

## State of the industry snapshot

The dairy industry is one of Australia's cornerstone agricultural industries, with unique and valuable characteristics that benefit Australian society. Dairy is an important food, an important source of livelihood for people in farming, manufacturing, and service sectors, and a large export earner. The Australian dairy industry has innate strengths but faces significant challenges.

The snapshot below highlights some of these challenges and also opportunities. It aims to help you think about all aspects of our industry so that you can come to your local regional workshop ready to share your views and have a quality conversation about the future of dairy.

### The market has evolved faster than the industry

#### The world market

- **Competition:** Our global competitors have caught up and are now moving ahead of us in international markets. This includes a complex trade environment.
- **Relevance:** While still a major global dairy exporter, our relevance on global markets is being questioned because of our shrinking scale and competitiveness.
- **Volatility:** With the gradual removal of quotas and export subsidies overseas, volatility in dairy markets has increased.

#### The supply chain

- **Processor investment:** Processors have invested heavily on the back of clear opportunities for the Australian dairy industry but are now struggling to fill their plants. Production growth is required, but at the moment processors are transporting milk to fill regional shortfalls.
- **Supply chain divergence:** Fierce competition has challenged our capacity to collaborate.
- **Ownership structures:** Processor ownership structures have evolved from the traditional cooperatives which is also influencing processor decision making.

#### The consumer

- **Sales channels:** Our production mix has had to adapt to changing consumer preferences and price/positioning competition from milk alternatives.
- **Demand remains strong:** Consumption in Australia is robust and global dairy demand continues to grow.
- **Social licence:** Public expectations are changing and consumers are increasingly questioning the attributes of their food.

### Making a profit on farm has become more difficult

#### On farm dynamics

- **Farming systems and structures:** The way we farm is becoming more complex in response to market, pricing and climate variability.
- **Margins and input costs:** Input costs (water, feed, labour and energy) have increased much faster than milk prices and productivity gains can cover.
- **Farmer investment:** Farmers have invested heavily in recent years but are questioning their capacity and confidence to continue investing.

#### Risk profiles

- **Climate volatility:** Australia has the most variable climate in the world being 22% more variable than South Africa. This variability adds to production costs.
- **Risk management:** Risk management has become critical to manage the peaks and troughs.

#### Regional profitability

- **Community sustainability and resilience:** Farm consolidation is shifting our relationship with regional service providers and communities.
- **Export region margins being challenged:** Milk prices are not keeping up with the rising costs of production in some regions.
- **Domestic region margins being challenged:** Strong import competition means domestic producers are increasingly competing with the international market.

### Our people and organisations need to adapt to succeed

#### Skills, knowledge and mindsets

- **Farming skill needs:** Farmers need skills in a broader range of areas than was once the case.
- **Education and training:** Farmers are changing the ways in which they learn.

#### Attracting and retaining people

- **Attracting people:** There is a widespread shortage of skilled labour at all levels in the dairy industry.
- **Retaining people:** Keeping skills and knowledge in the industry, and encouraging farm succession is an increasing and critical challenge.
- **Promoting the industry:** We can do more to portray a positive image of dairy as an industry to be involved in.

#### Industry structures

- **Industry structures and services:** The structures and services that exist to support industry are under pressure to adapt to changing industry needs.
- **The advocacy environment is changing:** Expectations of how industry advocacy organisations should operate are changing and there is a need for a trusted, authoritative voice.