

13 September 2021

Mr James Mann
Chair, Dairy Australia
Level 3, HWT Tower, 40 City Road,
Southbank, Victoria, 3006

By Email

Dear James

I write to inform you that the Dairy Levy Poll Advisory Committee (**LPAC**) has concluded its deliberations and reached a determination in relation to the dairy service levy (the **levy**), as required under the *Dairy Produce (Dairy Service Levy Poll) Instrument 2016* (the **Instrument**).

This correspondence serves as formal notification of the levy options for the levy poll.

Accordingly, on behalf of LPAC, I advise:

- Pursuant to Section 11(b) of the Dairy Produce (Dairy Service Levy Poll) Instrument, the LPAC has determined that four (4) levy options are to be presented in the levy poll:
 - **no change to the levy (status quo)**
 - **an increase of 15%**
 - **an increase of 20%**
 - **an increase of 25%**

- Pursuant to Section 11(c) of the Dairy Produce (Dairy Service Levy Poll) Instrument, the levy option which LPAC recommends to eligible voters is an **increase of 20%**.

In reaching its decision, LPAC considered the following:

- There has been no change to the levy, nor a vote by farmers, since 2012. Without a poll, the current levy would apply until 2025. LPAC determined a poll should be held, in part, to provide farmers the opportunity to have their say on the levy.

- In the period 2011 to 2021, the CPI rise has been 21% with a consequent erosion in the capacity of the Industry Services Body (Dairy Australia) to maintain its services. It is important to note that the recommended increase of 20% would simply restore RD&E and services capacity to 2011-12 levels.

- The Australian Dairy Plan (ADP), completed in 2020 and unanimously supported across industry organisations, highlights significant challenges and headwinds to be tackled over the next decade requiring increased investment in key areas to realise the dairy industry's potential.

- As required under the Instrument, LPAC must consider the submissions from Australian Dairy Farmers Ltd (**ADF**) and Dairy Australia (**DA**):

- The ADF submission, representing the farmer voice, anticipated an option to maintain current levels would be included, along with any options for an increase to address dairy farmer RD&E needs, longer term industry challenges and the desire to future-proof the industry;
- The DA submission, while not specifically requesting an increase, provided an analysis of the priorities for the industry and how those priorities could be addressed under a range of levy scenarios. In particular, it highlighted new or additional resource allocations to research and/or program delivery in Labour, Regional Services, Climate Change and Policy Development (exclusive of the impact of CPI erosion on current services).

During LPAC deliberations, representatives from ADF and DA attended select meetings by invitation to further discuss their positions on the levy and their RD&E priorities.

- Publications, presentations and other evidence that showed a positive return on investment to dairy farmers from Dairy Australia's investment of the levy in its portfolio of RD&E projects. LPAC reviewed a range of Benefit-Cost Analysis reports, including those reviewed in the 2021 Independent Expert Report, and considered the National Dairy Farmer Survey, an independent survey of dairy farmers who rate the importance of an organisation like Dairy Australia as approximately 8 out of 10 (and this has remained relatively consistent over the past decade)
- Financial analysis and projections provided by Dairy Australia that showed an increasing need to use strategic reserves to fund operations. This makes it evident that without even addressing the future investment uplift to meet the challenges identified in the ADP, the current model of funding is unsustainable and cuts to services would likely be required in the coming five years.
- Consistent with its discretion to take other matters into account, LPAC also received and considered feedback via online submissions to the website, facilitated Zoom sessions and direct feedback to LPAC members, capturing a range of views on the value of the levy.

Please see Attachment 1 to this report for further details of the documents and information considered by LPAC in its determination.

After detailed consideration of these issues and farmer feedback, LPAC determined that a levy increase of 20% is in the best interests of the dairy industry. In determining options for the ballot, LPAC agreed that while an increase to the levy is required, farmers should have a genuine choice on the ballot. Accordingly, levy options of No Change; 15% Increase; 20% Increase; 25% Increase have been determined.

It is important to note that LPAC heard from farmers who were deeply sceptical of the value of the levy and also farmers who urged LPAC to be bold about increased investment in the industry. These views were faithfully represented to LPAC and considered in making the determination. On balance, LPAC believes all farmers have been provided with a choice in the poll to select from the Increase options, or to reject any increase and choose No Change to the levy.

LPAC notes that under the Instrument, there is a Pre-Poll Consultation Plan and an Information Memorandum which Dairy Australia is required to prepare for approval by the Minister for Agriculture. The Pre-Poll Communications, which will run for six months from October 2021 to March 2022, will provide detailed information to farmers on the levy options so they are fully

informed of the choices prior to casting their vote. LPAC has continuing duties with regard to ensuring compliance with the Instrument, which LPAC will provide as required.

Thank you for the opportunity to conduct this levy poll review. All LPAC members contributed to the task and carried out their duties with integrity and an evident commitment to act in the best interests of the dairy industry. On their behalf, I commend the report to you, and wish the industry well in the conduct of the poll.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Ron Storey', written in a cursive style.

Ron Storey
Independent Chair, LPAC

ATTACHMENT 1 - Scope of information considered by LPAC

In reaching its determinations, LPAC took into consideration the following matters and information:

- Documented submissions and information from ADF and DA (this is a mandatory requirement for LPAC under the Instrument)
- Direct input from LPAC members in their role reflecting dairy farmer views
- Requests and responses with DA on reserves, benefit/cost analyses, portfolio of investments, R&D projects and details of “other industry services” delivered through RDPs, etc; an iterative process over 2-3 months. No requests of DA for information were denied.
- Various reports on DA’s performance including the independent performance report, National Dairy Farmer Survey, Performance Tracker, all data collected by independent analysis
- Direct comments to LPAC website
- Individual farmer submissions typically covering range of important industry matters but some outside the remit of LPAC and the levy
- Comments and questions from farmers in three open zoom sessions
- Joint sessions of LPAC with senior executives/Chair of ADF and DA

Australian Dairy Plan (2020-2025)

In considering the level of levy funding to underpin the long-term research, development and extension strategy for the dairy industry, LPAC sought to understand the major commitments identified in the ADP.

LPAC placed relevance and importance on the ADP as it is an industry plan completed in only 2020, involved extensive industry consultation over a twelve month period with leadership and participation from all major parties in the dairy value chain. It was adopted by all industry partners – Australian Dairy Farmers, Dairy Australia, Australian Dairy Products Federation, Gardiner Foundation.

The five Industry Commitments of ADP were accepted as key drivers of future industry health, viz.,

- People – labour and career development universally accepted as the number one issue for dairy farmers
- Marketing and Trust in dairy – sustainability and social licence credentials are not optional, but essential to survival and success
- Business Skills and Risk Management – dairy farm business skills to manage climate, market and seasonal risks are critical to improving profitability and resilience
- Trust and Transparency – greater trust and transparency is critical in a perishable product value chain
- Reform of Industry Structures (noting that this item of the ADP has been referred to another forum)

Accordingly, given the industry sign-off on the ADP commitments for future dairy sustainability, LPAC was conscious of the adequacy or otherwise of the levy funding to address those commitments.

Documents Assessing DA's Performance

The 2021 Independent Expert Report on DA's performance is an integral report for LPAC to consider. This review is a requirement by Rural Research and Development Corporations (RDCs) like DA to undertake in order to receive levy payments from farmers and matching funds from the Government. This review was completed in January 2021 and analysed Dairy Australia's performance in detail. It is also a requirement that when levy payers are considering the levy options, they are presented with this report. This ensures that LPAC and levy payers can consider DA's performance from an independent perspective rather than needing to undertake this task themselves.

On an objective evidence basis, the report reflects well on the performance of DA and the value to dairy farmers of the industry services delivered. Of course, there are areas mentioned for improvement, for example Dairy Farmer Communication, Communicating the Benefits of RDE Partnerships, and Regional Development Programs were highlighted. In the context of DA's role in the Pre-Poll Consultations, LPAC sees it as important for DA to address these communication matters by fully explaining the levy options to farmers in the lead-up to the levy poll.

ADF and DA Submissions

Each of the ADF and DA submissions showed alignment to the goals and commitments of the ADP.

In ADF's case, the submission sought a long term levy solution "to future-proof the industry". ADF supported and expected a minimum of the current levy and potentially an increase to the levy to address the industry priorities.

DA's submission, while not specifically requesting an increase, provided an analysis of the priorities for the industry (primarily driven by those identified in the ADP), and concluded for those targets and for industry and government expectations to be met there is a case for increasing the levy.