The Northern Dairy Industry

Dairying in Australia’s north can approach 2015 and beyond with a firm sense of optimism. While challenges remain there is much evidence to suggest dairy farmers and processors can successfully adapt to the region’s unique production and market circumstances. New market opportunities, if realised, provide an opportunity for the region to grow again in the medium to longer term.

More than most Australian dairy regions, the Queensland and northern New South Wales dairy industries have faced significant transformative forces since the deregulation of the domestic dairy market in 2000. It is recognised that farmers in these regions have and continue to face market dynamics that have inhibited regional industry investment and growth, reducing processing and production in the region to its current high reliance on the domestic fresh milk market. However, new and targeted investment is vital if individual farm businesses and firms are to capitalise on emerging market opportunities in the region and beyond.

Given the unique circumstances in the north, farm groups and processors, the State Governments of NSW and Queensland and Dairy Australia combined to develop the Northern Dairy Industry (NDI) Strategy. The primary aim was to draw together the information base and support structures needed for local farms and the broader dairy industry to secure a profitable and sustainable future in the north.

With the current phase of the project now substantially completed it is timely to overview why we developed the strategy, its key principles and findings.

The initiative always sought to have all parties closely involved in the region’s dairy industry working to develop a shared understanding of the market realities, opportunities and challenges facing the NDI that could be effectively addressed by collective industry efforts.

The combination of many factors across the NDI value chain – from higher labour inputs and costs of production to discounting strategies and private label milk contacts with major supermarkets – signals a need for change and adaptation to ensure the sustainability of dairy production in the northern region. The bottom line is that a more strategic approach to adjustment is needed to ensure the NDI can harness new opportunities and secure a sustainable future.
What has the strategy identified?

Market studies show that domestic demand for milk and dairy products continues to grow in the NDI catchment and has significant potential for further increases. Yet low average farm profitability has seen NDI milk production fall. Since 2009, the supply/demand balance has progressively tightened requiring processing firms to take a broader Eastern seaboard perspective to market milk supply.

In 2014/15, the collective volume of NSW and Queensland milk available for fresh milk markets has fallen to be around 20 million litres short of demand in the two states. This trend has seen dairy companies actively moving milk up from the southern production regions to meet their year round business needs.

What else has been done?

Seasonal production

In December 2013 the Strategy completed on-farm benchmarking to identify the cost of production impacts of moving towards a more seasonal production curve. The research acknowledged a cost of production advantage to be attained by seasonal production but showed a weak relationship between seasonality and farm profitability (due to company pricing incentives for flat supply). At an industry wide level, there has been a significant divergence of operating margins between southern Australian and northeast Australian dairy farms in recent years. Scale constraints have been identified as a critical challenge for many farmers in the region. Operations under similar climatic conditions in the United States were highlighted as a good benchmark of what can be achieved. While operating profits have declined steadily in Queensland since 07/08, there are proven examples of dairy farmers making significant profits during this period.

Collective bargaining

As part of the Strategy, in late 2014 a collective bargaining guide was released by Dairy Australia which provides information for northern industry participants who are looking to address market power imbalances and better understand the opportunities and potential pitfalls from engaging in this practice. The guide is available at dairyaustralia.com.au/CBG

Market diversification

In March 2014 a study on export market diversification options was completed, in particular it examined niche market opportunities for products like UHT drinking milk and niche products in eight Asian markets: China, Indonesia, Vietnam, Philippines, Singapore, Malaysia, Thailand, and Myanmar.

Where to from here for the strategy?

The NDI Strategy will continue to explore ways to assist dairy industry stakeholders across the region to build a profitable and sustainable future and to leverage new investment opportunities. Work in the program to date has demonstrated that there are solid opportunities for local farmers to supply the fresh dairy demands of the region’s steadily growing population. For those producers with a more favourable cost profile, profit margins are solid, but this share of farmers needs to increase from current levels. Recent investment announcements in the region may also provide scope for farmers to broaden their distribution base and leverage opportunities to supply safe, quality dairy products to the burgeoning Asian market.

Both Queensland and NSW based stakeholders are continuing to work on developing separate strategies for their respective states, in conjunction with the Queensland and NSW State Governments. These respective State plans will inform the future focus of the NDI strategy. Dairy Australia will continue to provide support to the development of these plans.

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