



## Securing a strong, vibrant Australian dairy industry and keeping manufacturing local

Australian dairy processors are a critical part of the dairy supply chain.

Their viability and sustainability are essential to securing a strong, vibrant dairy industry that can keep dairy manufacturing local.

Processors pay more than \$6.1 billion to Australian dairy farmers annually and turn their raw and precious milk into the cheese, butter, milk, and yoghurt loved by Australians and the world.

### However, times are tough.

The current operating environment is damaging dairy processing businesses and is unsustainable.

Factories are closing. Others are reducing their footprint.

Today, our dairy products are not globally competitive. Aussie dairy is being replaced on shelf with cheaper imports.

Our farmgate milk price is the highest it has ever been compared to our global competitors.

### Why are we talking about this?

Dairy processors cannot keep buying raw milk for more than what it can be sold for as a manufactured dairy product.

It was a hard lesson they learnt this season when demand to fill factory capacity drove up the farmgate milk price.

Processors' goal is no longer to fill capacity.

It is to secure their viability and keep the doors open.

### It's a responsibility they take seriously and here's why...

Australian dairy processors create more than 70,000 jobs, with about 20,000 of these employed directly.

Of those, almost 60 per cent are in regional Australia and a quarter of these are in the highest job skill categories.

This means Australian dairy processors are providing life-long careers and contributing to vibrant regional and rural communities.

These are the communities with a local footy team, a local primary school, and local businesses.

The regional contribution dairy processors make cannot be underestimated.

Processors want a dairy industry that's here for the long-term, however the high cost of raw milk in Australia is unsustainable without a change in global market conditions.

## **Paying a fair price to dairy farmers remains critical.**

Dairy processors want to pay a fair price to the dairy farmers they work with.

This will not change.

However, it is critical the price paid is sustainable – so the businesses buying and processing the raw milk can remain economically viable for the future and continue to support the communities in which they operate.

It is well understood dairy farmers are also facing cost pressures.

This is why it's essential to ensure the price paid to dairy farmers can be sustainably maintained for the year ahead.

## **What does this mean? What can dairy processors do?**

Dairy processors can't change the cost of electricity and gas, they can't influence the cost of production in international markets, and they won't compromise on quality and nutrition.

What they can do, is look at every part of their business and make decisions that secure their future.

Protecting jobs and the dairy products we know and love.

In the lead up to the announcement of opening farmgate milk prices on June 1, there's always robust discussion.

It's important to share the facts about how farmgate milk prices in Australia are determined and the variables at play.

By 2pm Monday June 3, 2025 (noting June 1 this year falls on a Saturday), Australia's dairy farmers will have a month to assess farmgate milk price offers and contract terms from processors.

Dairy processors will develop their own view of the farmgate milk price they will pay for the

new season, with careful consideration to get their product and market mix selection right.

What we expect to see is demand for raw milk much more closely linked to market conditions.

## **Here are the facts...**

We're sure you've heard ADPF say that processors are making tough decisions as they continue to contend with record low raw milk supply, persistent and rising input costs and competition from cheaper international imports.

If you're thinking, give me the detail, here are the facts:

## **We compete with imports into Australia and exports around the world**

Seventy-one per cent, or more than 6 billion litres, of Australia's total milk production is directly trade exposed to global commodity markets and exchange rates. This means our dairy products must compete with imports into Australia and exports around the world.

## **The CMV is an important forward price milk indicator**

The spot Commodity Milk Value (CMV) is sitting at about \$7.30 per kilogram of milk solids. This is about 30 per cent or \$2.00 below the current weighted average Australian southern region farmgate milk price of \$9.40 per kilogram of milk solids.

## **If you break this down further, spot commodity prices of major commodities have dropped**

Over the 12 months to March 2024 spot prices of major commodities – including cheese, skim milk powder and whole milk powder have all dropped.

- Cheese has dropped by 29 per cent
- SMP has dropped by 15 per cent, and
- WMP has dropped by six per cent.

Why is this relevant? In 2023 the breakdown of Australia's milk utilisation was:

- 30 per cent for drinking milk
- 43 per cent for cheese (in Victoria this is 58 per cent)
- 18 per cent for SMP and butter, and
- two per cent WMP.

Australian dairy processors manufacture more than 400,000 tonnes of cheese annually.

***This means the value of the largest utiliser of Australia's milk (cheese) has dropped by 29 per cent – or US\$1800/t - while the cost of production continues to rise.***

### **Imports are impacting our competitiveness**

The volume of dairy imports into Australia is impacting the competitiveness of locally produced dairy products. More than 2 billion litres of milk equivalents entered the market this year. Consumers, retailers and food service have clearly all accepted imported dairy products freely interchanging with Australian cheeses and butter. Statistics show:

- In 2022/23, imports were up 17 per cent, largely from New Zealand at 29 per cent (NZ), the United States at 16 per cent (US) and Europe
- This meant, Australians consumed close to 30 per cent or 344 thousand tonnes of dairy (or 2.2 billion litres of milk equivalents) from overseas – up from 25 per cent the year prior and the largest volume ever imported in a single season. In 1999/2000, imports accounted for just 11 per cent of Australian dairy consumption.
- The price difference between Australian and NZ dairy products was at an all-time high, in conjunction with widespread inflation ramping up cost pressures for both buyers and producers.
- Imported product accounted for more than 40 per cent of the Australian butter market by volume last season, most of which originated from NZ.
- Whereas last season, YTD import figures (February 23 to January 24) show a 0.2 per cent decrease (to 325,000 tonnes, 2.1 billion litres milk equivalent) compared to the same period last year.



### **Exports are down**

Low milk supply and price competitiveness has caused Australian dairy exports to drop by about 17 per cent or 2.4 billion litres of milk equivalents – and this continues to decline.

Dairy Australia's 2023 In Focus report shows the export value of Australian dairy products has dropped from \$3.9 billion in 2000, with an export share of production of 54 per cent to \$3.7 billion in 2023 with an export share of 30 per cent (equivalent to three billion litres of milk equivalents).

YTD export figures February 23 to January 24) figures show a 15.9 per cent decrease (to 659,000 tonnes, 2.3 billion litres milk equivalent) compared to the same period last year.

### **Disconnect in farmgate milk prices**

At the start of the FY2024 season, there was a \$3.00 or 30 per cent differential in the farmgate milk price between Australian and New Zealand, and this continues to be more than 20 per cent or \$2.00.

### **Challenging low milk supply**

Twenty years ago, the Australian dairy industry produced 11 billion litres of raw milk. Ten years ago, this was about 9.3 billion litres annually. In 2022/23 we produced 8.1 billion litres. The current season is expected to finish at 8.3 billion litres.

While we are currently seeing an increase in raw milk production volumes, dairy processors need to be confident this will continue, so they can stem the flow of rationalisation and even consider growth plans.

### **Soaring input costs**

In FY2022 labour costs increased by about 10 per cent, transport costs were up 10 per cent and gas and electricity prices surged by about 300 and 100 per cent respectively.

In FY2023 we saw further rises in labour costs of about five per cent, transport was up another 19 per cent and gas and electricity costs grew by another 82 and 25 per cent. This is expected to continue in FY2024.

### **The impact on processors**

In the past 18 months 11 dairy processing businesses have publicly announced a closure.

This is in addition to several other dairy processing factories suspending operations, closing down production lines, rationalising operations and others announcing significant impairments on their dairy asset value, writing down hundreds of millions of dollars over the last two years.

We must work together to ensure this does not continue. We must better balance the risk across the supply chain. Our goal is for a viable and sustainable Australian dairy industry well into the future.



### **For more information**

Visit ADPF's Milk Value Portal [milkvalue.com.au](http://milkvalue.com.au) for credible and comprehensive information on current and historical data on Australian farmgate milk prices and the variables that influence this.

Visit [adpf.org.au](http://adpf.org.au) for more information on how farmgate milk prices are set in Australia.

### **About us**

The Australian Dairy Products Federation (ADPF) is the national peak policy and advocacy body representing commercial, post farm-gate members of the Australian dairy industry, including processors, traders and marketers of Australian dairy products. Our members process more than 90 per cent of Australian milk volumes and provide dairy products for both domestic and export markets.