

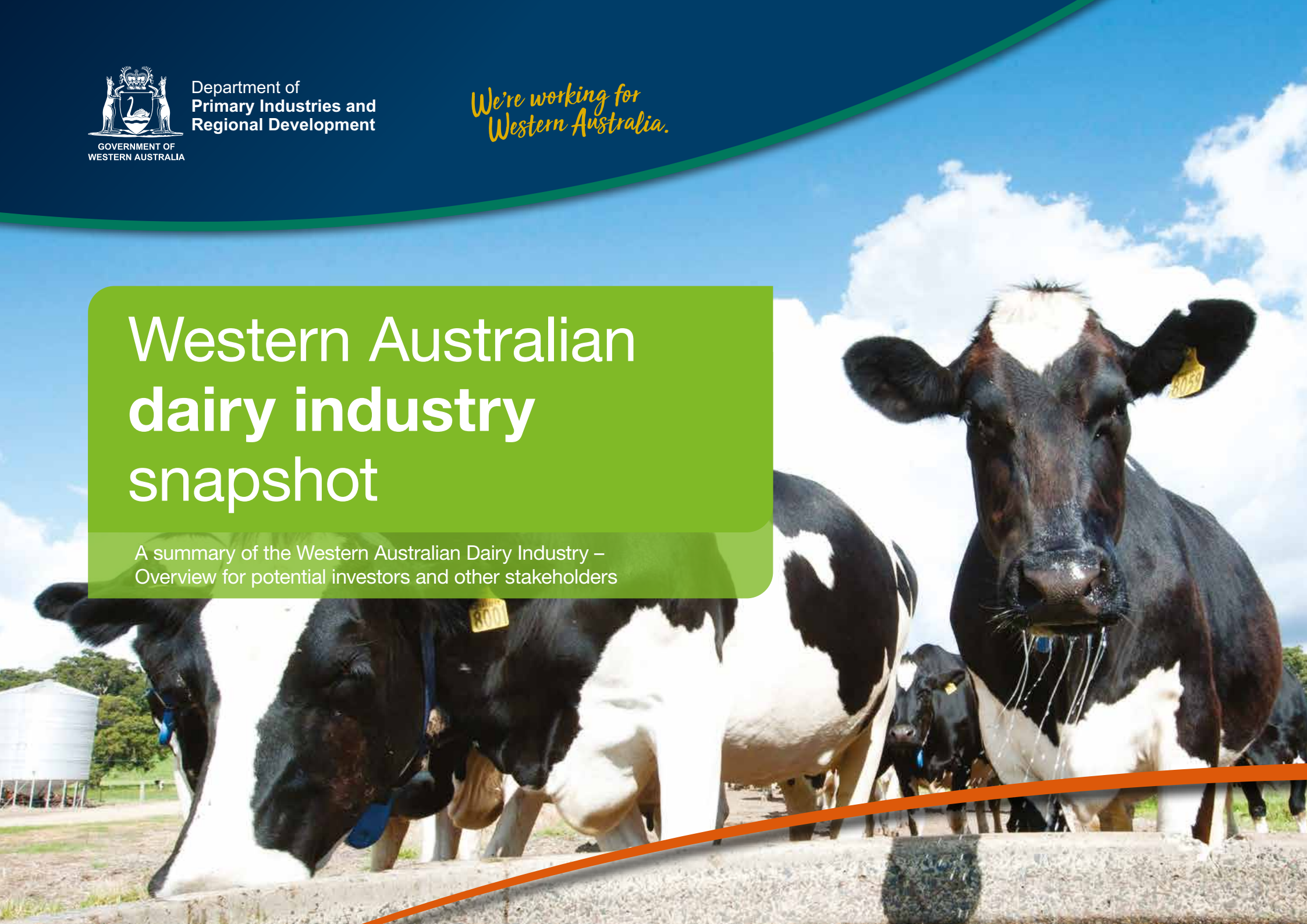


Department of
Primary Industries and
Regional Development

*We're working for
Western Australia.*

Western Australian dairy industry snapshot

A summary of the Western Australian Dairy Industry –
Overview for potential investors and other stakeholders



There are different types of investors

All are needed and welcome in the Western Australian dairy industry

Important notice: The recent COVID-19 pandemic has affected the community and aspects of the global economy. Disruptions to supply chains, air freight and other business activities are acknowledged. Collaborative efforts by governments, industries and communities will chart the way forward knowing global demand for food and the supply of the many products from Western Australia's primary industries will continue. The information presented in this Industry Snapshot as at February 2020 serves as a reference point for continued industry innovation and growth.



Dairy farmers continuously invest in land, genetics and farm innovations to drive growth. Western Australia has 159 dairy farmers supplying fresh milk and dairy products to Australia and beyond.



Small innovative Western Australian dairy processors are significant investors in the dairy industry, driving innovation, new product development, plant expansions and marketing.



Larger firms and multinational corporations constantly invest in Western Australian dairy across manufacturing, processing, packaging, selling, exporting, and retailing of dairy ingredients.



Industry bodies and various dairy research organisations all invest in the Western Australian dairy sector, providing innovative solutions across the whole value chain, from farm to consumer.

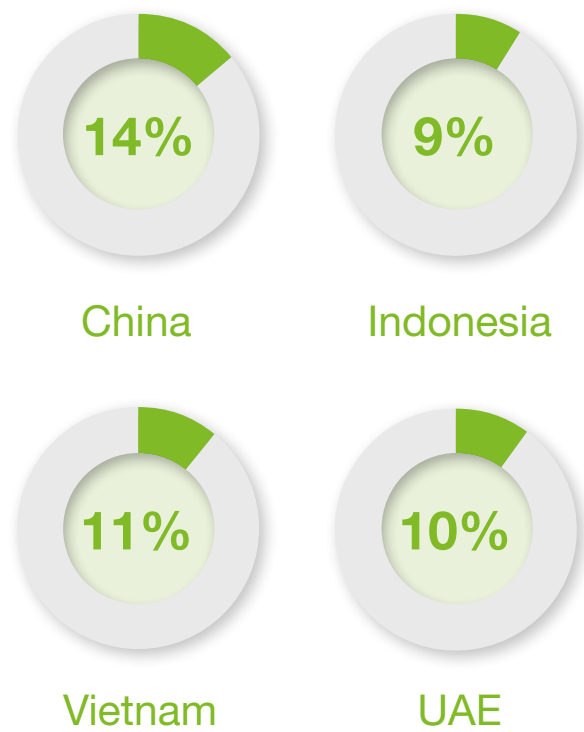


State and Federal Government – across multiple agencies and departments – invests heavily in the industry through research, grants, education and support.



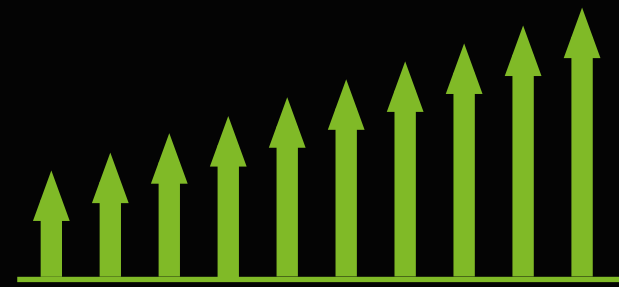
Twenty year growth rate of milk equivalent import volume

CAGR; milk equivalent tonnes; import volume



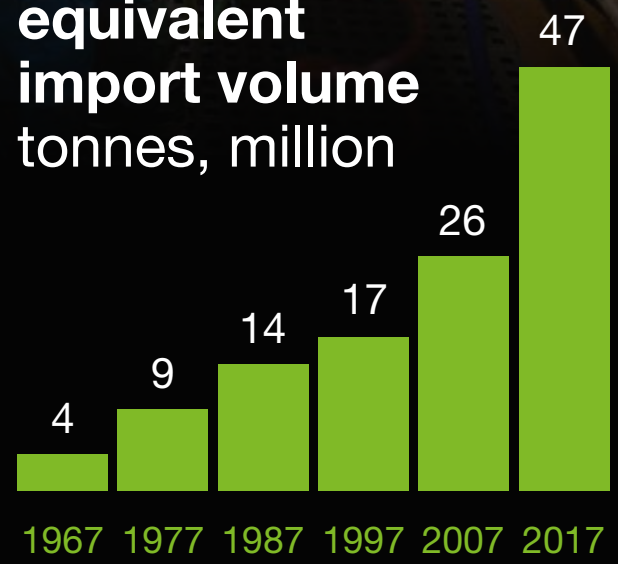
CAGR = Compound annual growth rate
UAE = United Arab Emirates

Growing dairy demand from Asia and the Middle East



US \$12 billion growth in demand over the last decade

Total dairy milk equivalent import volume tonnes, million



Markets include: China, Indonesia, the Middle East and all other Asia

Western Australia is well positioned to deliver



Shipping times and time zones from Perth



Western Australia is the closest, most accessible Western region to Asia; it is in the same, or adjacent, time zone as Beijing, Manila, Hong Kong, Tokyo, Singapore, Kuala Lumpur and other regional centres.



Flights from Perth

Western Australia has regular flights out of Perth to Asia and the Middle East and global destinations. In addition, the Busselton Margaret River Airport (225 km south west of Perth) has completed a runway upgrade, providing an international alternative for the South West.



As at April 2020, the COVID-19 pandemic has reduced air freight carried on passenger aircraft due to fewer flights. Until resumption of regular flights, chartered air-freighters will serve export supply chains.



“Perth has great access to Asia. Fresh milk and dairy products can be into some market quicker than any other Western country.”

Executive, Dairy manufacturer



Excellent trade access

“Australia has excellent trade access with low to no tariffs with many regional partners.”

CEO, Diversified Agrifood Company

FTAs = Free trade agreements
 As at 21 February 2020
 Source: Department of Foreign Affairs and Trade

Western Australia is well positioned to supply South East and East Asia with fresh, high quality products consistently



Fresh

“The advantage of Western Australia is the close proximity to Asia. The geographic location is a windfall. We get a good logistics advantage.”

Regional Director, Multinational Group

Consistent quality

“Western Australia has a good reputation as a reliable supplier, with good product performance and a stable supply.”

General Manager, Exporter

Trusted quality

“Our advantage comes from the clean, green supply of milk and in having trusted systems.”

**CEO, Dairy Company,
Western Australia**

Western Australia can produce more



Resources

- Large land area for farming
- Opportunities for productivity increases
- Small local population to feed (2.6 million people)
- Readily available inputs
- Well managed water and environmental regulation



Skills and systems

- Educated population
- Modern farming systems
- High productivity (for pasture-fed)
- Established service industries
- Well organised sector
- Advanced traceability and food safety systems



Reputation

- Brand Western Australia
- Clean and green
- Strict biosecurity standards – low level of bovine disease
- High levels of food safety standards
- Modern handling and processing facilities

Comparative advantages

Close to key markets

- Capable producer with a history of production for export to Asia and beyond
- Small domestic population with moderate growth
- Industry targeting exporting into Asia for growth
- Deep, long term relationships with many key companies in Asia
- Rapid growth in demand for protein including dairy products from Western countries
- Growing regional supply in Asia insufficient to meet demand, driving imports
- Western Australia is well positioned to supply milk and other dairy products into Asia

Environment conducive to dairy production

- Temperate climate in the South West region
- Consistent seasonal rainfall
- Access to feed crops as required
- Respected biosecurity management

Experienced industry

- Sophisticated and experienced industry
- Trusted systems and processes (in farming, processing and distribution)
- Large farming units
- Modern farming systems
- Ongoing research and development and investment in genetics and productivity increases
- Strong, organised inclusive community
- Strong sustainability credentials (e.g. “Dairy Care” program)

Profitable

- Profitable farms verses the eastern states, therefore businesses reinvest
- Strong herd health and respected biosecurity protocols
- Industry benefits in global markets from biosecurity measures and relative isolation

What do we have?

Western Australian dairy is focused in four key areas



Fluid and Flavoured Milk

Numerous innovative fresh and flavoured milk processors of all sizes in Western Australia. Harvey Fresh key ultra high temperature (UHT) supplier to Asia. Most production centred around the South West region. Major plants in Perth (Lion and Brownes) and Harvey (Harvey Fresh). Alternative non-cow milk, including goat and camel milk are present and alternative non-cow milk companies are also on the rise. Drinking milk makes up approximately 72% of milk use in Western Australia.



Specialty Cheese

Western Australia is well positioned to produce more specialty cheese. A large number of medium to small cheese firms span Perth and southern regions (e.g. Borello, HaVe, Cape Naturalist). Goat cheese also has a significant presence. Cheese makes up 28% of Australian dairy exports. There is a long term trend toward Australian exporting non-cheddar cheese.



Yoghurt and Cultured Products

Wide range of yoghurt and cultured products producers, including Brownes, Lion, Harvey Fresh, Mundella and Margaret River Dairy. Beyond these leaders, there is a wide diversity of innovative and emerging processors.



Ice Cream and Other

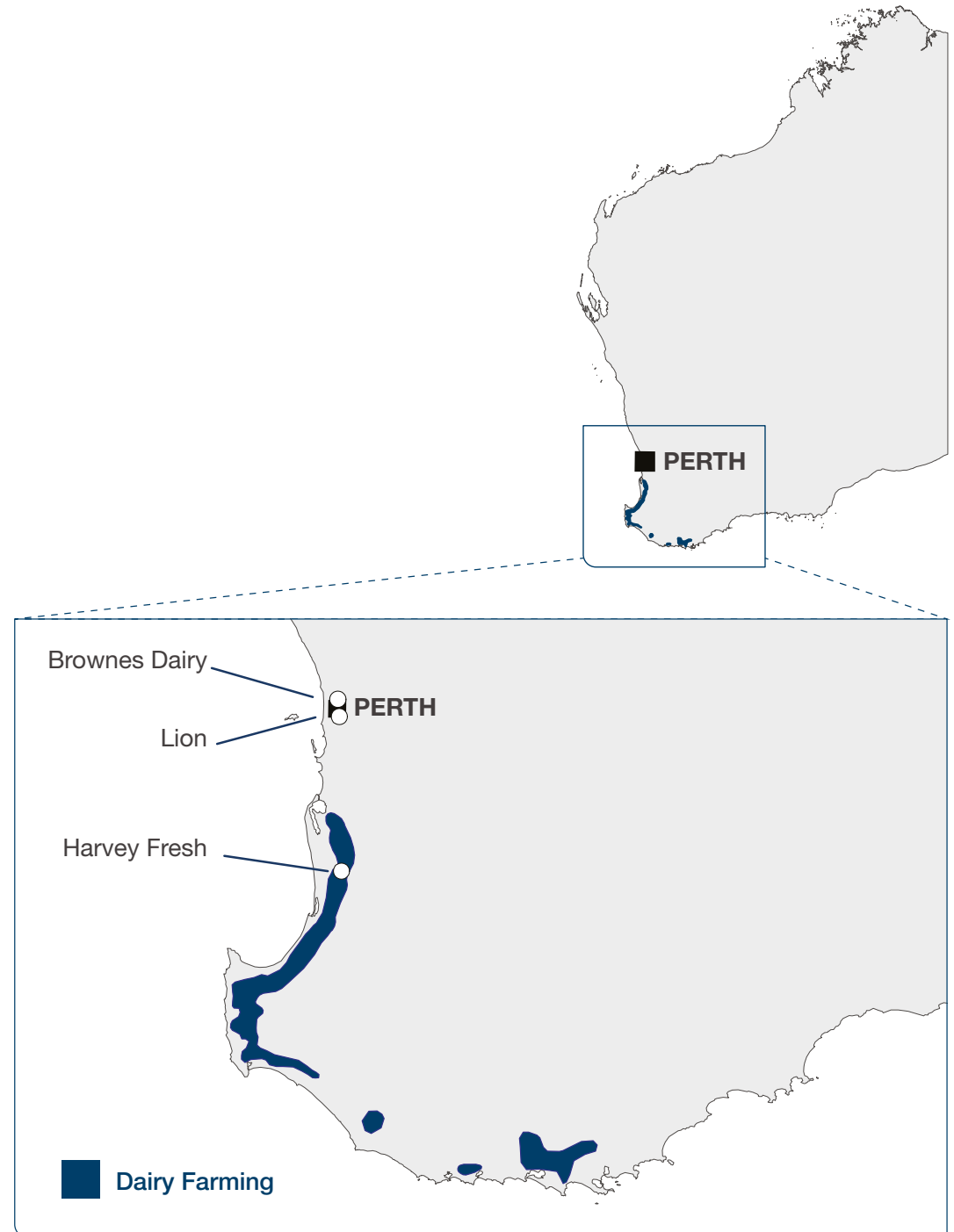
Premium ice cream is produced in the State supplying foodservice and retail.

Brownes supplies ice cream for foodservice.

Western Australia's dairy industry is currently concentrated in the **temperate South West of the State**

There is a real culture of innovation on farm and with processors.”

Manager, Dairy Industry



Western Australia's dairy production is increasing

1.0%
10yr CAGR



Milk production
2009-2019

0.7%
10yr CAGR



Number of cows
2009-2019

Western Australia's dairy productivity is increasing

4.2%
5yr CAGR



Milk production per cow
2014-2019

3.0%
10yr CAGR

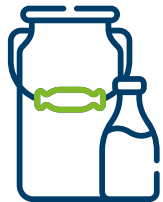


Milk per farm
2009-2019

CAGR = Compound annual growth rate
Source: ABS, Dairy Australia, Project analysis

Export focused dairy

Key export dairy



Fluid milk

- Low cost, low intensity system
- Small local population; large surplus available for export
- History and brand awareness in Asia

Secondary



Yoghurt/cultured

- Significant local innovation
- Attracting global investment
- Close to Asia for transportation



Specialty cheese

- Strong cheese heritage through historical immigration
- Wide range of premium producers
- Future growth focused on export markets



Ice cream

- Waves of new entrants driving innovation
- Wide range of premium producers
- History of supply to demanding Japanese market

Major opportunity



Infant formula

- Growing demand from Asia
- Clear local capability to deliver on trusted supply
- Investment in planning underway

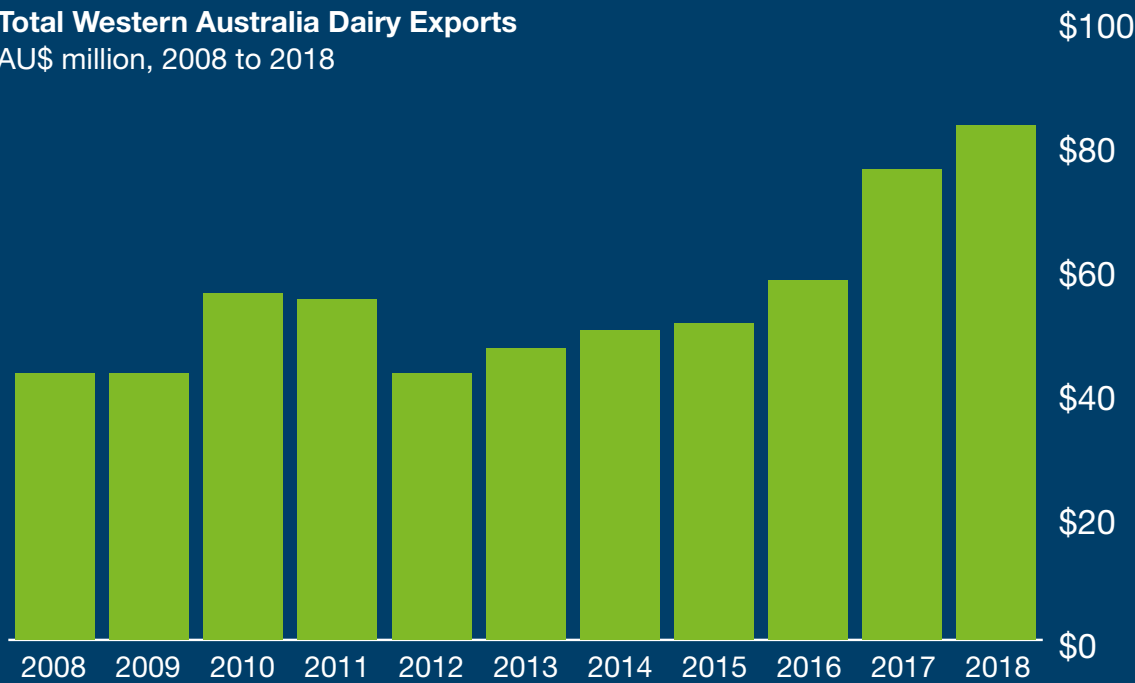
Western Australian dairy exports are growing

12%
5yr CAGR



CAGR = Compound annual growth rate

Total Western Australia Dairy Exports
AU\$ million, 2008 to 2018



Source: ABS, Project analysis



2 different production systems

Grazed pasture

- Primarily traditional family farms
- Animals graze freely on open pasture
- Low cost, low intensity systems
- Leverages large amounts of land
- Uses seasonal supplementary feed
- Focuses primarily in South West areas with higher rainfall
- Opportunity for hormone-free antibiotic-free products

Mixed ration system

- Animals have access to climate controlled barns and are free to roam
- Use modern, high input, high output production systems
- Air-conditioned, high animal welfare standards
- Primarily targeted at export market
- Opportunity for large scale production
- Leverages feed availability

Western Australia produces more milk per farm than competitors

Western Australia has **large farms** and produces **more milk per farm** than competitor States

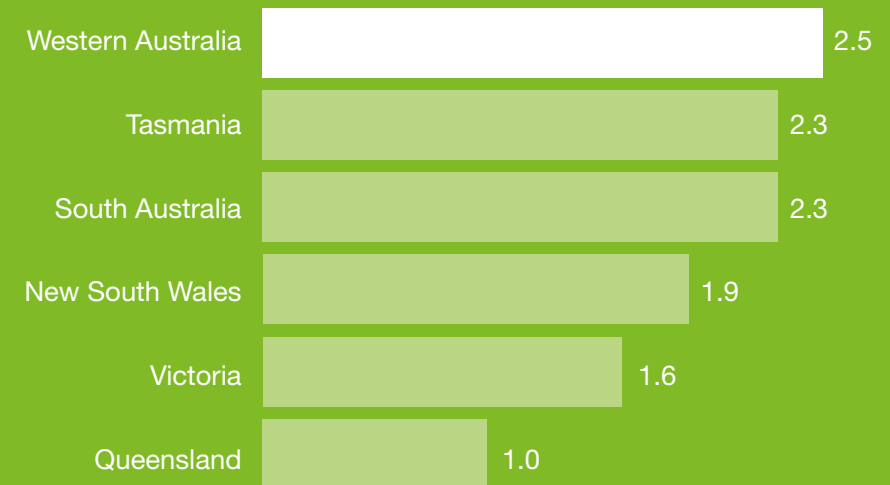
Average Farm Herd Size

Cows, 2019



Average Annual Milk Production per Farm

Litres million, 2019



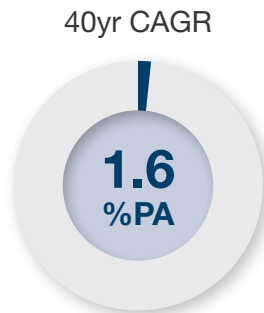
There will be **solid demand** for dairy in the future

“The share of fresh dairy products in world consumption is expected to increase over the coming decade due to strong demand growth [in developing countries], ... driven by income and population growth. World per capita consumption of fresh dairy products is projected to increase by 1.0% per year over the coming decade, slightly faster than over the past ten years, driven by higher per-capita income growth.”

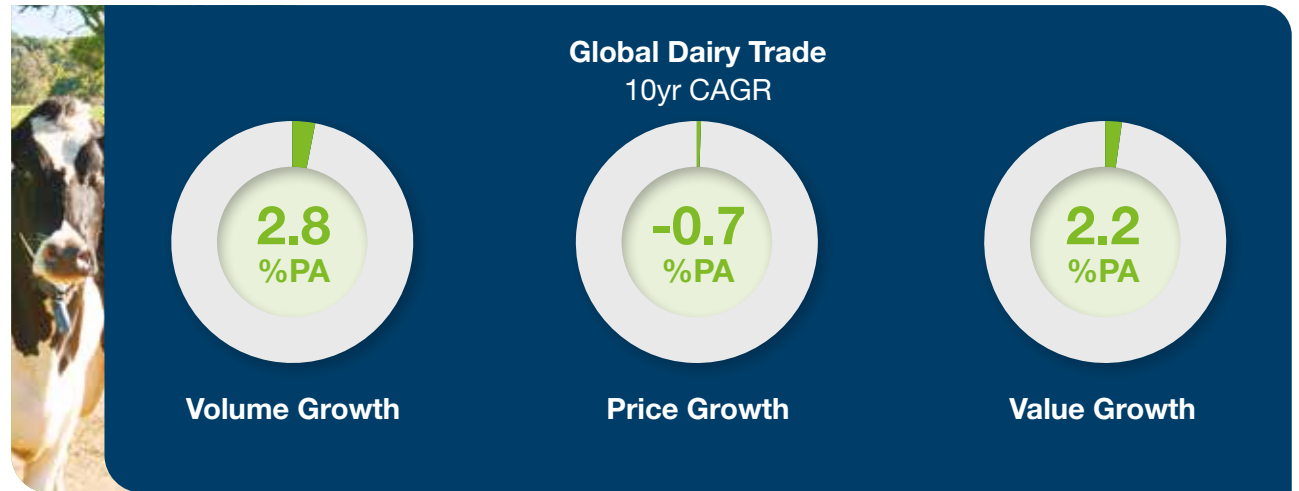
OECD-FAO Agricultural Outlook, 2019-2028

High level macro drivers support **solid export demand** for dairy products

Aggregate Global Dairy Production Growth



Dairy Consumption Growth per Person





Attracting global investment

“This additional capital allows for reinvestment in machinery and allows us to pursue growth with a trusted partner.”

CEO, Dairy Company



Largest dairy group in the world



Second largest multinational food group in China



Second largest multinational dairy group in China



Large Chinese dairy company based in Shanghai



Global beverages company owned Lion Dairy & Drinks until recently

Investment is occurring



\$1.2 billion
ON GOING

Proposed closed loop dairy-energy system, currently establishing water resource and developing feasibility for phased approach.



\$43 million
2016-2019

Upgrades and transformational investment over three years for WA growth; modernising Bentley plant and Perth, adding a new filling line and manufacturing capability in milk beverages.



HANCOCK
PROSPECTING

\$30 million
2016-2018

Hancock Prospecting and Bannisters invest in boutique dairy operation.



\$20 million
2016-2020

Capital investment.



\$4-5 million
2018-2020

Investment in streamlining processing.

The Western Australian dairy sector has a strong group of thriving companies

Diversified Processors	Fluid Milk	Yoghurt/ Cultured	Specialty Cheese	Icecream
				

Returns across the supply chain

Western Australia's **high performing sectors** are showing **strong returns** across the supply chain

“Most large processors in Western Australia are getting three to four per cent.”

CEO, Dairy Company,
Western Australia

WA Land¹

3.1%

WA Farm Operations²

3.8%

Rate of Return, 2018

5.4%

Rate of Return
Five Year Average, 2014-2018

AU Processors³

3-10%

Return

1. Five year median agriculture land price CAGR, Rabobank
2. WA average return on assets 2017/18, Dairy Farm Monitor Project
3. Averages across industry

Source: Project analysis
CAGR = Compound annual growth rate

Four investment themes

Four investment themes exist to create growth in the Western Australian dairy industry

Investing in **world-class yields**

Opportunities exist to continue to grow milk per cow using Israeli and American systems

1

Investing in **new product innovation**

Opportunities exist to continue developing new products targeting new and emerging sectors that align with global demand

2

Investing in **advanced processing**

Opportunities exist to produce infant formula and other dairy based nutritionals targeting growing Asian demand

3

Investing in **growing production**

Opportunities exist to produce significantly more milk from Western Australian resources

4

Value propositions exist that promote **opportunities for investment**



Extending brand Western Australia into infant formula

- Western Australia has a strong brand in many Asian countries
- Asian demand for infant formula is growing rapidly
- Western Australia has the skills required to deliver safe, trusted milk to parents



Extending sheep and emerging goat and camel dairy

- Western Australia has proven capabilities in sheep production
- Western Australia has an emerging goat dairy industry
- There is growing global demand for non-cow dairy



Transitioning to high productivity farming systems

- Western Australia is the Australian leader in milk production per farm
- New dairy farming systems are emerging
- Delivering higher per animal and per farm outputs

The Department of Primary Industries and Regional Development is ready to assist you

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The Department of Primary Industries and Regional Development commissioned Coriolis Australia Pty Ltd to provide the information in this publication in consultation with selected industry stakeholders.

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