



DairyTas Board Submission

Legislative Council Select Committee - Dairy Industry in Tasmania

Terms of reference:

1. *Marketing opportunities for the Tasmanian brand*
2. *Processing opportunities in Tasmania*
3. *Role of the Tasmanian Govt*
4. *Any matters incidental thereto*

DairyTas Background

Our Vision "To support a sustainable, profitable and dynamic dairy industry in Tasmania that offers economic and social rewards to dairy farmers and the wider community."

Our Mission "To contribute to growing and securing the industry's capacity to farm in the region by delivering farm related programs, projects and industry support services to dairy farmers and industry service providers and collaborating with government, industry and the broader dairy community"

DairyTas is a service delivery organisation funded by farmer levies that supports farmers to develop their businesses and to access programs and resources that build farm management capability across Tasmania.

Some key points for DairyTas' submission:

Tasmania's dairy industry is based on an export focused industry led by processors MG and Fonterra with around 75% of the milk produced. Most of this is in non-Tasmanian branded product. This means that most farmers in Tasmania take a price based on the global dairy commodity price and the variable demand and supply situation. Processor demand for milk can change fairly quickly and certainly in a time frame quicker than what local farmers can gear up or down to. In general there is an exportable surplus of dairy products so farmers can manage to this.

This has provided the impetus for the production growth in Tasmania over the past decade.

Lion and Cadbury have different markets but their farm gate milk price is indirectly linked to the exporters price.

Increased consumer interest in local produce and brands is happening but this only applies to a small market share.

There seems to be more dairy farmer interest now in looking for alternative markets and products for their milk to avoid some of the pitfalls of supplying the larger national/international players who have limited interest in the Tasmanian brand.

Can Tasmanian dairy farmers benefit from the increased use of the Tasmanian brand resulting in a higher average milk price; less volatility and more certainty for farmers? It is unlikely that this will flow through to the majority of the industry but over time could be a possibility.

More options for Tasmanian dairy farmers would be a positive thing.

MG and Fonterra are key players in Victoria as well as Tasmania. One key difference is that in Victoria there are more processing operations though they are regionally spread so local area options for farmers would vary. For example Victoria have 190 dairy processing licences.

It is unlikely that MG or Fonterra would be interested in producing and marketing a Tasmanian branded product as it is not a priority for them. Duck River butter is an exception to this. Discussions with processors should take place to be clear on this point, as this would be the best place to start. May be Govt to look at incentivising this?

On a cost of production basis Tasmanian milk processing would not compete with other export suppliers of dairy products due to the lower scale of production. (This presumption needs to be clarified with the Department of State Growth or other relevant source.)

More branded Tasmanian dairy product would mean processors focused on quality and value add; with a smaller scale of operation. Quality, branding and reliability of supply will be key rather than volume of milk produced. The recently updated Tasmanian Dairy Industry Strategic Plan 2016-2021 (document attached for information) has identified that one of key factors in regards to future investment in the industry should be the "the further development of the Tasmanian dairy industry's brand and image" and the development of niche market opportunities to help improve post farm margins.

There is still a vital role for the export based processors in Tasmania as our current 900ML pa milk production needs to find a home. This will continue to drive the Tasmanian dairy industry.

With the recent downturn in international dairy prices the major processors have backed off their push for more milk to fill the stainless steel capacity. We currently estimate there is 200ML of surplus capacity pa; depending on product mix. However there is another question on peak season capacity. An example is the current capacity increase at Fonterra Wynyard to enable them to produce more cheese while the milk powder facility at Spreyton is under capacity.

International prices are now pushing up so it will be interesting to see how processors respond in terms of their interest in additional milk production from Tasmanian farms.

Some recent developments are of interest:

- Moonlake Investments VDL brand -Van Milk - using Tasmanian brand for the Chinese market. Plans for launch of this product into China in 2017 have just been announced. This could be the catalyst for more development of Tasmanian brands.
- Organic Milk – Processor interest in sourcing Tasmanian organic milk has risen dramatically in 2016 and announcements are expected soon.

This could mean up to 100ML of milk utilised and finding a new “home” in the next 3 to 5 years. There would be some reduction in the milk available to these companies depending also on the future of the Cadbury operation. Whatever happens the current processors need to remain viable and require an adequate supply of milk.

Tasmanian Dairy Industry Strategic Plan 2016-2021

DairyTas has recently completed a review and update of the industry strategic plan for the next 5 years. This focuses mainly on the farm gate sector but it does also look at things like the supply chain and value added opportunities as important elements of the industry.

The plan forecasts continued sustainable growth of the industry and with that will come further processing opportunities. A vibrant and growing processing sector working alongside Tasmanian dairy farmers is important for our future. At the moment there needs to be some rebuilding of confidence from our farmers in the processors and we expect this to happen as the market improves and arrangements are put in place to give farmers more certainty and transparency in their contracting of milk supply.

A copy of the plan is attached.

Questions for consideration

There are a number of questions that arise in the consideration of issues around the subject of marketing and processing of Tasmanian milk.

- Will Tasmanian farmers gain from more valued added Tasmanian branding? Is there a guaranteed higher return to farmers? Expect the benefit to be at the margin but over time this might change.
- To what extent will existing milk processors be affected? They could be affected if there is a widespread move to new Tasmanian branded dairy product but this is unlikely in the short term and overall production still has the potential to grow.
- Likely that new processors will need to enter the market – from where? The increased interest from corporate investors and a number of current investors such as Moonlake Investments (the new owners of VDL Farms) and Dutch Mill (Thailand

investor with a number of Tasmanian dairy farms in Circular Head) might have interest to undertake processing investments in Tasmania having established farm operations.

- Does this require an investment attraction campaign by the Tasmanian Government? or at least have this identified as an opportunity when Tasmanian investment opportunities are promoted.

Conclusions

1. DairyTas believes that there are further opportunities building the marketing of the Tasmanian brand across the dairy industry. These opportunities will require existing or new processors to take advantage of this brand.
2. There are opportunities for further processing in Tasmania as the industry grows but we do not expect this to be large scale production facilities. More likely this will complement the existing industry and add a new dimension rather than allowing the majority of the industry to move into this space.
3. The Tasmanian Government and Brand Tasmania need to promote these opportunities more widely.



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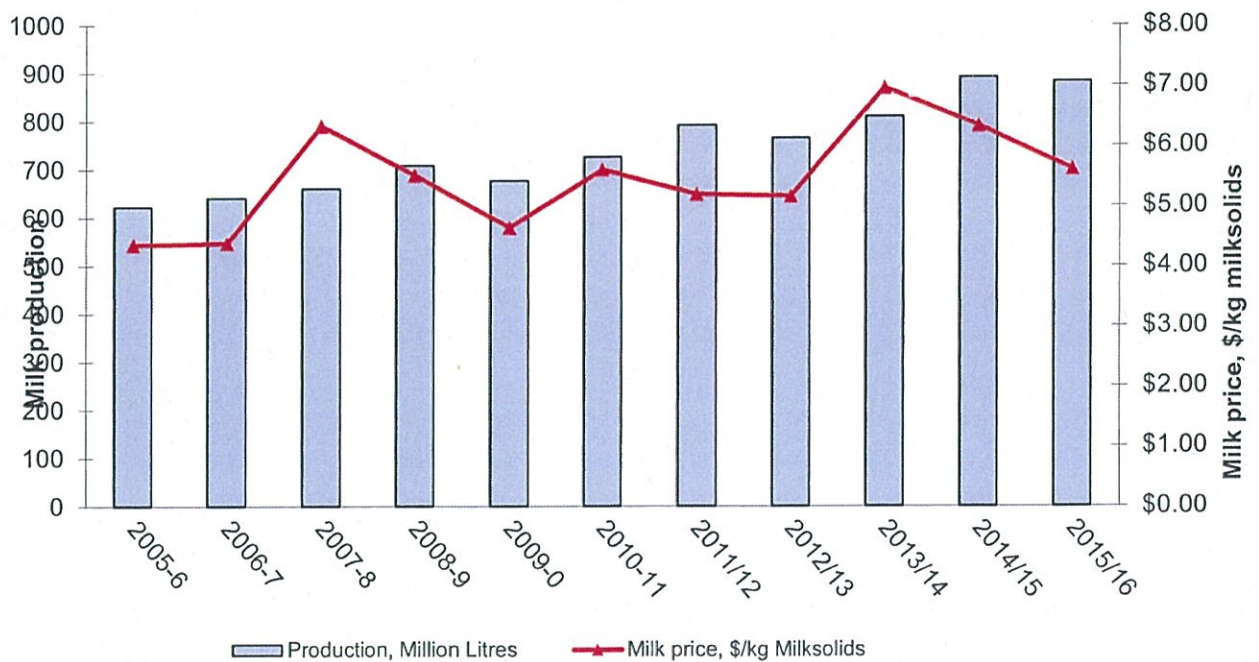
30th November 2016

Attachment

Recent trends in production and price

The milk price drop in 2016 and seasonal influences has seen Tasmanian milk production plateau in recent years at just under 900ML, recording 883ML in 2015/16. Farmer confidence in the main milk processors MG and Fonterra has been shaken in 2016. The milk production estimate for 2016/17 is for a further small decrease. Currently for the ytd October we are 11.3% behind but expect this gap to close as the season unfolds and milk price trends upwards.

Tas milk production (ML) and milk price (\$/kg milksolids) 2006-2016



Tasmanian dairy industry

Strategic plan 2016–2021



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Your Levy at Work

Disclaimer

This document has been prepared by DairyTas on behalf of the Tasmanian dairy industry and its stakeholders.

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Vision

A globally competitive, profitable and sustainable dairy industry for Tasmania.

Mission

The Tasmanian dairy industry will focus on:

- › industry development through enhancing livelihoods, improving the wellbeing of our people and animals, and taking care of our natural resources
- › enhancing the development of profitable farming systems
- › improving dairy business management skills
- › developing and maintaining strong supply chain relationships
- › supporting efficient, innovative and responsive processing capacity.



Context

Dairy is the largest agricultural sector in Tasmania, contributing over \$1 billion to the state economy each year. The industry generates wealth and long-term jobs for regional communities, and is based on the sustainable use of Tasmania's natural resources.

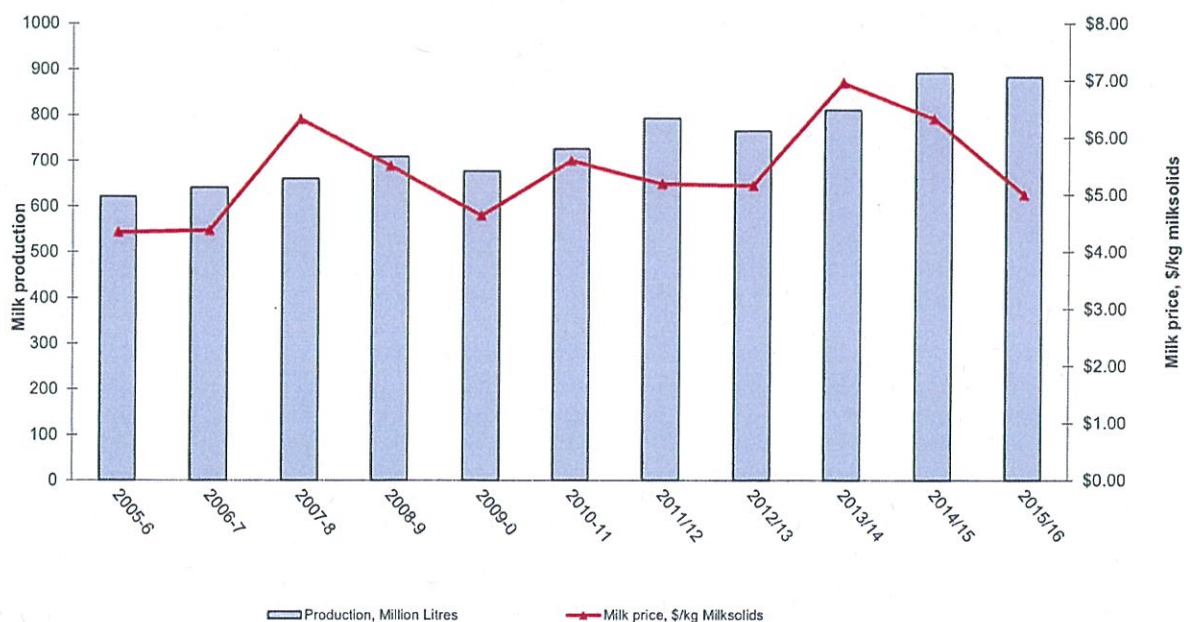
The Tasmanian dairy industry strategic plan 2016–2021 sets out the critical issues to be addressed, objectives to be achieved and strategies to be implemented over the period 2016–2021.

The plan has been prepared under the direction of the DairyTas Board and is based on an update and review of the 2010–2015 plan. The plan focuses on the dairy farming sector and represents a broad industry focus relevant to all industry stakeholders including farmers, service providers, consumers, government and the broader community.

In the development of this plan, the industry has consulted widely including representatives and information from:

- › Tasmanian dairy farmers
- › Tasmanian Farmers and Graziers Association
- › Tasmanian Institute for Agriculture
- › Dairy Australia
- › DairyTas Board
- › Milk processors
- › Financial institutions
- › Regional Natural Resource Management
- › Agricultural services
- › Tasmanian Government.

Figure 1 Tas milk production (ML) and milk price (\$/kg milksolids) 2006-2016



The Tasmanian dairy industry

The Tasmanian dairy industry:

- › is based on a sustainable, low cost pasture-based production system, underpinned by relatively reliable rainfall and increasing irrigation infrastructure
- › has further potential for growth, through increased access to water and land resources
- › is highly export-oriented and has a high exposure to national and international dairy markets
- › has been exposed to significant volatility in international demand and supply, which has flowed through to volatility in farmgate milk prices
- › has seen a significant reduction in average farmgate milk prices and challenging seasonal conditions in 2016 that will impact on industry performance in the next 12 to 18 months
- › has experienced continued pressure on cash flow, particularly for highly geared farmers, which will require:
 - greater emphasis on improved performance across all aspects of dairy farm management

- heightened focus on controlling production costs
- continued development and adoption of technology to improve operating efficiencies
- continued support for the development of business management skills.

Table 1 outlines the steady growth of the Tasmanian dairy industry over the past ten years – often in excess of national trends.

Following these trends, the Tasmanian dairy industry expects to increase annual milk production in the vicinity of 5 per cent annually with a target of 1,100 million litres in 2021. Industry growth will come from the expansion of existing businesses, the conversion of non dairy land to dairy, and improved access to water resources through the current investment in improved irrigation capacity.

Notwithstanding this, there will be some slowdown in growth through 2016 and 2017 in response to milk processor's pricing changes and seasonal variability impacts on farm operations.

Projections

Forecast milk production (million litres by 2021): 1,100

Forecast contribution to Tasmanian economy (\$M/year by 2021): 1,200

This projected target assumes:

- › a milk price that is able to support profitable operations for efficient farmers
- › sufficient processing capacity
- › reasonable seasonal conditions
- › continued growth in global markets
- › capacity to manage volatility
- › capability to attract new entrants
- › access to necessary resources.

Table 1 Tasmanian dairy industry growth

Measure	2006	2010	2015
Number of dairy farms	490	440	440
Number of dairy cows in production	135,000	142,450	167,000
Average herd size	275	324	386
Milk production (million litres)	610	673	891
Production per cow (litres)	4,520	4,725	5,615
Proportion of Australia's milk production (%)	6.2	7.5	9.2
Total employment on farm and in dairy processing	2,750	2,700	2,720
Farmgate value of dairy production (\$M)	198	234	442
Estimated direct contribution to Tasmanian economy (\$M)			981

Industry highlights over the past five years

The Tasmanian industry has outperformed the national average for investment returns with the average return on capital for Tasmanian dairy herds (not including capital appreciation) at 3.9 per cent which compared to the national average of 1.5 per cent in 2014–15.

- › Tasmanian milk production has grown by 32 per cent since 2010 which has mainly come from existing farms milking more cows, increased per cow production and a number of new dairy conversions.
- › The industry currently employs 2,720 people across the value chain (from farm to product), and continues to generate long term sustainable jobs into Tasmania's regional economies and throughout the dairy supply chain.
- › There has been over \$400m in new dairy processing investment for both large and small scale processing over the last five years.
- › The Tasmanian State Government has committed to expanding the irrigation footprint, which is increasing investment opportunities for dairy growth, and providing confidence to new investors.
- › The industry has focused on improving its profile and image in the community, particularly in the areas of industry leadership and community engagement.
- › It has supported the introduction and uptake of new environmental sustainability programs, such as FertSmart and Clean Rivers.
- › There has been increased farmer engagement in environmental management and the development of stronger relationships with the regional bodies responsible for natural resource management.
- › Farmers are continuing to invest in new technologies that strengthen farm profitability and accelerate the adoption of new farm management practices.
- › Smithton in North West Tasmania was awarded the Legendairy Capital town of the year for Tasmania in 2015 for its efforts in supporting dairy at a local level.
- › The DairyTas workforce planning program has provided dairy farm owners with access to better resources to support their role as employers, and the Employment Starter Kit initiative (ESKi) has been seen as particularly important by farmers.
- › The industry has attracted more young people through improved engagement with school and post-school students with programs such as Cows Create Careers, Picasso Cows, Beacon Foundation, and various community and industry job expos, forums and events.

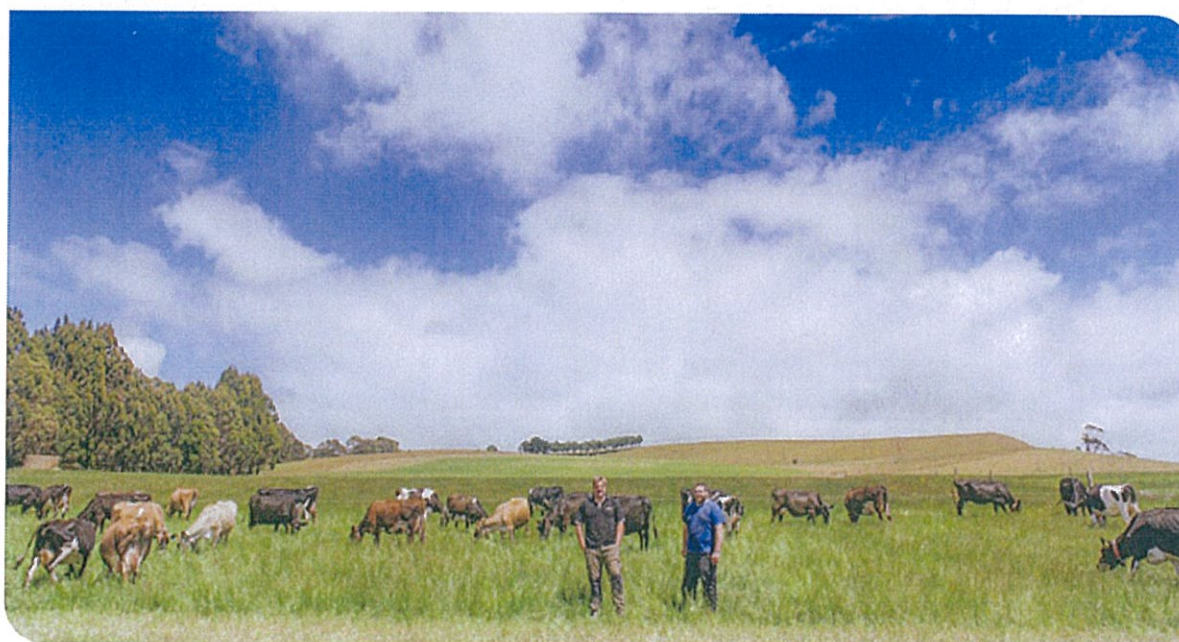


Industry outlook

The international dairy market will remain volatile, which will have implications for milk price and return on investment in dairy.

Global demand will continue to increase for competitively priced dairy products, particularly in developing countries and these associated with the westernisation of Asian diets.

- › Dairy foods processing will require ongoing investment to optimise product mix and capacity requirements.
- › Niche market opportunities are likely to emerge which capitalise on Tasmania's clean, green environment for food production and its regional brand. This includes opportunities for organic dairy farm operations supported by processing investment in Tasmania.
- › Farm gate milk production in Tasmania is forecast to increase over the next five years depending on and influenced by milk price and seasonal conditions.
- › Opportunities for growth will be accelerated in Tasmania by expansion of irrigation infrastructure.
- › Dairy will continue to play a critical role in Tasmania's state and regional economies, and as a generator of jobs across the community.
- › Community support for dairy growth will be linked to improved awareness around the long term sustainability of Tasmanian dairy production systems.
- › The cost of production for dairy will continue to rise, placing pressure on Tasmanian dairy farms to improve business awareness and operating efficiencies.
- › Maximising the performance from pasture based dairy systems will remain a priority.
- › New technologies will continue to develop, which will help to improve dairy profitability and lifestyle outcomes for farmers.
- › The challenge of attracting sufficient skilled and capable people into the industry will remain.
- › Managing dairy's social licence around animal welfare and environmental stewardship will become increasingly critical.
- › The influence of climate change will need to be closely monitored and adjustments built into Tasmanian dairy systems to accommodate.
- › Compliance standards around effluent management will need to be maintained to ensure best practice.
- › There will be a greater focus on reproductive management as farms strive for improved reproductive performance and calving inductions are being phased out.



Strategic response

DairyTas and key industry stakeholders will guide the development and maintenance of a vibrant dairy industry in Tasmania over the long term.

To best achieve this objective the industry will focus on:

- › growing the profitability and competitiveness of Tasmanian dairy farms with a focus on industry sustainability
- › ensuring the industry has the skilled and capable people it needs to meet its demands, and is seen by more people as a preferred career
- › maintaining the industry's strong reputation with the community
- › developing a supply chain that values farmers and the investments they need to make.

This will require a range of investments and effort that address:

- › maximising profitability
- › building and maintaining critical relationships along the supply chain
- › investment in processing capacity
- › further development of the Tasmanian dairy industry's brand and image
- › pursuing options for sustainable growth
- › supporting the efficient and sustainable use of our natural resources
- › improving the management of risk and volatility
- › adoption of research and innovation
- › influencing and responding to government policy and regulation.

To support this plan the industry requires:

- › targeted resource support and the maintenance of strong collaborative partnerships involving the milk processors, government, and key industry bodies under the leadership of DairyTas and the TFGA.



Tasmanian Dairy Industry investment focus 2016–2021

Goal 1 Profitable and competitive dairy farms

- › Support programs, activities and information that contribute to increased farm profitability, competitiveness and greater control of input costs.
- › Build capability for farmers and their advisors in key areas that underpin farm management improvement.
- › Ensure Tasmania's competitive and efficient farm production systems drive the industry's performance.

Objective	Area	Approach/strategy
1.1 Improve farm margins	Animal performance/fertility	Implement on-farm change programs to support further improvement with herd fertility and reproductive performance in Tasmanian dairy herds.
	Cow health	Implement on-farm change programs to optimise cow health and milk quality.
	Animal welfare	Support dairy farmers to implement the best possible livestock management practices with full compliance to animal welfare standards and changing regulations.
	Pasture and feedbase efficiency	Improve the profitable utilisation and integration of both purchased feed sources and home grown feeds under Tasmanian conditions with a focus on improved pasture management.
	Irrigation management	Support programs and activity to ensure farmer investment in irrigation infrastructure are well planned and implemented, and provides a viable return on investment.
	Resource management	Support the adoption of new practices and technologies that enhance resource use efficiency. Support programs that raise farmer awareness of environmental issues and the integration of environmental management with farm business management, such as: › improved nutrient and effluent management › improved water quality and riparian management › improved energy efficiency and reduced greenhouse gas emission intensity (kg CO ₂ -e/kg MS) of milk production.
	Climate change	Work with farmers to understand the impacts of climate change and to develop strategies for managing increased climate variability.
	Farm business management	Deliver coordinated farm business and financial management capability building for farmers and their advisors (with support and engagement from key stakeholders), financial institutions, processors, business advisors and training providers. Programs that mitigate risks around managing volatility in returns for dairy farmers. Improve engagement with DairyBase and the use of farm based benchmark data to improve industry performance. Work with farmers and industry to ensure good farmer decision-making is associated with investment in new dairy farm technologies.
1.2 Improve post-farm margins	Processor productivity	Continue to build a close alignment with milk processors regarding the implementation of the Industry strategic plan to maximise synergies amongst stakeholders. Development of niche market opportunities, e.g. organic milk.
1.3 Support industry decision-making	Collection, analysis and provision of market information and insights	Collect, analyse and make available information that is useful to stakeholders in their decision-making.

Goal 2 Protect and promote our industry

- › Helping industry manage current and future risk areas and helping to improve the reputation of the industry within the community.
- › Benchmarking industry sustainability.

Objective	Area	Approach/strategy
2.1 Manage industry reputation	Wealth creation and jobs	Demonstrate that Tasmanian dairy is a positive and powerful contributor to regional economies and communities through wealth creation and as a generator of long-term sustainable jobs.
	Licence to operate	Demonstrate that Tasmanian dairy farmers are responsible users of natural resources and responsible managers of livestock. The industry needs to tell its story and engage with the community.
2.2 Manage risk	Issues management	Continue to develop an industry culture and practice that promotes and celebrates best practice management on farms. Support industry members to meet and exceed industry and regulatory protocols.
	Access to resources	Develop and implement a strategy to secure access to sufficient quantities of land and water for industry growth. Develop an understanding of how the Tasmanian processing capacity will profitably manage projected milk growth.
	Industry policy development	Understand the major impacts on business and industry operating requirements with a view to being able to influence: <ul style="list-style-type: none"> › relevant legislation › licensing requirements › regulatory and bureaucratic requirements, including consistency across local government jurisdictions. Support the development of state water policy, which will encourage longer term water security and efficient regulatory management of water for the Tasmanian dairy industry.
2.3 Engage with the community	Industry awareness	Improve community understanding of the importance, benefits and opportunities provided by a vibrant and growing dairy industry in Tasmania.
	Industry sustainability performance.	Increase the awareness of, and support for, the Australian Dairy Industry Sustainability Framework in Tasmania.

Goal 3 Grow capability and skills

- › Ensure the dairy industry has the appropriate supply of skilled and capable people necessary to meet the current and future demands of the industry.

Objective	Area	Approach/strategy
3.1 Improve the uptake of technology, skills and resources on-farm	Effective extension services	<p>Accelerate the on-farm adoption of beneficial research and development outcomes, and best practice farm operating systems. This will involve the coordinated input from Dairy Australia, DairyTas, Tasmanian Institute of Agriculture, training providers and the private sector.</p> <p>Increase the proportion of dairy farmers involved in extension activities by introducing new and innovative models for farmer engagement.</p> <p>Support adoption of new technologies across the farm sector.</p> <p>Continue to develop a strong network of discussion groups supported by other extension, such as direct farm advisory services, where appropriate.</p>
	Provide the dairy industry with the people it needs	Continue to develop a regional and local focus of activity to promote the Tasmanian dairy industry as an attractive investment and career option, with a focus on young people and new investors.
	Dairy lifestyles	Increase dairy farmer focus on practices and technologies that can improve lifestyle options, with the goal of improving work-life balance.
	Farm succession and farm transitions	Support the understanding and use of improved models for successful farm succession/farm transitions (including models of equity support for young farmers).
3.3 Invest effectively in training and education	Understand gaps and priorities	<p>Ensure the current gaps in skills for successful dairy business operation and management at each stage of the supply chain are identified and understood.</p> <p>More options for tertiary study in agriculture and dairy-related courses connected to the industry.</p>
	Quality service provision	Ensure the training and education system arrangements for delivery of quality education to the dairy sector in Tasmania are able to meet the requirements of the industry.
	Farmers as employers	<p>Improve farmers' motivation and capabilities to be better employers.</p> <ul style="list-style-type: none"> › Promote engagement with sound employer practice through broader adoption of the ESKI tool. › Increase focus on improving OH&S outcomes on farms. › Improve people management practices across the industry.
3.4 Understand, develop and promote career pathways	Career pathways	<p>Develop a local program of activity to ensure the dairy industry is seen as an employer of choice with clear pathways into industry.</p> <p>Invest in school based programs to encourage new entrants into the industry at all levels.</p>
3.5 Facilitate leadership development	Programs to help create industry leaders	Build a program of leadership development activity based on the national industry model but shaped to be relevant for Tasmania.



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Your Levy at Work

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