



**Annual Review
2009/10**



Managing Director's report

After the global financial crisis and ongoing drought, widespread autumn rains in mid 2010 and the best irrigation allocations for four years, have provided the first signs of a turnaround in the dairy industry's fortunes.

Recovery in the global economy and lower grain prices have also helped improve margins for dairy farmers. The year has seen increased demand for dairy products and better milk prices. Milk production has climbed and was above forecast by the end of the financial year – another sign that the industry is improving.

The domestic market accounts for an increasing proportion of the industry's production – around 55 per cent of annual output. It provides a relatively "safe haven" of steady sales growth for the industry with neither the extreme highs nor lows in demand as experienced in the international commodity market.

Despite better conditions, confidence – as measured by the National Dairy Farmer Survey – is slow to improve. Ongoing climate and market volatility are responsible for increasing caution about future growth. As an example, recent weather patterns have seen Tasmania prone to floods.

In the lower Murray-Darling Basin, the dry conditions of the last decade made it difficult for many farmers to reduce costs and protect margins.

This year Dairy Australia provided government and the Murray-Darling Basin Authority with key research on factors influencing dairying in that region. Dairy Australia has and will continue to support farmers and the entire industry on water sustainability.

In my first six months as Managing Director, I have been impressed by the collaboration within our industry.

By working closely with the ADF and the state dairy farmer organisations, by getting feedback from the eight Regional Development Programs and through the annual national survey, we listen to what farmers want, what they need now and what their requirements are for the future. Dairy Australia is addressing water access and use as a whole-of-industry concern. Another major issue for farmers is the on-farm workforce and the keys to attracting and maintaining good staff. The People in Dairy program and the National Centre for Dairy Education Australia (NCDEA) initiative have been developed to help improve labour costs and efficiency.

Other investment outcomes can clearly be seen in activities such as InCalf, the Grains2Milk program, Cool Cows, the Australian Dairy Herd Improvement Scheme (ADHIS) and Countdown Downunder. These kinds of activities go a long way to improving on-farm productivity.

Every investment decision Dairy Australia makes, is for the ultimate benefit of levy payers. Farmers receive a benefit of \$3 for each \$1 invested by Dairy Australia on their behalf. The benefits can take many forms, including higher returns, increased productivity or better policy outcomes. A significant proportion of Dairy Australia investment is made to support innovation to drive improved on-farm efficiencies and also to support improved manufacturing efficiencies that will keep the dairy industry competitive in the world market.

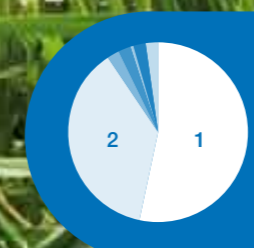
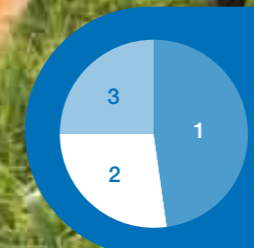
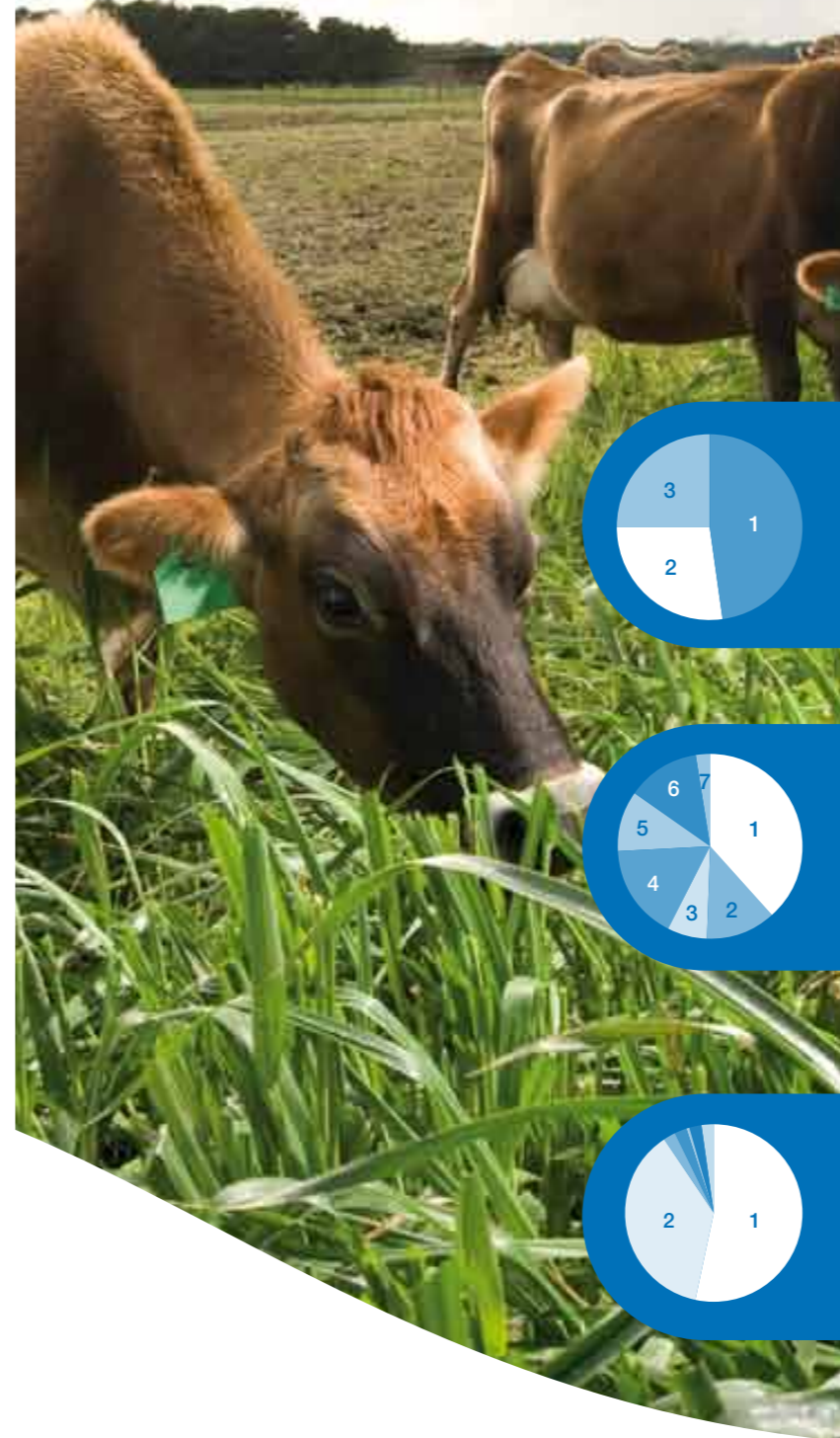
Dairy Australia consults regularly with the Australian Dairy Industry Council (the industry's peak policy body), Australian Dairy Farmers Limited (ADF) and Australian Dairy Products Federation (ADPF) to ensure that its activities are consistent with industry needs.

I would like to express my thanks to the Australian Dairy Industry Council, Australian Dairy Farmers Limited, Australian Dairy Products Federation, all levy payers and other key industry stakeholders for their support on behalf of the industry.

I would also like to thank the Australian Government and the Minister for Agriculture Fisheries and Forestry, the Hon. Tony Burke MP for matching payments for research to deliver, among other projects, those mentioned in this Annual Review.



Ian Halliday



Financial report

Levy funds of \$28.143 million were the primary source of funding enabling the company to work for the collective good of the industry. The Australian Government provided matching payments on research and development (R&D) up to the lesser of 0.5 per cent of the average of the last three-year gross value of whole milk produced in Australia and 50 per cent of the amount that was invested in qualifying R&D in the financial year. This amounted to about \$19.642 million. Another \$1.147 million was from other external contributions.

Expenditure by business objective		%
1	Increase farm productivity	48%
2	Maintain and develop high margin markets, channels and products	27%
3	Promote and protect the benefits of Australian dairy	25%

Expenditure by business group		\$'000
1	Farm Productivity and Delivery	19,867
2	Value Chain Innovation	6,394
3	Technical Issues	3,576
4	Marketing and Communication	8,634
5	Trade and Strategy	5,491
6	Business and Organisational Performance	6,603
7	National Centre for Dairy Education Australia	1,228

Revenue		\$'000
1	Dairy Service Levy	28,143
2	Government matching payments	19,642
3	External contributions	1,147
4	Interest revenue	1,048
5	Dividend revenue	415
6	Royalties	1,168
7	Other income	1,046



Dairy Australia – who we are

Dairy Australia is the national services body for the Australian dairy industry.

We act as the collective investment arm for the industry, investing in essential research, development, extension and industry services that individual farmers and dairy companies could not efficiently undertake themselves.

Dairy Australia brings the dairy industry together regularly to agree on priorities for collective action assessing critical needs and future challenges.

We pool funds from levy payers, government and private organisations to invest in projects to maximise the benefit to dairy farmers and the broader industry.

Our role is to help build a sustainable and internationally competitive industry and to provide solutions that help farmers adapt to an ever-changing operating environment.

Dairy Australia invests in research, development and extension. We also work with the Australian Dairy Industry Council (ADIC), the dairy industry's peak policy body. The ADIC coordinates industry policy and represents all sectors of the industry on national and international issues through its two constituent bodies, the Australian Dairy Farmers Limited (ADF) and the Australian Dairy Products Federation (ADPF).

The ADF is the body that represents Australia's dairy farmers on issues that may need Australian Government representation and lobbying. Membership is voluntary and is funded mostly by its members through their state dairy farmer organisations:

- NSW Farmers' Association – Dairy Committee
- Queensland Dairyfarmers' Organisation
- South Australian Dairyfarmers' Association
- Tasmanian Farmers & Graziers Association – Dairy Council
- Victorian Farmers' Federation – United Dairyfarmers of Victoria
- Western Australian Farmers' Federation – Dairy Council

The ADPF represents those involved in the manufacture, marketing or trading of dairy products and/or dairy related products.

Our vision is to:

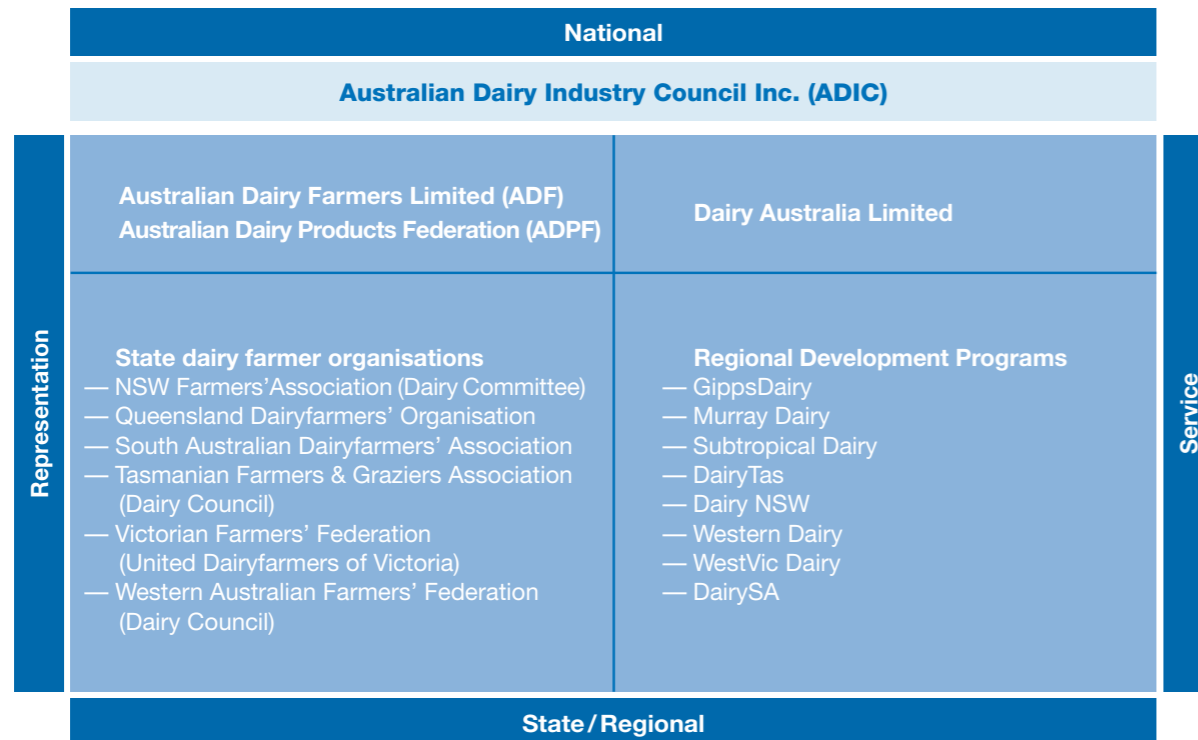
Deliver the world's best services to grow an internationally competitive, innovative and sustainable dairy industry.

Our job is to:

Develop and drive industry services and innovation for the ultimate benefit of Australia's dairy farmers.

Our role is to:

- Enable the industry to make informed business decisions and adapt to change.
- Address issues across the supply chain through collaborative action to achieve a better outcome than can be delivered by individuals or single organisations.
- Maintain the right to produce and sell dairy products on commercial terms.
- Build the capability of the industry.



“Every investment decision is made for the ultimate benefit of levy payers. These benefits can take many forms, including higher returns or better regulatory and policy outcomes. Farmers receive a benefit of \$3 for each \$1 invested by Dairy Australia on their behalf”

Ian Halliday, Managing Director, Dairy Australia 2010.



How we make levy investment decisions

Every year, we assess our current and planned investment of levy funds and our performance. We consult widely within the industry to determine the best use of industry funds. This involves a yearly survey of 1000 dairy farmers nationally, as part of the *Situation and Outlook* report, and other meetings and interviews across the industry. We adapt our service in response to the overall needs of the levy payers.

The Australian Dairy Farmers Limited (ADF) and the Australian Dairy Products Federation (ADPF) are heavily involved in the development and assessment of Dairy Australia's five-year Strategic Plan and Annual Operating Plan. We regularly consult with our farmer members, the State dairy farmer organisations, regional dairy groups, dairy manufacturers and other Rural Research and Development Corporations. We also consult with the Australian Government on our planning, expenditure and performance.

Our strategic priorities for 2009/10

Due to the integrated nature of dairying, each of these strategic priorities contributes to Dairy Australia's achieving one or more of its core business objectives. These strategic priorities guide Dairy Australia's planning and investment. The priorities are reviewed each year in light of changes in the industry's operating environment, likely future developments, emerging industry needs and the performance of existing activities.

The six strategic priorities set out in last year's Annual Report were refined to five during the reporting period because two of them addressed similar issues.

These priorities are:

Strategic priority 1:

Enhance the adaptive capability of the supply chain to improve margins and growth opportunities.

Strategic priority 2:

Proactively promote and protect dairy's value and integrity.

Strategic priority 3:

Coordinate an integrated supply chain response to climate change and natural resources management.

Strategic priority 4:

Promote and protect the health and nutritional benefits of dairy products and ingredients.

Strategic priority 5:

Enhance skills and capability within the industry.

Key levy¹ funded initiatives

	Activity	Description	Annual total funding* 2009/10	
Strategic priority 1	InCalf	Supporting farmers as they progress through a year's herd fertility management on their farm: calving, mating, mid-late lactation and the dry period	\$ 300,802	
Strategic priority 1	Countdown Downunder	The national mastitis and cell count control program, created to help dairy farmers meet new quality standards, improve farm profitability and protect export markets	\$101,436	
Strategic priority 1	Dairy Futures Cooperative Research Centre (CRC) Biotechnology and genomics Genetics and data management	Improving feed, pasture, genetics, genetic interval, profit per cow, and birth rate of female calves. Increasing supply chain efficiencies and reducing carbon footprint. Increasing productivity through improving genetics and reducing costs associated with managing fertility and mastitis. Majority of funds go to Australian Dairy Herd Improvement Scheme (ADHIS)	\$1,334,626 CRC \$1,625,500 ADHIS	
Strategic priorities 1&2	International trade and marketing	Facilitating profitable international trade in Australian dairy products and providing information, analysis and market intelligence	\$1,167,000	
Strategic priority 1	Grains2Milk including the Cool Cows program	Improving feed conversion, using grains efficiently and managing cow heat stress	\$1,395,569 (Grains2Milk) \$ 57,655 (Cool Cows only)	
Strategic priorities 1,2,3 &5	Regional Development Programs	Delivering regionally focused research, education and industry development activities	\$3,425,154	
Strategic priority 5	The People in Dairy	Improving labour costs and efficiency on-farm. Looking at human resources, occupational health and safety, and staff turnover	\$805,694	
Strategic priority 3	On-farm change environmental management systems, water use efficiency and managing climate change	Building on Dairying for Tomorrow using dairy self assessment tools and regional coordinators. Improving fertiliser and water use including commissioning research on Lower Murray-Darling Basin (LMDB)	\$528,338 LMDB	
Strategic priority 5	National Centre for Dairy Education Australia (NCDEA)	Up-skilling employees, attracting retaining and developing people and achieving sustainable productivity	\$1,230,000	
Strategic priorities 1,2 & 5	Sustainable production systems	Meeting protocols for animal welfare, health standards and quality assurance	\$830,004	
Strategic priorities 1 & 5	Manufacturing innovation supporting Dairy Innovation Australia Limited	Developing processing efficiencies, new products and improved environmental performance post-farm	\$3,100,000	
Strategic priority 1	Dairy Extension Centre	Working with farmers on-farm to help with profitable feeding systems, nutrients, water and climate change and dairy business management	\$1,319,025	
Strategic priority 1	Dairy Moving Forward	Establishing future directions for dairy by taking a whole-of-industry approach to resources to establish future capability needs and gaps	\$ 54,483	
Strategic priority 4	Health and Nutrition	The Health and Nutrition program uses health messages to protect and promote the consumption of Australian dairy products	\$2,253,000	

Above is a table showing just 14 areas of investment during 2009/10.

*Annual total funding includes levy and payments, where applicable, received from the Australian Government and private organisations.

1. The Dairy Service Levy is collected to fund the activities of Dairy Australia. The current levy is 2.61c/kg milkfat and 6.35c/kg protein. Based on a national average milk composition these combined levies are equivalent to 0.31c/litre of milk. The levy is deducted from payments to farmers by the manufacturer and paid to the Federal Government, which pays the proceeds to Dairy Australia under the Statutory Funding Deed.



The Dairy Service Levy: Case study

Simon Scowen, knows all about the benefits of investing in business. Having recently installed five Lely Astronaut A3 robotic milking systems on his Kongorong farm, which adds to his existing rotary dairies, Simon now employs 18 people and expects to produce a massive 25.5 million litres of milk each year.

Yet, when talking about business investments, Simon is the first to advocate dairy farmer levies as being “the biggest investment of all when it comes to added business insurance”—particularly the work Dairy Australia conducts in areas like forecasting, international market development and trade policy reforms.

When Simon introduced the 300-cow robotic dairy to his growing operation, his objective was to boost this production capacity without drastically increasing his workload or the payroll. Now Simon’s busy schedule is stretched between managing his work team, three farms, three dairies and his fertiliser business. To stay in front of market trends and industry issues, his decisions depend on information Dairy Australia supplies farmers, like the *Situation and Outlook* report, the *Dairy Weekly* and *The Dairy Australian* Indicative International Spot Commodity Prices report.

“I know I can’t control commodity prices, but I can control the information I get to make better decisions for my business,” he says. Simon owns the business in partnership with Andrew Angelino at Kentgrove South and Manuka Heights, and Barry Bruce at Kongorong.

“For us to make good farm decisions, I need to know what the market trends are. Instead of spending hours searching for this information, I use the information Dairy Australia prepares for farmers to find exactly what I need to know.”

Simon acknowledges that without dairy farmer levies, this service would not exist.

“I see the work that Dairy Australia does on international markets, animal health and welfare, securing market access and trade policy reform as a crucial part of my farm insurance. Sure the impacts of some of these things might not happen, but if they did and we didn’t have this protection, we’d all be in trouble,” he says.

“This is one area where Dairy Australia adds real benefit to us all. We need to make sure our markets are secure and that the reputation of our industry remains high. I can’t see how we could do that as individuals. If I did, I’d have no time left to farm.”

Simon understands the importance of farmer input when it comes to influencing the direction of levy investments and gets involved in regional and state discussion groups, meetings and committees. “At times we all think the levy is just more money going out—another expense we have to consider. But I think the expense would be much greater if Dairy Australia wasn’t doing this work.”

Strategic priority 1:

Improve margins and growth opportunities

Key levy funded initiatives

InCalf

During 2009/10 InCalf expanded the pool of service providers involved in taking information and resources to their farmer clients. InCalf engaged with 493 nutritionists, herd recording staff, veterinarians, consultants, dairy company staff and AI technicians from 211 different companies and organisations.

Good management is needed on several fronts to get cows in calf as soon as possible after mating starts. These areas are now represented as five modules of resources: bull management (Bulls: Power Up!), heifer growth (Heifers: Big Girls XL), heat detection (Cows in Colour), artificial insemination (AI Do It Right) and transition management. Herd fertility can be improved by taking action on any one of the modules and the effects are additive (although all need to be attended to, to achieve the five-star status of ‘top performing’ herds). These modules form the building blocks of the project extension and education activities.

The first module (Bulls: Power Up!) enabled advisers to provide clear, consistent information to farmers and encouraged them to promote services they already offer in this area. The outcome of this was that 237 advisers from 131 businesses in all regions talked to approximately 2000 farmers – and discovered 60 per cent had underpowered bull teams. The extent of change reported was worth about \$500,000 in improved fertility on dairy farms.

Reference: page 22 of the Annual Report

Countdown Downunder

The first phase of Countdown Downunder finished this year with the publication of the 10th annual Milk Quality Awards. These awards celebrate the success of farms with the lowest per cent of Bulk Milk Cell Counts over the previous calendar year. In the past decade more than 1000 farms have received plaques to mark their achievements. This cell count data is the basis for reporting Australia’s national cell count status to international customers and the European Union audit.



Farmers have had a significant impact in deciding the way in which their levy is invested through a Countdown Downunder review commissioned by Dairy Australia in May 2010. This review has established the scope and helped prioritise activities needed to support farmers in achieving quality milk. A total of 260 farmers, 96 advisers and senior staff from six dairy companies have contributed to the review.

Reference: page 22 of the Annual Report

Strategic priority 1:

Improve margins and growth opportunities

Dairy Futures Cooperative Research Centre

The new Dairy Futures Cooperative Research Centre (CRC), a large scale partnership between dairy farmers, pasture and cattle breeding companies and researchers, was opened in January 2010. It continues a strong history of dairy industry investment in breakthrough technology and will work with a broad range of new 'bio' sciences to deliver real gains for dairy farmers.

Improvements in pasture cultivars and in breeding dairy cattle are expected to deliver \$320 million in value for dairy farmers. Investment will go into exciting new science approaches, and innovations that capture value at farm, factory and community levels.

Creation of a partnership of this scale is made possible through a large grant from the Australian Government (\$28 million), the commitment of the Victorian Government with its unique and world-class research capability in bioscience (\$40 million), investment of the service levy (\$13 million), and by the commitment of cash and resources from pasture and cattle breeding companies, dairy companies, industry bodies, universities and the CSIRO (\$47 million).

Three projects in bioscience that the new Dairy Futures Cooperative Research Centre will deliver are:

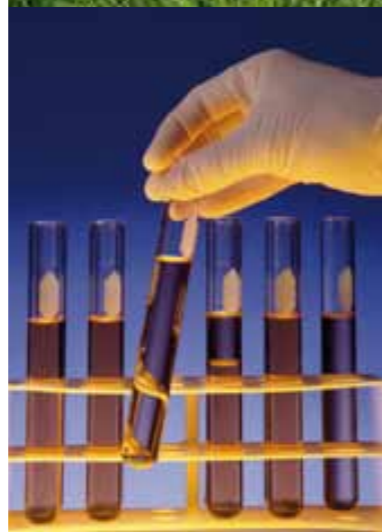
- new grass types with better digestibility, more energy, and more resistance to drought and disease
- reduction of the dairy industry's environmental footprint
- DNA-based information to predict genetic merit in cattle

The Australian Dairy Herd Improvement Scheme (ADHIS) works with the CRC and is funded by Dairy Australia.

The ADHIS uses pedigree and performance information to calculate Australian breeding values (ABVs) for traits such as longevity, milking speed, temperament, daughter fertility, resistance to mastitis, calving ease, and production traits such as milk and protein output. The same principles that apply to current ABVs will be used in the presentation of ABV(g)s to make it easier for farmers and industry to use them. ABV(g) is the new term to express genomic-based breeding values and they are directly comparable to ABVs.

Using ABV(g)s farmers will be able to use a better team of bulls for their breeding objective at a younger age, increasing the rate of genetic gain. Research conducted by the Dairy Futures Cooperative Research Centre is expected to improve the reliability of ABV(g) by boosting the reference population and will extend the use of ABV(g) to breeds other than Holstein.

Reference: page 23 of the Annual Report



Strategic priority 1:

Improve margins and growth opportunities

International trade, information collection and strategic planning support

International market conditions and prices have a big impact on the price that most dairy farmers receive for their milk. Dairy Australia works closely with companies and government to improve the international market opportunities available to Australian exporters and to boost the potential returns on offer from export sales.

This year, Dairy Australia continued to give detailed technical advice and support to government and industry negotiators in a range of trade negotiations aiming at improving Australia's access to key export markets. While negotiations have progressed more slowly than hoped, Dairy Australia expects that Australia will conclude a Free Trade Agreement with South Korea in coming months.

During the past year Dairy Australia also continued its work defensively to prevent various dairy importing countries across Asia, North America and the Middle East from imposing unnecessary new technical barriers to dairy trade. This work, will remain a necessary feature of Dairy Australia's trade program.

Dairy Australia worked to maintain an active preference for Australian dairy products in key markets in North and South-East Asia and used a combination of seminars, conferences, scholarships and technical workshops to reinforce Australia's position as a safe, trustworthy, and reliable supplier of high value, quality dairy products. These efforts reflected the increased competition emerging from US and European suppliers in these markets.

The networks established through Dairy Australia's trade programs help to resolve emerging trade policy issues and to provide valuable input into Dairy Australia's international market intelligence and analysis programs.

To help companies and milk producers better understand and adjust to the likely impacts of international market changes Dairy Australia continued to collect and analyse information from across the dairy supply chain. The *Situation and Outlook* report remained a feature of this program. In 2009/10 Dairy Australia brought forward the release of this highly rated publication to help industry planning and presented its findings across a broad range of regional forums and supplier sessions. Dairy Australia also provided carefully targeted information to different stakeholder groups through popular electronic reporting services such as the *Hay and Grain report*, *Fortnightly Update*, *International Price survey*, and the 'Latest statistics' and 'Who makes what' website pages.

Reference: pages 31 and 32 of the Annual Report

Strategic priority 1:

Improve margins and growth opportunities

Grains2Milk

A major focus during the 2009/10 year was on feeding systems and feed conversion efficiency, analysing:

- the different types of feeding systems used on dairy farms nationally
- nutrient content
- conversion efficiency from feed-to-milk.

Feed is the biggest single cost on dairy farms. Dairy Australia's Grains2Milk program defined five feeding systems, looked at efficiencies in feed-to-milk conversion, and with the Department of Primary Industry, Victoria, developed a calculator to measure efficiency on farms against targets. Once a dairy business has a target, it can work on strategies to optimise performance.

Good feed buying decisions are critical for farm profitability. But there are skills and risks involved – such as checking nutrient quality, negotiating contracts, managing price risk and securing supply. For large milk suppliers, price and quality decisions can have huge impacts on cash flow and milk production.

To help farmers with their decision-making, Dairy Australia has updated the Grains2Milk 'Buying feed information pack' that was instigated with support from the Geoffrey Gardiner Foundation.

Dairy Australia ran a successful pilot workshop that brought together grain growers and dairy farmers as buyers and sellers to discuss business relationships and issues. More of these workshops are planned in 2010/11 with support from the Grain Research and Development Corporation.

The Grains2Milk program piloted an innovative new rapid feed analysis service that has processed more than 1,500 samples to date. Farmers' feed samples are picked up from the farm by the tanker driver and couriered on to the feed laboratory. Results for most feeds are sent back to the farmer the next day (compared with 5–7 days or more for a conventional feed analysis service). To better interpret their laboratory report, a farmer can now enter their results into the 'My Feed Report' tool on Dairy Australia's website (www.dairyaustralia.com.au), which has had more than 1,000 visits to date. Dairy Australia is also working with feed laboratories in conjunction with the Australian Fodder Industry Association to improve the accuracy of feed laboratory analysis.

Dairy Australia's website now provides guidelines for farmers on measuring and reducing feed waste. These guidelines are drawn from a study of wastage rates on 50 farms using various feed-out methods. Wastage rates were as high as 33 per cent with feeding on bare ground, compared with levels well below five per cent on feed pads or with bale feeding in the dairy shed.

Reference: page 21 of the Annual Report



Strategic priority 1:

Improve margins and growth opportunities

Cool Cows

With shifting weather patterns and a trend towards higher temperatures, more farmers are becoming concerned about heat stress and the threat it poses to their cows and summer milk production. While the 2009/10 'hot season' was not as extreme as that in the previous year (which culminated with the Black Saturday fires), a heat wave across south-eastern Australia in November was a timely reminder that farms need to be well-prepared to deal with heat stress.

Before the summer of 2010/11 the Grains2Milk Cool Cows project aims to have further details of infrastructure options to keep cows cool and a web-based cost-benefit analysis tool available to help farmers considering investments in cooling infrastructure. This work is being done with help from Australian farmers, advisers, CSIRO and university researchers and international experts, using farm case studies, farm weather stations and computer modelling.

Strategic priorities:

- 1: Improve margins and growth opportunities**
- 2: Promote and protect dairy's value and integrity**
- 3: Coordinate an integrated supply chain response to climate change and natural resource management**
- 5: Enhance skills and capability**

Regional Development Programs

Eight Regional Development Programs drive region-specific innovation in research and extension using local knowledge and skills. The eight entities are:

- GippsDairy
- Murray Dairy
- Subtropical Dairy
- DairyTas
- Dairy NSW
- Western Dairy
- WestVic Dairy
- DairySA.

Each is run by a board comprising of local dairy farmers and other industry participants, with specialist expertise. Each board is supported by an executive officer.

During 2009/10, the eight dairying regions of Australia benefitted from a total investment of over \$3 million funding for development activities. These funds were used to leverage additional funds from government and non-government organisations, (such as the natural resource management bodies), and invest an additional \$13 million in regional on-farm projects to increase farm productivity.

These projects include practical initiatives on:

- nutrient management
- climate change adaption
- effluent management
- home-grown pasture and fodder improvements
- irrigation water budgeting
- herd health and lameness workshops
- managing heat stress in dairy cows
- the effects of drip irrigation in pasture production
- natural resource management using DairySAT; and
- young people in dairy programs.

Reference: page 26 of the Annual Report

Strategic priority 5:

Enhance skills and capability

The People in Dairy

Dairy farming is like any other business – good people are a key resource.

Responding to a need identified by farmers, The People in Dairy program has developed a set of online resources to help farmers develop the people on their farm into one of their greatest assets. The website includes templates for creating position descriptions, standard operating procedures and employment contracts and records. There are also tools for conducting farm assessments of people and productivity. New to the website during the 2009/10 year are sections on teamwork and share farming, an employee guidebook, and updates on the changes to Australia's employment laws.

A monthly email newsletter called *People Matters* keeps subscribers up to date with changes that affect personnel and highlights what's new on the website.

Farms with large dairy herds (over 800 cows) face particular challenges because of the scale of operations and number of people working on the farm. The People in Dairy program successfully piloted a two-day business retreat specifically tailored for owners and managers of 800+ cow dairy farms to review their people-related business strategies.

PeopleGPS, a four-day course for dairy farmers developed by The People in Dairy and the National Centre for Dairy Education Australia, has been delivered in five dairying regions. The course covers recruitment, safety procedures and protocols, compliance with industrial relations laws and awards, performance appraisals, termination, working with other people and planning. It also helps farmers understand that things work well when: farm systems are people-friendly; the right person is in the right job; there are effective communications; and there are contracts and occupational health and safety standards in place.

This year, the In2Dairy Assistant Farmhand Program was successfully piloted in western Victoria. It secured new external funding to attract new entrants to dairy farming.

GippsDairy and Dairy Australia with funding from the Geoffrey Gardiner Foundation researched a regional coordinated workforce planning process for farms. The model will be used in other dairying regions through the eight Regional Development Programs (see page 12).

Through The People in Dairy program, Dairy Australia is developing leadership training programs. Progress towards an industry blueprint for leadership development was made with the completion of a leadership framework endorsed by the Australian Dairy Industry Council.

Reference: page 26 of the Annual Report

Strategic priority 3:

Coordinate an integrated supply chain response to climate change and natural resource management

Lower Murray-Darling Basin strategic study

Dairy Australia produced a comprehensive study into the key factors influencing the future of dairying in the Lower Murray-Darling Basin (LMDB). The LMDB is one of the biggest milk production regions in Australia but is currently operating in a highly uncertain environment. Drought, increased production costs, the milk price reduction and the global financial crisis have resulted in increased levels of farm debt and a significant fall in milk production. Findings from the study gave dairy farmers and industry vital information to support critical decision-making on future investment. The study provided information to government, manufacturers and the local community on the future prospects of dairy farming within the region.

Reference: page 27 of the Annual Report

Strategic priority 5:

Enhance skills and capability

The National Centre for Dairy Education Australia

The National Centre for Dairy Education (NCDEA) is a partnership between Dairy Australia and an alliance of Registered Training Organisations.

The NCDEA aims to develop and deliver Vocational Education and Training courses for the benefit of the Australian dairy industry and the wider community. In response to the advice of farmers, the NCDEA sets higher standards than required by the National Training Package for its farm programs.

Through the NCDEA, participants are offered a choice of courses that range from Certificates to Advanced Diplomas in all areas of dairy farming as well as food processing and technology. Programs are also provided for farmers and some sectors of the dairy service industry such as in human resource management and leadership.

Farming is becoming more complex and the increasing need to attract, retain and develop people to work on farms is becoming a major issue for sustainable productivity. The development of skilled people within the dairy industry is critical to its viability and future.

Traineeships or Apprenticeship programs are available to formally develop the skills of people new to farming across Australia. Study levels are structured around the roles – from assistant farm hand to farm business management. In addition to full courses, the NCDEA also offers a wide range of short courses and customised programs for dairy and processing organisations. Units of study include topics such as “cups on cups off”, plant nutrition, pastures, soils and fertilisers, breeding strategies and managing staff. Some of these are delivered in collaboration with the Regional Development Programs, milk factories or other partners.

Many farmers have learned about farming through personal experience or through reading and research, rather than formal courses or programs. The NCDEA offers them the opportunity to see how their skills and knowledge could be recognised as a part of a formal qualification, and identify areas where they could benefit from education through “skills recognition” or “recognition of prior learning” (RPL).

Since its inception, the NCDEA has increased student contact hours in Victoria from 153,000 in 2006 to 340,000 by June 2010. Most students are existing employees and employers in the dairy industry, further developing their skills.

Reference: page 30 of the Annual Report



Strategic priority 2:

Promote and protect dairy's value and integrity

Animal health and welfare and biosecurity

Protecting the reputation of dairy farming communities involves Dairy Australia working with industry and government on a range of issues including animal health, welfare and biosecurity.

Dairy Australia, together with industry, the ADIC, ADF and the ADPF has developed a National Dairy Industry Animal Welfare strategy that aims to enhance dairy's record for animal care, ensure community confidence and secure market access for dairy products.

Milk production is inextricably linked to animal welfare as only healthy cows can provide quality milk. Farm management practices are constantly improving and this includes the care of animals. Some examples include the provision of more shade and cooling systems; improved feeding regimes that provide greater nutrition and therefore aid general cow welfare and incorporating welfare best practice into everyday practice.

The dairy industry's work on animal welfare complements the Federal Government's Australian Animal Welfare Strategy (AAWS) that aims to ensure practical, effective and humane animal welfare.

This year Dairy Australia helped define the animal health risks facing the industry and developed a dairy industry biosecurity framework adopted by the dairy industry through ADF. Animal Health Australia (AHA) has also adopted the dairy industry's biosecurity plan as the basis for other livestock industries. The following definition of biosecurity has been developed in discussion with other industries and AHA, based on a dairy industry proposal to AHA. “Biosecurity: A series of measures to minimise risk to the farm and industry (animal health, human health, product quality and the environment) from the entry or spread of biological agents including disease, weeds and pests.” This definition has been used to underpin Dairy Australia's ongoing work on biosecurity.

One of the reasons Australian dairy is so competitive is because of the relatively low incidence of animal diseases. Many major infectious diseases affecting cows have either never been introduced to Australia or have been eradicated. This has not happened by chance, but is the consequence of enlightened leadership within the dairy industry, and government measures to maintain the current status and reduce the impact of existing endemic diseases.

This year, Dairy Australia also undertook:

- an animal health risk assessment
- a review of on-farm biosecurity practices
- an industry survey to assess the extent of some aspects of animal disease and the attitude of farmers and veterinarians to current animal husbandry practices
- a review of the management and disposal of downer cattle
- a review of the dairy industry's adoption of industry agreed welfare best practice guidelines.

The challenges now facing us are to have biosecurity included as part of the dairy industry's on-farm risk management system and to avoid separate requirements imposed on the industry. Enhanced awareness and management of biosecurity will reduce the risk of losses from animal diseases and help to safeguard markets. This year, the dairy industry achieved provisional freedom of Enzootic Bovine Leucosis (EBL). This, together with the industry's management of other diseases like BJD, helps us to continue to access markets for dairy products.

Biosecurity delivers four distinct groups of benefits to the dairy industry and individual producers:

- more productive livestock
- healthier farm people (satisfying the employer's duty of care to minimise the exposure of staff to zoonotic disease)
- product quality assurance (including market access for the industry)
- a safer farm environment.

Dairy Australia will continue its work on biosecurity and animal health and welfare, helping industry to adopt enhanced practices and incorporate these into every day farming practices.

Reference: pages 33 and 34 of the Annual Report



Strategic priority 1:

Improve margins and growth opportunities

Manufacturing innovation supporting Dairy Innovation Australia Limited

Dairy Innovation Australia Limited (DIAL) is an innovation hub for dairy manufacturing research and development. It provides the Australian dairy industry with access to a world class, responsive and cost effective innovation capability.

DIAL provides the Australian dairy manufacturing industry with research and development (R&D) capability that contributes to successful competition in a world market with innovation and market responsiveness for its members and the dairy industry as a whole.

Some of the research projects have developed process efficiencies which reduce energy, operating costs, and impacts of carbon emissions on the environment. These efficiencies allow products to be more competitive, ultimately benefitting milk producers.

Members of DIAL are: Dairy Australia, Bega Cheese, Challenge Australian Dairies, Burra Foods Australia, Murray Goulburn Co-operative Ltd, National Foods, Parmalat Australia, Tatura Milk Industries and Warrnambool Cheese and Butter Factory. Fonterra is a member of the Health and Nutrition Consortium.

The Target 35 project and milk powder

Milk powder is a major export, with about 325,000 tonnes exported annually to markets such as Japan, Singapore, Malaysia, the Philippines, Indonesia and China.

This year, research proved that it is possible to increase the amount of the total solids in milk concentrate fed to spray dryers, without compromising the quality and functionality of the milk powder.

The Target 35 project started three years ago with the aim of cutting the manufacturing cost of milk powder by reducing the amount of energy used and increasing production throughput per hour. Trials and tests have now been completed and breakthrough technology has been developed. This has been in collaboration with the Smart Drying Project, based mainly at Monash University, and with DIAL. Estimates are for a direct return to the industry of at least \$40 million over 10 years.

Better energy efficiency, water usage, and reduced effluent increases Australian dairy industry's competitive advantage for milk powder export. Carbon emissions are also reduced.

The project was established with funding from Dairy Australia, Sustainability Victoria and DIAL, with collaboration from Monash University, Murray Goulburn Co-operative Ltd, Tatura Milk Industries, Warrnambool Cheese and Butter Factory, Burra Foods, and the Geoffrey Gardiner Foundation. NIZO Foods in the Netherlands, provided preliminary research for this project.

Working closely with Australian and international R&D providers, dairy manufacturing and processing companies, universities and research organisations, including CSIRO and Food Science Australia, Dairy Australia looks for new markets and opportunities, while also coordinating industry efforts to meet both capability needs. It conducts due diligence on both emerging technologies and commercial opportunities locally and internationally.

PINCH analysis

Together with DIAL, Dairy Australia has invested in research aimed at reducing the use of water and energy in dairy processing plants, using the 'pinch analysis' model.

Pinch analysis methodology calculates feasible minimum energy use and optimises process integration to recover heat between hot and cold streams to reach its energy target.

This is part of a larger commitment to investigate the resource efficiency of Australian dairy processing, and improve processes to maintain international competitive advantage. The project also looks at increasing run times, product quality, removing processing blocks, emissions and waste reduction. The aim is to apply this methodology in Australian industry for a possible reduction of about \$10 million per annum in energy and reduced carbon emissions.

This project forms part of Dairy Australia's objectives of developing and growing its collaborations with international partners for the benefit of the industry across the entire value chain. NIZO Foods had initially shown a reduction of up to 30 per cent energy use in cheese plants.

Reference: page 29 of the Annual Report

Strategic priority 1:

Improve margins and growth opportunities

Dairy Extension Centre

The Dairy Extension Centre (DEC) was established by the Department of Primary Industries, Victoria (DPIV) and Dairy Australia in October 2005 as a 'virtual' centre of extension capability and program delivery. Primary Industries and Resources, South Australia later joined the collaboration, expanding the services to dairy farmers throughout South Australia as well as Victoria.

The vision was to streamline extension services which had previously been delivered by a number of organisations and accelerate the adoption of competitively advantageous innovation within the dairy industry.

During 2009/10 there was total of 6882 attendances at DEC activities, with around two-thirds by farmers and one-third by a diverse service provider group.

The activities included 29 'Managing the Challenge' sessions, which were held in collaboration with milk companies and private consultants in northern Victoria, where low milk prices were exacerbated by critical water issues.

In response to low milk prices, the DEC held 10 'Finding YOUR focus' seminars and neighbourhood groups in southern Victoria. These events were attended by more than 800 farmers and service providers. Over 85 per cent of attendees rated the events highly relevant and timely.

Economic evaluation of the Feeding Pastures for Profit program delivered by DEC has found that it is possible to increase profits by as much as \$34,000 within 12 months of participating in the program, and generate much higher profits in subsequent years. While not all participants receive the maximum benefit, there has been a high return from investment which has led to significant profit increases for participating dairy farmers.

From the base investment of \$3.9 million from DPIV, the Department of Primary Industries and Resources, South Australia and Dairy Australia, total investment grew to over \$8 million, leveraged from other investors. The DEC partnership results in more resources and better outcomes for dairy farmers than if each organisation delivered their services separately.

Reference: page 25 of the Annual Report

Dairy Moving Forward

Dairy Moving Forward is a nationally managed collaborative dairy industry initiative to establish a model for pre-farm gate research, development and extension (RD&E).

The initiative is industry led and supportive of the national Primary Industries Standing Committee (PISC) and Primary Industries Ministerial Council (PIMC) agricultural RD&E strategy development framework and is governed by the Dairy Moving Forward Committee. The committee includes representatives of:

- Australian Dairy Farmers Limited
- Australian Dairy Products Federation
- Dairy Australia
- Department of Primary Industries, Victoria
- The Geoffrey Gardiner Foundation
- Universities involved in dairy research
- Regional Development Victoria
- United Dairy Farmers Victoria
- Regional Development Programs

Over the last 12 months Dairy Australia has been integral to the development of the Dairy Moving Forward project, providing organisational, executive and secretarial support to the Dairy Moving Forward Committee.

Much of the Dairy Moving Forward Committee activity has been in planning, including a meeting of industry stakeholders in September, 2009. The Dairy Moving Forward plan was endorsed by the industry at a workshop in March, 2010. Since that time, Dairy Australia program managers have been working with industry to refine initiatives. It is expected that the final Dairy Moving Forward plan will be presented to industry in late 2010.

Dairy Moving Forward aims to maintain and build change management and R&D capability, around natural resource management, business management, animal production, people and feedbase. It aims to support existing and emerging farming systems looking at new opportunities for productivity, growth and sustainability to support an internationally competitive and sustainable Australian dairy industry.

Reference: page 17 of the Annual Report

Strategic priority 4:

Promote and protect the health and nutritional benefits of dairy products and ingredients

Health and Nutrition

Promoting better health through including dairy in a balanced diet is a message with great potential return to the dairy industry. Dairy products are naturally nutrient-rich foods, containing a unique package of calcium, protein, carbohydrate, vitamins A and B12, riboflavin, phosphorus, potassium, magnesium and zinc which are all important in the diet for good health.

Influencing health policy, backed by strong scientific evidence, is an important part of Dairy Australia's health and nutrition program. While other foods and ingredients are vying for market share, Dairy Australia aims to secure the position of dairy as a core component of a healthy diet.

Public health issues are increasingly on policy makers' agendas. Concerns about the increase of health issues such as obesity and associated chronic conditions, heart disease and diabetes, could have implications for consumption of whole milk and cheese.

During 2009/10, Dairy Australia's Health and Nutrition Program was refined and adapted in response to health issues. The program focused on the following areas:

Barriers to consumption: addressing the barriers to consumption which include negative perceptions about dairy consumption and weight, dietary saturated fats, cardiovascular disease, diabetes, lactose/dairy intolerance and digestive health.

Nutrient richness: promoting dairy as highly nutrient rich food which is an integral part of a healthy diet, and addressing the under-consumption of dairy in many sectors of the population.

Optimising personal health: demonstrating the benefits that dairy can provide to groups with specific nutritional needs such as active/sports people, the elderly or those who are interested in getting the best nutrition they can to meet their lifestyle needs.

To promote the important role of dairy foods in the diet, Dairy Australia invests in nutrition research and assessment of the scientific literature in cardiovascular disease, allergies, weight management, diabetes and bone health. Our job is to not only communicate the benefits of dairy for health, but to also mitigate the barriers to dairy consumption like fear of weight gain, increased cholesterol or lactose intolerance.

As some dairy products have been associated with saturated fats in the diet, they are often singled out as foods to reduce or avoid. Dairy Australia commissioned scientists from the University of Adelaide to review studies of saturated fat intake relating to consuming dairy foods and heart disease outcomes. Presented at an international conference and published in a scientific journal, the review concluded that there was no consistent evidence that consuming dairy foods is linked to a higher risk of coronary heart disease. This is important research which is now being replicated around the world and is important to communicate to key opinion leaders.

Dairy Australia aims to positively influence key stakeholder groups such as industry, policy makers, public health and health professionals and consumers.

During 2009/10 Dairy Australia focused its health communications activities on educating health professionals and teachers to encourage dairy consumption as conducive to health.

We ran projects in schools to educate children about healthy food choices such as National Healthy Bones Week. Dairy Australia also used its successful schools program, Picasso Cows, to deliver healthy eating messages to primary school teachers and children in several states. Close associations with key health professionals have continued and Dairy Australia has provided information and resources to general practitioners, dietitians and practice nurses.

Our awareness and scanning of the major nutritional issues relevant to dairy has seen Dairy Australia able to provide comment to media enquiries. Dairy Australia is often active behind the scenes preparing evidence for submissions on policy and legislation submissions which help maintain the place of dairy in the food supply.

Reference: pages 30, 35-37 of the Annual Report

From the Chairman

Outlook for the coming year

Things are beginning to fall into place for the 2010/11 year. After unsurpassed drought and global economic carnage, the prospect of higher export milk prices and some good rain and water allocations have altered the outlook for many dairy farmers.

The last decade has seen our industry in its best and worst years. International dairy markets have improved in 2010 with tightening supplies and increased demand from Asia. However, volatility is still a word often used in dairy discussions about milk price and demand, and the cost of inputs.

The Federal and Victorian State Governments, research providers, and other industry and commercial funders are still showing strong support for the dairy industry. A major new investment called the Dairy Futures Co-operative Research Centre (CRC), has commitments for public and private investment totalling \$128 million and will create large improvements in both pasture production and animal breeding. The Victorian Government and LaTrobe University are constructing a \$288 million world-class facility for the study of biosciences (the AgriBio Centre) which will be the major research site for the CRC. Together, these investments will result in enduring benefits to the dairy industry and access to cutting edge science.

Growth in supermarket sales across most dairy categories shows improved consumer confidence in dairy foods and Dairy Australia will continue to aggressively promote dairy through health and nutrition research and media releases.

The Murray-Darling Basin Authority's draft plan details management plans for the Basin, which currently supports around 32 per cent of Australia's dairy farmers. Dairy Australia's role is to facilitate and coordinate data collection, analyse issues across regions and communicate developments and outcomes. Dairy Australia will be active in informing the industry and supporting it on the issues raised.

A marked uptake of courses at the National Centre for Dairy Education Australia and online through The People in Dairy program show strong support for dairy initiatives to improve efficiencies in farming systems. This also underpins my belief that we have a resilient industry in which participants actively engage and embrace change and technological advances. There is still work to be done and national agricultural education and training will be a major focus.

The Dairy Moving Forward strategy will also be a major focus in the coming year, with Dairy Australia aligning investment with other funders of industry research and development, addressing capability gaps and eliminating duplication of effort. This is a whole-of-industry collaboration.

Through the Rural Research and Development Corporation model with matching payments for levy funded activities, we remain able to support farmers in need in the short-term while continuing to invest in projects that will benefit levy payers in the future.

Max Roberts
Chairman



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