. There are distribution challenges to the Asian market because of us being an island. When you can get airfreight direct links that breaks down some of those massive challenges and will allow opportunities for other producers of other products. I think that is quite exciting in the food and beverage sector, to be opening up the potential of a major market by getting more direct air routes for distribution.

**Mrs HISCUTT** - I was here looking at your website and it says what the Brand Council does and it says, 'The council promotes the advantages of living, working, learning, visiting and doing business in the state'. There have only been a couple of the bigger players that we have had present to us that had talked to you or mentioned they talked to you. A lot of the littler producers had no contact or very little help or input. Is your remit to promote those that are existing, or those that are coming on with good ideas? Do you help them with direction or is it the other way round?

**Mr TURMINE** - There are three of us, full-time, with very limited resources.

**Mrs HISCUTT** - I think your budget is about \$650 000.

**Mr TURMINE** - There is \$400 000 cash, and about \$190 000 in kind. I am seconded across from State Growth and other officers are seconded across and the rest pays for things such as the website.

On the issue of new businesses ringing up and contacting us, we have the ability to provide some support, some advice, but it is really once that they are established and have a product where there is the good news story. Just the last couple of years in our newsletter there are probably over 30 articles that talk specifically about the dairy industry. Some of that is not always necessarily the great news. It talks about some of the price issues but it talks about the research, it talks about growth in the sector or it will talk about irrigation. This one is an old one, 'Booming Bellamy's is thinking local', so things have changed there. It talked about Van Milk. They are all of those good news stories that are going to interest our readership on the national and international markets.

An example of a smaller one we have engaged with is Red Cow Dairy. Red Cow Dairy is a fantastic story. They migrated to Tasmania from the mainland. There were issues on water restrictions or drought in Victoria. It is a lovely story because they brought their herd of red cows on the boat with their family, packed up and brought the cows and set up around Deloraine. We have promoted them in articles and online and social media. We had a networking function in Devonport late last year where we have had one of our brand ambassadors, Ray Martin, as MC. In a bit of a Q&A we interviewed these producers. Red Cow Dairy was profiled because it is such a good story of coming to live in Tasmania. A portion of their business is value-added, a portion is selling the milk to the major processor. They don't have a lot of product we can promote to consumers on the mainland because I am not sure they sell it off the island. They are a great story about liveability and migration and showing what you can do in Tasmania if you have the wherewithal to do it.

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We have done similar things with Pyengana. State Growth brought some chefs in from interstate and we followed them around and videoed the Tasmanian trip they went on to source Tasmanian produce. Pyengana was one place they visited and that is profiled in articles and a video.

**Mrs HISCUTT** - Can you help me understand what part did Brand Tasmania have to do with the chefs at Pyengana?

**Mr TURMINE** - State Growth brought the chefs in and we worked with them to do the video. They were doing a Tasmanian-themed dinner in Melbourne so we leveraged from that and did an online promotion to highlight the Tasmanian produce being used by this restaurant. We can collaborate and leverage from activities being done. In another example, Pyengana cheese was featured at an instore tasting in Hong Kong earlier this year and we supported that instore tasting, the producers who were there and the produce that was being showcased. A lot of it is online through social media. We ran a competition. We supported the importer of the product with video production and some Tasmanian signage.

**Mrs HISCUTT** - So you would refer an on-the-ground starter venture to State Growth?

**Mr TURMINE** - If they came to us, we would welcome them to join as a partner. Joining as a partner is free. There is a criteria, which is that it must be a Tasmanian business, a certain content of Tasmanian produce, and if it is dairy that is an easy criteria for them to meet. That is our starting point and formalises our relationship. It means they are always going to be on our database for communications. If they let us know, 'We are going to be at the Devonport Market this weekend', that is something we can run with and share on social media. If they have won an award, if they have a new product coming out, if they let us know we can feature that. Some of that is appropriate for the newsletter, some is appropriate for online, and some is good information for us to have in the back of our minds, such that when we are next doing a journalist's visit we can take a journalist there.

**Mr HEAZLEWOOD** - We have brought down a number of journalists. One was Will Studd from Cheese Slices who produced a television program, which was international. At that stage it was Ashgrove - that was getting under way and doing fairly well - Nick Haddow's Bruny Island Cheese and a number of others. They like to see the small producers.

**Mr TURMINE** - To take your point further, there are lots of businesses we don't know about and obviously there are lots of businesses that don't know about us. That is a continual quest for us to create more awareness of what we do. We need to hear from businesses and we always welcome that tap on the door or that email.

**Mr FARRELL** - Along similar lines, Brand Tasmania is very much about telling the story of what happened. We have had State Growth and the Coordinator-General's office in and there might be a bit of confusion as to who comes into play and when. That is probably something that needs to be addressed. Some think Brand Tasmania is there to build the brand up and not tell the good stories and do the promotional things. Maybe that's something that needs to be looked at.

**Mr HEAZLEWOOD** - That has been identified by the current government. The Premier is conducting a brand review at the moment, which is well underway. I would expect in the next few months he will be rolling out something that clears up a bit of that mystique.

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**Mr FARRELL** - It needs to be step 1, step 2, step 3.

**Mr HEAZLEWOOD** - Yes, where we all sit in the process.

**Ms RATTRAY** - When somebody comes to my office with a good idea, I contact Economic Development for them so they can get an officer to work with them in progressing a business plan. Do you have any direct contact with Economic Development?

**Mr HEAZLEWOOD** - Very much so.

**Mr TURMINE** - An example of that is this morning, and it is probably for businesses that are a bit more advanced, a person from the trade area asked some Japanese chefs to come in at the end of March. I sat down with this officer and we discussed the schedule. I gave some ideas, she had some ideas and it was purely based on things that we do. I then explained how we may value add what is being done by these Japanese chefs, so we fleshed that out. When that gets locked in we will be able to determine exactly what we can do. It will make for a great video. They speak Japanese - that is obvious - but it gives us an opportunity to produce some foreign language content. It enables us to video the chefs saying in Japanese wonderful things about Tasmania and how much they have enjoyed their visit. It allows us to get some foreign language content very cost-effectively, because they are on our doorstep. That is the sort of level of engagement we have.

I do have interaction with some of the other offices, but it is limited. What I have found in this role and a previous role is that those start-ups are the cheesemaker, the software writer, the winemaker, they are not a business person and they are not a marketer. Their core competencies are where they develop their idea. That is where the general business side of things, the accounting and the marketing can be a challenge. Marketing can get over-complicated through terminology and can get quite daunting. We are always happy to give a bit of advice. Through some additional funding we have received and also through this brand audit, we would expect we will have a capacity to do more workshops and skills development.

We ran a social media digital workshop a few months ago working with the North Melbourne Football Club. We had about 90 people turn up. It was very much a fundamental -

**Ms RATTRAY** - That was all the North Melbourne supporters in Tasmania.

**Mr TURMINE** - We know there is a need for all sorts of help on the marketing side of things. Branding is a term that is getting used quite often. It is used in sport - misused in sport - but it is a term that is getting used and that sometimes adds to the mystique and confusion, so we would like to be able to do more to help people and advise people.

**Mr FARRELL** - Just on that, we were talking before to Moon Lake and there is obviously going to be a big introduction of Tasmanian product into China. Are you working on some follow up? There will be some curiosity about Tasmania. Is that the sort of thing Brand Tasmania then does? We asked a question about tourism opportunities that come out of product awareness, is that where Brand Tasmania becomes involved?

**Mr TURMINE** - More specifically that would be Tourism Tasmania. They are resourced and set up to market the state as a destination for visitors and they do that very well, so they will

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focus on that. We would be in a position to be able to provide appropriate content for them and we have worked with them. They are using the Tasmanian logo on their product packaging. Once that gets going we do have some Chinese language content.

**Mr HEAZLEWOOD** - China is a difficult market for social media as you would be aware. We just stand ready to support wherever we can.

**Mr TURMINE** - Some of our videos do sit on the Chinese distribution for videos because YouTube is not accessible, Facebook is not accessible. We do not have the resources to have our own social media channels in China. Tourism Tasmania do. Tourism Tasmania has a complete translated website and that server sits up at Hong Kong. We have a food and beverage Tasmania website, which was another government initiative that we worked with them on. That has some foreign language translation - Korean, Chinese, Indonesian and Japanese - so that exists in foreign language. Because of the restrictions of access to content at the moment it is a bit challenging.

**Mr HEAZLEWOOD** - We know the Moon Lake people very well and we work with them.

**CHAIR** - You talked about Red Cow Dairy; I thought they had actually sold that business. Those small artisan types are fine to raise the profile of Tasmanian food, but I put it to you that it is not everybody's cup of tea. The harvesting of milk is a very difficult business in its own right and 99 per cent of Tasmanian producers don't want to go down that track. They would rather leave the processing and marketing to another level. That is why I am still asking the question. We need probably somebody with a significant investment to come in and capture 30 or 40 dairy farmers and do all that at the next level and be able to produce a premium product to export or whatever. Do you concur with that?

**Mr TURMINE** - I certainly agree and that is where an organisation would be coming in with a business case that is viable with the necessary resources, both financial and human, to carry that out.

**CHAIR** - That is what it needs. These things don't come cheaply.

**Mr TURMINE** - There are some parallels with the wine sector where, whilst in Australian terms and international terms it is very small, all the wine is premium. There is no bulk wine from Tasmania so you don't have the commodity issue of that category as you do with dairy. The majority of wine exported out of Australia is bulk, it goes out on a tanker and it is bottled overseas. The average price per litre for Australian wine is about \$4 because a lot of that is very cheap bulk wine. The average price per litre for Tasmanian wine export is about \$11 or \$12 because it is all at the premium end. We have seen those investments in the wine sector with Brown Brothers and so forth, and you have seen what that has resulted in. They had more capital, more experience coming in and they have been able to put the vineyards in the right locations, they have distribution channels set up, they are very attuned to the branding and that is one of the main reasons they came to Tasmania - the Tasmanian brand as well as climate change being another factor. They wanted pinot so they knew where to come and they strategically targeted this location to invest in.

**Mrs HISCUTT** - Looking through your application form to become a partner, which looks pretty simple and basic, once that application has come in, does the little company or whatever it may be have to go through a rigorous QA system for integrity?

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**Mr TURMINE** - No, our resources are limited. It is a self-assessment so it is based on good faith. The business is looking at those criteria, that application comes through and it goes to our council for review. Ninety-nine per cent of those applications go through with no problems. We will look at those and if there is one we have never heard of or 'what's this about?', you will have a chat to them to verify where their content may be -

**Mrs HISCUTT** - I know that to get the Tasmanian tourism tick you have quite a rigorous quality assurance process to go through.

**Mr TURMINE** - Yes, that is exactly right.

**CHAIR** - Thank you very much, Rob and Mark, for coming in.

**THE WITNESSES WITHDREW.**

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**Mr PHILLIP CAMERON BEATTIE AND Mr JACK CAMERON BEATTIE WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.**

**CHAIR** - Welcome, Messrs Beattie. I remind you that what you say here is covered by parliamentary privilege but what you say outside is not. You are the first southern dairy farmers to come in. It is good to hear from all parts of the industry.

**Mr PHILLIP BEATTIE** - I will preface everything that we say in terms of the fact that we are just farmers. We are not marketers, we are processors, but we are looking at this from one little corner of a very big picture. That is the best way to put it.

To address your terms of reference, which incidentally are pretty good because they are wide and they cover a whole stack of different connotations. Again I preface, I am not a marketer, I am a farmer, but we can see where we think things could be done better. If you look at marketing of dairy products in three different chunks. In other words, in Tassie, on the mainland and over the ocean and wherever it likes to be. Jack and I both feel that the market in Tassie, and he will talk a little bit more about it in a minute, is almost saturated and it is almost done. There is probably not too much you guys can do to help with that sort of thing.

In terms of the mainland, and this again is my judgment, sending Tasmanian liquid milk over to the mainland is probably quite hard. Milk is a terribly inelastic product in terms of demand. There may be some opportunity but we are not that aware of it.

**Mr JACK BEATTIE** - It is not cost-effective.

**Mr PHILLIP BEATTIE** - It is not cost-effective because of the cost of transport. In terms of the other products, the ancillary products, we feel we are not 100 per cent sure if the big player in this market, which is Lion, are doing all they could be doing. It seems to me, having been to their headquarters many times, that they have got a lot of people in their marketing department but how good a job they are doing remains to be seen.

**CHAIR** - You are talking about Lion per se throughout Australia or just in Tasmania?

**Mr PHILLIP BEATTIE** - Most of Lion's cheese and soft cheese is manufactured at Burnie, as you are obviously aware. Whether they are marketing that correctly on the mainland or whether they are doing a good enough job from a farmer's point of view, I do not think they are. Being a Lion supplier, I do not think they are doing a good enough job. I am not in their marketing department. You may or may not have heard evidence from them.

**CHAIR** - Yes.

**Mr PHILLIP BEATTIE** - They will probably have given you a contradictory idea about that. What I will say is their factory at Burnie has the capability of processing 25 000 tonnes of cheese a year. That is either 200 million litres of milk for soft cheese or 250 million litres of milk for hard cheese, depending on which they are making. They are actually processing 90 million litres of milk a year. That is a bit like us having a dairy that can milk 1 000 cows and only milking 400. Having said that, they are at capacity in November, so that is a whole different ball game about milk prices and whether they should be encouraging us to produce milk in the winter and on the shoulders of the year and also whether they can market what they built the factory to



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produce. We as suppliers, in particular of Lion, feel that that is something that they may not be addressing properly. Whether the Tasmanian government can actually do anything to do to help is a completely different story.

Then we go overseas, obviously Woolnorth are doing their thing. I am not sure if you have heard from the guys at Woolnorth?

**CHAIR** - Yes.

**Mr PHILLIP BEATTIE** - Great, I am really pleased to hear that. They have a large possibility for increasing their exports, so that is brilliant from the point of view of Tassie. Whether there is room for anybody else to be exporting liquid milk on the back of that, I am not sure.

When you come to the other products some of them it doesn't matter where they come from because they are commodity stuff like skim milk powder, whole milk powder and whey powder and all that sort of thing. I don't think stamping a bag of skim milk powder with clean, green Tassie product I don't think will make any difference, because it is just massive. It is like selling iron ore. How good is the iron ore? It doesn't matter where it comes from.

We actually think there is a bit of a hole in the market that hasn't been fully filled and that is the whole baby or infant formula milk thing from Tassie. That is something that Jack will talk a bit more about in a minute. I think I've covered my things as such. It is a bit of a difficult subject for us. In terms of processing it is awkward because it is a chicken and an egg. In order to build a processing facility you need roughly 100 million litres or more, but then you need all the farmers to fill it. If I start another farm where am I going to send my milk? Lion won't take any more milk from us in the south. It is a critical mass thing of getting enough volume to start another processing facility. Unless you are talking about the niche market and really small type things like what Jack does and what Ashgrove do and all that sort of thing, that is different to a big processing facility. It comes in 100 million chunks, which is ten 10 million litre farms, and a 10 million litre farm is a very big farm or it is twenty 5 million litre farms, which is still quite a big farm. It is a lot of farms that have to be converted to dairying or expanded or whatever.

I might just ask Jack to talk a bit now because he has some ideas about how the Tasmanian government can help in two ways really. We think in our modest opinion they may be.

**Mr JACK BEATTIE** - Maybe I should elaborate a bit.

**CHAIR** - Just be aware what you say is published on the website.

**Mr PHILLIP BEATTIE** - You should preface it with what you do.

**Mr JACK BEATTIE** - A bit of a short history of myself and my wife Lisa. We are obviously involved in the family business at Bushy Park until the beginning of 2013 when, for a number of reasons, we all made the decision to go our separate ways. At that point Lisa and I went off and we established a bulk purchasing company for farmers in Tasmania, stock feed, fertiliser, fuel and some other stuff. We did that and that morphed into basically an integrated stock feed company for dairy farmers primarily. Then we were approached by the Hill Street Grocer to see if somebody would be prepared to establish a milk brand that was exclusive to Hill Street Grocer. The question was did we know anybody that could do that. We said we can do

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that. Didn't have a clue how we were going to do it, but you learn quickly when you are chucked in at the deep end.

I do not really want to go into the stuff about Hill Street but where we sit today we have grown about 200 per cent in volume from about a year ago. We have only been trading for about 19 months now. The name is Udderly Tasmanian. All our milk lines are non-homogenised. We have Udderly Original, Udderly Lean. Udderly Lean is from the morning milkings milk and Udderly Original from the afternoon, so we have two different fat percentages. Our milk is as minimally processed as possible. We are trying to keep it as close as possible to its natural state. We have grown quickly in food service and also retail in Tassie.

With regard to what we are here to talk about today our herds where the milk comes from Bushy Park, Lion and Fonterra lock everybody up into exclusive supply contracts. That negates any opportunity for a small business to get out and do something to create your own brand. For us to do that, we have had to jump through a lot of hoops. We have had to purchase cows from one company into another, we then had to write quite in-depth contracts ourselves to protect ourselves and the main business from any litigation. We have had to buy more tags. It is quite expensive to get in there and the only reason we have been able to do that is because luckily we have had good legal advice along the way but your average farmer wouldn't be able to get in and do that.

From our point of view, we are now at a point where Lisa and I own another farm at Ouse and we are growing strawberry runners up there. From a branding point of view, we would like to move production up to that farm purely from the point of view that it fits in rotation with the other stuff we are doing but also that it allows us to upscale what we are doing with marketing. We can't really do it at the home farm. For us to do that, we are taking 500 000 litres of milk a year but it is Monday, Wednesday, Friday. What do you do with the milk at the other time? That is a major hurdle for us to get into something like that. Obviously, all the big companies are making products with longer shelf life. The shelf life of fresh milk is 13 days basically. Soft cheese is 42, 45, depending what the product is from when it is manufactured. Then you have to get it out there and you can't sell it when more than half its shelf life is expired. You want to be in something that has longer shelf life than soft cheese again so it has to be hard cheese. Nobody wants to sell that because it is worth \$3500 a tonne at the moment and it costs a lot more than that to even make.

What are your other options? You can get into UHT, which is slightly better in terms of opportunity than hard cheese but still really a mug's game. I went to FHA - Food & Hotel Asia - in Singapore early last year and they are interested in UHT but it is worth not much more than \$1 a litre. It's still a mug's game, basically.

What else can you get into? Baby powder. There is not a baby powder plant in Tasmania. We spent about a whole year looking at infant formula trying to get it off the ground with contract packing in Melbourne but it doesn't really work because we would have to buy milk from somebody else in Melbourne. We can't send all our milk from here to there because it is ridiculously expensive, but there is major opportunity there because even with contract packing we were looking at a margin into China and into Laos and Vietnam, other opportunities are in Singapore, Indonesia. We were looking at about \$4 a tin profit margin even paying somebody else to pack it for us. You get about 2.33 litres of milk into a 900-gram tin of formula. There is a big opportunity there and you have obviously got a long shelf life, like a year, maybe slightly longer so you have six months to sell it so you can take that fluctuation out. For me, sitting back

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from what we are doing, if we want to use the Tasmanian brand to bring the wealth back into the dairy community in Tasmania, we need to be selling something that is not a commodity. There is no point putting a brand on whole milk powder because it is traded on the global dairy trade. I can tell you how much it is worth, it is a commodity. You have to get it out there into stuff that has innately more value within it and that is, as I said, baby powder, soft cheese but it is too perishable. That I see is the opportunity there.

From a government point of view, there is no baby powder plant in Tasmania. All baby powder is either made in Victoria or potentially between Melbourne and Sydney. To get it off the ground there is a good image with Tasmanian agriculture, as you all know. There is an opportunity but we need to bring the capital to here first. We are not saying you need to put your hand in your pocket for \$50 million which is a basic infant formula plant. We need some introductions at a government level, maybe to foreign investment, to help bring that here to Tasmania first. That is the opportunity the government could provide to the Tasmanian dairy industry.

**CHAIR** - Remembering the committee is not the government here.

**Mr PHILLIP BEATTIE** - Yes, but you are representatives of the government.

**CHAIR** - We are a Legislative Council committee that will draw conclusions and make recommendations to the Government. You are quite right, the third role of the Tasmanian government is in there as a reference. Have you talked to State Growth?

**Mr PHILLIP BEATTIE** - No. To be honest, I was employing somebody for almost a year solely looking at infant formula and it is so hard to get off the ground. The brand we had was all about Tasmania but it had to be packed in Victoria and it wasn't our milk, so it was unfounded. They say, 'We want Bellamy's or A2'. I don't have Bellamy's or A2 written on my shirt but what I do have is 'Udderly Tasmanian', but we don't have the product to go with it.

**CHAIR** - We have been down that track before. When you don't source milk here or process it here, it can potentially damage the brand.

**Mr JACK BEATTIE** - We came over from the UK just over 13 years ago and Tasmania has changed a lot in the time we've been here. In the southern half of the state where we are there is a hell of a lot of unemployment and a lot of opportunity with land that is basically sitting there doing nothing. You have the Midlands irrigation scheme, all this water coming in to grow nothing. The poppy industry is going steadily downhill every year; the vegetable industry processing is all up north so it is not cost-effective to freight vegetables up from there. We might be able to grow a smaller amount of poppies or some other seed crops, but it is not every year, so it has to be something like dairy that utilises that water. But there is no money in supplying Fonterra or Lion. The milk has to go into something where its true value can be recognised.

**CHAIR** - You say there's no money in supplying Fonterra or Murray Goulburn or whatever, but that is always very cyclical. Sometimes, when it peaks, dairy farms make very good money.

**Mrs HISCUTT** - Jack, what I think I hear you saying - and the Government is not a dairy processing factory - is the government should be putting more effort into attracting someone here. How do you reckon they should do that, bearing in mind there are often overseas trips to China,

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Indonesia and those places where industry goes with government representatives to encourage that sort of investment? What more is going on in your head that you are thinking of?

**Mr JACK BEATTIE** - When we were trying to kick off Udderly with infant formula in Victoria we were dealing with the wrong people; we were dealing with the importers. To get something like this off the ground, it needs to be somebody who owns a big retail chain in China or South-East Asia that would have an exclusive right to distribute these products.

**Mrs HISCUTT** - I see the government going overseas on trade missions and you are not getting an outcome from that that you would expect, so what other ways could governments attract those people you're thinking of?

**Mr JACK BEATTIE** - It should be maybe an introduction at a higher level. When you are going overseas to these trade fairs, maybe the Tasmanian government should be making representation to some level of government in Asia to say, 'This is what we are trying to get off the ground'. When you go to a trade fair - and I've been there and done that - you are dealing with importers and distributors and a few customers coming through looking at what is going on. It needs to be a level above that.

**Mr PHILLIP BEATTIE** - We are talking about trying to make Tasmania more money and make it vibrate. It is no good Malcolm Turnbull going there because he has the whole of Australia and he is trying to get a free-trade agreement or whatever it is for Australia. It needs to be the Tasmanian Government going and we have no idea whether that is possible, whether there is enough money in the coffers, and whether the people who have a stake in the game can go as well. This isn't about us going on a free trip to Singapore - that has nothing to do with it.

**CHAIR** - That does happen.

**Mrs HISCUTT** - That is why I am thinking that you might be thinking of something different. The trade missions that are going, you are proposing that perhaps the wrong people are being talked to and a different group of people should be talked to, is that what you are saying?

**Mr JACK BEATTIE** - Yes, and I thinking maybe they are going across with the wrong message because we have been targeting export on things that aren't worth any money.

**Mrs HISCUTT** - I don't know about that.

**CHAIR** - That is an interesting comment. Essentially what we are after is another Moon Lake in many respects, somebody who has the capital behind them and they drive it.

**Mr PHILLIP BEATTIE** - I think what Jack says is correct though that you are going to have possibly two different things. One is the supermarket chain or whatever it is, and the other one may be venture capital - 'We need \$60 million to set this thing up'.

**Mr JACK BEATTIE** - That is not going to happen because it has to be somebody that has the market tied up already and wants to pick up on something that could be the next Bellamy's.

**Mr PHILLIP BEATTIE** - No, we don't want another Bellamy's.

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**Mr JACK BEATTIE** - You know, pre-six months ago. They have to have the market set up and they have to have the distribution ready to go because it can't be an importer or a distributor because it is too much of a risk for them.

**Mr PHILLIP BEATTIE** - I think if we bring the thing back down to the south, to the Derwent Valley where we are based, there is a massive resource in water in the Derwent Valley, absolutely huge resource. There is also this 38 000 megalitres coming down the Midlands water scheme. There is also the Bothwell water scheme but I am not 100 per cent sure how much water that is going to supply. But, as Jack says, the poppy industry is not in decline but it is not expanding massively. Fat lambs are worth a lot of money at the moment.

**Ms RATTRAY** - But they are cyclical.

**Mr PHILLIP BEATTIE** - They are very cyclical. What uses lots of water and what is profitable if it is marketed correctly is milk and milk products. Jack has a small niche market for his milk where he is able to make money out of liquid milk and on the back of that he has a brand, Udderly Tasmania, which, incidentally, I think is a great name.

**Ms RATTRAY** - It is.

**Mr PHILLIP BEATTIE** - Off the back of the liquid milk market, he has gone into soft cheese and so forth. These things are quite hard to do and we did it by floating under the radar. In other words, we had signed an exclusive supply contract with Lion.

**Mr JACK BEATTIE** - We have had to jump through all those hoops to protect each of our companies from that agreement. The other thing that we thought might be appropriate for us to say here would be that maybe it is restrictive trade for Lion, Fonterra and the other processors here to say that companies must supply exclusively to one processor. Maybe there needs to be some qualification in that 90 per cent of the milk has to go to that processor. There has to be an avenue for people to establish niche markets.

**Mrs HISCUTT** - That is outside the government's control. That is private enterprise.

**Mr PHILLIP BEATTIE** - It may not be, it may be contractual law but it is way beyond the Tasmanian government's control.

**CHAIR** - It rings bells with me. I will need to do a bit more investigation because I had somebody talk to me about that. A processor near me talked to me about that same issue the other day.

**Mr PHILLIP BEATTIE** - You will have to bear in mind that the big processors don't want to be messed around by somebody, so we are sending eight million litres of milk away from our farm a year. Jack is taking 500 000. Our production can go up and down by 500 000 a year just with the vagaries of the weather or what have you. If we were selling him 5 million litres, you can very well understand Lion being very upset about the whole thing. It is a question of degree, but to have a blanket policy that you cannot supply two people is -

**Mrs HISCUTT** - You will have to renegotiate your contracts.

**Mr PHILLIP BEATTIE** - We are right in the middle of doing that.

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**CHAIR** - You talked about the baby formula and that has a longer shelf life than soft cheese. Sometimes, commodities would have a longer shelf life can also be a disadvantage in that they can be stock piled, like wool, like the hard cheese and the butter mountains. If you had a lot of people in the baby formula business and they were building up tins and tins of it.

**Mr JACK BEATTIE** - If it has a brand is it a commodity?

**Mr PHILLIP BEATTIE** - It is about the marketing thing. What you are saying, and you are quite right, there are butter mountains and that sort of stuff and intervention in Europe and all that sort of nonsense, but what Jack is talking about is saying we need to get this right before we start doing it, if it happens. The way to get it right is to establish the market, to establish the brand and also the traceability and that sort of stuff. This is just a cri de coeur from us saying, can you help us somehow with your government hats on. We cannot find the right people.

**CHAIR** - This is good forum to put this on the public record. The government will look at all of this and we can reflect it in our report. That is up to the committee.

**Ms RATTRAY** - The departments will be listening to the information that is being presented to the committee.

**CHAIR** - I have no argument with where you are coming from. It fits neatly within our terms of reference, which is good.

**Mr PHILLIP BEATTIE** - Your terms of reference lead into each other. They are not disparate. They flow into each other. We don't have much more to say.

**Mrs HISCUTT** - I would like to reflect back on some of your opening statements. You were talking about marketing and different companies do it differently. You have an opinion on what can be done better, in your opening comments. You said marketing could be done better. What aspect of that particular company who markets are you talking about? Are you talking about how they market it, or the volumes that they supply? Would you like to reflect on that?

**Mr PHILLIP BEATTIE** - It is both things. I must preface it with the fact that I am not a marketing person. One gets the impression, as a dirty boots dairy farmer, that they are not marketing their products, our milk, as well as they could.

**Mrs HISCUTT** - You must have a reason to say that. What is it that you are thinking?

**Mr PHILLIP BEATTIE** - They are not getting the throughput.

**Mrs HISCUTT** - Is that the quantity?

**Mr PHILLIP BEATTIE** - One wonders why they built a factory to process 250 million litres of milk and they are only processing 90 million. What is the thought process there? Why does a giant size company do that? Why do they spend \$170 million or whatever it was building that and then all of a sudden, their marketing department are saying they cannot market this much soft cheese and they will have to put all the rest of it into something that does not make any money? You get the feeling that they are not all singing from the same hymn sheet. Lion won't be upset to hear that from me because they have heard it.

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Perhaps we should elaborate a little bit that the vast majority of the people that supply Lion have a collective bargaining group. We have been able to collectively bargain, if that is the word, for around the last ten years, which has been useful when things were not good. This is not the right forum to go into that because we have had two senate committees all about that before. It does give individual farmers a little bit of power and negotiation with very big processors.

We also have to remember that Fonterra is a business that is owned by New Zealand dairy farmers. It is only in Australia to make money for New Zealand dairy farmers, not for Australian dairy farmers. As a Fonterra supplier you cannot be a member of Fonterra, you cannot own shares or anything in Fonterra. We have to remember that they are there to make money for people across the ditch. Murray Goulburn is not quite the same, but there are two companies there that are acting just as companies do.

**Mr JACK BEATTIE** - Another thing I would like to add is Tasmania is a great place and it has created opportunities for our family, our two families collectively, that we would never have had in England and we are very grateful for that. From a branding point of view with Tasmania all the stuff about the cleanest air in the world and clean and green, I don't know how founded that is. I think if I was an international consumer and I want clean and green I'm going to New Zealand to buy it. I don't have all the answers here, but maybe it needs to be pushed along a slightly different image, because somebody has cornered that side already.

**CHAIR** - There are many countries who claim to be clean and green. It has become almost too generic. It becomes a bit passé after a while.

**Ms RATTRAY** - I am interested in your views around the supply of electricity. We had a comment made this morning that charges around electricity is something that is key to the sustainability of the dairy industry. It is not only relevant to the dairy industry, but particular to this inquiry we talk about the dairy industry. Do you have a view around that?

**Mr PHILLIP BEATTIE** - I don't think it is part of the terms of reference, but it is an interesting point.

**Ms RATTRAY** - It is sustainability to the dairy industry.

**Mrs HISCUTT** - It is anything incidental thereto.

**Mr PHILLIP BEATTIE** - You are right. Rain hasn't become any more expensive that it was 10 years ago. Whether we should sent so much electricity across to Victoria is not really our place to discuss that. Electricity is -

**Ms RATTRAY** - It's becoming much more expensive.

**Mr PHILLIP BEATTIE** - In terms of our business, we spend \$1 million a year, very roughly, on feed for our cows, in other words buying maize, wheat and all the other things, we spend about \$300 000 on fertiliser and we spend in a terrible year \$200 000 on electricity and in a good year, otherwise when it rains, less than \$100 000. A big variation in the electricity price affects us, but it doesn't affect us as much as the price of wheat or, obviously, the price of milk.

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It is very annoying that it's gone up so much. Incidentally, the contracts that we went into are misleading, to say the least - again, this is not really the right forum to whinge about Aurora.

**CHAIR** - I think I've heard your comments on those before.

**Mr PHILLIP BEATTIE** - It is probably not pertinent to today.

**Mr JACK BEATTIE** - I think again it is about marketing. The vast majority of the power that is generated here is green power. That should be reflected in the products we are using that power to make. We have come from the UK and the majority of the power in England is from coal-fired power stations or nuclear. What we have here is a much better image than that. That type of thing, again, maybe can be built into a bigger image for Tasmania. If you are receiving more for what you are making it wouldn't worry you as much if you are paying for power. The power is actually a lot more reliable here than in most other countries in the world. You would agree with that?

**Mr PHILLIP BEATTIE** - Yes.

**Ms RATTRAY** - I was interested in your thoughts around that.

**Mr FARRELL** - Thinking about the logistics of moving milk around the state, how many suppliers do Lion have in the south of the state?

**Mr PHILLIP BEATTIE** - That is a good question because they do milk swap with Fonterra which is a completely natural thing to do. There are three Fonterra suppliers in the south but essentially they are Lion suppliers because their milk is going to Lion in the south. Then there are about seven or eight other ones varying in size from us at 8 million litres a year down to probably 2 million litres a year. The south basically supplies the Lenah Valley plant. There are times in the winter when they have to bring milk south and there are times in the late spring when they take milk north.

**CHAIR** - That has traditionally been the case going back to the old Baker's Milk days. The town milkies we used to call them.

**Mr PHILLIP BEATTIE** - Yes, Baker's Milk. I spend many hours with John Jones driving north to milk meetings so I know about Baker's Milk.

**Mrs HISCUTT** - I am looking here at a news.com website dated 28 September 2015 and I will quote what it says:

We are finalising a deal to export the milk by refrigerated air freight to China and Singapore, Mr Beattie said. Cows will produce the milk on Monday and it will be on a Shanghai shop shelf by Wednesday.

How is that going?

**Mr JACK BEATTIE** - Slowly.

**Mrs HISCUTT** - Nothing has happened yet?



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**Mr JACK BEATTIE** - No. We have not done it yet because we have not built our milk plant yet.

**Mrs HISCUTT** - So it is a misquote or at the time -

**Mr JACK BEATTIE** - At that time we were looking at some external investment into the plant, by Robert Rockefeller actually. He was looking to invest. We were talking to him about building a plant together and then we were going to come off the back of what we have done here with export. Subsequent to that, we made the decision to maintain control within our own family of what we were doing. All our milk is contract packed at the moment so we are almost at the point where we can justify our own plant and then we will look at that again.

**Mrs HISCUTT** - You would still need the plane and the longer airstrip.

**Mr JACK BEATTIE** - Yes. Now it can go road freight to Victoria and then go overnight from Melbourne.

**Mrs HISCUTT** - It must be cheaper straight out of Hobart.

**Mr JACK BEATTIE** - We don't know what the freight rates are yet and all the capacity is booked up with Moon Lake. Still, people think fresh milk is going to be the answer in terms of fresh milk exports but the margin on fresh milk is the same as what you get here when you export it when you look at the numbers on it. It is not a big winner really. We are making good money out of selling milk here but it is not the winner that something like baby powder could be and obviously you have got the whole shelf life issue with it.

We have a heap of wonderful South African guys that work for us. At the moment we have two Zulus, two Xhosa and a Tsongan. The Tsongan guy can speak eight languages and all the others can speak four. They come from very humble backgrounds. We did not go into the whole visa thing and the labour and all that which is another issue, but they are here on one year visas which allow them to work for a whole year rather than six months. They do the whole year right through, the horrible wet and the nice warm.

**CHAIR** - All the best.

**THE WITNESSES WITHDREW.**

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DISCUSSION WITH **Ms MELINA MORRISON**, CHIEF EXECUTIVE OFFICER, BUSINESS COUNCIL OF COOPERATIVES AND MUTUALS, AND **Mr MARK EGELSTAFF**, DIRECTOR, ASIA PACIFIC, VIA TELEPHONE.

**CHAIR** (Mr Hall) - Welcome to you both and thank you for speaking to us.

**Mr EGELSTAFF** - Melina is CEO of the Business Council of Cooperatives and Mutuals. They are the peak industry body for cooperatives mutuals. Cooperatives and mutuals are still a very sound business model for businesses in Australia today.

**Ms MORRISON** - I represent the peak body for cooperatives and mutuals in Australia. There are 2000 of these businesses and collectively they have 14.8 million members. They turn over \$30 billion, that is just the top 100 of these businesses. They are very important to the agricultural economy and 15 per cent of Australia's agricultural economic output is created in cooperatives in Australia, including some of those very large cooperatives. Cooperatives are a globally recognised model for farm value capture. We can think of Ocean Spray, the cranberry farmers' cooperative from the US; FrieslandCampina, the big Belgian dairy cooperative; Batlow Apples in Australia; Norco dairy; Geraldton Fishermen's Cooperative, which is the world's largest rock lobster export business; and Australia's largest cooperative of all sectors is in fact CBH Group in Western Australia, the big grain exporter that exports 40 per cent of our grain nationally with a \$4 billion yearly turnover.

When producers own the market supply chain from farm to fork, they capture the full value-add through to the production process, including the value of branding and marketing. Eighty per cent of Tasmanian dairy industry contracts are in fact managed through two cooperatives, Murray Goulburn and Fonterra, although of course Fonterra is a cooperative only in New Zealand. With those two large cooperative entities as one example, it does guarantee an income stream to dairy producers in Tasmania as it does in other parts of the country, but it is really about choice. Cooperatives do offer local producers the ability to come together to cooperate around something like a brand or a marketing point of difference. There is inherent value, I would ask the committee to consider, for consumers these days in traceability, accountability and high environmental values. We are seeing that with the emerging Asian middle class as one example of a new export market, which is very much focused on clean, green food that has traceability.

Tasmania has this high environmental, clean, green food value in spades and I believe it is underexploited in Tasmania. We have seen also some recent exploitation, you could say, of Tasmanian brands like the King Island brand, which has been sold to an external entity. Then the producers of that food or that agricultural produce lose the value-add of that very important marketing or brand representation.

I would like to give one external example that Tasmania might like to reflect on and learn from, a European example. In Italy's northern region, the region of Emilia Romagna, which is home to the famous parmigiano reggiano, is the most economically prosperous region of Italy. It has 30 per cent of its GDP produced by cooperatives mainly in the agricultural sector. In Europe, the European Union labels and regional and process marquees protect farm producers by giving certainty to the consumer that a product that you buy does definitely come from a certain region that it is labelled to and that a certain process has been used to produce that product.

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The producers in Italy are further protected, their income in particular, through their cooperative structures. They capture back to the local economy the value of that profit and surplus that is made out of their various businesses and that is a cycle of reinvestment back into the local economy.

When you or I buy our block of lovely Italian parmesan cheese, we know for a fact that the cheese was produced in the region that is stamped on that block of parmesan cheese, we know that a particular hand-making process was used and we also know that all profits, because it is produced in a cooperative, are going back to that specific region via the cooperative business that we are buying from.

This sort of structure, particularly the value capture around the brand, the marketing, the label and the brand prevent economic leakage from that local economy. In this case it is Italy, but I am putting the proposition there that Tasmania could learn from this sort of structure. It means that the value is not leaking out of that economy but is going directly back into the pockets of the farmers.

A more local example, to finish up, is the Fruit West cooperative in Western Australia which is managing the commercialisation of a new breed of apple called the Bravo. The Bravo apple breed recently received a trademark registration. What happened in Western Australia is that the apple was developed by a government agency, the Department of Agriculture and Food in Western Australia, but it is now being grown, distributed and marketed by a group of orchardists working cooperatively. This has meant that those orchards are able to capture the full value from the tree to the plate of that new breed of apple. There is no middle guy taking the marketing advantage. Unfortunately, it is very hard to create a cooperative in Tasmania.

**Mr EGELSTAFF** - To follow on from Melina's point, the situation in which the cooperatives find themselves in Tasmania is unfortunately not unique to Tasmania. This is something that we find pretty much all the way around Australia. Unfortunately, cooperatives and mutuals, because they are such an old business model and there was such a focus from the 1940s and 1950s onwards on companies as the accepted business model, that has meant that progressively over the last couple of decades cooperatives and mutuals were being left behind a little bit. They very frequently are obstructed through a mission by government decisions and government processes.

A perfect example of that is if you go to [business.tas.gov.au](http://business.tas.gov.au) - this is the small-business portal for businesses in Tasmania - if you do a search for cooperatives, cooperative, co-op, mutual, mutuals, none of those terms receives any response at all. There is no information available. If you go to the Tasmanian Small Business Commissioner's website, it lists four business types which you might want to consider when you are setting up a business. Cooperative is not one of those business types.

As I say, this isn't something which is unique to Tasmania. This is replicated in practically every state and territory and it is certainly replicated at the federal level as well. There is very little information on the ASIC website or the ATO website about the advantages or disadvantages or the cooperative business model.

Tasmania does have legislation covering cooperatives, under the administrative orders, and the relevant minister for cooperatives is Mr Barnett, who is the Minister for Resources and the Minister for Building and Construction. Again, this is something which is not unusual around

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Australia. The registrar for cooperatives, the peak bureaucrat who is meant to be looking after the sector, is actually located within the Department of Justice and has no real connection with the relevant minister. That registrar is also the registrar for a number of other issues. For example, he is also the Director of Building Control, administrator of occupational licensing and he is the Residential Tenancy Commissioner. It is very hard then for that registrar, with all of these other issues he is dealing with, to have the time or the capability to focus on cooperatives and mutuals in Tasmania.

This means then that the COAG process is very complicated because, for example, if something happens in the environment space there is a COAG meeting of environment ministers. Because cooperatives are mutual they are under different ministers in different jurisdictions. There is no one COAG meeting that captures all of those ministers at the one time.

We know, however, there is a clear desire for Tasmanian farmers to become involved in the cooperative model. Southern Cross University has a program looking at cooperatives and collaborative businesses. Last year they received about \$15 million of federal funding through, I think, the Department of Agriculture. They are doing a program at the moment supporting businesses which are interested in the cooperative model. At this stage Tasmania is over-represented in the number of applications that that program has received.

**CHAIR** - Thank you, Melina and Mark, they both very good presentations and a lot of food for thought there. I am thinking back to the days when I was actively dairy farming and we went through the old co-op models of three different dairy co-ops. Over time, they were all swallowed up. The business model was changed and what we found was those smaller co-ops were unable to compete, particularly when you start to talk about export markets, expertise and the capital raising to get good processing facilities on board.

**Mr EGELSTAFF** - Probably the last point you raised is one of the key points, which is the difficulty in raising capital. This is a piece of work we are doing with the Federal Government at the moment.

Let us get back to one of the comments I was making earlier where co-ops have been left behind. They are being discriminated against through omission. In Australia's federal Consolidated Corporations Act, cooperatives are precluded from raising equity capital. If they are going to do expansions they either have to do it through retained earnings or they have to do it through taking on more debt. They should have the ability, as they do in very many other international jurisdictions, to raise equity capital. That is one of things which historically we have seen, particularly if you look off the dairy market.

If you look at, for example, Australia's 80 member-owned banks they are not fighting against the big four with one arm tied behind their back; they are fighting against the big four with two arms tied behind their back. Not only can they not raise equity capital but they are also required by APRA to hold higher levels of capital as a guarantee. Again this is something which we see time and time again.

Chair, coming back to your point, I suspect that what happened a lot of the time was that the dairy cooperatives were looking at what their opportunities were and the reality is that as a cooperative there were not the same sort of capital raising opportunities as there are for companies. If you are going to take that big push into overseas markets where you do have to

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market yourself and you do have to look at transport opportunities, the only way of doing that is to, unfortunately, be mutualised and end up taking on a company structure.

**CHAIR** - I am quite surprised to hear that we do not have that ability in Australia to raise equity capital. That seems a bit bizarre to me. Is there an historic reason for that or any legal reason? What is the reason?

**Mr EGELSTAFF** - No. As I say it is one of those things that has happened through omission. As a particular department has looked to implement a new policy, it has written the legislation in a particular way. The unintended consequences which we always get through legislation unfortunately can then mean the cooperative sector is missed in that new piece of legislation. If it takes them several years to realise what the implications are then they could have had a change of government - potentially the way we are going at the moment we could have had several changes of prime minister. You are trying to get those changes retrospectively. I am sure that you four know better than most how difficult it is to get legislation changed once it has been implemented.

**Ms RATTRAY** - In relation to the co-op model that is quite successful in the dairy industry in New Zealand, what is different there? Why have they been so successful?

**Mr EGELSTAFF** - I will certainly take that question on notice. I would be more than happy to get Melina to provide more information for that.

**CHAIR** - Thank you.

**Mr EGELSTAFF** - What I would say is Murray Goulburn, for all the attention it has had in the media recently, is a very successful business. It is a very successful cooperative for whatever detrimental effect that may have had down in Tasmania. Murray Goulburn still has an approximately \$3.5 billion revenue. The cooperative model is extremely successful. They have been around since the 1950s. I think that you could probably look at the example of New Zealand, where it does have that small-scale economy in the same way that Tasmania does. I understand that Fonterra has 15 000 member owners.

**Ms RATTRAY** - 10 500.

**Mr EGELSTAFF** - Okay. Once you get that scale it is a little bit like CBH Group over in Western Australia. Forty per cent of Australia's wheat exports are controlled by one cooperative. It is a massive success story. I think that there are those opportunities. Certainly I will ask Melina if she can provide more feedback to the committee.

**Ms RATTRAY** - Thank you. Is there anything you think might be useful to the committee's deliberations?

**Mr EGELSTAFF** - It is a plea, a request, from the Business Council of Cooperatives and Mutuals to make the cooperative model more accessible to Tasmanian businesses and to dairy farmers in particular. There is practically no information available through government websites on how you would set up a cooperative. I suspect the small business commissioner has had very little experience or information on the advantages of a cooperative, let alone how to set one up. We are more than happy to provide some information. We are beginning to have discussions down there with the Government and some of the departments about ways in which they can

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improve their website. A working party of Tasmanian cooperatives has been formed. If the committee feels - and hopefully it does - the cooperative model has use for the dairy sector, I would urge you to look at how we promote that cooperative model so the sector can use some scale in marketing itself.

**CHAIR** - Mark, that was very interesting.

**Ms RATTRAY** - I was particularly interested in how the Fonterra cooperative model has worked so well for that entity. Bigger multinational companies have bought out all the cooperatives we have ever had in Tasmania and that is what we have now. I am interested in your view around that, Melina.

**Ms MORRISON** - Fonterra is one of the largest dairy firms in the world. It contributes 4 per cent of New Zealand's GDP, so it is systemically important. It is probably more important than a bank there. The reason it has been so successful is New Zealand has more enabling legislation for cooperatives. It is much easier for it to exist in all respects and that is in the capital raising as well.

The other thing about Fonterra is it acts as a private subsidiary in Australia, and we should remember that. It acts in the members' benefit and the members exist, live and grow their produce in New Zealand. They have been very focused as a business and on their business strategy on delivering benefit back to members where they are the owners of their own cooperatively-owned firm. We have a lot to learn from the high elevation of the business model of cooperatives that the New Zealanders have. The New Zealanders have done a very good job of retaining control - and this is really around the government's role as well - of the brand New Zealand - New Zealand pure. That contributes to the idea that things coming out of New Zealand are clean and green.

**Ms RATTRAY** - What of the Murray Goulburn scenario in Australia?

**Ms MORRISON** - The thing about cooperatives is that they are a business structure, which has executive management, it has culture, it has business plans and just because you are a cooperative does not mean that your business strategy always works completely as you intend.

If we look at Murray Goulburn, the strategy that was set out by that firm as it coincided with certain fluctuations in commodity prices which are outside of the cooperative's control, meant that they have had a very rock road around their business plan over the last 18 months. However, it is still a 100 per cent farmer-owned business. If we look at another company, Bellamy's has been on the front pages around the troubles with the board and with governance. In the case of Murray Goulburn, 100 per cent of the executive team have been turned over, there have been big changes on the board and there have been a lot of new directors take seats, so the members have not liked what the business strategy delivered for them. Because of the democratic model of the business, they are doing something about it.

Although we are a cooperative in business, it does not protect us from business plans not going according to plan, but at the same time, as shareholders in a democratically owned business, we can do something about it and that is what the farmers in Murray Goulburn are doing.

**CHAIR** - Thank you, Mark and Melina.

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**DISCUSSION CONCLUDED.**

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**Mr GRANT ROGERS** WAS CALLED, MADE THE STATUTORY DECLARATION AND WAS EXAMINED.

**CHAIR** - Welcome, Grant. What you say here in this session is covered by parliamentary privilege but after you go outside you are not.

**Mr ROGERS** - From what I gather, and not having dug into it too deeply, this has come about because of what happened to the milk price here last year and you are looking at what can be done going forward to stop it happening again.

**CHAIR** - The Senate committee looked backwards and looked at all the ACCC and all that sort of stuff. We are not looking at that matter at all. We are looking at what can be done going forward.

**Mr ROGERS** - That is pretty much it in a nutshell.

**CHAIR** - Yes.

**Mr ROGERS** - There are some realities in this world. Big business will always screw little business. The ACCC will provide no backbone at all against big business. The consumer wants things as cheap as they possibly can. And we have zero obligation to feed the world. The sooner politicians stop banging on about becoming the food bowl of Asia and about the food boom. If they start paying for it we will produce it. It is called market forces and that is the one thing I get sick and tired of hearing. We see the Global Food Forum or whatever that Australia organises and who is all at it? It is all big business. Packaging companies that are all going to make a killing out of it and the guy at the bottom is not going to make a cent. We are not on the cusp of a global food boom. We never have been and we never will be because for the last umpteen millennium people have starved in this world and they will continue to starve. There is too much food in the world now as people starve.

**CHAIR** - It is a matter of distribution, isn't it?

**Mr ROGERS** - No, it is a matter of being able to pay for it. If they could pay for it it would get distributed to them but they can't pay for it so it won't get distributed to them.

**CHAIR** - Fair call, okay.

**Mr ROGERS** - They are my thoughts but there is also a lot of other things on the horizon. As a state or as a country - and New Zealand is grappling with the same issues - we are commodity producers. In 20 years time commodities will be being printed, and I am not kidding you.

**CHAIR** - They will be what?

**Mr ROGERS** - They will be being 3D printed. You will be able to buy a burger that has come out of a printing machine and they will do it for a lot less than we can make on a farm. They are already doing it. You can buy steak that is printed, that is grown in a test tube. TVs have become cheaper and cheaper and this technology will too. That will be the commodity markets, so the only future we have is to very quickly get into a premium brand. I truly believe that. They are growing food in the States in containers, tin high and buildings, they are



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manufacturing meat that tastes like meat, looks like meat, and this is going to happen whether you or I like it. They will do it cheaper than we can do it on a farm.

**Ms RATTRAY** - Premium brand?

**Mr ROGERS** - I believe this and I might be wrong. The mass population of Hobart go to Coles and they love one-dollar milk. They love the 'down-down' and they will buy anything they can as cheaply as they can. Everything else in the world, around compliance etcetera, is costing more and more. There is also the segment of the population and that goes to Hill Street Grocer and goes to these other places. They like supposedly good food, supposedly better quality and that market isn't going to go away. Why will it go away? It will not go away.

There are people in this world with shitloads of money - a fair swear word. There is, there are people in this world with an astronomical amount of money but they are not a large portion of the population. There will be a demand from people who don't want to eat a test tube meat, steak, burger and they are quite prepared to pay more. The price isn't the issue for them.

With most of the population, price is the issue with food but there is a segment of the population where price isn't the issue. It is the quality and it is a story. In fact that is all it is because generally it is not any better quality, it is just the story that sells it. It is marketing - the traceability in marketing.

**Ms RATTRAY** - So the story that you are talking about, do you think that is the Asian market or do you think that there will be enough demand for their story in Tasmania, given that we are pretty low on producing any way?

**Mr ROGERS** - No, it is the global market. It is a European market it is an American market. There will be a segment of the Asian community. Interesting culture - drive up the price of iron ore, get everyone producing it and then stop buying and everything collapses and we walk in and buy the mines. What have they done with milk in New Zealand? Walked in and bought the factory and the farms.

**Mrs HISCUTT** - Are you suggesting that the story - our market in Tasmania - to move forward with our Tasmanian milk, is to those wealthy type folk, obviously not in Tasmania. So you are suggesting that -

**Mr ROGERS** - Yes, I reckon.

**Mrs HISCUTT** - Overseas, Indonesia, China?

**Mr ROGERS** - Yes, overseas, but the trouble is that our milk is processed by multinational companies. Tasmania had a cooperative and we all know how that ended, like most Australian milk cooperatives. The current one is probably going to end up on the scrap heap, I would predict, in five years.

**Mrs HISCUTT** - Is that Murray Goulburn you are talking about?

**Mr ROGERS** - Yes.

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**Mrs HISCUTT** - What scrap heap are you talking about? Being bought out by a multinational?

**Mr ROGERS** - They will be bought out by a multi-national.

**Mrs HISCUTT** - That makes little co-ops desirable to multinationals then?

**Mr ROGERS** - No, they just want the brands and they want to strip the brands. The thing is, even if MG produces something that is Tasmanian, an amazing product, let's say they have 500 suppliers and 40 of them are in Tasmania, the profit isn't going to go to the 40 in Tasmania. It will get distributed amongst the 500 suppliers. That is the reality of the way it works. They won't pay a premium here because why do they need to? They don't.

**Mrs HISCUTT** - Can you see co-ops, or a co-op, resurrecting here in Tasmania or starting?

**Mr ROGERS** - Probably not. I don't think there is the drive or business skills to do it, or the loyalty. There is certainly not the capital on farm to do it.

**CHAIR** - When we talk about premium brands, we get down to niche markets, niche products. I would suggest to you that one of the problems with having a niche market - there is another word for it.

**Mrs HISCUTT** - Boutique market?

**CHAIR** - Yes, something like that. The world is a big place and the commercial entrepreneurs are out there and they see somebody make a success of something and very quickly you can be swamped as well with that type of marketing. I've been there and done that.

**Mr ROGERS** - That's true, but you've just got to stay ahead of the game, otherwise we accept the status quo.

**CHAIR** - There is no panacea, no easy answer, is there?

**Mr ROGERS** - No easy answer. Like I said at the beginning, the reality is that farmers are always price takers. The ACCC ensure that happens. They ensure that we cannot - not that we could even if we wanted to with milk, because it is perishable product - but they ensure that we can't gang up on those poor big businesses like Coles and Woolworths.

**Mrs HISCUTT** - Is that because of collusion laws?

**Mr ROGERS** - Yes. We can't all say, 'No, no, we're not selling our milk; it's worth this much'. Everyone else can do that but we can't. Coles can set the price and everyone else can set the price because there is competition. The reality is, there is not much you can do. I am sorry but I don't think there is much you can do to stop it happening. It will happen again.

**CHAIR** - You're telling us as you see it.

**Mr ROGERS** - I know you're not looking back but if I may just briefly, there will be crooks like Gary Helou that come in again to other companies and tell lies through their teeth and get their big payouts, and the company gets wrecked. It is always people below the company that end

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up carrying the toll. You can't swim against the tide and they were swimming against the tide. The world said that milk is worth nothing and he said, 'No, it's worth a lot'. Only mugs believed him. It was bound to come crashing down. Economics are economics whether we like them or not. If the Chinese decided to stop buying iron ore, iron ore is worth nothing. It is irrelevant what you and I think.

**Mrs HISCUTT** - What do you see in the next 10 years for dairying in Tasmania?

**Mr ROGERS** - I will be positive now. Our industry will double in the next 10 years.

**Mrs HISCUTT** - Why?

**Mr ROGERS** - Because environmental regulations in New Zealand basically said there will be no more conversions in that country. For the last 30 years kiwis have been expanding, expanding and expanding; they are not going to stop overnight. They are not going to suddenly go, 'We haven't got a mentality to expand anymore', so they will look elsewhere. The most logical fact is there is already a heap of us here. The most logical fit is Tasmania. It is not mainland Australia; it is Tasmania. I reckon our industry will double here in the next 10 years. We have to be pretty mindful of our environmental obligations too or else we will end up in the same scrap with Hobart, Launceston and other urban populations that they have over there. I think it will double. In fact I could almost guarantee it. It is almost inevitable.

**Mrs HISCUTT** - Where is that double capacity going to go, that volume?

**Mr ROGERS** - It can go everywhere, anywhere. There are heaps of beef farms on the north-west coast.

**Mrs HISCUTT** - Sorry, the sale of the volume?

**Mr ROGERS** - It will just go into Fonterra - it will just go on the market. If we doubled our production, the world wouldn't even know. If we quadrupled our production, the world wouldn't even know. It's nothing to get rid of it, at whatever price we are currently getting rid of it. I would say it is inevitable our milk industry will double in size here.

**Mrs HISCUTT** - If you see that happening, do you see other factories being set up to accommodate that?

**Mr ROGERS** - Probably not.

**Mrs HISCUTT** - So you just see, in 10 years time, double the volume and going out of the state?

**Mr ROGERS** - Existing factories will increase capacity. What's happened with Cadbury? It shut down in Dunedin, so how long until this one shuts down? They have no sentiments; they don't care it has been a factory here for so long. There has been a factory in Dunedin just about as long, or longer. I bet Cadbury here shuts down in the next two years, I guarantee it.

**Mr FARRELL** - What about the dry milk and baby formula market? Do you see any benefit for Tasmania with the baby formula market?

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**Mr ROGERS** - We don't produce any.

**Mr FARRELL** - Do you see an opportunity, though?

**Mr ROGERS** - Yes, but it comes down to that same thing. Unless it is a Tasmanian-owned business that is going to pump those profits back into Tasmania, I don't care what they do with my milk. I am not going to get paid any more for it. I must admit the company I supply at the moment has become a different company in the last five years. Before that, we used to get these glossy pamphlets about all these wonderful products, but I couldn't give a rat's arse. You are not going to give me any more for it; I don't care. As long as your business is solvent, I really don't care whether you are making massive profits. That's economics.

**Ms RATTRAY** - I heard recently about selling a lot of our cows to China. Does that mean that eventually they will have their own herds and won't be interested so much in looking for -

**Mr ROGERS** - I don't reckon. From what I've heard from over there, they will never be capable of producing enough milk for themselves.

**Ms RATTRAY** - But they are buying our cows, they are paying lots of money.

**Mr ROGERS** - Yes, they've bought lots. There have been lots of cows go out of Australia to China - masses of them. A lot of farmers have survived on those cheques.

**CHAIR** - For the heifers and the calves.

**Ms RATTRAY** - It's interesting, I thought are they going to get to the stage where they don't want our -

**Mr ROGERS** - No, I doubt it.

**Mr FARRELL** - In relation to new generations of farmers coming into the business, is there enough of that happening in Tasmania? Do you think we are educating kids in dairy farming or do we need to improve in that area? As to your future on your farm, how do you go with staff and getting people to do things?

**Mr ROGERS** - I have done all right. The whole industry here is fairly backward, to be quite honest. You mentioned that everything is better in New Zealand -

**Ms RATTRAY** - No, I asked you why you came to Tasmania.

**Mr ROGERS** - I would say, every New Zealand farmer would blow the average Australian out of the water. It's not because they are smarter, they were born at the right time of the day, they are New Zealanders or they support the All Blacks or any other reason. It is one reason: they owe more money.

**Ms RATTRAY** - So they work harder?

**Mr ROGERS** - Debt gets you out of bed; debt drives innovation. I look at the average debt levels of dairy farmers in the state and I wish ours were even remotely close to it because our debt

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levels are enormous. Debt motivates innovation. There are so many people around the state that inherited the family farm and they are quite happy plodding along. There is no drive.

**Ms RATTRAY** - So there is a bit of complacency with our dairy farmers you reckon?

**Mr RODGERS** - Yes, and then when things get touch then we all start whinging. The biggest thing that could happen to the dairy industry here is that the bottom 25 per cent went broke. That is exactly what happened in New Zealand. The bottom 25 per cent or even more probably, lost their farms. It was brutal and I am glad it didn't happen to my family. The economic reality of today is that the farmers that are left there are smart operators. Too many people don't look as farming as a business. It is a lifestyle. It is a good lifestyle but number one is that it is a business. When you owe a lot of money, it focuses you on that business very sharply. You make decisions that are business decisions, not lifestyle decisions.

**Mrs HISCUTT** - Do you think there is any future or advantage in organics?

**Mr RODGERS** - No, and I did it. We did it in New Zealand.

**Mrs HISCUTT** - Would you like to tell us a bit about it.

**Mr RODGERS** - I went away and became a vet and always wanted to go farming. I met my wife and mum and dad were retiring about the same time and it was a burning desire to go back to the farm, and so we did. We had a drought for 18 months and that made a very quick decision that we weren't staying there. It was the best thing that ever happened to us, but we tried converting that farm to organics. It was not the right farm to do it on, but the premiums will never be high enough, unless you are selling it yourself. The middle man will always win. The might offer a 20 per cent premium but by the time it gets to the end consumer, you are getting that much of the organic premium. That is reality. The middle man will never pay enough. He will pay what he has to. There will never be enough.

I have nothing against organics obviously because we had a crack at it. It can be done. In dairying it is very difficult. If you have two farms it is easy. Anything that gets sick goes to the other farm.

**Ms RATTRAY** - We heard that in evidence. You need two.

**Mr RODGERS** - You have to have two farms. People are dreaming if they think they can make it work. From a veterinary point of view, the animal health side of it is incredibly complex. From a production point of view, you will hear the argument, you are overstocked. That is not true. The thing is, if you are understocked, your cows will be eating crap grass and they won't produce any milk. You need to be stocked at the right level to maintain pasture quality. I am not against it. Some people may do all right out of it, but people are dreaming.

The thing is, the public are so misled and poorly educated. There is nothing wrong with conventional farming. We have best practices, we have rules and regulations around chemicals, unlike most of the food in our supermarket that comes from China. If it is grown to best practices, there are no residues in it. I am assuming that the rules are right. They are tested. It is a processed natural product. There are some dreamers out there.

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**CHAIR** - I know from before that you are a good left-field thinker and that is what we like. You give a perspective as you see it, totally from the heart.

**Mr RODGERS** - I always tell it as I see it.

**Mrs HISCUTT** - I indicated I was going to ask you earlier about red tape. Most other presenters have said that the red tape is industry driven and there is not a lot of government red tape around dairying. Do you have a comment on that or do you agree with that comment? Looking at the DairyTas website the proposed code of practice is industry driven. Reading it it looks pretty onerous but that is not government red tape.

**Mr RODGERS** - No. It is industry trying to cover itself before it becomes government driven red tape. Like I said the obligations here are insignificant compared to the obligations in New Zealand on reporting. Workplace health and safety, environmental regulations, the compliance over there is enormous. We need to become Japanese. My sister has just been there and there are no signs 'Careful, watch the step'. I had to say I love the 'Watch out for the new lanes at the Showgrounds' on the radio because we are not going to see them when we get there. That is the society we live in. It is just ridiculous because I am not going to notice that there is a red traffic light to stop at. We have to advertise it on the radio. Apparently in Japan there is nothing and if you fall down a hole that is your fault. It is called self-responsibility. That is the society we should live in.

**CHAIR** - Their infrastructure and everything else there is absolutely spot on. Everything is pristine, but still I take your point. Thanks very much, Grant; we appreciate your evidence.

**THE WITNESS WITHDREW.**