

## Report on the key themes from stakeholder engagements



24 July 2019

## We have completed a national listening exercise to understand what matters for the Australian dairy industry

Dairy Australia, Australian Dairy Farmers (ADF), Australian Dairy Products Federation (ADPF) and the Gardiner Dairy Foundation (collectively the Partners) have committed to develop the Australian Dairy Plan (ADP) – a plan which will set the dairy industry’s priorities for the next five years and beyond to deliver fundamental change to create a profitable, confident and united Australian dairy industry.

John Brumby AO is supporting the Partners as the Independent Chair of the ADP and Nous Group (Nous), an independent consultancy, is supporting the Partners as the facilitator of the ADP.

To help develop the ADP, the Partners, the Independent Chair and Nous have engaged in a conversation across Australia with over 1,500 people with ‘skin in the game’ in the dairy industry. We have spoken to farmers, processors, retailers, investors and service providers.

This paper provides a summary of the key insights from the engagement activities. Across all these engagement activities we asked broadly consistent questions:

- What is the scale of change required to get the Australian dairy industry to a better place?
- What specifically needs to change to get the Australian dairy industry to a better place?
- How important is the ADP in achieving change and what does the ADP need to do or be, to drive the change we want to see?

This has been a grass-roots, independent and transparent engagement process in which we have sought to ensure that everyone with skin in the game has had an opportunity to have their say. Details of the many engagement activities we have undertaken are set out in Table 1.

**Table 1 | ADP engagement activities**

Consultation	Stakeholders consulted
Regional workshops in each dairy region: <ul style="list-style-type: none"> <li>• West Australia: Bunbury</li> <li>• South Australia: Mt Gambier and Mt Barker</li> <li>• Victoria: Cobden, Koroit, Colac, Cohuna, Tatura, Wodonga, Warragul, Maffra and Leongatha</li> <li>• Tasmania: Smithton and Deloraine</li> <li>• NSW: Lismore, Taree, Muswellbrook, Nowra, Bega and Finley</li> <li>• Queensland: Gympie and Toowoomba</li> </ul>	Nous facilitated the regional workshops. Over 1,000 people attended the 22 regional workshops held across Australia. Attendees were mainly farmers with a smaller number of local processors and service providers.
Online discussion forum	Nous established the online discussion forum. Over 2,600 people have accessed the online discussion with around 100 people engaging in the conversation.
Local Partner-led workshops and consultations	The Partners and their local branches facilitated the local, Partner-led workshops and consultations. Over 170 people attended 8 local workshops held in specific regions. Attendees were mainly farmers with a smaller number of local processors and service providers.
Independent Chair Roundtables <ul style="list-style-type: none"> <li>• Cobden</li> <li>• Scottsdale</li> </ul>	The Independent Chair hosted two roundtables with around 35 farmers in total in West Victoria and Tasmania.
Dairy Processor Interviews	Nous interviewed senior executives of 10 of Australia’s largest dairy processors.
Facilitation of a session at the Trans-Tasman Dairy Leaders Forum	Around 50 senior executives and directors of dairy companies/dairy processors from Australia and New Zealand attended the Trans-Tasman Dairy Leaders Forum.

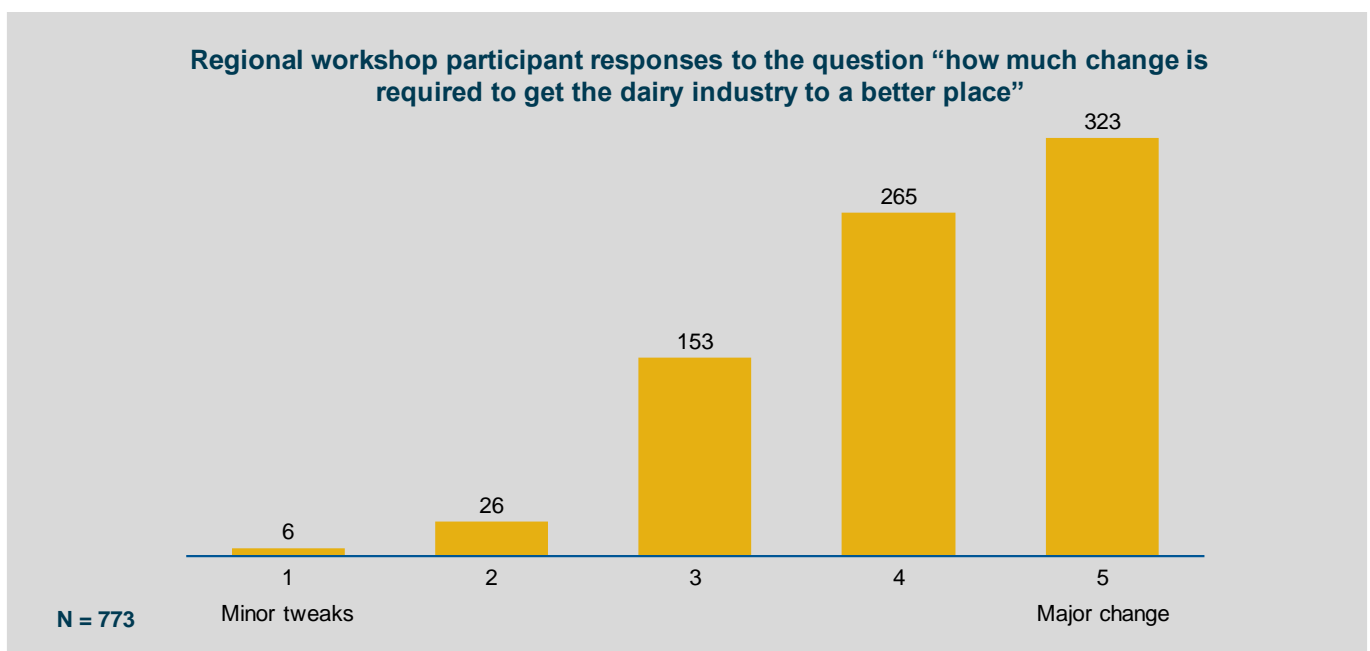
Large Suppliers Forum workshop	Farmers and investors representing the 30 largest dairy farms in Australia attended the workshop.
Interviews with retailers	The Independent Chair interviewed two major retailers.
Interviews with investors	The Independent Chair interviewed three major industry investors.
Staff surveys	Nous carried out a survey of staff at Dairy Australia, ADPF, ADF, Gardiner Dairy Foundation, Regional Development Programs (RDPs) and State Dairy Farmer Organisations (SDFOs).

The remaining sections of this paper set out the key findings from our engagement.

## Key finding 1: There is an appetite for change in the dairy industry

Those with skin in the game agree that major change is required to get the dairy industry to a better place. As shown in Figure 1, regional workshop participants generally called for major change. This sentiment was echoed across all stakeholder groups.

Figure 1 | The degree of change required



This highlights concerns among stakeholders with the current state of our industry. Following a number of challenging years for the Australian dairy industry this points to a need for urgent and ambitious change. It is useful to note that the appetite for change is broadly consistent across the country.

Informal surveys at some of the regional workshops showed that a majority of participants believe there is potential for moderate growth if the ADP can deliver a more profitable, confident and united dairy industry.

One of the major drivers of the call for change is the view of some farmers that it has become more difficult to make a profit on farm. Some farmers have told us that recent farm gate milk prices were not high enough to cover their increasing production costs. They have told us that they have become disheartened after seeing their neighbours go out of business and are feeling that their work and their product is not valued in the community. Some farmers have told us that if we fail to make the changes required, there will no longer be a dairy industry in many parts of Australia.

Processors are similarly facing challenges. They have told us that they are finding their margins squeezed and are increasingly having to look further afield to source the milk they need. Many processors have told us that there needs to be a major reset in how the industry operates.

Investors and retailers on the other hand have generally been more bullish about the future of the dairy industry and have therefore been less inclined to call for significant changes to how the industry operates.

## Key finding 2: Stakeholders across the industry have consistent views about the nature of change required

Stakeholders are broadly united in their views about what specifically needs to change to get the industry to a better place. We have found more or less consistent views across farmers, processors and others with skin in the game and in different regions across the country.

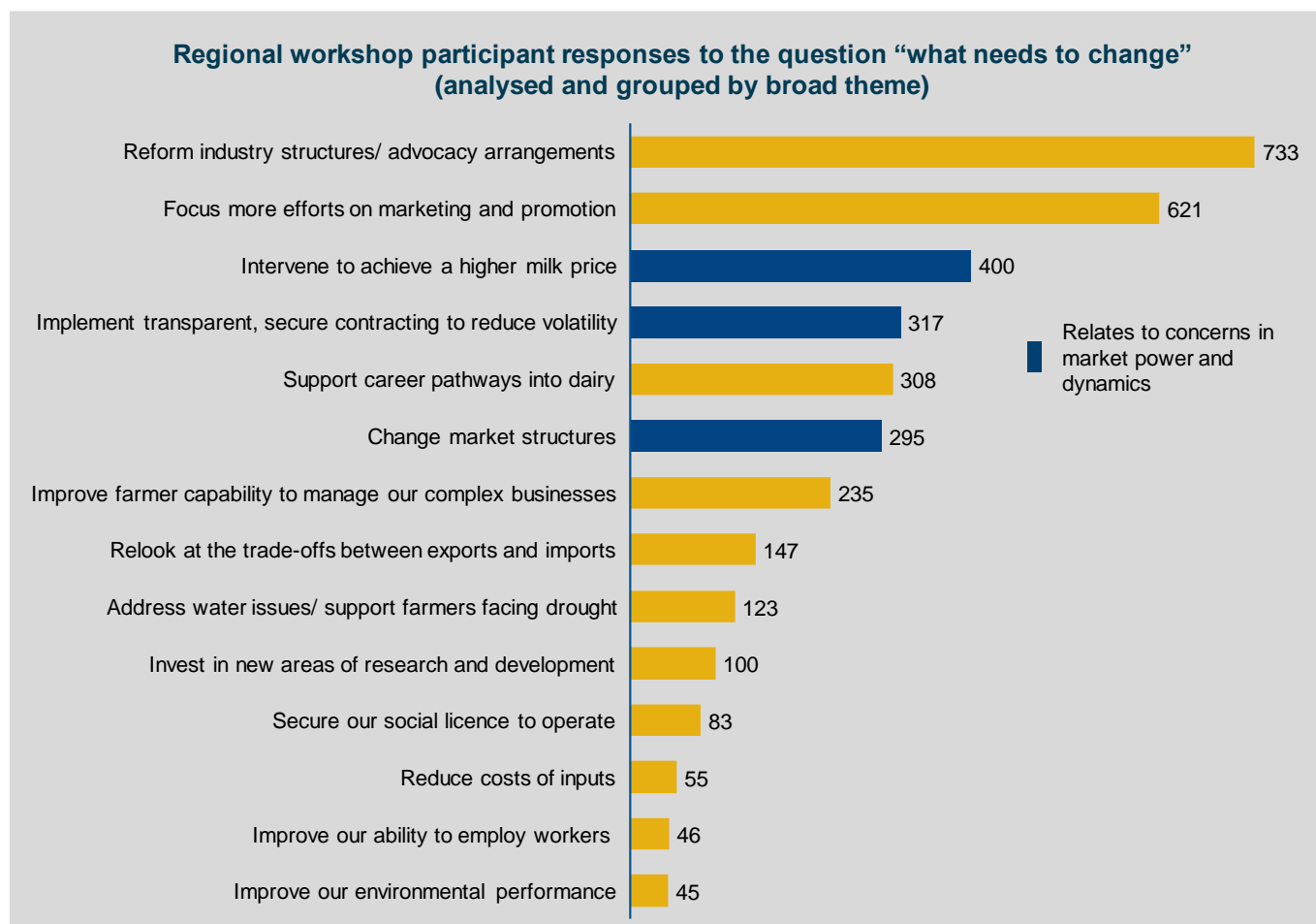
As shown in Figure 2, many regional workshop participants were focused on a small number of key issues where they believe we need to change our approach:

- A need to reform dairy industry structures to support more effective advocacy
- A greater focus on marketing and promotion of dairy so that the community values our product and our industry
- A need to address concerns about market power and dynamics along the supply chain (this was expressed in a few different ways ranging from a call for direct intervention to set price to calls for more transparency in contracts between farmers and processors)
- A need to increase our efforts to attract and support the next generation of farmers to join the industry
- A need to continue to improve performance on-farm in the context of greater volatility and risk and complex new production systems.

These issues were broadly consistent across the domestic production regions of Queensland, NSW and Western Australia and export production regions of Victoria, South Australia and Tasmania.

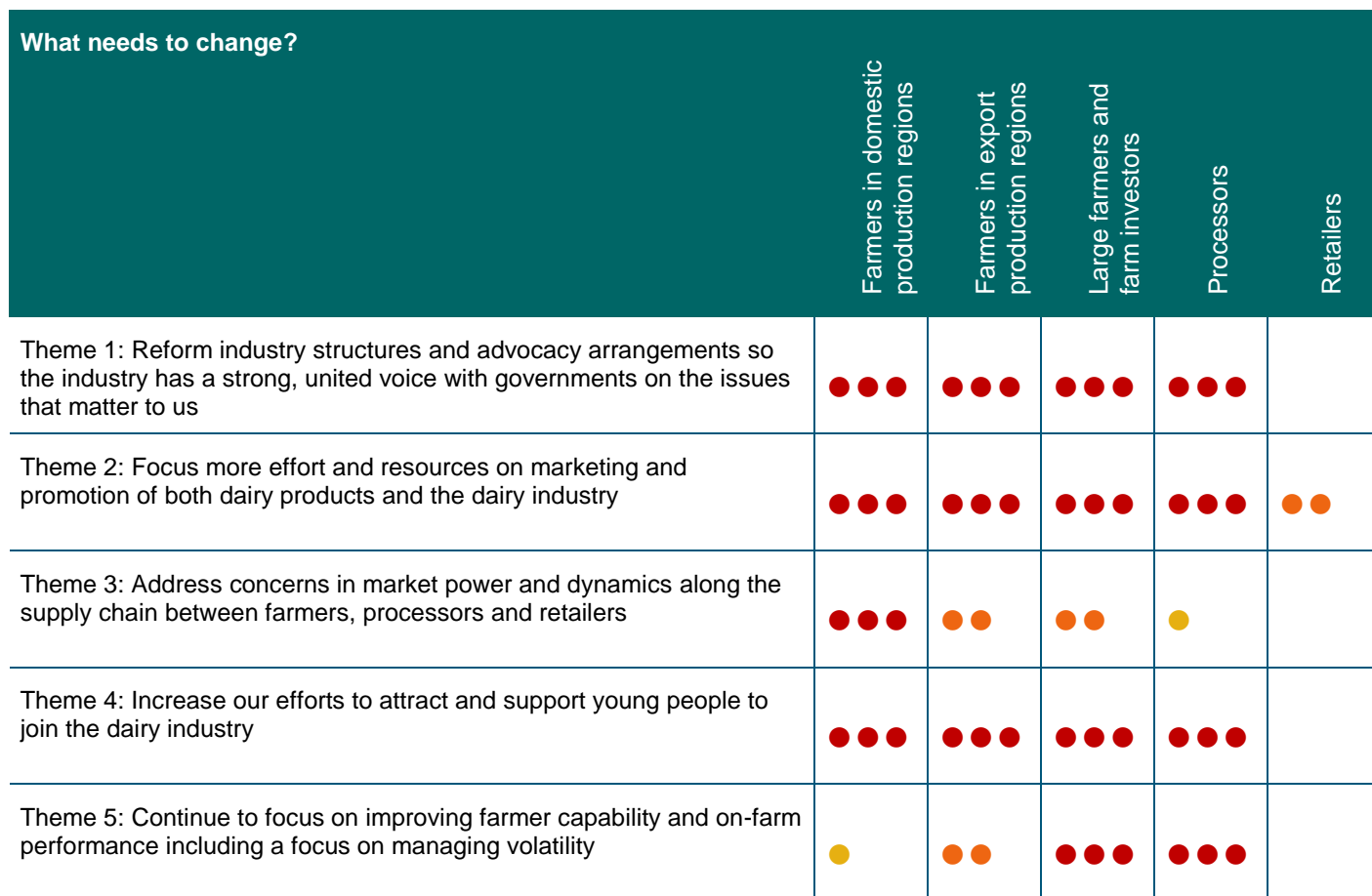
While this data is from the regional workshops, these issues also came through strongly in our online discussion forum and in local Partner-led workshops and consultations. In addition, many of these issues were echoed by processors who were similarly focused on improving our advocacy efforts and promoting the value of our products.

Figure 2 | The type of change required



To determine the themes that we would respond to through the ADP, we carried out a higher-level sentiment analysis to understand the strength of themes across the different stakeholder groups. Figure 3 presents this analysis. We note that this is a qualitative analysis drawing on many data sources. Nonetheless, it shows alignment across issues and provides an evidence base for our approach to the themes that are detailed in the sections following.

Figure 3 | Strength of stakeholder support heatmap



### Theme 1: Reform industry structures and advocacy arrangements so the industry has a strong, united voice on the issues that matter to us

**Stakeholders generally agree that there are a number of issues critical for our success where we have not been able to successfully advocate for favourable policy settings**

Stakeholders have consistently noted that favourable government policy settings are critical to the long-term success of the Australian dairy industry. However, many believe that current policy settings across a number of areas are not favourable to dairy farming. Farmers generally consider that Australian dairy farmers receive less support than dairy farmers in other countries and believe that our lack of a unified and strong voice in advocacy is to blame. Specifically, stakeholders have noted that we have lost battles we ought to have won in areas such as:

- Water policy: access to water is critical and processors have argued that other industries have been more effective in campaigning to secure access to water.
- Supermarket behaviour, including \$1 home brand milk: is seen by farmers as devaluing dairy products in the eyes of consumers and, an issue on which governments should intervene on our behalf.
- Trade policy: farmers and processors agree that the interests of the dairy industry are often traded away in trade agreement negotiations, and not prioritised as they would be in a country like New Zealand.
- Labelling laws: many farmers have called for regulation of the use of the word milk so that nut drinks cannot be labelled as milk and for clearer rules on country of origin labelling.

**Stakeholders broadly agree that the fragmentation of our industry bodies is holding back our advocacy efforts**

Many stakeholders argue that our lack of success in advocating for favourable policy settings is due to the number of different industry bodies. Stakeholders point out that advocacy is led by Australian Dairy Industry Council (ADIC), ADF and ADPF at the national level and by SDFOs in each state. However, there is also confusion with the role of Dairy

Australia and Regional Development Programs (RDPs), especially their role in policy development, speaking on behalf of industry, and speaking for regional issues.

Stakeholders argue that with such complexity, it's hard for governments to know who speaks on behalf of the dairy industry and difficult for anyone to really speak clearly on behalf of the industry as a whole.

In addition, many farmers and some processors have argued that our advocacy bodies do not work together for the good of the industry but instead focus on protecting their own patches. Some farmers feel that our advocacy bodies are out of touch with grassroots farmers and are not communicating well with members.

Some farmers have argued for a restructure of industry bodies to streamline advocacy arrangements and other industry support with many calling for a single Australian dairy industry body which would deliver advocacy alongside research, development and extension. Other farmers have argued that effective advocacy is achievable under current industry structures but is being held back by declining membership. These farmers urged more farmers to become members of their SDFO and to play a leadership role by getting involved in advocacy through their SDFO themselves.

### **Stakeholders have called for reforms to how we fund advocacy to ensure it is well-resourced, aligned to farmers' interests and delivers value for money**

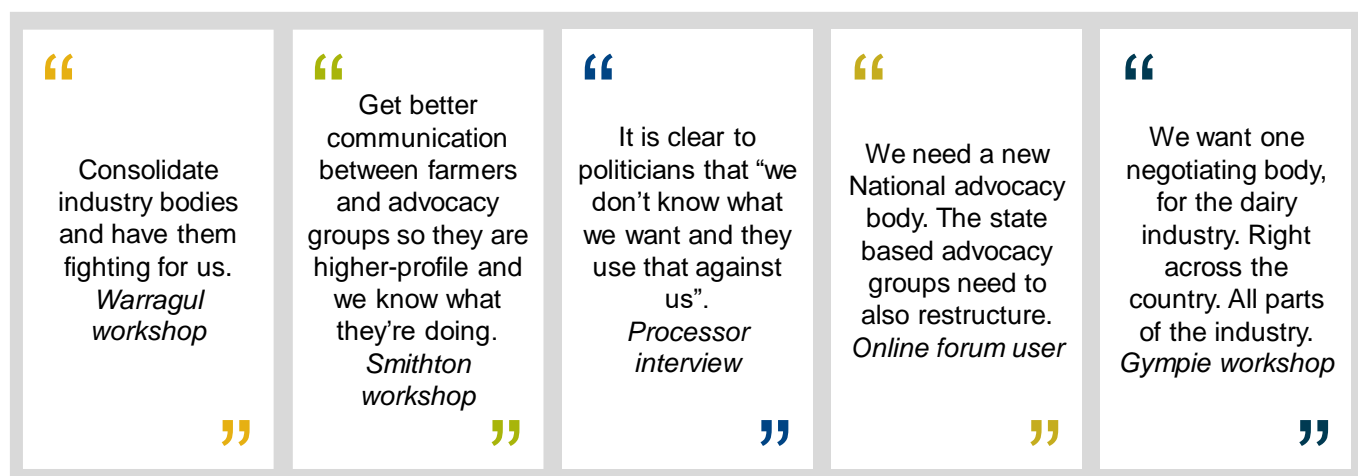
Stakeholders generally agree that we are not currently contributing enough resources towards advocacy, given its importance although there are different views about where additional resources should come from.

Many farmers have expressed frustration (and some have expressed surprise) that the mandatory levy, collected by Dairy Australia cannot be used to fund advocacy. These farmers argue that they are contributing large amounts of money to the development of the dairy industry and that advocacy is an important component of that.

Another issue for some farmers is processor funding of advocacy. Some farmers are concerned that processors are funding the ADIC and note that on some issues, processors and farmers have different interests. Processors agreed that there are issues where processors and farmers have different interests, and, on these issues, advocacy should be separate. In general, however, processors support whole of industry advocacy and some farmers agree that processors and farmers should work together in this space.

Finally, some farmers have raised concerns that the current industry bodies, with their overlap and duplication, cannot be delivering efficiency and value for money.

**Figure 4 | Examples of proposed changes on industry structures and advocacy arrangements**



## **Theme 2: Focus more effort and resources on marketing and promotion of both dairy products and the dairy industry**

### **Stakeholders uniformly agree dairy is a valuable, healthy product and that we need to do more to remind consumers that this is the case**

Dairy farmers and processors are proud of the products they produce. They note that dairy is a key component of a healthy diet.

However, stakeholders generally agree that consumer perceptions on the health benefits of dairy have declined over time. There is a view that more consumers are questioning the health benefits of dairy and increasing numbers are choosing to avoid dairy products. Some processors and farmers have pointed to non-dairy alternatives such as nut milks which have been marketed as healthy alternatives as having influenced these changing perceptions.

Stakeholders generally agree that the industry needs to do more to promote the health benefits of dairy products. They have called for more investment in generic marketing that focusses on the health benefits of dairy.

Many dairy farmers have argued that if consumers are convinced of the value of their products they will be prepared to pay more for them. For some farmers promoting the value of their products is seen as a way of achieving an increase in the price received at the farm gate.

**Many farmers feel like their business is under attack and argue that we need to remind consumers of the dairy industry’s high standards and important contribution to society**

There is a general sense that many farmers across the country feel like their industry is under attack. Some farmers have pointed to trespassing and vandalism by animal activists as the extreme end of this sentiment. Others note that dairy farming and even farmers themselves are routinely criticised by groups such as vegans and environmentalists. Many consider much of this criticism to be ill-informed and unfair and are eager to see a proactive response from their industry on their behalf.

Many farmers have called for our marketing and promotion efforts to focus on the dairy industry itself, in addition to dairy products. They agree that a major marketing and promotion effort should focus on highlighting the industry’s environmental credentials, providing information on their high standards of animal welfare and acknowledging the industry’s contribution to Australian jobs and economic growth. For many farmers it is critically important that consumers understand that unless they support Australian dairy, there will not be an Australian dairy industry in the future.

**For many stakeholders, marketing and promotion is also about improving confidence within the industry itself**

Stakeholders overwhelmingly agree that there are strong negative feelings in the dairy industry at present. Stakeholders note that recent events in the industry including farms going out of business, drought in many parts of the country and consolidation of processors have contributed to a feeling that the dairy industry is no longer a great industry to be part of.

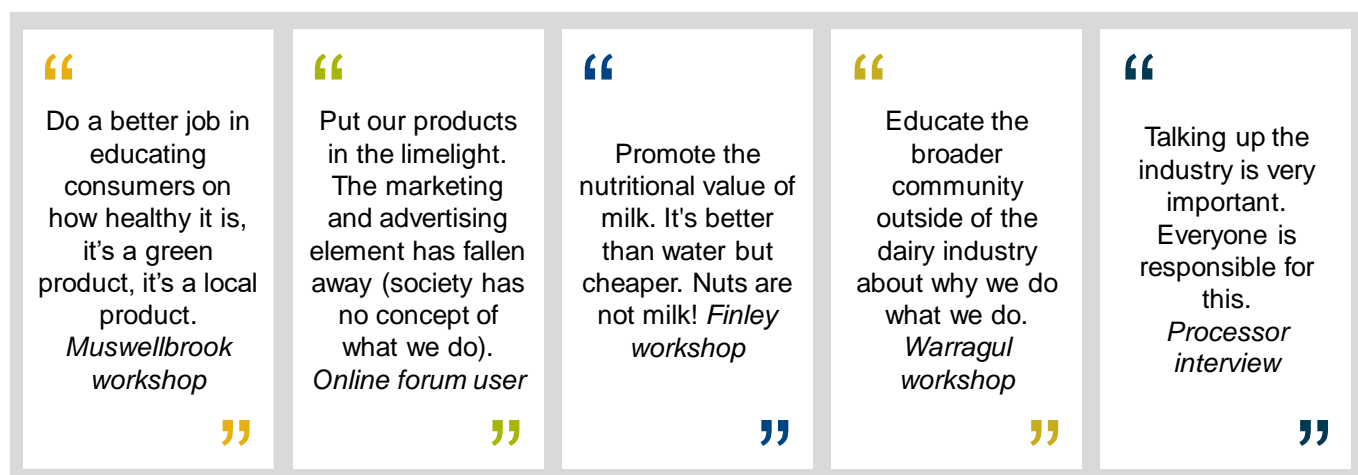
There are of course regional differences in the strength of this sentiment, for example, in northern NSW where the industry has been contracting, farmers are very concerned about industry sentiment. While in Tasmania, where the industry has been growing, this theme is less strong.

Stakeholders were quick to point out that this sentiment matters. In some parts of the country, there are real concerns for the emotional and mental wellbeing of farmers. In addition, negative perceptions of the industry have real world impacts on the decisions made by people looking to invest or build careers in dairy.

Many stakeholders called for more positive stories from the dairy industry to counter the negativity. They called for the industry to showcase opportunities that exist in dairy and to create a platform for successful farmers to share what they’re doing.

All of this means that marketing and promotion, in addition to being about industry profitability also needs to be about industry confidence. Or put differently, marketing and promotion which emphasises the positive stories in the dairy industry needs to be targeted at the industry itself.

Figure 5 | Examples of proposed changes on marketing and promotion



**Theme 3: Address concerns in market power and dynamics along the supply chain between farmers, processors and retailers**

**Many farmers believe the market is not functioning properly, but this is contested by some farmers and others in the industry**

Many farmers believe that the dairy market is not working properly. Put simply, they note that the dairy market appears to not react as they would expect in the following ways:

- Contracting supply has not led to increasing prices
- Steadily growing demand (domestic and international) and stable milk supply has not led to increasing prices

- Increasing production costs have not led to increasing prices.

For many farmers, the supermarkets are seen as the culprit. There is a view among many farmers that supermarkets sell home brand milk below cost and in doing so do not compete fairly.

On the other hand, processors and some farmers point out that farmers have more market power than they realise. They point out that many farmers are voting with their feet by switching processors and that we are in a seller's market with many processors struggling to source the milk they need.

### **Some farmers have called for regulation of prices or supply, but others point out problems with this approach**

Many farmers particularly in regions that produce milk for the domestic market, have called for some form of whole of industry regulation to increase milk prices. This could take the form of a national milk pool which allows a farmer representative body to control the milk supply and negotiate with processors on behalf of farmers or a government regulated minimum price at the farm gate which could be regionally set and/or tied to the cost of inputs.

On the other hand, some farmers particularly in regions that produce milk for export, noted that milk prices reflect the world price and argued that Australian farmers need to be able to compete internationally by focusing on on-farm costs as things they can control. They note that advances in refrigeration and shipping mean that even fresh milk will soon be able to be imported from New Zealand.

Processors also tended to focus on being competitive in international markets and agreed that milk prices reflect the world price.

Finally, many farmers raised concerns with \$1 supermarket home brand milk. They acknowledged that following concerted efforts by ADF and others, the supermarkets have ended \$1 milk after eight years. However, they argued that the extra 10 cents per litre is neither enough to cover the cost of production nor is it finding its way back to farmers. They also made the case that very cheap milk devalues dairy in the eyes of consumers causing long-term damage to consumer perceptions of the value of the product. They called for further action to be taken to increase the price of home brand milk.

### **Stakeholders agree however, that there are actions we can take to address the concerns about market issues in the industry**

Despite the different views outlined above, there is common ground across the industry on market power.

Many farmers are focused on the lack of transparency and trust in the supply chain. They believe the solution is to focus on changing how farmers and processors interact with one another to more fairly distributing risk between farmers and processors and helping farmers manage volatility.

A number of solutions have been put forward to address this including:

- Standardised contracts and price comparison websites that allow farmers to compare prices and conditions across processors and make informed decisions about the best deal available for them
- A requirement for all processors to publish milk prices on a fixed date each year
- Supporting the development of collective bargaining groups in which farmers come together with ACCC approval to negotiate collectively with processors.

Some farmers noted that the proposed mandatory Dairy Industry Code of Conduct being developed by government should address many of these issues.

Processors largely agree that they can collectively do more to help farmers manage volatility and risk. A number of processors noted that they are already working on initiatives to improve practice including making payment models as simple as possible, offering longer term contracts to farmers and guaranteeing no step downs.



Figure 6 | Examples of proposed changes to address concerns about market power and dynamics

<p>“ If the big retailers have loss leading products on which they lock in prices, and use that as leverage with processors – that’s a problem. <i>Processor interview</i> ”</p>	<p>“ Find a better way of linking the input cost to milk price. Hold constructive conversations between producers and retailers. <i>Toowoomba workshop</i> ”</p>	<p>“ Build or consider a milk price market. Value for farmers, processors and customers and helps with planning and transparency. <i>Leongatha workshop</i> ”</p>	<p>“ We have an attractive simple model – this makes it easier for farmers – it’s about building trust and transparency. <i>Processor interview</i> ”</p>	<p>“ National Milk Pool - controlled by farmers (subject to ACCC approval). <i>Lismore workshop</i> ”</p>
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#### Theme 4: Increase our efforts to attract and support young people to join the dairy industry

##### Many farmers, particularly young farmers believe that we need to speak more positively about the dairy industry so that people want to join it

Processors and farmers tend to agree that the industry must do more to attract and retain farm workers and farmers. Many stakeholders, in particular young farmers, have told us that the current negativity in the industry is turning people off careers as dairy farmers, dairy farm workers and dairy service providers.

Stakeholders, in particular young farmers, agree that the dairy industry can offer a fantastic career. Young farmers were often optimistic that dairy farming can provide good returns to good farmers who work hard. They also noted that there are other benefits of careers in the dairy industry including:

- Dairy farming can offer the opportunity for a young person to manage their own business and have a high degree of control over their work
- The dairy industry is highly scientific and innovative and offers an opportunity to be at the forefront of cutting-edge technology
- While dairy farming is hard work, it offers an enviable rural lifestyle.

Others in the industry, particularly service providers and local dairy processor representatives noted that it was important to promote the range of careers available in the dairy industry so that people understand there are many options available.

Stakeholders have argued that it is the responsibility of everyone in the industry to talk the industry up so that people want to join it. In some regions, young farmers called on older farmers to avoid the negativity that puts people off joining the industry.

##### Many farmers note that there are barriers to becoming a dairy farmer and that efforts must be made to break these down

Farmers and others at regional workshops have noted that it is not always easy for young people to get a start in dairy farming, especially for people who are not from farming backgrounds themselves but also for those looking to take over family farms.

Access to capital was flagged as a key barrier to becoming a dairy farmer. Stakeholders noted that dairy farms are high-cost businesses to buy into. Farmers noted that share milking and leasing provide opportunities for farmers to gain experience and build capital over time and should be promoted for people outside the industry and as tools in succession planning.

Stakeholders also identified opportunities for government intervention to enable access to capital including providing low-cost loans to purchase farms or cows and providing tax incentives for young farmers.

Alongside access to capital, the other key barrier identified was access to the right sort of education and clear pathways from education into the industry. Some stakeholders noted the need for a clearly articulated pathway that people can access easily that includes schools, on-farm training and university education.

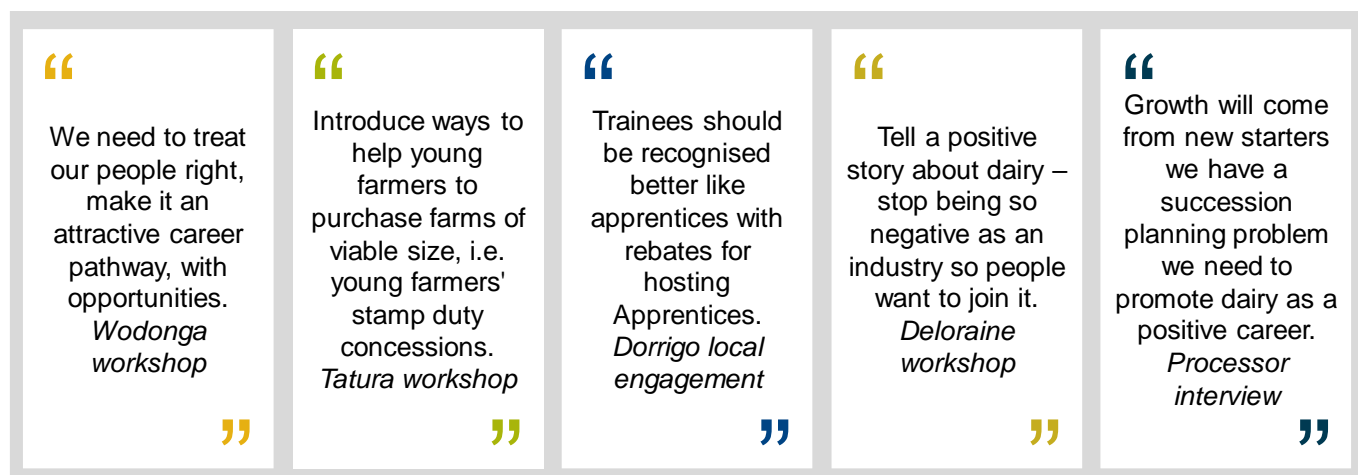
Many farmers made the case that there is work to do to improve the quality of agriculture education in schools. They noted that agriculture is not attractive to students because it is not always seen as scientific or prestigious and is sometimes taught by teachers who are not appropriately qualified and experienced.

Others argued that our post-school education system is not equipping people with the business management and scientific skills they need to be successful farmers. These stakeholders called for more professionalisation of dairy industry education or the development of a dairy centre of excellence.

**Many farmers noted we must also look to invest in developing people in the industry**

Farmers who employ workers on their farms noted their workers could make a more meaningful contribution to the industry. They observed that there is no clear career pathway or approach to skills development that guides a person to move from farm hand or farm worker to dairy farmer. They noted that all farmers have a responsibility to be good employers of staff.

Figure 7 | Examples of proposed changes on attracting young people to the industry



**Theme 5: Continue to focus on improving farmer capability and on-farm performance including a focus on managing costs, risks and volatility**

**Processors and some farmers agree there are still gains to be made on farm to capture improved profit margins, but this is contested by some farmers who argue they are already as efficient as they can be**

Processors and some farmers have told us that the industry needs to focus on margin to be successful. They note that often farmers in the same region have very different costs of production and argue that there is more to do to help farmers with higher costs of production to move towards best practice and capture improved profit margins.

These stakeholders have called for more sharing of good practice so that farmers can learn from each other, noting that sometimes farmers who are doing well are reluctant to speak out in the industry. They have also called for a change in the culture of the industry to be more commercially savvy and professional.

This is contested, particularly in regions with higher cost production systems. Many farmers argue that the inefficient farmers have already left the industry and that those who remain are as efficient as they can be given their input costs. For these farmers, it is clear that there are no further gains to be made on farm, and that improved profit margins can only be achieved through an increase in the farm gate milk price.

**Clearly, there is much more volatility in the system and stakeholders agree that farmers need more business management skills and tools to manage this**

Stakeholders agree that both the farm gate milk price and the cost of production are far more variable than they have been in the past exposing farmers to greater risk and increasing the volatility of farm businesses.

On the cost side, some farmers have told us that they have seen the cost of water and fodder increase rapidly in response to drought conditions in recent years. Others point out that in the context of a changing climate cost side volatility is likely to increase. On the price side, some farmers are still recovering from the mid-season price step downs in 2013 and many notes that prices are both highly variable and overly complex.

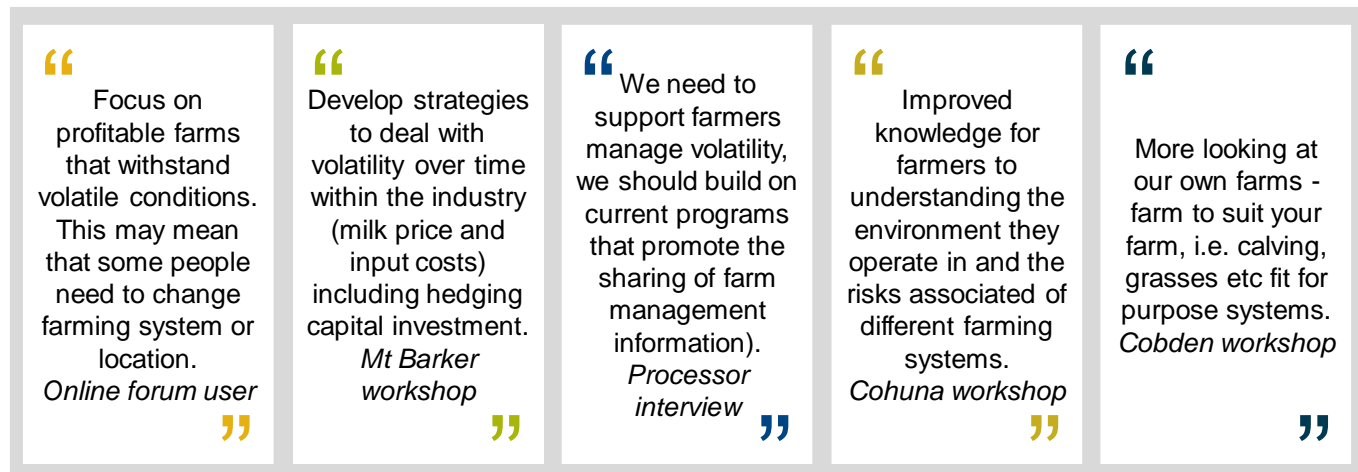
Stakeholders have pointed out that in this environment, farmers need well-developed business management skills but that many farmers do not have key business documents such as budgets and business plans in place. In the view of these stakeholders, farmers need more education and training in farm business management.

Some stakeholders have also called for financial tools that help farmers manage volatility and risk. Some processors have noted that tools used to hedge against future movements in price and cost, which are common in other industries, tend not to be used by dairy farmers. Farmers and processors who have proposed these tools note that they need to be user-friendly and readily available to farmers but that farmers are responsible for adopting them.

**Stakeholders also generally agree that new production systems have made farming a more complex business requiring more sophisticated farm management**

Some farmers and processors told us that significant numbers of farmers have transitioned towards more year-round production systems often in response to price signals from processors. While such systems can deliver good returns, they are generally more complex compared to seasonal production systems and require careful management. Farmers also need to look for opportunities for continuous improvement each year in order to reap the benefits of these systems. Some farmers have therefore called for more support to identify the right production system for their farm and to successfully manage their production system. This may mean sharing lessons from profitable farms about the production systems they are using and how they are managing their systems. It may also mean that research, development and extension efforts need to be more carefully tailored to the production systems of the future.

Figure 8 | Examples of proposed changes on improving farmer capability and on-farm performance



### Key finding 3: The ADP has the potential to create fundamental change but there are challenges that we must overcome

Most stakeholders agreed that the ADP will be a critical catalyst for change in the dairy industry, and there is broad support for the ADP to rally the industry behind key priorities and activities for the next five years. As shown in Figure 9, regional workshop participants believe that the ADP is very important.

However, there is broad sentiment among stakeholders that delivering a successful ADP will not be an easy task. Some stakeholders have expressed the view that uniting the dairy industry behind a plan will be difficult given the competing objectives of different stakeholders along the supply chain. Others are sceptical that this plan will genuinely be different to previous industry plans, which have been described as sitting on a shelf. Stakeholders generally agree that strong governance will be needed to ensure the ADP is implemented.

Despite these reservations, many have expressed their support and desire for the ADP to succeed and have demonstrated a willingness to show up and play their part in getting the industry to a better place. While delivering a successful ADP is going to be challenging, the number of people that have shown up to engagements to have their say and the consistency of the themes that have been identified, indicate there is a clear opportunity to deliver fundamental change to create a profitable, confident and united Australian dairy industry.

Figure 9 | The importance of the ADP to industry change

