

# AUSTRALIAN DAIRY PLAN (ADP)

## What is Wrong?

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- Why have the goals and intentions of the ADP shifted so dramatically?
- The ADP commenced in April 2019 with a report in December 2019 containing a mass of information and data compiled, after:
  - extensive meetings, interviews, and conferences;
  - the use of significant funds and resources;
  - substantial discussion and debate at a national workshop in September 2019 with 121 delegates present,

resulting in complex, detailed reports and appendices which are now being overturned by a further report in September 2020.
- It is not surprising that the national workshop, which included only 60% of dairy farmers with broad representation from the sector, would therefore favour a sector or industry model, not an exclusive dairy farmer model.
- Following the national workshop, the ADP Model Steering Committee was established, comprising two directors each from Australian Dairy Farmer (ADF), Dairy Australia (DA), and Australian Dairy Products Federation (ADPF). So only two dairy farmers were involved, being nominees of ADF and were they effectively representing the views of grass roots dairy farmers? Consequently, dairy farmers were once again overpowered and

out maneuvered, so it is not surprising that in both the workshop and the steering Committee they were outplayed and disadvantaged.

- The original ADP contained a 10-point summary of the issues agreed at the workshop.
- As I have demonstrated in my paper, ***Dairy Farmer Representation Structure: A Solution That Benefits Dairy Farmers, but what is wrong? (June 2020)***, (Page 8 Appendix, Pages 23-30), in a sector solution, dairy farmers power and influence is heavily diluted as:
  - only two issues are of exclusive industry concern,
  - three joint; but
  - five farmer interests.

But this analysis lacks a sense of proportionality and the relevant degree of importance to each of dairy farmers and the processors. Clearly any weighting (if able to be calculated) would dramatically favour dairy farmers.

- My paper also analyses the so called '5 commitments' which reinforces my conclusion above.
- The revised September ADP 2020 Report has fundamentally changed the assumptions upon which the national workshop conclusions were based. It is now moved its position to profitability, confidence and so-called unity. This change is profound. Query whether the original workshop would agree with this.
- The revised report still does not justify a sector or industry wide solution.  
Why?
- It is morally inappropriate that dairy farmer levies should be used for any purpose other than for the exclusive benefit of dairy farmers.

These levies, particularly those paid to DA, have been used for purposes which do not substantially benefit dairy farmers. For example, in the 2018 accounts DA spent almost \$28million as follows:

- \$9.14m on marketing and communications,
- \$5.84m on trade and industry strategy; and
- \$13m on business and organizational performance.

How much was this a benefit to dairy farmers as opposed to the processors? Was this analysis done? Was an ROI analysis done?

- Even if processors agree to pay a levy, this would not match a fraction of the sacrifice of dairy farmers in paying their levies, but would be petty cash for the processors, and the cost benefit to processors would significantly outweigh that to dairy farmers. How could you calculate the relative dairy farmer processor contributions unless done on a project by project basis?
- There are profound differences in the strategy, structure and operations of dairy farmers and processors.

The reality is that there is more that divides processors and dairy farmers than what unites them. Two examples of this acute conflict are the mandatory code of conduct and the so-called annual price negotiations between the processors and dairy farmers. Both these issues are fundamental to dairy farmers and in a proportional sense outweigh most other issues. It does not make sense to put two dogs into the one kennel.

We cannot forget that processors fought the mandatory code of conduct in many ways and at a high level of government. As I have predicted with Codes of conduct once a code is adopted the gaming commences and that

is exactly what has recently happened. Apart from gaming the code has been broken. The code will require continuing amendment to be effective. As for milk pricing there will always be a battle. Against this background how is it possible that by sector or supply chain cooperation would it ever be possible to lift the profitability of dairy farms? It is naïve to think that processors will concede any of the rent.

To change the argument to make the search of profitability a major issue is extraordinarily naïve and shows a lack of understanding of how most supply chains work. The ADP in emphasizing a supply chain solution does not include the retailers. The processors realise that any code with retailers would simply not work, but they want dairy farmers in the same camp to attack the retailers. Would the retailers agree to a code of conduct with anyone? No.

- Working together and cooperating is naïve and does not reflect the reality of this supply chain or indeed any others.

To argue that by working together you can increase the size of the cake ignores the strength of the parties in negotiating the share of the cake. That is why processors would not include retailers and why processors want dairy farmers to join them in dealing with the retailers. This will not make any difference to the all-powerful retailers.

To recommend a locked in structure attempting to regulate the relationship between parties is naïve and dangerous. Business is dynamic and these arrangements tend to become limiting or irrelevant. So why not remain independent and negotiate from time to time on a needs basis which will affect the reality of the times?

The degree of conflict was way less when 65.2%+ processors were cooperative, but now when 4 processors with a market share of 65.2% are foreign owned, and as a consequence subservient to the international company's agenda, sometimes to the detriment of Australia. This is a sovereign issue. For instance, Fonterra has ceased manufacturing butter in Australia and now exports butter from NZ to Australia. Would this have happened if Fonterra was Australian owned? What other decisions have been made by international companies in the same area, optimizing the place of manufacture and the allocation of services around the globe? Surely an international company will make decisions based on where tax is payable as tax represents 30% of profits.

- The dairy plan talks about an industry wide solution involving the whole supply chain. Why then, are not retailers included? Processors would not want the retailers just as dairy farmers don't want the processors. What is the difference? What is the uniqueness of the dairy farmer/processor relationship, now there are no cooperatives left? Now we are in a different world and we need to understand history. Clearly, wherever you look at the supply chain there are issues of conflict and cooperation sometimes called co-optician.
- It is a part of our way of life that almost all crafts, professions, groups or activities have their own union or association funded by their own contributions, sometimes levies. Why should dairy farmers be any different and not have their own exclusive association controlling their own levies?

Most other agricultural producers have their own exclusive advocacy and research activity. Why deny dairy farmers this opportunity?

- Many of the big issues facing dairy farmers, often out of their control, require very strong advocacy, but why should this not be undertaken exclusively by dairy farmers without any processor influence?
- The mix of activity requiring advocacy changes from time to time, and new issues will emerge. How can this adequately be handled by dairy farmers and processors in the one corporate entity? How, in a corporate entity, could you possibly manage this ongoing complexity without the issues of tension and conflict arising, particularly where the advocacy would be against the processor, or vice versa?
- It is recognized that there are genuine issues of concern by the whole sector and it is suggested that these be handled on a project basis where the dairy farm entity and the processors reach agreement on the definition of the project and how it is to be handled and the resources devoted to it. There could be a joint venture or separate corporate entity designed to qualify for all government research grants. Similarly, ADF could have a separate entity with no advocacy to qualify for government grants. The benefit of the structures is:
  - clear delineation between research and advocacy
  - greater clarity as to research, its definition, purposes, benefit, ROI, and for whom?
  - Dairy farmers can focus on their own advocacy not being compromised by the processors with whom there might be serious conflicts such as with the mandatory of conduct and the annual milk pricing.
  - A better allocation of resources with the benefit of greater specialization.

Ensuring that the individuals employed in the peak bodies are better placed in the appropriate specialized entity and at the same time helping

to retain great employees are appropriately placed. This should be good for them in avoiding the conflict of advocacy and research.

Dairy farmers will ensure that the research is more clearly focused on sector or dairy farmer issues and with the latter ensure that research is focused on every day and on the farm issues of which there many.

- Any organization or design specialist will tell you that corporate entities need great clarity of strategy, purpose or objectives along with focused control of operations. How can you possibly achieve this inside a conflicted entity?

How can agreement be reached about appointment the directors, the Chairman, the CEO, the CFO and the COO, etc? The difficulties of reaching agreement about:

- The strategy
- The objectives; and
- The annual budget and the implicit allocations

will be profound, complex and extraordinarily difficult to manage. No matter the strength and integrity of Chinese walls, this will not solve the problem of tension, conflict. No professional would want to get involved in such a mess.

Don't forget the constraints of competition law where there are many provisions which prohibit certain kinds of activities and behaviours particularly between buyer and seller. It is almost certain that what is contemplated by the ADP steering committee will require to be authorized by the ACCC. These authorisations are not easy to achieve and note that even when some dairy farmers come together to jointly negotiate with processors; this requires ACCC authorization, and is a costly process which can never be taken for granted.

- We must remember that corporations are bound by corporation law and there are extensive obligations of directors to shareholders. The directors must drive profit and return for shareholders, so there is an inherent conflict that did not exist in the old cooperative model. It seems that some individuals have forgotten that their fundamental role has changed with their substantial exit of cooperatives and they are still behaving as representatives of processors.
- It is inevitable that processors, who are few, large in number, powerful and well resourced, will overinfluence the individual dairy farmer and more diffuse dairy farmers, representing over 5,200 dairy farms.
- Another analogy in this debate is the role of unions. Since the Eureka Stockade last century, unions have always played an important role in looking after the interests of its members funded by their contributions. The right to form and have a union is fundamental in a democracy and why can't dairy farmers levies fund their concept of a union?
- The world is littered with organisations established over centuries for the exclusive benefit of members. This is part of the ecosystem of most countries.

Examples in Australia of exclusive organisations which do not mirror the ADF-DA model substantially influenced by processors. Examples of these organisations are:

- Wool growers and wool merchants,
- Lawyers, doctors, etc, and their clients,
- Vegetable growers and retailers,
- Construction workers and builders,

and the list goes on and on with numerous other crafts and activities, whether they be an employee, or a supplier of goods or services.

Governments have recognized the purpose and wisdom of such organisations and invariably give them a tax exemption. Some countries allow tax deductions for contributions or a deduction from their wages.

- No such universal and exclusive organization exists for dairy farmers free from any outside influence. ADF is not acting in the interests of dairy farmers because of the influence of processors and limited funds that has given rise to organisations such as Dairy Connect in NSW, and FarmerPower in Western Victoria, emerging to cope with the shortcomings of ADF and DA.

ADF is underfunded and dairy farmer levies are going to DA for sector and dairy farmer research not under the exclusive control of the dairy farmers. ADF is precluded from advocacy. So dairy farmer levies are going to an entity which cannot advocate leaving ADF grossly underfunded in advocacy. Has any intelligence been applied to evaluating what the mix of research and advocacy should be for dairy farmers?

This is unfair, unjust and unacceptable for dairy farmers. It is an established fact that DA levies are being used for activities of questionable value for dairy farmers. And they cannot control this. The processors are taking advantage of a historic position where dairy farmers and processing were carried out by cooperatives. They are now in conflict.

This is a David and Goliath situation, but, gradually with limited resources the voices of those seeking exclusive activity for all dairy farm activity are being heard.

- There are other powerful reasons why dairy farmers should have their own union. Dairy farmers, although in clusters, these clusters are spread

across Australia from far northern QLD to Tasmania to the west. This makes communication difficult.

The average dairy farmer works from dawn to dusk and so has less opportunity than most to relate to other dairy farmers. The very nature of their activity makes communication even more difficult. Thus, their own organisation is critical in overcoming such disadvantages. This partly explains why farmers do not communicate well.

- The current trajectory of the ADP will continue to cause huge dissent and tension amongst dairy farmers. There is so much information available and so many conferences, meetings and workshops, that dairy farmers become overwhelmed and confused and simply give up, and leave it to organizations like ADF and DA to look after their interests. This brings with it a huge responsibility to these organizations to look after dairy farmers interests but this is not happening. The role of DA and ADF in the ADP has been alarming. It is perceived by some that DA and ADP are acting so badly and so out of their mandate they are calling for a royal commission. It is likely that the Senate enquiry will recognize how dairy farmers are being disadvantaged.
- The difficulty with the current situation is that people and organisations have locked in positions, become stubborn and determined at all cost to achieve their own goals. Clearly the ADP will fail and dairy farmers will be left with an unacceptable status quo. Many benefit from the status quo and this partly explains the behaviour of some in this incredible elongated and poorly run process. Status quoers always have more power than reformers and status quoers develop tactics of delay, confusion and so-called sham consultation and carefully selected participants and researchees to achieve their aim.

- Although current dairy conditions are better than usual, time is the essence and we should not let this disastrous situation continue. Unfortunately, the lack of any generous spirit between the protagonists makes it difficult to recognize any part of the other's point of view as legitimate, so making it hard to compromise.
- My recommendation is that the Minister for Agriculture should appoint a high-powered mediator agreed to by all parties to attempt to solve the impasse. If the minister does not do this, I would recommend that the majority of the state organisations, (must include Victoria because of its majority of dairy farms), or failing that dairy farmers with the backing of a petition, approach the Minister seeking to terminate their existing levy payments for the 2021-2022 year, whilst and if dairy farmers put in place their own model.
- My view is that the Dahlsen FTP model will work, particularly with the 3 cents levy being deducted from the payment to fund dairy farmer advocacy and research. This 3 cents will generate \$65m+ to help the cause of dairy farmers which will annihilate any need for processor involvement. The organization for dairy farmers would be a compromise model of the Dahlsen-Wannon models, one of which is wholly dairy farmer represented, whilst the other involves some skilled-based directors. The inclusion of some independent directors is likely to be more acceptable to government. It will not be difficult to produce a compromise.
- It is the government's role to take leadership in situations like this in competing interests, and not let, a once, a very successful sector with considerable exports continue to falter.  
The ADP which will not succeed on its present trajectory and is causing great division and tension amongst dairy farmers. The Minister's only

delay should be waiting to hear from the ACCC and the Senate Enquiry due in November.

**Appendix:**

**Dairy Farmer Representation Structure**

**A solution that benefits Dairy Farmers**

**But what is wrong?**

4<sup>th</sup> Edition

Attached: Pages 23 – 30

## APPENDIX

### Dairy farmers will not be attracted to the ADP proposal

#### Why pursue the ADP Proposal?

Much of the ADP Model was based on ten point summary agreed at the Australian Dairy Workshop. So, in testing the overarching ADP model look at his [Australian Dairy Farm Plan Appendix D](#) we need to review the 10 point summary of the issues agreed at the [Australian Dairy Plan National Workshop](#) (July 2019) (Table below):

#### A ten-point summary agreed at the Australian Dairy Plan National Workshop

1. Transformational change to reform industry structures and strengthen advocacy to be more effective, united and efficient.
2. New measures to increase transparency and help manage market risk including the establishment of a functioning milk price market and new risk measures backed by government legislation.
3. A significant increase in marketing and promotion to build community trust and recognition of dairy products, the dairy industry and dairy farmers.
4. Increased effort and new initiatives to attract and support more new people to the industry, particularly the next generation of farmers.
5. A heightened focus to address rising costs, risks and volatility on farm, including building farmer capability, adopting new innovations, and accessing new risk management tools.
6. A concerted effort to change the culture of the industry to position dairy as an agri-business leader with a clear and positive focus on excellence.
7. Build on world-leading practice through the Sustainability Framework to stay at the forefront with innovative new practices that meet and exceed consumer expectations.
8. Better understand how climate change will affect our industry across Australia (particularly when it comes to water) and more investment in the technological solutions that will help us adapt to a changing climate.
9. Practical initiatives to work with the Federal Government and maximise support available from the \$100bn agriculture target and associated \$4.9bn drought fund.
10. A clear and ambitious vision for the future of the Australian dairy industry such as *'A united, profitable and growing dairy industry built on high standards of environmental sustainability and animal welfare, producing high quality and nutritious dairy products to the Australian and international markets.'*

The following Table suggests who should be in control of each of the 10 points or issues:

- Dairy Farmers
- Joint Dairy Farmer & Sector
- Industry Sector

## Who should be in control of each of the 10 Point Agreements?

10 Point Agreements from the National Workshop	Dairy Farm Interest & Control	Joint Dairy Farmer & Sector Control	Industry Sector Control
1	✓		
2	✓		
3		✓	
4	✓		
5	✓		
6	✓		
7		✓	
8			✓
9		✓	
10			✓
TOTAL	5	3	2

It is strange that the dairy farmer's power and influence should be so heavily diluted when only 2 issues are of exclusive industry concern, 3 joint and 5 farmer interests:

- Processors and other industry participants will like the ADP Model, because it weakens the dairy farmers. Industry solutions may not often suit dairy farmers,
- Why will the processor, or the retailer, release any value or rent to the dairy farmer? The retailers in particular have shown how tough they are with price setting and supply negotiations generally. Why will they change? History and culture is against that.

Further, the commitments numerated by ADP Model to transform the dairy sector – commitment number 5 said:

*“We will restore trust and transparency between farmers and retailers to strengthen and give confidence to the industry”.*

This is a pipe dream. The likelihood of the ADP Model model achieving this is low. This would need a huge and proven change of culture for dairy farmers to concede so much power and influence from their already diminishing position.

## The ADP Model Report – Commitments

These are a barrier to success. The ADP Model report, in articulating the new plan for the dairy industry, summarises its aims as:

- lifting the profitability across the supply chain,
- rebuilding the confidence of dairy businesses in the industry's future,
- unite the industry by working together to address our key challenges.

The ADP Model report then articulates its key priorities by setting out five commitments with a whole series of supporting initiatives. As this is fundamental to the dairy brand, it is important to review them:

### **Commitment one:**

**We will reform our dairy structures and how we work together to create a more cohesive dairy industry and a more influential advocacy voice.**

**Answer:** This challenge is almost impossible to succeed. The reality is, with the three silos in the sector (farmers, processors and retailers), each has very different objectives and obligations and very different constituents as articulated earlier. To achieve this means transferring power and influence between the three silos in a way that will be unacceptable to each of their constituents. It is an unrealistic commitment.

### **Commitment two:**

**We will attract and support new entrants and investment to build industry capacity.**

**Answer:** This challenge is very difficult for dairy farmer, processor and retailer. It is a non-issue for retailers. For dairy farmers it is solved by improving their financial position with a levy. Without a levy, or a realistic price for their product, the dairy sector will continue to decline. The processors have a very different issue which is unlikely to be solved by new entrants or adding capacity. The reality is that there is way too much unused capacity and outdated technology used in the processing sector and what it needs is more volume to fractionalise or cover its fixed costs. This reflects the lack of a deep and relevant economic analysis of the sector as a precursor to developing strategy.

### **Commitment three:**

**We will increase our effort in marketing and promotion to build greater levels of trust with consumers and improve the value of dairy products.**

**Answer:** This is the role of the processor. With deregulation and the acquisition of the brands the processors now own, it's up to them to market the various brands and work with the retailers on that. The retailers have by their discounting, completely devalued milk and the likelihood of the retailers being willing to improve the intrinsic value of milk and manufactured products is very low.

#### **Commitment Four:**

**We will intensify the focus on farm business skills to improve profitability and better manage risk**

**Answer:** Agreed

Consider a discussion to reduce the complexity of farmer advisory services including training. Care needs to be undertaken to understand exactly what farmers need so that there can be a great connection with the farming community

The last 10 years productivity growth has been zero whilst DA has been in charge.

We should be considering farmer profitability and only the others in the chain to the extent that they may be taking advantage from dairy farmers.

#### **Commitment five:**

**We will restore trust and transparency between farmers, processors and retailers to strengthen industry confidence.**

**Answer:** It is not an issue of trust and transparency. It is simply the fact that we have three silos with different objectives and there is a legitimate power struggle for them to capture as much of the rent as possible as they can from each other. To change this is like asking to change the fundamental principles and the consequences of competition.

The report goes into a great deal of detail about these commitments and this detail does not change the reality of earlier comments. If you are building a plan against unrealistic challenges and aims, then we are using a platform or a base that is flawed which means the outcomes will almost certainly fail.

#### **Comment**

This has not been supported by many State dairy organisations when publically responding to the ADP Model report. I agree with them. Some have articulated this well and presumably represents the views of their constituents. So:

- There is likely to be widespread disagreement by dairy farmers against further weakening and lowering their morale and power;
- The Government should be careful in imposing a model that will cause so much disenfranchisement, negativity and distress.

It is noteworthy that the ADP Model Steering Committee for the implementation of the Dairy Plan Model (NewCo B) consists of 6 personnel:

- ADF Directors x 2
- Dairy Product Federation (DPF) Directors x 2

- DA

Directors x 2

So potentially only 2 dairy farmers will be involved.

This is a further reason why dairy farmers will not support the ADP Model. It is extraordinary that EY have been commissioned to help the ADP Model Steering Committee on the basis of assumptions and guidelines for consultants that dairy farmers will not accept. This raises serious questions about the motives of DA, ADF and UDV. Clearly the plans will suit DA and DPF. DA have made it quite clear they work for both dairy farmers and processors and are to that extent, independent (Jeff Odgers, DA Chairman).<sup>1</sup> DA has lost sight that processors are no longer mainly owned by farmers; they are not observing the reality of this. Knowing this, Dairy farmers will be alarmed and want the process stopped now. When dairy farmers are fairly and properly briefed and aware of what is going on, there will be huge anger. The government should be put on notice now so that they do not miss the opportunity for stopping a flawed process where there are a number of people who are acting in their own interest and not that of the dairy farmer. This is very serious.

There are however some issues of common interest where a national model will be good but this potential benefit should not be allowed or used to confuse and weaken the dairy farmers' cause for a separate and exclusive voice, representation and a well-funded, resourced body both State and Federally.

Theoretically dairy farmers do have the power to cease supply, but milk as a perishable product would cost the dairy farmers more than the processors and retailers. The dairy farmers tried this with the Cain Government but milk was deemed by Cain an essential service under the Essential Services Act and so dairy farmers failed. It does not always cost a union member to strike. The processors can still produce products and the retailers have many other products to sell.

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<sup>1</sup> This is definitely a quote from Jeff Odgers but I cannot remember where it came from. Suggest we leave as is.

## The Wannon Model

In October 2019 members of the UDV Wannon Branch (Bernie Free, Bruce Knowles, and Oonagh Kilpatrick) produced a model for reform of the sector. All of the above are active dairy farmers, and engaged the services of a consultant who is the daughter of a well-known Wannon dairy farmer but is also an experienced consultant having spent 10 years with one of the world's largest management consulting firms. Her professional skills and work include strategy, restructuring, finance and change management coupled with an HR Dairy qualification.

With the combination of a deep understanding of the sector and consulting expertise, this group have put together an excellent report for the ADP Committee. This report, unlike the ADP model, has a high probability of being accepted by dairy farmers because the recommendations are based on the practical reality and understanding of the sector. The Wannon paper is well prepared in that upfront it highlights what is called a 'situational analysis' or a fact base, of the major issues facing the dairy sector and the kind of strategies that need to be developed to solve the problem. Unlike the ADP report, it does not have reams of facts and information from that the Dairy Plan meetings and workshops with farmers and processors because they themselves understand the reality of farming and so do not need any further information from dairy farmers; they understand it.

The idea of forming a new national farmer led organisation and rehiring from the National Board, State Board through to regions and branch level administration I do support. However, it must be well-funded. Fresh people and fresh ideas are needed to truly drive a cultural change to propel the industry forward and stop it from haemorrhaging.

I agree with almost all of the Wannon recommendations save for one.

The Wannon Report structure is of a representative model but query the ability to attract skill based directors. It is correct in where it is sourcing the directors from, but it is a little insular in that there is not much scope for thinking outside the sector to gain the contribution of people who are skilled and independent of the sector, enabling the sector to sort out many of the challenges it faces.

The Wannon model has commonality to the New Zealand model of which the DairyNZ is a federated model representing all New Zealand dairy farmers, investing in practical on-farm tools, research, resources, support and advocacy. **A good example of advocacy in action for the NZ dairy farmers was on the Zero Carbon Bill:**

- DairyNZ have been able to influence the Zero Carbon Bill by splitting out animal methane for separate consideration.
- The amount of money saved by dairy farmers in reduced compliance costs and direct tax as a result of DairyNZ scientific evidence has been estimated to be in the magnitude of 99 times the investment.

The DairyNZ model like Wannon's proposed model is that the board members are farmer elected. However, the Dahlsen model is a hybrid of skill based and representational closer to the successful NZ Dairy model (5 farmer elected directors, 3 independents), in which there will be 7 farmer elected directors, 3 independents and a board elected CEO to make a board of 11 members. The ADP Model is substantially representational, but the representation comes from the wrong places, for instance, processors. This threatens independence of an existing farm organisation.

