

# Australian Dairy Key Directions Statement

## Appendix E

October 2019



## Foreword



This Key Directions Statement represents the next step in the development of the Australian Dairy Plan (ADP). It follows the establishment of the ADP Committee (comprising the Chairs of the four partner organisations and the Independent Chair); the release of the Australian Dairy Situation Analysis; the nationwide engagement through 20 regional workshops; the national workshop on July 30/31; and the establishment of the Joint Transition Team (JTT) to examine and recommend options to change industry structures and advocacy arrangements.

The ADP Committee has now met on nearly 20 occasions and is deeply committed to the task of developing the dairy plan. Our work is well advanced, but the solutions to the challenges facing the dairy industry are complex and not always easily resolved.

This Key Directions Statement is not intended to spell out specific initiatives or recommended policies – rather, it identifies the key directions and commitments that provide the structure for the final Australian Dairy Plan.

Running parallel to this Key Directions Statement is the work of the JTT. The JTT has been established as a dedicated task force to examine options for change to industry structures and advocacy arrangements. Its work is also well advanced and real progress has been made in considering reform options.

The draft Australian Dairy Plan report, to be published next month, will include specific initiatives supporting the delivery of the plan and opportunities for growth. There will then be further industry consultation before the final Australian Dairy Plan is released by the end of February 2020.

Despite the intense pressures facing many farmers, there are good reasons for the industry to be positive over the medium term. Dairy consumption in Australia is the strongest in the world and there are significant opportunities to supply international markets. Many family farmers are looking to expand and there is a growing pool of global capital looking for investment opportunities.

Many of the issues facing the dairy industry are long standing and well known. The unique features of this plan which give it a greater chance of success are the collaboration and commitment of industry organisations to implement change, the unprecedented level of industry engagement, and the focus on building a strong and positive industry culture.

**John Brumby AO**

Independent Chair

Australian Dairy Plan



## About the Australian Dairy Plan

In early 2019, Dairy Australia, Australian Dairy Farmers, Australian Dairy Products Federation, the Gardiner Dairy Foundation (collectively the Partners) and John Brumby AO (as the Independent Chair) committed to working together to develop the Australian Dairy Plan – a plan which will set the Australian dairy industry's key priorities for the next five years and beyond, to deliver

**transformational change for a more profitable, confident and united Australian dairy industry.**

In developing the dairy plan, the Partners recognise that the industry has changed significantly in recent years. Farmer-owned cooperatives no longer dominate the industry. On-farm there is wide variation in performance as the industry works through the challenges of drought, access to

water and price volatility. Some farmers are hurting badly while others are doing well. The dairy plan needs to respond to these current realities while supporting the whole industry to make the changes required for long-term success.

This *Key Directions Statement* is designed to provide the dairy industry with an outline of the key directions in the Australian Dairy Plan.



## Steady progress has been made

The Partners and the Independent Chair are working to finalise the dairy plan so that it reflects the industry's key priorities and is capable of delivering the transformational change required. The purpose of this Key Directions Statement is to update and inform the industry of our progress to date. Specific initiatives that will support the delivery of the dairy plan will be included in the draft plan at the end of November 2019.

Steady progress has been made in the development of the dairy plan. The key milestones to date include:

### A COMMITMENT TO WORKING TOGETHER

This process began with a commitment by the Partners to collaborate on a new Australian Dairy Plan. This was a significant milestone – the first time in the industry's history that the four key organisations decided to work together to deliver a single plan with a single set of priorities for the dairy industry (see the **Terms of Reference**).

### DETAILED ANALYSIS OF THE DAIRY INDUSTRY

In-depth analysis was undertaken to help the wider dairy community understand the key issues and conditions affecting the industry across a range of metrics in Australia's dairy regions. This was set out in the **Australian Dairy Situation Analysis** that helped inform the nation-wide engagement that followed.

### NATION-WIDE ENGAGEMENT

The Partners and the Independent Chair engaged in the largest listening exercise in our industry's history, holding productive conversations across the country. Over 1,500 people along the entire dairy supply chain, including dairy farmers, processors, retailers, investors and service providers, told us what needs to change to build a stronger industry (see the **Consultation Summary**).

### ADP NATIONAL WORKSHOP

The culmination of the engagements was the dairy plan national workshop, where over 130 delegates representing all Australian states, and all parts of the supply chain in the dairy industry, came together to confirm the key priorities for the dairy industry, drawing on the key themes of the nation-wide engagement (see the **National Workshop Outputs**).

### ESTABLISHMENT OF THE JOINT TRANSITION TEAM

One of the key priorities to emerge was the reform of industry structures and advocacy arrangements. A dedicated taskforce (the **Joint Transition Team** or JTT) was established to examine and recommend options to change structures and ways of working. This work will complement the in-depth analysis currently being undertaken to inform the other priorities.



# 1. The challenge



The dairy industry makes a vital contribution to our regional economies and communities. Dairy is one of our major rural industries and the most significant value-added food industry. Australians highly value the industry, its work-ethic and its products.

However, the dairy industry has faced a number of challenging headwinds over the last two decades.

Despite improvements in productivity, it has become increasingly difficult for many farmers to make a profit on-farm because of the significant rise in inputs costs (e.g. water, energy and feed). This has been exacerbated in recent times by the drought, and high levels of market volatility. This has resulted

in a shrinking milk pool, putting pressure on the profitability of processors who are dealing with underutilised processing plants, increasing competition from dairy imports, and the challenges of continuing to supply domestic and international markets.

Meanwhile, the industry continues to respond to rising consumer expectations on issues such as health and nutrition, animal welfare and environmental impact, as well as increasing consumer demand for product variety (such as plant-based alternatives) and greater value in their supermarket purchases.

All of these factors have worked together to erode confidence in the future of the dairy industry.

However, there are good reasons for us to be positive about the outlook for dairy:

- There is a significant opportunity for us to supply the growing demand for animal proteins in international markets, especially in developing countries such as India, Pakistan, China, the Middle East and North Africa.
- Dairy consumption in Australia continues to remain the strongest in the world from a growing population with high levels of milk consumption, and the potential to increase consumption rates even further.
- There is a growing pool of capital that is looking for a home (with growing interest in the dairy industry) driven by record low interest rates, global investors seeking diversification, and reduced entry barriers.

## 2. A new plan for the dairy industry



The dairy industry has always had an important role in Australians' lives either through the work they do, the communities they live in or the food they eat. Dairy makes an important contribution to livelihoods in our rural communities, and to the health of all Australians. Appetites for healthy, natural protein sources are growing and dairy can play an important role in feeding the world into the future.

In response to these challenges and growth opportunities, we need a coordinated, concerted effort and a single national plan. The dairy plan is about what is required by the industry now to achieve profitable growth. Specifically, it aims to:

- Rebuild the **confidence** of dairy businesses in the industry's future
- Lift **profitability** across the dairy supply chain
- Work together as a **united** industry to address our key challenges.

To achieve this, the industry will need to:

### RESPOND EFFECTIVELY TO THE NEW PRIORITIES

The development of the dairy plan was characterised by extensive and far-reaching engagement. People along all parts of the supply chain, and in every dairy region, were asked what specifically needs to change to get the industry to a better place. Remarkably, despite the huge variation in dairy regions, and regardless of where people sat in the supply chain, the same handful of priorities found their way to the top of most lists. This is a great opportunity – it means that at the core of the dairy plan is a set of commitments designed to help the industry unite behind an effective response to these shared priorities.

### CONTINUE TO DO THE FUNDAMENTALS WELL

The dairy plan also recognises that there are some fundamentals that the industry needs to continue to do well for sustainable long-term growth e.g. programs and initiatives designed to sustain dairy's social licence to operate by improving animal welfare practices and reducing environmental impact. Typically, these rely on capabilities that the industry has developed through decades of investment and of which other industries are justifiably envious e.g. its research partnerships, capabilities and supporting infrastructure. The dairy plan is about keeping a strong focus on these fundamentals as they continue to evolve.

### OUTLINE HOW WE WILL GROW AS AN INDUSTRY

If we deliver on the new priorities that have been identified, and continue to do the fundamentals well, then we will position the industry for a return to profitable growth. The dairy plan will outline realistic growth scenarios that encourage us to be optimistic about the future of the industry: a united, profitable and growing dairy industry built on high standards of environmental sustainability and animal welfare, producing high quality and nutritious dairy products to the Australian and international markets.



### **So, what makes this plan different and why will it work?**

Many of the issues faced by the industry are longstanding and very familiar. The unique features of this plan that give it a greater chance of success are:

## **COLLABORATING AND COMMITTED INDUSTRY ORGANISATIONS**

This is the first time that the key dairy organisations have worked together to develop a single plan that contains one set of national priorities. This level of unity creates a substantial critical mass of resources that can be deployed effectively to deliver on the dairy plan.

## **CONTINUING INDUSTRY-WIDE ENGAGEMENT**

Collaboration and commitment needs to go beyond the organisations if we are to maximise the chances of success. An unprecedented level of engagement in the development of the dairy plan is working to unite the industry behind widely-shared priorities.

## **A FOCUS ON A STRONG AND POSITIVE CULTURE**

The importance of a strong and positive culture is also fundamental in helping to shape the future of the industry. This means rebuilding the way the industry thinks, presents itself and does business so that the reputation of the industry is strong and positive.

Industry transformation is possible if we choose to all work together and build an effective dairy plan and get behind delivering on it.



## 3. Our commitment to transforming the industry together

The key priorities that have emerged through the development of the dairy plan have been distilled into key commitments to return the industry to profitable growth. The commitments for transforming the industry are:

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

Many people in the industry have signalled that existing industry structures are not fully effective – the fragmentation is inhibiting our advocacy efforts and the funding model for representation and advocacy is no longer fit for purpose or well enough resourced. As a result, there have been occasions where the industry has not been able to project a united advocacy position.

There is broad based support for reforms to dairy industry structures and the way in which we work together. These reforms would better enable unified responses to new challenges, make it easier for the industry to work with key bodies, and more effectively advocate on the industry's interests.

We commit to making dairy organisations more effective and easier to do business with. An examination of new industry structures is now in progress with the establishment of a dedicated Joint Transition Team (JTT). The JTT will advise on the options and recommend structural arrangements to take the industry forward and explore ways in which key industry bodies can work more cohesively for the benefit of the entire dairy industry.

### 3.2 We will attract and support new entrants and investment to build industry capacity

When an industry is facing headwinds it can be difficult to attract new people and investment. However, we need to do much better here if we are to return to profitable growth. While dairy offers rewarding careers, and there are several established pathways into the industry, there are also significant hurdles to overcome. Potential new entrants can struggle with accessing finance, relocating to a new community, and seeing a clear career pathway.

One of the most important things to get right is industry culture. A positive culture can increase confidence and investment. However, if the tone of the narrative around the industry is largely negative, potential new entrants and investors may be turned away. We need to remind ourselves of the key leadership role and economic impact of dairy in regional communities. We need a positive vision for the industry backed by strong and visible government support.

We commit to turning this around – to amplify the positive attitudes and mindsets that can attract and support new entrants and investment. We recognise that leadership is important here – both at the industry level, in regions, and in individual businesses. We also recognise the value of providing our young people with a stronger voice to promote and drive positive cultural change and promoting what is genuinely great about the dairy industry.



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

Many consumers recognise the benefits that dairy provides, from improvements to health and wellbeing, through to the contribution it makes to our economy. However, the way dairy products are perceived by consumers is influencing their purchasing behaviour. There is more that can be done to respond to this challenge, but it requires a greater effort in marketing and promotion.

If we do this well, it has the potential to significantly lift positivity and confidence within and outside the industry. This requires us to emphasise the good news stories about dairy. At the same time, we will need to maintain and better communicate our efforts on animal welfare and environmental stewardship. In these areas, we may also need to renew and refresh our targets to meet changing community expectations.

We commit to increasing the scale and effectiveness of marketing and promotion to build trust in dairy products and win support for the dairy industry. This includes creating greater awareness of the health and nutritional benefits of dairy and an emphasis on the value of buying Australian dairy products. But this increase is beyond the responsibility of any single dairy organisation – it will require co-investment from right across the supply chain, from farmers to retailers.

### 3.4 We will intensify the focus on farm business management skills to improve farm and supply chain profitability

Australian dairy farmers manage some of the most complex, decision-intensive animal production systems in the world. Our farmers operate in an environment characterised by very high, and increasing, levels of volatility (in both farm gate milk price and the costs of production), in the most variable climate in the world. These factors have combined to produce price volatility in inputs (e.g. feed and water) that were unimaginable twenty years ago.

In these conditions of increased volatility, having the farm business skills and tools to manage risk is more important than ever. We can get inspiration from those farmers who are making money – and there are some in every region, operating every form of production system. It is important to recognise that successful farm business management requires a commitment to ongoing learning and continuous improvement.

We commit to intensifying our focus on lifting farm business management skills across the industry. There are some good resources we can build on here, but the real opportunity is a whole of industry push that focuses our effort on dramatic improvements. We will also work with government and industry to increase support for measures that help farmers make these improvements.



## 3.5 We will restore trust and transparency between farmers, processors and retailers to improve supply chain profitability and better manage volatility and risks

The industry recognises that a number of recent events have been responsible for a significant loss of trust across the dairy supply chain. In particular, the private label \$1/litre milk diminished the value of dairy in the eyes of the consumers, and eroded profitability in the supply chain, while the 2016 farm milk price stepdown damaged the relationship between many farmers and the processing sector.

In this changed environment, it is more important than ever to re-build trusting relationships and to find opportunities for working together to generate more value in the supply chain. Processors and farmers are currently working on a number of encouraging initiatives including simplified payment systems and longer-term contracts. These, along with the new mandatory code of conduct, will support more uniformity and transparency.

We commit to building on these initiatives to restore trust and transparency between farmers, processors and retailers to help improve supply chain profitability and better manage volatility and risks. We will look to learn from other dairy markets to improve transparent pricing and risk management, but recognise we will need initiatives that align with the Australian dairy industry and its culture of private enterprise and entrepreneurialism.



## 4. Focusing on the fundamentals

The dairy industry has established a range of activities and partnerships that are of fundamental importance to the dairy industry. In many cases this has involved years of investment and development of people capability and infrastructure, often with the support of Federal and State governments. Industry stakeholders have emphasised that with ongoing refinement and investment, these activities and resources will be vital for the future success of the industry. The dairy industry excels in four key areas:

### Sustainability

The Australian dairy industry is recognised worldwide for its sustainability framework and its ability to secure community support for the industry. Through widespread consultation with consumer groups and the dairy supply chain, the Australian Dairy Sustainability Framework has set out goals and targets for 2030. Regular reporting and proactive steps to address any requirements to improve are key actions to remain world class.

The sustainability goals will emphasise a reduction of our environmental impact, provide best care for all our animals and improve the wellbeing of people and enhance livelihoods ([sustainableairyoz.com.au](https://sustainableairyoz.com.au)).

Annual reporting will require monitoring and demonstrated improvement in environmental performance, animal welfare practices and food safety and integrity systems. Many of these systems are now in place and will be expanded to address the growing breadth of goals and targets in the sustainability framework.

### Policy leadership

In recent times, dairy has successfully advocated for a number of important industry initiatives, including the end of \$1/litre milk. Future success will require high quality development of policies, including analysis which can inform and influence Government. A strengthened capability to advocate an industry position is also essential. New structures and ways of operating (Commitment 1) will be one of the most important changes that improve policy leadership.

There are critically important issues in which the industry needs to take a united and well constructed position to government. Over the next five years, policy leadership will have to drive change in water, drought, energy and labour policies, and influence public health debates about food labelling, sugar reform and nutrition alternatives.

### Research, Development & Extension

High quality RD&E is required to manage risks, contain cost increases and generate industry growth. There is a need to expand the knowledge base of our farming sector as well as develop more efficient and productive farm practices and technologies within them.

The dairy industry's RD&E investments encompass world-class flagship research initiatives like *Dairy Feedbase*, *DairyBio* and *DataGene* that are developing more advanced animal and plant genetics, farming system models and access to information to support farm decisions. There are also significant activities associated with people development and regional extension through Regional Development Programs that provide an intrinsic link for action on regional priorities and extension delivery that is building the capability and capacity of our dairy sector.

We recognise that high performance RD&E will have a significant impact on attracting new people and investment (commitment 2) and building farm business management skills (Commitment 4).

Market development

The Australian dairy industry has a strong track record in market development, including Australia having the highest per-capita consumption of dairy, effective access to many lucrative export markets, and an unrivalled ability to analyse the entire dairy supply chain and provide market insights.

The market is continually changing and requires constant investment and effective trade networks. Focus areas to deliver further trade benefits to industry include overcoming market access issues and reducing non-tariff barriers. Increased effort in marketing and promotion (commitment 3) is a priority to position dairy as a healthy and desirable food. Food trends that provide an opportunity to attract premium pricing will also need to be followed to increase value capture through the dairy supply chain.

All existing activities will undergo tactical alignment to the dairy plan and be assessed for their capacity to contribute to the dairy plan's goals and targets.

5. Putting it all together – our vision for a return to profitable growth

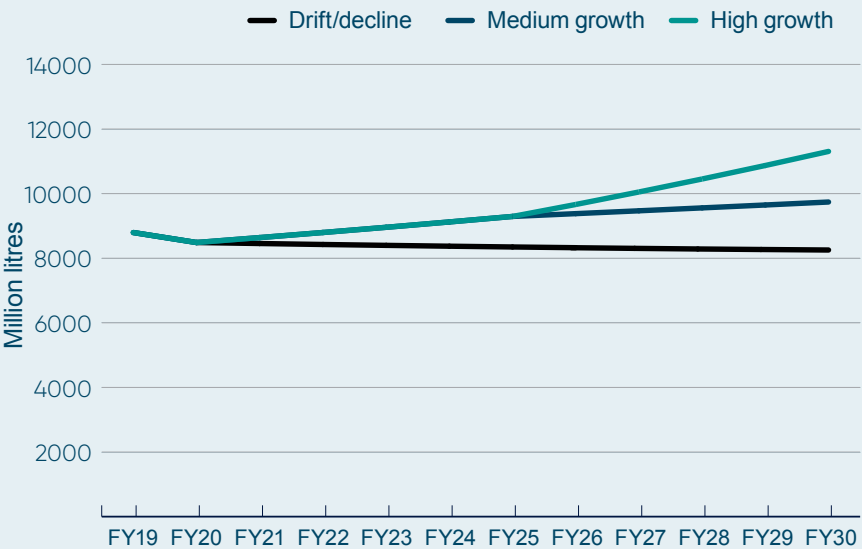
The prospects for growth and increasing profitability vary widely from region to region, and within regions. Some regions will continue to experience substantial adjustment pressure while others see opportunities for strong growth.

On balance, the industry consensus is that if we can deliver on the dairy plan – if we lift profitability, rebuild confidence, and create a cohesive and united industry – we are on track for a return to modest growth as global demand for dairy increases.

We can have some confidence in this because we have experienced higher levels of production before, so we have a solid appreciation of what is required to increase production in each region, as well as the constraints to growth.

Modelling of growth scenarios is in progress and will be included in the dairy plan. Indicative outcomes for national milk production are provided below in Figure 1.

Figure 1 Indicative milk production by scenario (million litres)





## 6. Next steps

The draft dairy plan will be delivered at the end of November 2019. After this, the Partners will engage in an external consultation phase where members of the industry and key stakeholders will be invited to comment on the dairy plan. The purpose of this consultation will be to seek and capture any feedback on the dairy plan, its priorities and initiatives to inform the final version of the dairy plan. In conjunction with this, recommendations to reform industry structures and advocacy arrangements will be developed by the JTT. Once finalised, the Partners in conjunction with the support of the whole dairy industry, are committed to implementing the initiatives set out in the final dairy plan which will be supported by effective monitoring and reporting mechanisms.



#### 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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