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HD **AUSTRALIA'S farm sector needs two key ingredients in**

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AUSTRALIA'S farm sector needs two key ingredients in order to thrive during the next 20 years - new investment backing for family farms, and **milk**.

Murray Goulburn (MG) estimates every Australian would be, on average, more than $800 better off today if the nation's **dairy** farmers hadn't quit the industry in droves during the past decade.

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Instead of maintaining a respected 15 per cent share of global **dairy** export markets, Australian **milk** production has been slipping 1.7pc annually, despite a big surge in world **dairy** product demand in the past five years.

Australia now supply just 7pc of the international trade.

Across the Tasman Sea, New Zealand has been doing the opposite, converting beef and sheep country into **dairy** farms and growing its annual production by about 3.5pc.

NZ's share of the global **milk** product trade is now 37pc - up from a **stake** similar to Australia in 2002.

Milk exports are now turbo-charging the kiwi economy, with the sort of growth experienced by Australia in the recent mining boom, including pushing value of the NZ dollar to 40-year highs.

Growth in demand for **dairy** foods is forecast to be more than double that of the next two fastest growing food categories combined by 2020, dragged along largely by demand from **China**.

Chinese imports of **dairy** foods were worth just $309 **million** in 2001, but by last year had soared to $US6.2 **billion**.

"**Dairy** is truly an amazing story of growth. It really is so huge," Murray Goulburn shareholder relations general manager Robert Poole said.

"Unfortunately we have not been in a position to take advantage of it, but NZ saw the chance and grabbed it."

A difficult decade of drought, **milk** market deregulation, a rising Australian dollar and low farmgate **milk** returns eroding farmer confidence levels had convinced many producers it was time to stop milking, sell their farms, sell irrigation water rights, or semi-retire.

"None of this makes sense for an Australian industry with such a great outlook," Mr Poole said.

"We need to reverse the trend and get farmland back into **dairy** production.

"Getting people to invest in **dairy** again is going to deliver an incredible prize."

He said a 3.5pc compound increase in annual production would deliver an extra $5b a year to the national economy from export earnings by 2020.

To reclaim 15pc of the global trade by 2030 would bring in $11b - equivalent to an extra $824 per capita every year.

Mr Poole admitted it was an "incredibly audacious goal", but his farmer-owned co-operative arguably Australia's biggest food **business** was determined to do its bit to encourage as much production growth as possible.

A key plank in MG's strategy is to promote growth by providing farmgate pricing confidence to its expanding supplier network in NSW, Victoria, Tasmania and South Australia.

This trading year MG suppliers would be paid 50 cents a litre a near record and the **company**'s objective was to increase its **milk** price by a further 7c/L (equivalent to $1/kg for **milk** solids) to encourage a turnaround in supply volumes.

"We can create so much more income per hectare from **dairy** cows than from sheep or beef cattle - we've got to get the land lost in the past decade back in production," Mr Poole said.

Research by corporate consultancy Port Jackson Partners estimated **dairy** needed about $16b in new capital funds to enable Australia to regain its lost export market share by 2020.

However, a major hurdle to farm productivity growth was the long tradition of funding farm expansion with borrowed money.

Debt-heavy farmers were vulnerable to droughts and price volatility which put the debt-funded growth model under stress.

Farmers were becoming reluctant to move quickly to take on bigger investment risks even if long-term market prospects were appealing.

MG believed the most obvious alternative to blowing out farm debt even further was to encourage outside equity into farming, particularly when farmers needed more land to lift production.

Since 2011 a partnership program coordinated by the big co-operative has increased **milk** production by up to 28m litres a year by drawing in $20m in European equity to pay for farmland acquisitions adjacent to or nearby existing MG suppliers in Victoria.

Mr Poole said superannuation investment groups now owned land which was leased at market rates direct to nine highly credible farming family operations.

The deals provided fund managers with solid annual returns and long-term land value gains, while the farmers were able to limit their borrowings to funding new machinery and buying more cows.

CO mryglb : Murray Goulburn Co-operative Company Limited

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