

## The Outback is Out of Step: Where is Australia’s Dairy Industry Heading?

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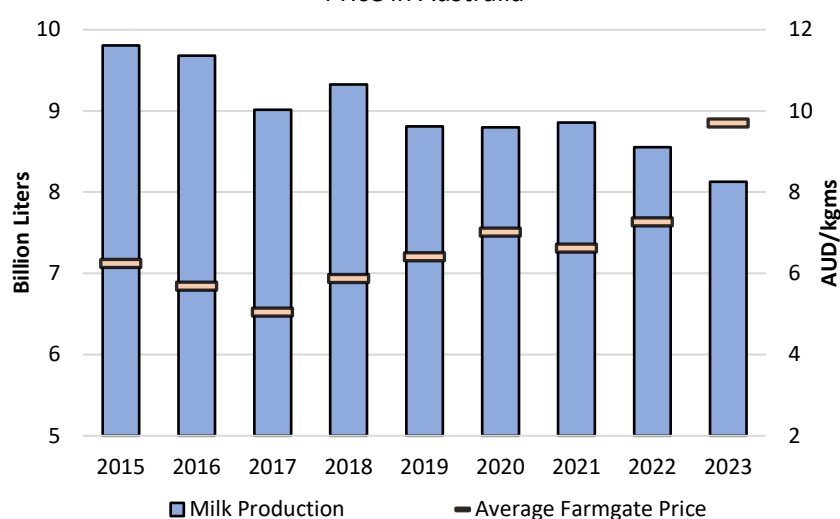
Since 2015, Australia’s dairy farms have bucked the global trend of increasing milk production.<sup>1</sup> Severe drought from 2017 to 2019 followed by a persistent labor shortage have spurred declines in dairy cow numbers, dairy farms, and consequently milk production. Meanwhile, farmgate prices—the price of milk that dairies receive—has continued to strengthen. These compounding factors have contributed to weakening exports and to consolidations among dairy processors. Australia is the world’s fifth largest dairy exporter by value and competes with the United States in several important global markets.<sup>2</sup> This briefing discusses the competitiveness of Australia’s dairy industry which may continue to erode without an increase in milk production.

### Factors Influencing Milk Production:

Australia’s fluid milk production has fallen 17 percent since 2015 while farmgate prices increased 55 percent in the same period (figure 1). From 2018 to 2021, the dairy regions of Australia experienced varying degrees of drought. Since the drought improved in earnest in 2021, dairies have received signals in the form of higher farmgate prices to expand production. However, recent labor supply issues have partly restricted them from doing so. Dairy farms are labor-intensive enterprises where cows are often milked two or three times daily.

Australia closed its border to foreign workers for roughly two years (March 2020 – early 2022) amidst the COVID-19 pandemic. During this period, working holiday and temporary resident visas approached near-zero levels.<sup>3</sup> Dairies contract foreign workers for temporary support positions which went unfilled during the lockdown. Before COVID-19, close to 50 percent of hiring dairy farms reported difficulty in recruiting workers.<sup>4</sup> COVID-19 restrictions on the foreign labor supply exacerbated this situation and helped further constrain milk production. In 2019, 14,254 visas for agriculture were granted. This total had decreased to 5,924 at the end of 2022 when Australia’s border had been fully reopened.<sup>5</sup> In addition to labor shortages, beef production represents a viable alternative to dairy farmers grappling with high costs. Strong beef

**Figure 1. Milk Production & Average Farmgate Milk Price in Australia**



Sources: Dairy Australia, [In Focus 2022](#), accessed 10/16/2023; Australian Dairy Products Federation, [Milk Value Portal](#), accessed 10/16/2023.

Note: Australia’s fiscal year (July to June).

<sup>1</sup> [USDA PSD](#), accessed 10/19/2023.

<sup>2</sup> [S&P Global](#) for HS 0401, 0402, 0403, 0404, 0405, 0406, accessed October 20, 2023. Belarus has not reported trade data since early 2022, it reported the fourth highest dairy exports for these groups in 2021.

<sup>3</sup> Australia allows for several visa subclasses that can include on-farm labor. This briefing only considers the “Working Holiday” and “Work and Holiday” Visa Programs (subclasses [417](#) and [462](#), respectively).

<sup>4</sup> Dufty, Martin, and Zhao, [Demand for Farm Workers: ABARES Farm Surveys 2018](#), September 2019, vii & 25.

<sup>5</sup> Department of Home Affairs, [Working Holiday Maker Visa Program Report 2022](#), December 31, 2022, 60 & 61.

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export demand and fewer cattle from the drought drove up live cattle prices in Australia from 2020 through 2022.<sup>6</sup> The skyrocketing prices for live cattle lured dairy farm operations either to beef cattle ranching—a less labor-intensive industry—or to market their herds.<sup>7</sup>

**The Dairy Industry's Response:** Australia's declining milk production since 2015 has created fierce competition among the country's dairy processors. The top four comprise about 40 percent of Australia's dairy product market by value.<sup>8</sup> Competition among processors is largely beneficial to farmers who otherwise would possess less bargaining power. Nevertheless, years of shrinking milk production and rising farmgate prices have resulted in underutilization at many processing plants and restructuring among the major manufacturers. In 2023, Saputo—one of the country's top four processors by revenue—agreed to sell two milk manufacturing plants to Coles, Australia's second largest supermarket chain. The Australian Competition and Consumer Commission has delayed its ruling on the sale to further investigate competition concerns. Also in 2023, Saputo closed one dairy factory and ceased powder and cheese production in two other plants. Meanwhile, the Bega Group – Australia's largest dairy processor – closed its milk manufacturing plant in Canberra reporting that business was unfeasible in the Australian Capital Territory where no commercial dairy farms operate. Furthermore, Bega disclosed in August 2023 a loss after taxes of nearly AUD \$150 million resulting from the gap between revenue on exported products and the Australian farmgate milk price.<sup>9</sup>

**Production Afflicting Australia's Trade:** Milk's higher price and weaker volumes have pressured Australia's dairy trade competitiveness. In 2015, Australia exported 50 percent of cheese produced domestically. By 2022, this figure had fallen to 36 percent. Meanwhile, butter export volumes fell 70 percent from 2015 to 2022. Over the same period, skim milk powder (SMP) shipments tumbled by 23 percent while whole milk powder (WMP) volumes dropped 11 percent.<sup>10</sup> In 2023, muted demand in East and Southeast Asia has reduced Australia's export volumes below last year for most dairy products.<sup>11</sup> Lackluster global demand has further exposed Australia's dairy export prices that have been trading at a premium to global prices.<sup>12</sup> Importers have pivoted to purchasing price-competitive dairy products—SMP, WMP, and butter—from New Zealand, the United States, and the EU. In addition, Australia's Department of Agriculture, Fisheries, and Forestry (DAFF) forecasts farmgate milk prices in 2023/24 to be 38 percent above the five-year average (2018–2022). Regarding milk production, DAFF projects a 1 percent increase in output. However, if milk production does not rebound further, these issues may cause the financial outlook for Australia's processors and exporters to sour.

Sources: Australian Competition and Consumer Commission, "[Milk supply agreements](#)," June 6, 2023; CLAL, "[Dairy by Country](#)," October 19, 2023; Coyne, "[Bega Group warns of hefty impairment as milk production dries up](#)," June 28, 2023; DAFF, "[Analysis of 2018 Drought](#)," October 2018; Dairy Australia, "[Hiring people from overseas](#)," October 16, 2023; Groeneveld, "[Australian dairy farmers unable to find labour](#)," November 11, 2022; Harvey, "[Australia regulator delays decision on Coles buying Saputo milk plants](#)," September 14, 2023; Lefort, "[Dairy exporters under pressure amid high milk prices](#)," September 13, 2023; Racz, "[Bega Cheese to close Canberra dairy factory, switch to Penrith site](#)," February 22, 2023.

<sup>6</sup> Meat and Livestock Australia (MLA), "[EYCI Report](#)," accessed October 20, 2023.

<sup>7</sup> Dairy Australia, [The Australian Dairy Industry in Focus 2022](#), January 6, 2023, 3.

<sup>8</sup> MarketLine, [Dairy in Australia](#), October 2022, 21.

<sup>9</sup> Harvey, "[Bega Group Books Hefty Impairment Charge Driving After-Tax Loss](#)," August 24, 2023.

<sup>10</sup> [USDA PSD](#), accessed 10/19/2023.

<sup>11</sup> East and Southeast Asia drive global dairy demand. These markets include but are not limited to: China, Indonesia, Japan, Malaysia, South Korea, Taiwan, and Thailand.

<sup>12</sup> Read, "[Outlook for Dairy - DAFF](#)," September 5, 2023.

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