



Possible futures for Australian dairy

Joanne Bills and Steve Spencer

Agenda

1. How did we get here?

- Factors driving long-term milk decline
- Where are we now?

2. Scenarios for 2030

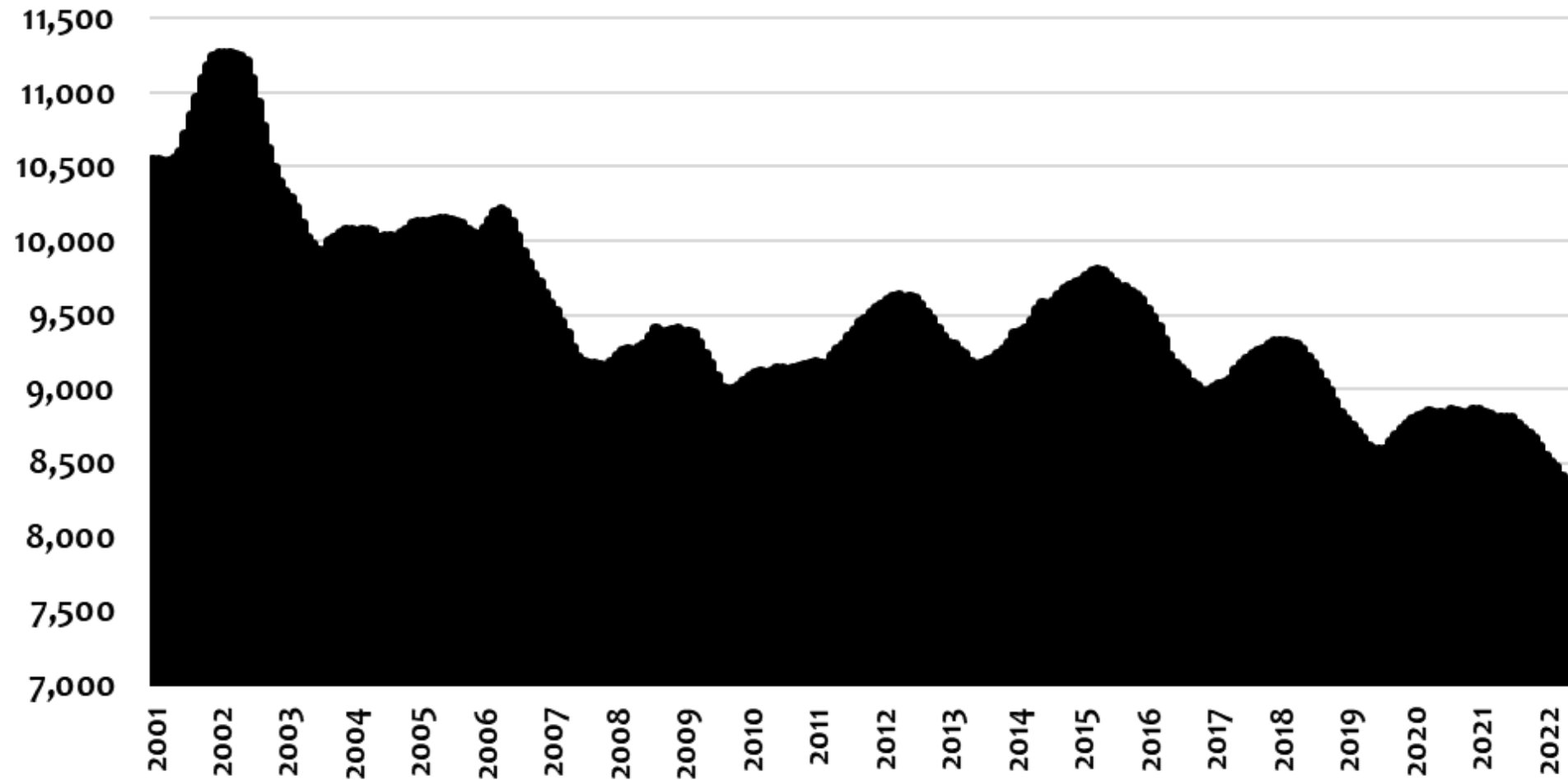
- What could the industry look like?
- How will milk be used?
- How will milk be valued at the farmgate?
- Will the world market matter?

3. What future could we shape?

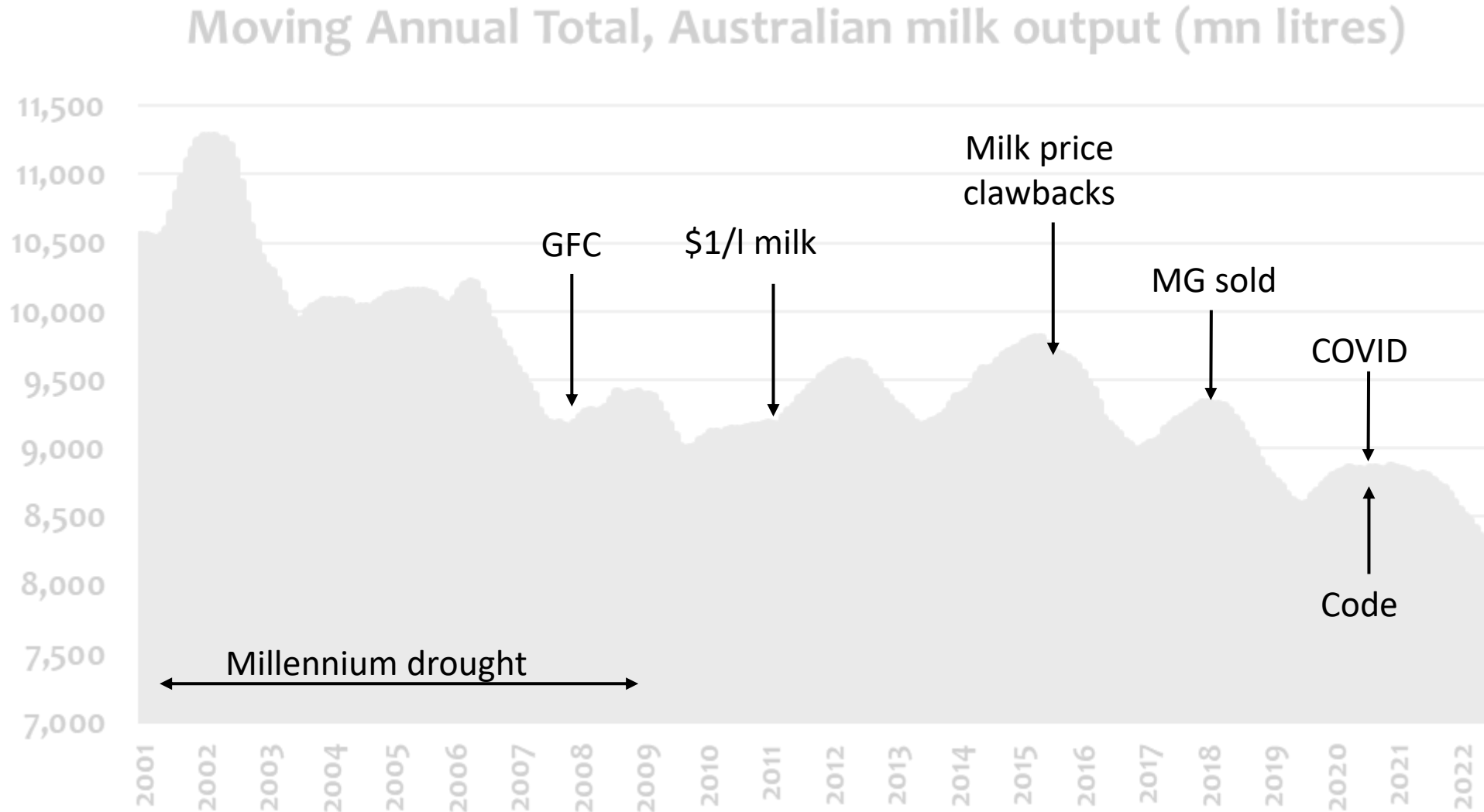
- What will be required?
- Challenges

How did we get here?

Moving Annual Total, Australian milk output (mn litres)

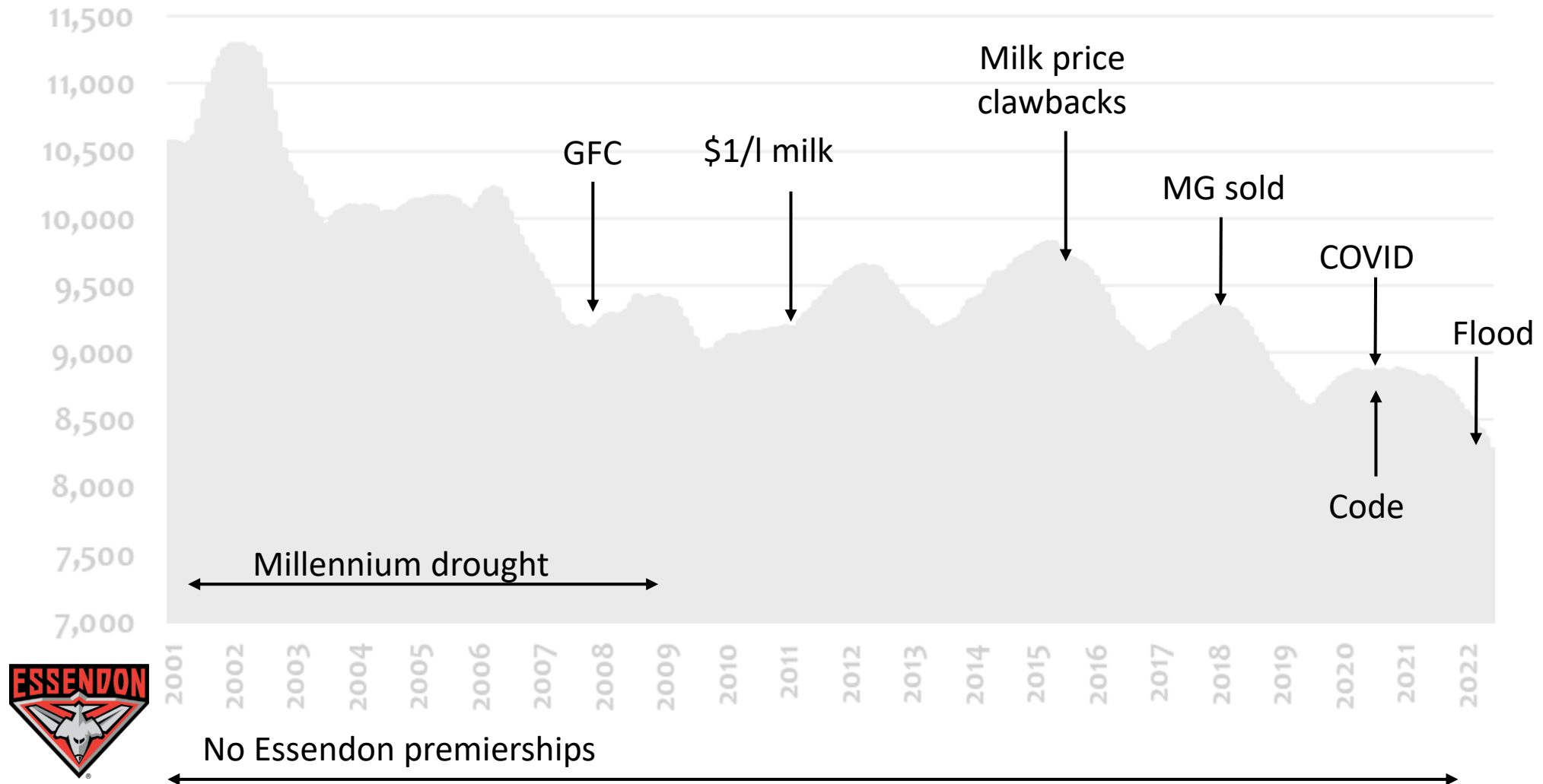


How did we get here?

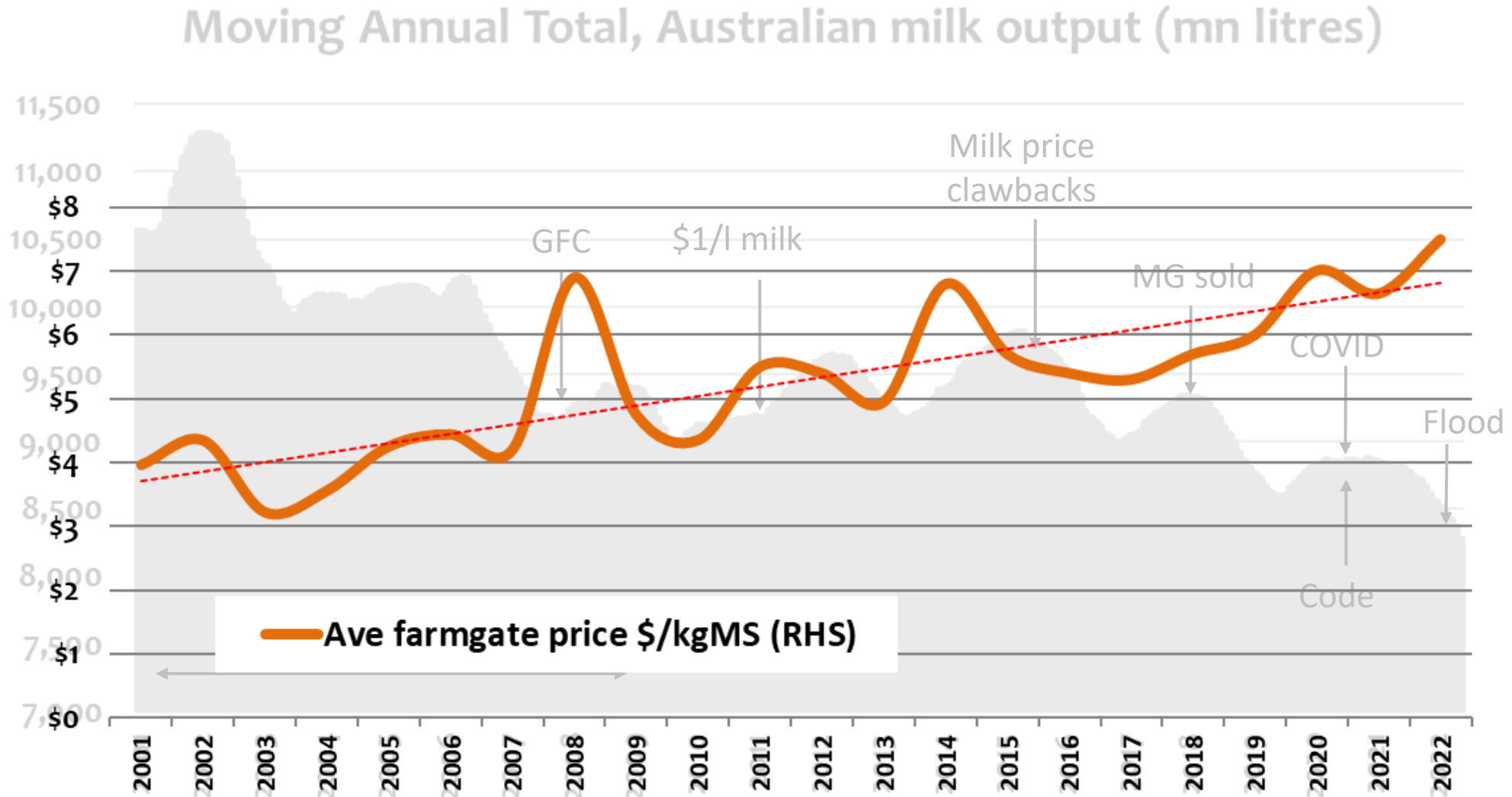


How did we get here?

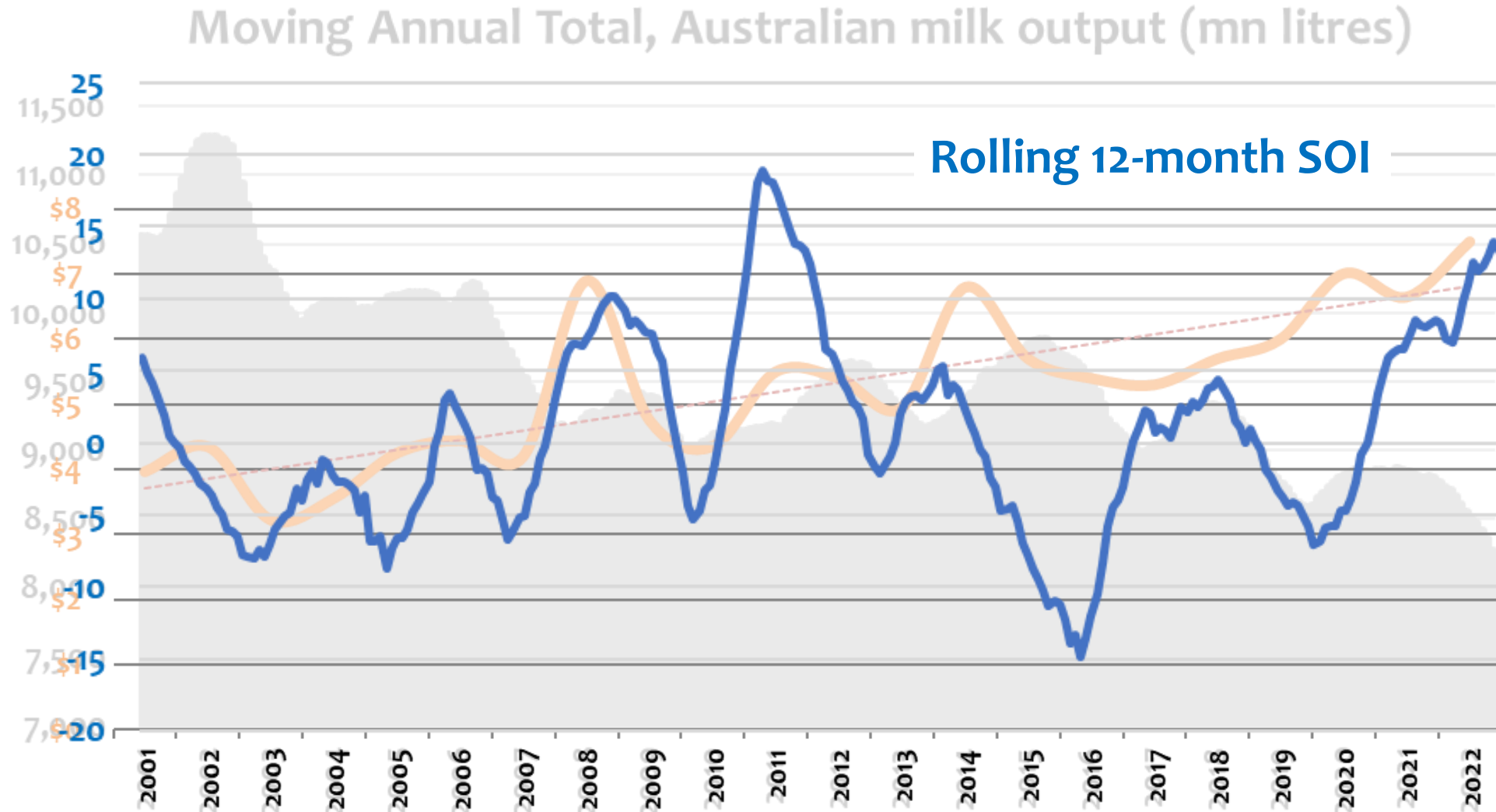
Moving Annual Total, Australian milk output (mn litres)



How did we get here?



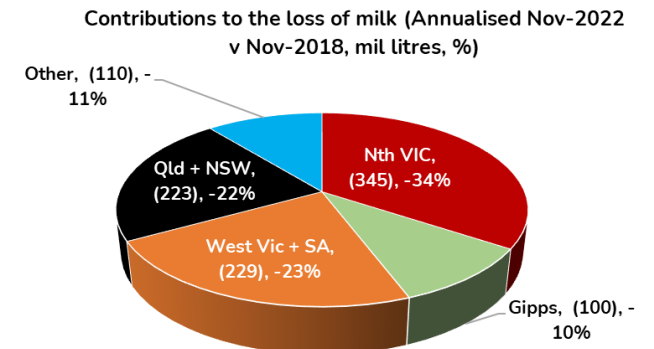
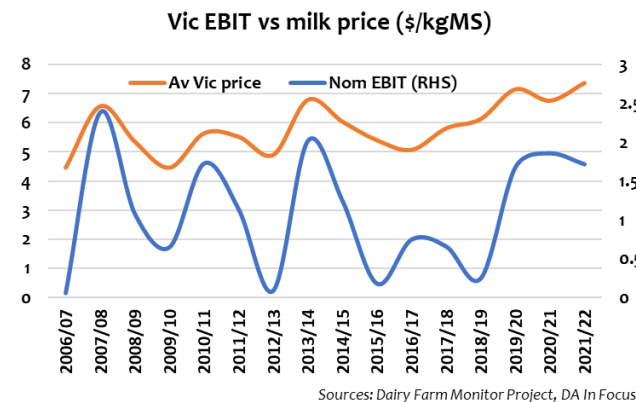
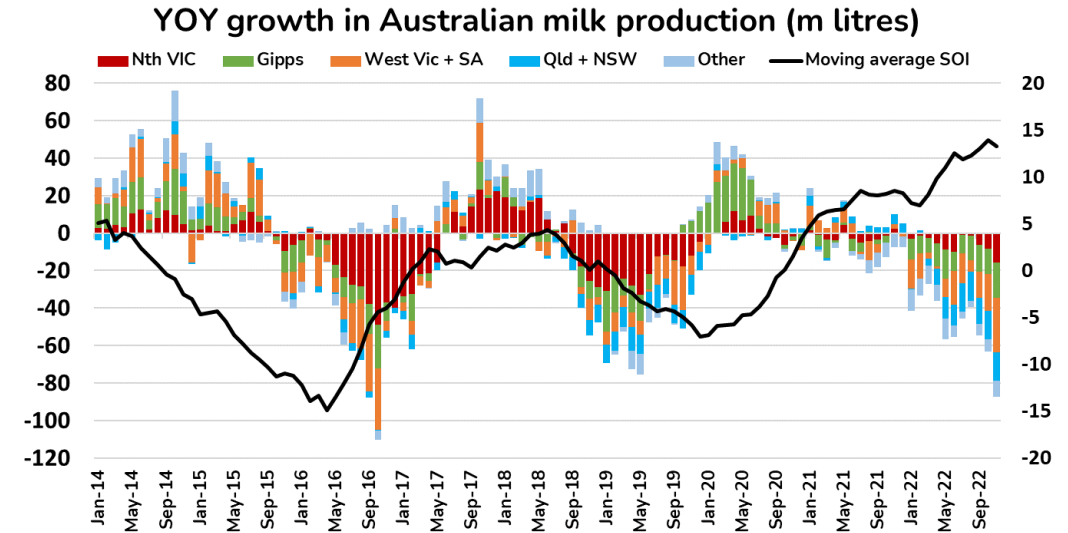
How did we get here?



How did we get here?

- There have been significant shocks
 - Climate
 - Corporate behaviour
 - Confidence & trust
- Three good years, but less milk!
 - Context
 - Competition
 - Capital

Individual rational decisions does not answer an industry call



Where are we now?

- Context

- Increasing complexity
- Climate, risks, sustainability
- Greater management challenge

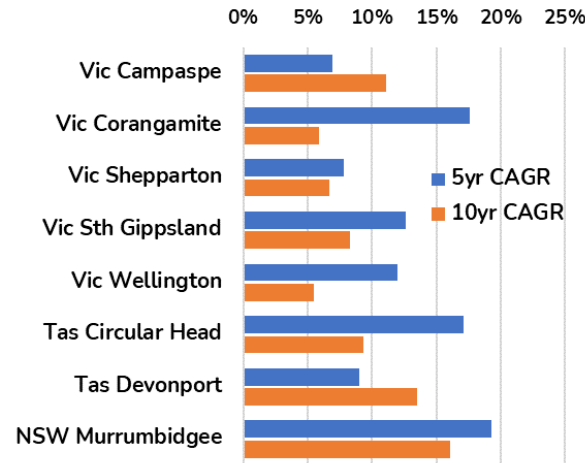
- Competition

- Labour
- Land and water resources
- Fragmented processing sector

- Capital

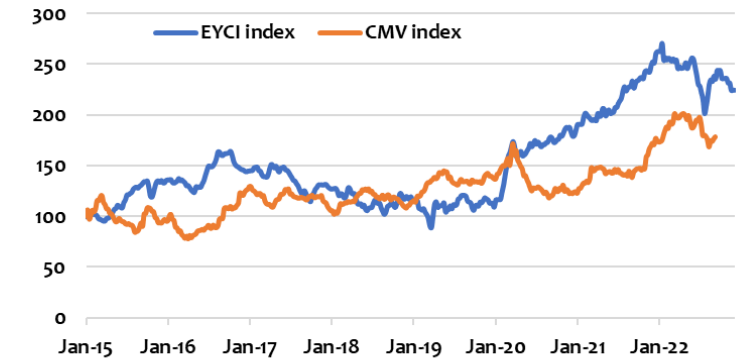
- Exiting farms cashing in
- Barrier for entrants
- Succession hard

Growth in land values to 2021



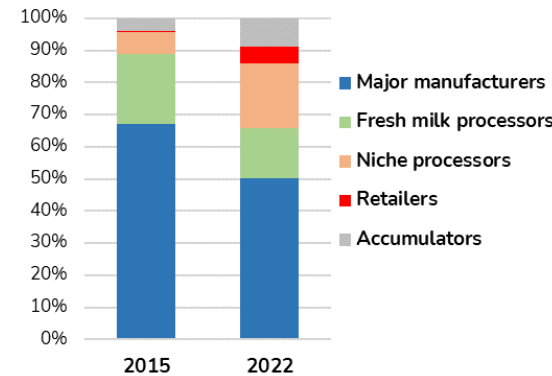
Spot values of beef vs milk

Index Jan 2015 = 100

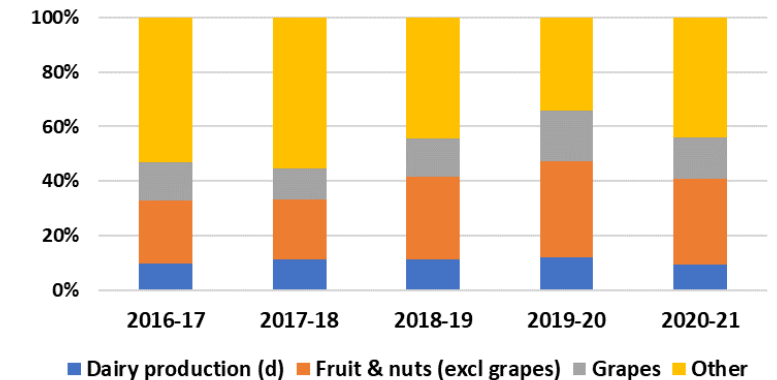


Source: MLA EYCI, Freshagenda CMV

Changes in farmgate milk buyers
(% of national milk intake, season ended June)

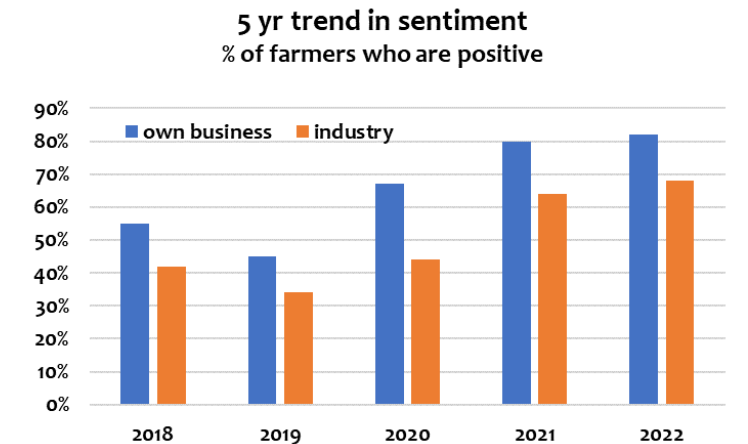
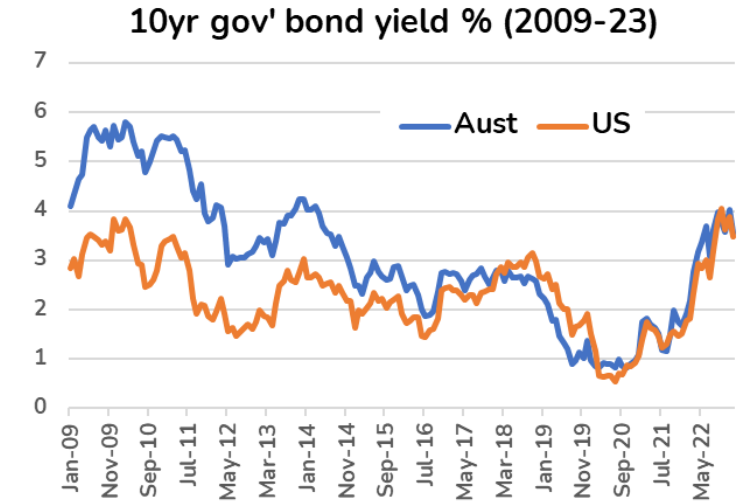


Share of GVIP in MDB



Can we stabilise and grow?

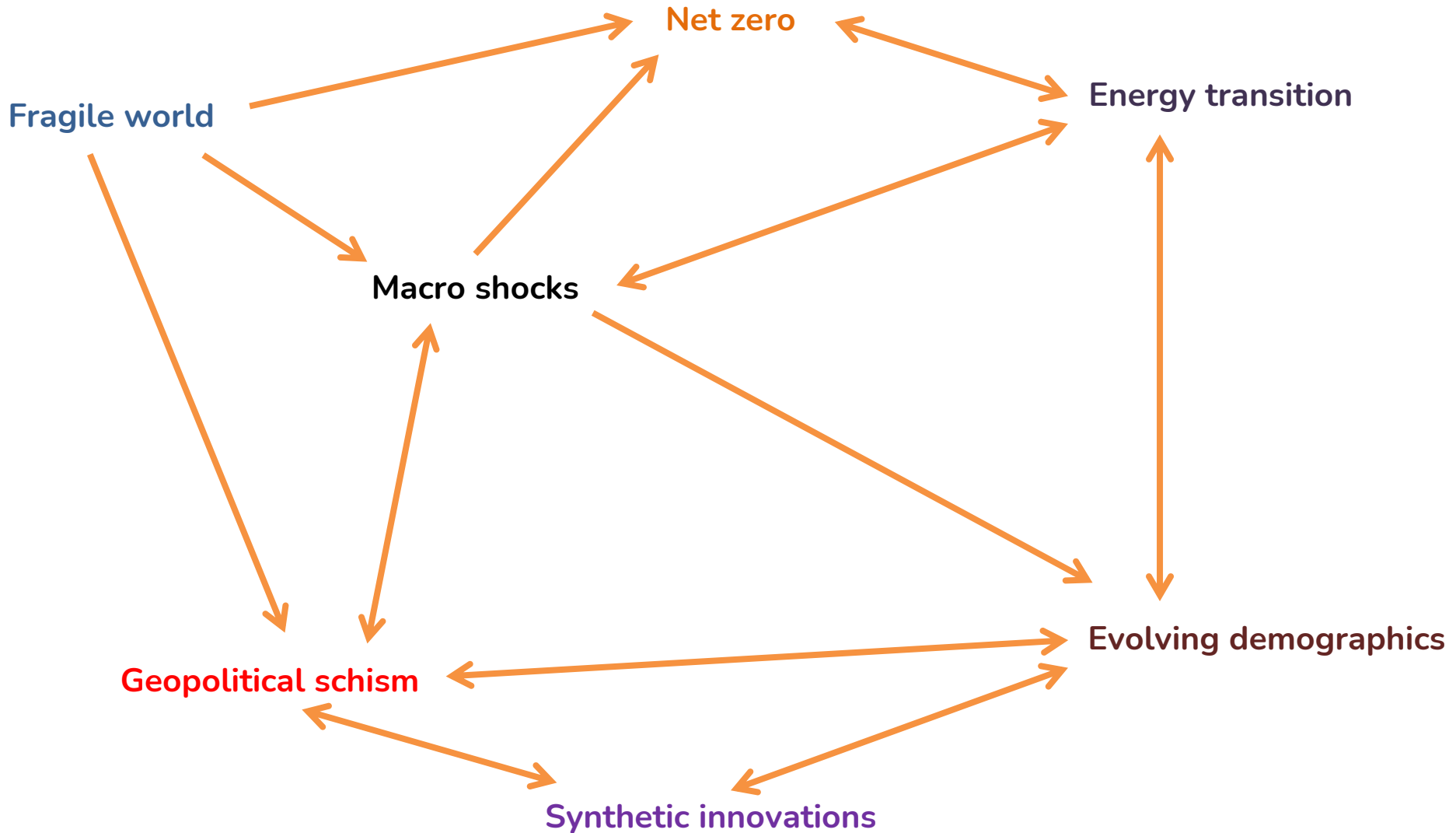
- Entry barriers are getting higher
- Pathways for equity growth
- Corporate investors?
 - Hurdle rates
 - Models to empower and inspire
- Where to invest?
- Can confidence and trust be rebuilt?



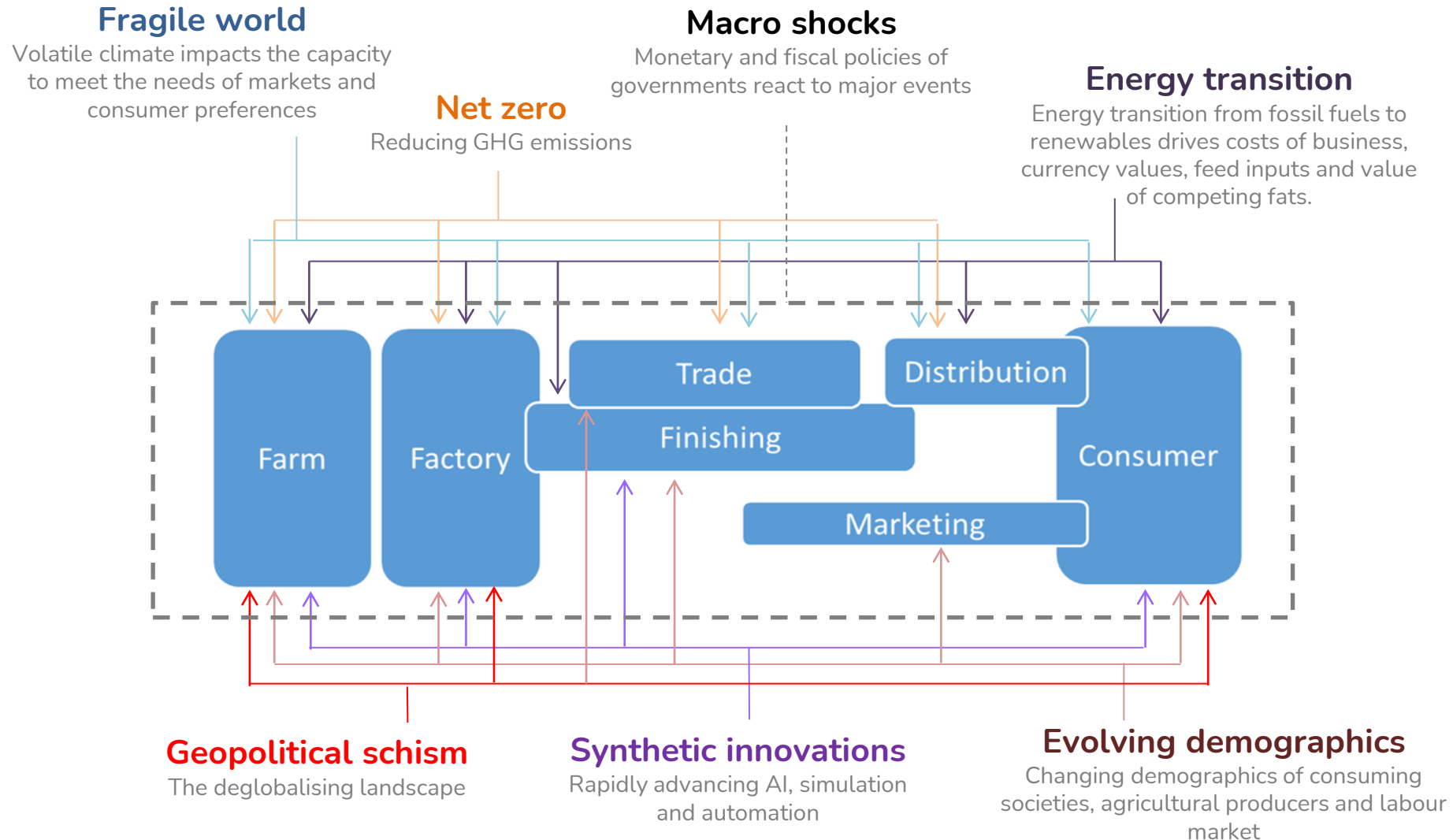
Source: Nat Dairy Farmer Survey, Dairy Australia

What does 2030 look like?

What shapes the next decade?



What shapes the next decade?



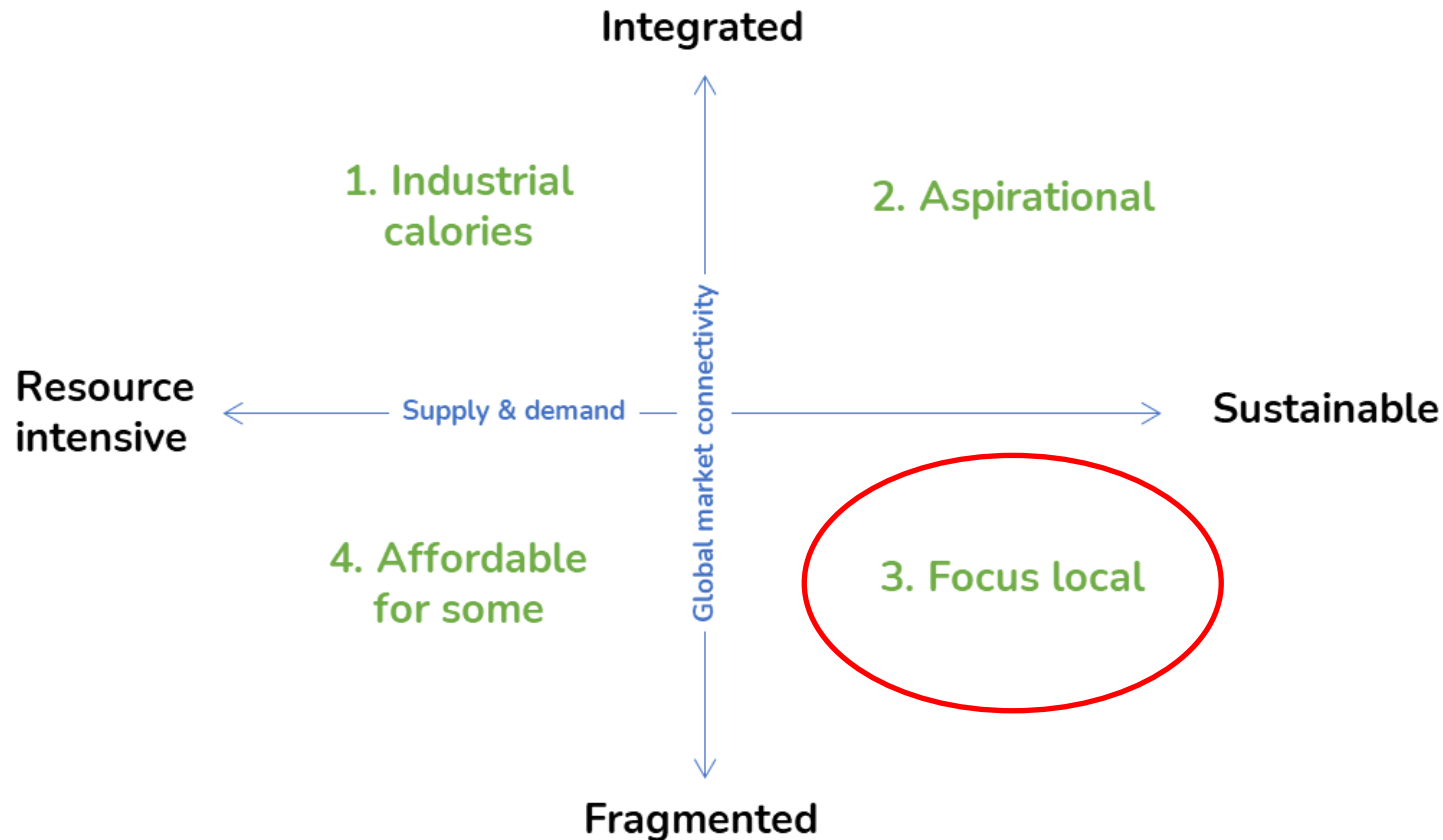
What does 2030 look like?



The world scenario

- Geopolitical tensions have grown
- US political divide worsens
- No uniform emissions reduction
- Political division on net-zero
 - EU-30 is strongly focused on GHG reductions
 - NZ uses economy-wide scores
 - US governments in denial
 - China's self-sufficiency rules
- Inequality in developing world
- Affluent markets reject livestock agriculture

What does 2030 look like?

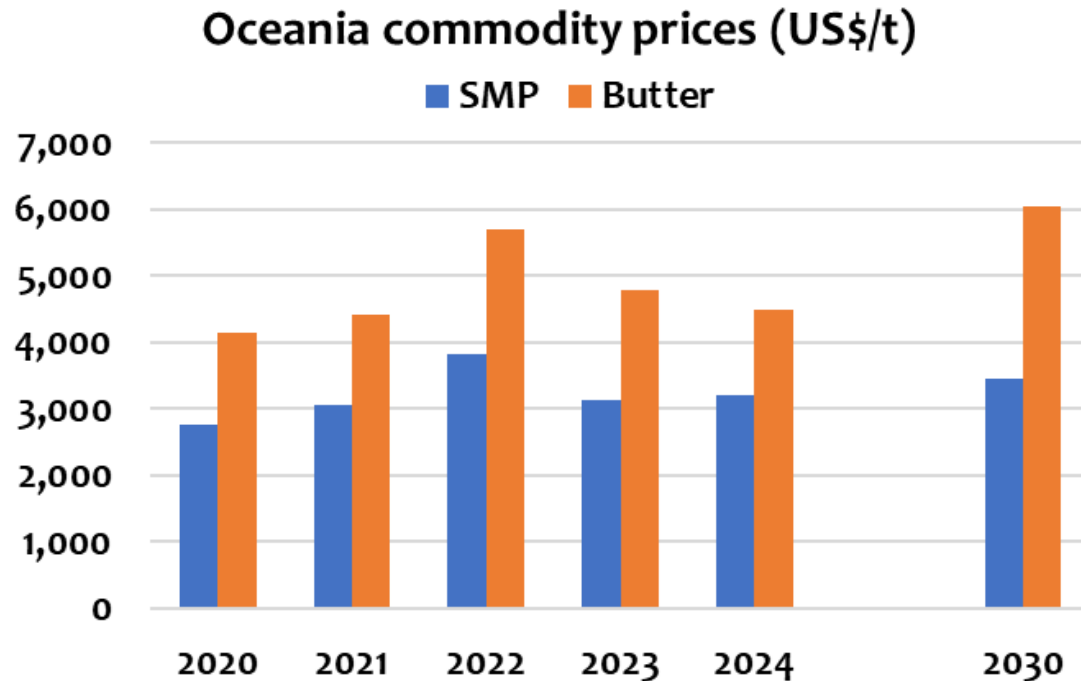


The dairy scenario

- Milk growth 2021-30
 - EU -7%
 - NZ +3%
 - US +15%
 - China +57%!
- EU & US drinking milk -15%
- China's WMP imports -10%

= rising global milk value

What does 2030 look like?



The dairy scenario

- Milk growth 2021-30
 - EU **down 7%**
 - NZ **up 3%**
 - US **up 15%**
 - China **up 57%**
- EU & US drinking milk **down 15%**
- China's WMP imports **down 10%**

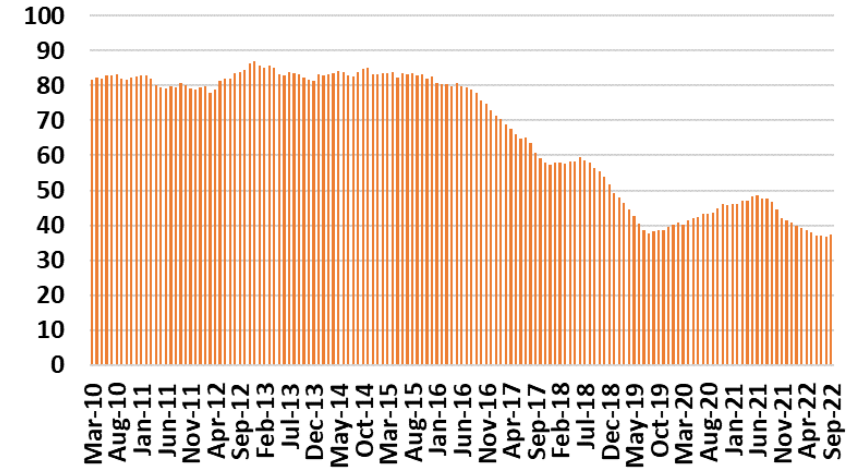
= rising global milk value

Australia: The game changers!!

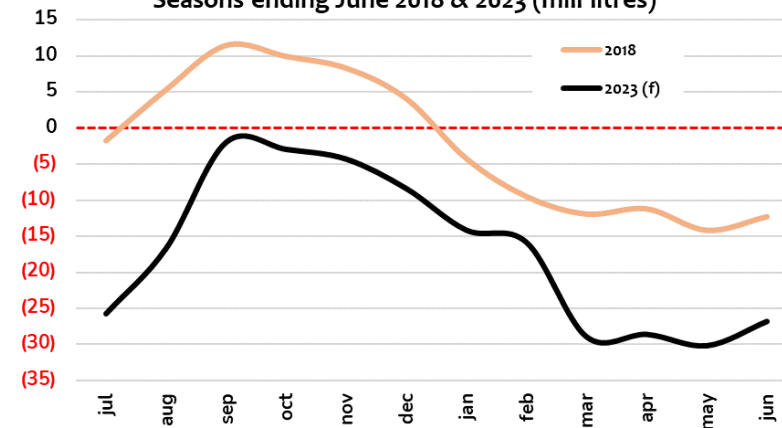
- Narrowing net trade
- Structural butterfat deficit
- Northern regions in year-round shortage

A major grocery chain buys all its milk for private label milk and cheese until 2025

Australia's butter production
12-mth rolling total ('000t)



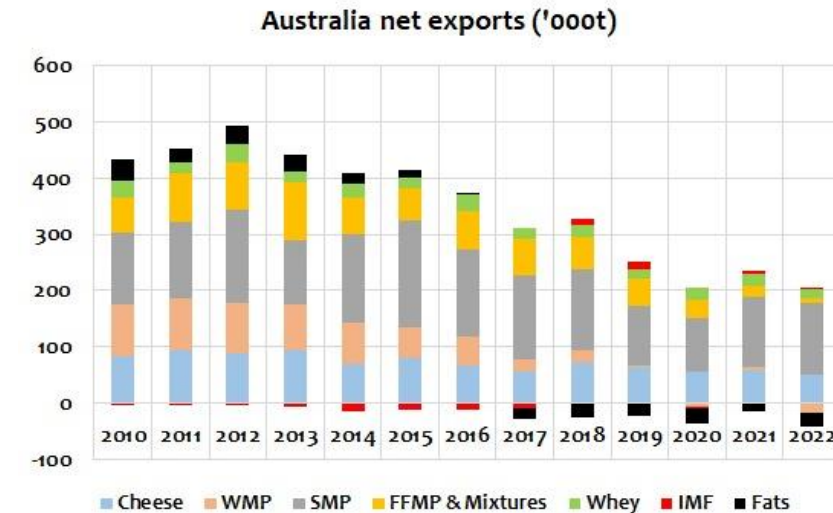
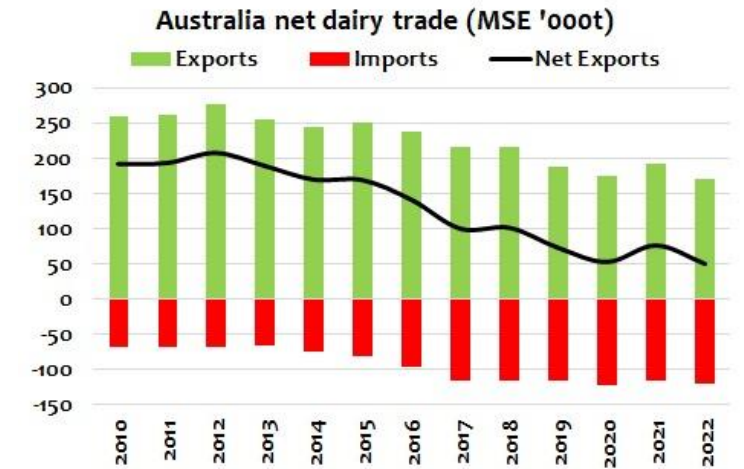
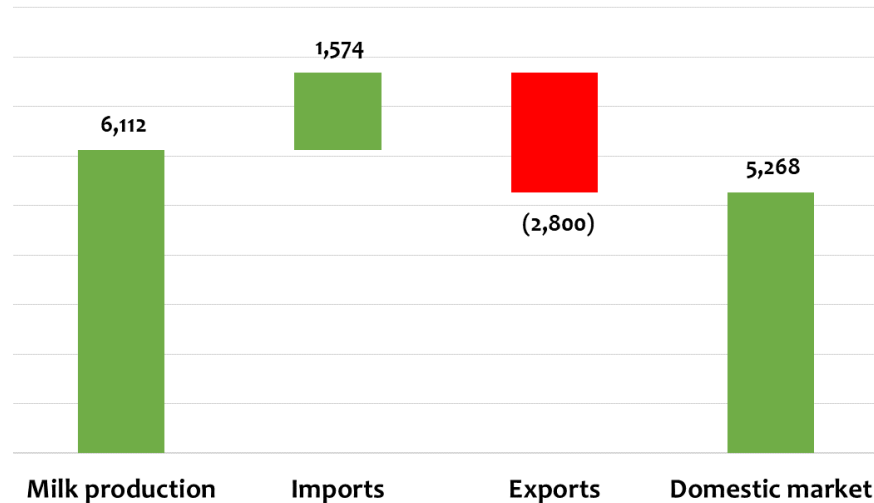
Monthly Qld-NSW milk shortage
Seasons ending June 2018 & 2023 (mill litres)



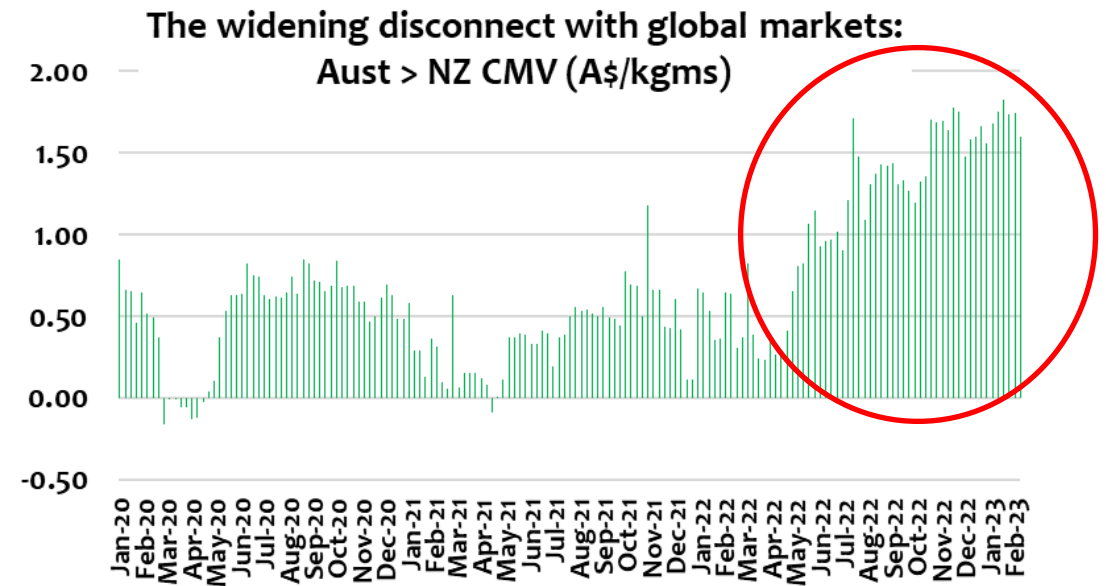
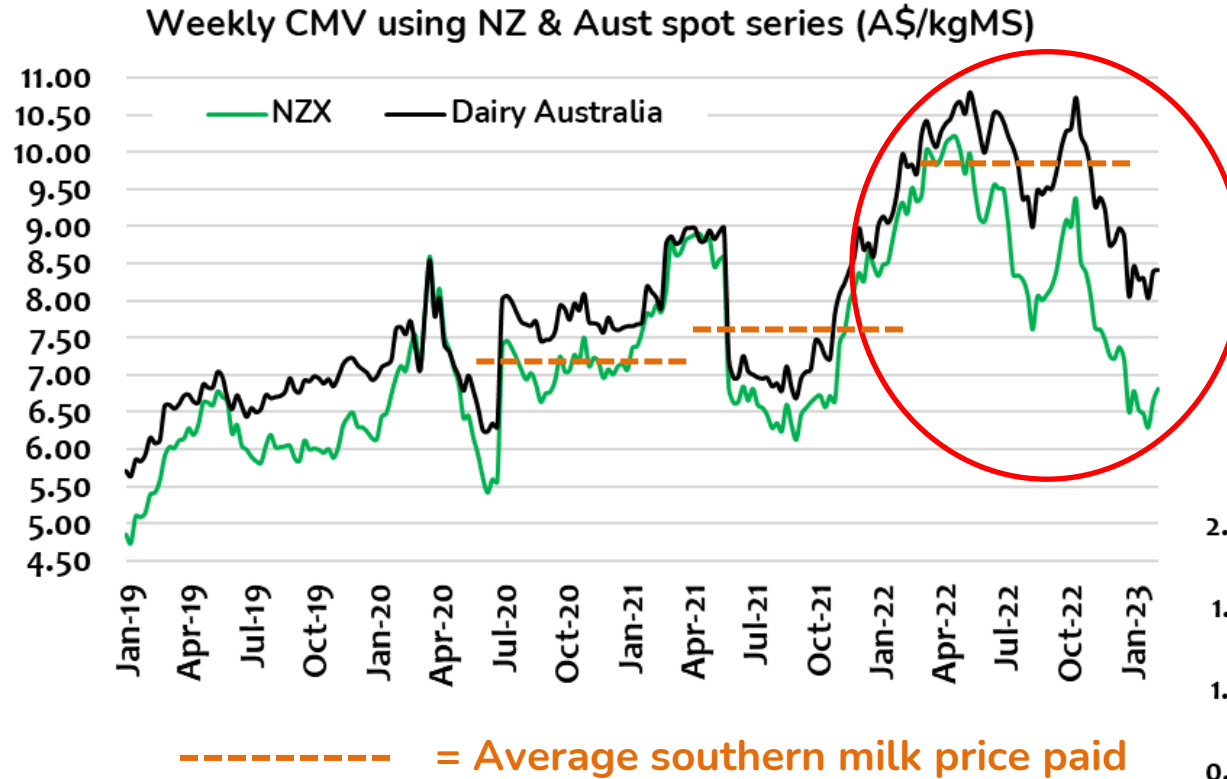
We have gone past a tipping point

- Reducing reliance on domestic milk
- Milk valued at “import parity”
- Highest milk value premium over NZ commodity values

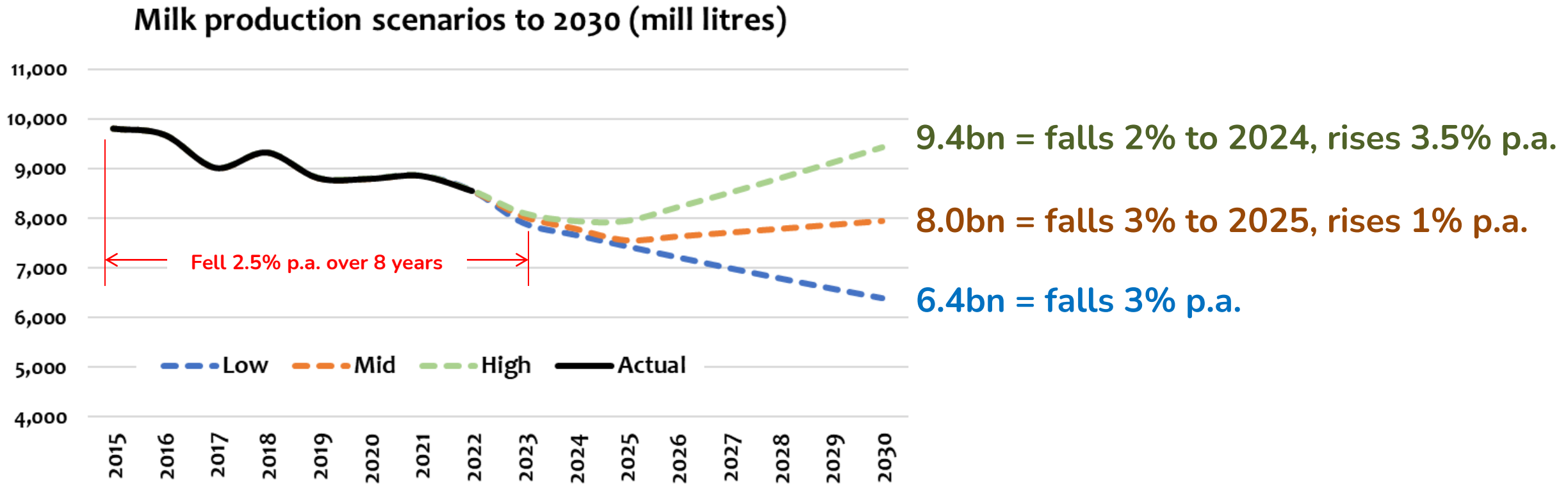
Australian manufacturing milk balance 2021/22 in milk equiv (millions)



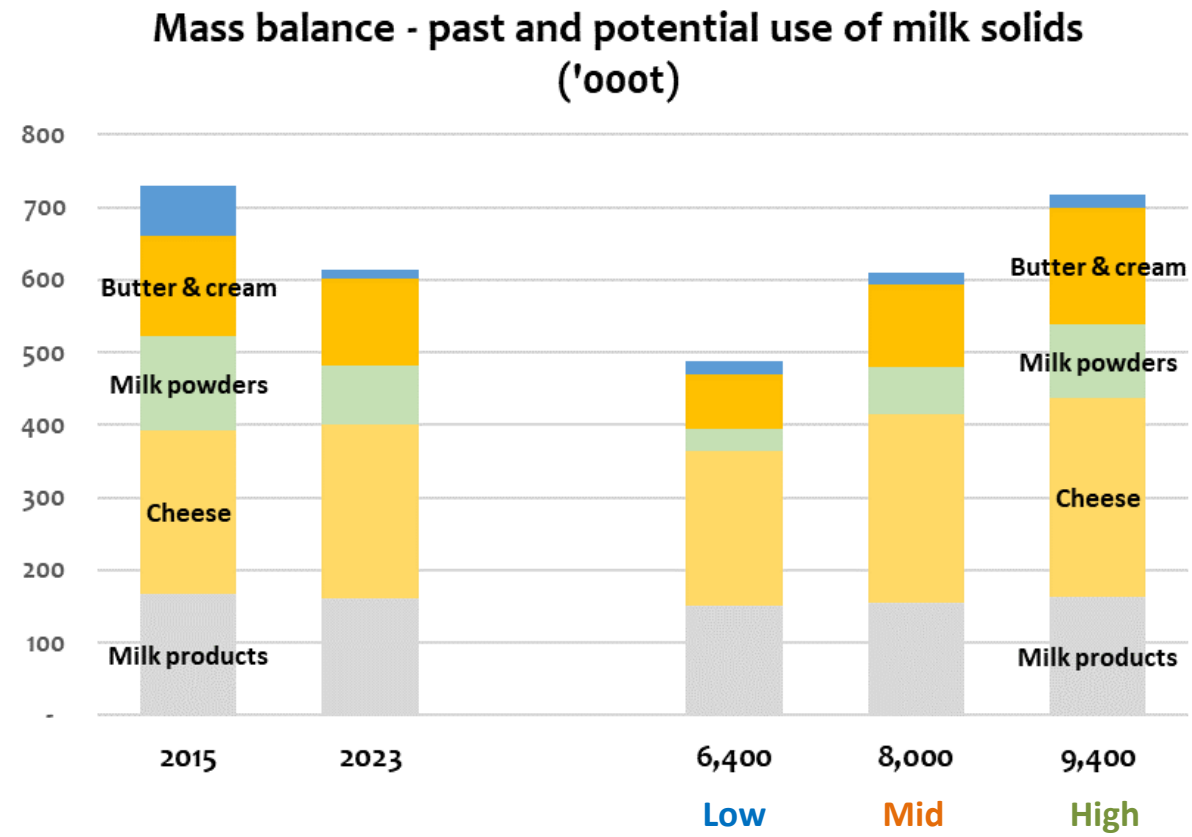
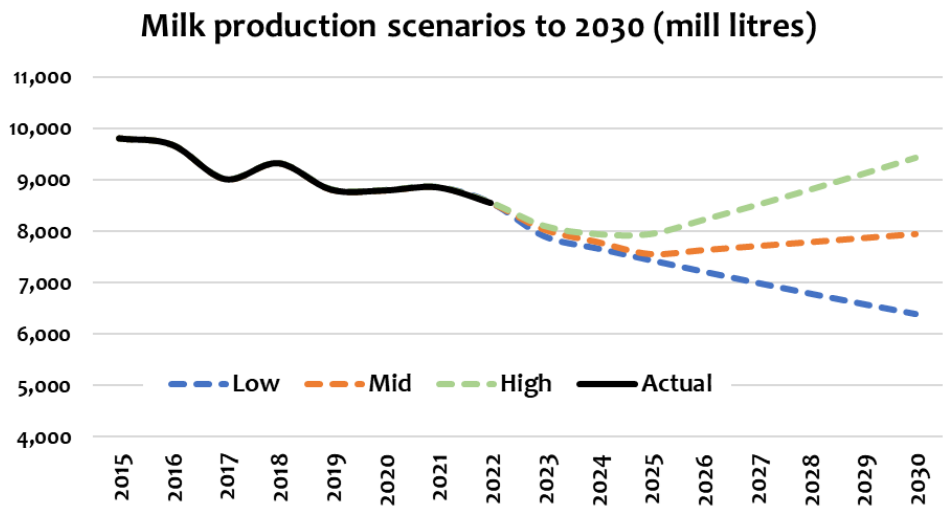
Gone past a tipping point



3 scenarios to 2030



3 scenarios to 2030



What does 2030 look like?

Some principles

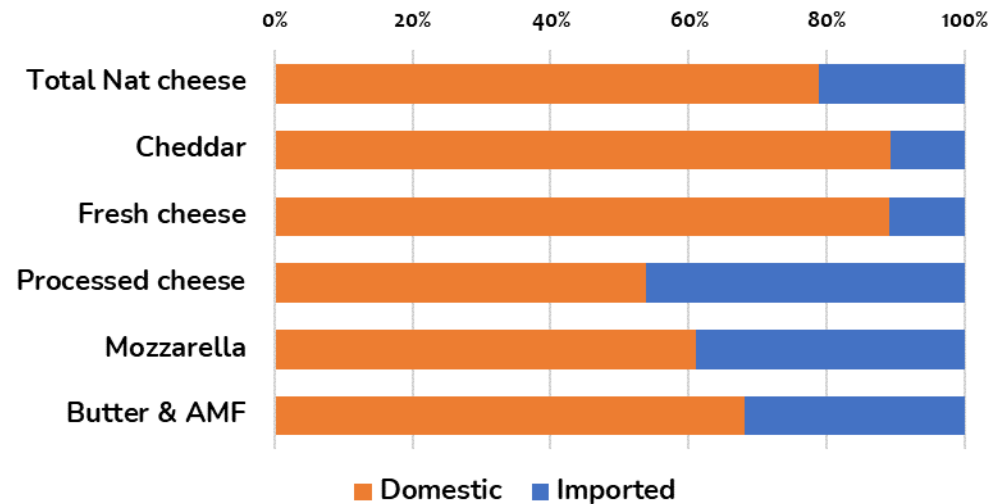
- Prioritise higher value domestic uses
- Security of milk supply is king
- Specialised supply chains
- Not efficient or world-competitive, but “agile premium niche”
- Import commodities, avoid making them
 - Opportunistic tolling/trading

What about the world market?

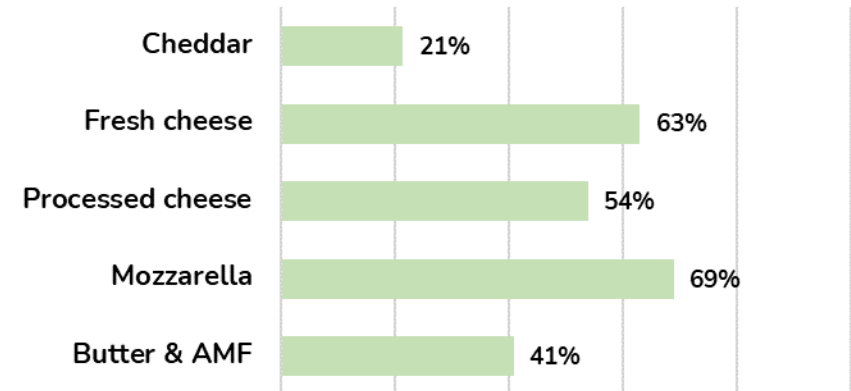
“Surely we can i... of the Australian market &... about the world market??”

Wrong!

Sources of product for domestic market in FY2022

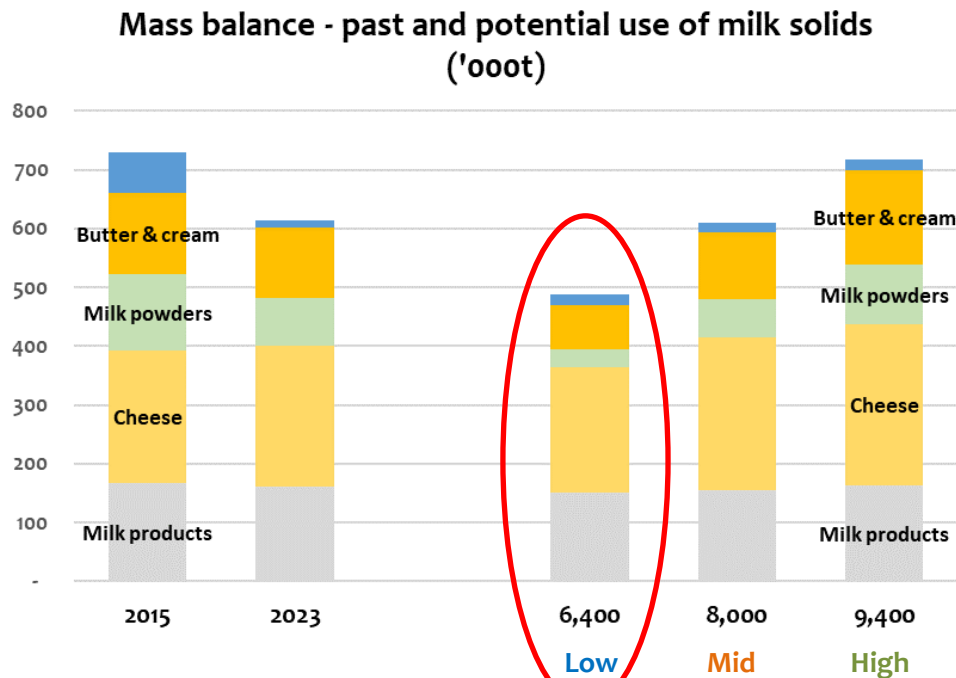


% of available product (production + imports) which was trade-exposed in 2021/22

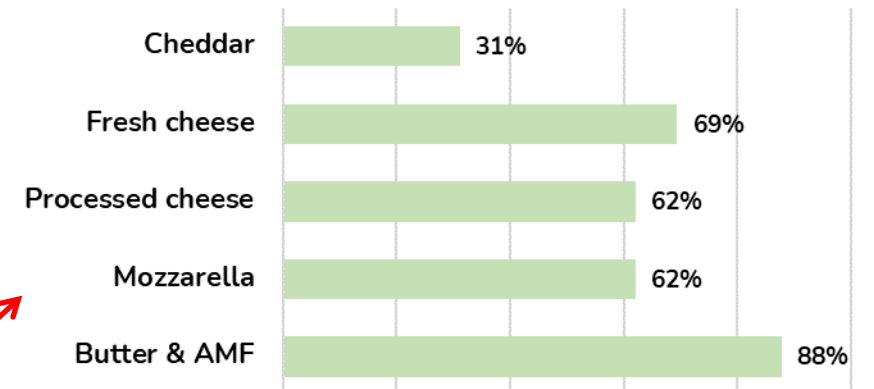


Does the world market matter?

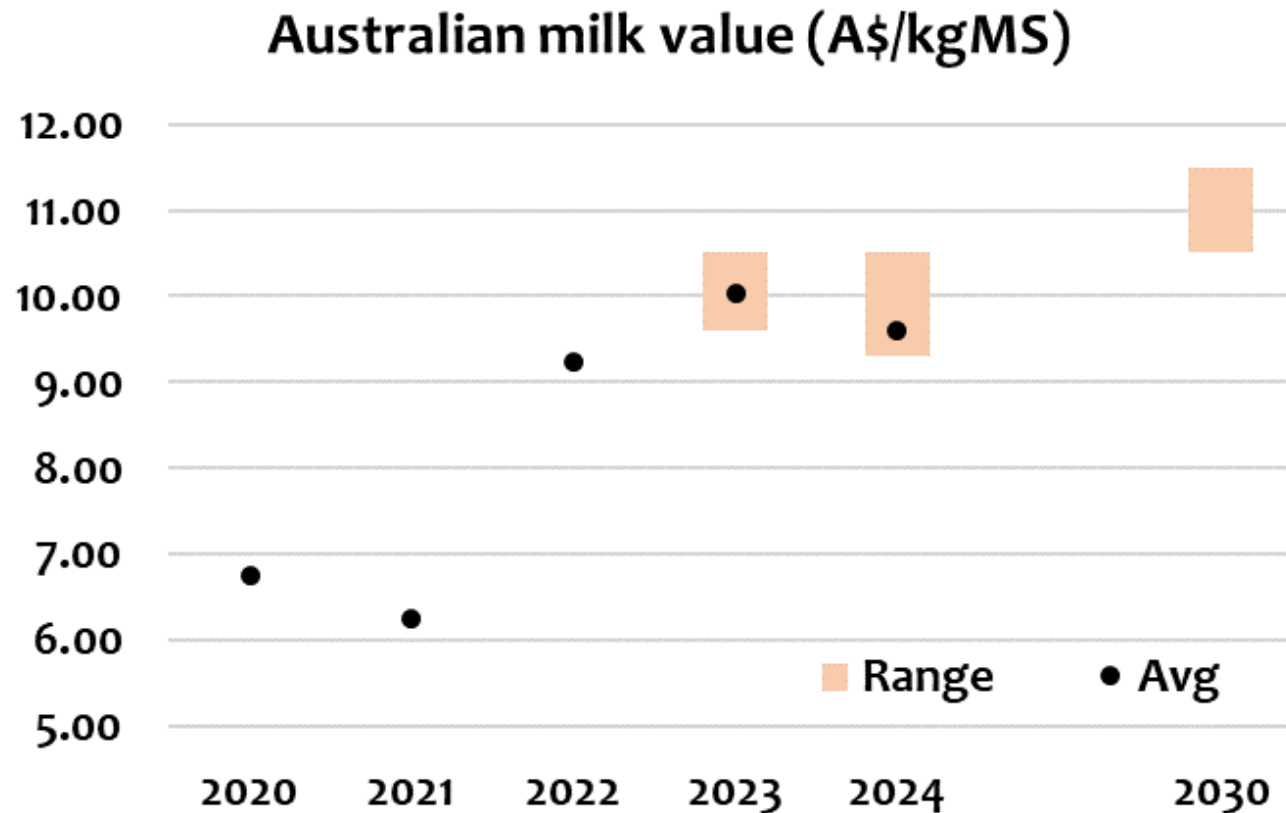
The influence of global prices will increase!!



% of available product (production + imports) which was trade-exposed in 2029/30 (low case)



Milk value in our scenario



Assumes

- Scenario 3 global settings
- Stable domestic premium
- A\$1=70c

...and it doesn't matter what our milk production is!!

What does 2030 look like?

What will the future require?

- Look through supply chains
- Holistic view of markets
- Aligning market & risk
- Embrace innovation & tech developments
- Measure and manage to potential
- Strong mutual trust and empathy

So what?

- Does growth matter?
- Does collective effort matter?
- COOL: cheese?

Thanks for listening!

<https://freshagenda.com.au/>

Follow @freshagenda2013 

