A Vision for Australian Dairy

The dairy industry’s *Horizon 2020* project, completed in 2013, raised issues and presented options for the future of the Australian dairy industry. Now is the time to respond.

This document is the foundation of a unified view to determine our industry’s future.

From here issues can be articulated and responses developed, contextualised and prioritised to achieve the future industry we want.

**Our vision**

*A profitable, growing, export-focussed industry.*

Growth is an indicator of success. A target of growth helps provide a framework under which strategies can be developed and prioritised to generate long term industry profitability. Growth will be an indicator that the industry is creating wealth – and hence an indicator of success.
Our targets

T1: Lift farm return on assets to seven to 10 per cent in the top quartile.

Profitability leads to confidence – confidence unlocks capital. Both are required for growth. More consistent farm gate profitability will reduce the vulnerability of both manufacturers and farmers to market and climatic variability.

"The Australian dairy industry will not grow if farmer return on investment is less than the cost of finance and a reasonable return on farmer equity. It is in this area that we truly need to become competitive with the rest of the world". (What it takes to compete in the global dairy industry. Dr Jon Hauser, 2013).

T2: Grow milk production to 12 billion litres by 2020; 15 billion litres by 2025.

This represents an annual compound growth rate of just less than five per cent per annum.

A compound annual growth rate of 5.6 per cent was achieved when production went from 6.26 billion litres in 1990, to 10.85 billion litres in 2000. (“Australian Dairy Industry in Focus 2013”, Dairy Australia, 2013). A new combination of skills, techniques and technologies must be aligned to ensure a supportive environment for industry growth.

This will result in:
- Farmers creating wealth.
- A strengthened economy from industry activity and export income.
- Resilient rural communities where dairy provides the life blood.

T3: Embrace new tools, technologies and skills to lift production efficiency by 30 per cent.

Production efficiency considerations include pasture, animal and whole business management factors.

Profitability and strong cash flow will drive confidence and investment which will fuel growth. Growth will be multi-factorial, including expansion of existing dairy businesses and conversion of land use to dairying.

This is not a “get big or get out” message. Experts suggest that medium-sized family enterprises (of 300 to 600 cows) are amongst the most resilient. A range of farm systems and sizes will contribute to a successful future for the industry. Farms of different size are exposed to different risk profiles over the economic and climatic cycles. For success, the industry must learn to accommodate and manage the risk profile for each dairy business system.

T4: Reclaim Australia’s position as the third largest dairy exporter.

Australia is a net dairy exporter therefore our prices are determined by the international market for manufactured dairy products. Over the last decade, domestic prices have converged with the value realised from exports. If the Australian dairy industry is to grow, it must be from profitability supplying and competing in the global market. This is not an issue for domestic markets or competition at farm gate provided by a number of domestically focussed processors. It is about exporting with sufficient scale and efficiency to be a reliable, consistent, serious global player.

Over the last decade Australia’s proportion of the international market has reduced. There are two primary reasons for this:
• The market has grown and other dairy nations have filled this growing gap, particularly New Zealand, the United States of America and Europe.
• Australia’s production has declined from a peak of close to 11 billion litres to close to nine billion litres.

It is time to reclaim our position.

**Why set targets?**

A unified dairy industry approach to ‘what success looks like’ is urgently needed.

A clearly defined, well articulated set of targets, with associated priorities, is a powerful tool for the Australian dairy industry to use with industry partners, stakeholders and Governments.

*Farm sector environment*

Industry analysis shows that the cost of production in Australia and New Zealand has increased. As subsidies in Europe and the USA have reduced, concurrently their producers have become more efficient and reduced the cost of production. The result is a much more closely aligned global cost of dairy production. In this situation, Australia has lost one of its key competitive advantages as an efficient, low cost dairy producer. Our clear advantage is access to pasture plus relatively low cost supplements – but we struggle to construct systems that fully realise this advantage.

“The cost of producing milk in typically low-cost extensive pastoral production systems, such as those found in countries in the Southern Hemisphere, has increased since 2002. Producers in these lower export cost countries have enjoyed buoyant returns and capitalised them into higher valued assets, primarily land, bringing on-farm production costs to similar levels to those in intensive feed-based dairy systems”. (Rabobank 2013)

**Volatility – cost control is vital – low margin businesses are not resilient under conditions of extreme volatility.**

For the Australian dairy industry to remain viable in the long term as a significant exporter, we need to develop clear competitive advantages.

• Regain production efficiency and cost advantages to first match, then better our global competitors – based on innovative and continual farm performance improvement founded on sound scientific and business principles.

> With high volatility expected to continue for both milk prices and production costs, the ability to lower inputs and/or costs during periods of abundant global supply would be a distinct advantage. Southern Hemisphere producers previously survived global market downturns for prolonged periods due to the size of their absolute comparative advantage. With this cost advantage now minimal or non-existent, other strategies to survive the inevitable downturns (albeit likely short-term) will be required. (Rabobank)

• Enhance our reputation as a producer of high quality, safe, nutritious food. We must protect and build on our strong foundation of a clean, green, sustainable production system.

• Reduce our susceptibility to variability - better farm business management and financial performance will increase confidence and medium to long term milk production growth.
Manufacturing sector environment

To remain competitive, the second area of performance improvement is the manufacturing sector. We must develop a well-run sector with sufficient scale and ability to invest in products, technology and plant which can efficiently and cost effectively deliver our products to market. To achieve this, there is a need for the Australian dairy manufacturing sector to focus on reducing the overheads and inefficiencies created by the large number of businesses in this sector.

- “Low investment locally in processing infrastructure has also undermined global competitiveness (especially compared to NZ)
- Growing international demand for dairy products due to increasing prosperity in Asian markets. However, the market remains very competitive as Asian demand will not support price premiums.
- Various factors continue to undermine global cost competitiveness (currency strength, processor scale, infrastructure age)“. (Dairy Australian Strategic Plan summary 2013-14 and 2015-16)

There is minimal premium or growth prospect in the domestic market. The current crowded nature of the processing sector does little to drive farm gate returns. This is not an issue of farm gate competition which will remain plentiful but being competitive on the export market. The free trade agreement with New Zealand ensures that any premium will be met with product from that country.

The industry as a whole must also rise to the challenge of investing in post farm gate research and development, not just in manufacturing processes but also in innovative food ingredients which target consumer demands. Infant nutrition is on example of this, but health products for an ageing population present another opportunity.

Key drivers of, and signals for, the processing sector include:
- Innovative, high value, consumer driven products and ingredients.
- Development and retention of strong customer relationships built on consistent, reliable supply, to deliver to specific markets which can command a premium.
- Sensible price structures and signals to producers to support efficient milk production.

Efficiencies achieved downstream in milk processing and marketing via a strong route to market and established supply chain relationships will likely play a greater role in differentiating competitive export companies and industries in the future. To ensure that competitiveness is based on more than just the cost of producing milk, the dairy sectors in New Zealand and Australia will need to work hard to ensure that they stay ahead of the pack in supply chain efficiency, market access, marketing and sensible regulation. (Rabobank).

- Australia is a net dairy exporter. Domestic and international prices have largely converged with only a small premium available for domestic fresh dairy products.

- Some of the world’s largest dairy companies have been operating in Australia for over a decade.
  - More investment in plant and technology is required to improve processing and efficiency and reduce cost/increase margin for producers.
  - Greater contribution is required in the development of export opportunities, products and markets.
  - Fifty per cent of milk is controlled by foreign-owned companies, compared to 85 per cent controlled by cooperatives in 1999. (Taking responsibility for our future, ADF/DRCD 1999)
  - Stronger performance by the cooperative will force the whole sector to lift performance.

- The current crowded nature of the industry has not delivered the investment or the efficiency and competitiveness required for the future.
Action required

The time has come for urgent action - the world has changed and the Australian dairy industry is being left behind. Australian dairy must evolve in order to improve long term prospects.

It is time to build a new culture.

Profitable farm sector
- Improved information, tools and techniques to manage volatile profitability are required to provide investment confidence.
- An inquisitive, challenging farm business culture must be developed, supported and revered across the industry – benchmarking, better tools to manage/monitor/forecast cash flows.
- Regain a competitive advantage and positive business attitude.
- A clear strategic direction and support for research, development and capacity building, provided by Dairy Australia, to deliver improved profitability and competitiveness for farmers to adapt and grow their businesses.
- Enhanced capacity across the industry; focussed development and extension; case studies, benchmarking, financial analysis.

World class manufacturing
- New technology and plant to remain competitive in the global market place while increasing returns to farmers.
- Best practice, efficient, focussed companies supporting industry goals – a large, strong, well-run cooperative presence together with publically listed or privately owned processors as part of a mix that provides farmers with a combination of choice and the highest possible farm gate return.
- Industry commitment to high-value consumer demanded food ingredients – research and development/food technology/food pathway-to-market program.
- A review of the farm gate price structure and the message that it sends to producers (Current price structures see lower Spring prices subsidising higher Autumn/Winter prices at farm gate).
- Improved forecasting and discussion of market trends and signals.
- Improved board and governance structures to support a culture which is embraced by the industry with performance to match. Improved performance increases farmer support.
- Farmer understanding and support for an efficient, export competitive manufacturer.

Supportive policy environment
- Policy to support the growth of food industries - If Australia is to realise the claimed windfall of burgeoning Asian food demand, governments at all levels must match rhetoric with action and supportive policy.
- Demonstrated support by State governments for growth through a commitment to research, development and extension – The Victorian Government, as an example, aims to double food
and fibre production in the state by 2020. “I have a target for Victoria’s agriculture industry to double production in the 20 years to 2030”. Victorian Minister for Agriculture and Food Security, the Hon. Peter Walsh, 2013.

- Government (and community) support in principle and practice – a more balanced regulatory approach to productive use of resources. Enhancing community acknowledgement of dairy’s environmental stewardship and economic contributions, including water management, environmental outcomes, caring for animals, contributing to human health and well being.

- Supportive regulatory environment – the domestic competition framework must change to allow Australian owned export-focussed business to grow organically and through acquisition to position the industry as globally competitive.

- Tailored domestic policies – to allow industry to compete in the global market including supportive labour regulation and energy pricing.

**Industry ownership**

- Set the future direction for the Australian dairy industry and align behind an ambitious growth agenda.

- Prioritise plans, actions and debates to ensure industry and government policies have the right settings for profitability and growth.

- Regain a competitive advantage by improving farm management and business management skills.

- Assume responsibility for setting the pre- and post-farm gate research and development agenda.

- Challenge the gap between rhetoric and action from governments.

- Engage and support farmers in developing skills to positively engage with their communities to articulate the industry’s value proposition and tell the dairy story.

- Support Australian owned export manufacturing as the vehicle to maximise long term sustainable farm gate profitability and growth.

**The time is now**

The Australian dairy industry is a profitable export industry with a valued position in the community.

This vision provides the foundation to build on that position and ensure the industry’s long term contribution to communities, the environment and the broader economy.

Australian dairy is ready to take up the challenge.