



**ADF National
Dairy Farmers' Summit**
Thursday 13 March 2014

Theme 4: Competitive Value Chain

Introduction

- Australia is part of a global market for dairy products. Whether selling to the Australian market or overseas, we face strong competition on a range of price and non-price factors, from other dairy exporters, and from other producers of food products.
- To compete, we need to ensure the value chain from farm to consumer works as efficiently and effectively as possible, capitalises on research and innovation, and delivers what the marketplace wants.
- This theme looks at the need to work across the value chain to improve the mutual understanding between customers, processors, and farmers. It looks at the need to improve access to capital and the priorities for pre-competitive reductions in costs and duplication.

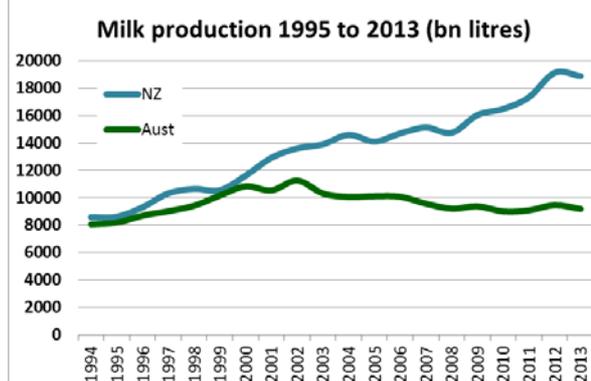
Where we have been

Australia has traditionally been a low cost producer of dairy products, allowing us to be a significant exporter, as well as supplying the bulk of the domestic market's needs – even with unfettered access for New Zealand.

Much of this advantage has been based on low-cost pasture-based farming systems, and throughout the 1990s the industry grew strongly - based on increasing Asian demand - threatening to overtake New Zealand in production. Alongside this growth, dairy companies were investing in new capacity, and technology.

The 2000s saw increased climate and market volatility reduce the industry's production from an 11 billion litre peak, to between 9.0 and 9.5 billion litres, with production essentially flat ever since. Excess capacity has been gradually removed from the industry, and in a competitive environment for a constrained milk pool, processing investment in scale and technology has been limited. Efforts at maximising throughput and responding to market requirements have resulted in pricing signals that have encouraged flatter production on farm – even in southern Australia where seasonal production had been the norm.

This has contributed to rising fixed costs for milk production which have limited the ability of some farm businesses to deal with volatility and grow – further compounding the issues for the industry.



While competitors and customers continue to grow, Australian dairy manufacturers (and food manufacturers in general) are losing the competitive edge due to limited scale, increasing energy costs, high labour rates, and a lack of investment in innovation. The industry that was characterised as flexible and agile with a diversity of business models and offerings for overseas interests in the 1990s is today seen by many customers and competitors as fragmented, under-sized and not poised for growth. Regulation is just one barrier to effective consolidation and scale.

The debate on foreign ownership is strong, but perhaps symptomatic of broader uncertainty about the future ownership model(s) that might improve Australian dairy's competitiveness, and farmers' abilities to access reasonable returns.

The capacity of local companies to invest in research and development is in absolute terms a fraction of their competitors and customers given their comparative scale. The availability of public R & D resources is also under threat. The industry has sought to address these issues by continuing to invest in farm sector R&D, investing in new pre-competitive manufacturing R & D, as well as leveraging overseas alliances.

However, commercialisation of industry R & D has proved a significant hurdle for the manufacturing sector, with engagement between providers, the marketplace and manufacturers lacking. For the farm sector, extension and adoption have been significant challenges in effectively supporting ongoing productivity gains.

Where we are going

Global dairy supply chains will continue to consolidate in the future, as large food corporations seek to achieve market dominance, shore up supplies and mitigate risk. The Australian dairy industry's ability to be a significant player in the future will depend on its ability to supply its customers what they require reliably and cost-effectively.

Commercial players within the industry will, and should, pursue their own strategies. But the need to maximise access to the latest technologies and innovations in order to maintain competitiveness suggest an ongoing requirement for some cooperation in key areas before commercial competition takes primacy.

For the farm sector the need to pursue productivity gains will not abate. The convergence of milk prices and production costs around the world has eroded the historical cost advantage milk production in Australia has enjoyed in the past.

The capital required to invest in technologies needed for future competitiveness is unlikely to come from traditional sources such as bank debt or farmer equity. Harnessing investor funds available for the dairy sector will be of paramount importance to fund future development for both farm and manufacturing.

Questions for the workshop

1. What does a successful competitive dairy value chain look like in the future?
2. What are the most important competitive value chain issues for the industry?
3. How can R & D be more effectively targeted and delivered to industry?
4. How can we improve access to capital?
5. What are the top 3 things the industry can do in supporting a competitive value chain?