



The industry plan
for growing dairy in
Western Australia
2008 & beyond

Prepared by Western Dairy Inc in partnership with Dairy Australia, WA Farmers Dairy Section, Challenge Dairy Co-operative, Fonterra Australia Pty Ltd, Harvey Fresh, National Foods Ltd and the Department of Agriculture & Food WA

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Department of Agriculture and Food
Government of Western Australia



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Background

The Western Australian dairy industry has weathered a period of sustained pessimism and substantial change since deregulation in 2000. With poor farmgate returns for milk coinciding with a series of poor seasonal conditions and associated high fodder prices, it became evident that without significant intervention, the capacity for the WA dairy industry to meet the domestic milk demands of the state was under threat.

With this threat emerged the clear opportunity - an opportunity to capitalise on a steadily growing domestic milk market, underpinned by the state's strong economic growth and resources boom and a population increasing at a rate beyond that of other Australian states. But more so, the comparative advantage of the WA dairy industry's proximity to the burgeoning export markets in South East Asia, formed an important component of the business case that would be prepared to demonstrate the opportunity that existed to turn the WA dairy industry around from its state of contraction.

In November 2007, the state's four major milk processors – Challenge Dairy, Harvey Fresh, Fonterra and National Foods, together with the state government through the Department of Agriculture and Food WA, and the farm sector through Western Dairy and WA Farmers Dairy Section, reached agreement around a set of common principles that would set the tone and target for growth of the WA dairy industry. Never before have all sectors of industry been so definite in their agreed goal and pathway forward.

This document articulates the strategies set out by that truly representative group – that will take the WA dairy industry forward.

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Agreed Position

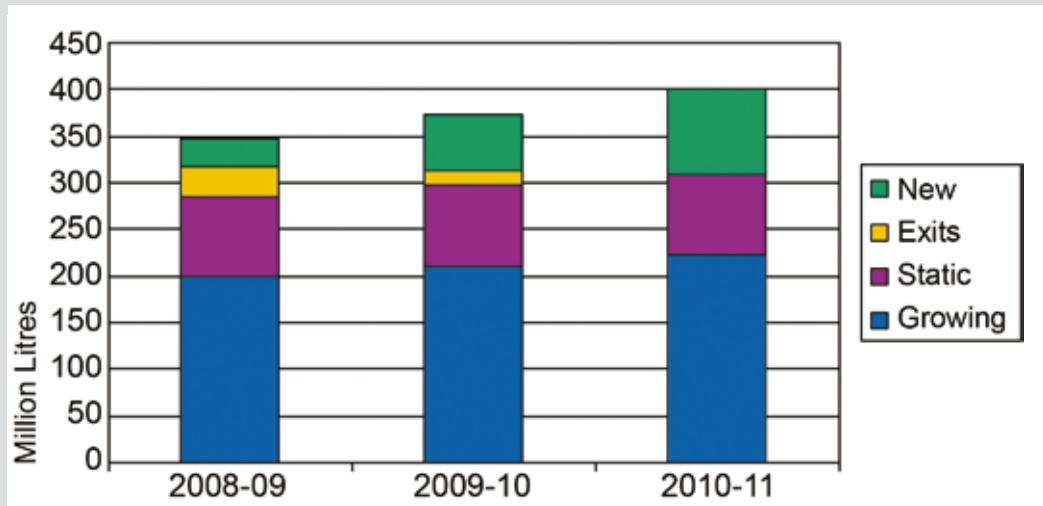
In 2007/08, the WA dairy industry produced approximately 319 million litres. All sectors of the WA dairy industry has agreed that a minimum additional 85 million litres of milk supply on a year-round basis (flat supply curve) is required over and above the 2007/08 production tally by the year 2010, in order to meet quantified increases in market demand.

This target of approximately 400ML would comprise a mix of existing farmers remaining static with their production, other existing farmers growing their production and new entrants to the industry, providing a pathway to growth that could look as per table 1 below:

Industry agreed that in order to reach this target, it would foster collaboration between all processors, government and industry to achieve this target, in a manner underpinned by:

- ◆ Excellence in natural resource management to ensure the environmental sustainability of the dairying communities and catchments.
- ◆ Best-practise animal husbandry to optimise the health and welfare of the state's dairy herd.
- ◆ Best-practise business and human resource management.
- ◆ Farm management practises that optimised animal and feedbase performance.

Table 1





WA dairy industry trends

The number of dairy farmers in the state has significantly declined since 2000 - a trend that has been mirrored in other dairying regions of Australia with a former reliance on market milk production. In the first five years since deregulation, total milk production in WA fell only 6 per cent, due to the coinciding increase in average herd size. The decline has increased further in 2006/07, driven by what were poor commodity prices, high feed costs and negative attitudes.

In 2007/08, total WA milk production was 319 million litres. While average production per farm sits at around 1.5 million litres, less than 20% of producers are responsible for producing more than 50% of the state's milk production.

“ Less than 20% of producers are responsible for producing more than 50% of the state's milk supply. ”

These statistics have been the catalyst for industry intervention – a series of strategies that would reverse the trends and grow milk supply in a sustained and profitable manner. Industry has acknowledged through its business case, that a sound rationale exists for profitable growth:

- The demand for drinking milk has increased significantly, driven by strong population growth that has occurred in response to the resources boom.
- The demand for value-added manufactured products has increased such that insufficient milk now exists to meet this demand.
- The industry has agreed that 50 million litres is required in the short term - just to meet domestic demand.
- More difficult to quantify, but conservatively estimated at another 70 million litres, is required to meet new export markets for milk and dairy ingredients in South-east Asia – a region that offers almost half the shipping time from WA compared to other dairying states of Australia.

While some of the demand for additional production can come through growth from current suppliers, new entrants to the industry are required to meet this sustained demand for increased production.



Planning to achieve growth targets through Dairy Invest WA

The industry has reached an agreed target for growth. Its greater challenge now lies with implementing the processes that will ensure the target is reached. This will largely be achieved through the vehicle Dairy Invest WA.

The industry project Dairy Invest WA was launched nationally in February 2008 and in Western Australia in March 2008. The first stage of Dairy Invest WA was the creation and distribution of a business case for investment – a comprehensive document backed by an interactive website www.dairyinvestwa.com - providing the economic rationale for growth, both from within the existing supply base and from outside.

Dairy Invest Stage II, which commenced July 1, 2008, is the vehicle that will reinforce the rationale and provide the marketing, support and assistance to industry to achieve its growth targets.

In creating Dairy Invest WA, all sectors of the WA dairy industry agreed to a proactive and innovative approach to production and investment by encouraging sustainable, profitable growth from existing producers as well as actively fostering new investment in the industry.

To achieve this growth it would:

- ◆ Enhance dairy farm business security through creating longer-term market signals for raw milk.
- ◆ Strive for a fair, market-related return on investment for all players in the value chain.
- ◆ Capitalise on individual production differences.
- ◆ Capitalise on the competitive advantages of the WA dairy industry as detailed in the business case/prospectus.
- ◆ Create short-term momentum by addressing idle farm capacity.
- ◆ Identify and undertake feasibility studies for new areas of dairy production and associated dairy farm systems.
- ◆ Develop supporting relationships with state and local government in a range of areas, including immigration, environment, animal welfare and community.



Action

Under the project banner of Dairy Invest, a range of strategies and actions have been identified as having the capacity to help deliver the over-arching goal of 85 million litres.



These include:

Working with the existing dairy base

- ◆ Design and implement an extremely visual, memorable marketing campaign designed to enhance positive images of the dairy industry as a business and lifestyle and reinforce the business case for growth, aimed in the first instance at the existing dairy farm base.
- ◆ Create, distribute and reinforce messages to schools that promote dairy as a career of choice.
- ◆ Interface with the National Centre of Dairy Education Australia to create accredited training and career pathways for people working in the WA dairy industry.
- ◆ Optimise the extension of findings from the WA dairy industry's flagship research project Greener Pastures and related feedbase projects from other relevant dairy regions, to existing and potential milk producers in a manner that highlights pathways to increase dairy farm performance in an environmentally sustainable manner.

- ◆ Create and deliver effective farmer training through seminars, workshops and group discussions, particularly in the area of risk management and asset growth/accumulation strategies.
- ◆ Work collaboratively to proactively prevent industry exits (for example through retirements), by offering business alternatives such as share milking and contract heifer rearing.

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“ Create, distribute and reinforce messages to schools that promote dairy as a career of choice. ”



- Support processor initiatives to increase cow numbers through financing and pricing and retention of heifers.
- Foster all industry initiatives to attract and retain dairy labour, particularly through education and introduction of human resource management practises that will result in dairy farm businesses becoming best-practise employers.
- Research, document and support farm businesses to form alternative management and ownership structures, including equity partnerships and share farming arrangements.

Working with potential new entrants

- Ensure all potential entrants are aware of and have access to all strategies and actions aimed at the existing dairy base listed above.
- Develop and extend business models around rejuvenating idle dairy production capacity and converting non-dairy farms.
- Disseminate the Dairy Invest WA prospectus through carefully targeted national and international networks in order to reach potential new investors in the WA dairy industry and provide tangible support to ensure its impact is optimised.
- Identify locations for new business growth and develop new production models and economic analyses that include comparing dairy to other agricultural production on a return on asset basis and develop case studies that provide tangible example of the business case.

“Disseminate the Dairy Invest Prospectus through carefully targeted national and international networks in order to reach potential new investors in the WA dairy industry.”



National comparison

Comparing the Western Australian dairy industry to the national dairy industry

	WA	National
Average herd size	265 cows	246 cows
Average farm area	245ha	164ha
Production per cow	6916 L	5702 L

SOURCE: Dairy Australia Situation & Outlook 2008

Funding & delivering Dairy Invest WA Stage II

Substantial financial and in-kind commitment has been received from all sectors of the dairy industry in order to deliver Dairy Invest WA Stage II.



Western Dairy has taken the stewardship of the project's overall management and will guide the fund procurement process, the delivery of the actions and the monitoring and evaluation of the outcome and responses via a range of mechanisms, including future Situation and Outlook surveys. Ultimately, the success of the project and the strategy will be measured by milk flow and the return on investment the dairy businesses and those that directly provide services to it, can achieve.



Contacts & further information

The Western Australian dairy business prospectus is available from Western Dairy and the website www.dairyinvestwa.com has an extensive set of information resources relating to growth strategies and actions for current and potential dairy investors.

The series of actions that will be undertaken as part of Dairy Invest WA Stage II will be administered via Western Dairy, the Regional Development Program under the auspices of Dairy Australia, that is funded in part through the dairy service levy, contributed to by every WA dairy farmer.

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