



ADF National Dairy Farmers' Summit

Thursday 13 March 2014

Theme 5: Market Growth

Introduction

- This theme looks at the desire to grow existing domestic and international markets, and to build new and emerging markets and uses for dairy that will sustain demand into the future.
- If the domestic and international market grows in volume or changes in product mix, are we ready to meet the new demand? Do we have the ability to innovate, to develop, and grow our production? What are the key factors for us to deliver what customers want – safety, quality, right price, and right attributes?
- Having improved trade policy to address the distorted international market is a priority. But what can the industry best do to ensure dairy's commercial interests are addressed by government?

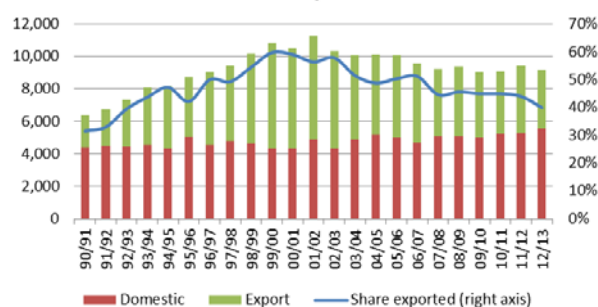
Where we have been

In contrast to its competitors, Australia's mix has been fairly evenly split between domestic and export markets. This contrasts with New Zealand, where 95% or more of production is exported, and the EU and the US, where well under 20% of production is sold offshore. These US and EU competitors are becoming more committed to international dairy markets with growing export volumes on the back of stagnant domestic demands.

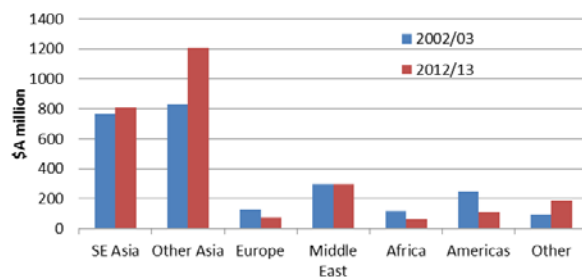
The Australian market provides a significant customer base for the industry. Dairy consumption is relatively high and stable at around 300 litres (milk equivalent) per person. Overall demand has increased slowly, in line with population growth – at around 1 to 2% per annum. With consumers increasingly value conscious, and major retail chains aggressively competing for market share on price, the wholesale unit value of domestic milk sales has fallen by around 9% over the past 10 years when inflation is taken into account. While Australian fresh dairy product dominates the local market, free access for New Zealand and others means that imports account for around 22% of sales.

Export momentum has waned with reduced production, and the value of Australian dairy exports in nominal terms is largely unchanged compared to 10 years ago. In real terms the compound growth rate of export value has been -2.3% on average during the 2000s, compared to 20.4% in the 1990s.

Australian dairy market mix



Export sales value - 10 year comparison



On the positive side, the average unit value for exports has increased by almost 40% in inflation adjusted terms. This implies that exporters are managing to extract greater returns from the export market than previously.

Despite this improvement, Australia's Free Trade Agreement (FTA) status continues to limit the ability of commercial players to access some of the world's most important and growing dairy markets on an equal footing with our competitors. There is no Chinese FTA; the Korean agreement, while overcoming a large portion of the disadvantage, still has us lagging behind the US and the EU. Unlike NZ with its focus on dairy, or the EU with its large and attractive market as a bargaining tool – Australia is a less attractive trade partner. When negotiations are in progress, dairy runs the risk of being lost in the crowd of other, larger exporting industries – particularly with our faltering export presence.

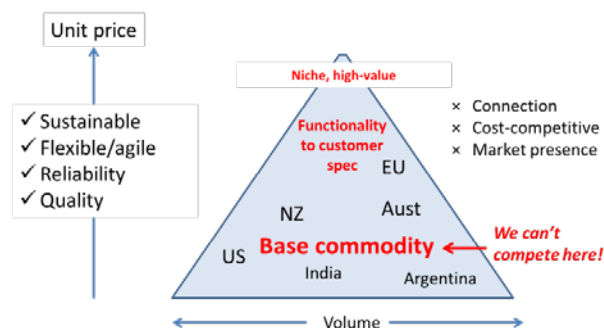
Where we are going

The challenge remains of how to position Australian dairy as a supplier of choice on international markets. What is Australian dairy's unique selling proposition and what collective actions can help us to capture this positioning? Will our sustainability credentials help and how?

Global milk output is expected to rise at 2% per annum to 2020, while the demand in developing markets will increase much faster than the capacity of exporters to supply. In the meantime the domestic market will offer steady but slow growth with some higher value niches.

The scope for growth in dairy demand from the developing world is substantial and will continue to expand with rising GDP that flows into higher household incomes. Increasing urban migration will push this demand growth faster in some regions, as people earn more in city jobs, and seek better nutrition and variety in their diets.

The expected strong growth in Asian and Middle-East and North African economies will provide greatest opportunity for expansion of dairy's markets. Dairy is well established as a key part of an increasingly nutritional protein-rich diet in these regions. The growth in the dairy market is not just a story about the massive potential in China – other developing markets will be as important and possibly more significant for Australia. The growth in demand however is in very competitive markets so the challenge for Australia is how to meet this demand more profitably than our competitors.



As Australia is no longer a low cost supplier to the world dairy market, there is an imperative to seek out higher value for both domestic and export sales. This is a sound strategy, but one that also being pursued by other dairy industries around the world.

Questions for the workshop

1. What does success in market growth look like to you?
2. What are the most important market growth issues for the industry?
3. How does the industry get the Australian government focussed on trade reforms for dairy?
4. How do we extract more value and profit from the export growth opportunity in Asia and the Middle East?
5. What are the top 3 things the industry can do to support market growth and defend existing markets?