

A new national organisation for the Australian dairy industry

Report by the Joint Transition Team
to the Australian Dairy Plan Committee

January 2020



Contents

Letter from Chair	1
Executive summary	3
Introduction	6
Imperatives for change	9
Developing a new structure	12
Three potential options considered	18
Recommended – NewCo B Fully integrated model	20
Other options considered	24
Risks	28
Implementation	30
Appendices	32

This report was prepared by the dairy Joint Transition Team (JTT), which was established by the Australian Dairy Plan Committee (comprised of the Chairs of the four current peak organisations – Australian Dairy Farmers, Dairy Australia, Australian Dairy Products Federation and Gardiner Foundation – and with Hon. John Brumby as the Independent Chair). It forms an input to the development of the Australian Dairy Plan (ADP).

The report is based on the direction, issues and priorities identified through the extensive ADP consultations conducted with industry participants during 2019. More information about the ADP and the work of the JTT can be found at www.dairyplan.com.au.

For more information, email contact@dairyplan.com.au

Letter from Chair

This report presents the findings and a recommendation for a dynamic new national organisation to provide leadership and services for the Australian dairy industry. It was prepared by the Joint Transition Team (JTT) in response to a groundswell of support from the dairy business community for transformational change.

The report proposes three strategic choices with an assessment of each against design criteria sourced from industry consultations. It recommends a new model to deliver integrated national industry services that will re-position the industry to be more viable and valued by dairy businesses, governments and the community.

Crucially, this report does not attempt to answer every question and provide a lot of detail. If there is a mandate from dairy businesses to establish the model recommended, the implementation process can then begin and the details can be mapped out.

Dairy businesses know only too well, that the operating environment has changed dramatically for our industry in the past two decades. Being no longer fit for purpose, it is time to move on from the industry institutions that helped us succeed in the past, and create a new, world class model that can really perform and meet the needs of modern dairy businesses from across the value chain.

I am particularly pleased with the commitment and diligence displayed by the JTT members, who collectively bring a wealth of experience and business skills in dairy production, processing and markets, as well as knowledge of governance, policy, advocacy, R&D and marketing. The team was actively supported throughout its work with advice, ideas and input from Brian Ramsay from Inovact Consulting.

We have met regularly as a group and challenged each other and the conventional wisdom of the past. Our goal was to create a new model that can perform and make a tangible difference for the whole industry. We also understand that the model needs to be one that can attract the support and participation of the majority of people and businesses across the dairy business community so that it can exert the level of influence that truly matches the value and significance of our industry.

Finally, I wish to thank the Australian Dairy Plan Committee, who have been staunch and unwavering supporters of the JTT. The Australian Dairy Plan Committee made it clear that 'everything was on the table' and that the JTT should be ambitious in its thinking and develop a new model that is transformational and specifically tailored to the needs of our whole supply chain.

I encourage you to read this report carefully and lend your support for implementation of a new, modern organisation that will enable our great dairy industry to prosper nationally and internationally into the future.



Shirley Harlock Chair

January 2020



Executive summary

An industry initiative for a new organisation

The Joint Transition Team (JTT) was formed in late September 2019 by the Australian Dairy Plan Committee (comprised of the Chairs of the four current peak organisations – Australian Dairy Farmers, Dairy Australia, Australian Dairy Products Federation and Gardiner Foundation – and with Hon. John Brumby as the Independent Chair). The JTT was created to develop options and a recommendation for a new, transformative structure for the national industry. The decision to form the JTT was an action from the Australian Dairy Plan, which involved extensive consultation with over 1,500 industry participants from across the entire dairy supply chain. It is an industry-driven and owned initiative. This report meets the JTT's Terms of Reference (Appendix A).

The JTT has worked diligently and at pace since formation to identify the best model to take the industry forward. The JTT's analysis confirmed the view expressed by industry participants that the current industry institutional arrangements are no longer fit for purpose for today or suitable to take the industry forward. There is little interest from the industry in continuing with the current structural arrangements and it is clear that achieving transformational change is both essential and urgent.

The JTT has approached its work with an emphasis on defining a new, world class model that will perform and create significant value for dairy businesses along the entire supply chain. Three options were developed and tested against the design criteria to select the recommended model (NewCo B).

Features of NewCo B

The organisation will be established as a fundamentally new business model. Distinctive features include:

- For the first time, one national organisation will be responsible for providing all industry services (such as policy, advocacy, R&D and marketing);
- NewCo B will be the mandated R&D Corporation for the Australian dairy industry;
- The integrated services will be provided across the entire dairy value chain at the national and regional levels;
- The company will have a regional presence through its offices, providing one national brand and a clear line of sight for regional dairy businesses (farmers, processors and other local businesses and organisations that have a shared interest in a thriving dairy industry);
- There will be one levy for farmers and the integrated services will be funded from that levy;
- Processors will be members and contribute financially;
- There will be capacity for other membership categories, such as for people and organisations that form the wider dairy business community;
- High performance and the implementation of efficient and effective systems and processes will be assured through the formation of a Project Management Office that reports to the Chief Executive Officer or the Chief Operating Officer;

- A national forum will provide a mechanism for collaborative discussion by dairy value chain businesses of the major issues and opportunities that could influence the future profitability and sustainability of the dairy industry;
- The company will provide one point of contact for all dairy businesses, governments, domestic/export customers, the media and the public;
- The company will develop its strategy in consultation with key stakeholders and incorporate the findings of consultations conducted in preparing the Australian Dairy Plan.

The governance of the company has the following features:

- 1 It will be a company limited by guarantee under Corporations Law.
- 2 One skills-based board will be responsible for all industry policy and service delivery functions such as R&D and marketing;
- 3 The Board will include a maximum of nine directors;
- 4 Directors will be selected by a director nomination committee through an open process, with the recommended candidates appointed by NewCo B Members at an Annual General Meeting;
- 5 There will be a rotation of directors, with three-year terms and a maximum of three terms;
- 6 Directors will be remunerated at market rates;
- 7 The Board will have an independent Chair for the first three years while the company is established and operationalised, and thereafter the directors would be able to elect the Chair;
- 8 The board will appoint the Chief Executive Officer;

- 9 The company will be eligible to receive the statutory Dairy Services Levy, with eligible expenditure on R&D attracting the matching government contribution; and
- 10 One organisation that is accountable to members and investors.

These characteristics represent a transformative change for the Australian dairy industry. They will provide the industry with a modern, world class model that can excel, offering a clear line of sight and accountability to those who fund the company.

Importantly, the model is transformative, but not a radical or unachievable construct. The various features built into the model are well-established, proven and are already in place for other organisations and industries. This model brings all the features together in a manner that is uniquely tailored to the dairy industry, with the capacity to adapt quickly as the entire dairy industry evolves.

A particular strength of the model is the capability to develop and advocate evidence-based policy with authority and influence. The evidence used would not only be technical, but include evidence of the priorities of dairy businesses across the entire value chain – the interests of the industry as a whole. It provides agility and transparency in the development and advocacy of policy from the grass-roots to decision makers.

The new single national organisation will be responsible for establishing a consistent message with the media, the community, other industries and the government. The goal of the new organisation is not to appease every person or business, but to make informed, timely decisions and act in a balanced way for the greater good of the industry.

In practice, the Chief Executive Officer would have a visible role and responsibility within and external to the industry in implementing strategy, including advocating of industry policy. The Chair and dairy businesses (e.g. regional businesses) would be involved in advocacy as necessary to maximise effectiveness.

Funding

A one-off investment will be required to form the new company. Ongoing funding will be through a statutory levy paid by farmers (the current levy). In addition, the processing industry would pay fees for membership of NewCo B, ideally through a statutory levy mechanism. The company could generate other income, such as through commercial mechanisms.

Implementation

The JTT recommends the formation of a Joint Implementation Committee (JIC) as soon as feasible to develop a plan to transition into the new arrangements. Ideally, the JIC will have an independent, professional project manager with relevant experience and access to legal, accounting and other professional advice to ensure the smooth transition to the new arrangements.

It is important to move quickly and form the new organisation so that industry resources are being utilised to optimum effect for industry businesses and to provide certainty for valued staff across industry organisations. The JTT recommends that the new arrangements should be in place within 18 months after the JIC is appointed by the Australian Dairy Committee.

Recommendations

The JTT has responded to the findings of the extensive industry consultation conducted during the ADP and addressed its Terms of Reference.

The JTT recommends that:

- 1 The Australian dairy industry transform its national industry organisations by establishing one fully integrated member-owned company (NewCo B) that will give dairy businesses more influence to directly shape the industry's future;
 - a One organisation that is flexible, agile and able to perform at world class level for dairy businesses;
 - b JTT wholly agrees with the conclusion of dairy industry businesses that the current arrangements are no longer fit for purpose.
- 2 NewCo B provides all industry services (policy and advocacy, R&D, marketing) in an integrated manner to maximise the efficiency and effectiveness of its operations. Services will be provided across the entire dairy value chain at national and regional levels.
- 3 Farmers pay one levy for NewCo B membership, being the current statutory Dairy Service Levy. In addition, the processing industry should pay membership to NewCo B, ideally through a statutory levy mechanism and at a rate established through consultations by processors;
 - a The company will use levy funds for 'strategic policy development' which includes policy advocacy as per the long-established precedent between the Australian government and Australian Pork Ltd;
 - b The company will not be involved in party-political activities.
- 4 The national strength of NewCo B will be based on its deep and direct connections with the dairy business community at a regional level;
 - a NewCo B will have a regional presence with the flexibility to tailor services to each region. It will value the distinct differences between regions and its services will help to optimise regional comparative strengths that allow regional businesses to compete successfully in the marketplace.
- 5 NewCo B has a skills-based board of nine directors who are selected through a director nomination committee and approved by members at an Annual General Meeting;
 - a Directors will have three-year terms with a maximum of three terms.
- 6 An independent Chair be appointed from start-up to provide investors (government and industry) with confidence in the stability and governance of the company;
 - a After the first three years of operation, the appointment of the chair will revert to the normal practice of directors electing their Chair.
- 7 The Australian Dairy Committee form a Joint Implementation Committee to prepare a detailed change plan, with full implementation proposed by 1 July 2021.

Introduction

The purpose of this report is to provide strategic options and a recommendation for transformative reform of national industry structures. The approach taken in preparing the report was to provide information that will support dairy businesses to make a strategic choice about the future business model for national industry services that would best meet their needs.

The dairy Joint Transition Team (JTT) has prepared the report for the Australian Dairy Plan Committee, as input to the Australian Dairy Plan (ADP).

Background

The dairy industry has been facing major challenges in recent years, culminating in a surge of businesses exiting the industry and a decline in national milk production. Dairy industry leaders recognised that a national, whole of industry approach is essential to place the industry on a more viable trajectory.

In response, Dairy Australia (DA), Australian Dairy Farmers (ADF), Australian Dairy Products Federation (ADPF) and the Gardiner Dairy Foundation came together to develop the Australian Dairy Plan in November 2018.

The Australian Dairy Plan aims to set the priorities for the dairy industry for the next five years and into the future. After extensive consultation with the industry about the priorities of the plan in over 20 regional workshops with over 1,500 attendees, a national workshop was held in Melbourne with 130 dairy leaders on 30–31 July 2019.

The purpose of the national workshop was to make substantial progress on development of the ADP.

One of the essential outcomes of the workshop was the formation of a Joint Transition Team (JTT) to develop options and a recommendation for a new, transformative structure for the national industry (Appendix A).

The current industry institutional arrangements are no longer fit for purpose

Developing this report

The Joint Transition Team (JTT) has worked diligently to develop this report, holding eight meetings since it was formed in late September 2019:

- 25 September;
- 9–10 October and 23 October;
- 6–7 and 18–19 November;
- 4–5 December; and
- Teleconferences on 12 December 2019 and 13 January 2020.

At the outset, the JTT agreed that it was important to communicate progress with its work and:

- Posted an update to the Australian Dairy Plan website immediately after each full meeting;
- The JTT Chair conversed with the ADP Committee after each JTT meeting to inform them of progress;
- The JTT called for submissions by 16 October 2019, and received a strong response from industry participants with many organisations, groups and individuals contributing their ideas;
- The Australian Dairy Plan Committee and CEO's met with the JTT on 9 October and again on 18 November to share their thoughts and ideas with the team;
- Provided a statement of progress to the Chairs of Dairy Australia and Australia Dairy Farmers prior to their respective Annual General Meetings in late November 2019
- The JTT Chair and three members met with the Australian Dairy Plan Committee on 18 December 2019 to formally present the draft report and brief the Chairs on the findings and recommendations.

Strategy

The strategic choices for the dairy industry to restructure its service organisations are shaped by the preferred vision that businesses have for the future industry. The Australian Dairy Plan (ADP) has identified important strategic priorities for the industry and these have been considered to inform the Joint Transition Team's (JTT) strategic thinking about the implications for the best model.

The JTT understands that the business model will need to remain relevant and effective whether the industry increases/decreases volume and/or value of production. Based on the ADP outputs and for the purposes of its work, the JTT has used the following as a working description of the strategic intent for the future industry.

Our Vision

- A confident, profitable and united industry

We Value

- Profitable Australian dairy businesses
- Environmental and social sustainability

We will Act

- Collaboratively, for the greater good of the industry
- To promote our industry and its products

Our Purpose

The new organisation will exist to:

- Bring the whole industry together and collaboratively set direction and priorities;
- Develop and implement strategies and plans to help secure a positive future for the whole industry;
- Provide integrated services that create value for dairy businesses in vital areas where they cannot easily succeed by working alone; and
- Enable industry value chains to innovate and adapt faster in a dynamic marketplace.

External and internal review

Throughout its work, the JTT placed emphasis on the findings of the comprehensive consultations conducted as part of the ADP. These views are current, sourced from people across the entire dairy supply chain and well documented. Specific sources accessed by the JTT included:

- Summaries of regional workshops;
- Summary of the National workshop on 30–31 July 2019; and
- Australian Dairy Key Directions Statement October 2019.

In addition, the JTT was pleased to receive a number of submissions to further inform the development of a new model for the dairy industry. Submissions were received from regions, farmers, processors and industry organisations. There were a variety of views and some common themes across the submissions. On balance, most submissions reinforced the need for an accountable, high performance one-stop shop with one brand and one levy for dairy industry services. The themes from submissions overlapped in many areas with the themes that emerged from the nation-wide ADP consultations.

The JTT identified and discussed several models from outside the dairy industry, including:

- Australian agriculture – such as the cotton and pork industries
- Political platforms, such as GetUp! and
- Member-based organisations that have successfully modernised, such as the RACV.

The team noted that various reports and studies, such as publications by the Australian Farm Institute had useful insights to offer. One of the key findings, was that the design of a successful model for dairy must be tailored to the characteristics of the industry and the type of challenges it faces. Simply adopting an existing business model that works for another industry or sector with different attributes, culture and challenges would almost certainly underperform or fail.

The team recognised that while there is an imperative for transformative change, it does not mean that all elements of the industry organisations are underperforming or not valued by many dairy businesses. The current industry structures and their alignment or shortcomings against the design criteria were discussed.

The JTT reviewed the design criteria that were produced by participants at the Australian Dairy Plan national workshop on 30/31 July 2019 and agreed that these provide a sound basis for assessing design options.

The JTT's desktop research, review of ADP consultations and submissions received all confirmed that, more so than ever, the current industry institutional arrangements are no longer fit for purpose to meet the challenges of the present business environment, nor to take the industry forward.



Imperatives for change

Australian dairy industry businesses have experienced profound change in the last two decades following domestic market deregulation.

However, the major changes to the regulatory and market environment for businesses have not been accompanied by major changes to the national industry institutions. For example, the federated model for national advocacy remains virtually unchanged from when the industry operated in a regulated market.

These national industry institutions served the industry well in the past, but there is now a groundswell of support from dairy businesses for the national industry service organisations to be rapidly transformed to face the modern industry and perform at a world class level. In particular, the overwhelming feedback from industry participants in the national ADP consultations was that advocacy services no longer meet their expectations.

The need for transformative change is motivated by multiple factors that are both internal and external:

- **The industry operating environment has changed fundamentally** The market changes are especially evident since deregulation of the industry in 2000. The legislation controlling the sourcing and pricing of fresh milk was removed, creating an unregulated market where prices are now much more influenced by supply and demand across domestic and international value chains.
- **Fixed prices for milk at a retail level** The introduction of \$1 per litre milk by the major supermarkets has capped prices across the supply chain, while domestic costs of production are increasing to create a cost-price squeeze.
- **Rising input costs** such as energy, feed, labour and water has seen dairy farmers in some regions (e.g. those that are dependent on irrigation water) become less profitable with many leaving the industry.
- **Volatility in the industry** A substantial proportion of milk production is exported, which exposes the industry to the influence of international market prices and market shocks.
- **Rising imports** Dairy product imports rose from 8% in 2004–2005 to 22% in 2017–2018 (ADP national workshop report). Imports have increased competition in the domestic market, especially for those products traded on a commodity basis.
- **Globalisation and free markets** Increased international competition emphasises the strategic logic of one national organisation with the scale, influence and authority to act on behalf of the whole industry.
- **Fewer larger businesses** The trend is for declining numbers of farming and processing businesses across Australia, with more consolidation and increased scale. The current institutional arrangements were established at a time in history when the industry characteristics and demographics were very different to those of today.
- **Regional differences** There are variations in production systems and a contraction in the number of businesses and the scale of production in some regions, while others are increasing. A major implication is that national industry services need to be tailored to the needs of different regions.
- **Competition as a commodity** Rising costs and competition make it difficult for the Australian dairy industry to compete wholly on a commodity basis. Differentiation on product attributes (e.g. regional provenance) and niche products are becoming more important.
- **Effectiveness of communications** Dairy businesses are going through a period of intense change, creating an imperative for timely, clear and direct communications that help inform strategic business decisions. The current structural arrangements make it difficult to reach a common position and provide authoritative and consistent messaging internally and externally.
- **Decline in cooperative arrangements** The processing sector is no longer dominated by cooperative structures, as was the case when the current industry organisation arrangements were formed.

Advocacy services no longer match business expectations

- **Processor representation and relationships** The processing sector continues to evolve with fewer larger firms that have a national and international market presence. Processor representation is important as they have their own particular challenges. However, the prosperity of the processing sector is also intrinsically linked with the economic health of dairy farmers. The quality of the relationship between processors and farmers has deteriorated in recent years, with a dairy mandatory code of conduct coming into effect from 1 January 2020.

- **Dairy farming businesses are signalling where they see value**

Trends in industry organisation membership provide a strong market signal about the perceived value of industry services now offered. Farmers have been continuing to exit the industry, with around 5300 dairy farmers nationally in 2018–19.

- Dairy farming businesses are opting out of the traditional federated representative model. In most cases, the decline in State membership has been catastrophic. Around 70% or more of farmers have chosen not to be involved, including in States with a large number of farmers and scale of production.
- Dairy farming businesses are opting into membership of the levy funded body Dairy Australia. Membership is voluntary and free to all dairy farmers who pay the statutory Dairy Service Levy. The number of Group A members is trending up and, in September 2019, Dairy Australia had 3,580 members. Dairy Australia's membership is potentially 2–3 times more than the total membership of the industry representative bodies.

Against the backdrop of these imperatives for change, the current industry arrangements are struggling. The situation is that many dairy businesses are experiencing hardship while their industry organisations and the people working in them are unable to respond effectively despite their best efforts. The limitations of the current arrangements are translating as an inability to form a timely and common position on important national policy issues with associated:

- Fragmentation and divergent views being promoted by different groups (state associations and dairy industry splinter groups) to the media and parliamentarians;
- Mixed and conflicting messages going to government and industry alike;
- Ongoing media coverage of industry conflict and confusion;
- Parliamentarians using the mixed messages to their own political advantage;
- Triggering of a parliamentary inquiry into the industry in 2019; and
- Opportunities for individuals to use social media to amplify their personal criticism and concerns.

In summary, the current arrangements are unrepresentative of dairy businesses and enable behaviours that are damaging to the reputation of the industry and its products. They are undermining the ability of the industry to present a unified view, optimise use of industry resources (people and money), develop trusted relationships with key stakeholders and exert positive influence that is proportionate to the current and potential value of the Australian dairy industry.

Dairy farming businesses are opting out of the traditional federated representative model

The industry needs a new model that can enable businesses to exert much more influence over the industry's future. It is evident that the concerns expressed by industry participants across the entire dairy value chain are valid. The JTT agrees: there is an urgent need for major reform to dairy industry organisational arrangements.

The ideal future scene

Dairy businesses are seeking different industry structural arrangements to take the industry forward. The current situation and the characteristics of a possible future scenario are outlined below.

The future scenario highlights that a fundamental shift in the industry institutional arrangements would be needed for the future scenario to be achieved.

The industry needs a new model that can enable businesses to take more direct influence over the industry's future

Item	Current	Future
Farmer membership of the national body	Low and declining numbers and production involved	High and increasing business involvement by number/value
Brand	Many organisational brands across regions, states, and nationally	One brand, one organisation
Collaboration	Fragmented with splinter groups	Unified: across the supply chain, within and between regions
Funding	Uncertain. Statutory Dairy Service Levy for farmers plus multiple memberships by businesses	Stable with one levy. Generating other revenue/co-investment
Culture	Divisive, problem-oriented	Collaborative, solution-oriented
Accountability	Unclear, blame shifting	Clear and direct
Value for money	Variable or uncertain	Measured and growing
Services	Split between many organisations	Integrated in one organisation
Supply chain relationship	Distrust, supply-oriented	Trusted, customer oriented
Governance	Mix of representative and skills-based.	Skills-based
Decisions	Slow (weeks, months, years); based on views and opinions of a minority of dairy businesses	Rapid (hours, days, weeks) and based on evidence from the majority of dairy businesses
Dairy business involvement	Tribes – farmers and processors	Dairy business community
Geographic frame	Primarily state-based	Strong, direct influence of businesses and regionally-based
Communication	Many competing voices	One authoritative voice, one position, recognises diverse views
Regions	Numerous industry boards, committees, subcommittees and advisory groups	Technology used to engage directly with people in regions. Inclusive communication, minimal bureaucracy

Developing a new structure

The JTT noted the current structure (Appendix B) and developed three options at a conceptual level (i.e. strategic choices), rather than prescribing each in detail.

The JTT considers that it is the responsibility of the board governing the new future model to decide how the organisation will deploy its resources to perform most effectively and efficiently on behalf of members and the industry as a whole.

The national dairy organisation will perform through its engagement with and trusted relationships it develops with multiple stakeholders. Particularly valuable relationships are with those stakeholders that are in a position to make decisions or exert influence that impacts on the prosperity of many dairy industry businesses.

For example:

- Export and domestic customers for Australian dairy products;
- Corporate retailers;
- The Australian public/community;
- Federal and State governments;
- Cross-commodity industry organisations at the national and state levels; or
- Dairy businesses across the whole value chain.

The new national body will require a strong capability to develop and strategically manage relationships with these types of stakeholders.

Design criteria

The national dairy plan workshop provided strong criteria for a world class design (Appendix C). These criteria and the potential structural implications are listed in the adjacent table.

Design criteria	Implication
Whole of industry	At a minimum, includes farmers and processors. Provide avenue/s for the broader dairy business community to be part of the national industry organisation. Provides mechanisms such as a national forum for engagement with dairy value chain businesses.
Well-funded and resourced	Strong value proposition; evidence of value for money. Capacity to access and generate other sources of funds from within and outside the industry. Professional, skilled team – an employer of choice. Eligible to receive statutory levies and matching government R&D contribution.
Scope encompasses all industry services	One national board responsible for all industry services (i.e. policy, advocacy, marketing, R&D and adoption, strategic policy development etc.)
Speak with one voice	One board plus a professional management team responsible for strategy, implementation and performance. Strategic relationship management and tailored communications with governments, influential stakeholders, media, community.
Nimble, agile, responsive	Governance: by one organisation that can decide and act fast. Clear and practiced roles and responsibilities. Connected: Direct engagement with dairy value chain businesses (face to face, digital); governments (policy-makers, regulators); and the community. Informed: Knowledgeable and savvy about dairy markets, industry trends, policy priorities, commercial practices. Strategic: Long-term view, investing in a few agreed strategic priorities, while responding effectively to current/emerging issues.
Simple, efficient, streamlined	Optimal with one organisation that has responsibility and accountability to perform. Align structures to face businesses (and regions) and not political boundaries (States); integrate services to achieve results with the major priorities for businesses.

Milk pricing

Some ADP consultations and submissions received by the JTT raised the question as to where milk pricing would fit into the new model.

The JTT considered this question carefully and believes that decisions about milk price are fundamentally a commercial matter between buyer and seller. Therefore, milk pricing issues are best resolved through negotiations between the businesses concerned.

The new industry arrangements will assist indirectly with milk prices. It will do so through integrated services that help to increase the demand for Australian dairy products, develop new opportunities for selling Australian Dairy products internationally, and productivity gains through world-class R&D. Further, the types of initiatives foreshadowed in the Australian Dairy Plan commitment to restore trust and transparency between farmers, processors and retailers are designed to address issues associated with milk pricing.

Common considerations for a future model

- The need to have a clear line of sight for dairy businesses through to the leadership of the organisation, ensuring that members feel part of their organisation.
- A regional presence makes sense as it reflects the distinct geographic groupings of dairy businesses. At the same time, the choice of a direct line of sight to the national organisation needs to be available for all individual businesses or sub-groupings.
- Establish an annual national forum that facilitates collaboration and allows for businesses to discuss common challenges and opportunities facing businesses, regions and the industry as a whole. The national forum would contribute to: developing shared awareness of issues; develop industry leadership and human capital; generate ideas; develop networks and working relationships; catalyse innovative thinking; and inform the organisations strategy and priorities. Importantly, the national forum discussions would be advisory in nature with the board remaining accountable to members for decisions and performance. The forum may be convened more than once per year if the board considers it necessary, which may be the case during the early years after company formation.
- The use of one levy for the new national organisation. If businesses wish to pay fees for state-based services to a state farming association, then that choice is available to businesses.

- There are several organisations across the dairy industry with substantial industry funds held in trust. The governance bodies responsible for each of these funds should review the opportunities to bring their funds closer together and identify how investment of the interest generated could be integrated with the new national institutional arrangements.

The organisation will need a strong internal capacity to resolve issues where there are divergent interests within the industry

- On most issues, there will be alignment between the interests of farmers and processors. However, the organisation will need a capacity to resolve issues where there are different interests between each sector.
- Much of the confusion with dairy industry services relate to different interpretations, misunderstanding and miscommunication about the definitions of 'advocacy' and 'policy'.
- The JTT considers that these terms need to be clearly defined and the precedent established in the Australian Pork Limited Statutory Funding Agreement (Appendix D) is appropriate and relevant.

- Dairy farmer and processor businesses are fundamental to the membership of the new organisation. However, there are opportunities to look beyond these groups to tap into a wider network of stakeholders who have a shared interest in the future of the dairy industry. For example, service businesses, education institutions, students and people living in dairy regional communities. Providing pathways for wider involvement will create a stronger capacity for influencing and a greater sense of community.
- Developing a more collaborative culture across the dairy industry will be fundamentally important. The new model will need to bring people together and enable collaborative rather than combative behaviours and with an emphasis on finding workable solutions rather than dwelling on problems.

Economy-wide trends that affect all businesses include: consolidation for scale, digital platforms to connect with people in real time, data-driven decisions using artificial intelligence, evidence of value for money, collaboration/alliances on issues of shared value, speed to market, tailoring of services to meet the needs of different people and organisations and so on.

When the above trends and factors are considered along with the design criteria, the weight of evidence points in one clear direction:

For the new model to be one integrated, flexible organisation that is agile, deeply connected with dairy businesses across value chains and is externally engaged with governments, markets and the community.

Elements proposed for any new model

Given the above points and following consideration of the design criteria, the JTT identified several factors that are important and would apply to any new and more integrated model. These included:

- 1 Skills-based board;
- 2 Regional presence;
- 3 Definition of Strategic Policy Development
- 4 Definition of what constitutes agri-political activity; and
- 5 Ability to understand and balance divergent points of view.

Skills-based board

JTT considers that the new model must have a skills-based board rather than a representative board. A skills-based board means that directors are chosen for their skills and experience, usually through a director selection committee and appointed by members at an Annual General Meeting. By comparison, directors for a representative board are usually appointed through popular voting with directors representing particular groups, such as sectors (e.g. processors or farmers) or geographies (e.g. states).

A skills-based board is a modern governance arrangement that is fundamentally important for achieving the high performance sought by dairy businesses. It places the board's primary emphasis on facing the market and collaborating for the purpose of achieving commercially valuable outcomes for industry businesses as a whole. A key implication is that most members of a skills-based board will need to have direct experience and deep knowledge of the national and global dairy industry.

Regional presence

It will be important in the new model for dairy businesses in the major production regions to be directly connected with the national organisation. The new organisation (NewCo B) will have the capacity to provide most services that are delivered by State dairy farming organisations.

The national body will have a regional presence and the flexibility to tailor services to each region

The new model will value the distinct differences between regions and enable optimisation of regional comparative strengths that allow them to compete in the marketplace. There would be a regional presence for the national body, with the flexibility to tailor services to each region. Regardless of how each region may be organised, they will all be executing the same national strategy under one common brand with consistency and the same direction for the whole industry.

Due to the distances both inside dairy regions and between different regions, the use of technology to connect people and businesses in real time is vital. There is still a need for people to meet personally on important matters, but the use of technology to increase communication and engagement will assist in building the community aspects of the regions.

At present, with the eight Regional Development Programs (RDPs) and six State dairy organisations, it means that dairy businesses are funding in excess of 14 different organisations with different boards, strategies, systems, processes and services. In addition, there are a multiplicity

of associated committees, sub-committees and advisory groups, with potentially hundreds of people involved.

The level of complexity is significant and undermines the ability of the industry to optimise the use of resources to full effect. It is difficult to decide and act quickly with authority.

The long-term trend for a declining number of farms means that a smaller number of regions than in the current system would be beneficial in the future. By working with fewer regions that are larger in size, dairy businesses can have better access to resources through the scale that a larger region can offer.

The JTT believes that engagement in the regions should enable businesses to raise issues and opportunities quickly through direct channels and enable faster decisions and action on the ground. Greater speed will involve much less formal bureaucracy at the regional level.

Some of the key elements of new regional arrangements could include:

- Six or less regional offices of the national body;
- Tailored services/staffing to match in each region and leverage comparative advantages of each regions;
- One-stop across policy development, advocacy, R&D and marketing, in concert with private enterprise;
- Sharing of regional best practice between regions;
- Responsible for engaging with dairy businesses and issues across the entire regional dairy business community; and
- Providing a local mechanism to escalate important regional ideas/ issues and to convene events or activities that facilitate development of the regional economy.

Strategic policy development

The JTT believes that a major source of confusion in the delivery of dairy services relates to the different interpretations, misunderstandings and miscommunication about the definitions of 'advocacy' and 'policy'. In future, JTT considers that the function of 'strategic policy development' as defined below should be adopted by the dairy industry:

Strategic policy development means in relation to any matter which affects or may affect the Australian Dairy Industry:

- 1 *The collection of information from a range of sources (including consultation within the Australian Dairy Industry, and with other industries, government, other stakeholders or the public);*
- 2 *The balanced analysis of that information in the context of the Australian Dairy Industry environment;*
- 3 *The development of a strategic policy position within the Australian Dairy Industry and*
- 4 *The advocacy of that position (including within the Australian Dairy Industry, and with other industries, government, other stakeholders or the public).*

The new national body will develop and advocate industry policy without being involved in party-political activities

Adopting such a definition would transform the capacity of the dairy industry to develop and advocate its policies, by:

- Placing all responsibility for policy in one organisation, rather than in a separate 'prescribed body' that is responsible for advocacy; and
- Enables the dairy industry to use the statutory Dairy Service Levy for advocating industry policy.

A system change of this nature will have far-reaching, positive implications for dairy value chain businesses, the government and other key stakeholders.

Agri-political activity

Agri-political activity is very different to strategic policy development. It refers to party political activities, defined as:

Any activity intended by the Company to exert political influence on government to advantage one political party or political candidate over another, and includes but is not limited to the following activities:

- 1 *Funding or making donations to a political party, member of parliament or candidate for parliament;*
- 2 *Advertising, or funding advertising, that supports or opposes a political party, member of parliament or candidate for parliament;*
- 3 *Developing, designing, participating in or funding a parliamentary election campaign or other party-political campaign; or*
- 4 *Recommending or advising, through whatever media, how persons should vote at a parliamentary election.*

The Australian dairy industry has not taken action of this nature in recent decades. However, under the current arrangements, the advocacy body could take act in a party-political manner if it was deemed necessary and members agreed.

It is inevitable and healthy for robust discussions on important industry issues before decisions to form an industry position

The JTT recommends that the new national industry service organisation is not involved in agri-political activity as defined above. In the event that the industry wishes to conduct such agri-political activities in future, then it would need to occur outside of the new national organisation and with the support of dairy businesses.

Understanding and balancing divergent points of view

The dairy industry includes many individuals and organisations, each with their own viewpoints and priorities at different times. It is inevitable and healthy that there are robust discussions on important industry issues before decisions to form an industry position. Divergent views on specific issues can exist between:

- Processors and farmers;
- Regions;
- Exporters and domestic suppliers;
- Retailers and rest of value chain;
- Large businesses and small businesses; or
- Importers and other dairy value chain businesses.

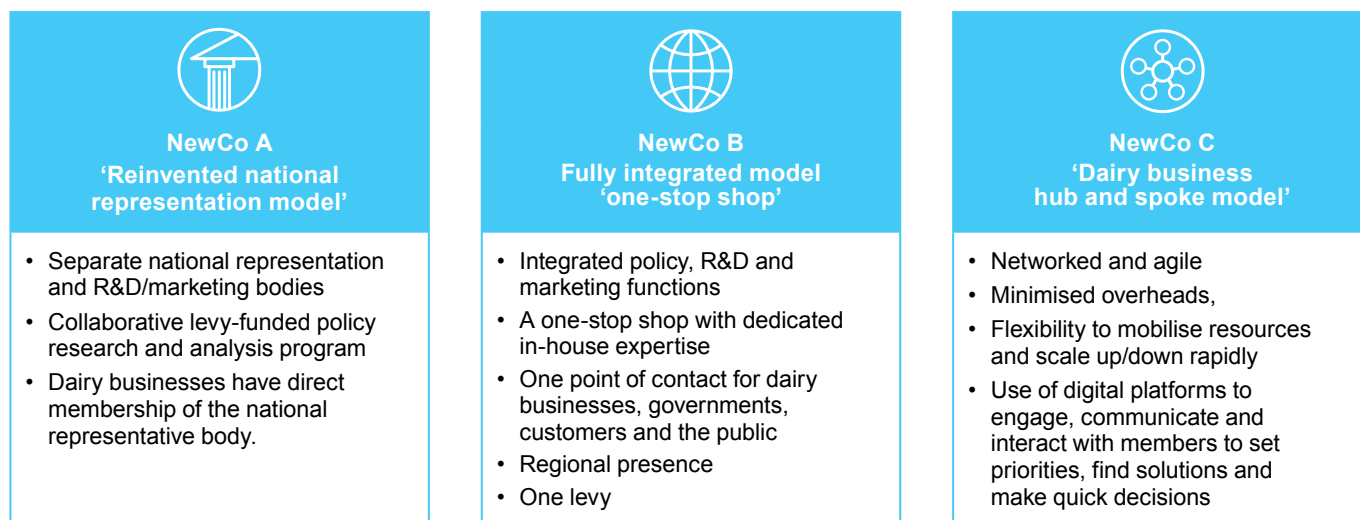
The current complex organisational arrangements, with numerous separate organisations, boards and committees at national, state and regional levels make it difficult to reach a common view.

The new single national organisation will be responsible for establishing a consistent message with the media, the community, other industries and the government. It will involve direct engagement with industry businesses and the critical issues are that: such conversations are respectful; that differing views are listened to; that objective evidence is gathered, analysed and considered; and that decisions are made in the best interests of the industry as a whole. Crucially, the goal of the new organisation is not to appease every person or business, but to make informed, timely decisions and act in a balanced way for the greater good of the industry.

Decisions are made in the best interests of the industry as a whole



Three potential options considered



The JTT developed three potential models and assessed them against the design criteria and the attributes associated with world class industry organisations (referred to as NewCo A, B and C). Each option involves progressively greater transformation.

NewCo A Reinvented national representation model

This option involves significant changes to the national representation and policy arrangements:

- Separate entities for representation and for levy-funded R&D/marketing
- Formal program for levy-funded investment in dairy industry policy research and analysis;
- Shared services; and
- Direct membership of the national representative body for dairy businesses.

NewCo B Fully integrated model

This option would involve integration of all industry services into one national organisation. In addition, it would have a regional presence to provide touch-points for dairy business communities, a Project Management Office for efficient allocation of cross-company investments and the capacity to connect with cross-commodity organisations and other collaborations as necessary. The model is a ‘full-service’ option, with most capabilities being internalised with staff, offices and infrastructure.

NewCo C Dairy business hub and spoke model

This option retains core capabilities within the organisation (e.g. strategy, member and key stakeholder relationships) and outsources most other functions to increase flexibility and minimise overheads. It is a lean version of the integrated model that will leverage digital platforms and tools to enable agility, real time communication and breakthrough relationships with members and other key stakeholders. It allows the organisation to access the best people and services available in Australia or overseas and to scale up and down quickly.

All options involve a fundamental re-think of how policy and advocacy services are defined, funded and managed.

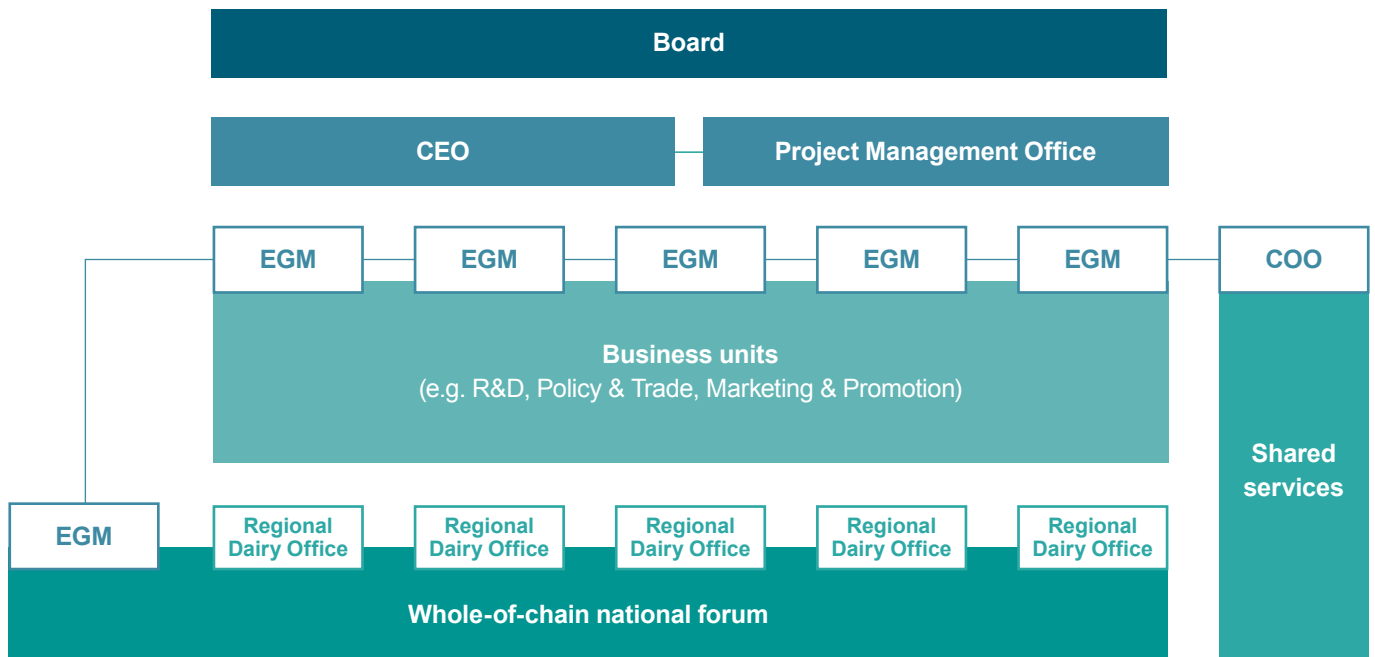
The JTT conducted a qualitative assessment against the design criteria for each of the three strategic choices. The assessment was through

structured discussions and the summary findings are shown in the table below, which reveals the relative ranking of each potential model.

Criteria	NewCo A Reinvented national representation	NewCo B Fully integrated model or 'one-stop shop'	NewCo C Dairy business hub and spoke model
Whole of industry	x	✓✓	✓
Well funded, resourced	✓	✓	✓
Scope includes all services	✓	✓	✓
Speak with one 'voice' improves culture	x	✓✓	✓
Nimble, agile, responsive	x	✓	✓
Simple, efficient, streamlined, minimal duplication, de-layered	x	✓	✓✓



Recommended NewCo B Fully integrated model



The JTT's assessment of each model against the design criteria found that NewCo B offers the best option for the Australian dairy industry. NewCo B will be established as a fundamentally new business model, with distinctive features.

In effect, NewCo B would incorporate and integrate the primary responsibilities of existing organisations including Australian Dairy Farmers, the Australian Dairy Industry Council, the Australian Dairy Product Federation and Dairy Australia.

It is envisaged that NewCo B would have a Chief Executive Officer (CEO), supported by a team of senior professionals including a Chief Operating Officer (COO) and Executive General Managers (EGMs) leading the major business units of the company.

Operational features

- For the first time, one national organisation will provide all industry services (e.g. policy and advocacy, R&D, marketing). Importantly, these services will be provided across the entire dairy value chain including farmers and processors;
- There will be one levy for farmers (the Dairy Services Levy) and all services such as Strategic Policy Development (i.e. including advocacy), marketing and R&D will be funded from that levy. These services may be delivered by NewCo B and/or outsourced on a fee-for-service or project basis;
- Processors will be members, subject to payment of a statutory levy or membership fee;

For the first time, one national organisation will provide all dairy industry services

- A national office in Melbourne, with a presence in Canberra and a regional presence (an office), providing one national brand and a clear line of sight for regional dairy businesses (farmers, processors and other local businesses and organisations that have a shared interest in a flourishing dairy industry)
 - Ideally, there would be a presence in six regions.
- High performance and the implementation of efficient and effective systems and processes will be assured through the formation of a Project Management Office;
- A national forum will provide a mechanism for collaborative discussion of the major issues and opportunities that could influence policy and the future profitability and sustainability of the dairy industry. Participants would include people from businesses from across the entire dairy value chain. The forum will help to inform and confirm the strategic priorities for the industry.

As a fully integrated model, optimising performance will be critical and a Project Management Office (PMO) is proposed:

- The PMO's highest priority is to improve the execution of an organisation's strategic objectives by ensuring the right things are being delivered, and these things are being delivered right;
- PMO will aim to continuously improve project and program delivery, by using lessons learned to develop the organisation's portfolio, project and program capability; and
- The PMO will facilitate and collaborate with project people to ensure that effective change occurs.

These characteristics represent a transformative change for the Australian dairy industry. It will enable the industry to perform at a world class level, with a clear line of sight and accountability to those who fund the company. Importantly, the model is transformative, but not a radical or unachievable construct.

The mix of skills on the board will change over time to match the contemporary needs of the Board

The various features built into the model are well-established, proven and are already in place in various industries. This model brings all the features together in a manner that is uniquely tailored to the dairy industry.

Governance features

The governance of the company has the following features:

- 1 It will be a company limited by guarantee under Corporations Law.
- 2 One skills-based board will be responsible for all industry policy and service delivery functions such as R&D and marketing;
- 3 The Board will include a maximum of nine directors;
- 4 Directors will be selected by a director nomination committee through an open process, with the recommended candidates appointed by Members at an Annual General Meeting
 - a The director nomination committee could be wholly appointed by the board, or some members could be identified at the national forum;
- 5 There will be a rotation of directors, with three-year terms and a maximum of three terms;
- 6 Directors will be remunerated at market rates;
- 7 The Board will have an independent Chair for the first three years while the company is established and operationalised, and thereafter the directors would be able to elect the Chair;
- 8 The board will appoint the Chief Executive Officer;
- 9 The company will be eligible to receive statutory the Dairy Services Levy, with eligible expenditure on R&D attracting the matching government contribution;
- 10 One organisation that is accountable to members and investors.

NewCo B will have the capacity to generate other income including through commercial mechanisms

A particular strength of the model is the capability to develop and advocate evidence-based policy with authority and influence. The evidence used would not only be technical, but include evidence of the priorities of dairy businesses across the entire value chain – the interests of the industry as a whole.

In practice, the Chief Executive Officer would have a visible role and responsibility within and external to the industry in implementing strategy, including advocating of industry policy. The Chair and dairy businesses (e.g. regional businesses) would be involved in advocacy processes as necessary.

Board skills and experience

The skills and experience relevant (but not limited) to the NewCo B Board include:

- Dairy farm management/milk producer skills
- Dairy product processing
- Marketing and promotion
- R&D and technology transfer
- Strategy and planning
- Government policy processes
- International trade
- Communications and stakeholder engagement
- Knowledge and digital economy
- Finance and governance

Individual directors may possess more than one of these areas of skills and experience. Board members will be responsible to always act in the best interests of the national organisation and its members

An independent Chair at start-up is considered important as it provides government and financial members (i.e. processors and farmers) with confidence in the stability and governance of the company. After the first three years of operation, the appointment of the chair could revert to the normal practice of directors electing their chair.

Business people from within the dairy industry would be expected to fill most of the positions and the mix of skills on the board will change over time to match the contemporary needs of the board and the nature of the challenges facing the organisation.

Funding

The ADP consultations indicated that dairy businesses would like one levy to fund all industry services (i.e. national, State and regional). The primary funding for the new national organisation would be through the use of the current statutory Dairy Service Levy paid by farmers. It would also receive the matching contribution from the Australian government for eligible expenditure on R&D.

In addition, JTT recommends that processors are members of the new organisation and make a financial contribution to NewCo B from start-up. The amount of funds for processor membership of NewCo B will require consultations between processors, as will the mechanism for payment. The long-term stability of NewCo B would be best served if a statutory levy is the mechanism used for collection of the funds.

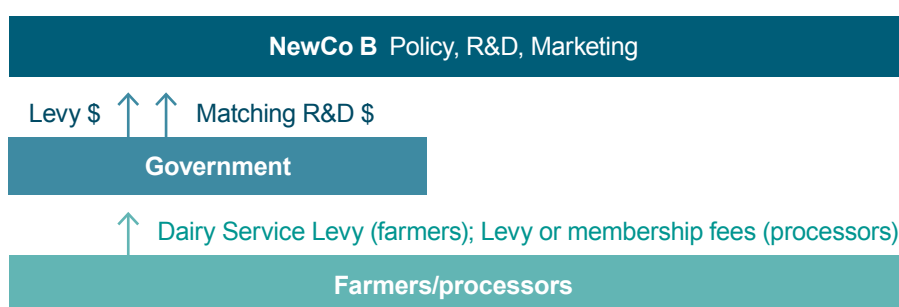
NewCo B could generate other income including through commercial mechanisms such as an Australian dairy brand and logo. Access to such non-levy funds will be especially important if the organisation is unable to reach agreement with the government for the use of levy funds for strategic policy development.

Ideal funding arrangement

The best option for NewCo B is for the primary funding to be sourced from statutory levies (from farmers and processors) and used for strategic policy development, R&D and marketing services. Such an arrangement would provide scale, stability and the flexibility to perform at world class levels. NewCo B could still generate other income. The figure below shows how the primary income flow would work.

Here, primary funding is by levies/membership, with policy/advocacy resourced from statutory levies and accounted for.

This funding arrangement assumes that industry businesses and the government will agree that statutory levies can be used for strategic policy development as previously defined. In the event that they do not agree on this matter, then an alternative funding arrangement will be required to enable the company to invest in the policy and advocacy services that are integrated into the organisation.



Alternative funding arrangement

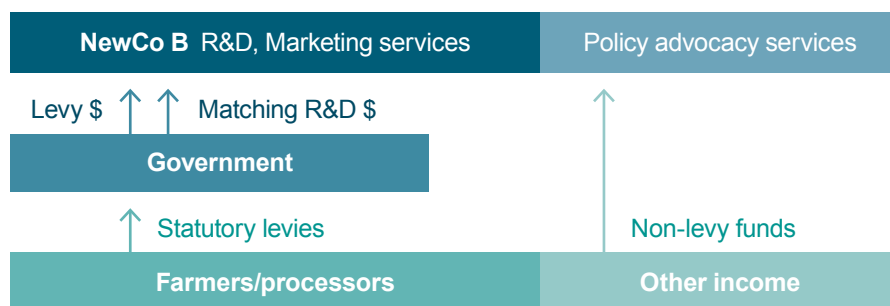
In the event that statutory levies are not used for Strategic Policy Development, the funding will need to come from other sources. NewCo B is designed to have the capacity to generate other income, potentially through commercial mechanisms such as an Australian dairy brand and logo.

Other income could also be sourced by: leveraging interest from other industry assets; creating new income from commercial activities such as events; or from sponsorship/partnership arrangements. If dairy businesses are supportive of the NewCo B model, and if it is necessary to do so, the non-levy funding options can be explored in more detail as part of the implementation process.

Strengths and weakness of NewCo B

The JTT considered the main strengths and weaknesses of NewCo B and these are shown in the table below.

NewCo B offers full integration of all industry services in one organisation and works across the whole dairy value chain including farming and processing. In addition, it would have a regional presence as touch-points for dairy business communities, a Project Management Office for efficient allocation of cross-company investments and the capacity to collaborate with other parties and connect with cross-commodity organisations as necessary to achieve agreed objectives.



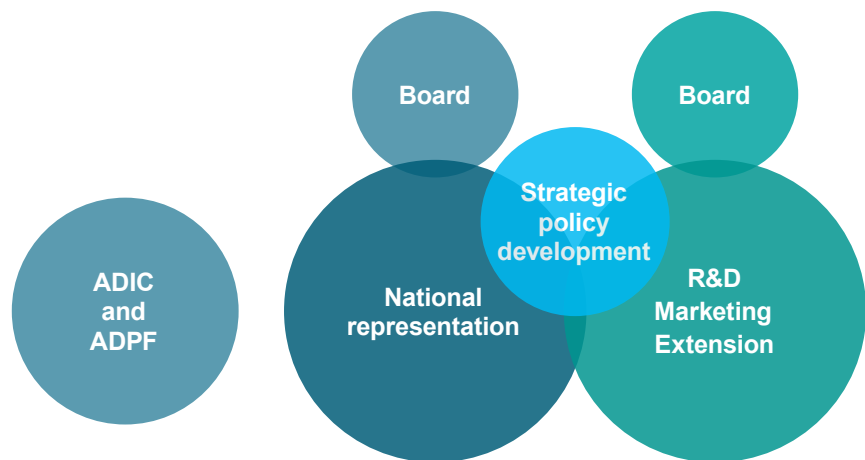
Strength	Weakness
One-stop shop for dairy businesses, government, customers, media, other industry groups and the community	Depends on agreement with government of the definitions for strategic policy development activity and agri-political activity
Regional presence provides touch point for businesses on the ground	Could be perceived as a large, costly bureaucracy, rather than lean and flexible
Whole of industry can speak from one position with authority	Requires a major shift in mindset by all stakeholders
Well-funded with one levy for farm businesses.	
Financial contribution from processors	
Well-resourced with strong 'in-house' capability	
Capacity to generate other revenue through commercial mechanisms and co-funding initiatives	
Opportunity to aggregate industry capital resources	
Can include wider 'dairy business community' for increased scale and influence	

Other options considered

The JTT considered two other viable options, being NewCo A (reinvented representation model) and NewCo C (dairy hub and spoke model). More information on each is outlined below.

NewCo A Reinvented representation model

NewCo A responds to the concerns being raised by many dairy businesses about failings with the current representative and advocacy arrangements. It involves moving the national representative body to have direct membership by businesses, rather than through intermediaries such as State dairy farming organisations, while retaining a separate R&D and marketing organisation.



Operational features

- Separate, more closely aligned entities for representation and for levy-funded R&D/marketing
- A formal program for levy-funded policy research and analysis and advocacy;
- Direct membership of the national advocacy body for dairy businesses;
- Levy income and R&D matching would continue for the dairy industry R&D Company;
- A regional presence to connect with local dairy business communities;
- Integrated services provided via a regional presence with two-way communications;
- Direct line of sight for dairy businesses to the national organisation;
- Includes farmers and processors in the advocacy function;
- R&D/marketing and advocacy/policy to work seamlessly together; and
- Capture efficiency gains through shared services.

Strength	Weakness
Separates policy advocacy from levy funded functions	Two boards instead of one brings cost, priority setting and accountability complications
Dairy businesses have direct membership of representative body without intermediaries	Weak value proposition for members, requiring the development of other funding sources for policy/advocacy
Formal access to levy-funded policy research and analysis program	Complicates governance, as levy-funded organisation could have more businesses in membership than the representative body
	Limits agility with two organisations
	May put matching levy funding at risk
	Fails to address ADP consultation findings

NewCo A is the least preferred option as it does not provide the degree of transformation sought by dairy businesses. It retains an institutional divide between representation and levy-funded services and requires businesses to pay more than one membership levy. Further, it complicates accountabilities, roles and responsibilities by having multiple boards.

The recent extensive consultations to develop the Australian Dairy Plan revealed that the greater majority of dairy farm businesses are dissatisfied with this arrangement and its value for money. They have called for transformative reform.

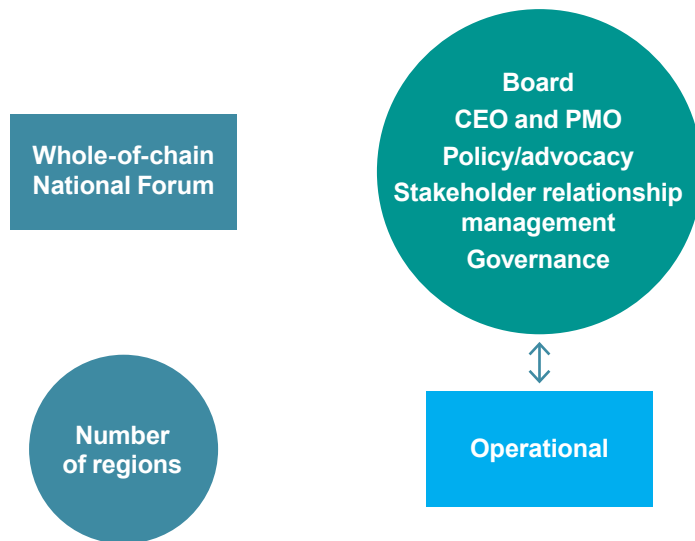
NewCo A should only be considered if the government and the industry do not support the use of levy funds for strategic policy development as previously defined in this report (i.e. including advocacy).

A summary of the main strengths and weaknesses of NewCo A is provided above.

NewCo A involves a transformation of policy/advocacy functions with direct national membership for a clear line of sight for businesses across the supply chain, combined with a formal collaboration on a levy-funded policy research and analysis program. The industry R&D and marketing organisation would continue as a separate legal entity.

NewCo C Dairy business hub and spoke model

NewCo C was carefully considered by the JTT as its lean structure offers low overheads and maximum flexibility to perform. The model is like an evolution of the Fully Integrated Model, with many of the services being outsourced rather than retained in-house. The hub would retain those functions and capabilities that are considered core business and manage programs that are outsourced to service providers that offer the best value for money.



- The model is similar to NewCo B, but places much greater importance on outsourcing of services in a contestable way;
- The emphasis is on being networked and agile rather than highly structured with most capabilities in-house;
- Minimising of bureaucracy and overheads, increasing flexibility to mobilise resources rapidly in response to changing needs of the dairy industry;
- Essential components such as the board, CEO and the governance of the organisation remain in-house with the ability to outsource operational activities such as marketing activities;
- Extensive use of digital platforms to engage, communicate, monitor and interact with members to set priorities, find solutions and make quick, informed decisions and deal decisively with emergent issues;
- There will still be a number of regions that can be serviced by the outsourced activities of the national organisation;
- A whole of chain national forum would enable discussion on matters that the dairy business community considers are high priority for the industry as a whole.

Strength	Weakness
Lean and agile model	Potentially weaker relationships with businesses, more transactional/ project oriented
Accesses and utilises the best expertise available rather than the best that is employed	Some learning is required to decide what to in/outsource – could be an evolution of Option B
Easily scalable as the needs of dairy businesses change	Connectivity and collaboration at risk
Connected and leverages digital platforms and tools to engage, influence internally/externally	Complex management required for outsourced projects/services
EGM's provide direct link to regional presence	

These features are potentially attractive to dairy businesses. However, on balance the JTT considers that moving directly from the current arrangements to NewCo C represents a much higher transition risk than NewCo B. In particular, the JTT was concerned that moving immediately into this model could increase the risk of dairy businesses feeling disconnected from their national organisation.

A summary of the main strengths and weaknesses of NewCo C are listed in the table above.

NewCo C retains core capabilities within the organisation (e.g. strategy, member and stakeholder relationships) and outsources most other functions for efficiency and flexibility to change direction and scale of operations. It is a lean version of the integrated model and uses outsourcing and digital tools to enable agility, real time communication and breakthrough relationships with the members and other key stakeholders. Outsourcing services allows the organisation to access the best people and services available from Australia or internationally.

Risks

Implementation of a new industry structure is an inherently risky process with a number of challenges that can derail the initiative.

The risk is even greater when transformative change is proposed as the process is vulnerable to many internal (industry) and external risks. However, the chances of success greatly increase when the main risks are identified and management strategies are in place to ensure that they are properly mitigated. Some of the major risks that apply for the recommended (or other) options are listed opposite.

The major risks are associated with managing the response and activities of minority industry groups and people involved in existing industry bodies that will have a changed, reduced or no role in the new model.

The technical aspects of implementing the new business model should be surmountable. There is a long-established precedent for using statutory levies for policy, R&D and marketing, with delivery through one integrated national model. The best example is Australian Pork Limited, which was formed 20 years ago. Trends in the private sector are to consolidate for scale through acquisition and alliances and to vertically integrate and compete on a value-chain basis. Similarly, NewCo B can best face its market as an integrated national body that works across the whole value chain, rather than parts of it.

The model recommended by the JTT has been developed with value to dairy businesses as the over-riding consideration

Regardless of the technical feasibility of forming NewCo B, it will require broadly-based, strong and visible support from businesses across the dairy value chain for the transformative change to succeed.

Crucially, the model recommended by the JTT has been developed with value to dairy businesses as the dominant consideration. It reflects the powerful and consistent messages sent by dairy businesses during the extensive consultations conducted to prepare the Australian Dairy Plan. Managing implementation risks successfully will involve a robust process, effective communications and strong leadership from businesses across the industry.

Top five risks	Probability	Impacts/consequences	Mitigation strategy
Competing and/or conflicting proposals from industry organisations, groups and individuals cause confusion	High	<p>Uncertainty and doubt about acting to implement the JTT recommendation:</p> <ul style="list-style-type: none"> • Misconceptions and misinformation about the JTT recommendation; • Minority and organisational opinions prevail over the interests of most dairy businesses; and • Delays and confusion sustain the status quo, or lead to incremental rather transformational change at cost and detriment to all dairy businesses. 	<p>Highlight the findings of the national ADP workshop and extensive consultations with dairy businesses</p> <p>Implement communications strategy</p> <p>Provide multiple channels for industry information</p>
Uncertainty and risk averse thinking brings incremental rather than transformational change	High	<p>Incremental change would likely be rejected by dairy businesses and the status quo would continue at cost and detriment to all dairy businesses.</p>	<p>Communicate the benefits to dairy businesses of transformative change.</p> <p>Enlist support of credible business leaders as advocates.</p>
Political disruption	High	<p>Government political and policy priorities could cause delay, block or modify legislative processes associated with implementation. For example:</p> <ul style="list-style-type: none"> • A Ministerial review is now underway to modernise the rural R&D system; • The agriculture department is now working to streamline and modernise levies legislation; • A Senate inquiry on the Dairy industry is currently in progress; • Dairy organisations and splinter groups that only represent a minority of businesses could lobby parliamentarians. 	<p>Apply strategic relationship management</p> <p>Tailored communication and engagement with government and industry</p> <p>Regular briefing of parliamentarians on what is proposed and why.</p>
JTT recommendations not supported by existing industry bodies	High	<p>Delay and confusion with dairy businesses if leadership and staff of existing organisations have a different role or no role in the recommended model. For example:</p> <ul style="list-style-type: none"> • State dairy organisations would no longer have a formal role within the new entity and instead be one of the key stakeholders and possible service providers • Dairy Regional Development Programs (RDP's) would no longer have a formal role in the new entity as NewCo B would establish regional offices. 	<p>Communication plan emphasising value to dairy businesses</p> <p>Implementation plan with timing to provide confidence in the process of moving from current to new arrangements.</p>
Implementation delayed or blocked	High	<p>Implementation will involve multiple activities with interdependencies, so delays in one area will have flow-on impacts to overall timing.</p> <p>Significant delays could undermine industry confidence and put implementation success at risk, with opportunity cost to all dairy businesses.</p>	<p>Consistent and active communication with dairy businesses.</p> <p>Appoint a Joint Implementation Committee with resources to ensure timely action.</p> <p>Regular review and updating of risk and implementation plans.</p>

Implementation

There are high expectations held by dairy industry businesses for rapid implementation of a transformative new business model. At the same time, there are significant external and internal risks/issues that could cause delay, or even derail implementation altogether.

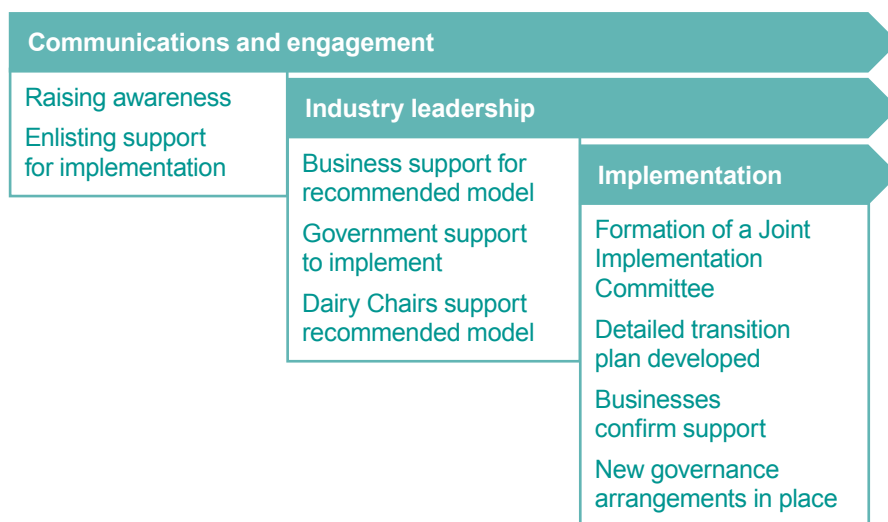
Crucially, this report does not attempt to answer every question and provide a lot of detail. Instead, it presents three strategic choices and recommends one structural model for dairy businesses to consider. If most businesses are supportive of the recommended model, the next phase can commence with the Joint Implementation Committee working through the details, taking account of the questions and ideas that come forward in response to this report.

There is a deal of complexity ahead. In effect, NewCo B would incorporate most (or all) responsibilities of existing organisations including Australian Dairy Farmers, the Australian Dairy Industry Council, the Australian Dairy Product Federation and Dairy Australia. The boards of those organisations will need to discuss the

NewCo B recommendation with their members and decide on the future implications and role (if any) for their organisations. Whatever the existing boards/members decide, it will be important to work closely with the Joint Implementation Committee to ensure the transition process minimises disruption to industry services and uncertainty for staff.

The JTT considers that it is important to move quickly and professionally with the implementation process. Prolonged uncertainty is damaging for all parties, including staff of current dairy organisations, governments, dairy businesses and customers of the industry.

The proposed overall implementation process involves three main elements that are closely interlinked:



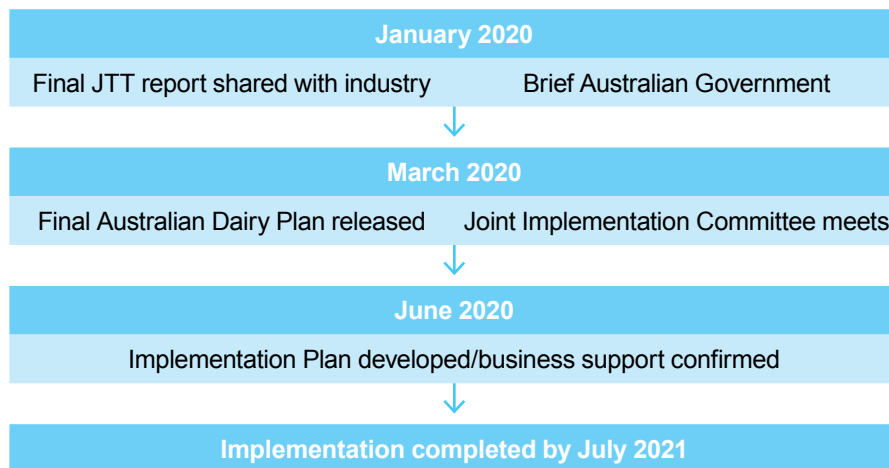
The proposed timing is for full implementation by 1 July 2021. It is important to create and sustain a sense of urgency and momentum, or the risk of the implementation being de-railed increases significantly. Moving quickly has the advantage of providing certainty and confidence to the staff, government, customers and industry businesses.

Experience and evidence from the management literature about

implementing transformative change is clear: success is much more likely when the transition is fast, rather than being approached incrementally or in a piecemeal way.

Arrangements will be required to manage and fund the implementation of the new industry organisational arrangements once the recommendation for change is confirmed with industry and government.

It is important to move quickly and professionally with the implementation process



Appendix A Terms of reference and membership

Purpose of the Joint Transition Team

The Joint Transition Team ('JTT') will examine existing dairy industry organisational arrangements and recommend transformational change options to reform industry structures. The JTT shall be guided in its work by the overarching objectives of the Australian Dairy Plan ('ADP') to produce a more profitable, confident and united industry. Terms of reference The Transition Team will be formed by and report to the Australian Dairy Plan Committee (the Committee), which is comprised of the Chairs of the four current peak organisations (Australian Dairy Farmers, Dairy Australia, Australian Dairy Products Federation and Gardiner Foundation) and with Hon. John Brumby as the Independent Chair.

It will work collaboratively as a team to:

- 1 Consult with peak industry leaders and key stakeholders to understand their views of the strengths and weaknesses of current arrangements, as well as key opportunities and challenges to achieve transformational change.
- 2 Consider options for industry change by:
 - a Identifying and assessing options, taking into account the industry design criteria suggested at the ADP National Workshop
 - b Taking into account appropriate legal and accounting advice, as necessary
 - c Utilising expertise in developing a proposed model, including expert(s) contracted by the Committee to provide external and informed perspectives.
- 3 Make recommendations on what would be a world class model for the industry
 - a This will require the Transition Team to take decisions on a consensus basis
 - b Recommendations would need to outline the main steps, timing and approximate costs involved in implementing a new model
 - c The transition team will need to make an assessment of risks
- 4 Report regularly to the ADP Committee to outline progress and challenges in completing the set tasks
- 5 Complete their work by end of 2019.

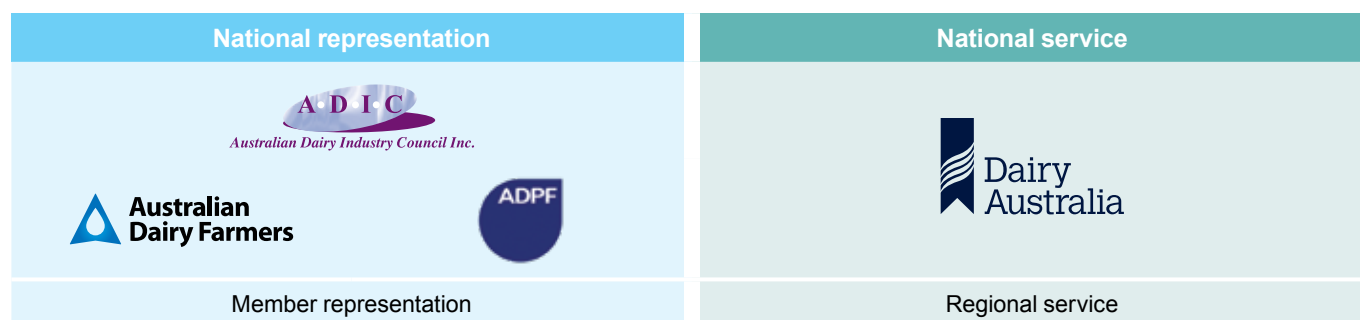
The Role of the Secretariat

The Transition Team requires operational support to conduct its work in a professional and timely manner. An existing person from a dairy industry organisation management team will be seconded on a full-time basis to support the Transition Team. The secretariat function will need to be able to manage all operational matters (including organising meetings, preparing papers and minutes) through to strategic roles (such as drafting transition plans, briefing technical advisers e.g. legal) and preparing reports/communications and content for industry stakeholders.

Joint Transition Team Members

- Shirley Harlock (Chair – Victoria)
- Bruce Donnison (Victoria/Tasmania)
- Adam Jenkins (Victoria)
- Lauren Finger (Victoria)
- Wes Judd (Queensland)
- Michele Lawrence (Tasmania)
- Greg McNamara (NSW)
- Malcolm Holm (NSW)

Appendix B Current dairy industry structure



Source: www.australiandairyfarmers.com.au/industry-organisational-structure

There are currently four organisations that make up the national structure of the industry.

Australian Dairy Farmers

Australian Dairy Farmers Ltd (ADF) is a not-for-profit company that represents the interests of Australian dairy farmers. Their mission is to provide leadership and representation to ensure the continued growth of Australia's dairy businesses. The ADF is formed by state dairy farmer organisations; dairy farmers who are members of state dairy farmer organisations attain benefits from the ADF. The ADF is funded partly (30%) by voluntary fees from the state dairy farmer organisations members, plus interest income from a fund it owns.

Dairy Australia

Dairy Australia is an industry-owned research and development organisation (RDC) that invests money into research and development (R&D) projects on activities throughout the supply chain. The money that Dairy Australia receives is generated through the collection of levies from dairy farmers. These levies are matched dollar for dollar by the federal government. The RDC is fully accountable to its members and peak industry bodies. The company targets areas where there is a market failure

or under-investment. These areas are identified as human resource skills, research, development and extension, trade policy and information provision.

Australian Dairy Products Federation

Australian Dairy Products Federation (ADPF) is the peak policy body for commercial/non-farm members of the Australian dairy industry and is open to entities operating in Australia that are engaged in the manufacture, marketing or trading of dairy products and/or dairy related products.

Australian Dairy Industry Council

The primary role of the Australian Dairy Industry Council (ADIC)'s Board is to provide strategic direction and input towards whole of industry policy development. Comprised of eight members – four directors from Australian Dairy Farmers (ADF) and four directors from the Australian Dairy Products Federation (ADPF) – the ADIC Board mutually represents the interests of dairy farmers and dairy processors, providing a unique whole of industry approach to policy and advocacy. The Board is also responsible for approving the ADIC Annual Investment Plan (AAIP) and the allocation of funds to support the development and delivery of the priorities listed in the plan.

In addition to the four national bodies, investments by the Victorian-based Gardiner Foundation are very important for the industry as a whole.

Gardiner Foundation

Gardiner Dairy Foundation (GF) was established via legislation in Section 65 of the *Dairy Act 2000*, in partnership with Victorian farmer, processor and manufacturer groups and the Victorian Government, to increase the international competitiveness of the Victorian dairy industry.

GF was created with \$62m in funding from the sale of assets, including milk brands, as part of deregulation of the dairy industry. The Foundation's constitutional responsibility is to maintain the current real value of the legacy. Responsible management of the funds is an ongoing priority as the income produced supports GF's annual investment in key industry projects. The fund now has in excess of \$100m under management. Under the GF Constitution, we address the needs of a range of stakeholders through industry improvement projects. Our strategic investments focus on three key areas, Research, Development and Extension (RD&E), People and Community Development and Industry Engagement and Support.

Appendix C Draft design criteria

Priority criteria¹

- Whole-of-industry approach to design (as opposed to a singular focus on farmers or processors)
- Well-funded (for the long-term) and well-resourced (including suitably qualified and experienced staff)
- Considers arrangements to deal effectively with 'the lot' – advocacy, R&D, marketing, policy development – directing resources to industry priorities
- Enable us to speak with 'one voice' to (different levels of) government and the community
- Nimble, agile, able to respond quickly to new industry challenges
- Simple, efficient, streamlined (e.g. fewer 'layers') with very little duplication (e.g. facilitates 'signposting', removes duplication of structures at a National and State/ regional level)

Givens

- Draw on insights from successful models in other industries, and can be benchmarked against these
- Be cognisant of what we may lose e.g. manage the risk of losing matching funding
- Strong corporate governance (no perceived conflicts of interest)
- Accountable to its members/ stakeholders
- Professionally run, with clear roles, objectives
- Not limited by past or present practice

Note: the draft design criteria above may be refined further by the JTT.

¹ Priorities as identified and ordered by voting at the national workshop on 30–31 July 2019.

Appendix D Agri-political activity and policy

The Australian Pork Limited Statutory Funding agreement has the following definitions:

‘Agri-political activity’ meaning

Any activity intended by the Company to exert political influence on Government to advantage one political party or political candidate over another, and includes but is not limited to the following activities:

- funding or making donations to a political party, member of parliament or candidate for parliament;
- advertising, or funding advertising, that supports or opposes a political party, member of parliament or candidate for parliament;
- developing, designing, participating in or funding a parliamentary election campaign or other party political campaign; or
- recommending or advising, through whatever media, how persons should vote at a parliamentary election.

‘Strategic Policy Development’ meaning

Strategic policy development means in relation to any matter which affects or may affect the Australian Pork Industry:

- the collection of information from a range of sources (including consultation within the Australian Pork Industry, and with other industries, government, other stakeholders or the public);
- the balanced analysis of that information in the context of the Australian Pork Industry environment;
- the development of a strategic policy position within the Australian Pork Industry and
- the advocacy of that position (including within the Australian Pork Industry, and with other industries, government, other stakeholders or the public).

Disclaimer

Whilst all reasonable efforts have been taken to ensure the accuracy of the Australian Dairy Plan, use of the information contained herein is at one's own risk. To the fullest extent permitted by Australian law, Dairy Australia, Australian Dairy Farmers, Gardiner Foundation, and Australian Dairy Products Federation disclaim all liability for any losses, costs, damages and the like sustained or incurred as a result of the use of or reliance upon the information contained herein, including, without limitation, liability stemming from reliance upon any part which may contain inadvertent errors, whether typographical or otherwise, or omissions of any kind.

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