

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Australia

Dairy and Products Annual

2014

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Report Highlights:

The Australian dairy and dairy products industry is still recovering from drought and the volume of milk production is expected to be around 9.6 million metric tons in 2015. Output of dairy products such as cheese and milk powder is constrained by available milk supplies. Domestic demand for dairy products is expanding as is demand in Asian markets. International prices have declined significantly over the year. Airfreight exports of fresh milk to China are likely to grow rapidly. Industry restructuring continues with low profitability in marginal areas encouraging farmer exits from the industry.

Dairy, Milk, Fluid

Dairy, Butter

Dairy, Cheese

Dairy, Dry Whole Milk Powder

Dairy, Milk, Nonfat Dry

[illegible]

Dairy, Butter Australia	2013		2014		2015	
	Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		Market Year Begin: Jan 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	46	46	49	49		52
Production	117	117	120	117		115
Other Imports	21	21	19	21		21
Total Imports	21	21	19	21		21
Total Supply	184	184	188	187		188
Other Exports	50	50	52	49		47
Total Exports	50	50	52	49		47
Domestic Consumption	85	85	86	86		86
Total Use	135	135	138	135		133
Ending Stocks	49	49	50	52		55
Total Distribution	184	184	188	187		188

1000 MT

Dairy, Cheese Australia	2013		2014		2015	
	Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		Market Year Begin: Jan 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	18	18	5	24		24
Production	295	320	300	310		310
Other Imports	69	69	76	75		78
Total Imports	69	69	76	75		78
Total Supply	382	407	381	409		412
Other Exports	163	163	147	150		152
Total Exports	163	163	147	150		152
Human Dom. Consumption	214	220	229	235		240
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	214	220	229	235		240
Total Use	377	383	376	385		392
Ending Stocks	5	24	5	24		20
Total Distribution	382	407	381	409		412
1000 MT						

PRODUCTION

In 2015, Australia's 6,400 dairy farmers are expected to produce 9.6 million metric tons of fluid milk. The overall dairy cow herd is expected to remain largely unchanged at 1.7 million head and increased output will come mainly from a small increase in the milk yield per cow. International dairy prices have fallen over 2014 and the outlook is for a sustained period of low prices with a global market surplus, although the depreciation of the Australian dollar will offset the impact of lower prices.

The dairy industry is the third largest agricultural industry in Australia with wholesale value over A\$13 billion in 2013. Around one quarter of Australia's raw milk supply is used to produce drinking milk and cheese accounts for one third of national milk production with the remainder is used to manufacture skim milk powder (SMP), butter, wholemilk powder (WMP); consumer products such as yogurt and custard; and ingredients including whey proteins and nutraceuticals.

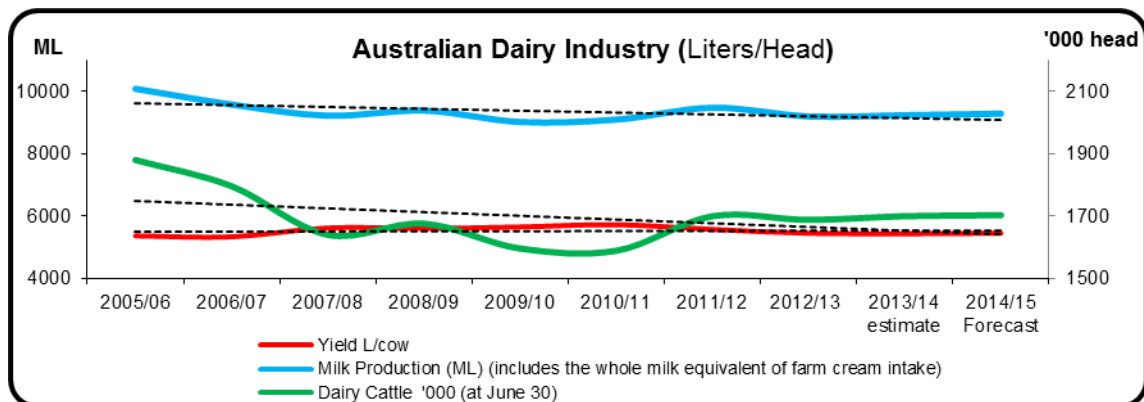
Dairy farming in Australia is largely pasture-based in Victoria, South Australia and Tasmania while supplementary feeding is more prevalent across other regions with less reliable rainfall. Three quarters of dairy farms are in Victoria and account for 65 per cent of fluid milk production and 80 per cent of dairy exports. Dairy farms and processors in NSW and Western Australia typically supply the domestic sector, while those in Victoria, South Australia and Tasmania are export-oriented. The largest 20 per cent of dairy farms account for around 80 per cent of total output.

In 2014, a number of major dairy investments have been announced. Fonterra will invest A\$30 million in milk processing in Victoria to fulfil a new supply contract with Woolworths. Parmalat will invest A\$25 million to upgrade its manufacturing plant in Victoria and also acquired the Western Australian dairy processor Harvey Fresh for A\$120 million. Lion Dairy has committed A\$140 million to upgrade its cheese facility in Tasmania. Canadian firm Saputo acquired an 88 per cent share in Warrnambool Cheese and Butter. Murray Goulburn (MG) aims to raise A\$500 million by issuing units in a trust, with the proceeds used to fund infrastructure upgrades and other marketing opportunities. MG is also investing A\$120 million to build two new advanced milk processing plants in Melbourne and Sydney.

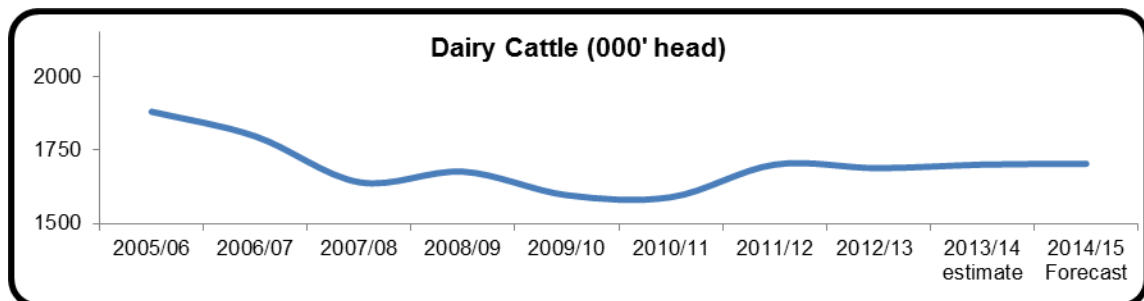
These investments are expected to increase dairy farm productivity, which has risen as less efficient farms exit the industry and average farm sizes expand. Increased productivity in the dairy industry has also come from wider use of technologies, such as rotary milking sheds, herd genetics and improved pasture varieties and feeding systems. Robotic milking systems are a potential source of future productivity growth due to labor savings, but high costs have limited their introduction to larger farms.

Fluid Milk

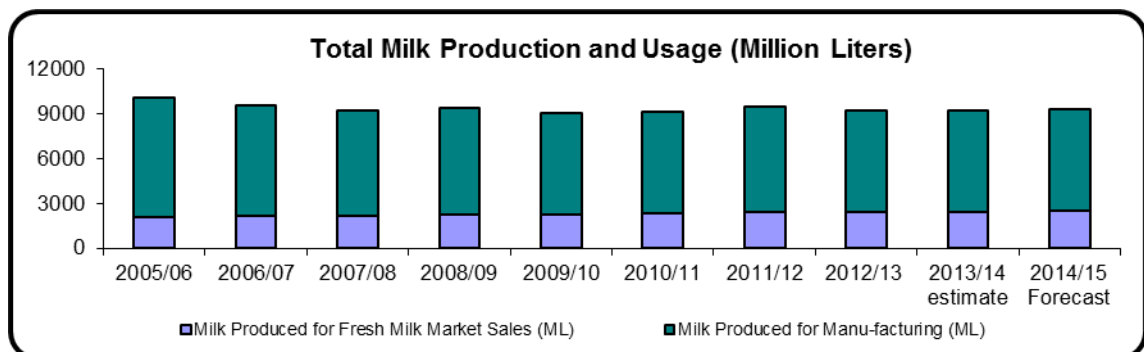
The volume of milk production is expected to be around 9.6 million metric tons in 2015, down from previous estimates because of the ongoing impact of drought, especially in NSW. Australian milk production has been affected by unfavorable seasonal conditions, lower farm gate prices and higher input costs which have lowered the profitability of many farms and related businesses. Milk production peaks in October, falls off until late-summer, and then slows in the cooler winter months. Almost all fluid milk is sold on the domestic market as fresh and UHT long-life milk products.



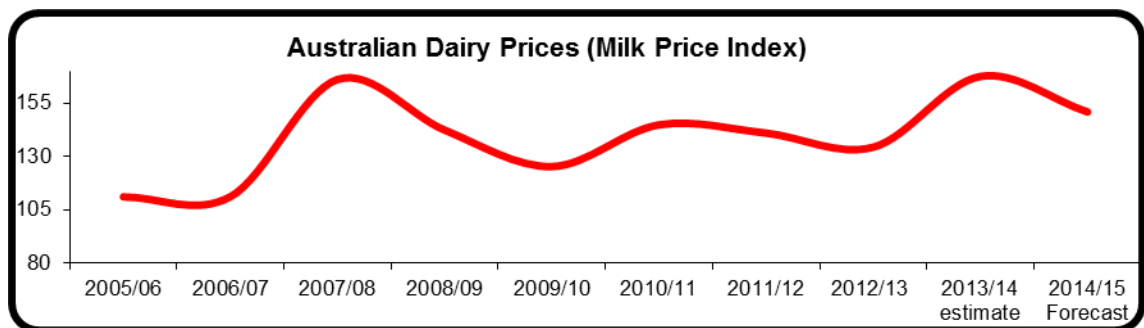
Source: ABARES Data



Source: ABARES Data



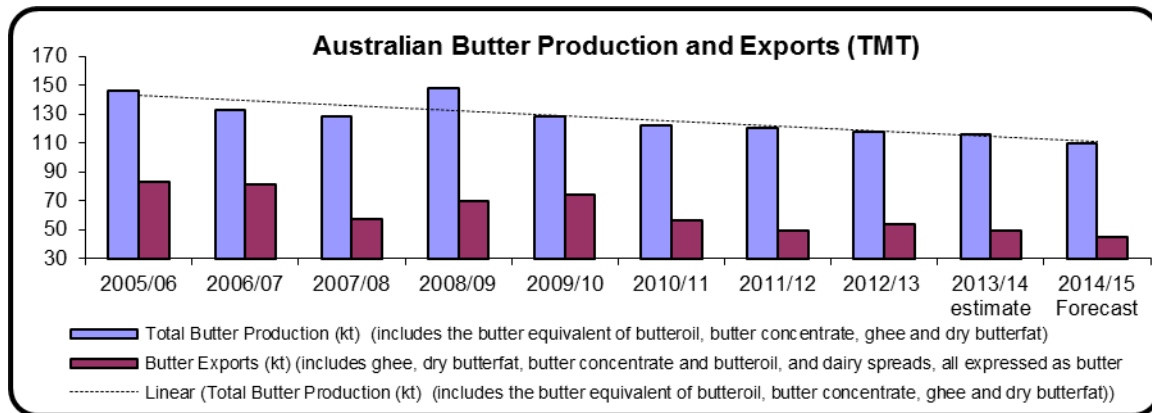
Source: ABARES Data



Source: ABARES Data

Butter

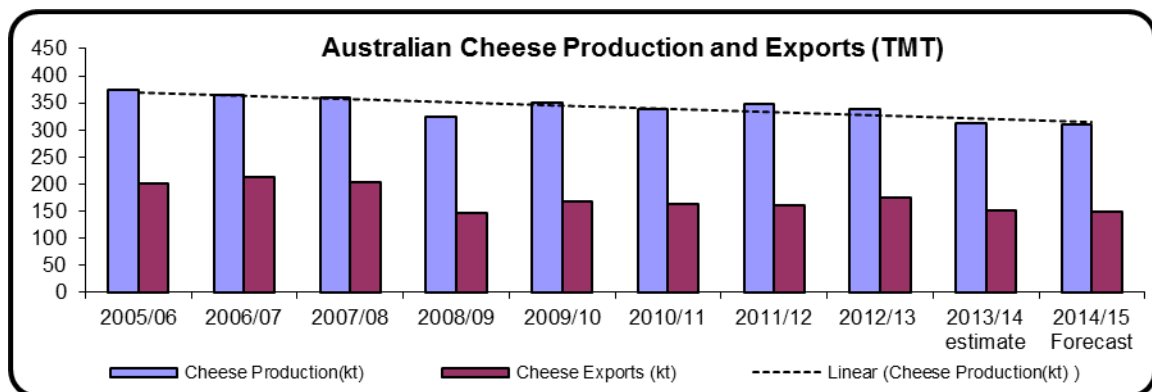
Australian butter production is expected to fall to around 115,000 metric tons in 2015 in response to declining domestic demand and the Russian import embargo. Previously, Russia was the destination for only 4 per cent of Australian dairy exports by value but accounted for 40 per cent of butter exports in 2014 or 19,000 tonnes. Dairy processors are increasingly diverting milk to other dairy products such as cheese and whole milk powder. As butter is produced in a joint process with either skim milk powder or casein also produced, skim milk powder and casein production are also expected to decline in 2015.



Source: ABARES Data

Cheese

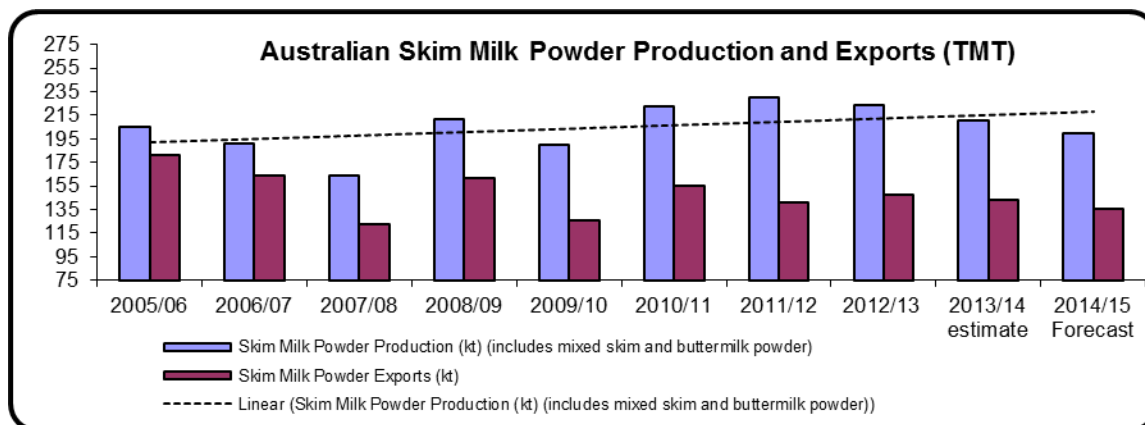
Cheese production in 2015 is expected to be 285,000 metric tons and was also revised down for 2014. There has been a production trend away from cheddar cheeses and the non-cheddar share of total production has grown from 30 per cent in the 1980s, to 45 per cent a decade ago and about 55 per cent in recent years.



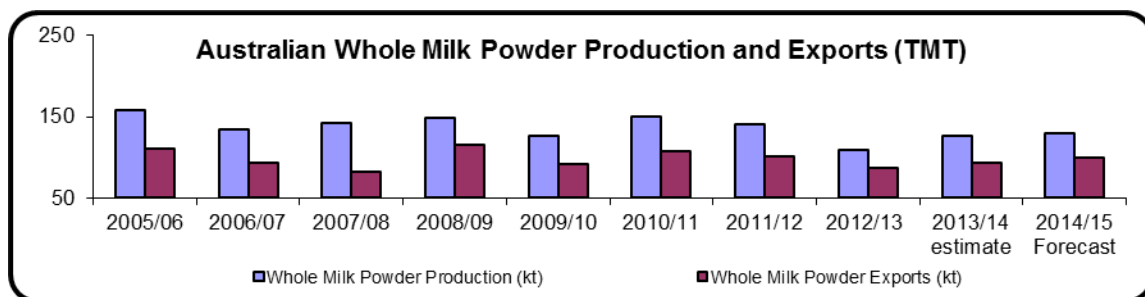
Source: ABARES Data

Milk Powder

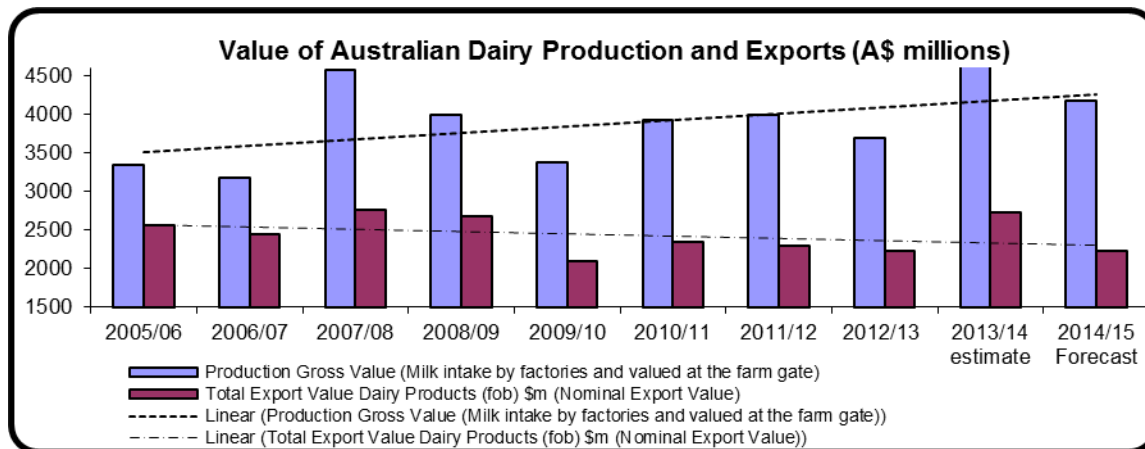
Growing export demand for Australian whole milk and skim milk powder are expected to boost export volumes and prices for these products, but the sector is constrained by available milk supplies.



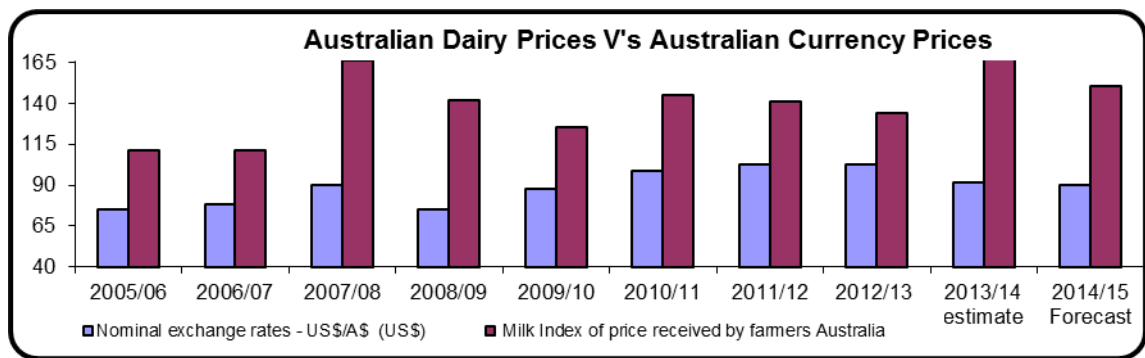
Source: ABARES Data



Source: ABARES Data



Source: ABARES Data



Source: ABARES Data

CONSUMPTION

Australian dairy consumption has risen consistently over time. Per capita dairy consumption increased by 10 per cent from 2000 to 2014 (in milk equivalent terms) driven by an increased health-consciousness among consumers. Between 2000 and 2014, the share of low fat varieties of fresh white milk sales increased from 31 per cent to 40 per cent. Supermarket chains account for the majority of domestic sales of all dairy products and their expanded use of private label lines has increased their overall market share. Milk alternatives such as soy, rice and quinoa milk are a very small part of the market but have increased in popularity because of rising demand for health products low in fat and high in protein and minerals.

Fluid Milk

Average per capita milk consumption is forecast to rise to around 107 liters in 2015. Virtually all drinking milk is consumed on the domestic market and supermarkets account for over half of drinking milk sales in Australia. A recent report found that raw milk prices paid by dairy product manufacturers in Australia are lower than in Ireland, the United Kingdom and United States, but similar to New Zealand (Productivity Commission, 2014).

In 2013, private label milk brands accounted for over half of total supermarket milk volumes, two thirds of fresh white regular full cream milk and half of modified fresh white milk supermarket sales. The lower average prices of private label products compared to company branded products were a driver for increased demand and market share. From early 2011 the major supermarkets reduced their price for private label milk price to A\$1 per liter for both full cream milks and modified milks, leading to a shift in market share of around 1.5 points from convenience and other outlets to supermarkets.

Plastic milk bottles represent nearly 80% of all milk sales in supermarkets, with the other categories being gable-top cartons (8%) and UHT cartons (13%). The 2-litre plastic bottle is the most popular size, with a market share of 45% while one liter cartons and plastic bottles together have around one fifth of the market.

Butter

Over recent years, the introduction of spreadable butters and vegetable oil-based dairy blends (which are more spreadable and lower in saturated fat) has stabilized domestic market sales, following the sustained decline of previous decades. Consumer concerns about margarine consumption have increased, resulting in a decline in market share. As a result, dairy spreads have benefited, increasing their table spreads market share from 30 per cent in 2001 to almost 45 per cent in recent years.

Cheese

Cheese has enjoyed stable demand in recent years. Almost half of Australian cheese sales are made by major supermarket chains, with specialty cheeses mainly sold by independent specialty stores, while the foodservice and food processing applications account for the rest of the market. Cheese products are sold either as brands such as 'Bega Cheese' or as a retailer's brand such as 'Coles Smart Buy'. Supermarket sales have shown a consumer preference for sliced cheese to block cheese, while increased yoghurt consumption has occurred because of greater demand for convenience and healthy foods.

Milk Powder

Around one quarter of Australia's powder production is sold domestically and the rest is exported. Milk powders are as a food ingredient in the domestic market.

TRADE

Around 40 per cent of output (in milk equivalent terms) is exported, mainly as cheese and milk powder with China and Japan the largest export markets. Australian dairy exports represent 7 per cent of international dairy trade (in milk equivalent terms) down from a peak of 15 per cent a few years ago due to the drought, a changing industry structure and the appreciation of the Australian dollar.

Fluid Milk

Fresh milk is generally considered unsuitable for export due to its short shelf life and almost all fresh milk is processed to make cheese, or dehydrated to make milk powder. However during 2014, a number of companies airfreighted the product to Asian markets for a premium price. Dairy co-operative Norco began exporting commercial quantities of fresh milk to China by air in May 2014 and within six months was delivering 30,000 liters a week, aiming to increase to 80,000 liters a week under a new distribution agreement. Norco has forecast that deliveries could grow to 20 million liters a year.

Previously, fresh milk exports to China had been deterred by lengthy testing and quarantine procedures, resulting in an export lead time of 14 to 21 days – which is longer than the standard shelf life of fresh milk. Following changes to Chinese import clearance procedures; Norco can now export milk from farms in Australia to the supermarket shelf in China in eight days. As at September 2014, one liter of Norco's fresh milk was retailing for A\$9 in China. Other Australian dairy companies are also examining fresh milk exports to China.

Butter

Over 40 per cent of Australian butter production is exported. Export volumes are expected to fall to 47,000 tonnes in 2015 in response to the Russian import embargo and declining domestic demand.

Cheese

Around half of Australian cheese production is exported. Export volumes are likely to fall to 148,000 metric tonnes in 2015.

Milk Powder

Around three quarters of Australian milk powder is exported. Skim milk powder (SKM) exports are expected to reach 150,000 tonnes in 2015, while whole milk powder (WMP) exports are forecast at around 100,000 tonnes. Exported milk powder is used in overseas markets where fresh milk supplies are not readily available, due to either limited local production, or restricted access to cold storage facilities. Milk powder has a variety of uses, such as in bakery products, confectionery and milk chocolates, processed meats, ready-to-cook meals, baby foods, ice-cream, yogurt, health foods and reduced-fat milks. Industrial grade milk powder is used for animal fodder.

Live Dairy Cattle Exports

Australian dairy cattle exports to China increased by 33 per cent to 80,000 head in 2014 and this market represents over 80 per cent of total live dairy cattle exports. Pakistan and Russia are other markets for dairy cattle exports and live dairy cattle exports were excluded from the import embargo announced by Russia in the second half of 2014.

Imports of Dairy Products

Australia's most significant dairy imports are cheese (75,000 tonnes or 25% of domestic cheese consumption), milk powders and butter (each about 20,000 tonnes or 20%). Around half of Australia's total dairy imports are from New Zealand. Imports from the European Union are typically specialty cheeses including parmesan and feta, while those from New Zealand and the United States are mainly cheddar cheese. US exports of mozzarella cheese have also been increasing for the pizza industry.

In general, Australian restrictions on dairy product imports are low, but barriers remain on some products. There is a 4 per cent tariff on imports of dairy spreads, including butter and butter blends (excluding those from developing countries), while duties and quotas apply to a range of cheese and curd products, generally of \$1.22 per kilogram for imports outside the quota range.

Food Standards Australia New Zealand (FSANZ) recently found that food standards for raw milk cheese are unequal between foreign and domestic cheese makers. While several imported raw milk cheeses are permitted in the Food Standards Code, domestic production of raw cheese is not. In 2014, FSANZ therefore proposed a number of changes to food standards that would allow for the safe production of some raw milk cheese domestically.

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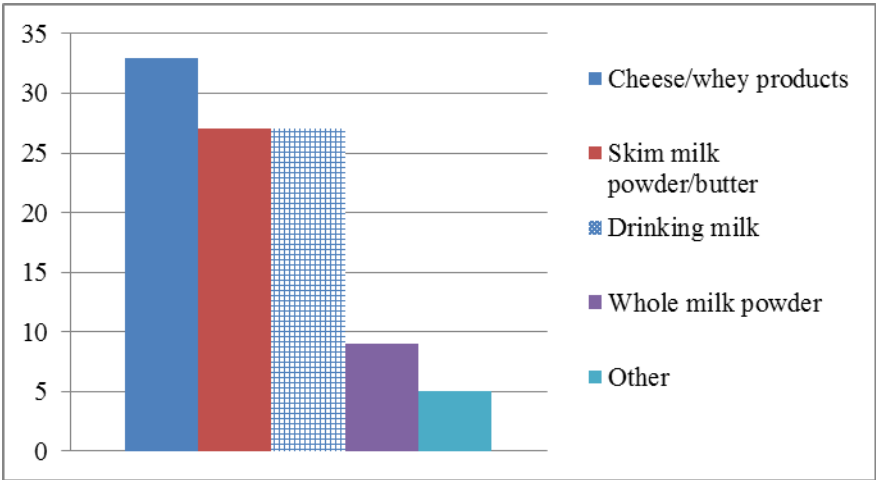
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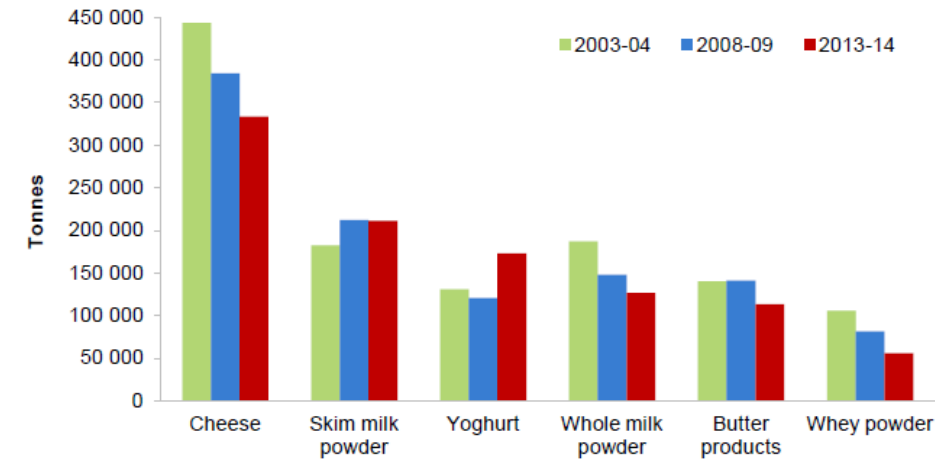
Supplementary Charts

Chart 1: Utilization of raw milk in Australia, 2013-14 (share, %)



Source: Productivity Commission (2014).

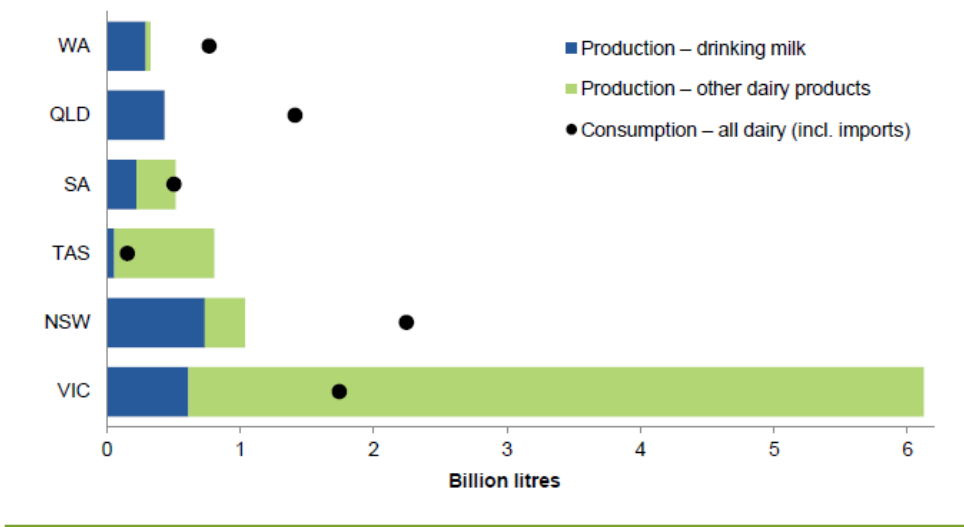
Chart 2: Production of dairy products in Australia, 2013-14



Note: Whole milk powder includes infant formula.

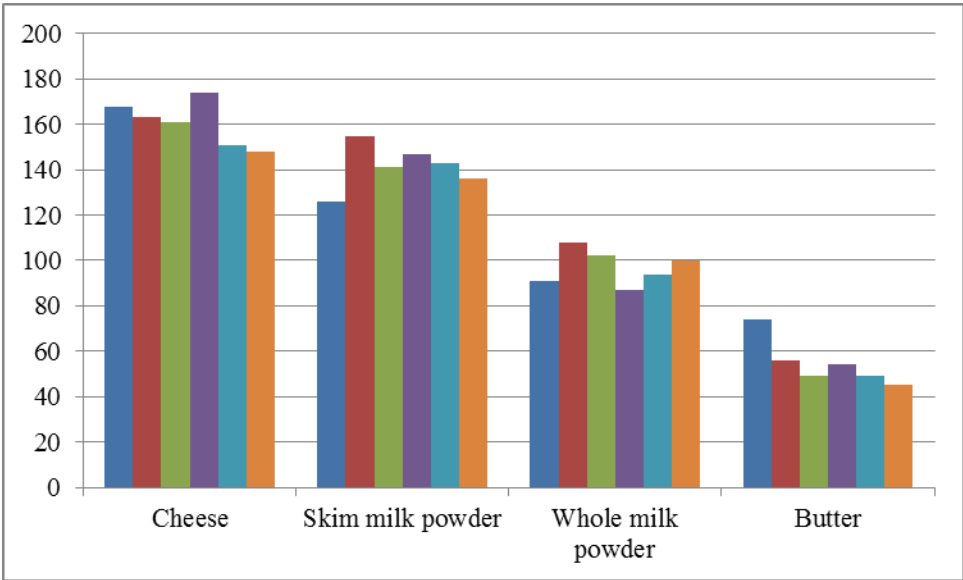
Source: Dairy Australia and Productivity Commission (2014).

Chart 3: Production and Consumption of Dairy Products in Australia, 2013-14



Note: Milk equivalent terms
Source: Productivity Commission (2014), September.

Chart 4: Volume of Australian Dairy Exports, 2009-15 (tonnes, financial years)



Source: ABARES data (2014).