

Northern Dairy Industry

Regional Industry Outlook
Update: June 2010

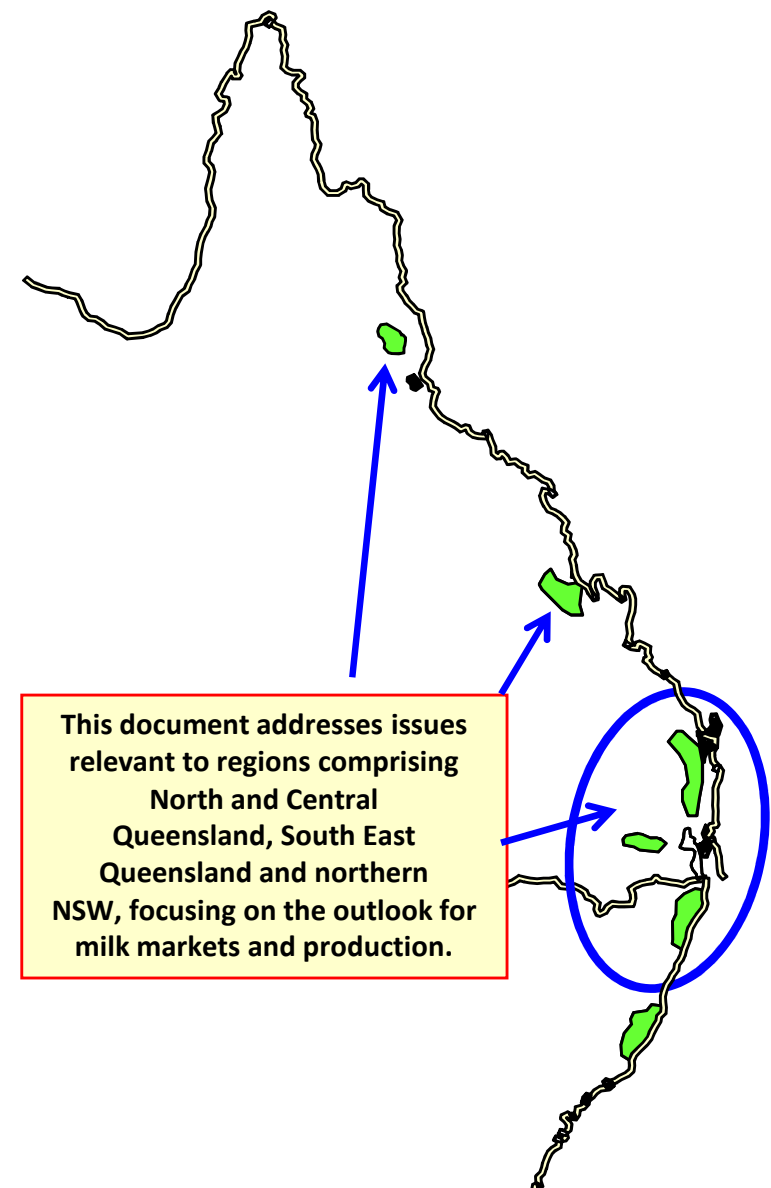
Introduction

- The Northern Dairy Industry Strategic Plan identified a range of key priorities and actions that were needed to underpin the sustainable future of the region's dairy industry.
- A key priority of the Northern Dairy Industry Strategic Plan is to support an environment to balance milk flows in the region and to improve and protect returns from the market for dairy farmers for year round milk supply to the region's markets.
- In response to this situation, in late 2006 the Queensland Dairyfarmers' Organisation (QDO), on behalf of the Northern Dairy Industry, commenced a process to improve the awareness of the situation and outlook facing the regional dairy supply chain.
- As part of this process the QDO commissioned Freshlogic to undertake a regular independent assessment of the Northern Dairy Industry to analyse the current and future milk supply and demand prospects in Northern NSW and Queensland, and other significant industry issues.
- This is the 4th annual Northern Dairy Industry Outlook designed to provide that analysis for the benefit of industry participants, service providers, input suppliers, investors and Governments.
- The analysis recognises that significant future opportunities exist for the region's industry with one of the fastest growing regional domestic markets, driven by population growth and increasing per capita consumption.
- This study also used data provided by QDO, QDAS, milk processors and the 2010 Australian Dairy Situation and Outlook Report. The production of this report has also been supported by the Subtropical Dairy Program and Dairy Australia

- This paper was compiled with co-operation from the production and processing sectors and has taken into consideration regional industry challenges over the coming years and the market outlook in the short to medium term.
- This report, compiled in June 2010, updates previous analyses and is an adjunct to the Australian Dairy Situation & Outlook.
- This report contains:
 - A summary of highlights from the Australian Dairy Situation & Outlook released in May 2010
 - An outlook for supply and demand for milk in the northern dairy industry region
 - Factors affecting profitability of milk production
 - Future challenges for milk production in the region
- This report draws on farmer intentions and farm information from surveys undertaken by Dairy Australia.
- The analysis has identified a number of barriers and future uncertainties that may undermine the stability in regional milk production.

Summary points

- The northern dairy region supplies a steadily expanding regional fresh milk market which is driven by population growth and increasing per capita consumption.
- Milk production in the south Queensland and Northern NSW region declined for several years, due to prolonged drought, irrigation water shortages, farm size constraints, rising input costs, and the incapacity of farm operators to cope with an increasingly complex operating environment.
- Milk prices in the northern region rose significantly in 2007/08 and have been reflected in milk supply contracts for Parmalat suppliers that extend to the end of 2012. New contract prices for other producers are under pricing pressure in 2010/11, as oversupply in the northern region has reduced processor returns in the past year. However this oversupply situation has alleviated to some extent, and may provide temporary as economic recovery and ongoing population growth is forecast to boost demand .
- Prevailing milk prices in recent years, good seasonal conditions and low bought-in feed costs have combined to sustain growth in regional milk supply and producer confidence.
- While the permanence of price signals is important to future producer and investor confidence, the focus in the coming years will be supply management to achieve a balancing of milk supply and demand. A continued over-supply of milk in the region will continue to affect farmgate milk prices if suitable returns for surplus milk volumes cannot be achieved.
- While producer confidence and financial reserve have improved, this assessment finds however that risks to the medium-term stability of production remain unchanged, given the underlying ownership structures, producer demographics and investment levels.
- At this stage, there is little evidence to suggest sufficient change has taken place in the capacity of farm structures and skill levels necessary to negotiate any return to poor seasonal conditions, or to gain sufficient efficiency benefits from adoption of innovation to offset poor seasons. This risk will be amplified with the forecast adverse impacts of increased climate variability and other factors on production costs.

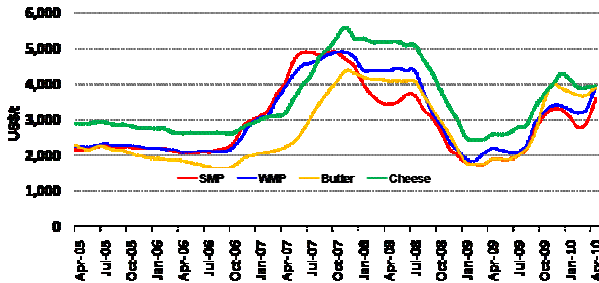


2010 Situation & Outlook highlights

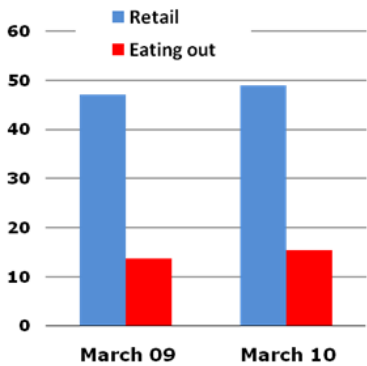
The Australian dairy markets

- Operating conditions for the Australian dairy industry have improved dramatically in 2010.
- Economic recovery has underpinned renewed demand growth in key markets, while reduced supplies have seen dairy commodity prices rise sharply in US dollar terms. This has seen a return to the fundamentals of the dairy market – without the overlay of a financial and economic meltdown.
- The international dairy market has become increasingly volatile over the past three years. Drivers of this instability include:
 - destabilisation of global economic environment affecting demand and affordability;
 - emerging exporters and lower surpluses in the EU and US;
 - highly variable weather affecting exporting regions;
 - variable input costs affecting farmers production intentions;
 - the reaction to new price indicators such as *globalDairyTrade* auction prices;
 - changed buyer behaviour due to uncertainty.
- As the international market downturn hit, the Australian dairy market proved resilient, providing volume and value growth throughout 2009 and 2010.
- The domestic market, which uses close to 55% of annual production, has been relatively stable and is somewhat a “safe haven” for dairy companies. Markets remain highly competitive in the face of low-growth in volumes and limited scope for price rises.
- The grocery channel has provided the most stable conditions with brand and private label supplies not subject to great change, whereas non-grocery markets including food service remain highly contestable and subject to price volatility in line with export returns, but with keen competition for market share.

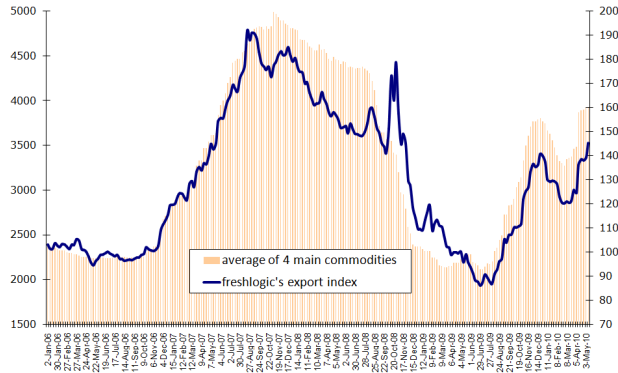
Export spot prices from 2006 to 2010



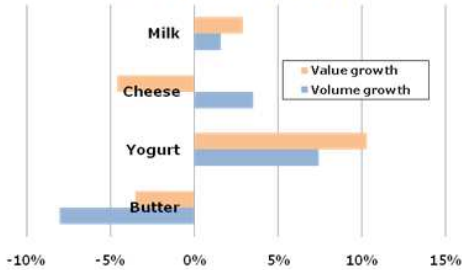
Australian retail sales in \$bn (6 months to March 2010)



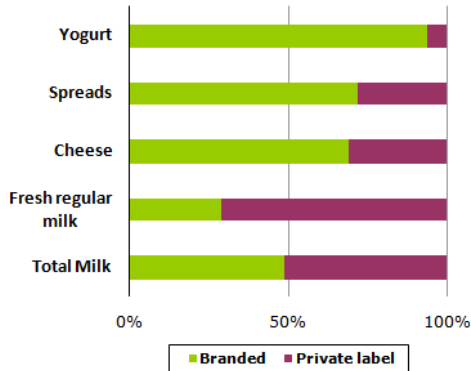
Export returns from 2006 to 2010



Australian dairy market by product 2009/10 (to Dec 2009)



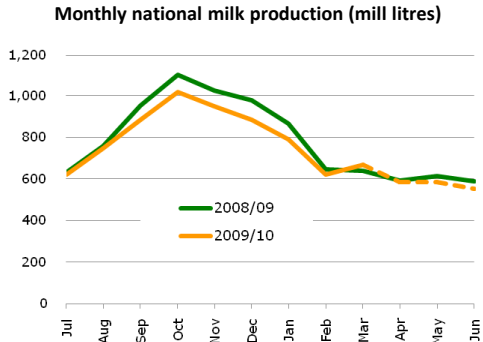
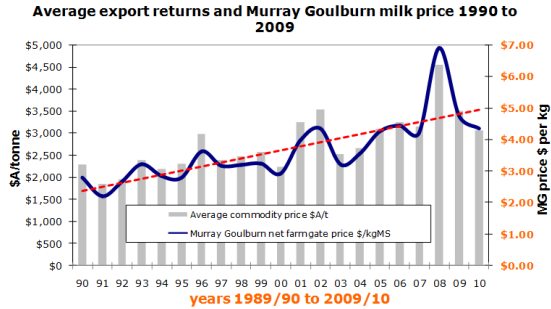
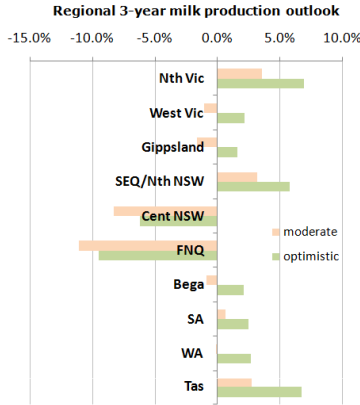
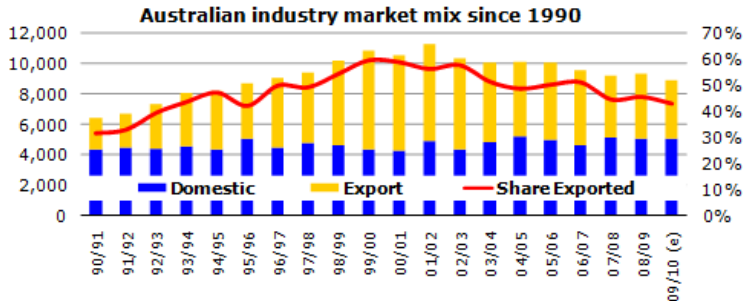
Shares by supermarket dairy category Yr to March 2010



2010 Situation & Outlook highlights

Main points in the 2010 Australian outlook

- Milk production contracted in 2009/10 as a result of sharply lower milk prices and a poor start to the season in southern states, which prompted many farmers to reduce herd numbers.
- The continuity of low prices following the milk price cut in the 2008/09 season, and the uncertainty surrounding prospects for the full year 2009/10 prices weakened investment.
- Market and margin volatility has undermined confidence for many dairy producers, in particular younger farmers and those with low equity. Caught by the sudden downturn in milk price, they are financially stretched and uncertain of their ability to withstand future volatility in their returns.
- The financial position that many farmers in southern Australia find themselves in is limiting their ability or willingness to expand production, in light of the volatility they have experienced over the past few years.
- The production forecast for 2010/11 is also 9.0 billion litres, at about the same level as the expected 2009/10 final output. The end of 2009/10 season has shown a revival in year-on-year production due to improved seasonal conditions and income prospects for 2010/11.
- The 3-year production intentions from the 2010 survey showed a significant decline in growth expectations compared with the 2009 survey. Based on these expectations and assuming reasonable seasonal conditions and prices, milk production could range between 8.9 and 9.2 billion litres by 2012/13.
- However, with a sustained improvement in both milk price and climate for the majority of producers, there is potential for stronger growth into the medium term



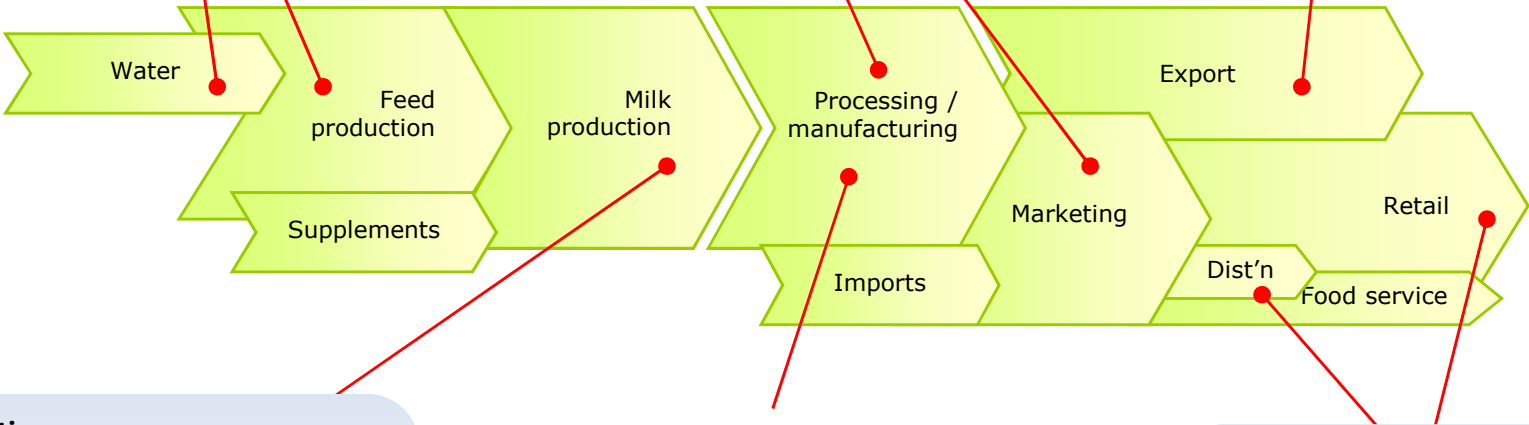
Australian industry snapshot

The snapshot view of the situation & outlook affecting each sector of the Australian dairy value chain shows prospects for the national industry of a rough road to recovery from the economic downturn.

- Production & resource inputs**
- Climatic variability
 - Uncertainty of future irrigation water access
 - Resource policy uncertainty
 - Fluctuating purchased feed markets

- Product manufacturers**
- Shifting returns between channels & products
 - Capacity underutilisation due to supply limits
 - Growing influence of domestic market on milk values
 - Strong farmgate competition, risking supplier movement
 - Rising input costs

- Exporters**
- Segmented markets with strong developing world demand, weak growth in mature markets
 - Short buying periods
 - Complex exchange-rate determinants
 - Inconsistent participation of several major players (US, Russia, China)
 - Weakened competing (substitute) ingredient prices



The Australian dairy industry value chain

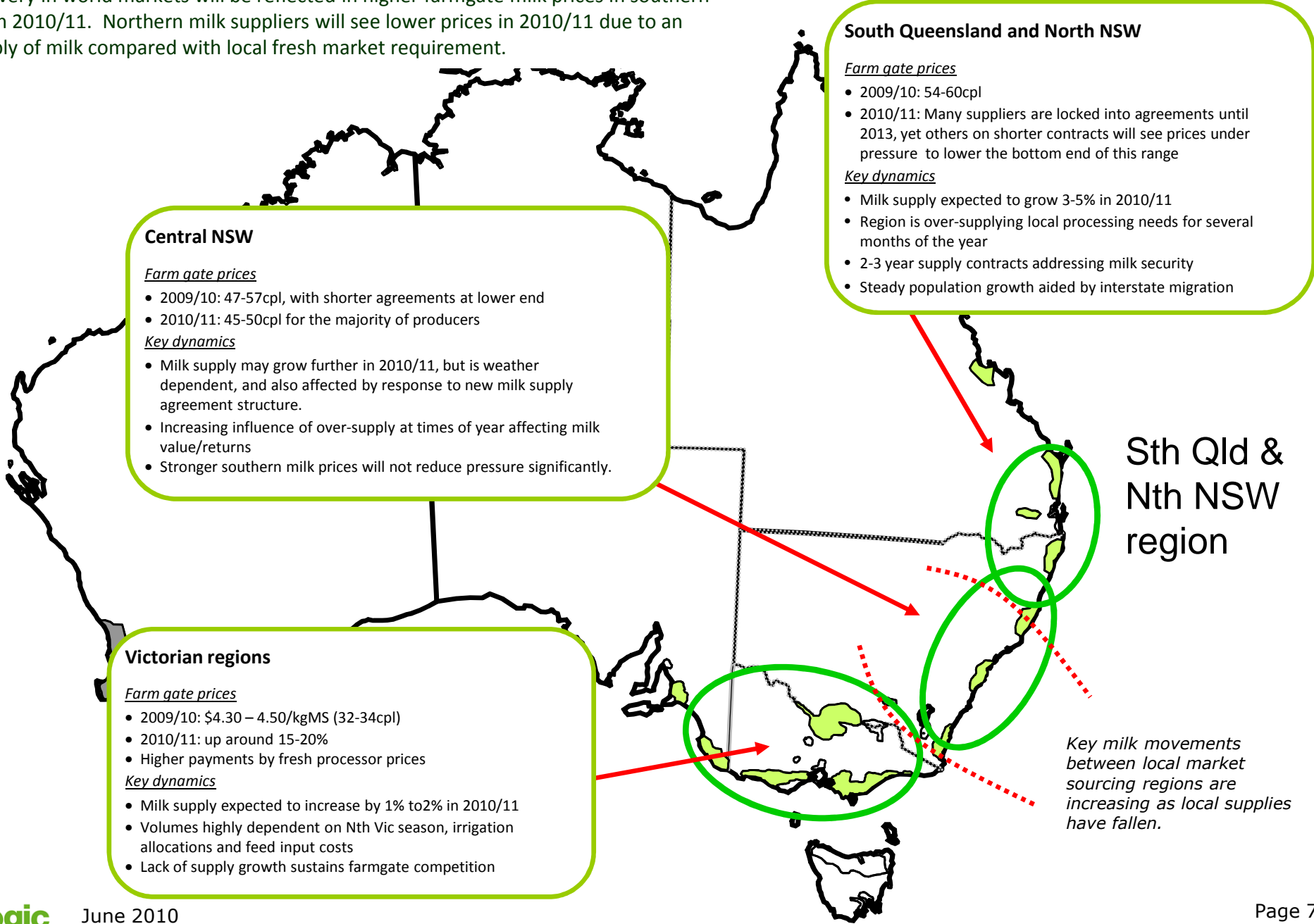
- Milk production**
- Fluctuating farmgate milk prices
 - Increasing requirements for ethical standards
 - Decision-intensity in response to complex systems and changeable conditions
 - Increased financial scrutiny and certainty sought by banks

- Fresh dairy processors**
- Balancing stable market requirements & pricing with varying milk values
 - Supply response to high farmgate prices & abundant low-cost feed supplies
 - Mismatch of supply and market demand in northern regions

- Domestic marketers**
- Tightened household spending
 - Low food price inflation
 - Strong price-based retail competition
 - Uniform pricing in a national grocery market
 - Retailer private label contractual approaches
 - Strong influence of a global ingredients competition

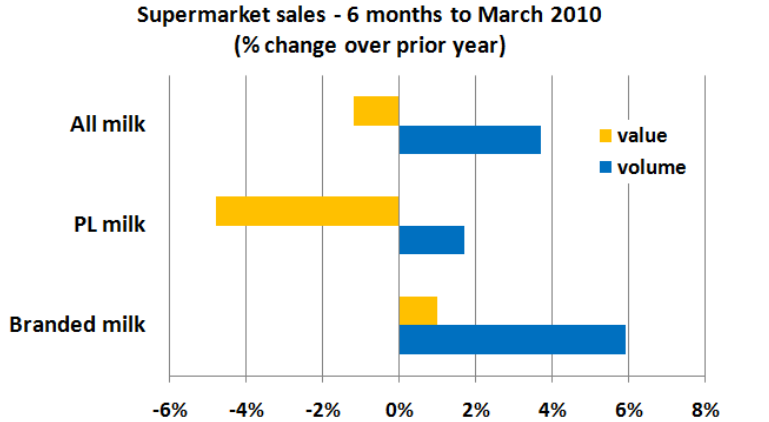
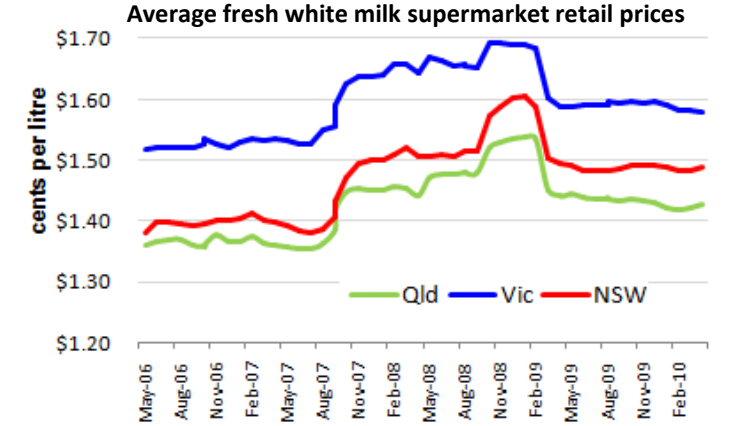
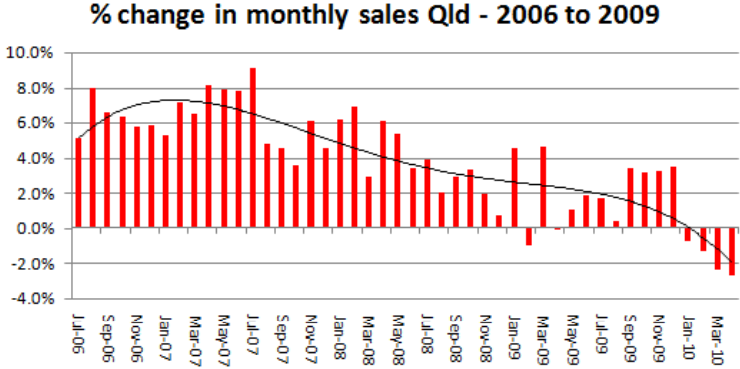
Farmgate market

The recovery in world markets will be reflected in higher farmgate milk prices in southern regions in 2010/11. Northern milk suppliers will see lower prices in 2010/11 due to an oversupply of milk compared with local fresh market requirement.



Regional milk markets

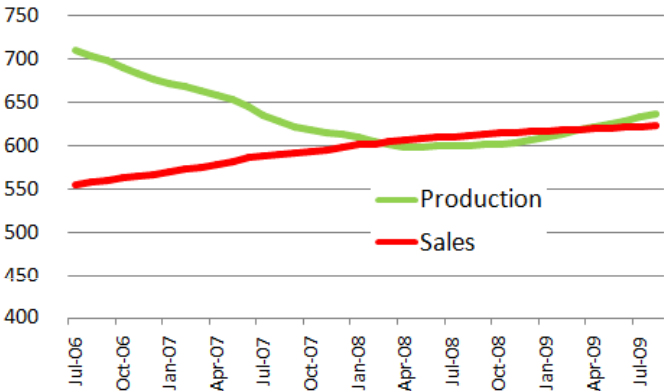
- There has been a weakening in the regional fresh milk sales over the past year, after enjoying strong growth in 2007 and 2008.
- Households have continued to be cautious in uncertain economic conditions in 2009 by keeping a tight rein on food spending, and minimising discretionary outlays. They have retained a preference for eating more meals at home and economising on eating out. Grocery retailers have sustained aggressive price-based competition, keeping the focus on value meals at home.
- There has been a volume shift towards the grocery channel, contributing to growth in supermarket sales across most dairy categories, but with some reversal of the trend toward greater support for private label products in recent months due to improved consumer confidence and aggressive brand promotion.
- Milk processors compete in a national fresh milk retail market, wherein major grocery chains now operate national uniform pricing policies. These policies do not take account of differential input costs to producers and suppliers.
- The northern region provides a greater challenge for fresh milk processors due to the lower average retail grocery prices achieved in Queensland compared to NSW and Victoria (yet facing a higher input cost of milk) due to the more intense competition between brands.
- In NSW the retail price difference is attributable greater share of private label product. However, in Queensland proprietary branded retail prices are on average 15% lower than branded products in the other states – reflecting the intensity of competition.
- While overall milk sales volumes have been flat in the 9-month period to 31 March 2010, the 12% growth in sales of UHT products indicates that fresh white milk sales sourced from the northern region have declined slightly in volume terms.
- The region continues to demonstrate good population growth. The average annual population growth rate for Queensland over the past 5 years has been 2.6%. ABS projects that the population will grow by 2.4% per annum over the next 10 years, providing good scope for expanding demand as the economy provides consumers with greater confidence.



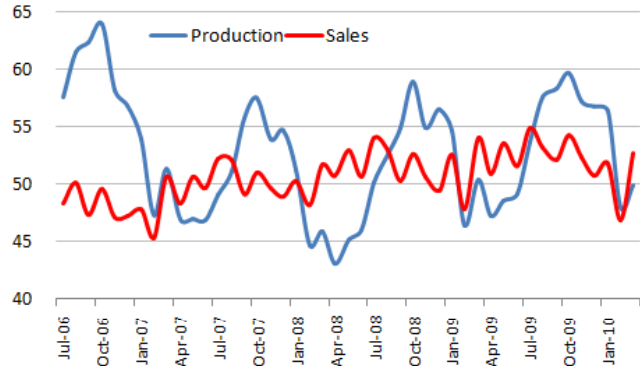
Regional milk supply v demand

- Milk production in the northern region (Qld and Nth NSW) steadily declined for about 8 years. Unreliable seasonal conditions and poor farmgate prices were the major catalysts for this decline, as market conditions and signals have exposed producers to volatility in returns, gradually weakening confidence in returns from the regional supply chain.
- The combination of an increase in milk prices for longer contract terms, improvements in regional seasonal conditions and lower bought-in feed costs have stabilised milk production, and sustained its growth (in month-on-month terms) since the 4th quarter of the 2008 calendar year.
- However coupled with a slowing in milk sales and processing plant demand, this has created a surplus in regional milk supply for most months of the year.
- This situation has been aided by a number of producers with retirement intentions who have stayed in business longer due to the improved cash flows over this period.
- While in rolling annual terms (the chart on top right) the illustration shows a convergence of supply and demand, on monthly terms the surplus has been growing in spring and summer periods. The surplus has increased through 2009 and early 2010.
- Processors have been forced to incur higher costs in moving milk to southern processing plants, in view of the limited manufacturing capacity that exists in northern NSW and Queensland. The fall in manufactured product returns has also contributed to a reduction in processing margins over this period.
- Recent production data shows that the production growth may be fragile. A weaker price outlook for 2010/11 may prune output in the coming year as many producers adjust not only to lower absolute levels in price, but also to a new structure of pricing and volume commitments to reflect processor priorities in managing milk supplies to market requirement.
- The uncertainty created for both processors and producers by potential changes in retailer private label supply arrangements adds a further dimension of instability to this outlook which may alter market access and pricing mechanisms.

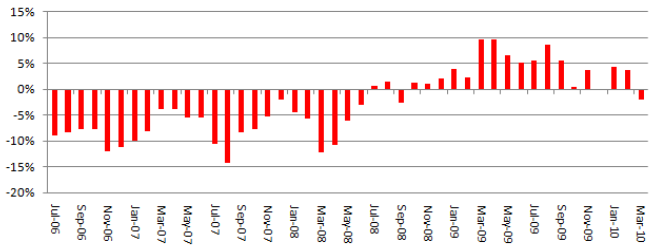
Northern region milk sales and farm milk supply (moving annual total, million litres)



Northern region milk sales and farm milk supply (monthly, million litres)



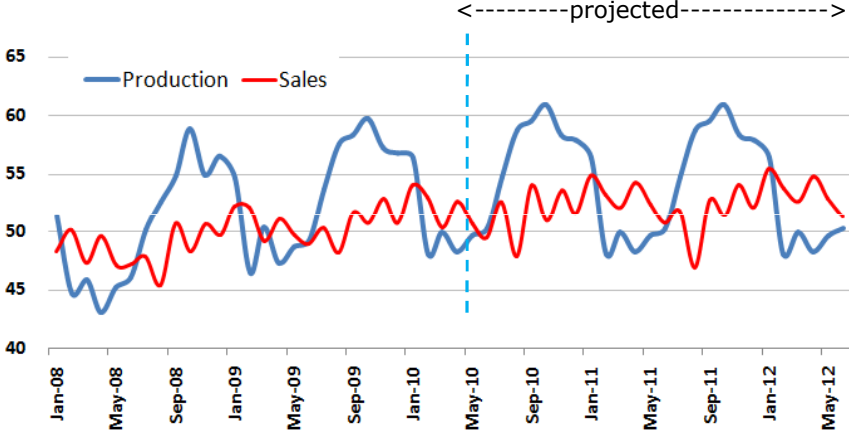
% change in production Nth NSW + SEQ - 2006 to 2010



Source: Dairy Australia

Projected demand v supply

Projected monthly Qld & Northern NSW milk sales and farm milk supply



Assumptions

- **Sales growth** is projected at 1% compared with the prior year for the rest of 2010, rising to 3% thereafter. No account is taken of fresh dairy product sales.
- **Production** is assumed to expand in the remainder of 2010 at 2%, slowing to no growth from the start of 2011. There will be a tapering of production in peak months to reflect a supply response to new price signals.

- The priority for the production and processing sectors in the future is to keep the supply chain balanced such that milk supply stays closely matched to market demand.
- That challenge is important for the region’s future development – maintaining a balancing of the supply chain where the milk supply will be contracted to a market requirement at prices which can ensure sustainability for producers and suitable margins for processors.
- A potential scenario for future milk supply & market demand has been updated from prior year outlook documents to reflect feasible directions in milk supply and market demand. This scenario uses current growth rates as a starting point and uses ongoing changes based on likely outcomes.
- Milk sales reflect projected milk processing demand based on an estimated total milk sales requirement for the Qld and Nth NSW region. Milk production is shown as tapering from recent growth rates due to the expected changes in prices and access in 2010/11. The seasonality of production has also been assumed to flatten somewhat with a response to proposed new pricing signals from processors.
- Such an outlook will only tighten (ie supply and demand will converge) if there is a combination of:
 1. A return to previous milk demand growth rates in the region and one or more of the following
 2. A deterioration in rainfall leading to reduced pasture feed
 3. An increase in the prices for feed grain and hay
 4. A loss of confidence in the adequacy of milk prices
- Should production conditions remain highly favourable, any significant over-production of milk above the requirements of regional fresh milk demand risks weakening milk prices if suitable returns from commodity products can’t be achieved.
- If milk price reductions (of the order discussed on the next page) become reality, the impact on producers’ cash margins may reverse the recent growth in milk flows in the next 1-2 years, with the risk that supply may again fall short of demand.

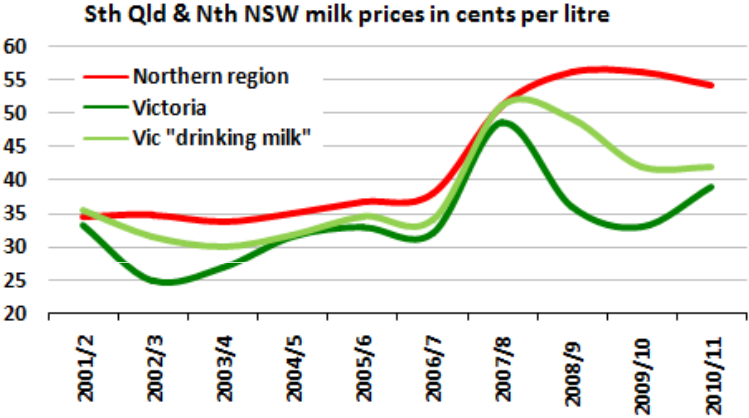
Farmgate prices – South Qld

2010/11 price expectations

- Prevailing farmgate prices in effect in 2009/10 were largely struck in 2007/08 or earlier when seasonal conditions threatened the ongoing adequacy of local milk flows, and southern milk prices were significantly higher than those expected in 2010/11.
- Milk supply contracts with incentives for commitment to longer-term supply have been used in recent years to underpin regional supply stability.
- In 2009/10 prices have generally ranged between 54-59 cpl covering most producers, although a number achieve an outcome greater than this due to their contractual position.
- 2010/11 milk prices for the Northern region for suppliers entering new contracts are expected to be weaker compared with 2009/10. Processors are signalling the need for price reductions of around 10-15% in these cases, meeting resistance regarding the fragility of regional margins and supply volumes to seasonal conditions. Negotiations are continuing at the time of this report.
- Other suppliers on continuing contracts will not be significantly affected.

Supply management

- There will be changes in the structure of supply agreements in 2010/11 as NatFoods seeks to address closer supply management in both direct supply contracts and supply through its dedicated supply cooperative DFMC. The structure will send clear signals as to the value of milk that exceeds local requirement.
- From July 2010, NatFoods will apply Anticipated Full Demand (AFD) that equates to the total volume of bulk milk NatFoods requires from DFMC as a supplier in each region for its planned milk, fresh dairy and cheese processing.
- Two-tiered pricing will apply such that year-round fresh milk values will drive a tier 1 price, while returns from the next best use of use of milk will drive the remainder. Producers will seek consistency of tier 1 pricing across sub-regions.
- Parmalat has foreshadowed it will apply similar supply management and pricing principles for its northern suppliers when existing contracts expire in 2012, and will consolidate the current differentiated supply pools into one.



Source: Freshlogic, Dairy Australia

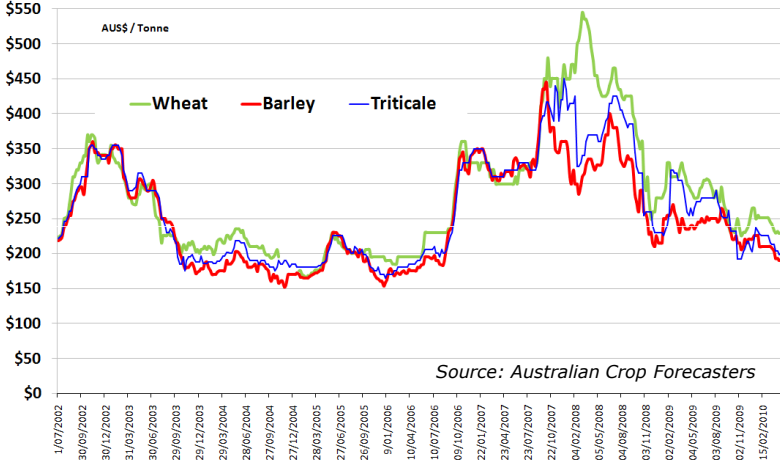
Landed cost comparison – projected 2010-11 season

	Cents per litre at "reference litre" milk components			
	Sth Qld	Nth NSW	Mid NSW	Nth Vic*
Farmgate	50-58	47-52	45-50	40-42
Freight	3-4	5-6	9	16-19
Landed cost	53-62	52-58	54-59	56-61
* This assumes milk prices on a year-round basis, given likely pricing by fresh milk processors in that region				

Improved costs of production

- Farms in the northern region are locked into production systems that are suited to contractual supply requirements which reflect fresh market demand.
- These systems necessarily incur higher production costs compared to seasonal production systems where most production occurs when feed costs are lowest:
 - About 85% of Southern Queensland and Northern NSW farmers are producing milk using year-round systems, while for the whole of Queensland this was surveyed in 2010 at 89%;
 - There is a high dependence on irrigation to sustain these systems – about 70% of dairy farms in the region use irrigation; and 75% of dairy farm land (on average) was irrigated in 2008 on those farms that irrigate.
 - Irrigating dairy farms only used about 55% of their entitlements in the 2009/10 year – an increase on the prior year.
- Bought-in feed costs remain well below levels seen in recent years in most regions when global shortages drove prices to historic highs, but on a par with long-term averages :
 - Production systems face lower costs than the past couple of years with more abundant feed supplies adjacent to milk production regions;
 - Regional grain prices have receded further in 2009/10 with the increased availability of sorghum crops and southern wheat and barley crops;
 - Grain prices are being driven by a global over-supply situation which has come about due to good weather conditions in most major production regions.
- Prices will remain relatively low until global inventories shrink. A lower supply response to the current low prices will affect production intentions and the confidence in affordability of crop plantings in the short-term. Uncertain economic conditions continues to affect crop finance in some countries.
- Fertiliser prices also remained low due to over-supply, but the outlook is for prices to recover steadily as production cut-backs affect the market balance. The outlook for these commodities suggests further growth in global crop demand will keep prices at long-term averages.
- Other costs of production are rising, with increases in fuel, electricity, water usage charges, finance and labour rising as the economic recovery and increased accountability for resource use continues.

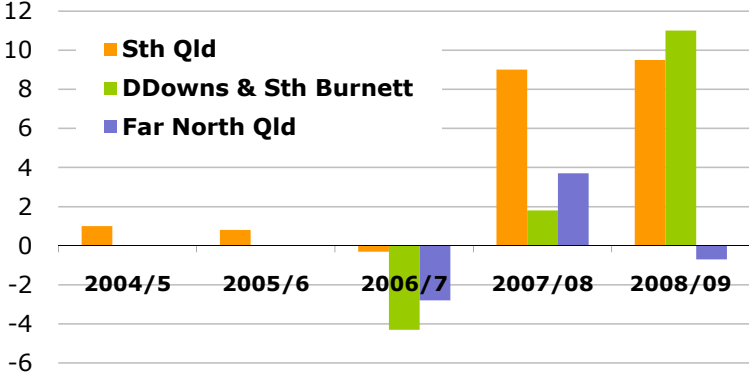
NSW Grain quotes 2002 to 2010



Improved farm profitability

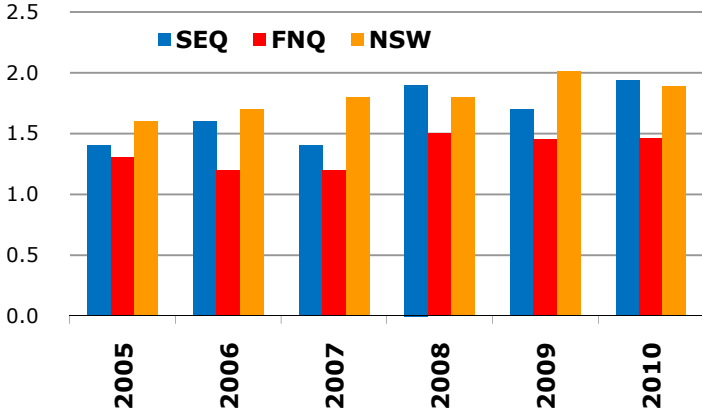
- Financial performance on regional dairy farms has improved with higher milk prices
 - QDAS reported a rise in farm cash operating surpluses in 2008/09 across sub-regions, compared to the prior year.
 - ABARE estimates that average dairy farm cash income in Queensland will increase by 4% in 2009/10 but that average farm business profits will fall to about half their level in the prior year.
- Feed grain prices are on average expected to be 15-25% lower (depending on the commodity) over the full 2009/10 year compared with the prior year, including during the late summer and autumn months when supplementary feeding is heaviest.
- As a result, farm incomes and profitability will likely show an improvement in the full 2009/10 year.
- The extent to which dairy farming margins improved in 2009/10 over the region will come down to how well producers were positioned to manage feed requirements and herd productivity, in conjunction with improved seasonal conditions across northern regions.
- Northern region milk producers increased their use of grain in the 2009/10 year, according to the National Dairy Farm Survey, but in the case of South Queensland this merely returned usage to 2007/08 levels to take advantage of the low grain costs and good milking margins. NSW usage fell slightly as better own-farm feed availability sustained milking requirements.

QDAS milk margin (cpl – milk income less operating costs)



Source: QDAS

Average grain usage per cow per annum (tonnes) – 2004/05 to 2008/09



Source: National Dairy Farm Survey

Challenges for milk producers

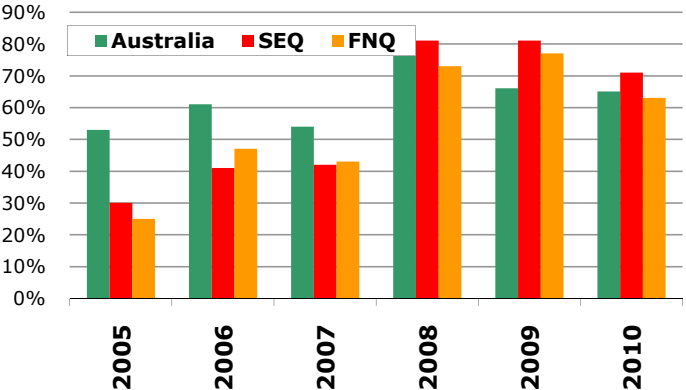
Structure and practices

- Farms are operated using traditional family-farm structures in terms of ownership and financial structure.
- 31% of farms rely solely on owner-operator and partner labour.
- Low levels of debt are employed. Average equity was measured at 84% in 2009 by QDAS. This is practically unchanged from the prior year. ABARE rates equity a little higher at 91% of asset value.
- Practices to deal with drought over the several years not led to widespread adoption of conventional feed and risk management practices:
 - The region is a relatively heavy user of feed grain per cow on average, yet 70% of producers in Queensland buy grain as required, only 28% buy forward;
 - Only 29% of producers always ask for an analysis report of the grain being purchased, a further 41% at least ask sometimes. 65% of producers never ask for a fodder analysis.
- While grain prices have been weakening and markets remain over-supplied, feed grain users have been reluctant to lock-in price protection.

Sentiment and intention

- The region suffered for many years from a mostly negative attitude to the industry’s future. The improved milk price, and seasonal situation has boosted confidence in the industry, with over 70% in the northern region maintaining a positive attitude in the past 2 surveys.
- Confidence fell in the 2010 survey however, as concerns regarding changes in the level and security of milk prices affected the outlook.
- Existing Queensland average farm size is 184 cows (191 in Southern Queensland and Northern NSW), which is up by 15 cows on last year and expected to increase by about 8 cows in 2010/11. The average is currently well below averages for Australia (258) and NSW (246).
- Medium term growth intentions expressed in February 2010 have weakened somewhat from the prior year, indicating a large percentage of producers intend to operate in a static mode with the change in market outlook:
 - 37% of producers intend to grow their business in 3 years if normal rainfall patterns are experienced – this is well down on 59% in the prior year;
 - In Southern Queensland and Northern NSW, 43% expect to produce more in 3 years
 - Only 3% of producers plan to exit in the next 3 years.
- If the proposed changes in the level and structure of milk prices are delivered in the coming years, these exit intentions may rise due to the fragility of milk production cashflows. These changes will come in two phases – firstly in 2010/11 through NatFoods proposals and secondly in 2012/13 when Parmalat implements a similar approach.

% of farmers positive about the future of the industry

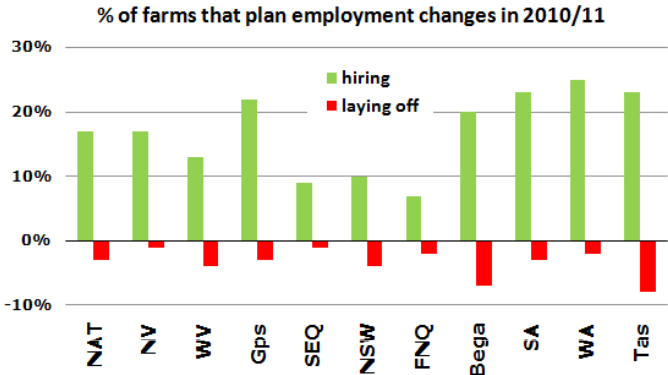
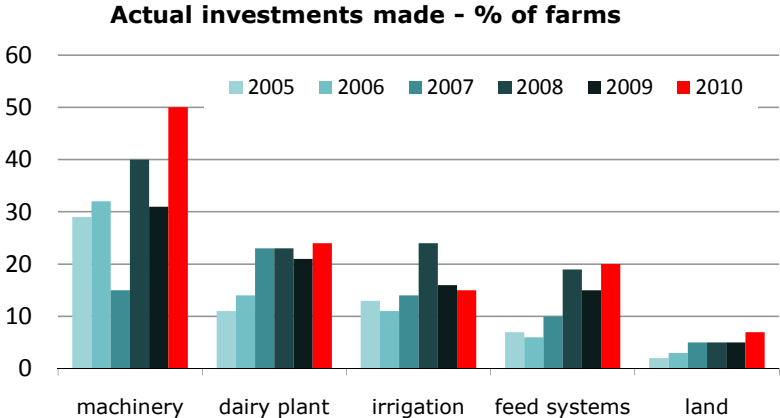


Source: National Dairy Farmer Survey

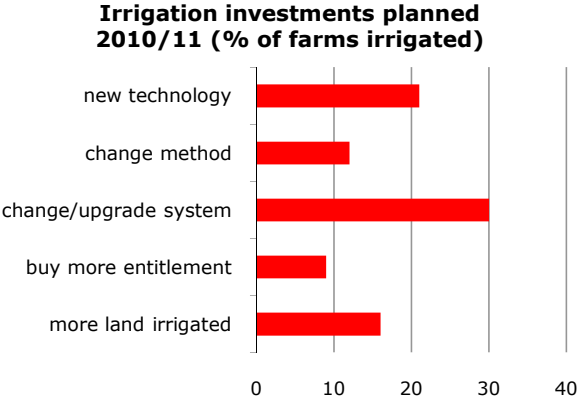
Challenges for milk producers

Investments

- The NDFS showed that there was again a small increase in investment activity in 2009/10 compared with the prior year (made on 76% of farms compared with 69%), there has been a slight weakening in investment intentions with 52% of farms planning to invest in 2010/11, compared to 62% holding that intention last year. Note that investment intentions are always exceeded by actual investments, generally because of unplanned machinery purchases.
- As shown in the chart on the right, investments were made across a range of asset types, but machinery was highest as usual.
- Planned investment in irrigation have also been surveyed in 2010, showing an increase in investment intentions with 51% in Southern Queensland and Northern NSW of the 50% of farms in with irrigation planning some investment or change in their systems, with the individual types of investment or change identified below.
- Despite the increased rainfall in the south-east region and the networking of urban water storages, security of supply for the agriculture sector remains relatively low.
- There are limited intentions in the region to hire additional staff in 2010/11, representing a fall from the intention at the same time last year.



Source: National Dairy Farmer Survey



Challenges for milk producers

Water

- Regional urban/coastal pressures built over many years due to shortages in urban potable water supplies and competing Government priorities such as environmental flows. Recent rainfall has boosted urban water supplies.
- Agriculture remains affected by restrictions in several southern Queensland sub-systems.
- It will be some time before there is sufficient clarity in the market environment sufficient to enable investment in new production capacity.
- The MDB Draft Basin Plan which is due to release in July 2010 will provide direction relevant to irrigation systems to the west of the Dividing Range, and will potentially contain a number of threats to the security of irrigation water access in the Basin.
- Water market operation and charging rules/costs developed by the Federal Government will define future trading arrangements in the MDB.
- Threats to security for water users in the Darling Down and Burnett regions are also apparent from mining activities in the regions.
- These pressures guarantee an increasing cost for water use in future which will increase operating costs of dairies.

Feed resources

- While there is increasing future regional feed competition, global and national factors are affecting feed grain prices.
- While the lower beef returns reduced cattle on feed, beef feedlot capacity in the region is significant, to meet demand from the beef export market.
- Currently beef cattle on feed are at about 50% of available feedlot capacity, well down on levels last reached in 2007 when skyrocketing grain prices forced liquidation of numbers on feed.

Labour

- There has been strong competition for labour due to the boom in the mining and services sectors which benefited from the energy and mineral commodities boom.
- The decline in commodity prices and closure/scale-down of some operations due to the global downturn and the proposed new resources taxation may alleviate that pressure and potentially provide producers opportunities.
- National award conditions are creating uncertainty as to their impact on conditions and labour costs for some producers.

Carbon Emissions

- In December 2009, the Copenhagen meeting of world leaders failed to reach a meaningful accord on the
- As a result, the Australian Government has deferred its proposed Carbon Pollution Reduction Scheme (CPRS) and associated targets for reducing carbon pollution.
- There is nonetheless pressure from the business community (including food retailers) for practical implementation of emissions reduction strategies, as the belief is inevitable that supply chains will be forced to account for their impact.
- The dairy industry remains concerned as to the effects of uneven international application of an ETS on competitiveness, as several competing exporters are uncommitted to apply a CPRS unless there is a global accord.
- Further pressure on operating costs for both processors and producers will come in the form of the Renewable Energy Target (RET) legislation. The RET regime will force energy suppliers pass on higher costs through electricity tariffs.

Where to from here?

The dairy industry in the northern region requires a number of elements to underpin the ongoing viability of the local supply chain.

1. Supply chain returns
 - The marketplace is not yet fully recognising and reflecting higher regional production & supply chain costs required to meet local fresh milk demands.
 - A critical challenge for the region's future development is to maintain a balance in the supply chain where the milk supply will be contracted to a market requirement at prices which can ensure both sustainability for producers and suitable margins for processors.
 - While market signals must continue to provide producers with long-term confidence to stabilise and improve their individual businesses, they will also continue to carry the risks of over-production.
2. The reliability of seasonal conditions
 - More reliable rainfall and temperatures has improved the reliability of the regional feed base and create stability in production systems. Combined with a permanent lift in milk price, these factors have provided sufficient confidence for existing producers to stabilise production.
 - Increased future variability in climate poses an increased risk to production systems used in these sub-regions and will increase milk production costs.
 - Further investments are required to reduce the vulnerability of farms to volatility (including in feed input costs and weather) and improve future profitability.
3. Improved certainty
 - Farms dependent on irrigation requires improved certainty of water access regimes to underpin farm investments
4. Support with greater challenges
 - There is an ongoing need to assist producers manage the increased decision-intensity and complexity facing their operations.
5. The Northern Dairy Industry Development Plan
 - An updated plan has been developed to reflect new realities outlined in this outlook package, and to underpin investment and service provision in the regional industry.
 - A number of regional initiatives are critical in implementation of this plan.

Contacts and further information

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Dairy Manufacturers

You can find a listing of processors on Dairy Australia's website under "who makes what".