

# The Tasmanian

## Dairy Industry

January 2009

The dairy industry in Tasmania is of major significance to both the agricultural and manufacturing sectors of the State, as well as being an important export industry. The industry is almost entirely based on dairy cows, although there is a small goat and sheep component to the industry. There are around 1,700 people employed in dairy farm production.

Dairy manufacturers and processors add value to the milk and provide employment in regional areas. About 8% of the State's milk production is consumed as drinking milk, the balance is manufactured by dairy companies into products such as cheese, milk powders, butter, and confectionery.

The farm gate milk value of milk produced on Tasmanian farms was \$332 million for 2007-08 but dairy factories add further value to the milk. The gross value of Tasmanian dairy products after manufacturing is nearly double the farm gate value.

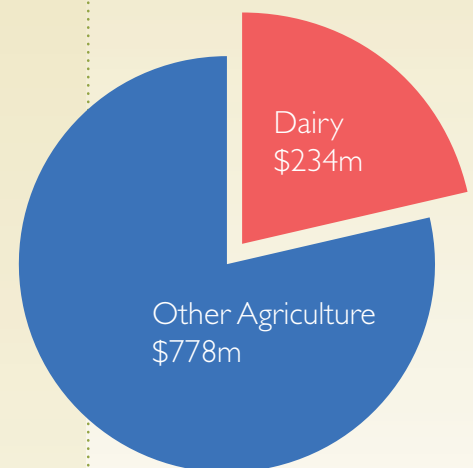
Farm milk sales in 2008-09 will be significantly lower as prices have fallen in response to deteriorating world economic conditions.

Tasmanian production is based on perennial grass and clover pastures

grazed by dairy cows. Spring pasture surpluses are conserved as silage and hay for feeding during autumn and winter. Pasture-based production augmented by irrigation plus limited grain feeding has enabled Tasmanian dairy farmers to operate highly efficient low-cost farms compared to most other Australian and world milk producers.

Tasmania's primary industries will be affected by climate change over the next few decades. The changes in climate will be variable across regions, and these impacts must be understood to minimise risk and maximise opportunities. National policy on climate change is still under development and it is not yet possible to identify the impact of it on agricultural enterprises.

Dairy Industry Farm Gate Value  
2006-07



Dairying represents 24% of the value of farm production in Tasmania and underpins significant downstream processing.

Source: ABS, *Agricultural Commodities*,  
Cat. No. 7125.0

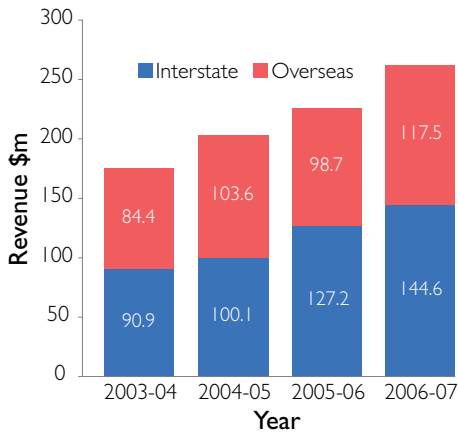




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### Dairy Trade Revenue



Tasmania supplies overseas and interstate markets. Total trade in dairy foods exceeds \$200m per annum, which includes confectionary production, one of Tasmania's most significant industries

Source: DPIW Food Industry Scorecard



### Key Markets and Exports

Over 90% of the milk produced in Tasmania is manufactured into dairy products and the balance is consumed in the State as liquid milk. Dairy manufacturers in Tasmania and Victoria are more export-oriented than other states. About 65% of Tasmanian milk production is exported as manufactured dairy products, 27% is consumed in Australia as manufactured product and 8% is consumed in Tasmania as drinking milk. By contrast, exports from New South Wales and Queensland account for only 12% and 23% of each state's respective milk production.

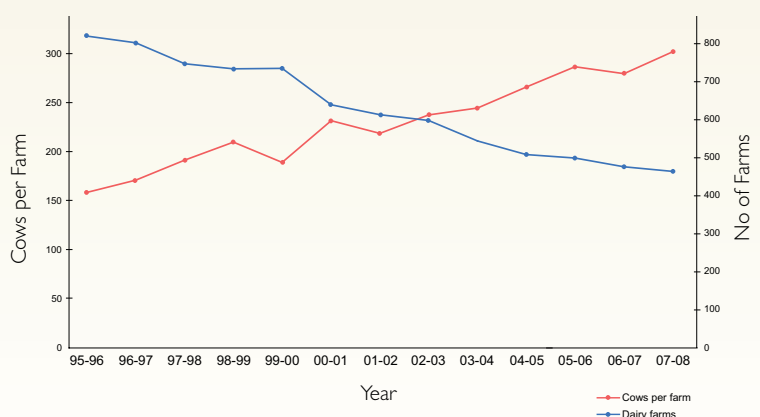
The reliance on export markets for dairy products means milk prices and hence farmer incomes in Tasmania (and Victoria) are more affected by world markets than is the case for other states. The major destinations for dairy exports are North Asia and ASEAN countries.

Dairy products exported from Tasmania include cheeses, milk powders, butter, whey protein powder and long life (UHT) milk. In terms of value, cheese accounts for over half the value of dairy exports.

Tasmania's natural island advantage assists the primary industry sector in maintaining a relatively pest, disease and weed free status. This status allows the state to trade in markets closed to others, reduces production costs and sets Tasmania apart as a natural and quality producer and destination.

Despite Tasmania's geographic isolation and the resultant high transport costs, the Tasmanian dairy industry competes successfully both interstate and internationally. This competitiveness is due in part to Tasmanian firms producing premium quality dairy products in a clean environment.

### Dairy Farms and Cows Milked



Source: Dairy Australia, Australian dairy In Focus 2008



## Trade and Investment Opportunities

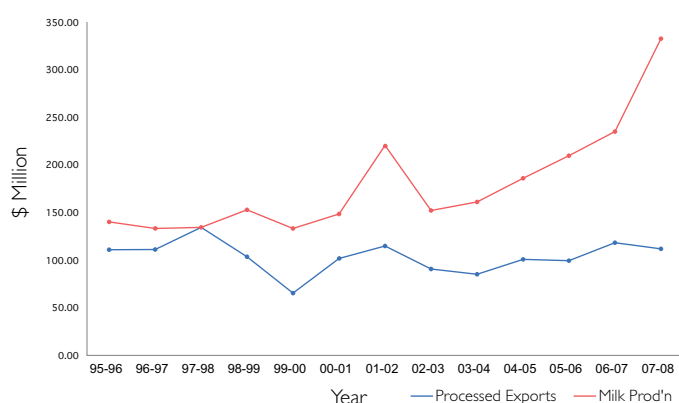
The outlook for the Tasmanian dairy industry is positive. Milk production has grown steadily over recent years and the state has the resources of suitable land, water for irrigation and farmers keen to expand production.

Several factors point to dairy production expansion:

- The 45% milk price increase to \$6.63 per kg milksolids or 50 cents per litre for 2007-08 follows several years of increasing milk prices. Higher milk prices have given farmers more confidence to increase on-farm investment.
- Tasmanian milk production has been growing at 2-3% pa for the last five years. The increased production is the result of both higher production per cow and more cows. Tasmanian dairy farmers continue to increase their herd size and there are a number of dairy conversions where grazing properties are converted to large scale dairy farms.
- A report commissioned by DairyTas\*<sup>1</sup> indicates that the dairy industry has the potential to grow to 1 billion litres over the next ten years provided additional irrigation water is available. Increasing water storage through both on-farm dams and the construction of the Meander Dam will alleviate one of the constraints on milk production; and
- Strong demand for dairy farms, particularly in the Circular Head region, by overseas investors and New Zealand dairy farmers has caused land and stock prices to increase to record levels during 2008. Production on these farms is likely to rise as a result of on-farm improvements by the new owners.

Input costs have risen sharply over the past 12 months. Typical cost increases include diesel fuel up 36% and fertilisers up from 50% to 200%, depending on blend. Whilst the longer-term impact of these increased costs is difficult to predict at this stage, they have resulted in declining returns at the farmgate unless offset by higher product prices.

Milk Production and Exports



Source: ABS Trade data; Dairy Australia, Australian dairy In Focus 2008

## Trends and Development

For many years the Tasmanian industry has been characterised by a declining number of farms, increasing average herd size, increased total milk production and increasing production per farm. Over the last decade Tasmanian milk production has grown at a compound rate of 2% per year by volume and 4% per year by value.

Tasmanian milk production has expanded more rapidly than production in other states. Since dairy deregulation in July 2000 milk production in Queensland and New South Wales has declined but Tasmanian production has increased. Tasmania's favourable climate and natural resources (including water for irrigation) have provided a comparative advantage in the form of a low cost, pasture-based production system.

Milk production per farm has increased because of rapid uptake of new technology (such as rotary dairies and centre pivot irrigation), the use of more purchased inputs (such as nitrogen fertiliser and grain feeding) and larger farms.





## Challenges

A sustained period of drought has been experienced across Tasmania, with the Tasmanian and Australian Governments supporting drought-affected farmers through a number of programs and initiatives.

The dairy sector faces both recruitment and demographic challenges. A combination of young people who can enter the industry as employees, share farmers, and experienced farmers who have the capital to purchase farms, is needed.

For milk production to expand, existing dairy farms will need to increase their dairy herds and farm size to offset the ongoing loss of dairy farms.

For predicted Tasmanian agricultural growth to continue, additional irrigation water is required. The Tasmanian Government's major initiative to build water storages, together with funding from the Australian Government, will provide \$220 million for irrigation schemes with an estimated capacity of 300,000 ML per annum. New irrigation projects require careful planning to ensure they meet environmental, community and financial standards.

Agricultural land use in Tasmania continues to change in response to changing commodity prices and the investment climate. A review of the State's Policy on Prime Agricultural Land has resulted in a prohibition on the development of agri-forestry on the highest grades of prime agricultural land.

## Research, Development & Extension

The Tasmanian Government has supported dairy industry expansion with funding through the SMART Farming package that will enable the Elliott Research and Demonstration Station infrastructure to be upgraded. A new dairy demonstration farm in Circular Head is highlighting the best management practices to achieve sustainable profitability on large-scale dairy farms. The Tasmanian Irrigation Development Board is investigating the feasibility of projects that can deliver a total of 300,000 ML of irrigation water. The proposed irrigation development will deliver water to existing dairy farms and to areas that could be converted to dairy farming.

The Tasmanian Government provides R,D&E for the dairy industry through its support for the Tasmanian Institute of Agricultural Research (TIAR). The TIAR Dairy Centre employs research scientists, development and extension staff and operates the 300 cow Elliott Research and Demonstration Station.

The DairyTas Regional Board delivers R,D&E within Tasmania by contracting researchers and extension workers to deliver priority projects identified within the Dairy Strategic Plan. TIAR is currently delivering the Pasture Plu\$ project to improve farmers skills in pasture management, dairy nutrition and management of labour and the environment.

\*<sup>1</sup> Dairy 500 - Tasmanian dairy industry growth project. DairyTas report by Davey & Maynard, Farm Consultants.

## Contact Details

### Dairy Centre

Tasmanian Institute of Agricultural Research (TIAR)  
PO Box 303  
Devonport TAS 7310  
Phone: 03 6421 7611  
Fax: 03 6421 7666  
Email: DairyEnquiries@dpiw.tas.gov.au

### DairyTas Board

Executive Officer  
PO Box 1352  
Burnie, Tasmania, 7320  
Ph: 03 6432 2233; or 0438 300 955  
Fax: 03 6432 2277  
Email: dairytas@eburnie.com.au

### Dairy Australia

Level 5, IBM Tower, 60 City Rd  
Southbank, Victoria, 3006  
Ph: 1800 004 377  
Fax: 03 9694 3701  
Web: www.dairyaustralia.com.au

### Regional and Business Development Branch

Dept of Primary Industries and Water Tasmania (DPIW)  
PO Box 46  
Kings Meadows, Tasmania 7249  
Ph: 1300 368 550  
Email: PI.Enquiries@dpiw.tas.gov.au  
[www.dpiw.tas.gov.au](http://www.dpiw.tas.gov.au)  
[www.farmpoint.tas.gov.au](http://www.farmpoint.tas.gov.au)

### Business Point

Department of Economic Development and Tourism  
GPO Box 646,  
Hobart, Tasmania 7000  
Ph: 1800 440 026  
Email: businesspoint@development.tas.gov.au  
[www.development.tas.gov.au](http://www.development.tas.gov.au)