

# Fresh

# Opportunities

## Summary of report to Wesfarmers Limited on building a sustainable dairy industry in Western Australia



### ABOUT THIS DOCUMENT

The actions recommended here aim to position WA's dairy industry for long term success. A successful and sustainable industry means that:

- There are new and attractive career opportunities for people wanting to join the industry.
- The industry's production methods are clean, green and ethical.
- The industry's assets continue to grow over time; both know-how and physical assets including manufacturing capital and farms, and natural-resource stocks such as clean water.
- Over time, WA is able to build on its competitive advantages over other dairy regions.

This report develops a sustainable strategy based on three elements:

1. A diagnosis: an explanation of the nature of the challenges and opportunities facing the WA dairy industry.
2. A strategic policy: an overall approach that addresses the diagnosis.
3. A set of actions which are coordinated with one another to support the accomplishment of the strategy.

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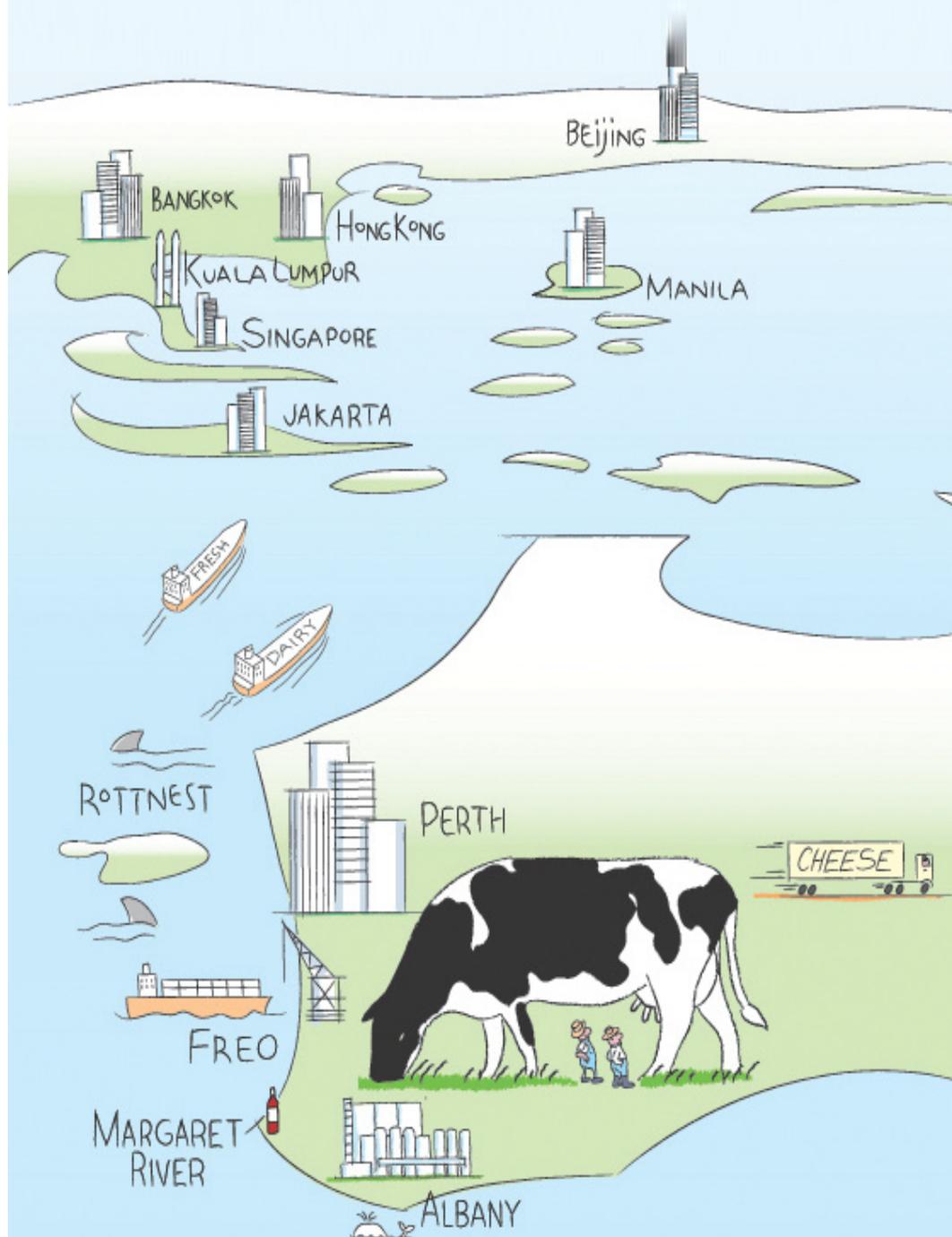
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This Study has examined the strategic options to build a sustainable dairy industry in Western Australia. After discussions with WA dairy farmers in early 2011, Wesfarmers agreed to sponsor a project to investigate several options which may help place the state's dairy farming on a long-term sustainable footing. This would include a fact-based analysis of the WA dairy industry and the examination of options available to assist the industry's future.

Strategis Partners were appointed by Wesfarmers to lead the project in July 2011.

While the Study is sponsored by Wesfarmers it should not be inferred that Wesfarmers has made any commitment to invest in the WA dairy industry. The aim of the Report is to encourage informed public debate on ways to develop the dairy industry in the State. For a copy of the full report please contact Strategis Partners.



## The strategic challenge is to re-start long-term growth

Sustainable growth is the key to the industry's future. Not only can the current problems in the industry such as lack of confidence and investment be overcome, but also new opportunities open up if these challenges are addressed.

The key challenges are:

- The industry is sub-scale making it vulnerable to import competition.
- There are barriers to international expansion.
- Supply-side constraints on growth need to be overcome.

If these challenges are dealt with effectively the industry can grow substantially. Both domestic consumption growth and export growth can be met as shown in Exhibit 1.



## WA dairy's key advantages are its expansion potential and proximity to Asia

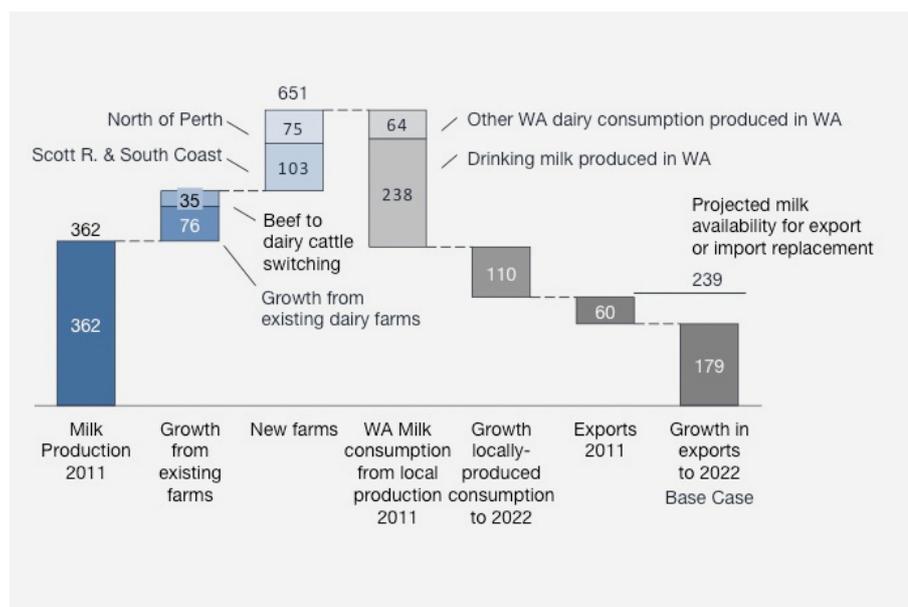
The overall message from this Study is that there are no insurmountable barriers to sustainable growth, either on the supply-side or market-side.

WA's 'clean, green, ethical' dairy farming can be expanded. The WA dairy industry has some of the world's lowest cost milk producers. Moreover dairy farming appears to be the most financially attractive agricultural activity in the traditional and emerging dairy areas of WA.

WA's other key competitive advantage is its proximity to Asia. Its future lies in targeting and hitting the premium markets in Asia where dairy consumption is growing strongly.

### Exhibit 1: DAIRY EXPANSION POTENTIAL IN WA

Million litres of milk equivalent p.a.



Through further investment and productivity improvements, WA milk supply could expand to 777 million litres with around 365 million litres available for export each year.

## How the industry can move forward

WA can become an innovative exporter and overcome the small size of its domestic market – like New Zealand did 30 years ago – with an emphasis on 'fresh'.

The guiding policy for enlarging the dairy industry in WA, is to increase on-farm production and increase WA's share of the dairy market in Asia by re-positioning the WA dairy industry from its predominantly domestic focus and growing its exports of value-added, mainly fresh dairy products into Asia. This needs a coordinated program of investment in market development and manufacturing, and a re-engineering of the supply chain, which in turn needs to be supported by the introduction of productivity and innovation initiatives to expand on-farm dairy production.

# Market outlook for dairy products

WA will not be able to meet its requirements for fresh let alone meet export demand from Asia unless the industry significantly increases on-farm production.

## Asian market outlook

Growth in dairy imports across Asia is being driven by a range of factors: income growth, urbanisation, increasing westernisation of diets, and population growth; concerns over food security; constraints on local milk production; and trade liberalising measures which is stimulating cross-border trade.

With long term growth in incomes Asia's imports of dairy products are projected to grow strongly across all products and most countries (Exhibit 2).

In milk equivalent terms the growth in projected imports of dairy products across Asia to 2014 will require an extra 300 to 400 million litres each year, roughly equal to WA's total milk production.

## Domestic market outlook

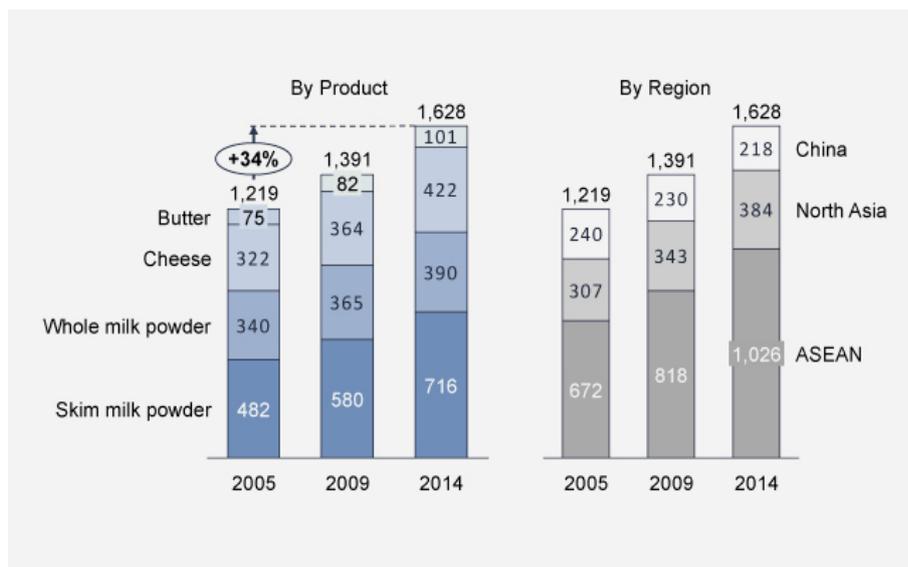
WA domestic fresh milk consumption is expected to grow at 2.8% per year, based on population growth and growth in per capita milk consumption. On the basis of these assumptions, fresh milk consumption is projected to be more than 400 million litres by 2022. Unless on-farm production increases significantly WA will be unable to supply domestic requirements for fresh dairy products by the middle of the decade.

Exhibit 3 shows forecast consumption outstrips current production in the next three to five years.

Under this scenario milk would need to be imported from the Eastern States.

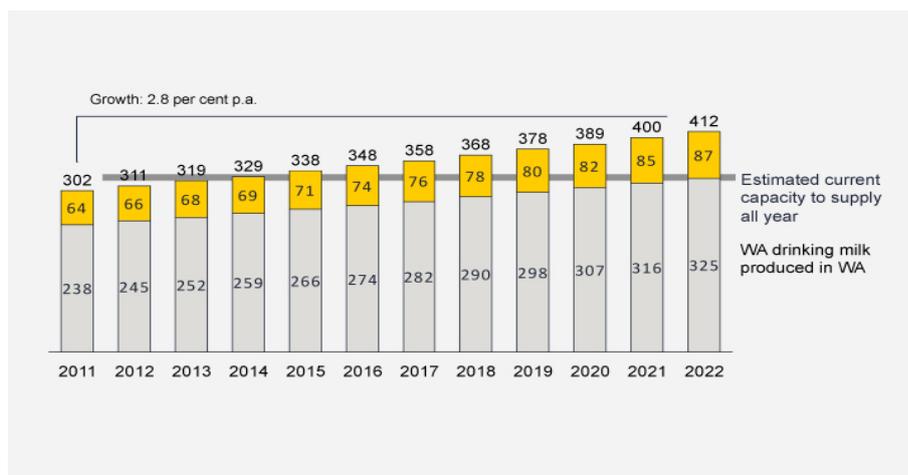
## Exhibit 2: PROJECTED IMPORTS OF DAIRY PRODUCTS ACROSS ASIA

Thousand tonnes p.a.



## Exhibit 3: PROJECTIONS OF WA FRESH MILK CONSUMPTION TO 2022

Million litres p.a.



## A scenario for a more successful WA dairy industry

To develop a more sustainable industry the sector in WA will have a more outward looking market focus. Under this scenario:

- Milk production expands from 360 to 700 million litres p.a. by 2022 supplying not only WA's growing needs but also expanding export markets.
- Dairy farming expands from 53,000 to over 90,000 head of cattle across some 200 farms.
- Dairy research station at Vasse is an industry-driven, WA project focused on developing innovative systems to increase on-farm productivity in Western Australia.
- Strategic partnerships form to expand WA's exports of dairy products to S.E. Asia, East Asia and North Asia, and partly replace imports from the Eastern states. Grounded in commercial reality, but supported by a range of government policies, these partnerships involve local processors in close collaboration with Asian food companies.
- Dairy farmers and local processors work closely together developing an implementation plan to ensure the industry is expanded in a sustainable manner. It is critical to ensure there is sufficient fresh milk to meet local demand whilst production increases to supply milk for the growing export market.
- There is a more transparent pricing model for the exchange of ownership of fresh milk which provides greater confidence to dairy farmers, creates efficiencies for processors and provides market access for new entrepreneur processors and marketers.
- Australia's national food retailers commit to increasing their local sourcing of dairy products – and source WA niche dairy products for markets in Eastern Australia.
- Shipping services from WA to Asia are re-engineered and a fleet transports fresh dairy products and other fresh agricultural products daily to S.E. Asia.
- Small scale integrated dairy companies expand their operations to take advantage of the dedicated world-class logistics systems to export fresh 'super premium' dairy products to the growing Asian market.
- Dairy processing investments are made both in Asia and WA to take advantage of more open trade agreements between Australia and countries in Asia.

## Key actions

**There are five key actions, which if implemented on a co-ordinated basis can develop a sustainable dairy industry in WA.**

### 1 Convene a Government and Industry task force to drive expansion

*SCOPE OF PROJECT* Establish a task force made up of key industry stakeholders to review, prioritise and implement initiatives to expand the industry. The immediate tasks are (1) complete a detailed study on re-engineering the supply chain for shipping fresh dairy and food products to Asia; (2) design and run a 'Brand WA' food and dairy marketing campaign in Asia; and (3) identify actions to support expanding on-farm dairy production.

### 2 Collaborate on processing and export market development

*SCOPE OF PROJECT* Existing processors to address the problem of sub-scale operations: (1) by identifying initiatives to capture consolidation opportunities in processing, (2) by consolidation of logistic operations, and (3) by developing a joint venture to capitalise on export opportunities. The export joint venture could also provide services to small-scale dairies such as Bannister Downs and Margaret River Dairy Company.

### 3 Re-engineer the 'fresh' supply chain from WA to Asia

*SCOPE OF PROJECT* Re-engineer the shipping supply chain system to transport fresh dairy products and other fresh food products from WA to S.E. Asia, on a more regular basis, possibly daily.

### 4 Boost productivity and innovation on-farm

*SCOPE OF PROJECT* Develop and implement a set of actions to encourage dairy farmers to at least double on-farm production over the next decade. This will require a co-ordinated approach from industry stakeholders including Government, farmers and Dairy Australia. Key issues to be addressed include improved infrastructure, water management, on-farm labour, innovation and training, impact of climate change, the development of sustainable farming practices and gaining farmers confidence to invest.

### 5 Establish an integrated dairy export business

*SCOPE OF PROJECT* Establish a joint venture with an Asian partner to build a processing plant in WA, secure on-farm supply, and export fresh premium dairy products to the Asian markets (and over time to the Middle East) exploiting WA's 'clean, green, ethical' reputation.