So what of the Future of the Southern Tablelands Dairying Pasture Lands?

Situation

In total the size of the Tablelands dairy industry is 60 dairy farmers. 52 Farmers supply Lion (Dairy Farmers). Another 6 farmers supply a biodynamic producer, Mungalli. There is one buffalo milk producer. Total supply into the Lion Malanda factory in 2011-12 was 54.6ML (James Geraghty 2012 *pers. com*). Given more recent exits from industry, there would now be only about 3 of the Tablelands dairy operations with over 300 milkers. In a positive move Lion recently increased the quota of the 52 regional dairies that supply Lion by 2.5 million litres to 47.5ML (*Tablelander*, Tuesday January 15, 2013).

Up until 2010, The Springs Dairy at Innot Hot Springs was the top supplier of milk in north Queensland. For eight years from 2000 it was the biggest dairy farm in the whole state. At one time, partners Terry Tranter and Nicholas Reynolds ran a 1200-strong herd on their almost 400ha. But in early 2012, after calling it quits, half their remaining 100 cows went to a dairy farm at Ravenshoe while the rest were destined for the meat works. Instead of dairying, the farm has now turned to cropping, including maize, navy beans and peanuts. The exit marks the end of an era for the Tranter and Reynolds families who had been involved in dairying for five generations. (Cairns Post February 29, 2012). This tells a story about the current State of the Dairy industry in Far North Queensland.

The Springs Dairy has been the biggest player to quit the industry in the Far North while others have been forced to downsize because of the ongoing effects of deregulation of the milk industry and the milk war between Coles and Woolworths depressing prices. Despite National Foods Malanda scooping four awards at the 2010 Dairy Industry Associations of Australia’s Queensland Dairy Products Competition, the local industry continues to contract. There were 185 Dairy farmers, just prior to deregulation in April 2000 producing 130ML. This fell to 77ML in 2007-08 and this year throughput will be in the order of 50-55ML. The Malanda plant has the capacity to process 130ML/annum (both market and manufacturing milk). The National Foods Malanda currently processes a vast a range of white and flavored milks under the Dairy Farmers, Dare and Classic Oak brands, as well as Mozzarella cheese, butter and cream. In 2010, National Foods invested $5.5M into the Malanda site for a new bottle filling line as well as upgrades to the current milk processing system and infrastructure, on top of another $1.2M (in 2009) for another bottle filling line and other infrastructure (Tablelands Advertiser, Friday, September 24, 2010).

Despite world-wide growth in demand for dairy products, measured in billions of litres annually, being predicted, Queensland producers are ill-prepared to benefit. The Queensland market is domestic-orientated without surplus for export. Export capacity takes time to develop and adjust. The domestic market wants fresh milk, yoghurt, cream and cheese. Because of transport issues, off-shore products need to have a much longer shelf life such as UHT (ultra-high temperature treated milk) or ingredient products like milk powder (Tablelander, 28 September 2010).

There is an upper limit to the amount of litres that need to be produced in North Queensland, mostly because of the milk coming in from southern producers (Cairns Post February 29, 2012). Last year Queensland milk production was in the order of 480ML. Gross Value of Production of Milk at the ‘farm gate’ fell 5% for 2011–12 from 2010-11 (DEEDI Prospects for Queensland’s primary industries 2011–12) and is estimated to drop another 6% this year. This forecast decline can be attributed to ongoing impacts from the supermarket ‘milk price war’. The major supermarkets are using a discounted supermarket store brand strategy to grow their brands’ market shares. These strategies are increasing major supermarket ‘private label’ market share at the expense of processor proprietary brands and are lowering overall prices for milk as well as returns through the dairy industry value chain. An example of this is evident in the modified milk category. From February to April 2011, supermarkets increased their discounted store brand sales in Queensland and New South Wales by some 28 per cent at the expense of processor proprietary brand sales. A major factor undermining returns to the industry is the significant market share held by major supermarket chain ‘private label’ brands. Approximately 53 per cent of all milk sold in Queensland is sold through supermarkets, and supermarket ‘private label’ brands account for approximately 54 per cent of these sales (DEEDI Prospects for Queensland’s primary industries 2011–12). During 2010–11, fresh milk sales in Queensland increased by 0.7 per cent, which is less than population growth. However, with the rapid fall in production, the needs of the Queensland fresh milk market have not been met since the end of December 2010 with this shortfall being imported from New South Wales.

Providing economic growth continues across the economy, it is expected that rates of consumption will normalize and begin to grow towards the medium-term growth trend line of around 2.5 per cent per annum. With milk supply from Queensland dairy farmers falling below market demand, it is expected that processors will have to review their price offers and supply conditions with farmers over the next few years if they are able to regain and sustain enough local supply to meet market needs. The pressure to review will increase as the cost of transporting milk from interstate to fill supply gaps increases. Longer term, forecast population growth (and therefore market demand) in southern Queensland is likely to provide opportunities for the Queensland dairy industry to grow. Conservative ABS population forecasts predict that Queensland’s population will grow by an additional 1 million people over the next decade—this equates to an additional market demand of some 105 million litres of milk (based on current per capita consumption rates for fresh milk). For the Queensland dairy farming sector to meet these market needs, dairy farmers will need to significantly increase production capacity. To achieve this, dairy farmers will require much stronger farm gate prices and returns (to justify undertaking additional investment and risk). Otherwise, demand growth will increasingly be met by imports from interstate (DEEDI Prospects for Queensland’s primary industries 2011–12).

The local processor, Lion, cannot pull out for at least 7 years due to existing Milk supply contracts. The Malanda Factory is still running on 2 shifts – but always has option to go to 1 shift if milk volumes fall further.

Employment / Labor

Around half the farms employ minimal external labour, usually 1 person; with around 3 of these employing more than one. The local industry will experience further contraction, over the next few years, because of a number of farmers nearing retirement. The reality is there is no real job creation within the regional dairy industry and employment would be through job vacancies, from staff turnover, on the larger operations.

Issues

To grow, the industry would require outside investment. From Queensland Department of Primary Industry figures in 2008/09, when I was last an Extension Officer, the gross margin per cow was in the order of $769/cow/annum (based on Industry Benchmarking figures). However, average GM/cow does not take in the variability within enterprises where more profitable ones may be over $1,000/cow and less profitable ones below $300/cow/yr. What this means is there is opportunity to make some money with good farm, herd and financial management. However, on current real estate figures, it would cost at least $1.6M to purchase a farm with an operating dairy of about 180 – 200 acres that would milk approximately 80 cows (with no irrigation). 80 cows would cost in the order of $120,000 to purchase. On these figures average return on investment (ROI) is in order of 3.8% (not including cost of borrowing funds). Accelerated growth of this industry, on sheer economics, is problematical.

A QDO representative said they really need to grow industry – but who wants to dairy farm with milk prices the way they are currently? People will continue to exit industry with no young people coming into industry and high land prices (in excess of $4,000 per acre on Tablelands) – making ROI out of dairy low.

Future

Future of local dairy industry is still in producing liquid milk on current pricing (c/w butter, cheese & other dairy products). Another possibility may be with the development of niche markets and producing for these. For example Mungalli dairy, Gallo's Dairyland and a Tablelands Regional Brand. Depending on contractual arrangements with the large supermarket chains, Lion facility in Malanda could steady at 50ML. I believe the local Dairy Industry needs to secure a non-domestic supply contract that pays above domestic sales price. There has been some overseas interest… but are the local processors are interested?

There is scope for another small processor or a 'niche' to source say an extra 15-16ML of milk and provide another outlet for it, however that would need to eat into either the local suppliers' current markets, or into markets supplied from SEQ. We have recently seen the creation of local milk brand "*Misty Mountains Milk*" by Mungalli which sources Jersey milk, and whilst it is pasteurized, it is not homogenized. Possibly there are other value adding opportunities such as another small cheese processor or expansion of an existing one? There is neither the excess capacity at present, nor the incentive, within the regional dairy industry to produce UHT or long life milk even though the land could easily support extra production.

Another alternative is Beef production. The DPI&F Beef Extension team estimate that the Region has the potential to turn off 24,000 head of high quality cattle on a yearly basis (MSA grade) from an estimated 491 Tableland beef producers. Value of this industry, using an average figure of $750/head is $18M at Farm Gate. The development of a Regional Beef brand would help. The third largest tourist destination is on our doorstep in Cairns and the Far North and, whilst there are probably a number of restaurants that serve local beef, I only know of one restaurant that actually serves Tablelands "branded" beef as displayed on menu. There are, however, a number of restaurants that serve King Island, Margaret River or Cape Grim branded beef. Tourists want to sample local produce including our Grass-fed Tropical beef. There is potential to develop a high-end supply chain for locally-produced grass-fed MSA beef into our Northern restaurants.

However, there are major issues facing the Far North Beef industry include inadequate scale (more closely settled areas), significant cost escalations in both overheads and direct costs, doubling of debt per LSU over the last decade while return on assets (ROA) has declined to very low levels of 0.3% to 2.0% on average (MLA Northern beef situation analysis 2009). Beef fattening on the Atherton Tablelands currently averages a Gross Margin/head of between $150 and $200/head so returns on a GM/ha basis is about a 1/3 of dairy. There are also issues surrounding Consistency (of meeting MSA standards), Continuity of Supply, Collaboration (behind a "Regional Brand" or processor) and

Critical Mass. Do producers want to work with others? The Tablelands is, historically, a fiercely independent region with, historically, low levels of collaboration (in terms of Agriculture i.e. cooperatives, previous alliances) and very parochial. The notion of a tropical grass Fed beef supply chain does put control into the hands of producers and may provide a higher degree of certainty of income.

From the above the real skills required are not so much in the ‘hands-on’ behind farm gate ‘technical aspects’ of the industries, as the number of employment opportunities at regional level just are not there. However, there is opportunity in the entrepreneurial, marketing and business skills side of the local dairy industry.

References

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James Geraghty (3 October 2012) *pers. com.*