



Australian Dairy Sector Insights

Delivered by the UK Food &
Drink Exporters Association

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Economic Snapshot

- Australia is the world's smallest continent but sixth largest country by area.
- It is the world's 13th largest economy - it has one of the highest levels of per capita GDP in the world and is ranked first for median wealth per adult.
- Prior to the onset of COVID-19 the Australian economy recorded 29 years of consecutive economic growth.
- The commercial environment in Australia is regarded as exceptionally friendly and an attractive place to do business. Australians are open to giving new products and ideas a try. Apart from a very strict quarantine regime it offers few barriers to entry, a familiar legal and corporate framework as well as a sophisticated yet straightforward business culture.
- OECD economic forecast summary May 2021: GDP is projected to grow by 5.1% in 2021 and 3.4% in 2022, driven by domestic demand. Confidence is high and labour demand is strong. Rising incomes and a declining saving rate will support consumption. The unemployment rate will fall further. Nonetheless, restrictions continue to constrain some parts of the economy and insolvencies will rise from their current low levels.



NB: ALTHOUGH THE ECONOMIC SITUATION IS GENERALLY BUOYANT, AS AT SEPTEMBER 1ST 2021 NEW LOCKDOWNS IN 3 KEY CITIES ARE ONGOING AND MAY IMPACT NEGATIVELY ON CURRENT CONDITIONS

Key Economic Indicators

	Australia	UK
<i>Population (July 2021)</i>	25.8 m (55 th globally)	67.08m (22 nd globally)
<i>GDP Growth Forecast (OECD May 2021)</i>	5.1% in 2021 3.4% in 2022	7.2% in 2021 5.5% in 2022
<i>GDP per Capita (Trading Economics)</i>	Dec. 2020: US\$48,698 2023 Forecast: US\$ 49,600	Dec. 2020: US\$ 41,627 2023 Forecast: US\$ 46,700
<i>Unemployment Forecast 2022</i>	4.5%	4.6%
<i>Big Mac Index July 2021¹</i>	US\$4.79 (9 th most expensive globally)	US\$4.75 (11 th most expensive globally)
<i>Human Development Index Global Ranking 2020²</i>	8	13
<i>Urban Population (World Bank 2020)</i>	86.2%	84.1%
<i>International LPI ranking 2018³</i>	18	9
<i>Coface Country Risk Rating Q2 2021⁴</i>	A2	A3
<i>World Bank Ease of Doing Business Ranking 2020⁵</i>	14	8

¹ *The Big Mac Index*: an index published by The Economist as an informal way of measuring the purchasing power parity (PPP) between two currencies and provides a test of the extent to which market exchange rates result in goods costing the same in different countries

² *The Human Development Index*: created to emphasize that people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone. It assesses health, education and living standards in 189 countries.

³ *World Bank Logistics Performance Index*: ranks countries on six dimensions of trade including customs performance and trade and transport infrastructure. Although Australia rates lower than the UK in terms of overall infrastructure due to its vast landmass with big differences in population concentration, it scores higher for customs efficiency and only slightly behind in logistics competence

⁴ *Coface Country Risk Rating*: 160 country assessments, drawn up on the basis of macroeconomic, financial and political data and giving an indication of a country's potential influence on businesses' financial commitments. 8 level ranking, in ascending order of risk: A1, A2, A3, A4, B, C, D & E

⁵ *World Bank Ease of Doing Business Ranking*: Economies are ranked on their ease of doing business, from 1–190. A high ease of doing business ranking means the regulatory environment is more conducive to the starting and operation of a local firm

POSITIVE ECONOMIC INDICATORS MAKE AUSTRALIA AN ATTRACTIVE TARGET MARKET FOR UK FOOD AND DRINK EXPORTERS

Trading Environment

- Australia is an open market with minimal restrictions on imports of goods and services, except for some food and drink products (*including cheese and curd – see Appendix I*). The process of opening up in recent years has increased productivity, stimulated growth, and made the economy more flexible and dynamic.
- Underpinning Australia's strong economy is its transparent trade and investment environment, and trade and economic links with emerging economies, particularly in Asia. Its top 5 trading partners are China, Japan, the US, South Korea and the UK.
- Australia is a significant exporter of natural resources, energy, and food.



Free Trade Agreements (FTAs): Australia has 15 FTAs with 26 nations (August 2021)

- Member of the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership): A trade agreement between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam
- On the 15th of November 2020 Australia also signed the Regional Comprehensive Economic Partnership (RCEP) with 14 other Indo-Pacific countries. This free trade agreement is the largest trade deal in history, covering 30 per cent of the global economy. It includes the Association of Southeast Asian Nations (ASEAN : Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam) and ASEAN's free trade agreement partners (Australia, China, India, Japan, New Zealand and Republic of Korea).
- FTA with the UK: Australia and the UK have an 'agreement in principle' for a free trade agreement which is a 'commitment to establishing mechanisms that will provide for the liberalisation of tariffs on each other's goods and that will address non-tariff barriers to trade: between our two countries' (Gov.uk 17.06.21)

INTERNATIONAL TRADE AND INVESTMENT ARE VITALLY IMPORTANT TO THE AUSTRALIAN ECONOMY. IN 2020, TRADE REPRESENTED 43% OF THE NATION'S GDP..

UK-Australia FTA: Implications for UK Exporters

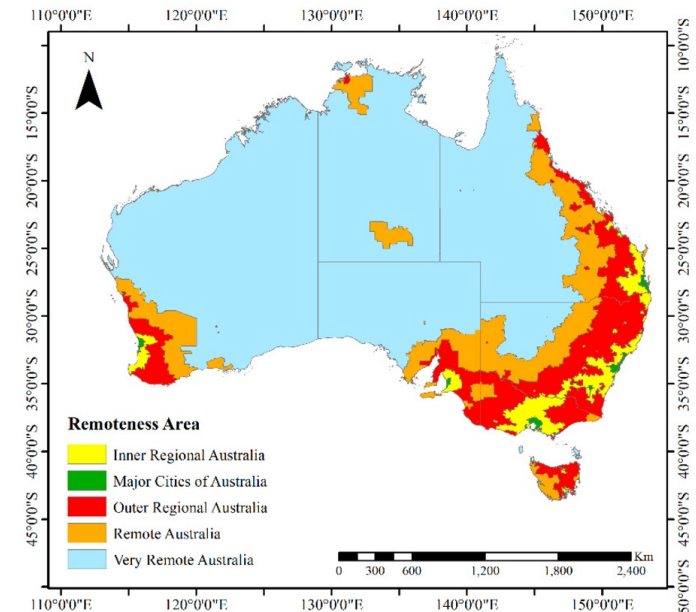


- Dairy tariffs will be eliminated over five years. During the transition period, Australia will have immediate access to a duty-free quota for cheese of 24,000 tonnes, rising in equal instalments to 48,000 tonnes in year five. Australia will also have immediate access to a duty-free quota for non-cheese dairy of 20,000 tonnes. There will be a further duty-free transitional quota for butter of 5,500 tonnes rising to 11,500 tonnes in year five.
- The UK will also have access to Australia on tariff free basis.
- As has been widely publicised, there are industry concerns that Australian farm production costs tend to be much lower than in the UK, including for dairy. and the UK could be flooded with cheap imports. Despite lower costs, Australian exports to the UK are currently relatively low, due to the UK Global Tariff barrier and proximity to the attractive Asia-Pacific region. However, if trade flows are impacted there (e.g. Australia-China trade relations are currently fragile) there may be more of a push to export to the UK.
- This FTA is an important step towards the UK joining the CPTPP: benefits of this partnership agreement include:
 - new protection for more iconic UK goods (from 7 currently to over 70) covering goods including Yorkshire Wensleydale and Welsh lamb and strong tariff reductions on a range of agricultural exports including pork, beef and salmon.
 - significant improvements in market access for UK dairy producers and exporters in CPTPP markets
 - mostly gain for UK dairy with respect to improving its position over non-CPTPP dairy exporters such as European countries and the USA which continue to face current tariffs.

WHILST THE FULL IMPACT OF THE UK-AUSTRALIA FTA IS NOT YET KNOWN, IT WOULD APPEAR TO BE A STEP TOWARDS OPPORTUNITIES FOR DAIRY EXPORTERS IN THE WIDER ASIA-PACIFIC REGION

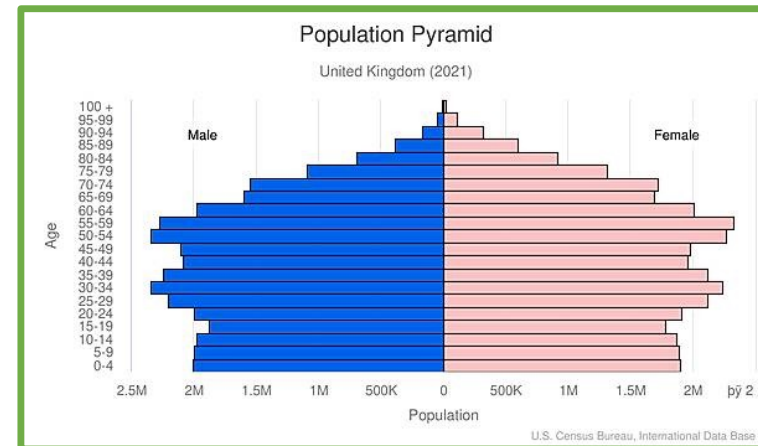
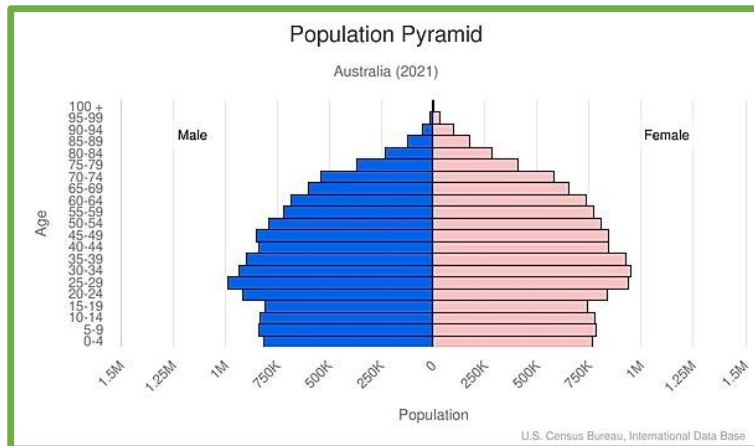
Overview of Consumer Demographics

- Urban population: 86.2% of total population (2020): population is primarily located on the periphery, with the highest concentration of people residing in the east and southeast; a secondary population centre is located in and around Perth in the west; of the States and Territories, New South Wales has, by far, the largest population at 31.8%; the interior, or "outback", has a very sparse population
- Main urban zones: Melbourne (4.9m); Sydney (4.9m), Brisbane (2.4m) and Perth (2m)
- Population density: 3 inhabitants /km² (UK for comparison: 279)
- Ethnicity: 7.8m (30%+) of Australians identified as being of English descent in the 2016 census; Australia hosts the largest British expat population in the world (1.2m) which is higher than the total number of Brits living in the EU member states.



DESPITE ITS VAST LAND MASS, OVER 70% OF THE POPULATION LIVE IN THE EAST / SOUTH EAST AND ARE THEREFORE EASILY ACCESSIBLE

Overview of Consumer Demographics



- The population is ageing and growing at a rate of 1.31%. Median age = 37; UK = 39
- In 2017, 15% of the population (3.5m) were over 65m and this is forecast to grow in the coming decades. One of the key drivers is increase in life expectancy: Australians enjoy one of the highest life expectancies in the world: 83.4 years (versus 81.3 in the UK)
- Millennials (born between the early 1980's and 1999) : in the latest census (2017), there were 6.4m millennials in Australia, with over 2m living in New South Wales. In 2020, an estimated 12.8% of the population were between 15-24.

THE AGEING POPULATION MEANS CONSUMERS WILL INCREASINGLY LOOK FOR FOOD AND DRINK PRODUCTS WHICH MAINTAIN HEALTH AND PREVENT ILLNESS

Consumer Spending



- Australian households will spend a relatively stable proportion of their total household spending on food, over the 2005-2025 period, at approximately 10.0%. As average household disposable incomes are relatively high in Australia, households are more comfortable with their proportional spending on food. Despite little changes to the proportional spending on food, there has been a significant growth in the amount of spending, which signifies that consumers are purchasing more expensive food items.
- Breaking down the average Australian household spend on food; three food categories will account for approximately half of total food spending in 2025. In 2025, meat and poultry products will account for the largest share at 20.0% of total food spending, followed by dairy products and fresh vegetable products at 15.2% and 12.6% respectively. These three food categories (meat and poultry, dairy, and fresh vegetables) will see their share of total food spending increase from an estimated 44.7% of total food spending in 2005 to 47.7% in 2025, with dairy products spending projected to record the largest increase of all food categories over this period, reaching a forecast 15.1% of total food spending in 2025 from 13.6% in 2005.
- Imported products accounted for 11% of expenditure on food and beverages in 2020.
- Inflation is forecast to remain below 2% until 2023. Food prices will remain in growth as a result of natural disasters, high demand and labour scarcity meaning industry growth will be driven by value rather than volume.

DAIRY PRODUCTS SPENDING IS FORECAST TO REPRESENT THE LARGEST INCREASE OF ALL FOOD CATEGORIES BETWEEN 2005-2025

Post Covid Consumer and Shopper Themes

Physical

- Shoppers Have Moved: 75% of city workers are reluctant to go back to their workplaces full-time. Remote working is a plus for at-home food spend
- Reduction in commuting negatively impacts the out-of-home food and drink spend
- Retailers are embracing 'Customer First' ranging
- Shoppers are embracing local
- Preference for one-stop shopping in-store

Digital

- Customers are increasingly online and have moved their spend
- E-commerce was a driving force in H1 2021 retail sales performance especially for Woolworth (sales up 86% Q1 2021 V Q1 2020)
- Australians daily time spent online has increased to 6h13min.

Social

- Gen Z driven to seek new experiences
- Premiumisation (especially in existing indulgent categories) elevates the everyday
- 50% of consumers willing to pay a premium for better quality
- At home experiences are elevated versus pre-pandemic: Work, shop & entertain from home will continue

Holistic Health

- Shift from safety & security to prevention functional & societal care going forward.
- Health, wellness, the environment and animal welfare continue to be major focuses among consumers and as a result the healthy eating and free from categories are booming

(see overleaf for more details)

MANY CONSUMER AND SHOPPER TRENDS AND BEHAVIOURS WHICH EXISTED PRE-COVID HAVE ACCELERATED OR BECOME MORE PROMINENT AS A RESULT OF THE PANDEMIC

Health and Wellness Trends

- In line with increasing concerns about health and wellness (HW), consumers are seeking better quality and healthier ingredients in their packaged food products. They are also looking for better for the planet offerings in their food as well as in packaging.
- Free-from and organic food are the strongest performers in the HW category. Although Australia is a large producer of organic raw products, it does not have the manufacturing capacity to satisfy demand for processed organic products. The UK has an equivalency agreement with Australia.
- Australian consumers are adopting a back-to-basics mindset, focusing on simple ingredients and fewer artificial or processed foods. The types of products consumers want to see more of are all natural; no artificial colours or flavours; low sugar/sugar free and low fat/fat free
- Demand for healthy food is being boosted by demographic shifts. An aging population and rising birth rates have both had a positive impact on the development of the health and wellness market.
- Middle-aged or elderly consumers and parents with young children tend to be better informed about health and dietary matters than other groups, and thus represent a key target for health and wellness manufacturers.
- Health concerns among Australians increasingly encompass not only finished products, but also the production process



UK EXPORTERS SHOULD TAKE INTO ACCOUNT THAT ALL ASPECTS OF THE HEALTH AGENDA ARE INCREASINGLY IMPORTANT TO CONSUMERS

Why is Australia a Good Place To Do Business?

- **An affluent market:** compared to many other parts of the world there are more people spending money which creates a positive environment for business.
- **A well-regulated corporate and financial market:** corruption / fraud levels are low and businesses operate relatively smoothly
- **Politically and economically stable:** on average the economy has grown by 3.3% p.a. since 1990; when China's economic bubble burst and the world caught a cold, Australia's economy stayed positive.
- **A highly urbanised industrial nation** despite its vast land mass: consumers in urban areas tend to be more open to new products and follow trends more closely
- **Access to Asian markets and time zones:** being within this time zone has led to many companies operating across Singapore, Hong Kong, China, Malaysia, Thailand, and the Philippines.
- **A culturally diverse consumer market:** Australia is a country of immigrants. With an extremely diversified culture comes a diverse consumer market, and this provides huge opportunities for businesses. When business demography is diversified, businesses can expand the reach of their product and services so that they target a larger audience.



Dairy Industry Overview



- The dairy industry is one of Australia's major rural industries. Based on a farmgate production value of A\$4.4 billion in 2018/19, it ranks fourth behind the red meat, wheat and wool industries.
- It is estimated that approximately 46,000 people are directly employed on dairy farms and by dairy companies within Australia. Associated transport, distribution, farm services and research and development activities represent further employment associated with the industry. Additionally, dairy processing often occurs close to farming areas, generating significant economic activity and employment in regional areas.
- Australian consumer support for dairy remains strong with one of the highest per-capita consumptions in the developed world. During 2018/19 Australians consumed on average 321 litres of milk. This is more than the 269 litres per capita consumed in the United States and the average of 305 litres of milk consumed per capita in the European Union.
- Australia counted for 4.2% of the Asia Pacific dairy market value (China = 49.9%) in 2019
- Demand for Australian dairy products is not just confined to the domestic market. Australia is also a significant exporter of dairy products to the rest of the world
- In recent times, the dairy sector has successfully advocated for important industry initiatives, including the end of A\$1/litre milk and Free Trade Agreements with Indonesia, Hong Kong and Peru, leveraging the industry's ability to take a united and well-constructed position to government.

THE AUSTRALIAN DAIRY INDUSTRY PLAYS A MAJOR ROLE IN THE DOMESTIC AND GLOBAL ECONOMY.

Milk Production

- Milk production in Australia in 2021 is forecast for a further increase to 9.2 million metric tons (MMT) on the back of a dramatic turnaround in 2020 as a result of drought-breaking rains and an excellent pasture and crop growing season in eastern Australia. Milk production conditions continue to be favourable in 2021, including strengthening milk prices. However, the year-to-year increase in milk production is smaller than previously estimated as some dairy producers continue to exit the industry and some dairy farms shift to beef production. Fresh milk consumption in 2021 is forecast to remain stable, with a small increase in factory use consumption, primarily for cheese. Cheese production is set to expand three percent in 2021 taking up 60 percent of the manufacturing milk volume.
- The growth in milk production is a result of good pasture production and improved fodder and grain availability on the back of large harvests in the spring of 2020, along with strong milk prices. However, the growth in milk production is lower than previously expected due to unexpected exits from the industry towards beef cattle production. Overall milk production in the first three months of 2021 was at half of one-percent higher than in 2020. With replenished hay and silage reserves after a strong spring (Sep-Nov) in 2020, dairy farmers entered 2021 in a better position to manage through the autumn (Mar-May) and winter (Jun-Aug) periods, enabling an improved spring 2021 peak production over that achieved in 2020.
- National milk production is projected to increase over the next five years. Improved milking technology and increased farmer focus on feed quality, which helps boost the productivity of each milking cow, is likely to raise milk yields over the period. Furthermore, the number of cows is also projected to rise, supporting milk production.



READ THE LATEST DAIRY SITUATION & OUTLOOK REPORT FROM DAIRY AUSTRALIA (JUNE 2021) [HERE](#)

Dairy Category Snapshot

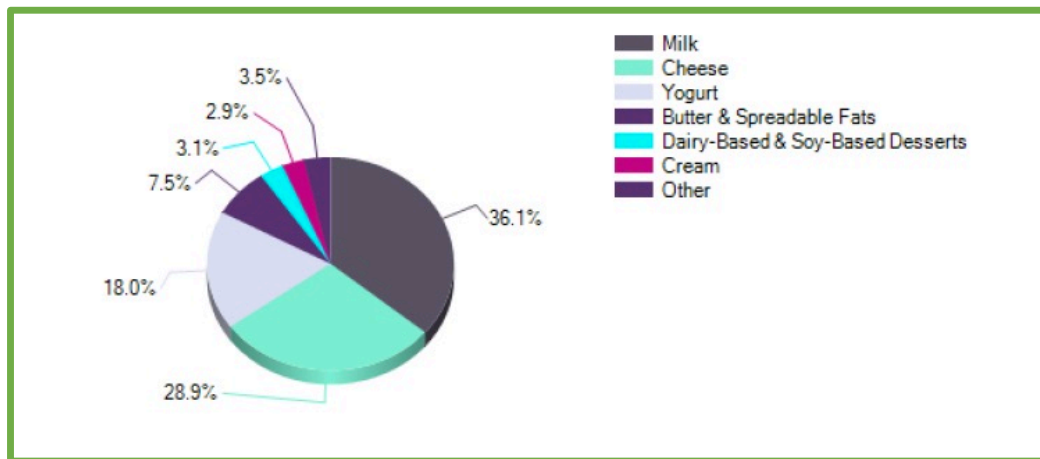
- Dairy sales will outperform most other food categories, despite the relative maturity of the segment. Dairy is the second biggest sub-sector in terms of food sales in Australia dollar terms, forecast at AUD19.7bn by 2025, with average annual growth of 4.6%.
- The dairy industry will benefit from rising health consciousness among consumers, who are increasingly favouring high-protein foodstuffs, a trend that explains the strong forecast performance of the yoghurt category over the next five years.
- As opposed to developed markets where dairy consumption is falling, Australian households are consuming more butter and cheese. Spending on butter and cheese have outpaced consumption growth, indicating that consumers are purchasing more premium products, such as artisanal and speciality cheese.
- Outside of fresh milk, other milk alternatives will continue to build on its growth momentum experienced over the last 3-4 years, as an increasing number of consumers review their dietary and health concerns, driven by changing lifestyles, concerns about environmental or sustainable issues related to the production of cow's milk, or certain food intolerances to lactose or dairy.
- The focus of innovation within the category is set to continue to lean towards health, not only in dairy alternatives but within other products such as fortified, prebiotic, reduced sugar products. An increasing number of players are therefore expected to reduce or eliminate sugar altogether in new product development, combined with specific functionality or better-for-you claims to offer some level of differentiation away from standard lines.
- With environmental concerns increasingly influencing consumers' purchasing decisions, Australian manufacturers are likely to continue to strive to improve the sustainability of their packaging: Brownes Dairy for instance, had already announced in late 2019 that it would replace its traditional milk cartons with fully renewable materials, making it not only Australia's first dairy company to follow this strategy, but also the world's first fully renewable beverage carton.



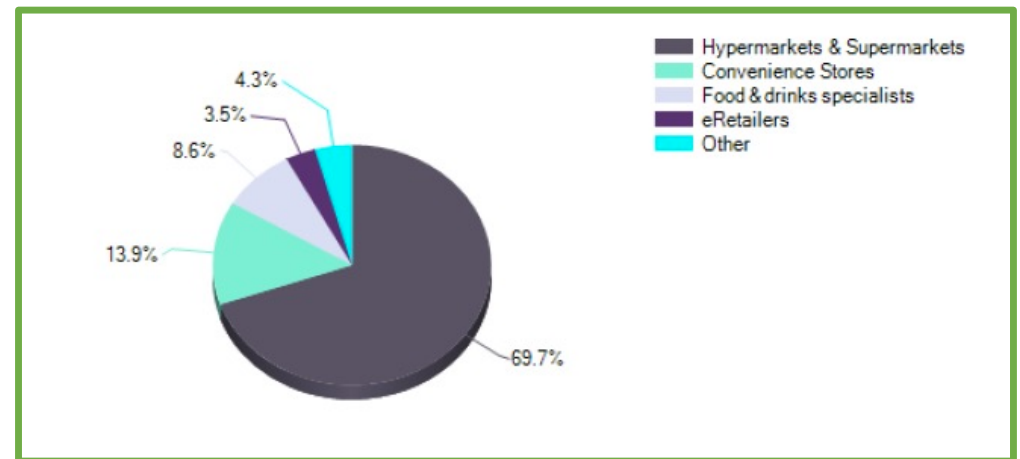
UNLIKE OTHER DEVELOPED MARKETS, DAIRY CONSUMPTION IS INCREASING BUT WITH A SHIFT IN FOCUS TOWARDS HEALTHIER OPTIONS

Dairy Products: Category Breakdown (Source: Marketline 2019)

Sub-Category % share by Value

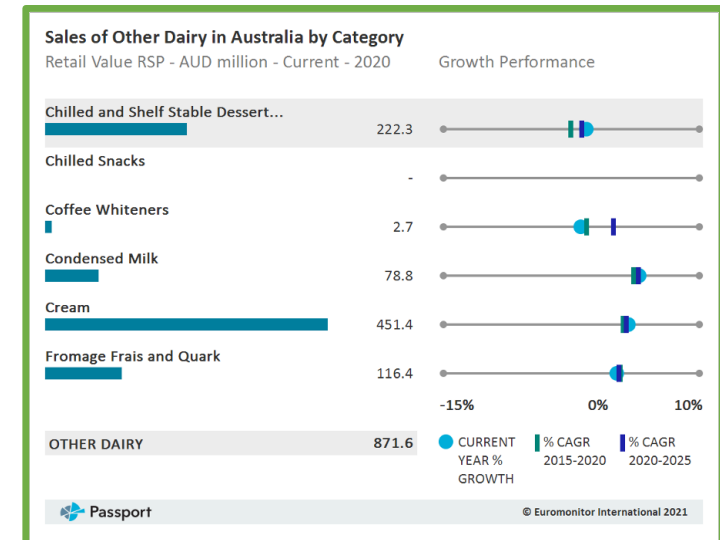
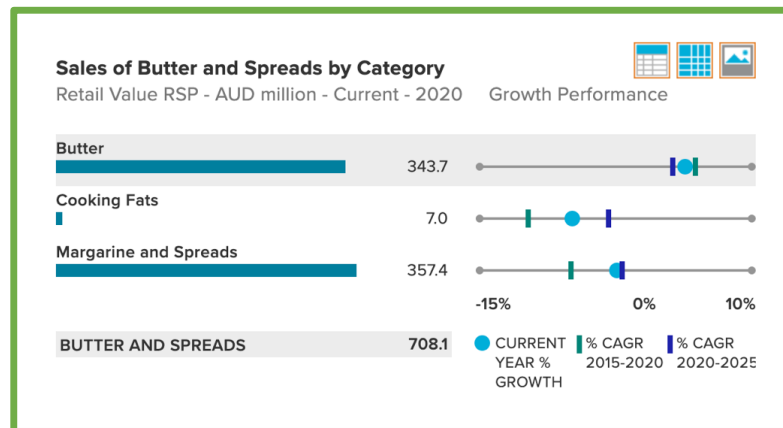
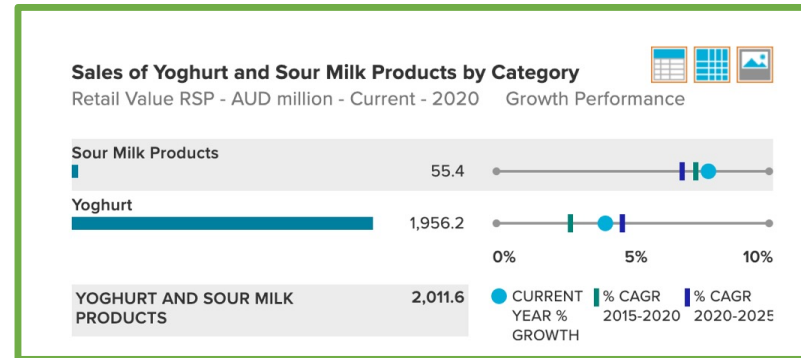
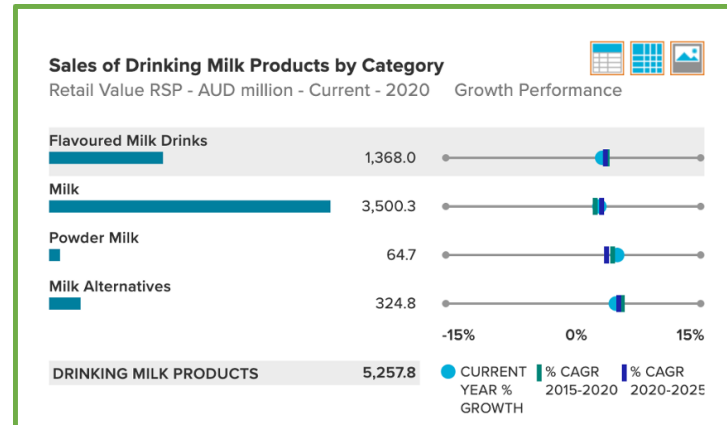


Dairy Distribution channels - % share by Value



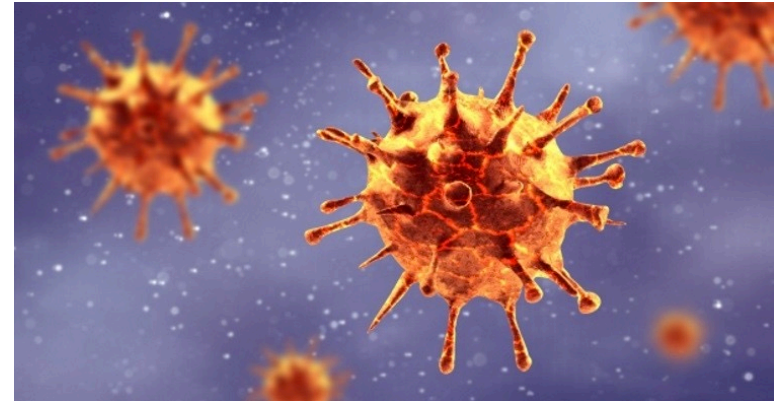
MILK AND CHEESE ARE THE LARGEST DAIRY CATEGORIES BY VALUE AND ALMOST $\frac{3}{4}$ OF CATEGORY SALES ARE THROUGH THE SUPERMARKET CHANNEL

Dairy Products: Category Breakdown (Euromonitor 2020)



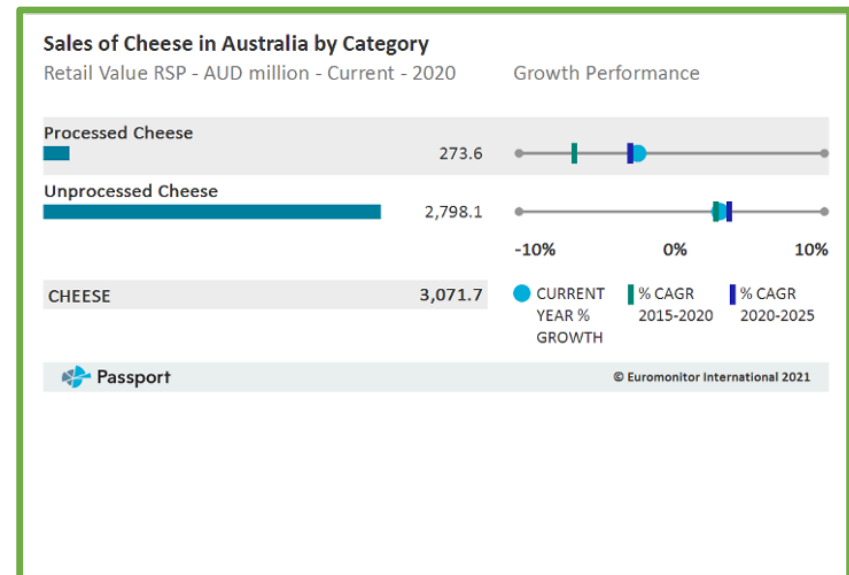
Covid-19 Impact on the Dairy Sector

- The COVID-19 pandemic looks set to usher in a new era for the global economy from which the dairy industry will not be immune. Australian dairy is in a fortunate position, heading into this period with relatively strong domestic demand and a weakening A\$ that will provide some insulation from international market pressures and the uncertainties that now underpin the industry outlook.
- However, as national and per-capita incomes decrease in many countries, demand for premium priced dairy products is likely to slow. Similarly, despite an initial lift in sales as consumers 'panic-bought' household essentials including dairy, the looming economic recession will impact the purchasing power of Australian consumers in the medium term. This is likely to upset recent growth in value-added product lines and risks prompting a return to discounting strategies by major retailers.
- The food service sector, a high returning market for dairy, has been hardest hit and is expected to take years to recover. COVID-19 has accelerated new ways of purchasing with online shopping booming, as well as a return to more eating at home. This is likely to have an impact on future marketing and product offerings. Dairy will also need to rise to the challenge and opportunity this presents.
- From a trade and market access perspective, an increase in international protectionism would undermine years of progress in achieving market access on fairer terms. An oversupply of milk in the northern hemisphere has led to increased pressure to reintroduce or implement various forms of government intervention. This could include market-distorting commodity price support programs, such as purchase-and-storage subsidies (intervention storage) and export subsidies, as well as subsidised schemes to limit production. Import-dependent markets may experience a renewed interest in sheltering domestic production as part of attempts to bolster food security and political security.



Category Spotlight on Cheese: Overview

- Cheese remains the most consumed dairy product, accounting for around half of the volume dairy products consumed annually.
- Despite producing more cheese than is consumed, Australia still imports a significant amount of cheese. There has also been an increasing trend of soft cheese imports during this time as Australian manufacturers have shifted away from producing these cheese types. Instead, they have been increasing production of more specialized cheddar varieties and semi-hard cheeses, predominantly mozzarella
- Cheese consumption is forecast to exceed 13 kilograms per capita in 2020-21. This has remained fairly steady over the past five years.
- Prior to the COVID-19 pandemic, demand for mozzarella from foodservice operators had been increasing, while consumer demand had switched away from traditional lower cost varieties such as cheddar to premium varieties, such as feta.
- Since the outbreak of COVID-19, demand for speciality cheese has declined in favour of value packs of everyday cheese. This assisted in boosting per capita cheese consumption during 2019-20.
- The health and wellness trend within cheese is likely to continue, with Australians expected to become increasingly health conscious over the next five years. As a result, manufacturers are likely to develop new varieties of cheese to offer consumers a wider variety of products to cater to different diet preferences. However, cheese consumption are likely to continue to be constrained as consumers increasingly acquire tastes for new, vegan alternatives.



Category Spotlight on Cheese: 2020 Impact

- Cheese, already a positively performing category through retail pre Covid, experienced stronger demand from Q2 2020 due to the home seclusion trend as a result of lockdown restrictions. The closure of foodservice outlets also contributed to a greater shift in channels, as consumers, forced to stay at home, indulged not only in home cooking, but also turned to cheese as an indulgent snack.
- Cheese's overall strong performance continued to be driven by demand for unpackaged cheese with hard cheese the dominant format, although consumption occasions changed in line with social distancing measures, as the grazing of cheese boards containing both hard and soft cheese was popular when Australians were entertaining friends at home prior to the emergence of the pandemic.
- Despite an ongoing gradual decline in the average unit price of hard cheese, supported by the popularity of private label which offers a wide range of affordable and acceptable quality products and increasing competition in terms of brands and expanding product variety, some consumers have increasingly turned to premium options as an indulgent treat.
- Premiumisation and cross-category collaborations helped to support this trend in 2018/19, with The Cheese Club collaboration between Bertocchi Smallgoods and Ashgrove Cheese adding value to the category, offering advice on pairing the most suitable cheese and charcuterie options. This trend is likely to regain some momentum as lockdown measures are further relaxed as it involves tastings at selected specialist retailers. Ashgrove Cheese in particular, has also strengthened its credentials due to the use of NASAA Organic certified labels, with organic and clean labelling a major part of its product narrative. This strategy helps to attract consumers who search for products that highlight on their packaging their use of natural ingredients and minimal processing.
- Despite strong competition from imported cheese brands in Australia, support for local cheesemakers has continued to gain momentum in line with consumers' increasing demand for provenance and greater environmental awareness in terms of purchasing cheese produced in the country rather than further afield. This sentiment was strengthened in early 2020 as local cheesemakers struggled with the impact of bushfires and the pandemic, and therefore reduced tourism and sales opportunities. Cheese Therapy, an online cheese retailer based in Queensland, saw a jump in sales through its e-commerce site due to its "rescue box" campaign, which promoted its support for local cheese. Other small cheese producers have increasingly turned to similar solutions as a way to move product when environmental circumstances or indeed global pandemics, have reduced footfall to their local operations. Similar strategies could help to support increasing demand for cheese through e-commerce, a traditionally small distribution channel for the category in Australia.



Category Spotlight on Cheese: Recovery

- Retail demand for cheese was set to slow in 2021 in line with a predicted surge in demand through foodservice as lockdown measures were further relaxed, however this looks unlikely in light of current new lockdowns in key cities. Nevertheless, this trend will settle into some level of normalisation in 2022, before retail experiences strengthening demand in the following 3-4 years, resulting in a marginally stronger performance in volume terms compared to the years preceding the pandemic.
- Growth will continue to be driven by the popularity of the largest category of packaged hard cheese, while soft cheese is set to experience an improved performance compared to slowing demand during the pandemic. These cheese types will remain popular for including on cheese boards as local consumers gradually return to socialising with friends at home, depending on the threat level posed by the virus and any further lockdown and social distancing measures.
- Processed cheese is set to continue on its declining path, a trend already noted in recent years, as local consumers continue to move away from highly processed food, and driven by increasing awareness of the high saturated fat, sugar and preservatives that many of these products contain. However, there has been some development in terms of expanding this category through the use of plant-based ingredients to capture a wider audience from consumers who practise alternative lifestyles such as vegans or simply those who want to reduce their animal source of protein....as well as offering greater choice to consumers who suffer from certain food intolerances. These trends offer greater potential to cheese producers to diversify in the coming years.
- Food and drink specialists should regain some lost share in the distribution of cheese due to closures during pandemic-enforced lockdowns in 2020 and again now in 2021. These specialist retailers support premium and unpackaged brands of cheese, the most expensive category in terms of average unit price. Unpackaged hard cheese is predicted to record the strongest performance in retail volume terms to 2025 and will in part be supported by this distribution channel, driven by the ongoing sophistication of consumers' palates, and the fact that specialists play an important role in recommending new, particularly local, cheeses. The opportunity to try a new cheese at a cheesemongers before committing to a purchase, adds another level of experientiality.



Dairy Imports



- Over recent years Australia's imports of dairy products for local consumption have increased. This has enabled the Australian dairy industry to continue to export a significant share of its milk production, despite having a larger domestic market and lower milk production.
- There are a number of reasons why Australia imports dairy products, including:
 - a market gap where the product is not or cannot be produced in Australia (generally speciality products)
 - insufficient quantity available locally to meet demand
 - products are permitted as a result of trade agreements
 - product is needed to produce a new product
- From all the dairy that is imported into Australia, milk imports have remained steady at 2% of the total volume of dairy imports for the past five years with the majority share coming from New Zealand. In some cases, this is the finished product already packaged ready for sale. In other cases, it is in bulk which is added to make new products that are destined for either the local or export market.

DESPITE LARGE DOMESTIC PRODUCTION, AUSTRALIA STILL IMPORTS AN INCREASING VOLUME OF DAIRY PRODUCTS TO MEET CONSUMER AND PROCESSOR DEMAND.

Dairy Imports

- Cheese imports (especially speciality cheeses) remain the biggest dairy import. Over the past ten years imports have grown more than 30%. Imports from New Zealand totalled almost 44,000 tonnes, with the European Union and United States largely accounting for the balance.
- Butter imports to Australia accounted for more than a quarter of the butter market by volume in 2019/20. A majority, around 85%, of the 42,000 tonnes of butter and butteroil imported into Australia came from New Zealand. Most remaining butter was sourced from various European countries.
- Australia also imported roughly 101 million tonnes of milk powders in 2019/20. Imports of milk powders have increased over the past few years, and rose strongly, up around 30%, in 2021. Most of the imported milk powder is sourced from New Zealand.
- Australia is no longer a significant producer of casein and imports the vast majority of its requirements. Imports are mainly from New Zealand (approximately 60% of the total volume), with the balance from Europe and the United States in 2019/20.



NEW ZEALAND IS A KEY COMPETITOR TO THE UK IN THE SUPPLY OF DAIRY PRODUCTS ACROSS ALL SUB-CATEGORIES

Dairy Imports From the UK 2018-2020

HS Codes		Total									
HS Code	Description	2018-2019			2019-2020						
		GBP	GBP for KG	KG	GBP	growth rate	%	GBP for KG	growth rate	KG	growth rate
Total		26258981	26258981	5818007	29988997	14.20%	100%	29988997	14.20%	6576008	13.03%
0406	cheese and curd	15369075	15369075	2325804	18818275	22.44%	62.75%	18818275	22.44%	2875406	23.64%
0405	butter, incl. dehydrated butter and ghee, and other fats and oils derived from milk; dairy spreads	2917850	2917850	819850	5091661	74.51%	16.98%	5091661	74.51%	1587300	93.61%
0402	milk and cream, concentrated or containing added sugar or other sweetening matter	7943325	7943325	2667797	6061459	-23.69%	20.21%	6061459	-23.69%	2109347	-20.93%
0401	milk and cream, not concentrated nor containing added sugar or other sweetening matter	28931	28931	4756	17602	-39.16%	0.06%	17602	-39.16%	3955	-16.84%

Time Period																		
2019									2020									
2018			2019						2019			2020						CAGR
GBP	GBP for KG	KG	GBP	growth rate	GBP for KG	growth rate	KG	growth rate	GBP	GBP for KG	KG	GBP	growth rate	GBP for KG	growth rate	KG	growth rate	
11131701	11131701	2187336	15127280	35.89%	15127280	35.89%	3630671	65.99%	15127280	15127280	3630671	14861717	-1.76%	14861717	-1.76%	2945337	-18.88%	-1.76%
7313577	7313577	1087982	8055498	10.14%	8055498	10.14%	1237622	13.75%	8055498	8055498	1237622	10762777	33.61%	10762777	33.61%	1637784	32.33%	33.61%
1182458	1182458	309440	1735192	46.74%	1735192	46.74%	510410	64.95%	1735192	1735192	510410	3356469	93.44%	3356469	93.44%	1076890	110.99%	93.44%
2621688	2621688	788705	5321657	102.99%	5321657	102.99%	1879092	138.25%	5321657	5321657	1879092	739802	-86.10%	739802	-86.10%	230255	-87.75%	-86.10%
13998	13998	1209	14933	6.68%	14933	6.68%	3547	193.38%	14933	14933	3547	2669	-82.13%	2669	-82.13%	408	-88.50%	-82.13%

UK Dairy Companies in Australia include:

Somerdale - Barber's 1833 - Long Clawson - Quicke's – Singletons - Neal's Yard Dairy – Snowdonia - Delamere Dairy - Wensleydale Creamery - Wyke Farms - Bath Soft Cheese Company - Cropwell Bishop - Ford Farm – Sandhams - Fine Cheese Company - Lynher Dairies - Colston Bassett Dairy - Hafod Cheddar – Tunworth - Isle of Man Creamery.

CHEESE IS BY FAR THE MOST IMPORTANT CATEGORY OF UK DAIRY PRODUCTS EXPORTED TO AUSTRALIA.....REFLECTED IN THE NUMBER OF CHEESE-RELATED COMPANIES WHO ALREADY HAVE A PRESENCE IN THE MARKET.

Dairy Exports & Competitive Landscape

- Australia exports roughly one third of milk produced each year, making it the fourth largest dairy exporter in the world, with a 6% market share (behind New Zealand, the European Union and the United States). In 2018/19, Australia exported 35% of milk produced, worth A\$3.2 billion.
- Greater China (including China, Hong Kong and Macau) is Australia's largest dairy export market, accounting for 32% of exports by volume. Japan remains a vital trade partner for Australian exporters as a mature, high-value market with long-established business relationships. Australian dairy exports to Asia account for more than 87% of total exports. In 2019–20, the total value of Australian exports was around A\$3.4 billion.
- Australia's concentration of exports to Asia reflects the geographic proximity to these markets and the extent to which Australia has been excluded from other major markets by direct restrictions, which is the case with the European Union. Increased competition in key importing markets has also played a role in creating this concentration. Australian dairy companies also have proven track records in supplying these markets over several decades.
- Australia's top five export markets by value in 2019–20 were:
 1. Greater China
 2. Japan
 3. Indonesia
 4. Malaysia
 5. Singapore

UK EXPORTERS SHOULD BE PREPARED NOT JUST TO COMPETE WITH AUSTRALIAN PRODUCERS ON THEIR HOME TURF, BUT ALSO ACROSS THE WIDER ASIA-PACIFIC REGION WHERE THEY ARE VERY STRONG

Dairy Export Assurance Program

- In March 2020 the Australian Government announced A\$14.78 million to 2024-25 to build understanding and capability within the dairy sector; and to prove new ways of managing the dairy export regulatory system.
- In October 2020 a further A\$328.4 million was announced to help reform Australia's export system under the Dairy Export Assurance Program.
- This Program aims to reduce regulatory burden and streamlining audit arrangements in the dairy sector by:
 1. Identifying the regulatory hurdles for domestic dairy manufacturers to become an approved establishment.
 2. Food safety in commercial assurance programs.
 3. Working towards reduced regulatory intervention through improved data.
- This funding is the first major investment into the export sector for over a decade and with the ultimate goal to refresh and modernise the regulation of dairy exports.

Routes To Market



- Given the vast scale of the market and the logistical and environmental challenges, exporting to Australia requires localised understanding.
- Limitations of the size of the market due to the relatively small population means that a local partner is key to achieving optimum market penetration.
- Australian import channels are very similar to those applying in other developed markets and for most products from the UK, the customers will be specialist importers or the major retail chains that purchase directly or through their overseas buying agents. In general terms Australian importers can be divided into the following categories:
 - Importers/distributors/wholesalers: who import either a specialised range of products or operate as general importers and distribute to retailers, manufacturers, foodservice operators or end users.
 - Manufacturers/End-Users: a number of manufacturers or end-users will import their raw material or input requirements directly from overseas suppliers, but it is more common for these companies to source through specialist importers.
- Product flows in a similar manner for each of the major supermarket chains, with each operating central distribution centres
- Independent supermarkets and smaller supermarket chains purchase their food products through the major wholesalers or direct from manufacturers. The larger chains are also direct importers.

ROUTES TO MARKET FOR UK EXPORTERS ARE TYPICALLY SIMILAR TO OTHER MARKETS I.E. GENERALLY VIA A LOCAL IMPORTER. RETAILERS SOMETIMES IMPORT DIRECT.


Regulatory Framework

- All foods sold in Australia must comply with a range of laws designed to protect consumer, plant, and animal health. These laws apply equally to imported and locally produced foods. All imported food must comply with quarantine and imported food requirements, and then with food safety requirements.
- Australia operates strict quarantine laws for dairy products and goods must meet biosecurity requirements as per the Biosecurity & Imported Food Inspection Scheme.
- Importers must have a valid import permit for dairy.
- The Department of Agriculture and Water Resources' biological import conditions ([BICON](#)) database lists all import requirements for all agricultural products entering the country.
- Food Standards Australia & New Zealand ([FSANZ](#)) oversees food security and safety, to protect the health and safety of people in Australia and New Zealand through the maintenance of a safe and nutritious food supply via the Australia New Zealand Food Standards Code ([ANZFSC](#)) – see Chapter 2.5 for specific information on Dairy products.
- Labelling requirements are regulated by Australian Border Force, FSANZ and the Australian Competition & Consumer Commission ([ACCC](#)) and businesses must comply with the Country of Origin Food Labelling Information Standard 2016.
- This Standard does not apply to food that is:
 - otherwise unpackaged (e.g. unpackaged cheese)
 - sold by restaurants, canteens, schools, caterers, self-catering institutions, prisons, hospitals, medical institutions and at fund-raising events.



AUSTRALIA HAS STRICT QUARANTINE AND FOOD SAFETY REQUIREMENTS FOR IMPORTED FOOD AND DRINK

Labelling

- All food covered by the Standards Code requires country of origin labelling. However, the Standard imposes different requirements depending on whether a food:
 - is a priority or non-priority food, and
 - was grown, produced, made or packed in Australia or another country.
- All foods, with the exception of the seven non-priority food categories, are priority foods.
- Most dairy products, including milk, cheese and cream are priority foods. However, some foods including ice cream, sorbet and ready-to-drink coffee beverages are non-priority foods.
- The two-part 'standard mark' is mandatory for most priority food items packed in Australia. It may also be used for imported foods that contain Australian ingredients. E.g:
- Country of origin statement—A text-only label in a clearly defined box that is used for imported food. E.g

Non-priority food

Made in USA

Priority food

Made in United Kingdom

Full details available on the
[Business.gov.au](https://www.business.gov.au) website

IT IS IMPERATIVE TO UNDERSTAND SPECIFIC LABELLING REQUIREMENTS AS PART OF YOUR MARKET ENTRY PREPARATIONS

SWOT: Implications for UK Dairy Exporters



Strengths

- UK culture well accepted and similar to Australia.
- No language barriers.
- UK products have excellent image and acceptance.
- UK dairy sector source of innovation for Australian companies.
- Large UK ex-pat community
- Consumer focus on health & wellness, quality, food safety and security play to the strengths of Brand Britain

Weaknesses

- Australia has strict quarantine requirements for dairy products. Import permits are required as well as a tariff quota scheme in place (*see Appendix I*)
- Australia is a significant producer of a similar variety of dairy products.
- Australian labelling laws are different, which will require some changes to food labels.
- Geographic distance and time difference

SWOT: Implications for UK Dairy Exporters

Potential Opportunities

- The UK Australia Free Trade Agreement will enable UK dairy products to enter Australia tariff free.
- Consumers are experimental and desire new and innovative products.
- High disposable incomes, allowing consumers to spend relatively freely on premium and discretionary food items.
- Mass grocery retailers and food producers will continue to face upward demand pressure from the ongoing Covid-19 health crisis due to increased demand for food, arising from panic buying, stockpiling and priority purchasing by consumers.
- Opportunity to trial innovative products and gain market share.
- Opportunity to enter private label arrangements as major players expand their private label offerings.
- The discount segment has introduced more dynamism into the mass grocery retail sector, with Aldi and Costco proving that companies do not need to be a market leader to have a strong influence on the market.
- Online grocery sales are relatively low compared with other developed markets, which could be indicative of future growth opportunities.
- Strong dining out culture provides opportunities to supply the consumer foodservice sector with new products.
- Organic products: Although Australia is a large producer of organic raw products, it does not have the manufacturing capacity to satisfy demand for processed foodstuffs.
- There are opportunities for imported products, especially if they are unique and not a duplication of a product already available in the market e.g inherently English, Scottish, Irish or Welsh.

SWOT: Implications for UK Dairy Exporters

Potential Threats / Challenges

- Australia has a thriving domestic agri-food sector and is one of the world's largest exporters of key agricultural commodities, including dairy
- Buy Australian” campaign is significant., supported by government investment to help local food and beverage manufacturers capitalise on the growing popularity of Australian produce.
- Most categories have substantial market leaders.
- Country of origin labelling is compulsory, and many Australian made products bear the “Australian Made” logo.
- The mass grocery retail market is almost saturated. The vast majority of the population lives in east coast cities that are already dominated by existing retail chains
- The Australian grocery retail market is highly concentrated, dominated by 4 main players who account for 80% of the market: Woolworths, Coles, Aldi and Metcash.
- The re-implementation of lockdown restrictions due to an outbreak of the delta variant will continue to drag on spending on out-of-home sectors.
- The rapid rise of discounting and price wars threatens grocery retailer profit margins.

Succeeding in Australia

- ✓ Offerings to the major chains need to be different and innovative – they are not looking for additional suppliers of basic products.
- ✓ The focus on “Made/Grown in Australia” labelling and marketing means there needs to be strong unique selling points for imported products.
- ✓ Portion sizes are increasingly important as consumers seek quality over quantity and they expect packaging to be informative and environmentally responsible.
- ✓ There is also the need to offer innovative food products to break into what is a highly competitive food retail sector as most categories already have substantial market leaders.
- ✓ Logistics and distribution are major factors due to the enormous scale of the country.
- ✓ Imported products need to be competitively priced to compete with the growing number of discount chain stores.
- ✓ Leverage the positive links with Britain and the perception of Brand Britain by emphasising the quality, safety, provenance and sustainability of products when talking to Australian buyers and consumers.

Appendix I: Tariff Quota Scheme

- Australia's WTO commitments provide for tariff rate quotas on certain types of cheese and curd which is set at 11 500 tonnes per annum. Quota allocations to individuals or companies are based on historical trade performance in the importation of cheese. Quotas are allocated for a particular financial year. New importers are able to acquire quota on transfer from an existing quota holder. Quota is freely tradeable
- Rates: \$0.096/kg (within-quota) ; \$1.22/kg (out-of-quota)

Data Sources

- Credit Suisse 2020 Global Wealth Report
 - [OECD](#)
 - Australian Government Institute of Health & Welfare
 - CIA World Factbook
 - Euromonitor
 - IBIS World
 - Dairy Australia
 - Parliament of Australia
 - IRI Australia Industry Insights: FMCG Performance Trends - H1 2021 Update
 - Global Trade Tracker
 - Marketline
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