



**Inquiry into the role of Australian agriculture in
Southeast Asian markets**

Submission

May 2024

Introduction

The Australian Dairy Industry Council (ADIC) and Dairy Australia welcome the opportunity to present this submission to the House of Representatives Standing Committee on Agriculture in response to its inquiry into the role of Australian agriculture in Southeast Asian Markets.

The dairy industry is the third largest rural industry in Australia and is a key sector of the agricultural economy. Dairy generated \$6.1 billion in farmgate value in the 2022-23 financial year with the sector's exports totalling \$3.7 billion for the same period. Australia is a significant exporter of dairy products. It ranks fifth in terms of world dairy trade, with a five per cent market share behind New Zealand, the European Union (EU), United Kingdom, and the United States (US).

ADIC is the peak national representative body of the Australian dairy industry, representing the interests of dairy farmers and processors through its two constituent bodies, Australian Dairy Farmers (ADF) and the Australian Dairy Products Federation (ADPF). It aims to create a more prosperous and sustainable future for the local industry and the regional communities that rely on it.

Dairy Australia is the national services body for dairy farmers and the industry. Its role is to help farmers adapt to a changing operating environment, and achieve a profitable, sustainable dairy industry. As the industry's Research and Development Corporation, it is the 'investment arm' of the industry, investing in projects that cannot be done efficiently by individual farmers or companies.

The Australian dairy industry maintains a significant and growing relationship with Southeast Asia driven with an exemplary reputation for providing safe, high quality, nutritious dairy products for several decades. This is enabled by investment, collaboration, and export opportunities due to the regions' growing demand for dairy driven by rapid economic growth and increasing urbanisation. Recognising the significance of the region, the Australian dairy industry seeks Government support for the following:

- I. Continued funding of the Overseas Agriculture Counsellor Network to combat non-tariff trade barriers.
- II. Commitment to remove the remaining nuisance trade barriers and tariffs across the region.
- III. A unified 'Team Australia' approach to promoting Australian food and wine in the region.
- IV. Maintain continued vigilance, investment and collaboration with Southeast Asian countries to manage pest and disease incursions, ensuring mutual benefits including the preservation of Australia's biosecurity status, given the geographical proximity of Southeast Asia.
- V. Building awareness and trust in the principles underpinning the Australian Dairy Sustainability Framework in Southeast Asia to promote collaboration and alignment on shared sustainability challenges.
- VI. Advocacy to highlight the importance of including dairy as part of a healthy and sustainable diet with international trading partners.

We expand on this below, first providing background on the significance of Australian dairy into Southeast Asia.

A. Background on Australian dairy and Southeast Asia

1. Australian dairy's relationship with the Southeast Asian region

Australian dairy has a longstanding and multifaceted relationship with the Southeast Asia region, characterised by mutual economic benefit, scientific cooperation, and commercial partnership. Southeast Asia is a densely populated region with a rapidly expanding middle class. This demographic shift has led to increased demand for high-quality and premium dairy products, such as cheese, yoghurt, butter, ice-cream, and speciality milk products which are popular in markets such as Singapore and Malaysia in particular. The region also presents opportunities for dairy ingredients used in food processing and manufacturing. Australian dairy products have a strong reputation for quality, safety and reliability in the region which resonates with consumers and food manufacturers. By leveraging its technical expertise and ability to supply niche ingredients, the Australian dairy industry has partnered with manufacturing segments of the Southeast Asian market to expand its product offerings.

Joint ventures are a key feature of the relationship between Australian dairy and Southeast Asia. Indomilk based in Indonesia was Australian dairy's first joint venture, commencing in 1962. Austdairy Limited, a wholly owned subsidiary company of the former Australian Dairy Corporation, had part ownership of the Indonesia-based company. Austdairy Limited also had direct shareholdings in The Thai Dairy Industry Co. Ltd (TDI), the first Thai dairy company, and two companies based in the Philippines – Alaska Milk Products and General Milling Corporation. In addition, Austdairy Limited provided technical expertise, funding, management and supply services for the design, construction, and operation of the joint venture partnerships with Malaysia Dairy Industries (Singapore), Marikina Dairy Industries, Sokilait (Cambodia). It also provided dairy consulting services in Vietnam, Myanmar and Malaysia.

The Australian dairy industry actively invests in Southeast Asia to build awareness and capability of its dairy products. Companies involved in this effort include the Bega Group, Saputo Dairy Australia, Fonterra Australia, Burra Foods, Beston Foods, Brownes Dairy, The Yoghurt Shop, Goulburn Valley Creamery and Provico. Together these companies have established a robust market presence and enhanced the overall demand for Australian dairy products in Southeast Asia.

There has also been significant investment from Southeast Asian countries in Australian dairy companies, including the purchase of Ultra-high-temperature (UHT) milk facility in Edith Creek Tasmania, by Dutch Mill Co. Ltd of Thailand in November 2017. The company received \$2.25 million in funding from the Tasmanian Government to assist with workforce development and upgrades for the facility. The company also owns six dairy farms in north-western Tasmania. The KCG Corporation, a Thai Company, started to pack the Australian butter brand, Allowrie Butter, in Thailand in 1972. Today it is Thailand's largest butter brand and still has a kangaroo on its packaging. Dairy Australia has been running its Scholarship Program with Southeast Asia since 2015. The program facilitates relationships between Australia's dairy industry and international partners. Each year, Dairy Australia invites contacts from Southeast Asia to partake in its Scholarship Program where participants are given the opportunity to visit Australian farms and processing factories. Participants learn about Australian dairy farm and manufacturing systems including Australian food safety standards and regulations and meet with processors to build commercial relationships. At the end of the program, delegates are welcomed into Dairy Australia's alumni group which now consists of over 850 alumni across China, Japan and Southeast Asia.

Given the growing demand for dairy products in Southeast Asia and shared challenges in its production, Australia works cooperatively with its Southeast Asian partners to take advantage of mutual learning opportunities. As an example, Thailand is working to build its dairy capacity to respond to growing demand for dairy by investing in feed management and nutrition. Building on the experience of Thai government officials and what has been learnt in Australian tropical and subtropical dairies, Australia and Thailand have held training activities over the years, including a workshop by the Department of Agriculture, Fisheries and Forestry (DAFF) and Thailand's Department of Livestock Development on dairy herd nutrition in 2018 in Nakern Ratchasima province focusing on optimising farm productivity through feed and nutrition and workshops on training young dairy farmers.

2. Supporting food security – significance of Australia's dairy trade to Southeast Asia

Southeast Asia is in the initial stages of its dairy consumption journey. Historically, dairy hasn't been a significant part of the traditional Southeast Asian diet and per capita consumption of dairy is still significantly low on a global scale. Economic development, changing lifestyles, and an increased awareness of the nutritional benefits of dairy are driving the rising consumption of dairy products in Southeast Asia.

Australia holds an advantageous position to meet this growing demand, given its geographic proximity, longstanding historical ties, and potential for co-investment.

Trade volumes and value

The Southeast Asia region is a significant market for Australian dairy. In 2023, the total volume of trade to the region was 236,000 tonnes valued at \$959 million AUD. By volume, Singapore is Australia's largest dairy export market in the region. However, Indonesia is Australia's highest value market in the region and Australia's third largest dairy export market by value.

Australia ranks as number 3 in the share of Singapore's dairy import volume and exported 62,000 tonnes of dairy product worth almost \$180 million AUD in 2022-23. UHT milk makes up the largest share of Australian dairy exports to Singapore by volume, accounting for 69% of total exports in 2022-23. During the COVID-19 pandemic, sustained periods of lockdown saw retail sales of UHT milk surge, with many stockpiling the product. There has been a rise of cafes and bubble tea shops in Singapore leading to the growing popularity of Australian dairy which is seen favourably by consumers.

Indonesia is the world's second largest Skim Milk Powder (SMP) importer, behind China. Except for fresh pasteurised milk, dairy products consumed in Indonesia are mostly manufactured from a combination of local and imported ingredients, or often, only imported ingredients. In 2021, Indonesia's milk equivalent deficit was estimated at 3.5 billion kilograms, however its per capita consumption of 15kg per person, is considered low by regional standards. It is projected that total dairy consumption will increase over time; however, this growth is unlikely to be met by local milk production. In 2022-23 Australian dairy exports to Indonesia were valued at almost \$264 million AUD, with SMP making up 53% of the trade by volume and 56% of the trade by value. A large portion of Australian dairy exports are used as ingredients, bolstered by Australia's strong reputation for food safety standards and quality. Australia's dairy exports to Indonesia increased by 20% between 2021 and 2022 to compensate for a contraction of Indonesia's national dairy herd due to an outbreak of Foot and Mouth Disease.

Malaysia’s domestic dairy production covers around 60% of local demand and Malaysia is reliant on imported dairy products to meet growing population and rising consumption rates of dairy. Global dairy exports to Malaysia have increased by 6% over the last five years due to increased purchasing power amongst the country’s growing middle and upper class. Growing tourism and a strengthening economy is contributing to increasing dairy intake, particularly milk consumption in coffee shops in urban areas. Australia’s top exports to this market included milk (35%), condensed milk (28%) and cheese (16%) in 2022-23. Australia exported close to 40,000 tonnes of Australian dairy product, worth \$167 AUD million to Malaysia.

The following table summarises the key trade information for Australian dairy exports to key Southeast Asian markets.

Market	Australia’s rank in market share	Value (\$AUD)	Volume (t)	Key exports from Australia
Singapore	4	180M	>62,000	Milk (69%) Cheese (7%)
Indonesia	4	>264M	>42,000	SMP (53%) Whey powder (20%) WMP (11%)
Malaysia	5	>167M	>40,000	Milk (35%) Condensed milk (28%) Cheese (16%)
Thailand	6	>146M	>23,000	SMP (25%) Cheese (24%) WMP (19%)
Philippines	6	>115M	>35,000	Milk (64%) Cheese (20%)
Vietnam	6	>101M	>19,000	Milk (41%) Condensed milk (20%)

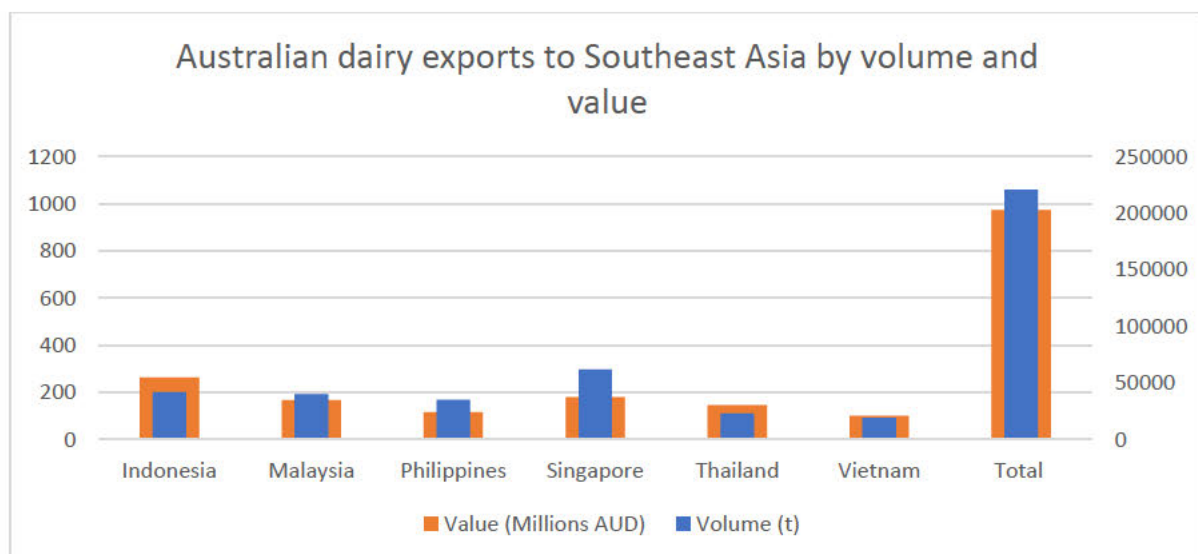


Figure 1 Graph showing Australian dairy exports to major Southeast Asian markets by volume and value

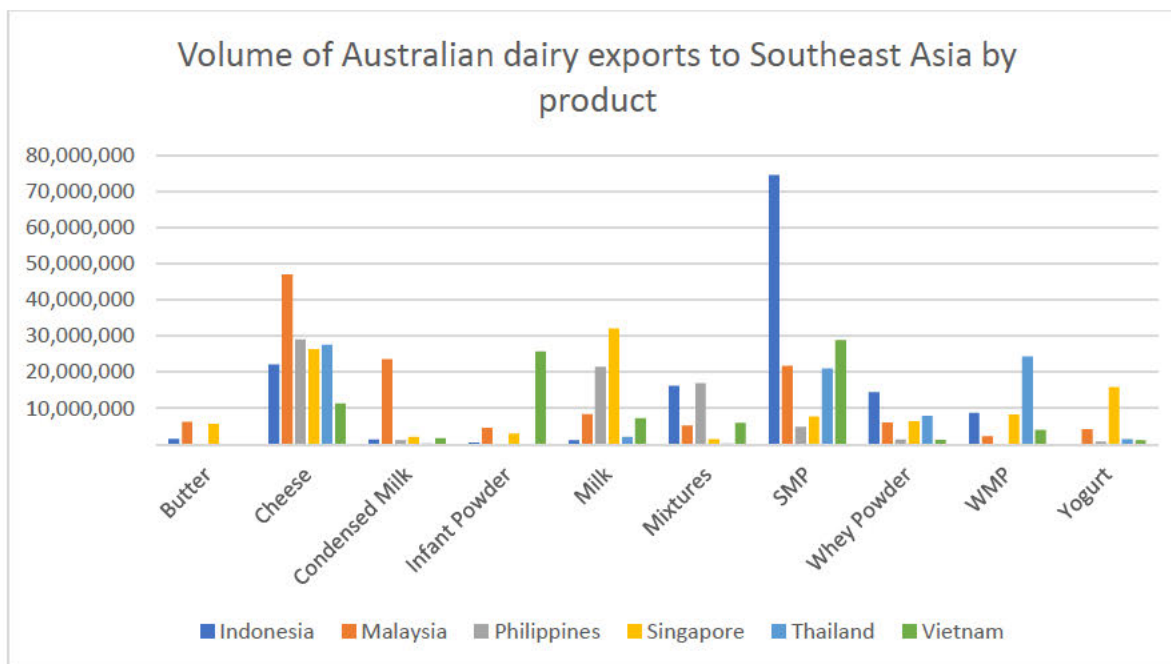


Figure 2 Graph showing Australian dairy exports by product to Southeast Asia

Free Trade Agreements

Trade to the Southeast Asian region is well-supported by several free-trade agreements. The ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) was signed in 2009 and has eliminated many of the remaining tariffs on bilateral agreements that were already in force. The Malaysia-Australia Free Trade Agreement builds on the benefits from AANZFTA by liberalising licensing arrangements for liquid milk exporters and allowing access for higher value retail products. The Thailand-Australia Free-Trade Agreement (TAFTA) entered into force in 2005 and remains the preferred agreement for liquid milk and SMP with a Tariff Rate Quota available which is set to be phased out by 2025 resulting in unrestricted duty-free access. Trade between Singapore and Australia is fully liberalised under the Singapore-Australia Free Trade Agreement, ratified in 2003, AANZFTA and the Comprehensive and Progressive Transpacific Partnership.

From a tariff perspective Australia maintains a competitive advantage in most Southeast Asian markets over the US and the EU, with a few exceptions. Both the US and EU have concluded free trade agreements with Singapore, and the EU has a free-trade agreement in place with Vietnam. These agreements have reduced Australia’s relative advantage in those specific markets. Additionally, Australia and New Zealand share a common free-trade agreement within the region through AANZFTA, meaning Australia does not have a distinct advantage over New Zealand in Southeast Asia as both countries are equally covered.

While dairy trade to the region is mostly liberalised, there remain some nuisance tariffs, including 5% tariffs on yoghurt and dairy spreads to the Philippines under AANZFTA. In addition, tariffs on liquid whole and skim milk to Indonesia remain at 4% under AAZFTA and will only be eliminated by 2033 under the Indonesia-Australia Comprehensive Economic Partnership which entered into force in July 2020. The Australian dairy industry seeks assistance from Government to eliminate these nuisance tariffs, which could be through a further review of AANZFTA.

B. Specific recommendations aligned with the Terms of Reference to this inquiry.

1. Support for agriculture and food industries in the Southeast Asia region.

As per the terms of reference of the inquiry into the role of Australian agriculture in Southeast Asian markets, the **Australian dairy industry seeks to provide the committee with recommendations which support agriculture industries to leverage partnership opportunities in the region.**

Exports are critical to the economic sustainability of the Australian dairy industry. Australia exports approximately 30% of its milk production, with exports valued at \$3.8 billion in 2022-23. Accessing a diverse range of markets provides resilience against market volatility for the Australian dairy industry and ensures there is not an over-reliance on traditional export markets. Access to markets with different demand patterns and price dynamics can assist dairy exporters to manage risks associated with fluctuations in milk prices or production costs.

Noting the high level of FTA coverage for Australian dairy exports to the Southeast Asian region, **the Australian dairy industry seeks continued support from the DAFF and the Department of Foreign Affairs and Trade to work with the dairy industry to address non-tariff trade barriers and to progress market access negotiations for Australian dairy products being exported to Southeast Asia.** The Australian dairy industry is keen to ensure that Southeast Asian trading partners are committed to adhering to internationally agreed trade rules and standards to avoid unnecessary burdens on Australian dairy exporters. These include the World Trade Organization's Agreement of the Application of Sanitary and Phytosanitary Measures, Codex Alimentarius and the World Organisation for Animal Health's Terrestrial Animal Health Code. It backs DAFF's vital efforts within these forums to advocate for Australia's interests and uphold the use of scientific principles in setting international standards, and it is eager to contribute.

DAFF's Overseas Network of Agriculture Counsellors plays an important role in advancing Australia's market access priorities and resolving non-tariff measures, and this must be retained.

The agriculture counsellor network promotes Australia's agricultural interests, builds close connections with government and industry stakeholders in key markets, provides market intelligence and supports negotiations to maintain and support Australia's market access. Agriculture counsellors are supported by Locally Engaged Staff (LES) who contribute to the effectiveness and efficiency of the network by facilitating engagement with regulatory agencies, providing translating and interpreting services, and advice on cultural expectations and business culture in the respective market.

Within the Southeast Asia region, DAFF has agriculture counsellors posted to Indonesia, Thailand, and Vietnam. As recently as late 2023, DAFF had an agricultural counsellor posted in Malaysia, however this position has been removed, despite findings in a 2020 review of the network noting that a reduction in the network could adversely affect Australia's agriculture export performance.

The Australian dairy industry works closely with the agriculture counsellor network to resolve tariff and non-tariff measures. As a recent example, Dairy Australia has liaised closely with the Indonesian based agriculture counsellor to understand how Indonesia's Law 22/2014 on Halal Product Assurance and its associated regulations (the Halal Law) is being applied to Australian agricultural exports. The Indonesian based Agriculture Counsellor has provided clarity around the halal certification and has been integral to negotiating an agreement between respective governments to ensure greater transparency. This example clearly highlights the value the agriculture counsellor network provides for Australian agriculture industries.

As a Rural Research and Development Corporation, Dairy Australia has limited resources for international engagement, and the support provided by the Australian Government through its Agricultural Trade and Market Access Cooperation (ATMAC) grant and agriculture counsellor network has proven invaluable. This has been demonstrated through agriculture counsellor involvement in the delivery of the Australian Food and Wine Collaboration Group project funded by a \$600,000 ATMAC grant. The project brings together industry organisations and Research and Development Corporations across the dairy, meat, wine, horticulture and seafood sectors to showcase Australian produce in key markets including Thailand, Vietnam and Indonesia. Agriculture counsellors have been essential in providing advice on business culture and for in-market logistic support to ensure that the project is effectively delivered. **The Australian dairy industry endorses the Australian Government to maintain its involvement in fostering collaboration and adopting a unified “Team Australia” approach to promoting Australian food and wine in the region.** This is particularly crucial given the region is highly sought after by competitors from the EU, the US, and New Zealand, who all recognise Southeast Asia as a key driver of global dairy demand.

The Australian dairy industry highly values Australia’s Overseas Agriculture Counsellor Network and the Canberra-based staff involved in facilitating market access negotiations, given the importance of international trade to the Australian dairy sector. **Continued or increased funding for counsellors within important and complex markets, such as Malaysia and other Southeast Asian countries, is particularly important for market diversification for the Australian dairy industry. A reduction in footprint and/or available resources would be detrimental to the Australian dairy industry’s export performance.**

The Australian dairy industry also values the strong support provided by Austrade and state government agencies to help dairy business expand in overseas markets. These agencies provide valuable market intelligence and insights about target overseas markets, such as consumer preferences, regulatory requirements, market trends and competitor analysis, which are crucial for developing effective export strategies for the dairy industry. In addition, the agencies raise awareness about Australian dairy products and products in overseas markets and maintain extensive network and connections that the industry can leverage to establish its own partnerships.

Meaningful collaboration and engagement with government supports agriculture industries to leverage opportunities in the region. Dairy Australia has had recent success working closely with DAFF on the Dairy Export Assurance Program (DEAP). DEAP has been an initiative of the Australian Government where government, state regulatory agencies and industry worked together to streamline and modernise Australia’s export system. The goal of the program has been to enhance export opportunities for the dairy industry through raising export awareness, building capability, streamlining audit arrangements, and reducing regulatory burden while providing higher levels of system assurance through technologies. A key output of the program has been the development of a digital tool to assist new and existing dairy manufacturers to build their understanding of the requirements to become export eligible.

2. New and emerging opportunities and challenges and how to leverage opportunities.

As previously mentioned, Southeast Asia is in the initial phases of its exploration into dairy consumption. Demand is on the rise, spurred by new nutrition policies, economic growth, increasing urbanisation and a growing preference for Western-style diets.

Prabowo Subianto, the future Indonesian president, committed to provide free lunches and milk to over 82 million students nationwide from preschool to senior high school, as a centrepiece policy of his election campaign. The program aims to correct the high prevalence of malnourishment and

stunted growth among Indonesian children. It is estimated that the program would require 4 million kilolitres of milk at the final stage of its delivery. As noted previously, Indonesia produces dairy but is reliant on imports to meet demand. In 2022-23 Indonesia imported 550,000 tonnes of dairy product, worth close to \$2,867 million AUD. While there is strong competition from New Zealand, US and Belgium, Australian dairy products have an exemplary reputation for quality and are well known amongst dairy importers, processors, and distributors. The school lunch and milk program presents an opportunity for the Australian dairy industry to support Indonesia in meeting its demand for milk.

While Thailand's milk production supplies around half of its total demand, the gap is expected to increase, and domestic milk production is unlikely to keep pace with growing demand. Amongst Thai consumers there is a growing consumer focus on health products. Children are a major consumer of milk through the government's school milk program which distributes free milk to primary school students. Import tariffs and quotas for milk and cream, flavoured milk and SMP will be removed by January 2025 under TAFTA, which will assist Australian exporters to be more price competitive, compared to some competitors including the US and Belgium.

3. Capability building in the region.

The Australian dairy industry supports the Australian Government's endeavours to build capacity in the Southeast Asian region particularly in the areas of One Health and biosecurity. Cooperation in these areas has enormous mutual benefit given Australia's proximity to Southeast Asia and assists in preserving Australia's biosecurity status.

In particular, the Australian dairy industry is supportive of the Australian Government's provision of funding for nearly 1.5 million doses of Lumpy Skin Disease (LSD) vaccines and approximately four million doses of Foot and Mouth Disease (FMD) vaccine, at a combined cost of around \$8.4 million AUD, to Indonesia to support Indonesia's Ministry of Agriculture's efforts to control LSD and FMD in the country. Additionally, veterinary technical expertise has been provided by the Australian Government to the Food and Agriculture Organization (FAO) Emergency Centre for Transboundary Animal Diseases in Jakarta to support Indonesia combat animal disease outbreaks and prevent similar incursions from occurring within Australia. An outbreak of FMD or LSD in Australia would cost the Australian dairy industry billions in loss of international trade combined with the costs associated with a disease response and the potential loss of culled cattle. Given the high stakes, **the Australian dairy industry supports initiatives which provide the mutual benefit of fostering regional cooperation while simultaneously reducing the risk of exotic animal disease incursions occurring in Australia.**

The Australian dairy industry is supportive of the research projects funded by the Australian Centre for International Agricultural Research (ACIAR) in four global regions including Southeast Asia. While the primary focus of most projects may not be specifically on dairy, the Australian dairy industry may benefit from research outcomes which may be applicable to the dairy industry such as forage and feed development, genetic improvement and sustainable farming. The Australian dairy industry sees great value in projects that support surveillance and control programs for cattle diseases in the Southeast Asian region noting the region's proximity to Australia and close trading relationship. The Australian dairy industry recognises the potential advantage of enhancing alignment and coordination between ACIAR funding and the economic priorities of the Australian dairy industry, particularly regarding trade and market access in the regions the research supports. It advocates for increased government coordination of research efforts with the interest of trade and market access in mind.

Aside from biosecurity and One Health, the Australian dairy industry sees potential for Australian Government engagement and support in building capacity in sustainability in the Southeast Asian dairy industries. Presently, dialogues on these topics, facilitated by entities including the International Dairy Federation, World Trade Organization, World Health Organization, and World Organization for Animal Health, are directed by the EU and US. This arrangement may exclude the Southeast Asia region which has a different perspective on sustainability due to its socio-economic, cultural, and environmental context. Recently, Dairy Australia submitted a grant application for a project to support the growth in trade of dairy products in Southeast Asia, by creating transparency and awareness of sustainability practices and the role they can have in adding value to the sector. Dairy Australia has worked with DAFF to construct the proposal intended to garner interest and eventually develop a regional forum for dairy sustainability issues in Southeast Asia. As part of the project's delivery, Dairy Australia will share the knowledge gained in developing and implementing the Australian Dairy Sustainability Framework and seek to understand what elements of the framework resonate in Southeast Asia to inform its ongoing evolution. This is intended to establish trust in the framework's principles overseas and in Australian dairy products. **The Australian dairy industry urges the Australian Government to consider how this initiative aligns with Australia's values and priorities regarding sustainability, and to support efforts in making a positive difference in Southeast Asia.**

Conclusion

Southeast Asia represents a strategically important market for the Australian dairy industry. The region offers growth potential, diversification opportunities, and avenues for value creation. The regions' proximity to Australia provides logistical advantages for dairy exports but also heightens the importance of maintaining ongoing regional cooperation in biosecurity and animal health.

The Australian dairy industry welcomes opportunities for further partnership to advance Southeast Asia's objectives for economic development, food security and agricultural innovation. To help realise these opportunities, the Australian dairy industry encourages continued government support to enhance market access, promote Australia's sustainability credentials and improve biosecurity cooperation.

Yours sincerely,

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