Australian Dairy Products Federation

Submission

Food and Beverage Manufacturing in Australia

ADPF Australian Dairy Products Federation

About Australian Dairy Products Federation

The Australian Dairy Products Federation is the national peak policy and advocacy body representing commercial, post farm-gate members of the Australian dairy supply chain, including processors, traders, and marketers of Australian dairy products.

Our members process more than 90 per cent of Australian milk volumes and provide dairy products for both domestic and export markets.

For about 40 years, the Australian Dairy Products Federation has strived to protect and promote dairy for the future success of dairy processors, providing a trusted source of advice and lead on public advocacy to government and the community, on the economic, social and health benefits of dairy.

ADPF Submission to:

Food and Beverage Manufacturing in Australia | submitted: May 2024

Acknowledgement of Country

Australian Dairy Products Federation acknowledges the Traditional Owners of Country throughout Australia. We pay our respects to Elders past and present.

Table of contents

Introduction

The Australian Dairy Products Federation (ADPF) welcomes the opportunity to provide a submission to the House of Representatives Standing Committee on Industry Science and Resources Inquiry into Food and Beverage Manufacturing in Australia.

We believe there are strong opportunities for profitable growth in the Australian dairy processing sector, with a stable domestic market and growing global demand for high quality, nutritious dairy products – particularly South-east Asia.

This is aligned with the governments ambition of food security, local manufacturing, and economic growth.

However, for Australian dairy processors to realise the productivity benefits offered through improving and investing in technologies and innovation, they must have confidence in the future viability of the industry.

Today, processors confidence is at an all-time low of 17 per cent, versus 90 per cent in 2020 – and in turn has consequences downstream[1].

We start our submission by providing the committee with an overview of the dairy processing industry's current challenges, followed by responses to key Terms of Reference where we can provide a comprehensive overview of the dairy processing sector.

The ADPF would also welcome the opportunity to host committee members on a dairy processor tour and to further discuss first-hand the issues and recommendations outlined in our submission.

About the Australian dairy processing industry

Dairy processors sit at the heart of communities across Australia.

From Lismore, to Kyabram, Brisbane, to Bega, Korumburra, Colac, Jervois, Smithton, or Balcatta, they create thousands of jobs, and invest in the vibrancy and livelihoods of the people and community in which they live and work.

You don't have to travel far in regional Australia to find a dairy manufacturing plant.

They transform raw milk – a highly perishable, low value commodity – into safe, nutritious, and premium dairy products for domestic and global markets every day of the year. From fresh and flavoured milk, to cheese, powdered milk, cream, yoghurts and butter, plus a wide range of high value food ingredient dairy fat and protein-based products.

Most benefits stay close to the point of production, in regional areas through jobs, skills and capacity building in manufacturing and on farm.

Australian dairying is a $17 billion industry – farming, manufacturing. and export[2].

[1] Australian Dairy Processors – Confidence and Unity Survey, January 2024.
[2] ABS data 2021

According to the ADPF's Deloitte Access Economic Report, in 2019-20 the dairy processing sector contributed more than $12.4 billion to the Australian Gross Domestic Product[3].

We create more than 70,000 jobs of which about 20,000 (29 per cent) are directly in dairy processing – of this more than half (56.5 per cent) are in regional Australia and a quarter in the top two-highly skilled categories.

Most dairy processing jobs are located within 250km of where milk is produced, generating significant economic activity and employment in regional Australia – one of the most significant of any agricultural industry.

Our reputation for delivering high quality, nutritious dairy products that are enjoyed locally and around the world is second to none, exporting 30 per cent of our milk production valued at $3.7 billion[4].

An industry under pressure

Processing milk is an 'asset heavy' business model requiring significant capital and patient and committed investors. Adequate volumes are needed to maximise capability, capacity and ensure ongoing investment.

Processors thereby bear considerable risk in providing safe and ongoing supply of dairy products to meet consumer's ongoing needs.

Such investment drives innovation and supply chain integrity that allows dairy processors to continue to tap into domestic and international markets.

At present a tough domestic trading environment, marked by continued retail price pressures, low volume growth, exorbitant overhead, and input costs, and import competition, is hampering the industry and leaving processors with less margin than ever before.

Year-on-year raw milk production volumes have decreased, hitting a 30 year low of 8.1 billion litres in FY2022-23, despite record high milk prices being paid to farmers. They are expected to finish this season at around 8.3 billion litres[5], with a small decline forecast in FY2024-25[6].

In FY2022 labour costs increased by about 10 per cent, transport costs were up 10 per cent and gas and electricity prices surged by about 300 and 100 per cent respectively. In FY2023 we saw further rises in labour costs of about five per cent, transport by another 19 per cent and gas and electricity costs up by another 82 and 25 per cent. This was in addition to packaging, insurance, and raw ingredients costs.

This trend continues in FY2024.

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[3] Deloitte Access Economic Report (2021) – Economic and Broader Contribution of the Australian Dairy Processing Industry
[4] Dairy Australia. In Focus 2023 – The Australian dairy industry
[5] Dairy Australia. In Focus 2023 – The Australian dairy industry
[6] Dairy Australia, May Situation and Outlook 2024.

You only have to look at our supermarket shelves or cafes to witness the range of cheaper imported dairy products replacing Australian dairy products – cheeses, butter, ice cream – with imports up 17 per cent in FY2023[7].

At the same time, Australia's dairy industry has dropped its export competitiveness from 36 per cent to 30 per cent (FY2022-23)[8] not only due to lower supply availability but also due to price competitiveness. We imported more than 2.2 billion litres (milk equivalents) in the past year.

For dairy processors, those pressures are further compounded by the pressure to remain viable, maintain jobs for workers and keep the doors open.

Many Australian dairy processors continue to assess their manufacturing footprint to optimise business efficiencies. In the past 18 months 11 dairy processing businesses have publicly announced a closure.

This is in addition to several other dairy processing factories suspending operations, closing production lines, rationalising operations and others announcing significant impairments on their dairy asset value, writing down hundreds of millions of dollars over the last two years.

There is no doubt the current operating environment is damaging dairy processing businesses and is unsustainable. Underpinning this is the need for secure milk supply that will deliver profitability to both dairy farmers and processors.

Response to the Terms of Reference

ADPF is responding to the following Terms of Reference:

- mechanisms for the Australian Government to support further innovation and sustainable growth in the sector,
- ways to support new and emerging products and industries, including premium and niche products, new proteins and Indigenous foods,
- opportunities across both domestic and export markets for Australian manufactured products, including shifting consumer trends,
- approaches to circular economy, waste reduction and decarbonising, including packaging and food waste and
- future workforce and skills needs.

[7] Dairy Australia. In Focus 2023 – The Australian dairy industry
[8] Dairy Australia. In Focus 2023 – The Australian dairy industry

Our asks of government

ADPF believes immediate action and support from government is needed to ensure the ongoing profitability and viability of the Australian dairy processing industry.

***Table 1: Our high-level asks of government**. Noting further details on our asks are provided in the relevant sections of our submission below.*

Inquiry ToR	Industry asks
Mechanisms for the Australian Government to support further innovation and sustainable growth in the sector	• Commitment from government to work with industry on developing a workplan with tangible initiatives towards securing a profitable and viable dairy industry, that attracts people and investment. This includes: ○ Actioning recommendation 4 – 3.134 from the ***Inquiry into Food Security in Australia*** to **develop a specific strategy to reinvigorate the Australian dairy industry.** ○ Establishing a **Minister-led representative dairy industry advisory group** to genuinely guide the development of that workplan and all relevant policies and strategies. ○ Actioning recommendation 2 – 3.66 from the ***Developing Advanced Manufacturing in Australian Enquiry*** that the Australian Government should introduce production incentives for Australian advanced manufacturing. ○ Investing in dairy processing as a core pillar of Australia's manufacturing future under the National Reconstruction Fund, including assistance for dairy processors to transition to the new energy future.
Ways to support new and emerging products and industries	• Collaborate with industry on **promoting Australian dairy as a product of choice**, supported by research and development, and policy decisions that recognise the health benefits of dairy products. This includes: ○ Dedicated government investment in **research and development** on dairy products and ingredients for healthy, sustainable diets. ○ **Positive dairy policy reforms** such as the Australian Dietary Guidelines review, Health Star Rating labelling system, and labelling of plant-based dairy alternatives and synthetics. • Identify opportunities to incentivise investment to support emerging technologies and innovation. • Government to work with industry to identify opportunities to support dairy processors to move to **renewable energies** to: ○ provide reliable energy sources and reduce energy costs. ○ generate broader benefits to community through battery schemes, and ○ reduce environmental impact.

Inquiry ToR	Industry asks
Domestic and export market opportunities	• Government to work with industry to **secure milk supply and local dairy manufacturing, to ensure Australian dairy processors remain profitable and competitive** domestically and on the global stage. This includes: o Completing a genuine and comprehensive **second review of the Dairy Code** as a priority. o Developing a whole of sector, **National Food Security Resilience Plan**, to identify and manage the cross-section of issues contributing to securing Australia's dairy food supply, today and into the future – including the government project on Productivity, competitiveness, and growth to address Australia's milk supply. o Prioritising **key strategic international trade partnerships, improving non-tariff and technical trade barriers**, and understanding the role of imports.
Circular economy, waste reduction and decarbonising	• Collaboration with the Australian dairy industry to deliver the ***Australian Dairy Industry Sustainability Framework*** and meet government and industry targets. This includes: o Investing in ***Australian Dairy Carbon Calculator*** education tools and resources o Investing in ***scope three emissions*** to create standardised methodology and reporting, and to build capability. o Funding to complete a whole of industry ***Emissions Reduction Roadmap.*** o Investment and resources to accelerate **commercialisation and adoption of emission reduction technologies**. o Support to deliver the ***Dairy Packaging Roadmap*** o Support to deliver the ***Dairy Sector Food Waste Action Plan***.
Future workforce and skills need	• Government to work with **Australian dairy processors on access to a skilled workforce**, to remain competitive in local and world markets. This includes: o Dairy processing is included on the skilled occupation list for all new working and skilled visas and renewals. o Building workforce capability through training in specialist dairy processing skills. o Supporting industry with attracting new entrants by including dairy processing as a career of choice in school curriculum.

Mechanism for the Australian government to support further innovation and sustainable growth in the sector.

The Australian dairy industry has produced proactive initiatives, roadmaps, and strategies to unlock innovation and increase the sustainability and profitability of the sector.

Examples of these include the Australian Dairy Plan, the Australian Dairy Sustainability Framework, the Dairy Food Waste Action Plan and the Australian Dairy Sustainable Packaging Roadmap.

The dairy processing industry are leaders in manufacturing innovation, using advanced separation technologies, optimised process operations and functionalised milk streams.

Processors have innovated through new product development, as well as ingredients such as milk powders, and whey and protein concentrate for domestic and international markets.

However, dairy processors need confidence in the sector to encourage ongoing investment, product optimisation and guaranteed employment.

Critical to this is security of milk supply.

Twenty years ago, the Australian dairy industry produced 11 billion litres of raw milk. Ten years ago, this was about 9.3 billion litres annually. In 2022/23 we produced 8.1 billion litres. The current season is expected to finish at 8.3 billion litres.

There are many reasons why, from labour to input costs. But a key consideration to factor into the future of secure milk supply and food security broad, is competing land use – with non-food industries such as timber acquiring an abundance of active-producing dairy farms, which will only increase.

While we are currently seeing an increase in raw milk production volumes, dairy processors need to be confident the profitable, secure supply of raw milk will continue, so they can stem the flow of rationalisation and even consider growth plans.

The sector will need to continue to attract an engaged, competent, and reliable workforce, while ensuring the policy settings are right to reverse the decline in raw milk production.

The dairy sector ended 2023 with dairy farmers confidence high and increasing, while for dairy processors' confidence was paradoxically at an all-time low having fallen from 90 per cent in May 2020 to 17 per cent in January 2024[9].

The current operating environment is unsustainable for Australian dairy processors. This is why our key ask of government is for actions that first and foremost secure a thriving and profitable future for the whole dairy industry and to keep manufacturing local. This will in turn attract people and investment.

[9] Australian Dairy Plan Confidence and Unity Survey

Our recommendations

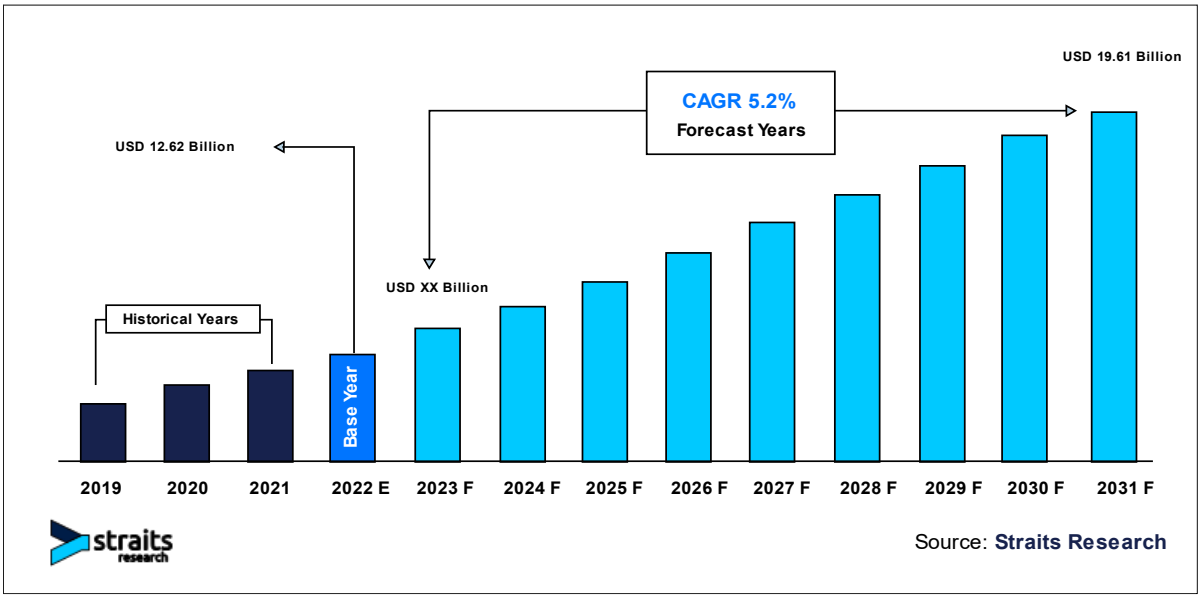
Commitment from government to work with industry on developing a workplan with tangible initiatives towards securing a profitable and viable dairy industry, that attracts people and investment. This includes:

- Action recommendation 4 3.134 from the ***Inquiry into Food Security in Australia*** to **develop a specific strategy to reinvigorate the Australian dairy industry** that includes:
    - A Dairy Industry Roadmap that will reduce barriers to sustainable, profitable raw milk production in Australia and secure local dairy manufacturing.
    - Strategies that identify the resources and pathways required to ensure the economic and environmental sustainability of the industry.
    - Strategies to address the workforce shortages across the supply chain.
    - Strategies to address growing food security concerns, concurrent to global competitiveness.
- Establish a **Minister-led, representative *Dairy Industry Advisory group*** to guide the development of that workplan and all relevant policies and strategies. The Panel would be made up of participants from across the dairy industry and dairy regions: dairy farmers, processors, industry associations and their representative groups. The panel would:
    - allow for effective and genuine engagement to guide government decision-making process.
    - provide insights and advice on issues, projects, policies, and strategies.
    - consider topics ranging from profitable and sustained milk production and procurement, to emission reductions and water use, to customer and consumer trends, to regulatory codes such as the Dairy Code, and health and nutrition.
- Provide support for capital investment by actioning recommendation 2 – 3.66 from the ***Developing Advanced Manufacturing in Australian Enquiry*** that:
    - The Australian Government should introduce production incentives for Australian advanced manufacturing.
    - The incentive scheme should reflect Australia's strategic priorities including, but not limited to, the transition to net zero emissions.
- Invest in dairy processing as a core pillar of Australia's manufacturing future under the **National Reconstruction Fund**, including assistance for dairy processors to transition to the new energy future.

Ways to support new and emerging products and industries

The global dairy protein market size was valued at US $12.62 billion in 2022 and is valued at US $13.8 billion in 2023. It is anticipated to reach US $19.61 billion by 2031, at a compound annual growth rate of 5.2 per cent during the forecast period (2023-2031)[10].

Figure 1: Expected growth in the dairy protein market.



Dairy proteins such as whey protein, casein, and milk protein work as gelling agents, thickening agents, carriers, foaming agents, and texture modifiers in preparing a wide range of food products. They are also widely used in various industries, including animal feed, personal care, nutrition, and textiles.

However, consumers' focus on health and nutrition is the key reason for the rise of dairy protein and Australia has a role to play in meeting this demand. There's a reason the proteins found in milk – whey and casein – are the most used in nutrition supplements designed for maintaining or growing muscle mass.

Dairy is nutrient dense powerhouse and not all proteins are equally effective. Milk contains high-quality proteins that provide all the essential amino acids needed to build and maintain muscle mass.

Milk's unique blend of casein and whey contain amino acids in a pattern like muscle protein. The Australian protein (export and domestic) value is estimated to reach $76 billion by 2030[11].

However, for dairy processors investing in research, development, and technology during these uncertain times, is not always feasible.

Processors must be able to sustain existing core businesses and products, as well as invest in growth opportunities.

[10] Straits Research – Dairy Protein Market
[11] CSIRO Protein Roadmap

Protecting the core

Protecting the core means, continuing to promote dairy as a nutrient-dense powerhouse.

Dairy foods provide a unique package of 10 essential nutrients important for healthy blood, nervous and immune systems, eye health, muscle and nerve function, healthy skin, energy levels and growth and repair in all parts of the body.

These nutrients work in unison as part of a package that is referred to as the 'dairy matrix', meaning the sum is greater than the individual parts. Together the nutrients in dairy foods bolster absorption and bioavailability into the body.

Scientific research shows that having enough milk, yoghurt and cheese can be beneficial for heart health, blood pressure and maintaining a healthy weight.

More than this, the Australian Dietary Guidelines say consumption of milk, cheese and yoghurt is linked to a reduced risk of heart disease, stroke, hypertension, type 2 diabetes, metabolic syndrome and colorectal cancer – some of the main causes of death in Australia[12].

Despite this, 90 per cent of Australians do not consume the recommended daily intake of dairy[13]. There is a lack of investment on the nutrition and health benefits of dairy, even though we know increasing dairy consumption to the recommended levels could save about $2 billion on healthcare expenditure in Australia[14].

And similarly, the evidence on the nutrition and health benefits of dairy for aged care residents has shown increasing dairy intake by 1.5 serves a day (from 2 to 3.5 serves) raised calcium and protein intakes and significantly reduced the risk of falls (11 per cent) and all fractures (33 per cent), including hip fractures (46 per cent)[15]. All, with a potential saving of $66 million from our healthcare system.

It means, government investing in research and development to unlock other health benefits from consuming milk, cheese, yoghurt, is crucial.

Unfortunately, there is a lack of investment on the nutrition and health benefits of dairy and dairy ingredients. Investment in dairy has gradually declined, while investment in plant-based alternatives has increased.

As an example, the CSIRO Future Protein Strategy and Roadmap to 'more protein, more sustainably, from more sources into the future[16]' fails to recognise the opportunities for dairy foods, just meat and plant-based alternatives – and yet one 250ml glass of whole milk provides 8g of protein. Dairy foods provide a unique package of essential nutrients naturally (including protein), that are well absorbed by the body.

[12] NHMRC. Australian Dietary Guidelines, 2013.
[13] Australian Health Survey
[14] University of South Australia Health Economics and Social Policy Group
[15] https://www.bmj.com/content/375/bmj.n2364
[16] CSIRO Future Protein

Positive Dairy Reforms

The dairy industry is committed to promoting and protecting dairy as part of a nutritious, sustainable diet every day, and seeks government support in ensuring positive reforms and policy outcomes for dairy including:

Dairy remains a five-food group food in the Australian Dietary Guidelines review:

- The dairy industry is committed to promoting the importance and value of dairy, currently participating in the review of the Australian Dietary Guidelines (that runs until 2026), to ensure dairy remains an integral part of a balanced, sustainable eating plan. This becomes ever important as growing numbers of alternate products enter the market, claiming 'nutritionally equivalence' to dairy.

Improving the Health Star Rating for five-food group cheeses:

- Despite cheese being considered a healthy dairy option and classed as a Five-Food Group (FFG) food in the Australian Dietary Guidelines, most cheeses (50 per cent) score less than three stars under the Government Health Star Rating (HSR) system – and therefore viewed as less healthy by Australians.
- Given the significant health evidence for cheese; the updated Heart Foundation 2019 evidence-based guidelines on healthy eating, that recommends full-fat milk, yoghurt and cheese as an option for healthy Australians[17]; and the recognition by the Ministerial Forum on Food Regulation (July 2020) that the HSR outcome for cheese was poor and required further review, this anomaly must be addressed.
- A foundation principle for the HSR system was for all 'core foods' to score 3 stars and above.

Accurate and informative labelling of plant-based dairy alternatives and synthetics:

- Permissions within the Australian New Zealand Food Standards Code do not align with the Codex General Standard for Use of Dairy Terms (CXS 206-1999) (GSUDT) whereby milk is not permitted to be used on non-dairy foods (except for 'traditional' non-dairy products).
- In 2020-21, ADPF participated in Minister Littleproud's industry working group on the Labelling and Marketing of Plant-based Dairy and Meat alternatives and the development of a Discussion Paper.
- In February 2022, the Senate's Rural and Regional Affairs Committee released its recommendations to the Inquiry into the definitions of meat and other animal products, to deliver more accurate and truthful product labelling for consumers.
- In late 2023, the Department of Agriculture Forestry and Fisheries undertook industry consultation to understand current views on labelling of plant-based dairy alternatives, aligned with the election commitment on clearer labelling: to improve existing regulations to deliver accurate and clear food labelling for products so that consumers have informed choice.
- Government responses to any of these have not been published.
- In the May 2024 budget, $1.5 million has been committed over two years from 2023–24 to improve existing arrangements for the accurate and clear labelling of plant-based alternative protein products.
- As plant-based dairy alternatives and synthetics are on the rise, and assumptions around nutritional equivalence continue, improved labelling reforms are needed to protect dairy foods.

[17] Heart Foundation of Australia. Dairy and Heart Healthy Eating. Available: https://www.heartfoundation.org.au/images/uploads/publications/Nutrition_Position_Statement_-_DAIRY.pdf

- Policy reforms to include dairy into mandatory dietary standards for residential aged care:
- As highlighted above, in a world-first study published by researchers at the University of Melbourne exploring how the food served at aged care facilities impacts the health of residents, found that increasing dairy intake from 2 to 3.5 serves a day raised calcium and protein intakes and significantly reduced the risk of falls and fractures.
- It is important this research is disseminated and understood by the residential aged care sector and translated into policy reforms to improve the way the sector operates, such as mandatory dietary standards for aged care.
- Cost effectiveness, economic analysis indicates that the mean cost of supplying the extra serves of dairy was $0.66 per resident per day – noting the food-based strategy allows for cost savings up to $1.12 per resident per day for the additional food.

Renewable energy – a pathway to secure, and affordable energy

As the agricultural commodity most exposed to energy costs, substantial increases in gas and electricity costs over the last 10 years have already stripped significant value from the dairy supply chain further adding margin pressure to dairy farmers and processors, impacting their ability to remain cost-competitive and invest in innovation and technology – also putting upward pressure on prices for consumers.

At the same time, dairy processors recognise and are responding to the requirements of a new energy future and are implementing ways to lower production costs and improved efficiencies, capability, and capacity, such as through wind, solar and biogas.

Noting that energy use makes up a significant portion of the operation costs of both dairy farms and processors, in a trade-exposed and highly competitive environment, finding capital to implement renewable energy solutions is very difficult.

A further difficulty faced by dairy processors is that commercially viable and reliable alternate energy sources are not currently available to replace the significant need for natural gas required for process heat.

Heat pumps can be a viable energy source for small boilers (supporting the generation of both steam and hot water) but are not suited for operating alongside the large boilers that dairy manufacturers require to generate steam for process usage and equipment sterilisation.

Investment in innovative and cost-effective processing systems using renewable energies and multiple low-emission technologies is needed to ensure Australia can contribute to this growing market, domestically and throughout the world.

Any policy or regulatory reforms that seek to decarbonise the Australian electricity and energy supply must recognise all of these practical and commercial factors that end-users are faced with.

Government must recognise the efforts and achievements to date by Australian dairy processors, and the unique challenges, support and investment needed – with a commitment to genuinely working collectively and collaboratively on securing reliable and affordable energy sources and transitional to renewables.

Our recommendations

Government collaborates with industry on **promoting Australian dairy as a product of choice**, supported by research and development, and policy decisions that recognise the health benefits of dairy products. This includes:

- Dedicated **government investment in research and development on dairy products and ingredients** for healthy, sustainable diets.
- **Dairy foods remain a five-food group food in the Australian Dietary Guidelines** review, enjoyed as part of a balanced sustainable diet – including the guidelines for elderly nutrition.
- **Improved Health Star Rating score** for five-food group cheeses.
- **Accurate and informative labelling of plant-based dairy alternatives and synthetics**.
- Recommended amounts of **dairy foods are included in the Mandatory Dietary standards for residential aged care.**

- Identify opportunities to **incentivise investment to support emerging technologies and innovation.**
- Government to work with industry to identify opportunities to support dairy processors to move to **renewable energies** to:
  - provide reliable energy sources and reduce energy costs.
  - generate broader benefits to community through battery schemes, and
  - reduce environmental impact.

Domestic and export market opportunities for Australian manufactured products, including shifting consumer trends.

A growing global demand for high quality, nutritious dairy products – particularly in South-east Asia – provides significant opportunity for the Australian dairy industry.

Australia has an exemplary reputation for providing safe, high quality, nutritious dairy products for several decades.

Southeast Asia is in the initial phases of its exploration into dairy consumption. Demand is on the rise, spurred by new nutrition policies, economic growth, increasing urbanisation and a growing preference for Western-style diets.

As we understand, future Indonesian president Prabowo Subianto has committed to provide free lunches and milk to more than 82 million students nationwide from preschool to senior high school, as a centrepiece policy of his election campaign.

This presents an opportunity for the Australian dairy industry to support Indonesia in meeting its demand for milk, who see this as doubling their milk production. This, coupled with our clean, green image and high-quality dairy products, puts Australian product at the forefront of consumer demand.

Australia has a well-regarded legislative framework to combat modern slavery, a strong biosecurity status and low prevalence of food-born illnesses supported by established food safety and quality standards.

However, our industry is not sustainable if it's not globally competitive and we are seeing more and more cheaper imported dairy product on Australian supermarket shelves and in cafes. Again, at a time when local raw milk production volumes are low.

Australian consumers have accepted imported dairy products, and retailers and food service outlets are interchanging Australian cheese and butter with cheaper imported products at their discretion.

More than 2 billion litres of milk equivalents entered the market this year. Statistics show:

- In 2022/23, imports were up 17 per cent, largely from New Zealand (NZ) at 29 per cent, the United States (US) at 16 per cent.
- This meant, Australians consumed close to 30 per cent or 344 thousand tonnes of dairy (or 2.2 billion litres of milk equivalents) from overseas – up from 25 per cent the year prior and the largest volume ever imported in a single season. In 1999/2000, imports accounted for just 11 per cent of Australian dairy consumption.
- The price difference between Australian and NZ dairy products was at an all-time high at the start of the FY24 season and remains elevated.
- Imported product accounted for more than 40 per cent of the Australian butter market by volume last season, most of which originated from NZ.
- YTD import figures (February 23 to January 24) show a 0.2 per cent decrease (to 325,000 tonnes, 2.1 billion litres milk equivalent) compared to the same period last year.

At the same time, Australian dairy exports are down.

Low milk supply and price competitiveness has caused Australian dairy exports to drop by about 17 per cent or 2.4 billion litres of milk equivalents – and this continues to decline.

Dairy Australia's 2023 In Focus report shows the export value of Australian dairy products has dropped from $3.9 billion in 2000, with an export share of production of 54 per cent to $3.7 billion in 2023 with an export share of 30 per cent (equivalent to three billion litres of milk equivalents).

YTD export figures (February 23 to January 24) show a 16 per cent decrease (to 659,000 tonnes, 2.3 billion litres milk equivalent), compared to the same period last year.

There is also a disconnect in farmgate milk prices.

Unlike New Zealand and other competing nations, no other commodity market in the world operates under a mandatory Dairy Code of Conduct requiring dairy processors to announce farmgate milk prices 13-months out from the seasons end – risking their viability in a market where the costs of Australian products are not competitive with imports.

The Dairy Code restricts processor's ability to respond, and this disconnect between dairy farmers and dairy markets affects clear market signals and price transparency needed amongst businesses for planning, investment, and industry confidence.

At a time when New Zealand was responding to global commodity prices – with farmgate milk prices adjusted twice from their FY2024 seasons opening milk price – Australian farmgate milk prices stayed the same and hit a 30 per cent higher differential (or AUS$3.00 per kilogram of milk solids) between the farmgate milk price paid in Australia versus New Zealand.

This continues to be more than 20 per cent or AUS$2.00.

To address the issue of a low raw milk pool, partners across the Australian dairy industry invested in research to understand the future production implications and opportunities for dairy farmers and processors considering three proposed scenarios – a further reduction in raw milk production volumes; arresting the decline and stabilising production volumes; or profitable growth. For a copy of the report refer to the Appendix.

The outputs of this research will inform the second phase of work, funded by the Federal government.

Together, the dairy industry and government must work swiftly to address the key barriers to securing local milk supply and achieve profitable productivity growth and market competitiveness for dairy farmers and processors.

Our recommendations

Government to work with industry to secure milk supply and local dairy manufacturing, to ensure Australian dairy processors remain profitable and competitive domestically and on the global stage. This includes:

- Completing a genuine and comprehensive **second review of the Dairy Code** as a priority, to produce a fairer and more commercially efficient and workable document that supports confidence in the industry and optimises business innovation and investment.
- Developing of a whole of sector, **National Food Security Resilience Plan**, to identify and manage the cross-section of issues contributing to securing Australia's dairy food supply, today and into the future – including the governments project on Productivity, competitiveness, and growth to address Australia's milk supply.
- Prioritising **key strategic international trade partnerships, improving non-tariff and technical trade barriers, and understanding the role of imports**, to secure high value market access.

Approaches to circular economy, waste reduction and decarbonising, including packaging and food waste

As an industry that relies on our natural environment to succeed, ADPF and our members believes in the importance of sustainability and climate action.

As previously stated, the Australian dairy industry has produced proactive initiatives, roadmaps and strategies to unlock innovation and increase the sustainability and profitability of the sector.

For last 12 years, the Australian Dairy Sustainability Framework has underpinned the sector with an over-arching dairy promise 'to provide more nutritious food for a healthier world'. This is supported by goals, commitments, and targets in the areas of profitability, animal welfare, health and nutrition and reducing environmental impact.

We have made progress against emission reduction and waste reduction targets. We do produce nutritious foods. We've phased out calving induction. And, we have undertaken reviews on Human Rights and on Labour to help inform best-practice under the Sustainability Framework.

The 2023 Australian Dairy Sustainability Report shows dairy processors have reduced their greenhouse gas (GHG) emissions intensity by 25.5 per cent since 2010/11, equating to a 27 per cent reduction in absolute emissions.

Processors are now diverting 88 per cent of waste from landfill, towards a target of 100 per cent by 2030 and have made significant progress towards a target of 100 per cent reusable, recyclable or compostable sustainability packaging by 2025.

However, the increased focus and reporting requirements are happening at a rapid pace of change, from our customers and consumers to financial institutions and investors, through to governments both domestically and internationally.

Partnership and reciprocity between the dairy industry and government must be at the heart of sustainable emissions reductions in livestock-based industries.

We need more measured policies, investment and resourcing across the dairy sector to feasibly identify commercial opportunities and pathways to reduce emissions, that balance agricultural production and ensures the delivery of safe, nutritious dairy products is not compromised.

Greenhouse Gas Emissions

The Australian Dairy Sustainability Framework has a commitment to reduce greenhouse gas emissions intensity by 30 per cent across both farm and manufacturing by 2030, relative to 2015 baseline, and supporting national and global commitments to net zero emissions. This requires collaborative efforts along the dairy supply chain.

Australian Dairy Carbon Calculator

The Australian Dairy Carbon Calculator helps dairy farmers with improving efficiencies and lowering greenhouse gas emissions (GHG). This can lead to reduced operational costs and increased profitability, while also protecting the environment.

The calculator equips farmers to measure their farm carbon footprint, understand sources of emissions and explore options for reducing emissions through herd, feed and soil management or reviewing their farm system.

However, as an industry we need support to ensure the opportunities on farm - such as reducing energy use and switching to renewables, which can deliver efficiency improvements that also lower greenhouse gas emissions – are understood and implemented.

This requires investment in people and resources, with mandatory reporting requirements fast approaching.

Need for a whole of industry Emission Reduction Roadmap

Recognising the growing market pressure to reduce and report on supply chain GHG emissions, the dairy industry has identified the need for developing a whole of industry Emission Reduction Roadmap.

The road map would align with the Australian Dairy Sustainability Framework and target to reduce GHG emission by 30 per cent by 2030 (vs 2015 baseline) – and net zero by 2050 – and draw on, and build upon, all of the sustainability initiatives undertaken to date across the dairy industry.

Considerable investment will be needed to develop and implement the roadmap and workplan, considering the breadth of tool, resources and capability needed from:

- a farmer understanding and actions methods to reduce their carbon footprint
- to data collection and analysis methods
- to scope 3 reporting
- to other climate related financial disclosure reporting requirements
- through to investment in research and development on methods to reduce enteric methane.

Australian Dairy Sustainable Packaging Roadmap

Launched in 2021, the Australian Dairy Sustainable Packaging Roadmap was an initiative of the Dairy Australia, ADPF and the Australian Packaging Covenant Organisation (APCO), in consultation with, and input from, Australian dairy brands and Dairy Australia's Sustainable Packaging Working Group.

It recognises the significant progress processors have may on packaging sustainability in areas such as reducing problematic and unnecessary single-use plastic packaging, designing, or recycling and end of life and integrating recycled content into packaging.

The roadmap builds on these achievements. And, through an action-orientated and evidence-based approach, it crystallises a range of strategic actions that the dairy industry and industry partners can take to contribute to the delivery of key national and industry packaging targets and outcomes by 2025.

The three current priority areas are: soft plastics, increased recycled content, and reducing the pigment in milk bottle caps. Members are working on developing industry Codes of Practice, identifying research, capability, and knowledge gaps, and preparing for potential mandatory packaging guidelines.

Dairy Sector Food Waste Action Plan

Launched in July 2023, the aim of the action plan was to assess and recommend commercial and practical food waste reduction opportunities across the dairy supply chain.

Through its development the industry has gained unique insights into where, what, and how much food waste is occurring and identified ten key actions to reduce waste, reduce environmental impacts, and reduce costs.

Priority actions include investing in research and development and technical solutions for dairy manufacturing sites, implementing efficient inventory management systems to monitor and report on waste, partnering with food rescue organisations, promoting sustainable packaging solutions, and educating consumers through product labelling and storage advice – behaviour changes across the supply chain.

Collectively and collaboratively, the action plan sets the Australian dairy industry up for success.

Work on phase one is underway to:

- Develop a standardised food waste monitoring tool to better track progress against the dairy industry's food waste reduction initiatives.
- To undertake site-specific root cause analysis and individualized reduction plan to prevent process wastes.

Our recommendations

Collaboration with the Australian dairy industry to deliver the ***Australian Dairy Industry Sustainability Framework*** and meet government and industry targets. This includes:

- Investing in ***Australian Dairy Carbon Calculator*** education tools and resources that includes:
    - methods to reduce carbon footprint.
    - data analysis and reporting
    - on-farm extension with farmers.
- Investing in ***scope three emissions*** to create standardised methodology and reporting, and to build capability.
- Funding the development and implementation of a whole of industry ***Emissions Reduction Roadmap*** to support delivery of the Australian Dairy Sustainability Framework target to reduce GHG emission by 30 per cent by 2030 (vs 2015 baseline) – and net zero by 2050.
- Government investment and resources to accelerate commercialisation and adoption of emission reduction technologies for the dairy industry.
- Support to deliver the ***Dairy Packaging Roadmap,*** and the three prioritised areas.
- Support to deliver the ***Dairy Sector Food Waste Action Plan***.

Future workforce and skills needs

The technology employed to produce Australian dairy products is 'world best', providing a basis for being competitive in the world market and demands committed and well-trained employees to operate and manage sophisticated high output equipment.

The consistency of dairy production means that the dairy processing employment requirement is more stable and has a lower seasonality factor than many other agricultural industries. There is also a need for a higher proportion of skilled labour in dairy foods processing than most food

processing systems because of the higher-level sophistication of most dairy manufacturing facilities and processing systems.

A quarter (23 per cent) of dairy processing jobs are classified in the two highest (ANZSCO) skill categories[18]. Processing automation and the digitalisation of processing systems are generating new opportunities in the sector, as is the increased sophistication of supply chain management.

This means person vacancies, such as specialist dairy processing technologists or service or maintenance personnel, can have a significant disruptive impact on dairy processing business productivity and profitability.

The dairy processing sector is experiencing labour pressures across the board with access to a skilled and capable workforce impacting production capacity, particularly in regional Australia which comprises more than half the sector's direct workforce (56.5 per cent).

This is placing a strain on the physical and mental health of the existing workforce and affecting business performance.

The dairy processing industry is on the cusp of change, where more than 50 per cent of the current workforce will be leaving the industry in the next five to 10 years and there is serious competition for sourcing the skilled and unskilled labour it will require for the future.

There are increasing expectations around issues such as food safety, product quality, and employee safety and working conditions and there are significant challenges in meeting the training and development needs of the dairy processing workforce today and into the future.

Specific dairy processing employment insights from a December 2022 ADPF member workforce project on the employment needs and challenges facing the dairy processing sector, found:

- For 2021-22, the industry had a vacancy rate of 8.2 per cent or 1672 positions, (versus pre-COVID levels of two to five per cent).
- Half the current workforce is over 50 years old and are likely to leave the industry within the next five years.
- Recruitment levels were at 14.9 per cent of the current workforce, of which 73 per cent of those new recruits were 'new' to the industry.
- The sector will need to recruit about 2,610 people over the next 12 months and 13,050 over the next five years, with most of these jobs located in rural and regional Australia.
- Companies are currently having difficulty filling a broad number of skill categories, with the most significant being production workers (skilled and unskilled), management (including HR/Strategy/Finance), laboratory and quality control, inbound logistics (tanker drivers), product research and development (including food technologists, and packaging technologists), engineering and maintenance technicians.
- 78 per cent of the sites which participated in the survey registered difficulty currently in accessing the training support they required in relation to specialist and technical dairy processing knowledge.
- 55 per cent of the sites which participate in the survey registered difficulty in accessing their more general training requirements.
- Smaller sized operations outsource a higher proportion of their higher-level training and skill development requirements, which is often difficult to source in regional areas.

[18] Deloitte Access Economic Report – Contribution of the Australian Dairy Processing Industry

- As the majority of the people recruited are likely to be new to the industry, they will need to be trained to the level required, which will generate a high demand for quality training services across the sector.

To address the current workforce issues and challenges and support improvement in the workforce situation for dairy processing, five key areas must be addressed: capability; access to skilled labour; employment terms and conditions; investment opportunities; and access to capital.

Importantly, employment solutions for dairy processing must address the specific need for skilled labour, particularly in regional areas.

The establishment of training in specialist and technical dairy and food processing knowledge is critical to support traditional, modern, and sophisticated dairy processing, reliant on industry working in collaboration with government and local service providers.

Our recommendations

Government to work with **Australian dairy processors on access to a skilled workforce**, to remain competitive in local and world markets.
This includes:

- Dairy processing is included on the skilled occupation list for all new working and skilled visas and renewals recognising the need for:
    - Dairy production workers (skilled and unskilled)
    - Quality control (manager and officer levels
    - Packaging technologists and automation engineers.
- Develop a service model to build workforce capability through training in specialist dairy processing skills.
- Supporting industry with attracting new entrants by including dairy processing as a career of choice in school curriculum.

Conclusion

The Australian dairy processing sector is aligned with the government's objectives to advance economic development, food security and agricultural innovation.

Dairy processors share the same concerns governments and Ministers across the country rightly have about sustainability, the environment, jobs, regional economies, cost-of-living pressures, and innovating for the future.

Therefore, we see much opportunity for industry collaboration and co-investment with government, whether it be to promote dairy foods as a cost-effective, nutrient-dense 'powerhouse' food for good health, to develop longer-term energy policies to lower energy costs for dairy processing businesses, to assist dairy businesses to transition to alternate energy sources, and of course to get more and more skilled workers into dairy jobs.

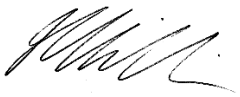
To help realise these opportunities, Australian dairy processors encourage:

- Commitment from government to work with industry on developing a workplan with tangible initiatives towards securing a viable and growing dairy industry, that attracts people and investment.
- Establish a Minister-led, representative dairy industry advisory group to genuinely guide the development of that workplan and all relevant policies and strategies.
- Government to work with industry on access to productivity driving technologies, workforce shortages, and access to priority markets.
- Government to support industry to best deliver against the Australian Dairy Sustainability Framework and government targets.
- Collaborate with industry on promoting Australian dairy as a product of choice, supported by policy decisions that recognise the health benefits of dairy products.

ADPF and its members look forward to working collaboratively with the government and other key stakeholders on the Inquiry into Food and Beverage Manufacturing in Australia, to ensure the principles and policy settings are right to secure a sustainable and profitable dairy processing sector into the future.

We are available to discuss any of our responses in more detail.

Regards,



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Appendix

Document link	About
Australian Dairy Plan	The Australian Dairy Plan is an industry-led plan to deliver increased profitability, confidence and unity across the Australian dairy industry.
Australian Dairy Sustainability Framework	The framework reflects the Australian dairy industry's focus and commitments on key sustainability priorities: climate change, animal welfare, human health and nutrition, food waste and industry profitability. It sets goals and targets against these commitments.
Dairy Food Waste Action Plan	The plan is the Australian dairy industry's response to the Australian Federal Government's goal of halving food waste by 2030.
Australian Dairy Sustainable Packaging Roadmap	The roadmap provides a collective vision and framework for how to improve the sustainability of dairy packaging in the future.
CSIRO Protein Roadmap	The roadmap provides a strategic overview of Australia's potential to help meet growing global protein demand by producing a wider variety of protein foods and ingredients and reaching new markets.
Dairy Australia May 2024 Situation and Outlook Report	Dairy Australia's quarterly Situation and Outlook report provides expert analysis and unbiased insights on the latest domestic and international dairy market trends.
Deloitte Economic and Broader Contribution of the Australian Dairy Processing Industry	This report outlines the dairy processing industry's footprint in Australia, including in regional areas.
Dairy Australia In Focus Reports	Reports provide snapshots of Australia's role in the global dairy industry based on the current year's data.
Straits Research Dairy Protein Market	Protein supplements market size, demand, growth and forecast to 2030.
Dairy Australia health statistics	Dairy Australia provides information on the recommended intake of dairy products and the health benefits of dairy.
UniSA's Health Economics and Social Policy Group research	Research on the health benefits of dairy consumption and calculated the healthcare expenditure in Australia due to low dairy consumption.
The BMJ	Research into the effect of dietary sources of calcium and protein on hip fractures and falls in older adults in residential care: cluster randomised controlled trial.
The Heart Foundation	The Heart Foundation's Dietary Position Statement Dairy and Heart Healthy Eating.
Fresh Agenda Milk Pool Trajectory Research	Research on milk production scenarios and their likely implications for the future of the Australian dairy industry.
Australian Dietary Guidelines	Evidence based recommendations on the types and amounts of foods Australians should eat to meet nutritional requirements.

Economic and Broader Contribution of the Australian Dairy Processing Industry

a vital and important contributor to the Australian economy and our regions.

ECONOMIC CONTRIBUTION

$15.7 billion

Dairy processing generated **$15.7 billion** in revenue across products and value chains*

Contributed a total of **$12.4 billion** to **Australian GDP – $3.1 billion in direct value-add***

$6.1 billion

Dairy processors employed **$6.1 billion** in capital, and invested **$383 million** in capital per annum*

$12 million

Dairy processors invested an average of **$12 million** annually in research and development*

EMPLOYMENT CONTRIBUTION

70,158 FTE jobs

Dairy processing's total employment contribution is **70,158 FTE jobs***

20,394 FTE (29%) are direct employees in dairy processing and **49,764 FTE** indirect in aligned industries*

56.5% of the direct workforce is located in regional Australia and **23%** are among the two highest job skill categories*

Around **2,610** dairy processing positions are needed to meet 2022/23 workforce requirements or **13,050** over the next 5 years#

SUPPLY CHAIN CONTRIBUTION

3rd largest

Dairy is the **3rd** largest rural industry in Australia, and ranks **5th** in the world trade of dairy with a **5%** share^

In 2022/23 dairy processors made payments to farmers totalling **$6.1 billion** for raw milk^

$3.7 billion

In 2022/23, **30%** of milk produced in Australia was exported, worth **$3.7 billion**^

$5.1 million trips

In 2020/21, the dairy processing supply chain supported around **5.1 million** vehicle trips, at an estimated cost of **$890 million***

ENVIRONMENTAL CONTRIBUTION

Dairy processing is estimated to account for just **0.2%** of Australia's greenhouse gas emissions*

27% emission drop

In 2020/21, dairy processors emission intensity was down **25.5%** (versus baseline)— a **27%** drop in absolute emissions+

In 2020/21, dairy processors generated **6.5%** less waste per ML of raw milk processed than 2019/20 or **46%** less than baseline, diverting **87%** of solid waste to landfill+

Australian Dairy Sustainable Packaging Roadmap supports processors towards the **2025** national packaging targets+

NUTRITION CONTRIBUTION

98%

Drinking milk is a dietary staple in **98%** of Australian households^

In 2022/23, per capita consumption of drinking milk remains high – around **90 litres**^

Increasing dairy intake to the Australian Dietary Guideline recommendations, can save at least **$2 billion** from the annual healthcare budget@

Increasing dairy from **2 to 3.5** serves per day in the elderly can help reduce fractures risk by **33%** and falls by **11%**$

References: *Deloitte Access Economics (2021) Economic and Broader Contribution of the Australian Dairy Processing Industry (Data points relate to 2019/20 unless specified otherwise); ^Dairy Australia In Focus FY23; +Dairy Manufacturers Environmental Scorecard 2020/21 (baseline: 2010/11); #ADPF Workforce Report – Employment Issues and Challenges of the Australian Dairy Processing Industry, December 2022; $BMJ 2021, 375; @Nutrition 142(9):1772-80