



New Zealand Dairy Sector Insights

Delivered by the UK Food & Drink Exporters Association

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Economic Snapshot

- New Zealand is situated in the South Pacific Ocean, 1,600 km east of Australia. Made up of North and South Islands and a number of smaller ones the total landmass is around 271,000 square kilometres.
- It is the world's 50th largest economy and expanding New Zealand's network of free trade agreements remains a top foreign policy priority.
- 75% of the population is located in the North Island, mainly centred on the Auckland region, the centre for business in New Zealand. Market bases outside of the Auckland area are relatively small except in the capital Wellington and the South Island's largest city, Christchurch.
- New Zealand is a wealthy, sophisticated market with a very transparent and open business environment as well as a stable democratic system. New Zealand also consistently ranks high in measures of business honesty and integrity.
- The majority of the population is of British descent and the ties remain strong, providing a small but loyal market of approx. 5 million.
- After years of stable growth, the economy shrunk by -2.9% in 2020 due to the pandemic which led to border closures and hard lockdowns. However, according to the OECD Economic Outlook, growth is projected to pick up gradually from the second half of 2021, boosted by the progressive reopening of the border, reaching 3.5% in 2021 and 3.8% in 2022. Private consumption will remain robust, supported by the recent minimum wage increase and the wealth effect from rising house prices.



ON 4TH OCTOBER 2021, NZ CHANGED ITS STRATEGY FROM COVID-ZERO AND THE CURRENT LOCKDOWN OF 1.7M IN AUCKLAND IS SET TO EASE.

Key Economic Indicators

	New Zealand	UK
Population (October 2021)	4.8 m (126 th globally)	67.08m (22 nd globally)
GDP Growth Forecast (OECD May 2021)	3.5% in 2021 3.8% in 2022	7.2% in 2021 5.5% in 2022
GDP per Capita (Trading Economics)	Dec 2020 US\$37,922 Forecast 2023: US\$38,800	Dec 2020: US\$ 41,627 Forecast 2023: US\$46,700
Unemployment Forecast 2022	3.5%	4.6%
Big Mac Index July 2021 ¹	US\$4.76 (10 th most expensive globally)	US\$4.75 (11 th most expensive globally)
Human Development Index Global Ranking 2020 ²	14	13
Urban Population (World Bank 2020)	86.7%	84.1%
International LPI ranking 2018 ³	15	9
Coface Country Risk Rating Q2 2021 ⁴	A2	A3
World Bank Ease of Doing Business Ranking 2020 ⁵	1	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. New Zealand is virtually at parity with the UK.

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. Again New Zealand and the UK are at almost identical positions.

³ *World Bank Logistics Performance Index*: ranks countries on six dimensions of trade including customs performance and trade and transport infrastructure. New Zealand doesn't register particularly poor scores in any of the 6 dimensions, simply slightly lower than the UK across the board.

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. New Zealand's rating is slightly higher than that of the UK.

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. New Zealand is the world #1 meaning it is the simplest place to set up and run a business.

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

Trading Environment

- As a result of a number of years of free market economic policies, New Zealand has one of the most open competitive economies in the world with low tariffs. New Zealand importers, exposed to international competition and the proximity of the Asian market, have become experienced world traders.
- New Zealand, as an island nation, is both an exporter and importer of food items. In the grocery sector an estimated 35-40% of non-fresh food is imported, the majority from Australia and Asia, with premium or seasonal goods from European countries.
- The foundation of New Zealand's economy is exporting agricultural commodities such as dairy products, meat, forest products, fruit and vegetables, and wine. Dairy is the lead export commodity generating in excess of US\$9 billion in export sales.



Free Trade Agreements (FTAs): NZ has 12 FTAs in force (October 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 New Zealand 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: Currently under negotiation.

NB NEW ZEALAND IS A KEY EXPORTER OF FOOD AND DRINK PRODUCTS, IN PARTICULAR DAIRY. IN 2019 TRADE ACCOUNTED FOR 54% OF GDP.

UK-NZ FTA: Potential Implications for UK Exporters



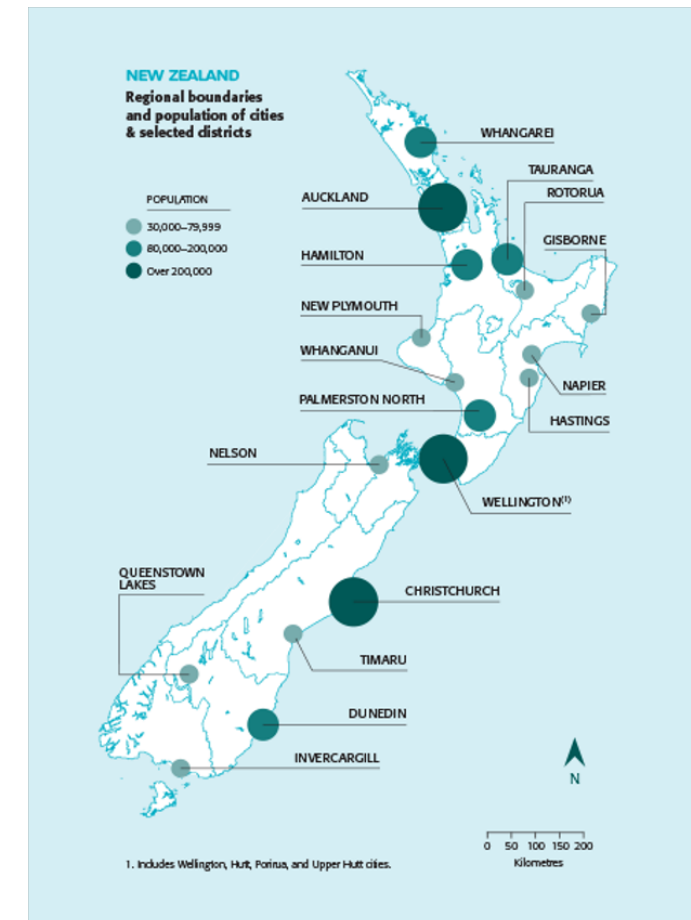
- It had been hoped that the UK-NZ FTA would have been signed in August 2021 but this deadline has been missed and the deal is still under negotiation. As with the UK-Australia FTA, there are concerns around agricultural products, in particular access for New Zealand dairy and red meat, with UK farmers expressing their concerns about being undercut.
- The overall objective is to secure a prompt conclusion of a high quality, comprehensive and inclusive FTA for both sides by removing tariffs and other barriers.
- According to Dairy UK, as the New Zealand dairy market is a relatively small, remote and well served by its domestic industry, the benefits to the UK dairy industry of a free trade agreement with New Zealand would be marginal. Reciprocal trade would be restricted to niche and specialist products.
- However, this FTA will be 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-NZ 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

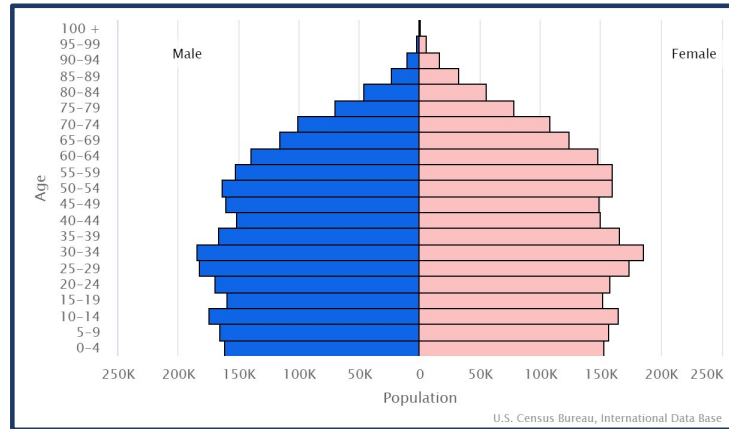
- Urban Population: 86.8% of total population (2020): 76.5% of the New Zealand population lives on the North Island.
- Main Urban Zones: Auckland City (1.57m) and Wellington City (202,700) are the largest cities in the North Island, and Christchurch City (369,000) in the South Island.
- Population Density: 19 inhabitants /km² (UK for comparison: 279)
- Ethnicity : European 64.1%, Maori 16.5%, Chinese 4.9%, Indian 4.7%, Samoan 3.9%, Tongan 1.8%, Cook Islands Maori 1.7%, English 1.5%, Filipino 1.5%, New Zealander 1%, other 13.7% (2018)*

**based on the 2018 census of the usually resident population; percentages add up to more than 100% because respondents were able to identify more than one ethnic group. At the time of the census the UK was also still part of Europe.*

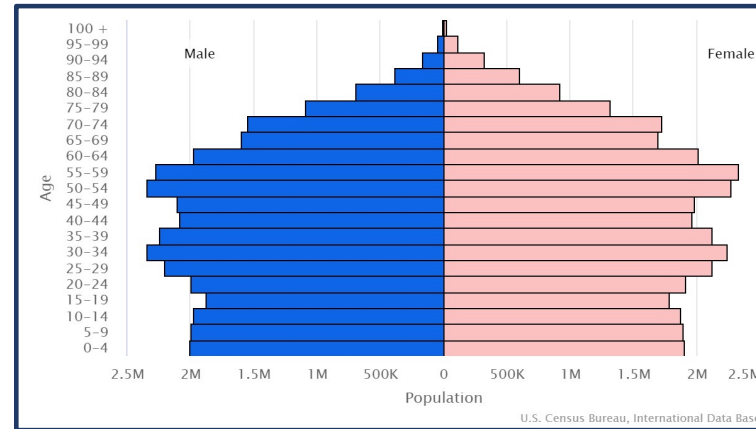


ALTHOUGH IT HAS LOW POPULATION DENSITY, OVER 75% OF INHABITANTS LIVE IN NORTH ISLAND, WITH ONE THIRD OF THE TOTAL IN GREATER AUCKLAND AND ARE THEREFORE EASILY ACCESSIBLE

Overview of Consumer Demographics



NZ



UK

- The population is ageing and growing at a rate of 1.3%. Median age = 37.2; UK = 39
- New Zealand is expecting the number of older adults to double in the next 20 years.
- People aged 65 and older currently constitute 15% of New Zealand's population, with just over half (53.4%) being women (Statistics New Zealand, 2019).
- One of the key drivers is increase in life expectancy: New Zealanders enjoy one of the highest life expectancies in the world: 82 (versus 81.3 in the UK)
- Millennials (born between the early 1980s and 1999) : in the latest census (2018), there were 1.3m millennials in New Zealand. In 2020, an estimated 13.2% of the population were between 15-24.

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

Consumer Spending



- New Zealand ranks in the top 10 most expensive grocery markets out of all 38 OECD countries.
- Consumer sentiment is expected rise and remain positive in 2021-22.
- Food spending growth in New Zealand will remain high at 5.4% year on year in 2021 from an estimated 5.5% year on year growth in 2020. This will take food spending to a value of NZD23.2bn (£11.8bn), growing from NZD22.0bn (£11.2bn) in 2020. In 2022, growth while remaining positive, will taper down slightly to 4.5% year on year due to the high base effects of 2020 and 2021, with expectations that the Covid-19 situation remains under control.
- Breaking down the average New Zealand household spend on food; five major food categories are forecast to account for more than half of total food spending in 2025. Meat and poultry spending will account for the largest share at 18.9%, followed by other food products and dairy at 17.9% and 13.8% respectively. Sugar and sugar products will account for 10.7% of total food spending in 2025, increasing from 8.9% in 2008, while fresh vegetables share will also increase from 9.8% to 10.4% over this period. Collectively, these five major food categories (meat and poultry, other food products, dairy, sugar and sugar products, fresh vegetables) will see their share of total food spending decrease slightly from 73.9% in 2008 to 71.7% in 2025. Other food products spending is projected to record the largest decrease of all food categories over this period, declining to a forecasted 17.9% of total food spending in 2025, from 25.0% in 2008.
- The annual inflation rate jumped to 3.3% in July 2021 and consumer prices advanced 1.3% from three months earlier. It is expected annual headline inflation to approach 4% plus by the end of the year, with the risk that high inflation outcomes persist well into 2022.

DAIRY IS ONE OF THE MAJOR CATEGORIES IN TERMS OF TOTAL HOUSEHOLD SPEND ON FOOD (FORECAST TO REPRESENT NEARLY 14% OF SPEND IN 2025)

Post Covid Consumer and Shopper Themes

- Consumer trends are shifting towards healthy eating, premiumisation, indulgence, snacking, provenance and more environmentally responsible products and farming/production processes.
- Since the pandemic consumers are placing greater emphasis on products with natural ingredients, health benefits and recyclable/compostable packaging.
- The resurgence of a “Buy NZ Made” ethos has also emerged from the pandemic. The unreliability of imports, growing costs and limited capacity have driven shoppers to seek out local alternatives.
- Indulgence is playing a big part during these uncertain times, especially as many people are still spending more time at home and shoppers are turning to small treats with their weekly shop.
- In 2019, less than 10% of New Zealanders shopped for groceries online. Due to lockdowns, those numbers have surged to nearly 30%. Online shopping is anticipated to play a more important role in the industry over the next five years, with the major players already improving their online channels.
- Consumers are becoming increasingly critical of the brands that they support and private label products are growing rapidly.
- Post Covid, energy is being redirected to saving the planet. Millennials and Gen Z are driving the move to sustainable practices with over 80% of all shoppers changing their purchase preferences based on the social responsibility, inclusiveness, or environmental impact shown by a brand.

IN LINE WITH OTHER MARKETS, SUSTAINABILITY, INDULGENCE AND BUYING LOCAL ARE IMPORTANT DRIVERS FOR SHOPPERS IN NEW ZEALAND

Health and Wellness Trends

- Unsurprisingly, health and well-being top the list of concerns for shoppers across the country. Foods that boost immunity and those that are viewed as nourishing the body and the mind are expected to be the most sought-after as health is re-prioritised as the number one goal.
- Over 20% of shoppers are actively seeking out immunity-boosting food and beverage options. New additives such as collagen and whey protein are likely to appear more frequently as well.
- Alongside the drive for immunity, another health trend is the focus on the gut microbiome. Consumers are looking for offerings that cater to a healthy microbiome, particularly in the snacking category.
- Retailers have aligned with the rising health consciousness and variety-seeking consumer trends and are accommodating the growing demand for nutritional quality and variety in food products.
- There has also been an increasing number of consumers opting for a more ethical or organic range of goods. The organic food market is growing in New Zealand, with consumers willing to pay higher prices for such products thus ranges of healthy and organic private-label products are on the increase.



HEALTH, WELLNESS, IMMUNITY-BOOSTING AND ORGANIC PRODUCTS ARE ALL MOVING UP THE SHOPPER, CONSUMER AND RETAILER AGENDAS

Why is New Zealand 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:** ranked first in the world for ease of doing business. Corruption / fraud levels are low and businesses operate relatively smoothly.
- **Politically and economically stable:** potential for growth. The steady GDP growth shows that consumer spending has been growing steadily over the years and shows no signs of slowing down.
- **Population concentration in North Island:** over 1/3 of inhabitants in Auckland and over 2/3 in North Island so there is access to the majority of consumers within a small land mass.
- **Access to Asian markets and time zones:** New Zealand has traditionally maintained good relations with countries in the Asia Pacific. Being within this time zone has led to many companies operating across Singapore, Hong Kong, China, Malaysia, Thailand, and the Philippines.
- **Culturally connected to the UK/Europe:** With a population having predominantly European origins, consumers have a strong affinity with products from Britain..

Dairy Industry Overview

- Dairy makes a significant contribution to economic activity across regional New Zealand, accounting for more than 5% of the GDP in 7 regions in 2019 (and more than 10% in 4 of those). It provides jobs for around 50,000 people, mostly in New Zealand's regional and rural communities.
- Domestic milk production is projected to grow moderately over the next five years and total dairy cattle numbers in New Zealand are anticipated to decline over the next five years. The nation operates mainly pasture-based farming, with large herds and large-scale processing facilities.
- New Zealand dairy companies produce a full range of dairy products, everything from milk powders, butter, and cheese, to infant formula, specialty creams for bakers and specialist nutritional products including for medical and sports nutrition.
- The dairy industry, and the agriculture sector more broadly, is a crucial part of the New Zealand economy. In the year to March 2020, New Zealand exported NZ\$19.7bn (£10bn) of dairy products. In 30 years, dairy exports have grown from just over NZ\$2 bn (£1bn) per year to almost \$20 bn (£10bn).
- While the government does not directly subsidise the industry, it does spend around NZ\$30mn (\$15mn) a year on research and development for agriculture in order to improve productivity.
- Recent research shows New Zealand dairy farmers have the world's lowest carbon footprint, with the country's dairy sector emitting half as much as other international producers. Analysis from AgResearch confirms that New Zealand retains its favourable position in low emission dairy milk production, with an on-farm carbon footprint 46% lower than the average of 18 countries studied.



- [Fonterra](#) is New Zealand's largest dairy company and handles more than 90% of New Zealand's milk production. It represents more than 20% of total New Zealand goods exports and 7% of the country's GDP. Fonterra is a co-operative owned by around 10,500 farmers. The company is responsible for approximately 30% of the world's dairy exports.
- After reporting a record annual loss for the financial year to July 31 2019 of NZD610mn, Fonterra unveiled a new strategy in September 2019. The company planned to phase out overseas milk pools, cut debt, focus on local production and on supply of dairy ingredients to global customers, as well as build its foodservice business in the Asia Pacific region. The company also closed its domestic Te Roto cheese plant with the loss of 70 jobs. The strategy resulted in profit after tax growing by NZD1.3bn y-o-y to a profit of NZD659mn in the financial year to July 31 2020.
- In April 2021 Fonterra completed the sale of its two wholly-owned farms in China. The transaction, valued at NZD552mn, saw Fonterra's farming hubs at Ying and Yutian transfer to Mongolian Youran Dairy.
- There is strong demand for value-added dairy products such as butter, cheese and yoghurt. On the back of growing demand domestically, and for global exports, New Zealand company Westland Milk Products built a new NZD22mn plant at its facility in Hokitika, South Island in 2019. The plant allows Westland to separately process (segregate) multiple types of special milk into high-value products to meet this growing demand. The sale of Westland to China-based Jingang (a wholly-owned subsidiary of China's largest dairy producer Yili Group) was completed in July 2019. 2021.



Milk Production

- New Zealand produces approximately 21 billion litres of milk every year which is circa 3% of the world's milk production and makes the country the world's 8th largest milk producer.
- Milk powder production remains the foundation for New Zealand dairy processing and will continue to be so for the foreseeable future. Export volumes and pricing for the powders have held up well during the COVID-19 pandemic and the global response. However, New Zealand dairy processors have and are continuing to diversify their product offerings. Foodservice products destined for Asia such as mozzarella, various fresh and cream cheese formulations, and UHT cream are becoming more and more important in the product mix and profitability of the processors. In addition, infant milk formula (IMF) is now an integral part of the product mix and at over a US\$1 billion of exports, a significant component (over nine percent) of total exports and revenue.
- Farmgate milk price forecasts for this season are at record opening levels and the last year was a record one for milk production in New Zealand. Farmers are benefiting from both a strong production season and a high milk price. Despite these indicators being extremely positive, the mood in the sector remains subdued as the focus is on paring back debt and setting farms up to reduce their environmental footprint.



Milk Production



- Total milk production for 2021 is forecast at 22 million metric tons (MMT), just 0.9% less than the revised 2020 production estimate. Slightly fewer cows and a return to more average per-cow milk yields in the second half of the year are the key factors behind this expected reduction.
- Generally, dairy farmers are working to improve efficiency and productivity every year. Since 2015 gains in productivity per cow have largely offset reduced cow numbers.
- The small reduction in the milk supply forecast for 2021 is forecast to reduce production of whole milk powder (WMP) and skim milk powder (SMP) collectively by two percent compared to 2020, along with butter/AMF (Anhydrous Milk Fat) reduced by 1%.
- Cheese production is expected to remain firm and is forecast to increase by 3%. Outside of these key four commodities (WMP, SMP, butter and cheese), other product categories are forecast at 690,000 MT, up 2.5 percent. Despite lower milk production, the export total of the four main commodities is forecast at 2.69 MMT, 0.3 % up on 2020. It is anticipated there will be some inventory reduction to achieve this total.

Dairy Category Snapshot

- Consumption trends, such as increased demand for premium, organic and value added products, have provided industry operators with opportunities for revenue growth. However, instances of discounting and an increase in the proportion of shelf space taken up by private-label products have limited revenue growth.
- The consumption volume of milk and butter has gradually increased over the past five years. The country has one of the highest per capita consumption rates of fresh white milk in the world although cheese consumption trails behind both Australia and the UK:



- Consumption per capita 2019 (Kg per annum)

	Australia	New Zealand	UK
Milk	96.6	101.6	97.5
Butter	2.4	5.7	3.0
Cheese	13.3	10.0	11.8

- As opposed to other developed markets where consumption of dairy is falling, New Zealand consumers are spending more on dairy products. Over 2008-2025, spending on dairy products as a percentage of total food spending will increase by 2.9%, which is the highest of all food categories. This is supported by the robust growth in dairy spending, which is estimated to grow by an annual average of 6.5% between 2008 and 2025, outperforming headline food spending of 4.8% over the same period. New Zealanders will also be the top dairy consumer in Asia, with total dairy consumption (includes milk, butter and cheese) coming in at 125.5kg per capita in 2025.

NEW ZEALANDERS ARE BIG CONSUMERS OF DAIRY MILK AND PRODUCTS, HAVING ONE OF THE HIGHEST DOMESTIC MILK CONSUMPTION RATES IN THE WORLD.

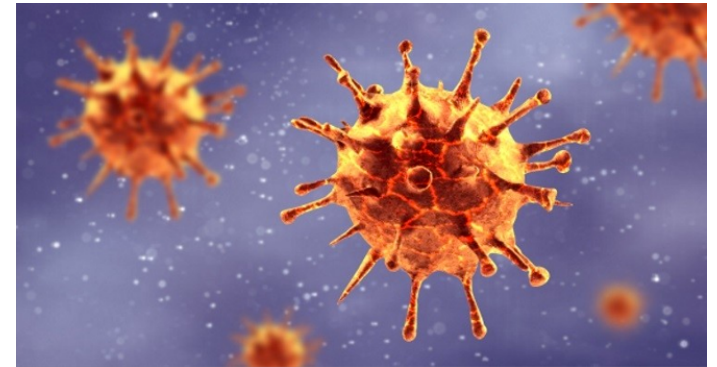
Dairy Category Snapshot

- However, dairy consumption will only grow in volume by an annual average of 1.9% over this period, which suggests that New Zealand consumers are trading up price points for more expensive dairy products, especially imported cheese. For example, between 2008 and 2020, imports of premium Danish cheese grew steadily at a compounded annual growth rate (CAGR) of 16.8%, from USD1.0mn to USD6.8mn. This includes premium cheese such as havarti, fontina and Danish blue cheese, which are typically much more expensive than the average cheese found in supermarkets.. There is also a strong increase in demand for value-added dairy products such as butter and yoghurt.
- Dairy products are therefore expected to remain a staple in New Zealand household's diet, with growth in dairy products stemming from the premiumisation trend and as New Zealand's household income continues to increase over the medium term. That said there is growing competition from dairy free and plant based alternatives:
- The alternative milk market has experienced substantial growth. Non-dairy alternatives include soy, oat, almond, rice, and coconut milks. The boom in sales of these products coincides with more Kiwis opting for a plant-based diet. With this segment growing locally and internationally, New Zealand's core dairy products may face increased competition in the future.
- Consumers are also looking for products that are high in protein, low in sugar and offer added health benefits, as well as supporting brands with high ethical and sustainable values.



AS CONSUMERS TRADE UP WITHIN DAIRY

Covid-19 Impact on the Dairy Sector



- Industry demand growth was boosted during the early stages of the COVID-19 pandemic. However, the effect of limited population growth, due to closed international borders, is expected to be reflected in industry revenue during the current year. Although recovering disposable incomes is expected to support demand, some consumers are expected to continue to prefer cheaper products as economic uncertainty remains.
- The recent nationwide/regional returns to lockdown has led to the country's consumers stocking up and in turn increasing overall retail spending.
- The closure of hospitality venues and other foodservice outlets, an important sector for dairy suppliers, in response to regional/local COVID-19 outbreaks will continue to slow spending in this sector and may take years to recover.
- The COVID-19 pandemic and the Government's response did not impact on milk supply nor did it hinder milk processing.
- The COVID-19 pandemic has caused disruption to export supply chains into destination countries especially for food service products and ingredients. However, the dominant destination, China, has recovered well and reportedly food service channels are almost back to normal.

Category Spotlight on Cheese: Overview

Premium offerings continue to experience strong growth

- Cheese continues to excite New Zealand consumers as sales remain strong both prior to and after the lockdown restrictions. Despite consumers restricting spending, premium cheeses continue to grow as consumers are exploring product options to create excitement at home to shake up routine eating behaviour as foodservice options were inaccessible during the lockdown. Consumer desire to explore cheese varieties is driving manufacturers to innovate and introduce new premium varieties that are sourced from more than just cow's milk, with a rising consumer interest seen in sheep, goat and buffalo milk cheeses. Consumers have also been increasingly on the lookout for cheese provenance with a growing sentiment of supporting locally made cheeses and New Zealand's artisanal cheesemakers.



Dairy-free cheese expected to shake market dynamics

- Growing consumer interest in health and wellness has helped free from lactose and dairy cheeses to increase their presence with relatively strong growth in both value and volume terms. The demand for plant-based alternatives has increased exponentially as a growing proportion of New Zealanders are willing to spend on dairy-free alternatives as a lifestyle choice for health, ethical and environmental reasons. Although industry leaders have been missing out on the opportunity to meet rising consumer demand for plant-based cheese alternatives, Zenzo's Dairy Free Vegan Cheddar and Angel Food's Dairy Free Parmesan have experienced strong surges in popularity as dairy-free cheese options remain limited in supermarket shelves. Following the lockdown imposed to contain the spread of COVID-19, consumers are expected to become more concerned about aspects of food production than ever before, leading to greater popularity for plant-based diets. Although New Zealand's dairy industry is more significant in terms of national scale, more New Zealanders are embracing plant-based diets due to health reasons, preferences or moral stance, and this is likely to continue on a stronger trajectory moving forward.

Category Spotlight on Cheese: Overview



Increase in consumption at home boosts value and volume growth

- Consumers in New Zealand have increasingly been seeking comfort in food as movement is restricted and in the absence of foodservice, reflected in the increasing basket size of their shopping trips. As consumers look at ways to entertain themselves at home and create exciting meals that are convenient to prepare, snacking occasions have increased considerably, leading to strong value and volume growth in cheese sales during the lockdown. With more children and adults staying at home, both processed as well as unprocessed cheese have experienced sales spikes as manufacturers and major retailers Foodstuffs and Woolworths struggled to meet demand. Cheese as a convenient snack option had been increasing in popularity even before the pandemic restrictions and growth is likely to continue to be seen going forward, with New Zealanders having developed new consumption habits during the lockdown.

Support for local artisanal cheeses expected to grow

- Lockdown led to a sharp increase in cheese sales in major supermarkets as most local and convenience stores closed down due to strict social distancing measures in place. Industry leaders with a strong presence such as Fonterra, Goodman Fielder and Dairyworks along with private label from major retailers like Foodstuffs and Woolworths have fared well due to good exposure to customers with their shelf presence and visibility. However, as restrictions were eased, there is a growing sentiment among consumers in New Zealand to support local businesses and artisanal cheeses that were impacted during the lockdown by reduced sales caused by store closures as well as production and distribution issues. The shift towards premium local artisanal cheeses was evident prior to the lockdown, with growing consumer interest in exploring different flavours and tastes..

Fonterra maintains its leading position in cheese

- Fonterra continues to lead cheese, accounting for more than half of the total retail value sales in 2020, and it is expected to maintain its position, given its shelf space presence in supermarkets with its extensive product line. Fonterra's Mainland brand boasts a diverse product portfolio, consisting of cheese blocks, grated cheese, slices and snacking options for both children and adults, appealing to a wide customer base. Fonterra's continued success can be attributed to a strong store presence in supermarkets and brand familiarity, which is expected to grow further as consumers adapt increasingly to staying at home more, leading to increasing retail consumption. However, with growing consumer sentiment strongly in favour of supporting local cheesemakers and premium artisanal cheeses,, Fonterra and leading industry players need to ensure product variety to meet consumer demands for speciality cheeses.

Cheese Category Volume Growth Forecasts (Source: Euromonitor)

'000 tonnes	2020	2021	2022	2023	2024	2025
Processed Cheese	4.6	4.6	4.7	4.7	4.7	4.7
- Spreadable Processed Cheese	1.6	1.6	1.6	1.6	1.6	1.6
- Other Processed Cheese	3.0	3.1	3.1	3.1	3.1	3.1
Unprocessed Cheese	23.8	24.2	24.6	25.0	25.4	25.7
- Hard Cheese	20.7	21.0	21.4	21.8	22.1	22.4
-- Packaged Hard Cheese	20.2	20.6	20.9	21.3	21.7	21.9
-- Unpackaged Hard Cheese	0.4	0.4	0.4	0.4	0.4	0.5
- Soft Cheese	3.1	3.2	3.2	3.2	3.3	3.3
Cheese	28.4	28.8	29.3	29.7	30.1	30.4

Forecast Sales Of Cheese By Category: Volume 2020-25

Forecast Sales Of Cheese By Category % Volume Growth 2020- 2025

% volume growth	2020/21	2020-25 CAGR	2020/25 Total
Processed Cheese	0.5	0.3	1.7
- Spreadable Processed Cheese	0.3	0.4	1.8
- Other Processed Cheese	0.6	0.3	1.7
Unprocessed Cheese	1.7	1.6	8.1
- Hard Cheese	1.7	1.6	8.5
-- Packaged Hard Cheese	1.7	1.6	8.5
-- Unpackaged Hard Cheese	1.2	1.4	7.2
- Soft Cheese	1.6	1.1	5.7
Cheese	1.5	1.4	7.1

Cheese Category Value Growth Forecasts (Source: Euromonitor)

NZD million	2020	2021	2022	2023	2024	2025
Processed Cheese	66.2	66.6	66.9	66.9	66.8	66.5
- Spreadable Processed Cheese	25.9	26.2	26.5	26.8	26.9	27.0
- Other Processed Cheese	40.3	40.4	40.4	40.2	39.9	39.6
Unprocessed Cheese	588.3	603.5	618.1	630.1	641.1	649.8
- Hard Cheese	423.3	434.2	444.9	454.4	463.2	470.3
-- Packaged Hard Cheese	410.6	421.3	431.8	441.2	449.9	456.8
-- Unpackaged Hard Cheese	12.7	12.9	13.0	13.2	13.4	13.5
- Soft Cheese	165.1	169.3	173.3	175.7	177.9	179.5
Cheese	654.5	670.1	685.0	697.0	707.9	716.3

Forecast Sales Of Cheese By Category: Value 2020-25

Forecast Sales Of Cheese By Category % Value Growth 2020- 2025

% constant value growth	2020/2021	2020-25 CAGR	2020/25 Total
Processed Cheese	0.7	0.1	0.5
- Spreadable Processed Cheese	1.3	0.8	4.0
- Other Processed Cheese	0.3	-0.3	-1.7
Unprocessed Cheese	2.6	2.0	10.4
- Hard Cheese	2.6	2.1	11.1
-- Packaged Hard Cheese	2.6	2.2	11.2
-- Unpackaged Hard Cheese	1.6	1.3	6.6
- Soft Cheese	2.6	1.7	8.7
Cheese	2.4	1.8	9.4

Cheese Category Sales by Type and Top Suppliers of Cheese Imports

Sales Of Unprocessed Cheese By Type. 2020 % Retail Sales Value rsp

Blue	3.6
Brie	3.7
Camembert	4.5
Cheddar	37.0
Colby	16.4
Edam	19.5
Feta	3.8
Mozzarella	1.0
Others	8.4
Total	100

Country	Annual					Jan-Aug		
	2016	2017	2018	2019	2020	2020	2021	± % su 2020 *
United States	1.665	2.107	2.421	3.163	3.190	2.192	2.135	-2,62%
Australia	3.268	3.398	3.656	3.235	2.633	1.671	1.787	+6,91%
Denmark	2.267	1.736	1.398	1.294	1.300	758	1.012	+33,55%
Germany	483	710	1.006	1.053	712	476	436	-8,47%
Netherlands	217	991	609	270	561	388	209	-46,11%
Italy	336	310	370	416	402	276	382	+38,11%
Ireland	445	788	40	1.732	399	154	233	+50,63%

Dairy Imports

- New Zealand imported a total of US\$411 million worth of dairy products in 2019, up 29 percent on the total for 2018. The leading import was lactose used in the manufacture of WMP
- Domestic demand in New Zealand is largely served by its own dairy industry. Cheese imports in 2019 were 97,000 tonnes which would equate to over 10% of its domestic milk production.
- Although New Zealand has a comparative advantage in dairy production and manufacturing, heavy reliance on exporting requires significant imports of dairy ingredients to meet domestic demand. The US, Australia and Germany are major sources of supply.
- New Zealand dairy import tariffs are 0%



IMPORT		2017	2018	2019	2020	2020	2021	%	Period
Whey powder (HS 0404)	TOP exporters	27	36	27	22	13	9,6	-28,4%	Jan-Aug 2021
Lactose pharmaceutical (HS 170211)	TOP exporters	90	86	118	122	84	66	-22,1%	Jan-Aug 2021
Cheese (HS 0406)	TOP exporters	11	12	13	10	6,7	7,2	+7,9%	Jan-Aug 2021

Dairy Imports From the UK Volume and Value 2017-2019 (Source Dairy UK)

NEW ZEALAND	2017		2018		2019	
	Volume (kg)	Val (£)	Volume (kg)	Val (£)	Volume (kg)	Val (£)
Milk and Cream	0	0	0	0	3,641	25,066
Concentrate & Powders	0	0	0	0	110	3,228
Yogurts	0	0	533	14,083	2,250	7,176
Whey products	1,285,391	1,576,019	2,122,024	2,538,916	3,987,805	6,173,611
Butter	95	2,760	0	0	1,800	5,357
Cheese	30,543	228,539	59,264	380,150	170,501	706,423
<i>Of which:</i>						
<i>Cheddar</i>	8,118	53,023	16,453	115,345	115,512	444,992
<i>Stilton</i>	4,671	52,530	10,938	55,768	2,331	31,273
<i>Other cheese</i>	17,754	122,986	31,873	209,037	52,658	230,158
TOTAL	1,316,029	1,807,318	2,181,821	2,933,149	4,166,107	6,920,861

UK Dairy Brands in New Zealand include:

Somerdale - Barber's 1833 - Long Clawson - Quicke's – Singletons – Snowdonia - Delamere Dairy - Wensleydale Creamery - Wyke Farms – Tuxford/Tebbutt – Devon Cream Co - Bath Soft Cheese Company - Cropwell Bishop - Fine Cheese Company - Lynher Dairies - Colston Bassett Dairy – Tunworth.

WHEY PRODUCTS ARE THE MOST IMPORTANT DAIRY CATEGORY EXPORTED FROM THE UK TO NEW ZEALAND AS INGREDIENTS TO MEET MANUFACTURING NEEDS.

Dairy Exports and Competitive Landscape

- New Zealand is one of the world's most important exporters of milk and dairy products. Led by dairy cooperative Fonterra, the country is an important supplier to the Asia Pacific region, and exports around 95% of the milk produced. The New Zealand dairy industry has a long history as a trusted supplier of safe and sustainable dairy products.
- In 2019 New Zealand's top five dairy export markets were 1. China - 2. Australia - 3. The US - 4. Japan - 5. Malaysia
- New Zealand exporters supply an estimated three percent of the world's total supply in dairy products,
- Export volumes and pricing for the major commodities, especially whole milk powder (WMP), have held up well during the COVID-19 pandemic and the global response. The response to COVID-19 by Governments disrupted foodservice through the world. New Zealand exporters were fortunate that much of the foodservice and consumer products shipped goes to Asia, especially China, where food service has recovered relatively quickly.
- Exports of New Zealand cheese have expanded rapidly this year with January through May shipments up 19% year-on-year. This has been largely driven by the sharp increase in import demand from China. Over this period, New Zealand cheese shipments to China have grown by 87 % to reach 44,000 tons by the end of May, accounting for about one-quarter of total cheese exports. Given strong import demand, the New Zealand cheese export forecast is revised up by 9 percent to reach a record 375,000 tons.
- New Zealand exporters are working with food service companies and chefs in China to develop new products which use cheese. For example, hotpot dishes are very popular in parts of China and recognizing this, New Zealand food technologists are working on hotpot recipes and products which incorporate cheese.

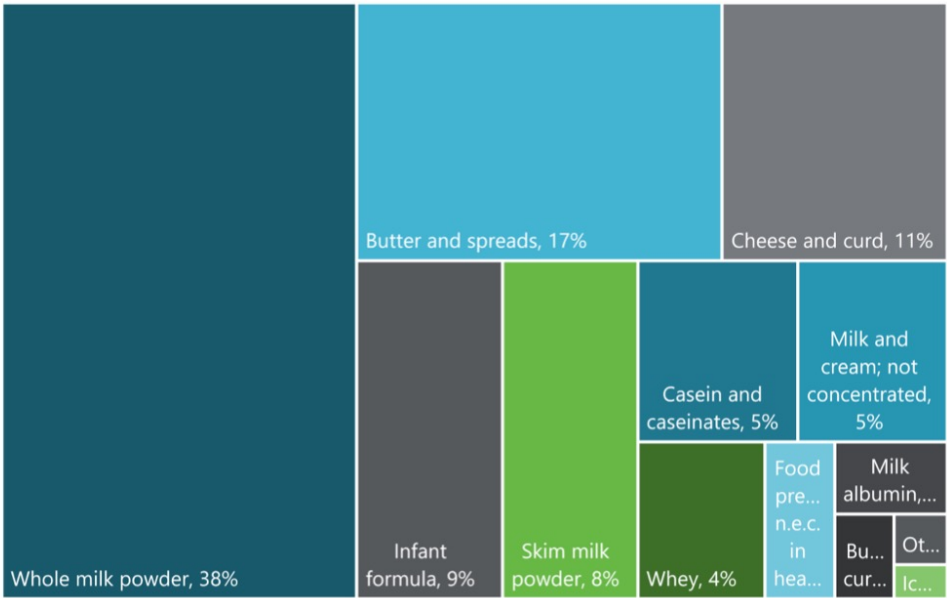
DAIRY IS ONE OF THE MOST DOMINANT EXPORT SECTORS FOR NEW ZEALAND AND THE COUNTRY IS A KEY SUPPLIER TO THE ASIA PACIFIC REGION

Dairy Exports and Competitive Landscape

- Total butter exports for 2021 are forecast at a similar level to 2020 at 495,000 MT (butter equivalents). World butter and AMF prices have come off the peaks reached during 2018 and 2019 as Northern hemisphere processors have geared up butter and AMF production and exports. Diversification into innovative consumer products in Asia is a strategy being followed to enhance value returned to New Zealand. For example, New Zealand exporters are working in China to develop and promote new consumer offerings such as butter that can be added to hot beverages like coffee or tea.
- Liquid Milk Exports Liquid milk export volumes in 2020 were negatively impacted by COVID-19, dropping 13 percent for the period January to August 2020 compared to the same time last year. Reportedly, consumer demand and logistical disruptions are recovering in the main destinations in Asia. For the 2020 full year, FAS/Wellington estimates exports at 245,000 MT, nine percent less than 2019. For 2021, exports are forecast to recover and rise four percent to 255,000 MT.
- South and Southeast Asia are milk deficit regions and now account for around 29 percent of New Zealand's annual WMP exports. This is likely to increase over the next few years as exports to the Middle East have continued to wane. For example, exports to Sri Lanka and Bangladesh have grown at a compound annual rate of ten percent and 18 percent per annum, respectively, over the last four years. Around two-thirds of WMP is used for either direct recombining for the drinking milk sector, cultured and blended products, or the bakery trade. The balance remains as powder and is repacked into low volume sachets for consumer use.
- A sharper than expected decline in Chinese import demand could lead to declines in dairy prices and export volumes, significantly reversing the enormously beneficial upturn seen in New Zealand's terms of trade over recent years. A collapse in Chinese demand could further weigh on New Zealand's dairy export prices. However the latest iteration of the free trade deal between China and New Zealand includes provisions for duty free access for New Zealand dairy exports to China when dairy safeguards end in 2024.

Dairy Exports By Category

Share of dairy exports by product category, year to June 2020



Whole milk powder	\$7.6B
Butter and spreads	\$3.4B
Cheese and curd	\$2.1B
Infant formula	\$1.8B
Skim milk powder	\$1.6B
Casein and caseinates	\$1.0B
Milk and cream; not concentrated	\$1.0B
Whey	\$0.7B
Food preparations n.e.c. in heading 1901	\$0.4B
Milk albumin	\$0.3B
Buttermilk, curdled milk and cream, yoghurt, kephir, fermented or acidified milk or cream	\$0.2B
Other milk powders	\$0.1B
Ice cream	\$0.1B
Total	\$19.7B

Routes To Market

- New Zealand has two major distribution channels: Supermarket Groups and Food Service Distributors. The main players in the supermarket channel are Foodstuffs New Zealand (Pak'n Save and New World) and Progressive Enterprises (Countdown). Foodservice distributors include Gilmours, Moore Wilson, Bidvest and Trents.
- Approximately 90% of all imported food products are purchased and distributed within New Zealand by importers/distributors who will generally have national distribution
- It is also common for Australian distributors to also service the NZ market.
- Australia and New Zealand share food standards and labelling requirements so sending products to both markets is a lot easier than other parts of the world, particularly for consumer goods.
- New Zealand import channels are very similar to those 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 New Zealand 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.
- To enhance marketing activities, exporters should consider combining promotional advertising such as in-store displays and store catalogues, major industry magazines (e.g. FMCG business), and digital platforms.



Regulatory Framework



- New Zealand has very strict biosecurity rules to protect New Zealand agriculture and forestry industry. Unprocessed products cannot be imported into New Zealand unless an import health standard has been developed for that product. Import Health Standards specify the biosecurity requirements that must be met. The Import Health Standard database can be viewed at <https://www.mpi.govt.nz/law-and-policy/requirements/import-health-standards/>.
- All imported foods must comply with all aspects of Food Act and Food Standards Code at the point of entry into New Zealand. The Ministry for Primary Industries (MPI) performs random inspections on any food imported. High-risk foods can be targeted for inspection at a higher frequency.
- To import dairy food products and ingredients you must either be registered as a food importer with MPI, or use a registered food importer. MPI lists registered food importers in a [public database](#).
- To import dairy products successfully you need to know about (see overleaf):

Regulatory Framework

- **Biosecurity requirements**
 - ensuring your product is covered by an import health standard (IHS)
 - complying with the requirements of the IHS
 - biosecurity permits, if needed
 - arranging zoo sanitary certificates and manufacturers' declarations, if needed.
- **New Zealand Customs Service requirements**
 - product prohibitions and restrictions
 - tariffs and permits
 - using a customs broker.
- **Food Act requirements**
 - food importer registration
 - general requirements of registered food importers – sourcing and keeping food safe and suitable, records, and recalls
 - the Australia New Zealand Food Standards Code, including labelling, composition and restricted foods
 - foods classed of "high regulatory interest" and "increased regulatory interest" (these will require food safety clearance)
 - how to get food safety clearance
 - fees and charges that apply for services provided by MPI and other agencies.
- **Additional requirements**
 - Organic food, irradiated food, genetically modified food, and supplemented foods have additional requirements besides the Food Act



FULL DETAILS OF DAIRY IMPORT REGULATIONS AND REQUIREMENTS CAN BE FOUND ON THE [MINISTRY OF PRIMARY INDUSTRIES](#) WEBSITE

SWOT: Implications for UK Dairy Exporters



Strengths

- UK culture well accepted and similar to New Zealand.
- No language barriers.
- UK products have excellent image and acceptance.
- UK dairy sector source of innovation for NZ companies.
- Large UK ex-pat community
- New Zealanders are very open and have an excellent business reputation for honesty and transparency.
- Consumer focus on health & wellness, quality, food safety and security play to the strengths of Brand Britain.
- The New Zealand retail market is quite consolidated, and it is easy to access it using importers/distributors or sales/marketing agencies.
- Australian distributors often serve the NZ market as well.

Weaknesses

- New Zealand has strict quarantine requirements for dairy products and importers require an MPI importer licence.
- New Zealand is a significant producer of a similar variety of dairy products.
- Labelling laws are different, which will require some changes to food labels.
- Geographic distance and time difference.
- Small population limits revenue growth potential.

SWOT: Implications for UK Dairy Exporters

Potential Opportunities


- Once finalised, the UK-NZ Free Trade Agreement will enable UK dairy products to enter NZ tariff free.
- Consumers are experimental and desire new and innovative products.
- Projected growth in household incomes will enable further premiumisation in the market.
- New Zealand's market size is ideal for New-To-Export companies and for testing New-To-Market products.
- 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. High-quality products with innovative packaging and unique features that are price competitive tend to do well in the New Zealand market.
- Opportunity to enter private label arrangements as major players expand their private label offerings.
- 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.
- 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.
- Although there is a strong “*buy New Zealand made*” push (see challenges overleaf), which was amplified during the lockdowns, demand remains robust for imported food products

SWOT: Implications for UK Dairy Exporters

Potential Threats / Challenges

- New Zealand has well-developed livestock, agricultural and dairy industries. It is the world's largest exporter of dairy products.
- There is growing competition from Australia, China and Singapore for imported food products.
- Additional competition from Ireland which has strong industry links and similarities with New Zealand.
- The “New Zealand Made” campaign is significant, supported by government investment to help local food and beverage manufacturers capitalise on the growing popularity of NZ produce.
- From 12 February 2022, businesses must disclose where certain fresh and thawed food comes from that they supply, offer, or advertise for supply to consumers in New Zealand.
- Most categories have substantial market leaders.
- The mass grocery retail is almost saturated and Auckland dominates NZ retail sales by a substantial margin.
- The New Zealand grocery retail market is highly concentrated, dominated by 2 main players accounting for 80% of the market: Foodstuffs (NZ) Ltd and Progressive Enterprises (Owned by Woolworths Limited, Australia).
- The re-implementation of regional lockdown restrictions due to an outbreak of the delta variant will continue to hamper spending on out-of-home sectors.
- Exchange rates and shipping rates can be volatile and relatively high

Succeeding in New Zealand

- ✓ Successful market entry is a combination of knowing the New Zealand market, selecting the right business partner and providing ongoing support to the local partner.
 - ✓ The focus on locally made labelling and marketing means there needs to be strong unique selling points for imported products.
 - ✓ Consumers expect that packaging 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.
 - ✓ Approximately 90% of all imported food products are purchased and distributed within New Zealand by importers/distributors.
 - ✓ 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 New Zealand buyers and consumers.
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Data Sources

- Credit Suisse 2020 Global Wealth Report
- OECD
- CIA World Factbook
- Euromonitor
- IBIS World
- Dairy Companies Association of New Zealand
- Dairy Tomorrow NZ
- Dairy NZ
- Global Trade Tracker
- Ministry of Primary Industries NZ
- Dairy Global
- IBIS World
- Statista