

MANAGING DIRECTOR'S REPORT

During 2006/07, Dairy Australia continued to engage in activities for the ultimate benefit of levy payers and to develop its operations to provide better services to the industry and deliver greater returns.

The Company strived to reinforce the industry's culture of collaboration and co-operation and it continued to measure its performance, remain accountable and ensure the relevance of our activities to industry.

Company expenditure in 2006/07 was \$54.8 million with \$40.5 million invested in 290 contracts; 108 of these were new. The Company has placed increased emphasis on its policy to aggregate contracts and this will continue in the near future.

In line with previous announcements, the Company drew down on reserves to fund projects in anticipation of lower income as milk production growth recovers after the drought. During the year, the Company exited or reduced its exposure to investments that were no longer aligned with industry priorities.



Dr MJ Ginnivan
Managing Director

The primary sources of income are the Dairy Service Levy and Australian Government matching funds. The total amount of levies received during the year was \$30 million, which was slightly below the previous year (2006: \$31.7 million). Matching payments of \$16 million were 4.2 per cent higher than the previous year (2006: \$15.4 million) due mainly to the impact of higher farmgate milk prices in 2005/06 and 2006/07. Income from these sources, which is a function of milk production and farmgate milk prices, is expected to remain under pressure during 2007/08.

During the year, contributions by other organisations to programs managed by the Company totalled \$2.9 million (2006: \$2.4 million). The largest of these was \$629,042 towards regional dairying co-ordinators and \$350,000 towards the development and support of whole farm systems analysis and tools. Dairy Australia will continue to leverage funds either directly, collaboratively or to complement its programs for the benefit of the Australian dairy industry. Currently, Dairy Australia leverages an additional \$3.45 for every dollar it invests in on-farm activities, and an additional \$1.46 for manufacturing-related R&D.

Interest on funds invested during the year was \$1.97 million. Cash reserves were managed prudently, mainly through investments in short-term bank bills and an externally managed portfolio of income and growth assets, including direct shares, managed funds, listed property trusts and fixed interest rate products.

An analysis of the charts on page 10 shows the amounts spent by each of Dairy Australia's business groups in addressing the three core business objectives. As planned, close to half of the Company's investment went into programs that seek to increase farm productivity.

MEETING INDUSTRY REQUIREMENTS AND EXPECTATIONS

During the past year, Dairy Australia underwent its first Independent Three Year Performance Review, and its main funding base, the Dairy Service Levy, was subject to a levy poll. While both resulted in welcome outcomes for Dairy Australia, it is useful to return to the objectives of the reform process that created Dairy Australia through the merger of the Australian Dairy Corporation and the Dairy Research and Development Corporation. These objectives were to:

- Streamline and simplify the structure of the delivery of industry services;
- Improve co-ordination and integration of research, development, trade policy, economic and promotional activities;
- Enhance capacity to respond to market changes;
- Efficiently transfer the assets and liabilities of the statutory corporations to the industry; and
- Be accountable to levy payers and to the Commonwealth for the expenditure of levy funds and matching R&D grants.

The outcomes of the performance review and the Dairy Service Levy Poll demonstrate that the Company is delivering on these objectives.

The performance review found that the Company had met or exceeded the original expectations of industry and the Australian Government. It reported that members and key stakeholders considered Dairy Australia to be professional, positive, well-informed, co-ordinated and effective. In particular, the Company's planning process, used to align its strategies to industry and government priorities, was regarded as flexible, collaborative and comprehensive, and would allow it to reach its full potential. The review recommended the Company continue its efforts to better demonstrate the value and on-farm relevance to farmers of levy funded activities.

ENDORSEMENT OF INDUSTRY COLLECTIVE ACTION

The Dairy Service Levy Poll returned two thirds of first preference votes (68 per cent) in favour of either keeping the Dairy Service Levy at its current rate (64 per cent) or increasing it (4 per cent). This indicates the confidence dairy farmers have in their industry and their recognition of the services funded by the levy. Farmers understood that their collective investment enables them to be innovative and internationally competitive and they recognised instinctively the need for the dairy industry to be promoted and protected.

DEVELOPING CAPABILITY TO TACKLE EMERGING ISSUES

With the second major drought in five years testing the resilience of some farmers, it is no surprise to find that climate concerns have overtaken milk price as the most important challenge facing Australian dairy farmers (see page 26). While general information about climate change is available, individual farmers need to know what climate change means for their farm and how it will affect their growth plans. Dairy Australia is working collaboratively with governments, the research community and other agricultural industries to help build a dairy industry that is more resilient to climate shocks and is actively reducing and/or offsetting its emissions.

Despite its commercial success Australian dairy faces increased challenges in the area of resource management and future access to key resources, and not just from climate change. In both domestic and export markets, consumers are demanding foods that are healthy, low cost and produced in an ethical and environmentally sound manner. Supermarkets and large end users are imposing their own standards and conditions on suppliers in terms of acceptable, sustainable production systems. Internationally, buyers want confidence in the continued availability of quality milk and milk products from Australia at competitive prices. Overseas governments are increasingly using environmental practices and standards as a means of regulating potential trade flows into key markets.

In line with this, Australian governments are increasingly regulating activities that may harm (or be seen to harm) the environment. Access to water in Australia is now widely regulated. Governments are seeking to balance the supply of an increasingly scarce resource between competing economic and social priorities (urban water needs, environmental flows, production inputs).

As Dairy Australia's work in environmental management systems (page 31) and dairy processing's natural resource management (page 33) has shown, the dairy industry has to take a broad view of resource management. Industry has to identify areas for improvement across the whole supply chain and demonstrate its credentials not only to government but to the wider community. No amount of investment in irrigation will be enough to address water shortages if the industry is perceived by the Australian consumer to be wasteful.

An holistic approach and collective action are the keys to tackling climate change and variability, and NRM. The dairy industry and Dairy Australia have the capability to address these issues on a much broader scale and therefore be in a better position to deliver real and lasting value back to levy payers and the broader community.

I would like to express my thanks to the Australian Dairy Industry Council, Australian Dairy Farmers, Australian Dairy Products Federation, dairy companies and the dairy industry's eight Regional Development Programs for their support during the levy poll and especially during the drought. My thanks also go to the Board for their unstinting work throughout the year and in particular during the farmer consultation phase of the levy poll.

Finally I would like to acknowledge the contribution staff have made. This has been a challenging year for everyone in our industry, and their empathy and commitment is to be applauded.



Dr Mike Ginnivan

