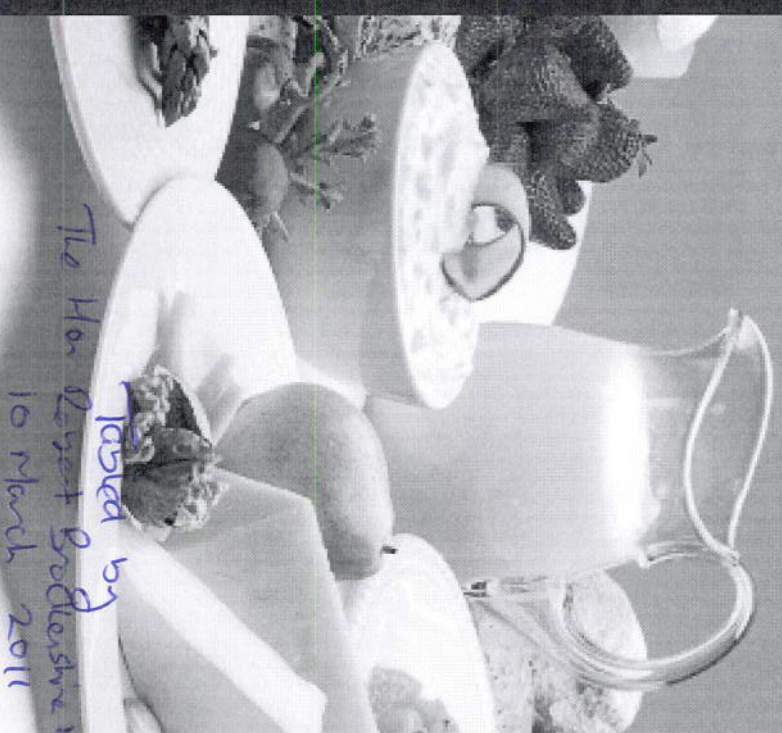


South Australian Dairy Industry

STRATEGIC
PLAN
FOR
2010

DAIRY INDUSTRY DEVELOPMENT BOARD 2002



Passed by
The Hon Robert Goodwin
10 March 2011

Foreword

The Dairy Industry Development Board is to be commended for developing this plan and an industry supported vision for major expansion.

Achieving this vision will result in a doubling of milk production to 1.5 billion litres and a corresponding increase in manufacturing. The estimated value of the dairy industry to this State will increase to \$1 billion including exports of \$570 million.

This level of production represents 10 percent of national production and provides a mixed portfolio of specialised and commodity products and ingredients alongside branded consumer goods and premium lines.

Through this plan, the dairy industry in South Australia is well poised to make a greater contribution to the State's economy and the State's food industry's goal of growing to \$15 billion by 2010.

Our "new" dairy industry will generate direct and indirect employment opportunities for a further 3,500 people, mostly in regional South Australia. A challenge will be to create long term and rewarding careers to attract new employees to the dairy industry as well as for the broad range of support and service businesses which will develop over time.

This plan sees South Australia move from being an exporter of raw milk interstate to a net importer of milk for processing in this State, as manufacturing capacity is developed.

Leading dairy businesses in South Australia already exceed some of the world's best practice and efficiency benchmarks established by their neighbours in Victoria and New Zealand particularly. We have strong competitive advantages including irrigation potential, land expansion capacity and a highly efficient and sustainable pasture based farming system. We need to support this by ensuring a sustainable resource base and by providing environmental and investment policies that underpin industry confidence.

Successful implementation of this plan will require partnerships between stakeholders, Government, and our dairy regional communities. Together we need to build on our strategies to ensure that South Australia is an attractive and favoured investment destination for farmers, processors and manufacturers of dairy products and ingredients. At the same time we need to consolidate access to the on-going growth in volume and value of the world market for dairy foods.

The opportunities have been clearly identified in this plan. The challenge now is to provide the ideal environment and develop strategies for sustainable industry growth. Again I commend the industry for its foresight in developing this plan.

Mike Rann MP
PREMIER OF SOUTH AUSTRALIA



Mike Rann MP
Premier of South Australia



**Government
of South Australia**



Dairy in 2010

"Growing to 1.5 billion litres annually – achieving the highest added value per litre of milk in the Australasian region – and earning \$1 billion."

- Milk production from 700 million to 1.5 billion litres
- State herd from 105,000 to 200,000 cows
- Processing capacity from 480 million to 1.6 billion litres
- Wholesale value of industry from \$318 million to \$1 billion
- Employment from 3,000 to 6,500 people
- Exports from \$47 million to \$570 million

Key Strategies

- 1 Ensure a sustainable resource base
 - Water
 - Power
 - People
- 2 Consolidate a viable production sector
 - Farm consolidation
 - Farm expansion and new farms
- 3 Attract dairy investment
 - Commodity manufacturing
 - Specialised further processing
 - Large scale dairy farming
- 4 Ensure a diverse product – market mix

Executive summary

Vision for the South Australian dairy industry

"Growing to 1.5 billion litres annually – achieving the highest added-value per litre of milk in the Australasian region – and earning \$1 billion."

In achieving this position, the South Australian dairy industry will represent 10% of national production.

The vision is based on a "strong growth" scenario for future development of the industry in terms of milk production and available manufacturing capacity. It places a value of \$1 billion on the total industry output by 2010.

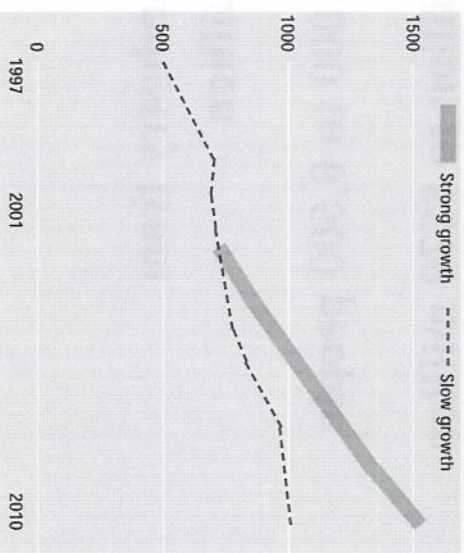
The increased scale of the industry at farm and factory levels will more than triple the industry's contribution to the State economy, and generate approximately 3,500 new jobs across the sectors that benefit from increased investment and economic activity.

How we get there

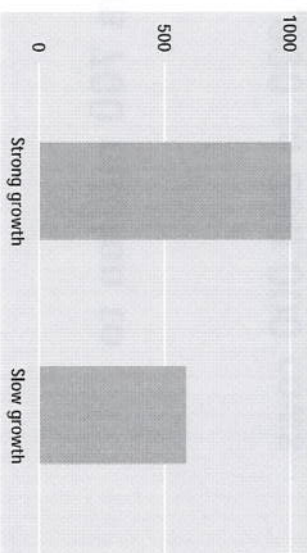
The industry can achieve this vision through an effective combination of **confidence, leadership in policy and targeted development.**

The dairy industry in South Australia must capitalise on its significant natural advantages, that sustain competitive year-round production. The vision for the future is based upon a growth scenario capitalising on the identified potential of each of its dairy production regions, and built upon past demonstrated growth performance in milk production.

Milk Production (millions of litres)



Value of Industry Output comparing scenarios for 2010 (\$ millions)



To achieve the vision, the industry will need to invest \$600-750 million in new and existing farms, new processing facilities and supporting infrastructure.

Industry and Government need to work together

This strategic plan for the South Australian industry focuses on achieving growth in milk production through targeted strategies that include implementation of policies to provide certainty and confidence, and promote investment in the industry.

The achievement of that goal depends on collaboration between Industry and Government in key areas. It specifically requires a "whole of Government" approach in working with industry to:

- Maintain focused investment attraction activities to secure new dairy products, specialised dairy foods and ingredients manufacturing facilities for South Australia
- Enhance the access to farm extension skills, tools and aids to facilitate expansion
- Invest in improved training resources to enhance farm management skills, and to assist in attracting people who want to work in the industry
- Enhance the understanding, performance and management of the natural resource and environmental impact of the dairy industry
- Facilitate the development of a transparent and competitive market for water in the regions of the State
- Enhance the reliability and access to cost-effective energy supplies

Executive summary

CONTINUED

Industry and Government need to work together – continued

- Invest in an effective dairy development function to co-ordinate and streamline interaction between industry and Government, and to foster farm investment through demonstration
- Promote the opportunities for farm investments to potential investors in overseas and interstate regions
- Clarify and promote practices for the management of animal disease (particularly Bovine Johne's Disease)

The areas of strategy that deal with individual dairy company strategies are not the domain of this plan.

The cost of delay

Uncertainty is the greatest barrier to the further development and expansion of the production and processing sectors of the South Australian dairy industry.

This strategic plan estimates that a lack of proactivity will cost the State's dairy industry \$420 million per annum – the difference in the value of the industry between a "strong growth" scenario and a "slow growth" outcome.



Trends shaping the future

The compelling trends paint a positive picture

The trends that shape a positive market future for the dairy industry in southern Australia include:

- Significant continuing growth in demand for milk from Australia and New Zealand by major brand owners and marketers of dairy ingredients due to the natural cost-competitiveness of grass-based milk production
- Strong growth in the demand for processed food and drink products from urban markets in Asia and South East Asia
- As the tastes and preferences of consumers in these regions continue to change, there will be solid growth in demand for dairy products and ingredients from competitive milk production regions
- Increasing trade liberalization for dairy commodities in world markets through:
 - The entry of China to the World Trade Organisation (WTO) and the reduction of tariffs
 - The rapid change to the structure of business within China which enables major dairy groups and supermarket chains to establish operations
 - The increasing difficulties of the European Union (EU) to fund traditional direct farm support as part of the Common Agriculture Policy with an expanding EU economic bloc

- Commitments reached in WTO regarding progressive reduction in subsidies and tariff barriers
- The growing role of functional foods aimed at providing nutritional and medicinal benefits to consumers
- The increasing demands by consumers for safe, clean food production systems, and the significant difficulties faced by northern hemisphere production systems through animal disease
- The convergence of the Australian and New Zealand industry through increasing consolidation of corporate ownership and the common interests of the farm sector in the context of global dairy markets and trade

The future environment affecting South Australia

- The future environment for milk production and dairy product processing will be driven by the following:
 - The major portion of milk production growth will be processed and sold into available export markets at levels driven by the prevailing world prices for dairy commodities. Limited growth will be seen in domestic dairy food and drinks markets
 - The influence of the world "spot" price will decrease over time as the market share of the EU and US lessens, and the specification and product performance required by dairy products buyers increases

- Milk produced on a flat production profile will become increasingly attractive in the marketplace as Australian and New Zealand products assume a greater share of the traded dairy foods market into Asian regions
- Growth of the seasonal milk production in the south western Victorian region will continue at rates of 5-7% per annum in the foreseeable future through farm conversion and expansion
- There will be a consolidation of farming enterprises at the farm level, with growth in medium to large scale enterprises, providing greater opportunity for smaller existing enterprises to expand or exit the industry
- Greater sophistication in milk production technology and systems will see demand for supplementary feeding increase to boost milk production from available land and livestock
- There will be an increasing standard of resource accountability affecting:
 - The cost and usage of water resources
 - Environmental management of farming systems and outputs
- There will be greater demand for strict food safety and traceability procedures in order for the Australian industry to preserve its "clean and green" image with food importers

Achieving the vision

"Growing to 1.5 billion litres annually – achieving the highest added-value per litre of milk in the Australasian region – and earning \$1 billion."

This means:

- Milk production of 1.5 billion litres per annum growing at a sustainable rate (from current production of 700 million litres), achieved from a combination of existing and new farm enterprises
- Dairy produce from an integrated dairyfoods value-chain generating \$1 billion to the State at wholesale level including exports to the value of \$570 million (currently, the approximate value of industry output is \$318 million)
- A contribution to the State's economy of approximately \$1.3 billion per annum
- Employment for an extra 3,500 people, mainly in regional South Australia (the industry currently employs approximately 3,000 people)
- A product portfolio providing a suitable mix of specialised and commodity dairy products and ingredients, alongside branded consumer goods and premium lines
- Diversity of the State's milk production regions, supported by a sustainable resource base and policy environment that underpins industry confidence
- Milk production from a milking herd of approximately 200,000 cows (currently 105,000 cows)

The industry will grow from an existing 6% of total national production to approximately 10% of national or 5% of Australasian milk production. South Australia's share of production and total industry market will increase at the expense of production regions in New South Wales and Queensland, which are expected to decline in size over time.

This will be achieved through stronger regional production in areas with highly competitive attributes, such as access to irrigation infrastructure and land expansion capacity.

The preferred scenario for the industry

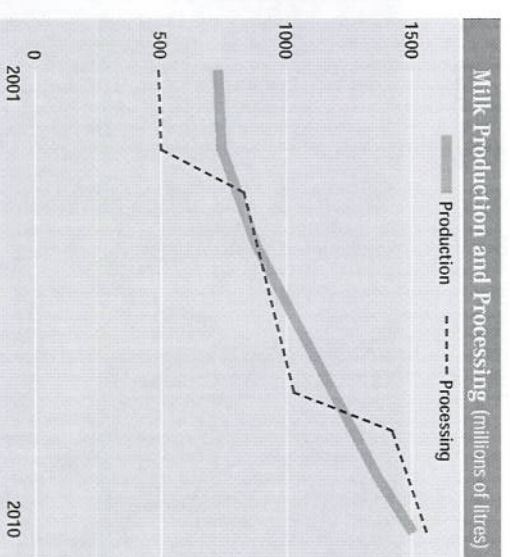
The vision statement is based on the preferred growth scenario for the dairy industry in southern Australia in 2010, and the role that each of the dairying regions of the industry in South Australia will play to achieve stated targets.

It takes account of the attributes and characteristics of dairy production in each region of the State, and the potential manufacturing and processing activities located in South Australia's dairying regions in the future.

Measuring the path to the future

Measurement of the value of the dairy industry is expressed in terms that are consistent with the State Food Plan developed in 1996, and the *Food Industry ScoreCard* methodology.

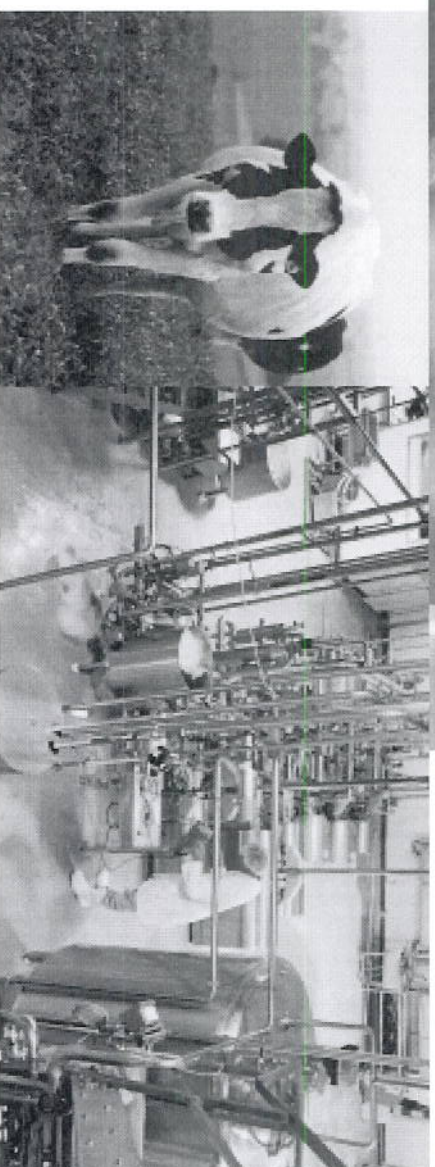
The progressive projected growth in milk production and milk processed in the State are shown in the chart below. From these progressive outcomes, the value of the industry to the State in output and employment terms has been defined. The "strong growth" scenario suggests that South Australia will move from being an exporter of raw milk to a net importer of milk for processing in the State, as capacity is added.



The objectives

There are a number of objectives that underpin the delivery of the vision for the future:

- Foster the ongoing development of a sustainable resource base that provides confidence and certainty for milk production
- Create and maintain an environment for a sustainable, viable and expanding milk production sector
- Enhance the positive relationship between the South Australian Dairy Industry and the community regarding the use of natural resources and environmental management
- Provide the environment to maintain internationally competitive processing and manufacturing facilities
- Foster the uptake of innovation in the farm and processing sectors
- Ensure South Australia is an attractive investment destination for farmers, processors and manufacturers of dairy products and ingredients
- Foster the ongoing development of an appropriate and secure mix of markets and specialised and differentiated products that optimise the value extracted from the State's milk production



Measuring progress against outcomes

The most effective way for the industry to measure its future progress against this plan is to rely on a set of quantifiable outputs:

- **Production Growth**
 - Volume of total milk production (target: 1.5 billion litres by 2010)
 - Number of dairy cows in milking (target: 200,000)
- **Value**
 - The wholesale value of dairy produce to the State (target: \$1 billion)
 - The per-litre value of dairy product processed from South Australian milk (target: 67 cpl)
 - The proportion of production which is processed in the State (target: 110% - for example, South Australia is a net importer of milk)
- **Efficiency**
 - Per-farm (per-cow productivity target: 7,500 litres per annum)
 - Appropriate measures of water use efficiency
 - Forage production and utilisation efficiencies
- **Employment**
 - Measured against targets for the total number of people directly and indirectly employed in dairy farming and processing enterprises, and in supporting industries and capacities
- **Investment attraction**
 - The number of new enterprises at farm level
 - The investments in existing farm and processing enterprises
 - The investments in new farm and processing enterprises
 - The investment in industry capacity building (in water/power and transport infrastructure)

The potential scenarios for 2010

Strong Growth

Taking responsibility to make the future

What the industry looks like

Processing

- The value of the dairy industry at wholesale level is \$1 billion, which includes the benefits of specialised ingredients and dairy foods processing which undertake further processing of commodity products
- Milk produced in South Australia is processed as follows:

Packaged milk	15%
Cheese and its by-products	41%
Food ingredients and by-products	40%
Other fresh dairy products	1%
Exports to other states	3%
- The State imports 100 million litres from Victoria

Farm

- Total production is 1.5 billion litres (herd of approx. 200,000)
- The number of farm enterprises is between 500-550
- The average farm size is between 350-400 cows
- Per cow productivity is an average of 7,500 litres p.a.

Regional production is spread between:	
South East	54%
Lakes	16%
Fleurieu & Hills	15%
River	10%
North	5%

How the South Australian Dairy Industry achieved strong growth

The industry embarked on complimentary strategies to proactively influence industry skill, growth opportunity and policy management in order to enhance certainty for investors at farm and factory levels.

Two major dairy manufacturing sites were developed over the period in response to a large number of entrants and expansion projects at farm level.

The State has attracted value-added food ingredients and specialist manufacturers to take advantage of South Australia's manufacturing environment and the large milk production fields in the south of the State and southwest Victoria.

A lack of proactivity will cost the State the difference – \$420m per annum by 2010

Slow Growth

A do-nothing approach to policy environment

What the industry looks like

Processing

- The value of the industry at wholesale level is \$580 million, comprising the value of processing as identified below
- Milk produced in South Australia is processed as follows:

Packaged milk	22%
Cheese and its by-products	52%
Food ingredients and by-products	-
Other fresh dairy products	2%
Exports to other states	24%
- There are no imports of milk from interstate

Farm

- Total production is 1.0 billion litres (herd of approx. 140,000)
- The number of farm enterprises is between 500-550
- The average farm size is between 250-300 cows
- Per cow productivity is an average of 6,500-7,000 litres p.a.

Regional production is spread between:	
South East	43%
Lakes	15%
Fleurieu & Hills	23%
River	14%
North	5%

How the South Australian Dairy Industry achieved slow growth

Steady growth in milk production continued without the attraction of significant numbers of new farms due to the competitive advantages offered by the proactive neighbouring Victorian region.

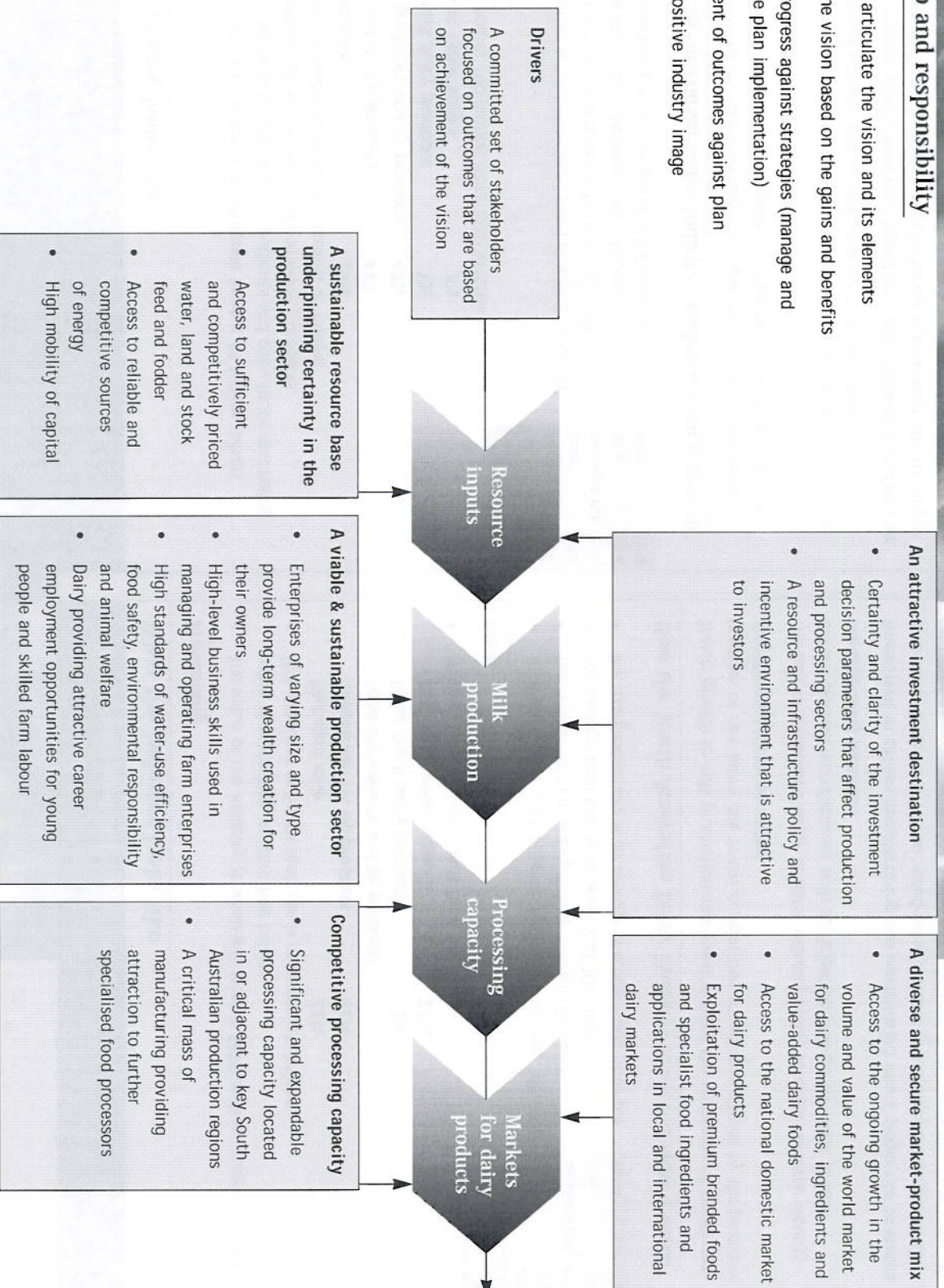
The lack of a prompt change in water industry policy to assist resource security did not provide manufacturers with sufficient confidence to invest in new manufacturing facilities.

Investment in cheese manufacturing was consolidated into a single site to ensure processing efficiencies but no added-value processing was attracted as part of this facility or elsewhere in the State due to the distance from commodity manufacturing.

The enablers to underpin the preferred scenario

Leadership and responsibility

- Share and articulate the vision and its elements
- Promote the vision based on the gains and benefits
- Monitor progress against strategies (manage and co-ordinate plan implementation)
- Measurement of outcomes against plan
- Foster a positive industry image



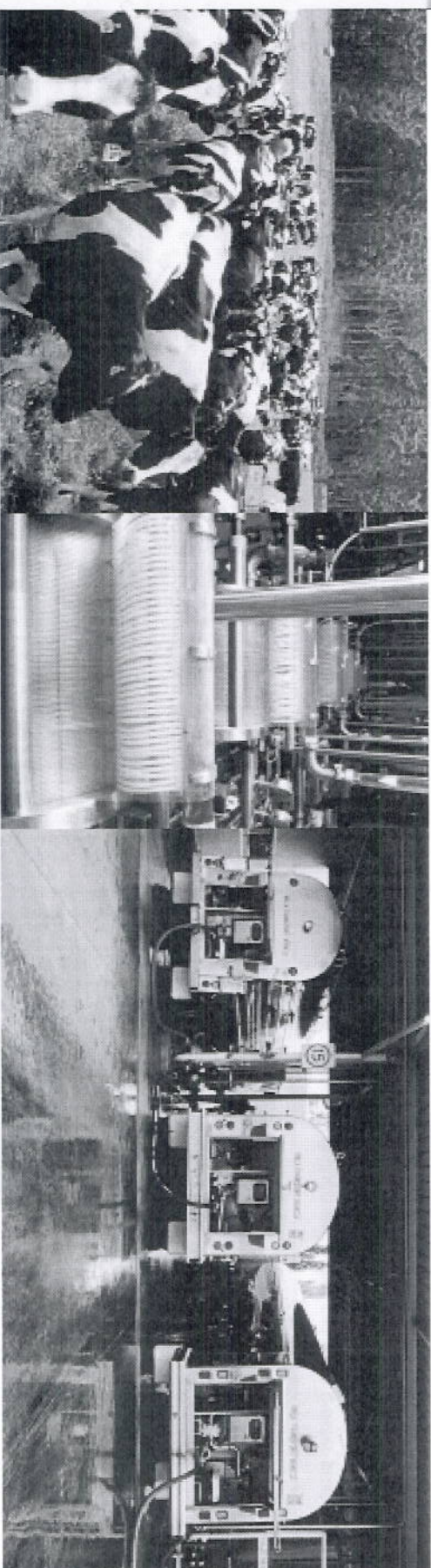
Position assessment the SA dairy industry today

	Strengths/Opportunities	Barriers / Threats
Market Access	<ul style="list-style-type: none"> Strong long-term demand from world market for dairy products and ingredients Expanding markets for high value nutritional ingredients Existing premium food/wine marketing 	<ul style="list-style-type: none"> Access to the high end nutritional markets given the focus on this activity by the global conglomerates Limited export infrastructure for container-based freight Limited access to growth, or capture of market share in domestic markets due to location
Processing	<ul style="list-style-type: none"> Strong interest in the establishment of commodity/ingredient manufacture in 2-5 years Versatility of milk production profile suits the diversity of domestic/export markets Opportunities for specialised ingredient facilities off a base of commodity manufacturing in western Victoria and south east of South Australia Opportunity for rationalisation of processing facilities Existing biotechnology capacity in South Australian food industry 	<ul style="list-style-type: none"> Competition from production areas that can offer greater production security (western Victoria/Riverina) Lack of critical mass in cheese manufacturing facilities, and an absence of milk powder production Short-term uncertainty over corporate/brand ownership scenarios Poor quality road infrastructure limits milk transport access Competition for milk amongst dairy companies may restrict development of single site facility
Milk Production	<ul style="list-style-type: none"> Low-cost milk production in line with world-class efficiencies Demonstrated milk production growth in recent years Mobile investment capital from overseas and interstate seeking new farm investments Relatively flat production profile provides attraction to manufacturers alongside existing high seasonality of the south west Victorian region No viable alternative enterprises or activities have been identified on the lower Murray River flats 	<ul style="list-style-type: none"> Lack of water resource security undermines investment confidence Competition from western Victoria in attracting new farm investors Limited technical consulting expertise due to small scale areas of farming Limited understanding of the economies of farm conversion Lack of 3-phase power in all areas of potential expansion Competition for land and resource use from other high-value industries and rural-urban encroachment Lack of clarity for the management of animal disease (such as Bovine Johne's Disease)

Position assessment the SA dairy industry today

CONTINUED

	Strengths/Opportunities	Barriers / Threats
Resource Base	<ul style="list-style-type: none"> Abundant water resources in the south east region which are under-utilised by other grazing industries Suitable land for significant farm conversions in South Australia's south east Relatively low land prices in most dairy regions in South Australia Dairy can demonstrate a more effective and value-adding use of water compared to other activities Accessible supplementary feed South Australia is a better place to employ labour as it has a lower on-cost structure 	<ul style="list-style-type: none"> Strong support from other State Governments for its industry development Poor knowledge of the ground water resource in the southern region of South Australia Poor image of the lifestyle and career opportunities in the industry Poor understanding of issues associated with water policy affecting dairying Threats to water quality in the Meningie lakes district Lack of well-developed culture for the attraction and development of skilled labour and staff Lack of suitable training resources focused on the needs of dairy farm and processing enterprises



Challenges and strategies

1	Sustainable resource base	Responsibilities
	Challenges <p>The critical resources for the ongoing development of the dairy industry are land, water, feed, quality livestock, skilled farm management and labour. The priority is to overcome significant uncertainty as to the long-term arrangements for access to water in key production regions of the State that have the capacity to underpin future growth.</p>	
	Strategies	
	Water	
1.1	<p>Improve the knowledge of water usage, environmental impact and land capacity in South Australian regions, including through supporting research into:</p> <ul style="list-style-type: none"> • The usage of the water resources by dairy and other industries • The effects of usage on the sustainability of the key water resources • Enhancing and capitalising on knowledge with respect to pasture development and water use efficiency 	Government/Collective industry initiative
1.2	Promoting dairy's "high-value add" use of water compared with other uses	Collective industry initiative
1.3	Support the adoption of water-use metering by all irrigators	Government/Collective industry initiative
1.4	Support and facilitate the adoption of full-cost water charges	Government/Collective industry initiative
1.5	Facilitate an active, transparent market for water rights in all regions	Government/Collective industry initiative
	Power	
1.6	Improve access to, and reliability of three-phase power infrastructure in key growth areas	Government
	People	
1.7	Develop and promote models for ownership/income participation options to enhance tangible career path options for young entrants to the industry	Collective industry initiative
1.8	Enhance access to extension skills and farm management tools/aids	Government/Collective industry initiative

Challenges and strategies

CONTINUED

Sustainable resource base / Strategies / People – continued		Responsibilities
1.9	Enhance farm management skills to focus on: <ul style="list-style-type: none"> • Managing a business in a volatile environment • Farm expansion/development options • Labour management 	Government/Collective industry initiative
1.10	Develop and/or support a leadership and enterprise development program for young dairy business people	Collective industry initiative
1.11	Develop a uniform professional approach to the attraction of farm labour supply to dairying regions, including roles, career paths and on-farm training	Collective industry initiative
2	A viable production sector	
	Challenges Provide an environment for sustained industry expansion, from existing and new farm investments – closely aligned to those aimed at securing a sustainable resource base.	
	Strategies	
	Farm consolidation	
2.1	Facilitate certainty of the cost sharing arrangements for rehabilitation works on the lower Murray River flats	Government
2.2	Facilitate greater understanding of the opportunities for consolidation of farming operations Farm expansion and new farms	Collective industry initiative
2.3	Develop and promote the "business case" for new farm conversions and expansions (based on regional conditions)	Collective industry initiative/Industry participant
2.4	Develop and promote "model" dairy farming enterprises relevant to growth regions of the State	Government/Collective industry initiative
2.5	Use available farm management and decision tools as basis for Research, Development and Extension to assist existing, and emerging farmers with the evaluation of expansion	Government/Collective industry initiative
2.6	Enhance the understanding of the gains through the use of supplementary feed	Collective industry initiative/Industry participant
2.7	Improve the understanding of the finance sector as to the farm economies in the regions of the State	Collective industry initiative

Challenges and strategies

CONTINUED

<i>A viable product sector / Strategies / Farm expansion and new farms – continued</i>		Responsibilities
2.8	Foster the adoption of water-use efficiency practices in the State	Government/Collective industry initiative
2.9	Undertake an audit of road infrastructure needs that would support dairy production expansion	Collective industry initiative/Industry participant
2.10	Enhance the access to risk management options applicable to feed grains to provide producers with cost certainty	Collective industry initiative/Industry participant
2.11	Evaluate the opportunities to further develop markets for dairy veal	Collective industry initiative/Industry participant
2.12	Improve the working relationships between the milk production sector and managers of environmental policy in the State	Government/Collective industry initiative/ Industry participant
2.13	Clarify and promote proactive practices for the management of animal disease (such as Bovine Johne's Disease) in the context of the national industry	Government/Collective industry initiative
3	Promote South Australia as an attractive dairy investment destination	
Challenges		
Strategies to ensure greater resource security and a greater critical mass of milk production in the southern regions of South Australia will underpin the attraction of the State as an investment destination.		
South Australia competes for future investment funds with major dairying regions in Victoria to secure:		
<ul style="list-style-type: none"> • Commodity manufacturing • Specialised further processing of dairy food applications • Large scale dairy farming. 		
Strategies		
3.1	Develop a promotional package that identifies the advantages of dairy farming in South Australia, including natural features, labour cost structures, etc	Collective industry initiative
3.2	Improve the relationships between local and State government and industry relevant to approval processes associated with the establishment of dairy farm infrastructure and transport access	Government/Collective industry initiative
3.3	Develop a one-stop-shop service function that streamlines the approval processes by government and local government for new farm investments and conversions	Government/Collective industry initiative


Challenges and strategies

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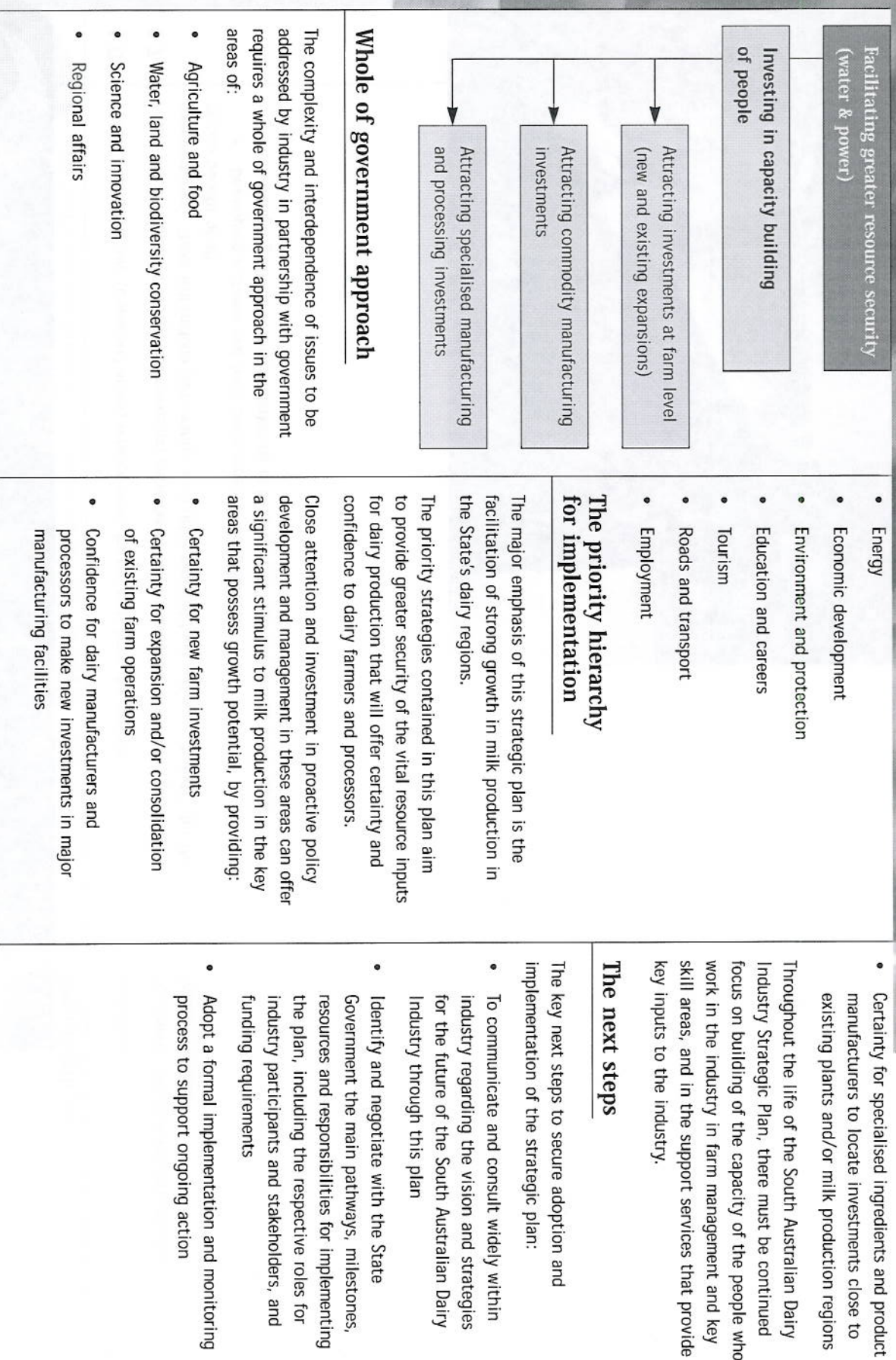
	Promote South Australia as an attractive dairy investment destination / Strategies – <i>continued</i>	Responsibilities
3.4	Evaluate a dairy farm development function to assist with the targeting and development of farm expansion cases	Government/Collective industry initiative
3.5	Promote the opportunities for farm conversions in South Australian regions to specific potential investor markets in New Zealand, the US, South Africa, Zimbabwe and selected regions of Europe	Collective industry initiative
3.6	Facilitate the adoption of full input and production traceability through the supply chain	Collective industry initiative/ Industry participant
3.7	Enhance the presentation of advantages available to food manufacturers	Government
4	Ensuring South Australia has a diverse product-market mix	
	Challenges The development of an appropriately differentiated mix of dairy product markets to enhance the value of the contribution of the industry to the State and reduce market risk.	
	Strategies	
4.1	Assist in the facilitation of a merger, integration and expansion of existing cheese processing facilities in collaboration with owners and Government agencies	Government/Collective industry initiative/ Industry participant
4.2	Establish and maintain close relationships with major manufacturers to assist in their evaluation of major manufacturing investments in South Australia's regions, including: <ul style="list-style-type: none"> • Clarifying and monitoring investment criteria • Enhancing access to supporting infrastructure arrangements 	Government/Collective industry initiative
4.3	Identify and develop relationships with potential investors in functional food and other applications of specialised dairy ingredients with a view to securing investment in facilities in the State	Government/Collective industry initiative/ Industry participant
4.4	Create and build on linkages between the dairy industry and existing biotechnology and research and development capability	Collective industry initiative/ Industry participant
4.5	Align with food export initiatives to access export market opportunities across food groups	Government/Collective industry initiative/ Industry participant

Challenges and strategies

CONTINUED

	Ensuring South Australia has a diverse product-market mix / Strategies – <i>continued</i>	Responsibilities
4.6	Enhance infrastructure (transport) access arrangements for products from the regions	Government
4.7	<p>Foster the development of regional marketing networks of niche cheese and other dairy products manufacturers. These will include partnerships with other regional food and wine "brands", for the mutual benefit of all:</p> <ul style="list-style-type: none"> • Developing a cheese and fresh dairy aspect of Food Barossa • Developing effective cheese marketing in McLaren Vale, Coonawarra and Clare regions 	Government/Collective industry initiative/ Industry participant
		

Implementing the plan



Appendix 1

- assumptions for the strong growth scenarios

The market mix under the preferred scenario

The value of the South Australian Dairy Industry at the wholesale level is \$1 billion. This includes the benefits of specialised ingredients and dairy foods processing which undertake further processing of dairy commodities. The product mix of the industry – in the "strong growth" scenario used for this purpose – would be as follows:

Existing	Existing milk use ml	Existing value \$m	2010 milk use ml	2010 value \$m
Fresh products	205	156	244	222
Cheese	275	105	726	297
Food ingredients (powder)	-	-	621	251
Cheese – boutique	-	-	30	45
Exported wholemilk (SA-Vic)	220	58	-	17
Other value add	-	-	-	160
	700	319	1,621	992

This assumes:

- Investment of \$200-\$250 million (2002 value) in new manufacturing facilities and infrastructure
- Fresh products assumes growth of 1% annually and the addition of 20 million litres into niche fresh lines
- Other value-add refers to further processing of ingredients into specialised products and food additives – this amount is the value of production at wholesale value

- The unit value per litre (in cents/litre) of processed milk is as follows:

	2001	2010
Packaged milk	76	91
Other fresh products	-	90
Cheese	38	50
Food ingredients (powder)	-	42
Cheese – boutique	-	150

- 100 million litres of wholemilk is imported from other States

Achieving the milk production growth in the future industry

Under the preferred total industry scenario outlined earlier in the plan, the required milk production to meet the "strong growth" potential in the market might be achieved as follows:

Existing	Existing production ml	Growth rate % pa	New farms added ml	2010 production ml
Hills and Fleurieu	230	Nil		230
South East	230	Up to 5	270	688
Mid North	30	5	20	72
River	120	2-5		186
Lakes	90	Up to 8	110	316
	700		400	1,492

This scenario is **one** of several that could develop based upon the growth and expansion capacity of the regions in the State's industry.

This scenario assumes:

- That there are no new farms added in new growth regions until 2003
- New farms are added at a rate of between 40 and 55 million litres over the period of the projection – commencing in 2003 once certainty of resource access is provided
- Growth in the lakes area of the Meningie district is strong due to the lack of any viable competing uses for resources in the region, with the assurance of supply of water from the Murray River system
- Consolidation and rationalisation occurs in the Hills and Fleurieu region with no real growth in total milk output
- The lower Murray River flats area is able to achieve growth once consolidated, with strong productivity gains

The lack of a quick resolution to the water policy environment in the south east of the State would see the rate of new farm additions much lower than that projected above.

The growth from existing dairy enterprises is supported by the findings of a survey that was undertaken as part of the plan development.

Appendix 2

– measuring the potential benefits of growth

<p>Certainty leads to investment</p>	<p>This work has taken account of current and past studies to assess the production issues facing each of the State's regions.</p> <p>This paper describes a future growth proposal to enable discussion about the industry's future challenges against the background of a valuation of the gains or otherwise of making progress on important strategies, issues and areas of collective industry action.</p> <p>The communication of this plan across industry will focus collective effort to influence the potential shape of the future industry.</p>	<p>"Free on Board" value</p> <p>The ScoreCard was used to measure the wholesale value of the dairy industry to South Australia, since much of the expected growth of the industry in production and processing and/or manufacturing will be in export markets.</p>
<p>Greater certainty for the South Australian Dairy Industry would have significant benefits for the State economy. This would have a flow-on effect to stakeholders and investors by way of higher financial returns and confidence in the industry.</p> <p>Certainty must relate not only to the resources policy regime, but also to the market expectations of dairy processors and exporters, environmental management and better access to skills and information.</p> <p>The South Australian Dairy Industry Development Board sees considerable merit in measuring the size and scale of the potential future dairy industry to provide a clear and tangible target for development and planning activities for all stakeholders.</p> <p>Regional potential</p> <p>The scenarios that have been developed take into account different factors affecting each of the existing dairying regions, as well as the relative attractiveness of those areas for new investment in farming and processing facilities.</p> <p>It is the Dairy Industry Development Board's view that a set of realistic outcomes described can be achieved – should policy and other barriers be removed to increase the certainty for existing and new enterprise owners in the dairy industry. It has not been the intention to favour one region over another, but to portray the future potential – as those who work in the industry see its future growth opportunities.</p>	<p>The value of increased economic activity</p> <p>The Dairy Industry Development Board has measured the potential benefits of increased dairy industry production and processing, based on assumptions as to potential uses of milk by the processing and distribution sectors of the dairy and food industries.</p> <p>The ScoreCard method as developed by the State's Food for the Future Program was used to measure the value of the industry. It measures and evaluates the contribution of the South Australian food sector at each stage of production through to consumption – or "paddock to plate".</p> <p>This can be measured at several levels:</p> <ul style="list-style-type: none"> • Gross food revenue • Net food revenue • Wholesale value, which includes exports at 	<p>The multiplier effect</p> <p>Increased dairy industry activity has significant flow-on effects to other sectors of the economy. In the development of the South Australian Dairy Industry Strategic Plan, models were used that reflect the value of that flow-on that comes from increased funds circulating into the farm sector, and into regional centres where new dairy processing facilities would be located.</p> <p>Growth in South Australia's dairy sector will affect other industries.</p> <p>Wherever possible, the potential net gain to the economy has been estimated, taking account of the net increase in activity that results via the intensive nature of dairying, and the investment in significant new and enhanced dairy product processing facilities.</p>

From the chairman

The Dairy Industry Development Board has worked with industry to develop this challenging plan and vision for South Australia's dairy industry.

The South Australian dairy industry has potential to contribute significantly more to the State food industry as it is recognised as being highly efficient and competitive in both national and international terms. **The cost to the State for not realising this potential would be \$420 million per annum by 2010.**

The plan is based on a positive period of incremental and sustainable growth and establishes clear direction and strategies for its implementation. It incorporates current knowledge, recognised potential and credible assumptions provided to the Board by major industry sectors including manufacturers with a stake in the future of this State's industry.

The Board has used this process to set realistic production and manufacturing targets and to identify strategies that stakeholders and Government need to work on collaboratively to achieve the predicted outcomes.

Achievement of our vision for South Australia's dairy industry will result in a \$1 billion regional based industry, employing over 6000 people, with a strong focus on export and value adding. It will require strong leadership from industry and Government as

well as relevant policies and strategies which instill confidence and provide a positive investment environment for production and manufacturing sectors.

We look forward to your participation.

Perry Gunner

CHAIRMAN



L to R standing: **Grahame Tonkin** Managing Director, *Tarac Australia Pty Ltd*; **Calvin Boyle** Chief Operations Officer, *Dairy Farmers Pty Ltd*; **Brenton Higgins** Managing Director, *Golden North*; **Frank Beauchamp** Past General President, *SA Dairyfarmers Association Inc*; **Brian Bartsch** Manager Industry Development, *Livestock Industries PIRSA*; **John Busse** Food Industry Consultant, *TAFE* lecturer; **James Mann** Chief Executive Officer, *Donovans Dairying Pty Ltd*; **Mt Gambier**; **Neil McNish** Investment Director, *Department of Industry and Trade*. L to R sitting: **Fiona Keen** Senior Brand Manager, *Orlando Wyrndham*; **Perry Gunner** (Chair) Chairman, *Coorong Dairies P/L*; **Carol Schofield** Dairy farmer and Proprietor *Galloway Yabbies*; **Tony Morbey** Dairy Industry Development Board, Executive Officer.

Contact

If you wish to obtain further information, or provide your comments and views on this document, please contact **Tony Morbey**, Executive Officer of the Board on 08 8207 7956 or by email on morbey.tony@saugov.sa.gov.au

