Food Processing Sector Inquiry – Questions on Notice

Australian Dairy Industry Council - Answers

Question one – page 17 proof Hansard transcript

CHAIR: So no further development around training or the effectiveness of those groups. What are the processors telling you in your negotiations? Are we effectively being left with a take-it or leave-it scenario as far as prices and conditions are concerned?

Mr Griffin: I would probably have to take that one on notice. I am not familiar—unless David can contribute—

CHAIR: If you have got something that is going to contribute, we are more than happy to hear from you.

Answer:

This question was addressed later in the hearing:

David: In New South Wales we have got a couple of examples of processors basically saying to collective bargaining groups, 'We will not negotiate with a collective bargaining group,' and that is around the recent negotiations taking place with the subsequent drop in price.
CHAIR: So how tight are the collective bargaining groups? Are you managing to hold everybody in? Why do they have a choice, if you have a process that you have elected to pursue?
David: That was part of the authorisation and that is one of the things we would be looking at. The ACCC was pretty strict. It has got the seven conditions. One of the conditions is that the processors can choose whether or not to negotiate with a collective bargaining group. Given the recent events over the last year or so, we are certainly going to try and revisit that aspect with the ACCC particularly in the light of current negotiations that are taking place with a couple of processors and the fact that they are clearly trying to split collective bargaining groups and pick off various farmers in them.
CHAIR: Cherry-pick the ones that they might want to keep?
David: Generally the larger farms. They are the ones located in better regions closer to their processing capacity.

Question two – page 18 proof Hansard transcript

Senator McKENZIE: We hear about skills shortages in the processing sector in certain industries. Are you experiencing skills shortages at the processing level in dairy?

Mr Griffin: I think we are but I am not totally sure.

Senator McKENZIE: Could you take that on notice?

Mr Griffin: Absolutely.

Answer:

Two recent studies highlight the skill shortages in the dairy food manufacturing sector:

1. *Demand for Food Science and Technology Graduates* – May 2011, by Allen Consulting group for Food Technology Association of Australia (FTAA). The report surveyed manufacturers and found that there were concerns re availability of trained graduates at present and in the future. The report also identified disparity between skills of the Food science and Technology graduates and skills identified by businesses as important.

   A copy of the report is attached below.

Demand for Food Science and Technolo

2. *Dairy Manufacturing Workforce Development Final Report* – August 2010, by Harris Park Group for Dairy Australia. The report identified the changing shape of the workforce. The challenges identified included a) attracting, fostering and nurturing new talent b) Problems in finding production managers with knowledge of dairy c) Lack of emphasis on introducing dairy careers in schools.

   A copy of the report is attached below.

Dairy Manufacturing (post farm gate) Wor

Question three – page 19 proof Hansard transcript

Senator McKENZIE: It went to consultation. The evidence we have heard is that maybe the conversation has not been as detailed and that there are announcements being made almost on a weekly basis around what the solution is going to be or a possible scenario or support, or how the whole package is going to fit together. I am trying to work out what understanding industry has, specifically the dairy-processing industry, around the direct impact and how it is going to work come 1 July.

Mr Griffin: I cannot answer that. I am not sure whether Robert could, if he were here. But we can certainly take that on notice and get some information for you.

Senator McKENZIE: That would be great.

Answer:

In May 2011, based on available information, the ADIC estimated that a carbon tax rate set between $20 and $30 per tonne could add between $5,000 and $10,000 per year to dairy farm business costs, even with direct on-farm emissions remaining outside the new scheme.

After reviewing the key elements of the announced *Clean Energy Future Plan* these cost estimates remain valid. They have been affirmed by independent assessments of the likely impact of the new carbon tax on farm businesses, undertaken by the Australian Farm Institute (AFI)[1].

Importantly dairy farming appears to be more impacted by the new tax arrangements than even other parts of agriculture. The AFI estimated dairy farm incomes could fall by 7 - 8% in 2013 under the announced tax package (an impact almost double that facing other agricultural sectors).

In the case of dairy, electricity represents a much higher share of farm input costs than it does for other sectors. ABARES has identified that, in dairy, the share of total farm operating costs accounted for by electricity purchases is around three times the level of that occurring in other sectors of broadacre agriculture. By contrast, on-farm fuel use represents a much smaller share of dairy farm costs (about half the level observed in other broad acre agriculture)[2].

While on-farm fuel costs should not change with the new tax, the Government estimates that electricity prices will rise by around 10% or $20 per MwH.

Long distance transport

The decision by the Government that fuel usage associated with long distance heavy transport will only be exempted from the carbon tax arrangements for two years is a concern for dairy.

The nature of dairy production means all milk is essentially collected from farms using heavy road transport and transferred to factories for processing. Further, due to the regional nature of dairy production there is also considerable heavy transport associated with the transfer of bulk milk, concentrates and specialised dairy products between factories and ports.

[1] Farm Institute Insights August 2011.
[2] Electricity represents around 3% of total on farm dairy costs, whereas the average for other broad acre sectors is 0.8% (ABARE June 2009)

Dairy has extremely limited options to long distance road freight (rail freight is not a practical alternative for on-farm collection). If the current proposal is implemented dairy farms will be exposed to considerable extra costs as processing firms will logically have to recover increased operating costs through higher milk collection charges, leading to a lower net milk price and profits.

With farm milk collection charges averaging 2.5 - 3 cents per litre, farm milk collection costs total about $30,000 per annum. So a freight price increase could add an additional $500 per year to dairy farm costs from 2014 (an amount equal to the expected upfront cost of the tax for average households).

Given the nature and location of dairy production (and the limited scope for adjustment in this area) the ADIC strongly supports an extension of the fuel exemption for heavy transport well beyond the current planned end date of July 2014.

Dairy processing support

On numerous occasions ADIC has pointed out that the trade exposed status of Australian dairy processing and manufacturing will greatly limit the industry's ability to pass any carbon costs associated with processing onto either local consumers or world markets unless similar arrangements are in place in all our major competitors.

We have also pointed out that while other countries have Emissions Trading Schemes, there is no likelihood of a level playing field now or in the foreseeable future. With dried milk products (those most affected by a carbon tax) some of Australia's major international competitors will not face a carbon pricing mechanism in the next decade. The EU has explicit provisions to provide free permits for manufacturers of dried products up to 2020 to prevent carbon leakage.

The US, an increasing presence in world milk powder markets, is not likely to impose a scheme any time soon, nor are other emerging competitors in Latin America and India.

In Australia dairy food processing has not been given '*Emissions Intensive – Trade Exposed'* status – therefore dairy processing will not receive free permits.

Given the strong linkage between international dairy prices and domestic food service and non-retail prices there is a minimal opportunity for Australian dairy processors to pass on the costs of carbon taxing to other customers.

This indicates that these costs will ultimately be passed back to farmers in the form **of** lower farm gate prices (a view also independently held by the Australian Farm Institute).

Dairy does not qualify for transitional support under the current *Emissions Intensive - Trade Exposed* (EITE) rules. The government has acknowledged this issue and recognised the need to provide some transitional support for primary food processors such as dairy. Under the current package this support will be provided through;

- *Clean Technology Food and Foundries Investment program* (which sets aside $200 million over 6 years to assist food processing companies to invest in emission reducing technologies and practices, and
- *Clean Technology Innovation Program* ($200M over 5 years to support R&D into emissions reductions

The ADIC regards both these packages as positive steps to support effective emissions reduction. We are very keen to work with the relevant government departments and parliament to ensure that the programs are developed with sound operating principles and guidelines that will ensure they meet their policy and industry objectives.

Question four – pages 21 – 22 proof Hansard transcript

Senator URQUHART: In your submission you touched on food labelling and particularly on some of the recommendations from the Blewett report. You highlighted four parts that you had some issues with. Could you elaborate on those? They were: the increased regulatory burden in areas such as new technology, failure to address duplication, failure to consider the importance of international harmonisation and the proposed use of labelling provisions as a medium for public health campaigns. Can you elaborate on your areas of concern about those issues?

David: One of the chief areas of concern is the traffic light labelling. Under traffic light labelling, we believe that dairy would be labelled as a bad food and given a red light. If you look at it as a whole food, it is an incredibly nutritious food that is choc-full of proteins and vitamins and is fundamentally good for you. It has calcium as well. So we believe that to label any sort of dairy product with a red traffic light label, because of either perhaps implied high salt content or any other potential nutrition deficiency or issue, is limiting if you are not looking at the entire food or the entire product. That is one issue we have with labelling, particularly traffic light labelling.

With GM and new technology labelling we certainly believe that it is potentially an issue but there are certainly many regulatory steps to go through for GM foods. We believe that they are risk based and evidence based. They are not currently an issue in dairy at all. We are very careful around that. We want to continue that risk based and evidence based approach and ensure that we do not put the cart before the horse and go too far. With respect to the truth in labelling issue, we might have to take that on notice because I am certainly no expert on that.

Senator URQUHART: That is fine. If you could take on notice any of those issues to do with labelling, that would be great.

Answer:

Food labelling is a very complicated issue that cannot be answered concisely while retaining key information and context. With this in mind the following attachments are provided.

The first is the text of a letter that was sent by the ADIC to all state agriculture ministers and provides a high level summary of the dairy industry's position on food labelling and in-depth analysis of issues of particular concern.

ADIC letter to state agriculture ministers 2

The second is a Dairy Australia submission on behalf of the dairy industry to the FSANZ consultation on P293 Health Claims – the draft nutrition, health and related claims standard 1.2.7. It provides further details on areas of concern regarding proposed changes to health and related claims.

DA submission - FSANZ - Health & Nut

Question five – pages 21 – 22 proof Hansard transcript

Senator URQUHART: [....] One final question. Back on the training stuff, is there are a lot of support from the companies in terms of trying to attract food technologists into their companies? Or, as we have seen over a number of years with food companies, do they tend to drop off on R&D and those sorts of positions when the cost pressures are on them? Is that happening in the dairy industry or is the dairy industry out there actively sourcing those people, getting R&D people into their companies to do that?
Mr Griffin: I would have to take some of that on notice. I am sure if Robert Poole were here he would be able to answer that a bit more. The companies are trying to upskill their existing staff. They bring in people as lower level operators and then put them through the training that the National Centre for Dairy Education provides. Next week I will be attending the graduation ceremony for some of those people who have come through the system. Once they have them indoors, it is better to train them up rather than trying to attract externally.
David: We are also starting to ramp up a few more scholarship schemes to encourage people to go and get that university education and those high-tech skills that are needed.
Senator URQUHART: If you could provide some more information about some of those stats, that would be great.

Answer:

Dairy Australia, in partnership with dairy manufacturing companies and other dairy organisations, runs scholarship programs to bring new graduates into dairy manufacturing industry. Over the past 5-10 years, many of the specialist dairy technology courses at the University level have disappeared. For example, the three year degree course in dairy processing at Melbourne University was merged with food science degree course and more recently merged with science course.

This means that graduates with specialist knowledge and skills in dairy technology are difficult to find. In order to address this challenge, Dairy Australia has been offering six 'Dairy Manufacturing Scholarships' to promising graduates.

The scholarship consists of 9-10 week training program to promising graduates covering the theory, practical and commercial aspects of dairy manufacturing including 3-5 week placements at factories of most of the major dairy manufacturing companies – Murray Goulburn, Fonterra, Bega, Warrnambool Cheese and Butter, Lion Food and Drinks and La Casa Cheese.

The objective is to attract new graduates and retain them in the industry. This is a relatively new program but over the past few years 70-85% of the trained graduates have found positions in the industry within a few months of completing training. The program is strongly supported by the manufacturing companies – large, medium and small. The objective is that over a period of 5 years, the program will provide a pool of 25-30 graduates for employment in dairy manufacturing industry.

A flyer on the Dairy Manufacturing Scholarship is attached below.

2012 Dairy Manufacturing Schola

Regarding R&D, Dairy Australia completed a discussion paper (King, Dunshea and Doyle, "Current and Future Research Capability for the Dairy Industry", April 2011) that identified the needs and opportunities for the industry to build capability and capacity across key R&D disciplines for the next five years. In particular the paper stated:

In our view, the main disciplines where there is insufficient capacity to support important R&D for the Australian dairy industry in the next 5 years are ruminant nutrition, dairy reproduction, milk harvesting, veterinary medicine, and agricultural economics. There may also be some limitations in soil and water sciences, environmental sciences and integrated systems modelling, but further analysis is required. In animal genetics succession planning to maintain capacity will be important. Across all disciplines, it is imperative that the Industry liaises with the major and other RD&E providers on changes in capability and capacity on an on-going basis to ensure succession planning and replacement of expertise are effective. An annual audit of capability and capacity in the major dairy R&D providers that assess quality of the capability in the current discipline being practiced and stage of career would be useful.

The paper also highlighted the important role the industry has in stimulating undergraduate students to considering dairying as a career path (such as opportunities for course project work and industry work experience schemes) and then fostering post graduate studies to develop specialist research expertise in the dairy industry (such as post graduate scholarships, post-doctoral fellowships and mentoring schemes for emerging dairy research scientists).

Establishment of relationships with the University research sector is targeted by industry. For example in the dairy industry, the establishment of the Dairy Cooperative Research Centre at La Trobe University is based on the dairy industry's research priorities for plant and animal genomics.

The industry has a relationship with the University of Melbourne which is focused on social research supporting industry change strategies. The partnership between Dairy Australia and the University of Melbourne supports this strategy through helping the industry better understand the processes of change in the industry and therefore better target the changes required. Activities include:

- Program design and evaluation research
- Research into farm and manufacturing workforce change.
- Development around regional planning strategies and tools for workforce development.
- Supporting the development of "people information" and data sets.

The dairy industry has over the years developed a good working relationship with a number of universities to support the industry's needs for R&D services. Underpinned by agreed research priorities and funding the dairy industry's need for postgraduate research programs are, as a general rule, generating suitable, quality research scientists. As indicated in the above quote, processes have been developed to manage emerging demands and potential shortfalls for research scientists.