

Australian Dairy Plan National Workshop

30 – 31 July 2019



A scenic view of a dairy farm. In the foreground, two black and white cows are walking on a dark, muddy path. To their left is a large, leafless tree with many bright red flowers. In the background, there are rolling green hills, a wooden fence, and a cloudy sky. A semi-transparent orange banner is overlaid on the right side of the image.

Welcome to day 1

Welcome address from the Independent Chair

The Australian Dairy Industry: Why it matters



The dairy industry is one of Australia's major rural industries, directly employing 42k people producing \$4.3B in value

DAIRY'S CONTRIBUTIONS TO THE AUSTRALIAN ECONOMY

42k

people directly employed
on dairy farms and by
dairy companies within
Australia

Industry Data (2017/18)

Dairy Farms	5,699
Cows (in milk and dry)	1.561 million
Employed on Farm	24,500
Employed in Manufacturing	18,100
Milk Volume	9.2 billion litres
Value of milk leaving farms	\$4.269 billion
Value of dairy exports	\$3.363 billion

Source: Australian Dairy In Focus 2018

**Dairy is ranked 15th by value
amongst Australian exports**

Source: ABS Trade Statistics

This contribution to the economy also flows through to other sections of the supply chain (“the multiplier effect”)

ADDITIONAL CONTRIBUTIONS TO THE AUSTRALIAN ECONOMY

Farmers usually spend/reinvest around 80% of milk receipts¹



\$4.269 billion



\$3.4 billion

Reinjected into community

Each \$1,000,000 of turnover generates...

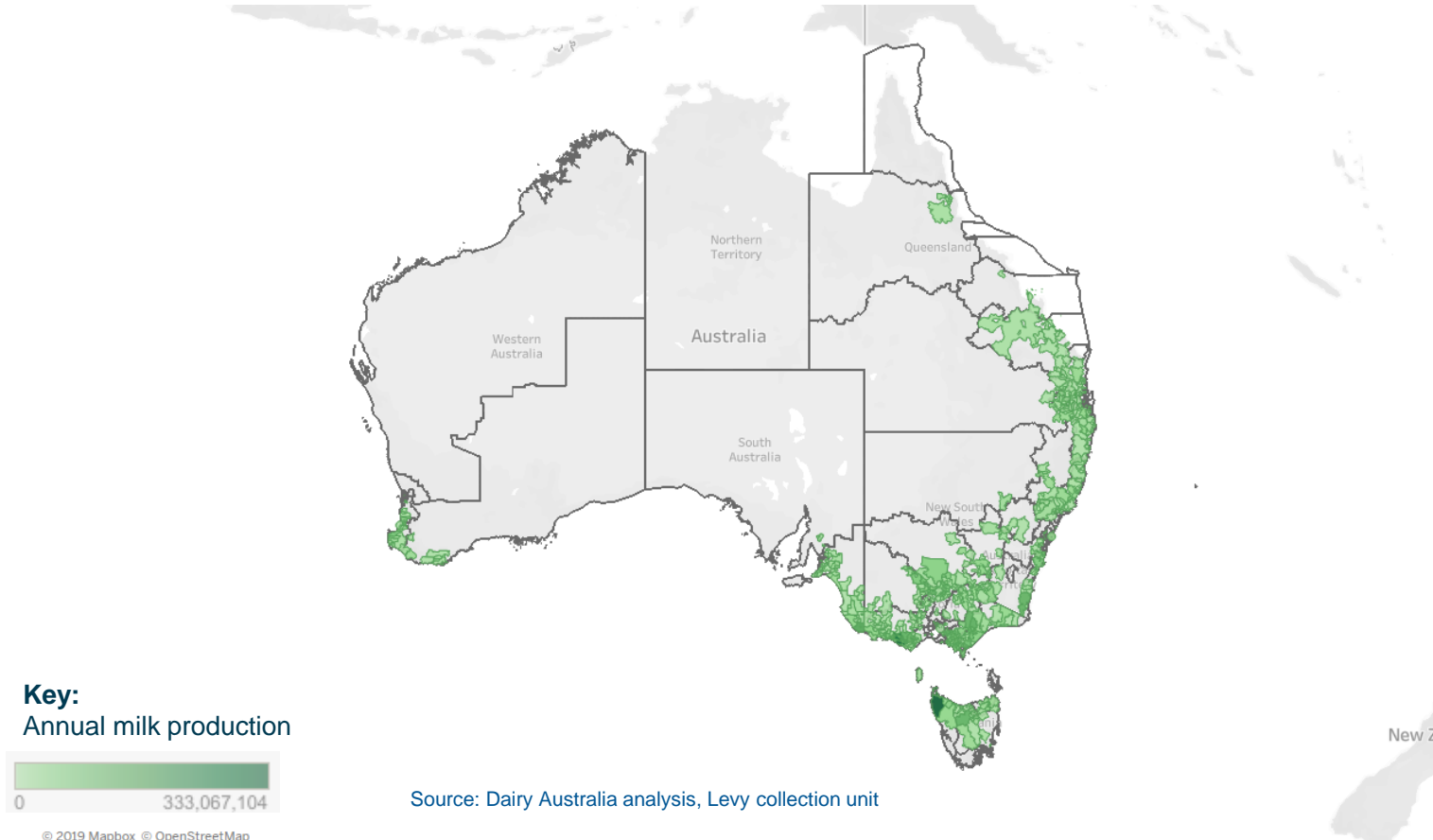
**8.56 jobs
(FTE)**

**in farms, processing and flow-on
throughout the community**

Source:

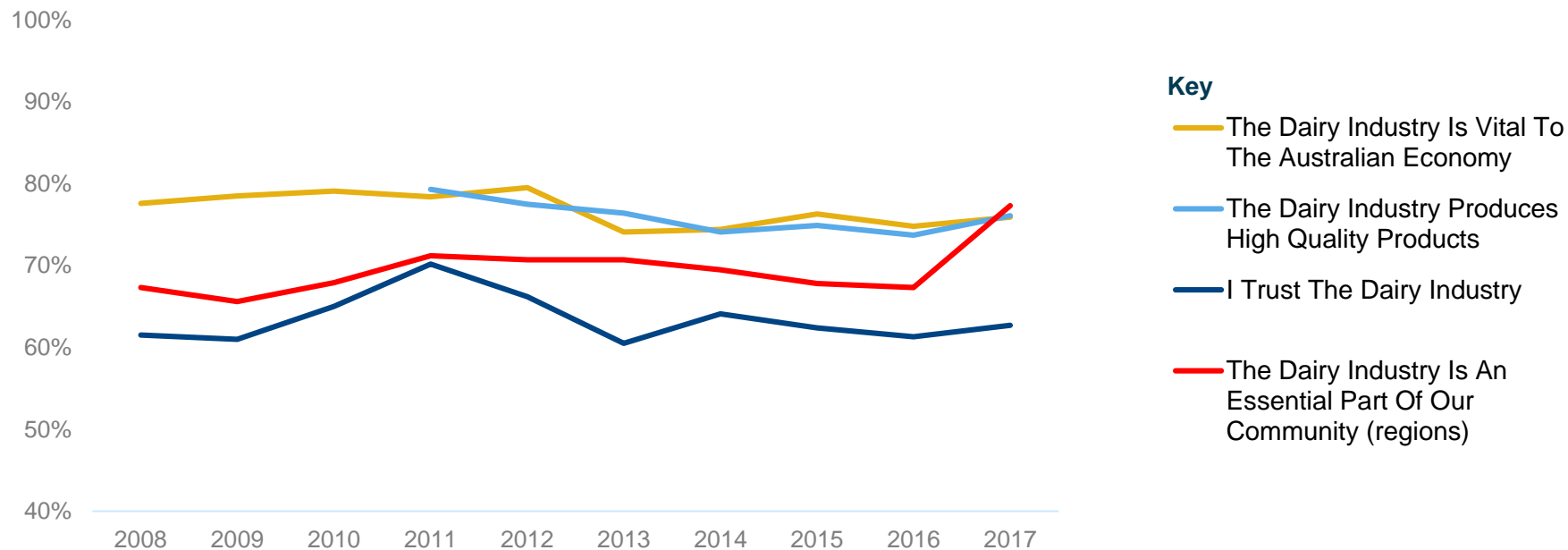
- 1) based on successive ABARES farm survey figures
- 2) Based on Econsearch multiplier analysis 14/15

Dairy is a crucial driver of regional employment and economic opportunity



While the Australian dairy industry's quality of produce and importance to society has been consistently well regarded by consumers, there is room to improve

CONSUMER PERCEPTIONS OF THE DAIRY INDUSTRY (% AGREE)



Notes

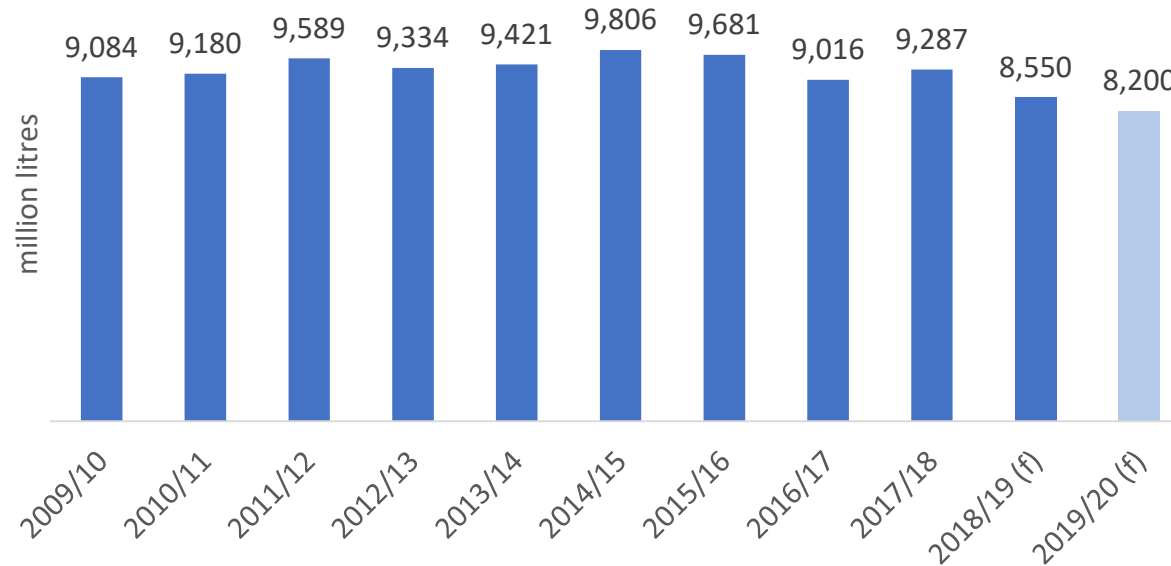
1) Source: Dairy Australia consumer survey

But we face some **big challenges...**



Australian milk production is declining...

AUSTRALIAN MILK PRODUCTION



Notes

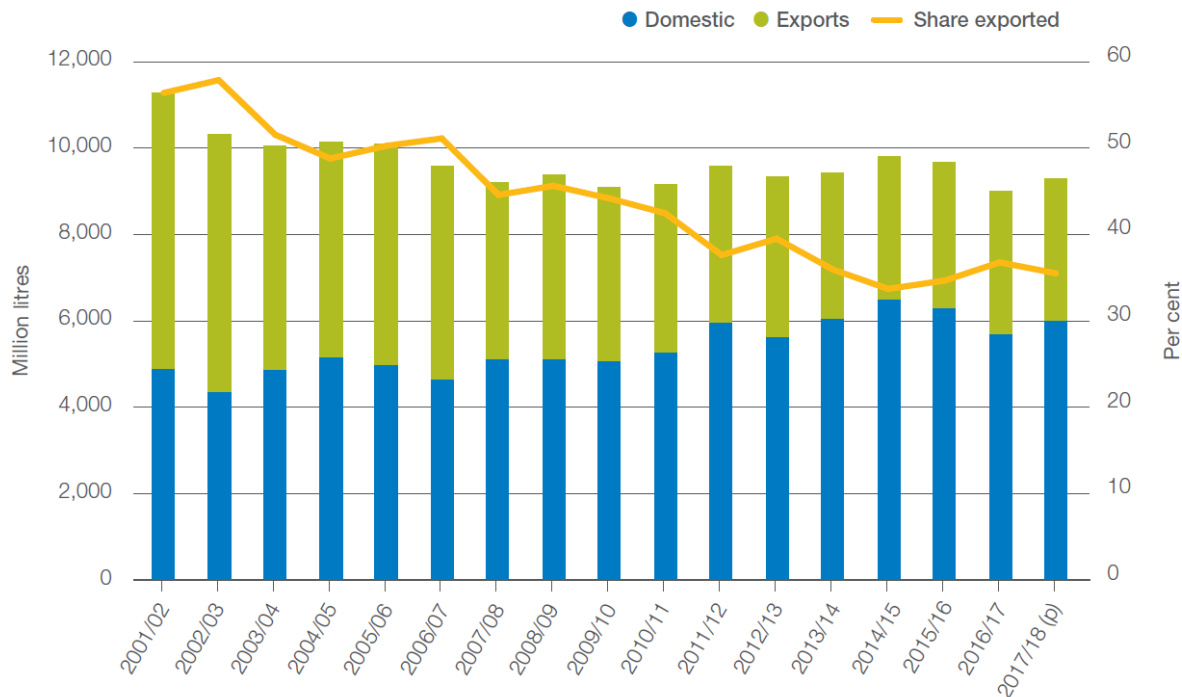
1) Source: Dairy manufacturers, ABS, state authorities and Dairy Australia

Key Insights

- Since 2010, milk production has been increasingly volatile each year, leading to an increased level of market and margin volatility.
- The very dry conditions last season will see milk production for 2018/19 fall by a further 8%.

Exports are also declining...

AUSTRALIAN PRODUCTION AND EXPORTS



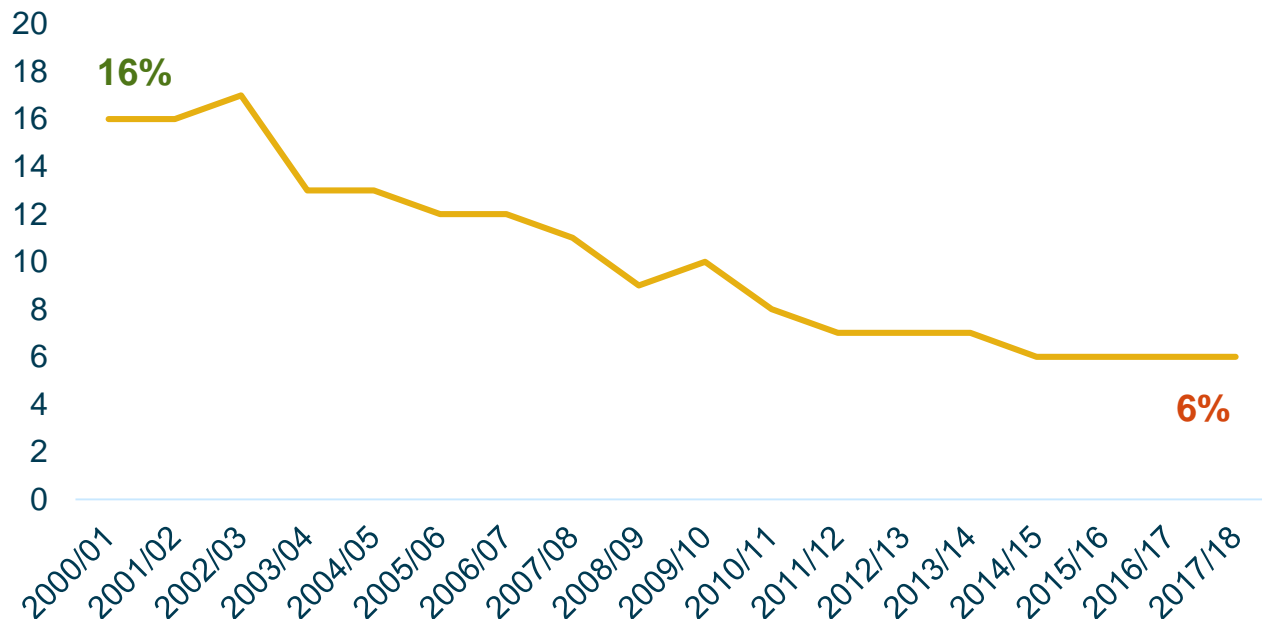
Source: Dairy manufacturers and ABS

Key Insights

- Domestic consumption has continued to increase (driven by population growth and per capita consumption of dairy has increased), driving down the proportion of dairy available to export markets (decreased from 56% in 2001/02 to around 36% in 2017/18).
- Australia's imports of dairy production for local consumption has increased. Consequently, Australia continues to export a large share of its milk production, despite having a larger domestic market and lower milk production.

Australia's share of global trade is declining...

AUSTRALIAN SHARE OF GLOBAL DAIRY TRADE (%)

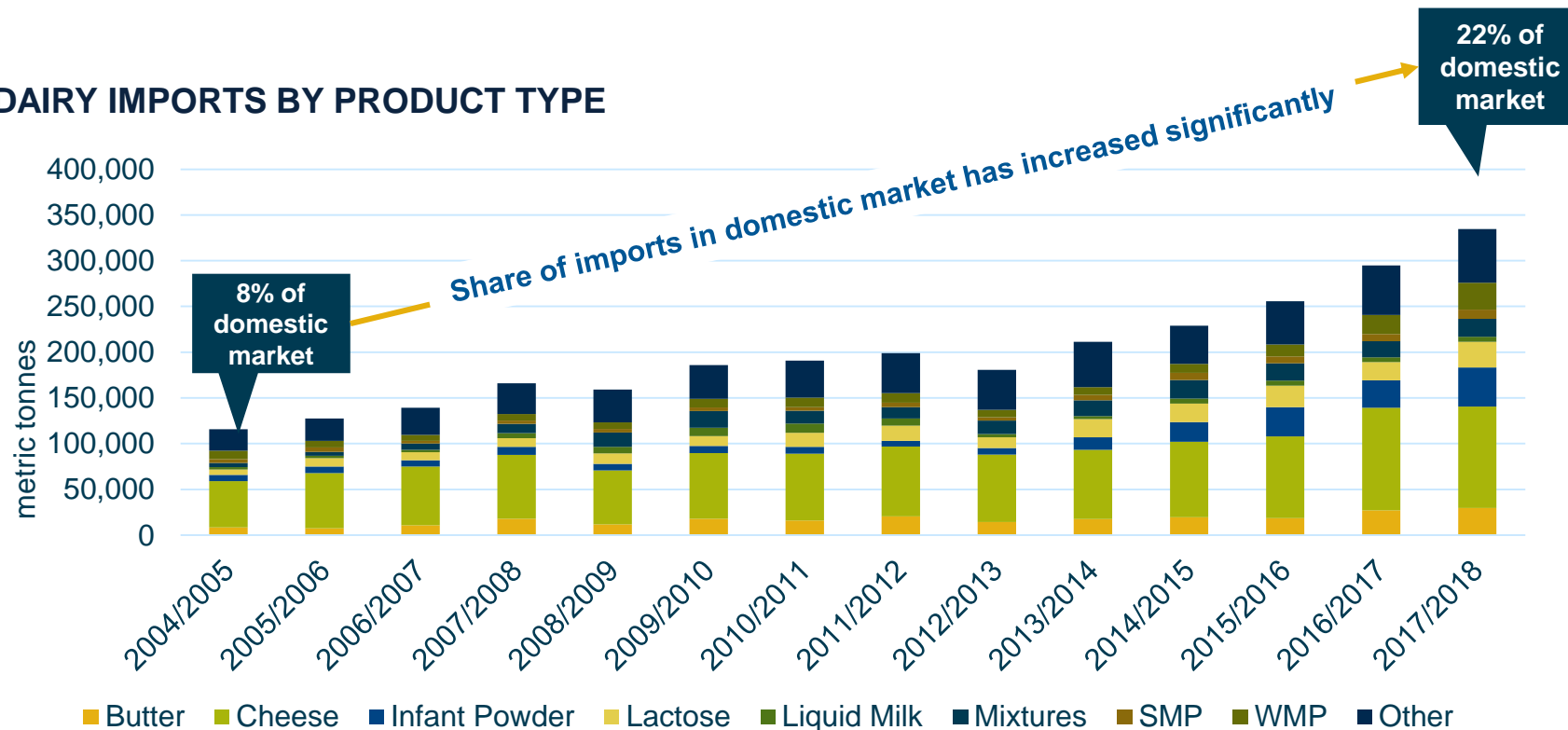


Key Insights

- In 2000 Australia exported close to 56% of all dairy produced and enjoyed a 16% share of the global dairy trade
- In 2017/18, Australia only exported 36% of production, equivalent to a 6% share of the world's trade.
- Despite this, Australia is the fourth largest exporter of dairy in the world (following New Zealand, the EU and the US)

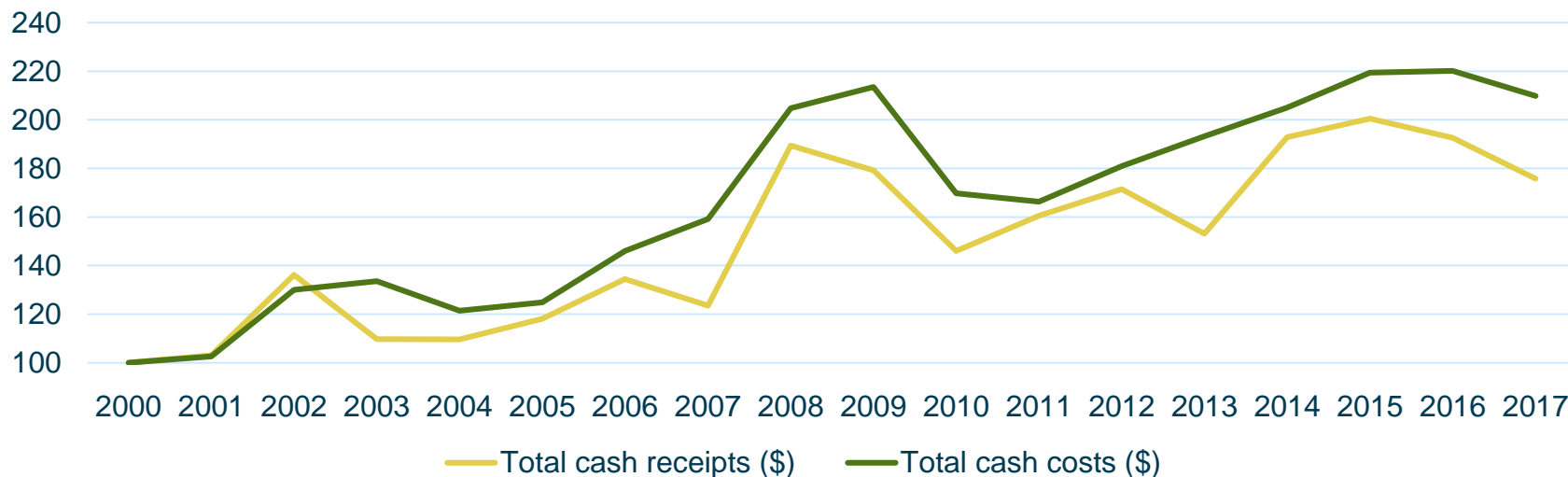
Dairy imports are increasing...

DAIRY IMPORTS BY PRODUCT TYPE



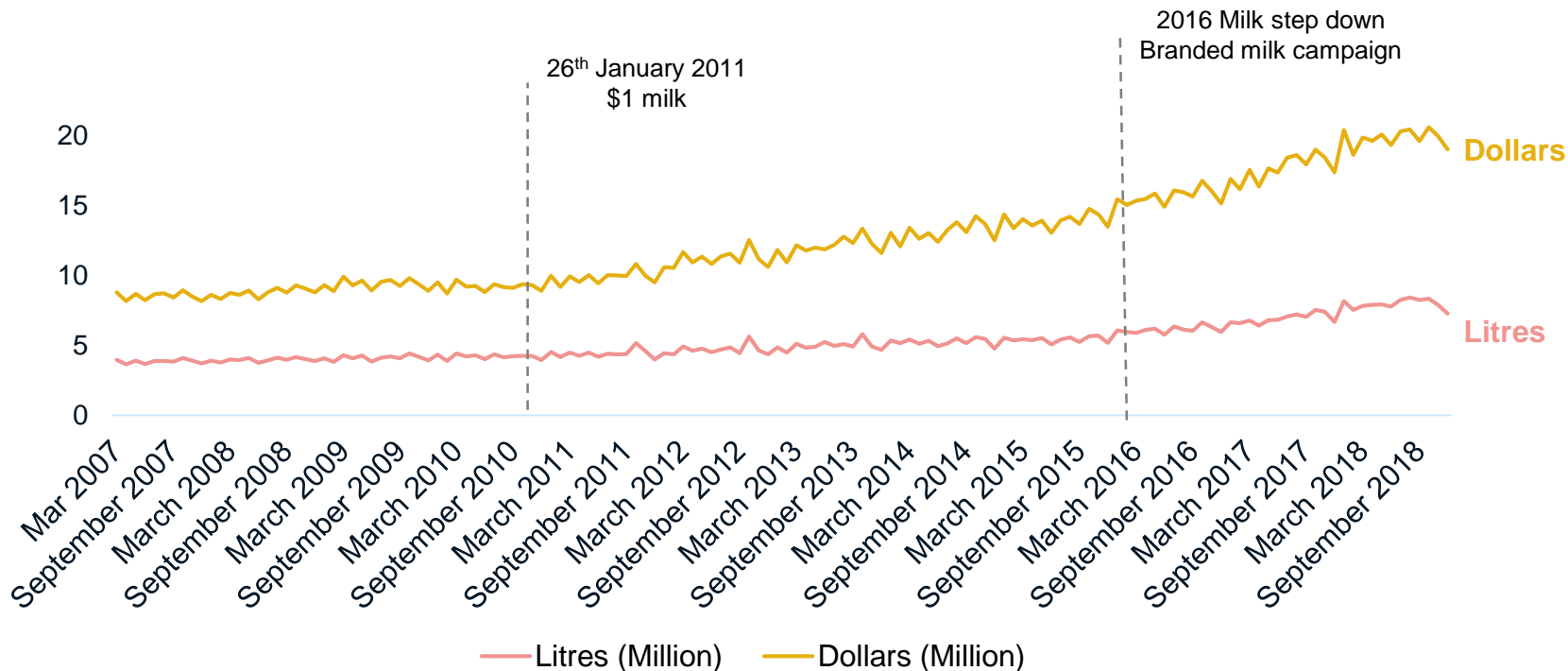
Costs are increasing...

Average on-farm income vs costs (Indexed to year 2000)



Competition is increasing...

COMPETITION FROM NON-DAIRY ALTERNATIVES



Note: Non-dairy alternatives include: soy, almond, coconut, rice, oat

Source: IRI Supermarket Scan Data

Alongside this growth we have seen an explosion of new non-dairy varieties in the marketplace





The future:
Our challenges can
be overcome...but
only if the industry
works together

There are broadly consistent themes that have emerged across stakeholder engagements which we will discuss today and tomorrow

1. Reform industry structures and advocacy arrangements

2. Focus more effort and resources on marketing and promotion

3. Address concerns in market power and dynamics along the supply chain

4. Increase our efforts to attract and support young people

5. Continue to focus on improving farmer capability and on-farm performance

“...the value of farm production is about **\$60 billion**.

...We can hit **\$100 billion by 2030**. And I am determined to ensure that we do.

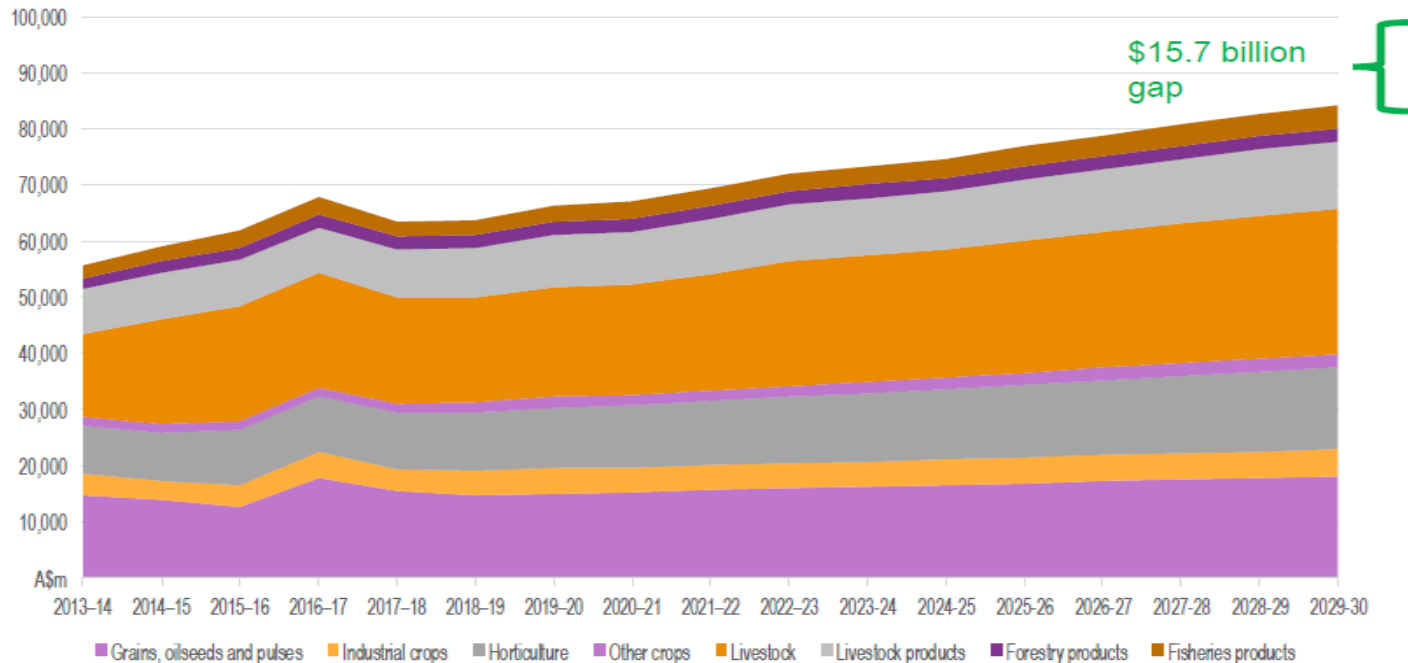
That's why today I'm announcing that Agriculture Minister Bridget McKenzie will draw together a national plan to enable Agriculture, Fisheries and Forestry to become a **\$100 billion industry by 2030**.”

- The Hon Scott Morrison MP, Prime Minister of Australia

Address at the Daily Telegraph Bush Summit, 18 July 2019

In order to achieve this vision of growth, the dairy industry would need to proportionally grow from \$4.2 billion to \$6.0-6.5 billion by 2030

THE FUTURE FOR AGRICULTURE – DAIRY AS A COMPONENT



Our objective is to make substantial progress on the Australian Dairy Plan (ADP) by:

1

Understanding the **opportunities** for the dairy industry

2

Responding to the '**key challenges**' for the dairy industry

3

Clarifying the '**breadth**' of the ADP (including any significant gaps)

4

Test propositions for addressing concerns regarding **market power and supply chain dynamics**

5

Test propositions for how best to **structure the industry** to deliver the ADP

6

Confirming the **next steps** for completing the ADP.

Themes from our engagements

Reform industry
structures and advocacy
arrangements

Focus more effort and
resources on marketing
and promotion

Address concerns in
market power and
dynamics along the
supply chain

Increase our efforts to
attract and support
young people

Continue to focus on
improving farmer
capability and on-farm
performance

Other potential themes

Growing on farm
productivity

Responding to
climate change

Securing access to
export markets and
growing exports

Responding to
competition from
other industries for
inputs

Meeting consumer
concerns including
on environment and
animal welfare

Increasing the skills
and capabilities of
people in the
industry

1. Go to slido.com
2. Enter access code:
#ADPNW
3. Which of the six objectives are you most interested in?



**Have a conversation with your table
about what you think the Australian
Dairy Plan needs to achieve**

A few items of housekeeping



COMPETITION LAWS



SOCIAL MEDIA



MEDIA



SEATING

Day 1 Agenda

10:30 am	Welcome and introductions
11:15 am	Understand the opportunities for the dairy industry
12:00 pm	Respond to key challenges
12:40 pm	<i>Lunch</i>
1:30 pm	Respond to the key challenges (continued)
3:15 pm	<i>Break</i>
3:45 pm	Respond to the key challenges (continued)
4:15 pm	Test the breadth of the ADP
5:45 pm	Recap and fast-forward
6:00 pm	Close
7:00 pm	Dinner

Day 2 Agenda

8:30 am	Review and set up
9:00 am	Test propositions for addressing concerns regarding market power and supply chain dynamics
10:30 am	<i>Break</i>
11:00 am	Test propositions for how best to structure the industry to deliver the ADP
12:30 pm	<i>Lunch</i>
1:30 pm	Confirm the next steps
2:30 pm	Recap
3:00 pm	Close

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Understanding the opportunities for the dairy industry



Mark Bennett
ANZ

Global trends and implications for farm finance



Bruce Donnison
ADF Director

The dairy industry supply chain



Lauren Finger
Dairy Farmer -
Gippsland

Perspective from the farm

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Confirming the **next steps** for completing the ADP.

Respond to the key challenges – opening remarks



Terry Richardson
President ADF



Jeff Odgers
Chair Dairy
Australia



Grant Crothers
President ADPF



Bruce Kefford
Chair Gardiner
Dairy Foundation

Lunch - 1 hour

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Confirming the **next steps** for completing the ADP.

Themes from our engagements – break out sessions

Reform industry
structures and advocacy
arrangements



Stephen Petris

Focus more effort and
resources on marketing
and promotion



Laura Porter

Address concerns in
market power and
dynamics along the
supply chain



Milly Bell

Increase our efforts to
attract and support
young people




Stephanie Milione

Continue to focus on
improving farmer
capability and on-farm
performance



Nathan Jones

A photograph of a herd of dairy cows in a field. In the foreground, a cow with a white face and brown body is eating hay. Other cows are visible in the background, some with white and brown patches. The scene is set in a grassy field with some dry hay on the ground.

**What specifically can we do in the, say,
next 12-18 months to get traction /
demonstrate progress?**

***Rotate through three stations and
change when you hear the bell***

Break – 30 min

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Other potential themes – discussion

Growing on farm
productivity

Responding to
climate change

Securing access to
export markets and
growing exports

Responding to
competition from
other industries for
inputs

Meeting consumer
concerns including
on environment and
animal welfare

Increasing the skills
and capabilities of
people in the
industry

1. Go to slido.com
2. Enter access code:
#ADPNW
3. To realise our vision for the dairy industry, how much more do we still need to do over the next five years?



Other potential themes – Table sessions

Table 1 & 7

Growing on farm
productivity

Table 2 & 8

Responding to
climate change

Table 3 & 9

Securing access to
export markets and
growing exports

Table 4 & 10

Responding to
competition from
other industries for
inputs

Table 5 & 11

Meeting consumer
concerns including
on environment and
animal welfare

Table 6 & 12

Increasing the skills
and capabilities of
people in the
industry



Fill out the
template that
looks like this

Growing on farm productivity

Instructions:

1. Allocate a scribe to write down answers to the questions below.
2. Discuss the questions set out below and write your response in the boxes provided.
3. There will be a table convener from DA or ADF who will provide you with context and to answer any questions about this topic.
4. Allocate someone from the table to provide a short report back to the rest of the workshop participants on the audacious/ambitious idea (Q3) when we return to plenary.

What do we currently do well that we should continue/celebrate?

What do we need to do that we are not doing now?

What is an audacious/ambitious idea that we might develop further that could really take us forward here?

TORQUE
TEST
SHEET

A woman wearing a white lab coat with an orange stripe, safety glasses, and a hairnet stands in a dairy processing plant. She is looking towards the right, where a conveyor belt is moving several white plastic jugs. In the background, another worker is visible near a control panel with multiple digital displays. A red fire hydrant is also visible in the background. The scene is industrial and brightly lit.

What is the audacious/ambitious idea that we might develop further that could really take us forward here?

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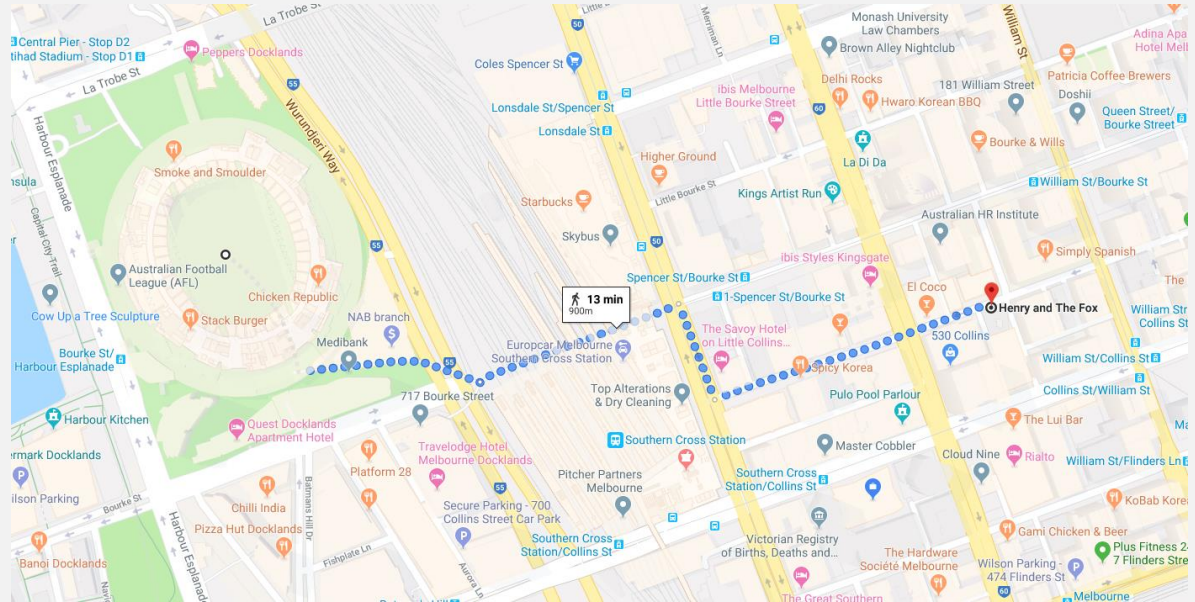
Confirming the **next steps** for completing the ADP.

Dinner tonight is 7:00 pm at Henry and the Fox.

Guest speaker:

Brian Ramsay

*“Experiences of
managing an
industry restructure:
the good, the bad,
the ugly”*



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Welcome to day 2

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Day 2 Agenda

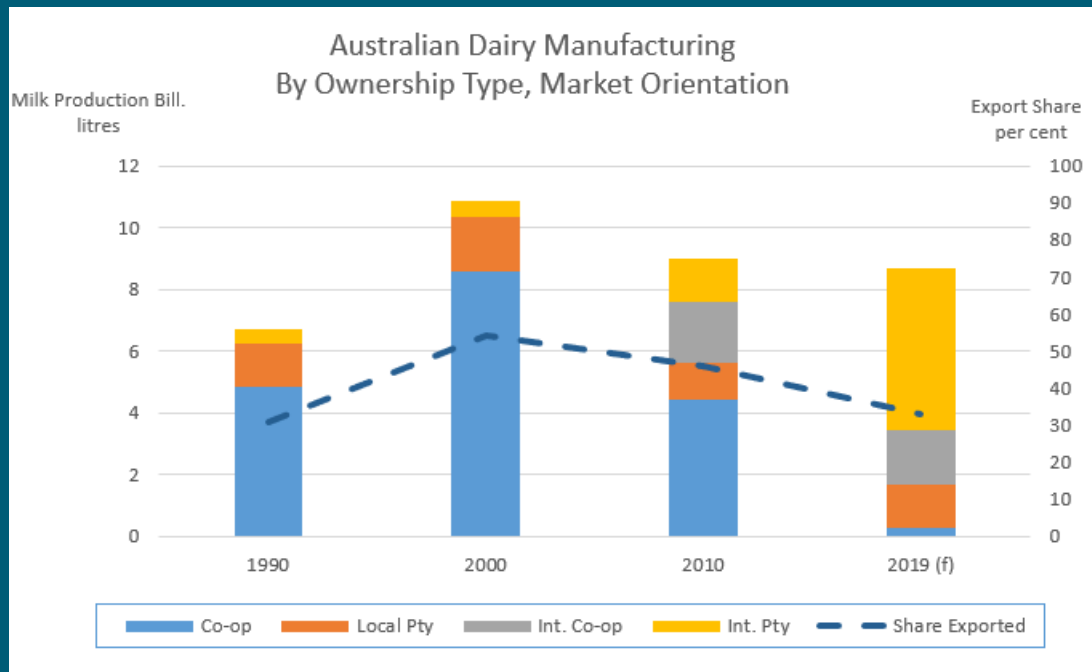
8:30 am	Set up
9:00 am	Test propositions for addressing concerns regarding market power and supply chain dynamics
10:00 am	<i>Break</i>
10:30 am	Test propositions for how best to structure the industry to deliver the ADP
12:00 pm	<i>Lunch</i>
1:00 pm	Confirm the next steps
2:30 pm	Recap
3:00 pm	Close

Market power and dynamics along the supply chain

(farmers, processors and retailers)

The new market reality

From Co-op to Corporatein only 30 years



It has been coming
since the mid 1990's

Evolution vs
Revolution

The future of
processors and
dairy farmers
remain inextricably
linked

Putting value back into the dairy cabinet

1. Better promotion of dairy products

Reinforcing the high quality, nutritious food that dairy is

2. Reinforcing Australian provenance

Ensuring consumers understand the benefits of Australian source

3. Advocate for sustainable retail pricing

Both farmers and processors must play a role to build on recent wins

4. New Market access

Provide alternative, high value markets that reduce reliance on domestic retailers

There has been some bad behaviour

Green Shoots are now appearing

1. Mandatory code of conduct

Regulate minimum contract standards

2. Simpler payment schedules

Standard form contract and price quotation templates

3. Longer term contracts

Improve price certainty to allow producers to plan.
Trading off price certainty and speculation

4. Improved price transparency

Milk Price Exchange
Uniform price quotation templates

5. Develop price risk management tools

Develop a milk futures market.
Explore US style margin insurance programs

6. Tools to drive farmer margins NOT price

A Margin Comparison Calculator vs a FMP Comparison Calculator



**CHURCHILL
FELLOWSHIPS**

REWARDING AUSTRALIANS STRIVING FOR EXCELLENCE

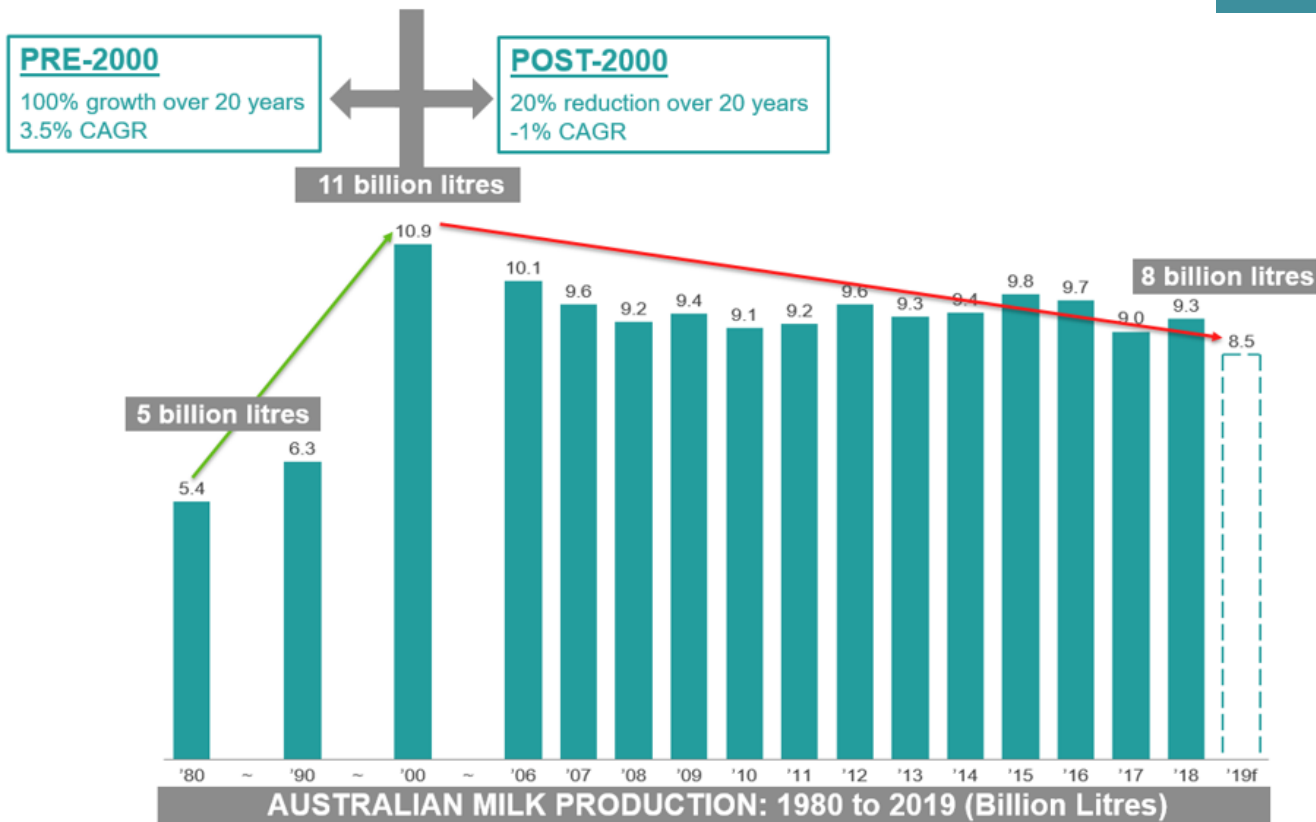
Modernising milk pricing & price risk management for the Australian dairy industry

2018 Jack Green Churchill Fellowship

United States, Ireland, United Kingdom, Netherlands and New Zealand



THE ISSUE: Two Eras & Declining Milk



THE ISSUE: A Tale of Two Eras



PRE 2000

Regulated market

Majority co-operative

Less price volatility

POST 2000

De-regulated market

No co-operative

More price volatility

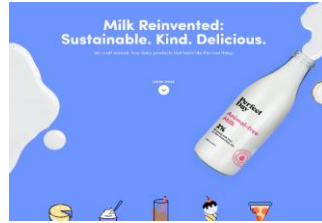
Australian milk pricing models & price risk management remain largely unchanged

Modernising milk price models & managing milk price risk in the Australian dairy market

FELLOWSHIP PROGRAM: *On the Road Again*



USA: Milk, Milk and More Milk



Milk pricing

- Federal Market Milk Order (FMMO)
- Chicago Mercantile Exchange (CME)
- National Agriculture Survey (NASS)
- It's complex!

Price Risk management

- Functioning dairy market: CME
- Abundance of market & price information
- Individuals, companies and brokers manage milk price risk directly or indirectly
- Highly variable strategies across milk producers
- Risk management mentality across all ag commodities
- Government programs: Dairy Revenue Protection Program

EUROPE: The Luck of the Irish?



Milk pricing

- Varies by country but largely driven by Co-ops
- Monthly price (c/L) announced at the start of the following month
- Regulated price discovery/price reporting eg. Milk price league table
- Emerging dairy market: EEX
- Fixed milk price schemes
- It's developing quickly: Eg. Kerry's fixed milk price (Futures)

Risk management

- Emerging dairy market: EEX
- Country specific and EU price data available, Irish Dairy Farmers regulated to collect and publish, Dutch Dairy Board, AHDB via EU regulation
- Milk Flex: Glanbia/Rabo then the whole industry
- Price revenue Insurance: Stable.com
- Are we quickly following the UK dairy market?

NEW ZEALAND: The Dairy Mecca



Milk pricing

- Traditionally huge co-op focus: Fonterra
- New players emerged/emerging
- Annual model with opening price, including advance payment rate that moves through season
- Milk pricing in-line with DIRA and calculates from GDT auction results: Giving market guidance

Risk management

- A functioning and growing dairy market: NZX
- High levels of pricing information and settlement index (GDT)
- Increasing level of domestic and international market analysis and price information available
- Individuals, companies or brokers manage milk price risk directly or indirectly, e.g. Pamu Farms
- Increasing fixed price offers and supply contracts coming to the market
- Fundamentally different dairy market to Australia

THE FINDINGS: *The Grass is Greener on the Other Side, Right?*

1. Australia is the only developed dairy market that doesn't have a milk price market

2. Government policy and legislation in conjunction with industry is pivotal to pricing information and markets

3. We actually do some things pretty well when it comes to pricing & risk management

4. A functioning milk price market, backed by government legislation, is a critical enabler for price risk management



THE RECOMMENDATION: *The Future is in Our Hands*

Develop an Australian Milk Price Market





Tim Roache
2018 Churchill Fellow

+61 (0)467 486 387 • tim.roache@fonterra.com • tmroache@gmail.com

www.churchilltrust.com.au

1. Go to [slido.com](https://www.slido.com)
2. Enter access code: #ADPNW
3. Given these two things, is there anything else we should explore?

Break – 30 min

The outline of this session

- How to approach these types of challenges
- Land the design criteria
- Propose the way forward
- Some structural options



Innovating with Industry Organisations

Australian Dairy Plan Workshop

31 July 2019

Business Model Innovation



An outstanding job with ADP

Open process to engage all

1,200+ have participated

Leadership

Independence – John Brumby, Nous Group

Change ready

Insights from the Pork Industry

How the current model emerged

- 1.Bad, ugly: 1995-98
- 2.Good: 1999-2000
- 3.Really good: 2001 - ?

What makes APL unique

One national body

- Strategic Policy Development
- Marketing
- R&D

Strategic board

- Agile, responsive



Other Examples

Citrus Australia

- Was nine organisations
- Now performing well

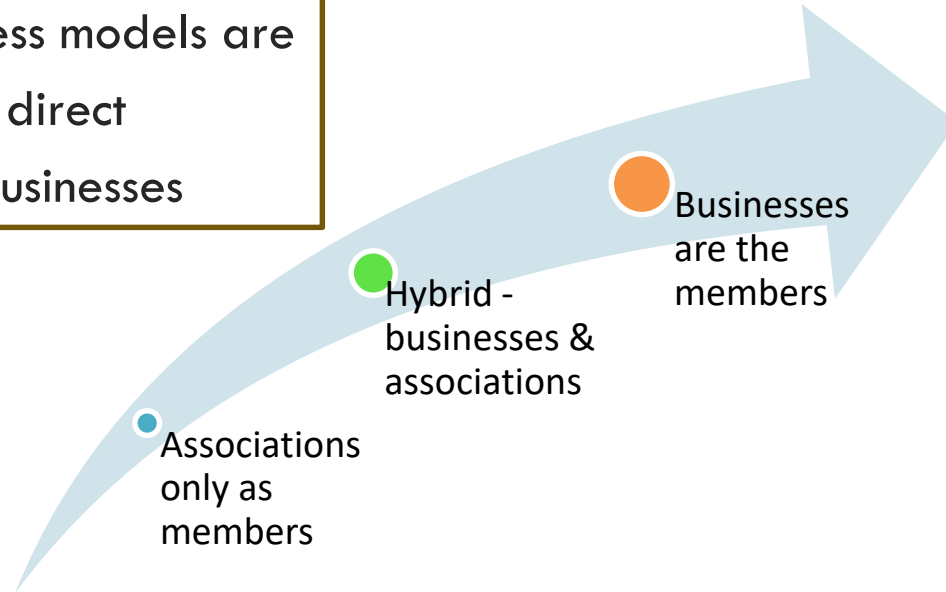
Seafood Industry Australia

- Paid the price of no peak body
- Wild catch, aquaculture, post harvest

Learn from political parties, digital businesses and others

Membership Models Evolving

Peak body business models are evolving towards direct membership by businesses



A new advocacy landscape

"We would expect business organisations such as yours to build the evidence for change and help bring the community along with you too."

Prime Minister Scott Morrison address to the WA Chamber of Commerce and Industry
24 June 2019

Activists, Agitators, Splinter Groups



What's working



So What?

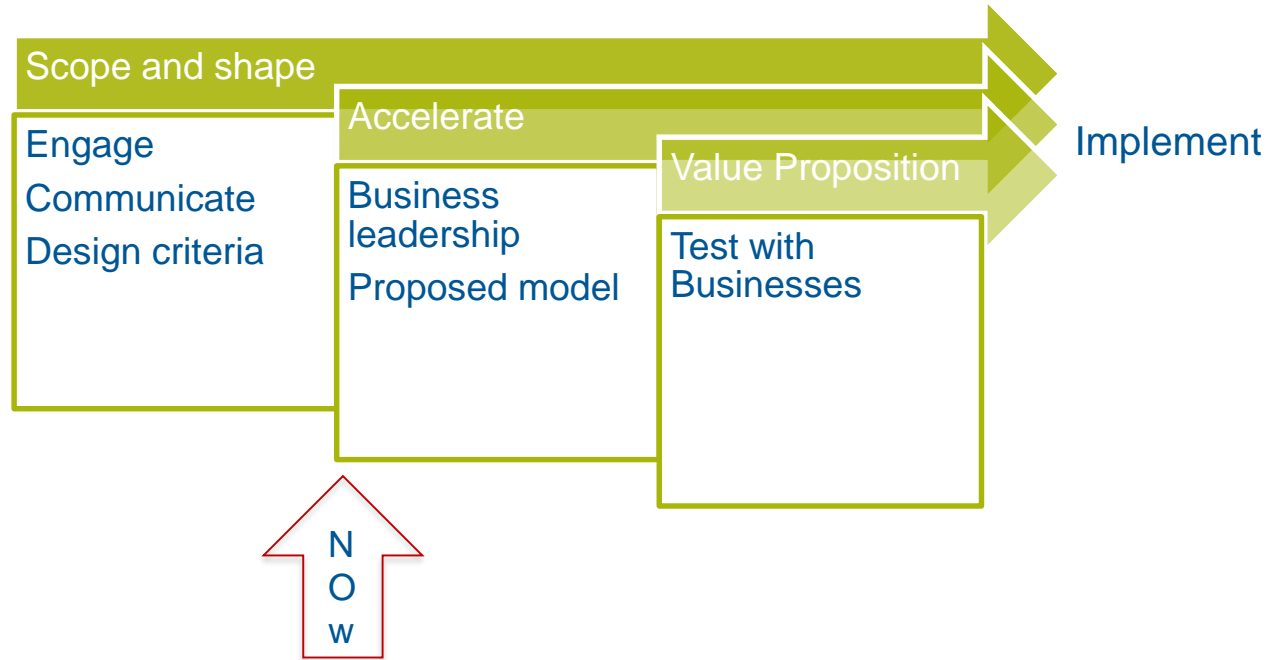
Learn from others, but tailor for dairy

Make room for fresh thinking, challenge beliefs

A viable process to get there



Viable Process Overview



The design criteria we heard from you yesterday...

**Deals effectively with
'the lot'**

**Compelling, appealing
value proposition**

No 'free riders'

**Simple, efficient,
streamlined with little
duplication**

**Nimble, agile, able to
respond quickly to new
industry challenges**

**Creates opportunity for
higher levels of
participation for farmers**

**Well-funded and well-
resourced**

**Enable us to speak with
'one voice' to
government**

Forward-looking

**Capable of building
national consensus**

...and the criteria that we take as 'givens'

Draw on insights from successful models in other industries

Accountable to its members/stakeholders

Be cognisant of what we may lose

Professionally run, with clear roles and objectives

Strong corporate governance

Not limited by past or present practice

The next phase

What is proven to work:

Form a transition team to develop design

- Business people
- Diverse, but not 'representative'
- Use design criteria
- Bring proposal back to industry
- Then dissolved

The next phase (2)

Our proposal – a transition team:

- 6 people (skills based)
- Short engagement!
- Options for selection
- Election
- Five Chairs appoint
- 'New democracy' model

1. Go to slido.com
2. Enter access code: #ADPNW
3. To what extent do you support a joint transition team to take this issue forward?

Lunch – 1 hour



Where to from here?



Q&A



Recap and closing statements