Overview of the Australian Food Industry

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Outline of presentation

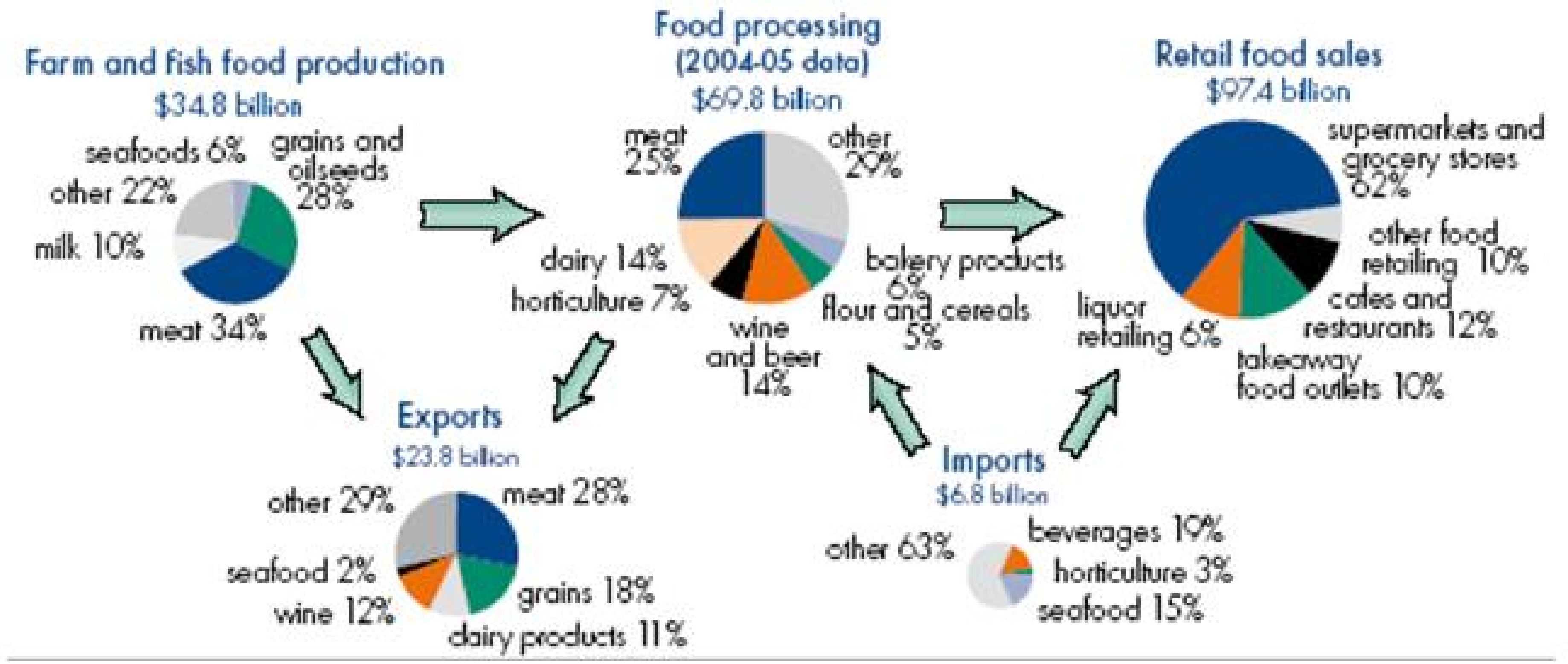
- The Australian Food Industry
  - Annual expenditure in machinery and equipment
  - Food machinery manufacturers in Australia
- Meat Industry

  Major trends, drivers, geographic spread , regulatory changes, key differences relative to NZ, industry contacts.
- Dairy Industry

  Major trends, drivers, geographic spread , regulatory changes, key differences relative to NZ, industry contacts.
- Others (seafood, horticultural)

The Australian Food Industry - Global Challenges

- Australia produces food for over 60 million people



The Australian Food Industry

Major Food Manufacturers

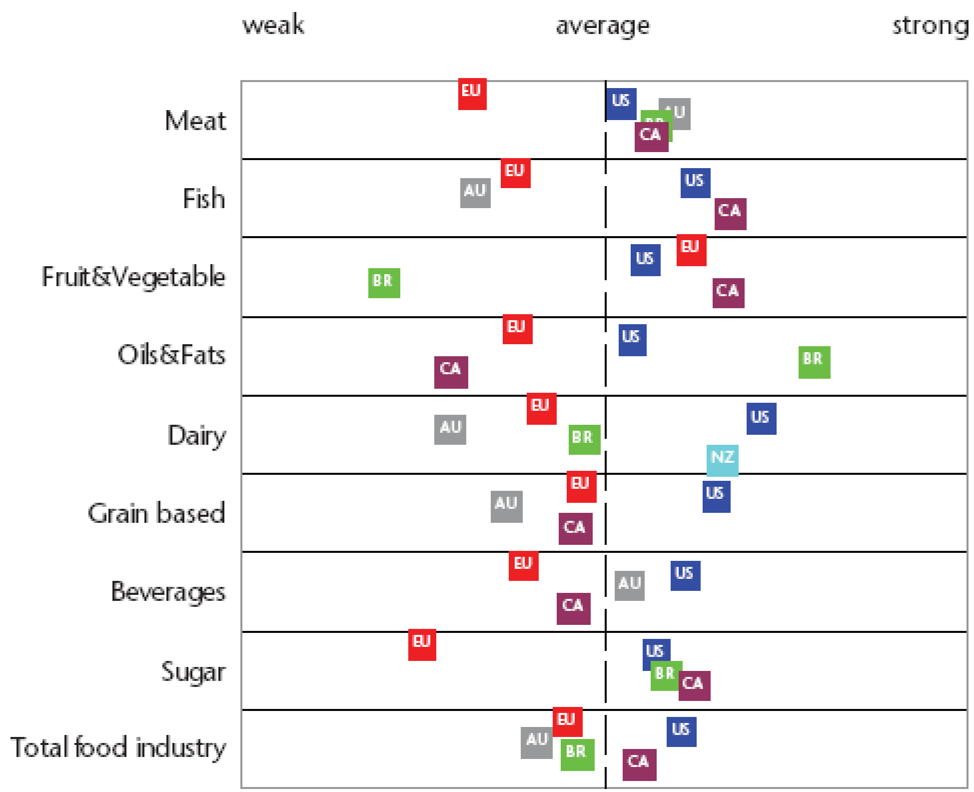
Revenue & Profitability 2007

	Company	Revenue	ROSF(%)		Company	Revenue	ROSF (%)
1	Fosters Group	4,760.2	20.9	16	Dairy Farmers	1,176.0	10.0
2	Coca-Cola Amatil	4,441.0	19.2	17	Arnotts Biscuits	1,152.9	5.1
3	Nestle Australia	2,528.2	16.6	18	Unilever	1,052.8	7.0
4	Goodman Fielder	2,428.5	12.7	19	Nippon Meat	946.6	N/C
5	Cadbury Schwep	2,321.0	44.7	20	Frito-Lay Australia	930.9	8.6
6	Swift Australia	2,222.4	2.5	21	Simplot Australia	849.8	6.5
7	Murray Goulburn	2,175.0	2.6	22	Bartter Holdings	815.9	N/C
8	San Miguel Foods	1,984.9	18.5	23	Hardy Wine	815.0	N/C
9	Lion Nathan	1,883.1	30.3	24	Parmalat Pacific	790.7	19.9
10	Food Investments	1,745.7	7.7	25	Ricegrowers	738.1	13.0
11	Inghams	1,600.0	N/C	26	Riverina	680.0	N/C
12	BAT	1,476.7	64.9	27	Kraft Foods	676.1	-3.6
13	Ridley	1,445.1	5.8	28	Pernod Ricard	668.2	4.6
14	Mars Australia	1,302.8	13.9	29	HJ Heinz Australia	645.2	11.2
15	Teys Bros	1,230.0	N/C	30	Philip Morris	623.3	42.8
						46,106.1	17.4[1]

Note: [1] Weighted average

The Australian Food Industry

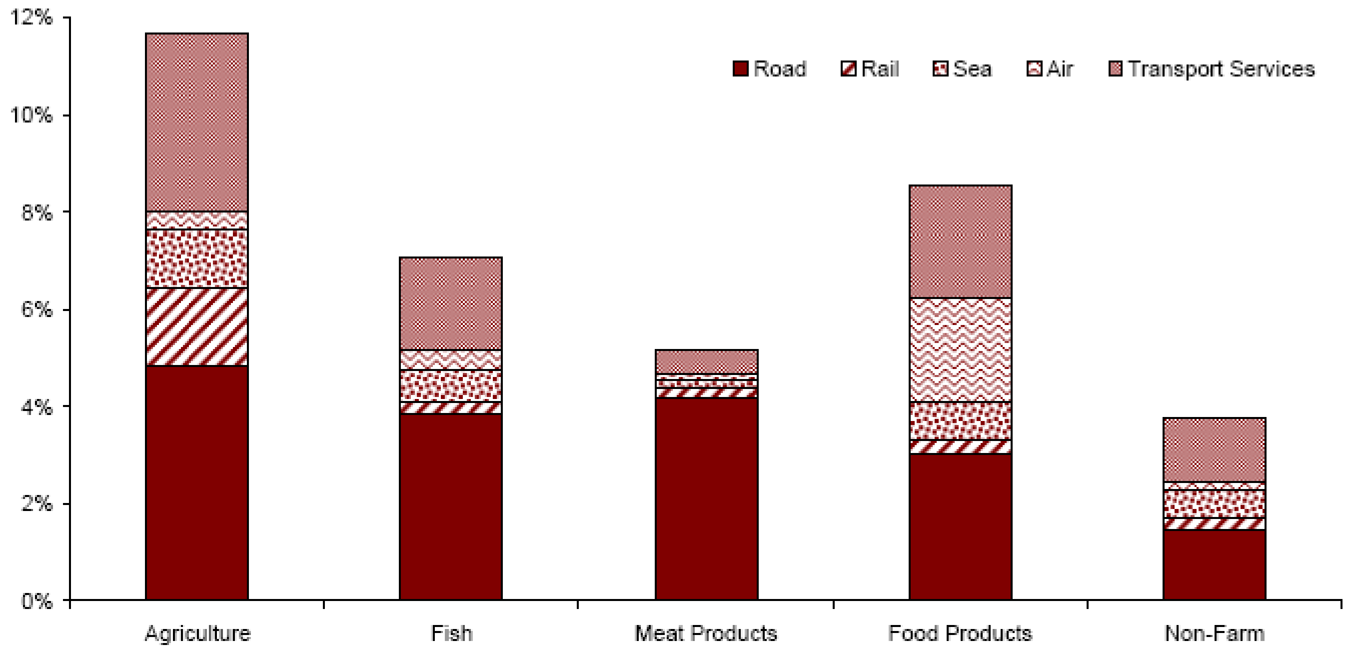
Figure 6.1 Overview competitiveness of the all sub-sectors.



European Commission. 2007. Competitiveness of the European Food Industry: An economic and legal assessment.

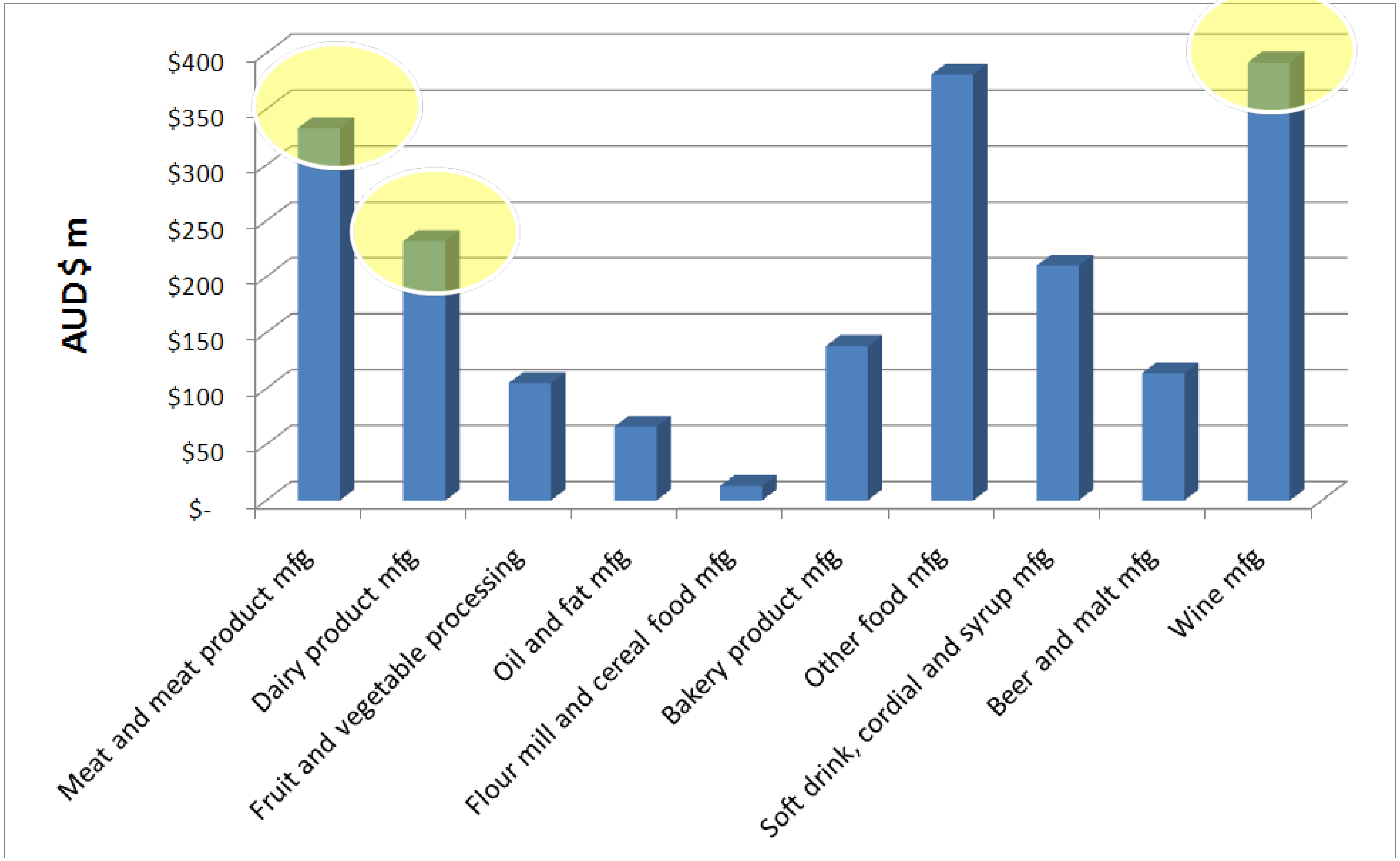
Dairy Industry-structural analysis

Chart 2: Logistics Costs as a Proportion of Export Prices



CAPEX 05/06

Plant, machinery & equipment



Plant, machinery & equipment

A view of competitors in the food machinery area

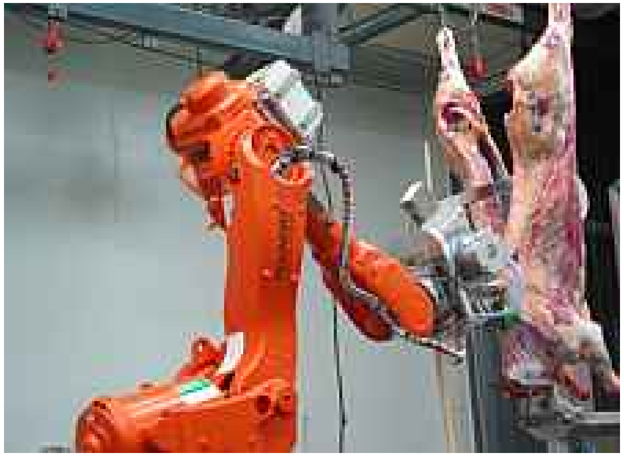
Company	Suburb	Postcode	State	Revenue	Employee
Allied Industries Pty Ltd	Artarmon	2064	NSW	$1,000,000	6
EFCA Pty Ltd	St Kilda	3182	VIC	$1,000,000	6
Ernest Fleming Pty Ltd - t/a Flamingo Products	Silverwater	2128	NSW	$1,750,000	8
Fallsdell Machinery Pty Ltd	Condell Park	2200	NSW		10
FMC Technologies Australia Limited	Villawood	2163	NSW		25
Food Equipment Australia Pty Ltd	Landsdale	6065	WA	$2,500,000	17
Food Industry Products Pty Ltd	Altona	3018	VIC		10
Food Processing Equipment Pty Ltd - t/a FPE	Pooraka	5095	SA		32
Gea Process Engineering Australia Pty Ltd	Blackburn	3130	VIC		40
Heat and Control Pty Ltd	Mount Gravatt	4122	QLD		435 (G)
Holland Equipment Pty Ltd	Yagoona	2199	NSW	$1,000,000	6
JB Macmahon Pty Ltd	Forestville	5035	SA		23
JC Design Pty Ltd	Gosford	2250	NSW		10
Klausen Trading Company Pty Ltd	Blacktown	2148	NSW		25
Linco Food Systems Pty Ltd	Seven Hills	2147	NSW	$8,000,000	12
Onslow Engineering Pty Ltd	Auburn	2144	NSW		18
Procut Australia Pty Ltd - t/a Zerco-Procut	Milperra	2214	NSW	$1,900,000	3
Saurin Enterprises Pty Ltd	Port Melbourne	3207	VIC		50
Smo-King Ovens Pty Ltd	Silverwater	2128	NSW	$2,000,000	6
Tecnol Engineering Pty Ltd	Wetherill Park	2164	NSW		15
Tetra Pak Imports Pty Ltd - t/a Tetra Pak Manufacturing, Tetra Pak Marketing	Fairfield	2165	NSW	$95,000,000	180
TJR Products Pty Ltd	Murarrie	4172	QLD		17
Tripax Engineering Company Pty Ltd	Bayswater	3153	VIC	$2,500,000	26

Plant, machinery & equipment

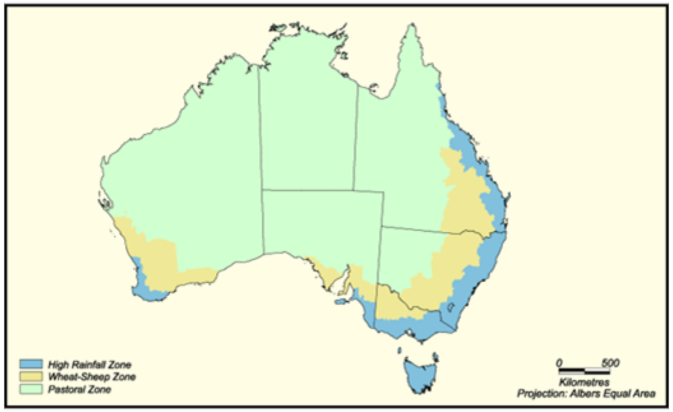
A view of competitors in the manufacturing software area

Company	Suburb	Postcode	State	Revenue	Employee
Advanced Design & Manufacturing Pty Ltd - t/a Adam technology	Belmont	6104	WA	$2,500,000	9
AIMS Pty Ltd - t/a AIMS Instrumentation	Kenwick	6107	WA		18
Apparel 21 Pty Ltd	Richmond	3121	VIC		30
Arel Australia Pty Ltd	Mascot	2020	NSW		50
Associated Computer Solutions Pty Ltd	Waterloo	2017	NSW		12
Bowen & Groves Pty Ltd	Mulgrave	3170	VIC		25
Computer Manufacturing and Integration Pty Ltd - t/a CMI	Bundoora	3083	VIC	$1,700,000 (G)	7
Contract Computer Services Pty Ltd	Bondi Junction	2022	NSW	$1,000,000	5
Disclinc Pty Ltd	Kent Town	5067	SA		22
EDMI Pty Ltd	Brendale	4500	QLD	$4,000,000	20
Future Business Systems Pty Ltd	Caulfield North	3161	VIC	$2,500,000	25
Ironbark Software Pty Ltd	Eight Mile Plains	4113	QLD		25
I2 Technologies Pty Ltd - t/a I2 Technologies	Sydney	2000	NSW	$8,480,095	4
Manufacturing Software (Aust) Pty Ltd - t/a Manusoft	Miranda	2228	NSW		10
Millison Technology Pty Ltd	Dandenong	3175	VIC		10
Mirrabooka Systems Pty Ltd	Lutwyche	4030	QLD	$550,000	10
MiTek Australia Limited - t/a MiTek Australia Limited	Dandenong Sout	3175	VIC	$53,842,029	132
MXL Limited	Sydney	2000	NSW	$1,721,368 (G)	35
Open Systems Technology Pty Ltd	Adelaide	5000	SA		15
The Optimise Group Pty Ltd	Sandringham	3191	VIC		15
Oztech Enterprises Pty Ltd - t/a Rebound Computer Company	East Perth	6004	WA	$4,900,000	7
Powerlan Limited	North Sydney	2060	NSW	$15,902,000 (G)	130 (G)
Pronto Software Pty Ltd	Burwood East	3151	VIC		250
Sandvik Drill Pipe Australia Pty Ltd	Melrose Park	5039	SA		35
The Solution Specialists Pty Ltd - t/a Solspec	Miranda	2228	NSW		14 (G)
Specialised Technical Services Pty Ltd	Scoresby	3179	VIC		5
SSA Global Technologies (Australia) Pty Ltd	Chatswood	2067	NSW		100
Sysnet Associates International Pty Ltd	Sydney	2000	NSW		12

THE MEAT INDUSTRY



Sheep/Wool Map



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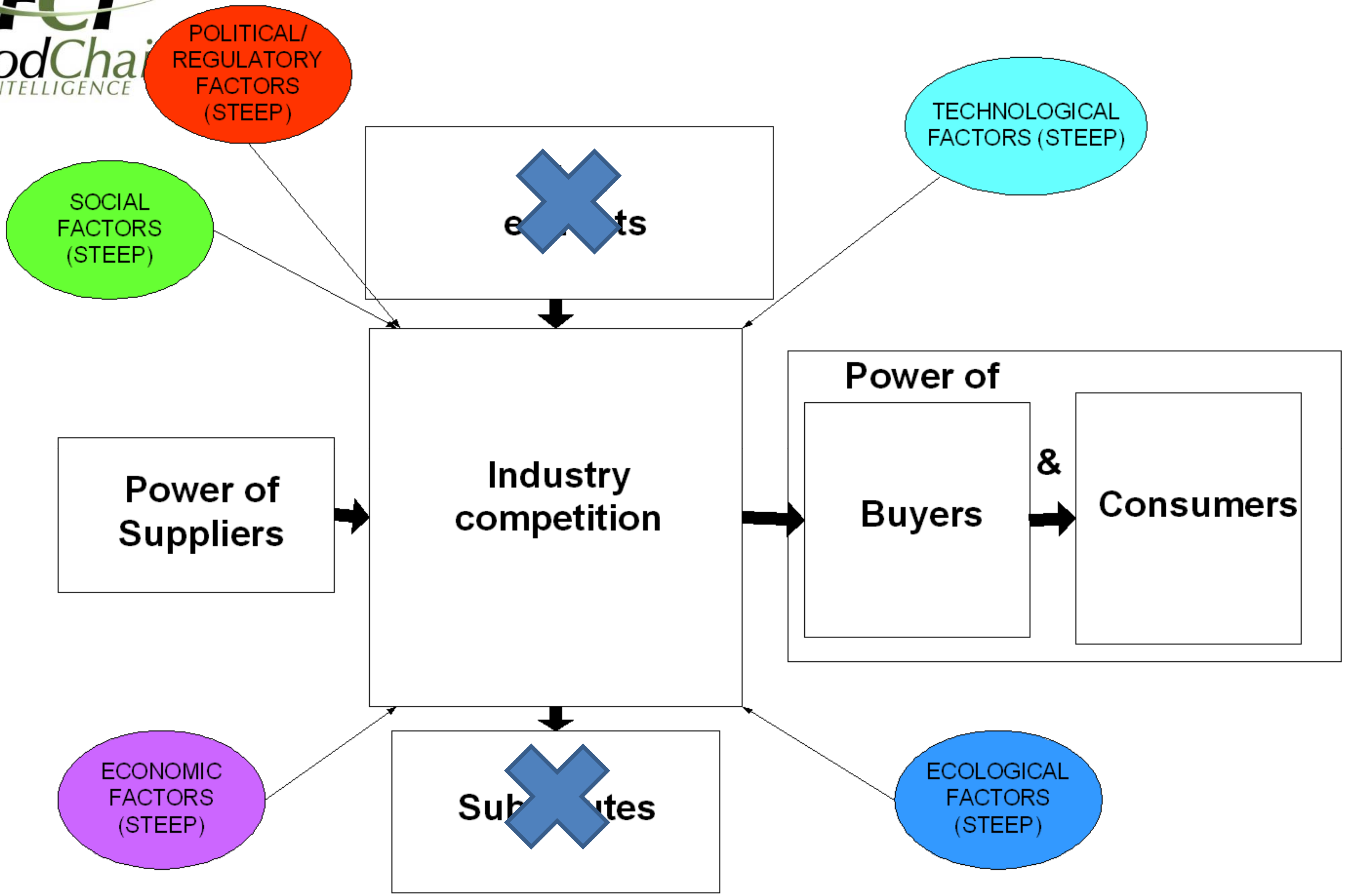
STEEP and Porter Framework



Meat Industry-structural analysis

SOCIAL FACTORS (STEEP)
-Beef producers receive poor prices
-Welfare concerns
-Diet concerns
-Environmental concerns
-Rising food costs

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TECHNOLOGICAL FACTORS (STEEP)
-Use of byproducts for bioactive Recovery
-Traceability and automation
-DNA markers
-Shelf-stable products

Meat Industry-structural analysis

SOCIAL FACTORS (STEEP)
-Beef producers receive poor prices
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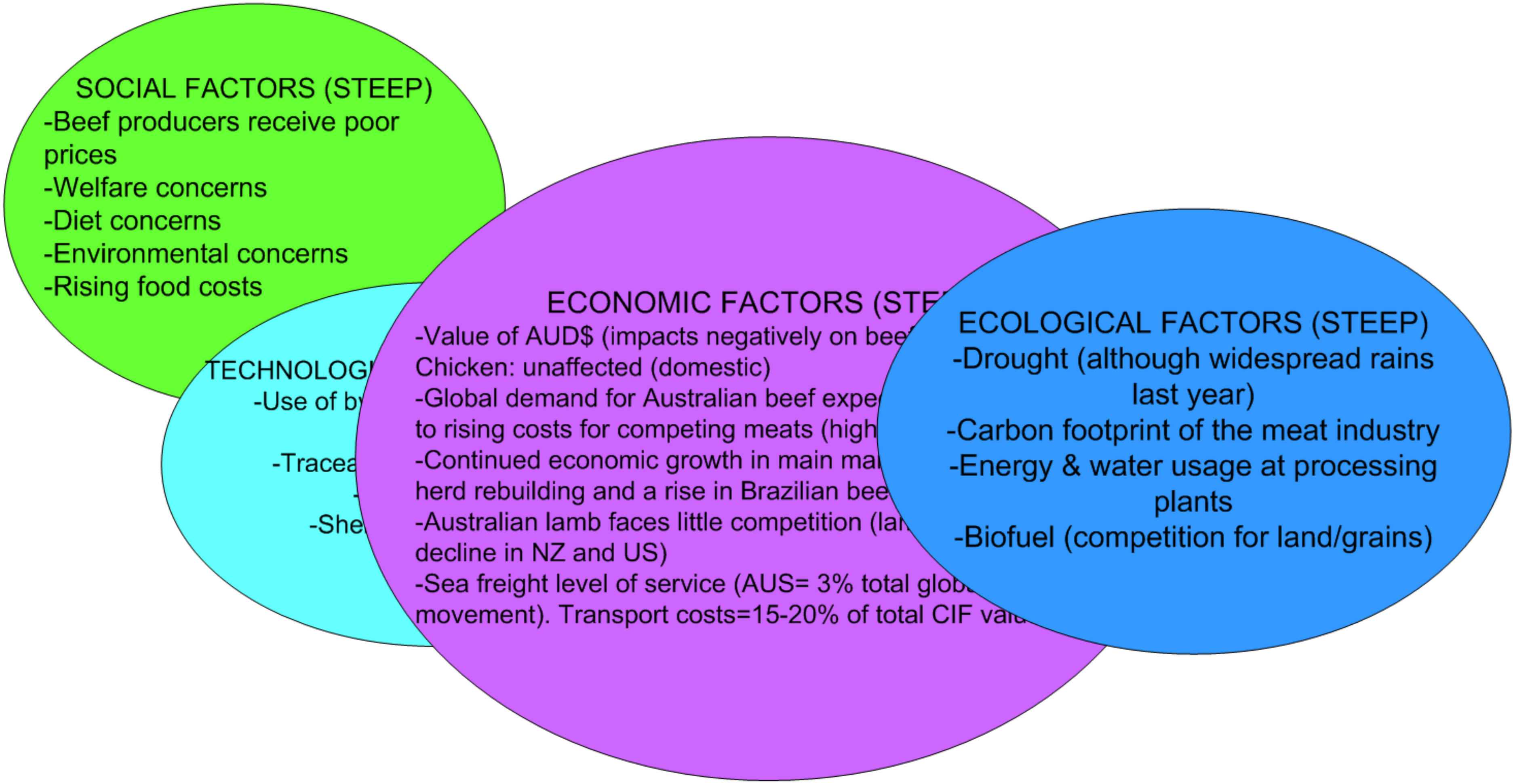
TECHNOLOG
-Use of by
-Tracea
-
-She

ECONOMIC FACTORS (STEEP)
-Value of AUD$ (impacts negatively on beef, lamb and pork). Chicken: unaffected (domestic)
-Global demand for Australian beef expected to increase due to rising costs for competing meats (high grain process).
-Continued economic growth in main markets (delays in USA herd rebuilding and a rise in Brazilian beef prices)
-Australian lamb faces little competition (lamb production in decline in NZ and US)
-Sea freight level of service (AUS= 3% total global movement). Transport costs=15-20% of total CIF value

Meat Industry-structural analysis



Meat Industry-structural analysis

POLITICAL/REGULATORY FACTORS (STEEP)

-One of most regulated processing industries in the world.
-Growing "tail" of injured ex-employees adds a burden of carried workers' compensation costs.
-Korea-US Free Trade Agreement on beef will lower tariffs on US beef from 40% to zero over 15 years
-Moving towards and Australian grading system

SOCIAL FACTORS (STEEP)
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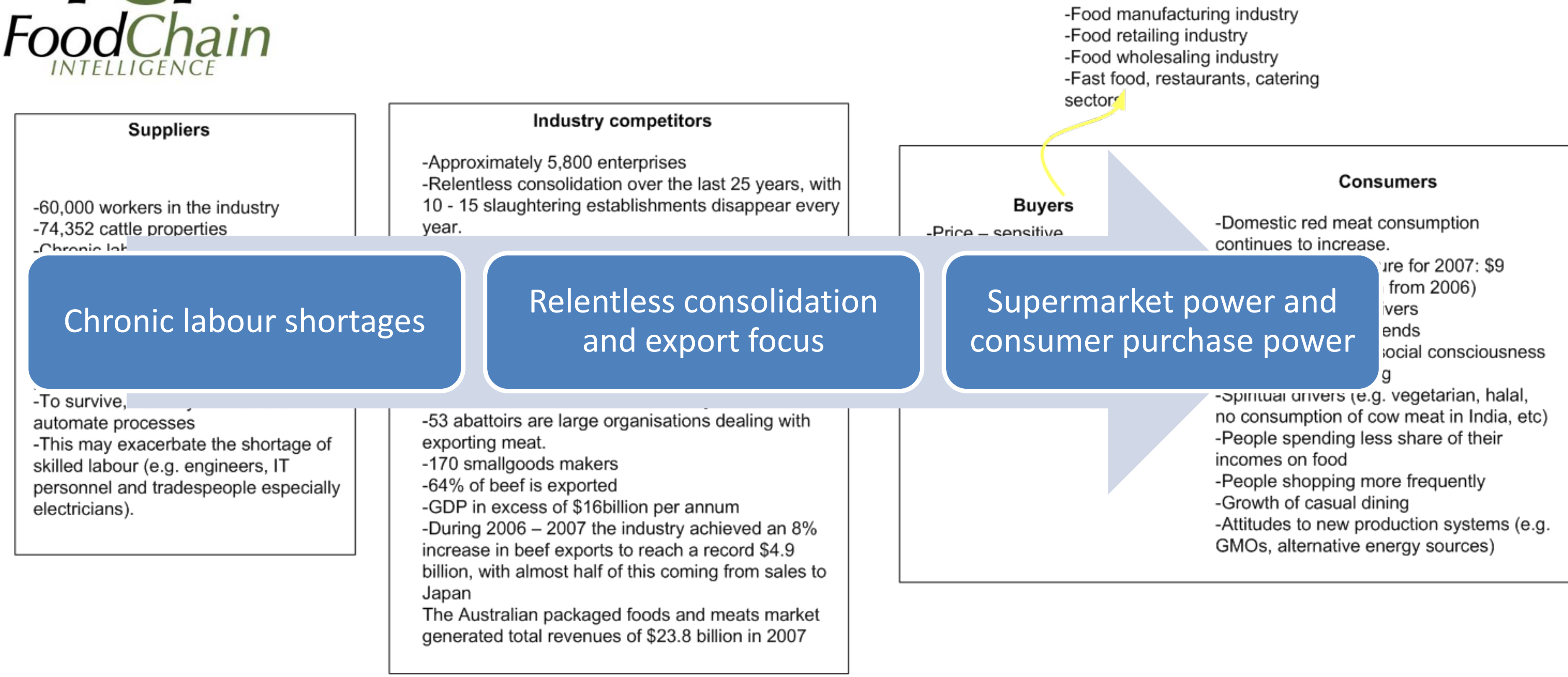
P)
-Droug spread rains last year)
-Carbon footprint of the meat industry
-Energy & water usage at processing plants
-Biofuel (competition for land/grains)

Regulatory initiatives

Food Safety Guides and Standards

1. Businesses in the NSW meat industry must comply with the relevant parts of Food Regulation 2004, Food Standards Code as well as relevant parts of the following guides and standards.
2. NSW Standard for Construction and Hygienic Operation of Retail Meat Premises PDF 94 KB
3. Red Meat Processing (Abattoir) and Transportation Australian Standard for the Hygienic Production and Transportation of Meat and Meat Products for Human Consumption (AS 4696 : 2007)
4. Poultry Processing (Abattoir) Australian Standard for the Construction of Premises and Hygienic Production of Poultry Meat for Human Consumption (AS 4465 : 2005)
5. Rabbit Processing (Abattoir) Australian Standard for Production of Rabbit Meat for Human Consumption (AS 4466 : 1997)
6. Rendering Plant Australian Standard for Hygienic Rendering of Animal Products (AS 5008 : 2001)
7. Ratite (Emu/Ostrich) Processing Australian Standard for the Hygienic Production of Ratite (Emu / Ostrich) Meat for Human Consumption (AS 5010 : 2001)
8. Production of Game Meat Australian Standard for Production of Game Meat for Human Consumption (AS 4464:1997)
9. Production of Wild Game Meat (Upcoming standard to replace AS4464:1997) Australian Standard for the Hygienic Production of Wild Game Meat for Human Consumption (AS 4464:2007)
10. Production of Natural Casings Australian Standard for the Hygienic Production of Natural Casings for Human Consumption (AS 5011 : 2001)
11. Production of Pet Meat Australian Standard for the Hygienic Production of Pet Meat (AS 4841 : 2006)

Meat Industry-structural analysis



Meat Industry-structural analysis

Pretty challenging! So, Where are the opportunities??

- The unique ‘clean and green’ image of Australian food products
- Industry resilience and willingness to embrace change
- Infrastructure support (e.g. MLA, RDCs)
- Government priority positioning for the industry
- The promise presented by emerging technologies and new knowledge in areas such as genomics, biotechnology, ICT, and robotics.

In other words: Innovation

Meat Industry-structural analysis

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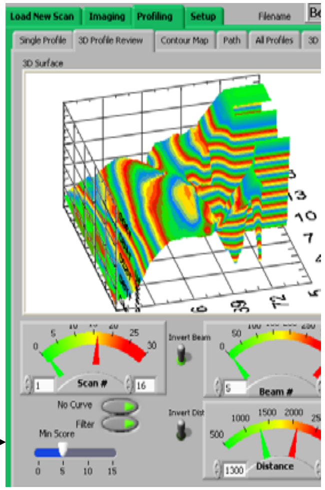
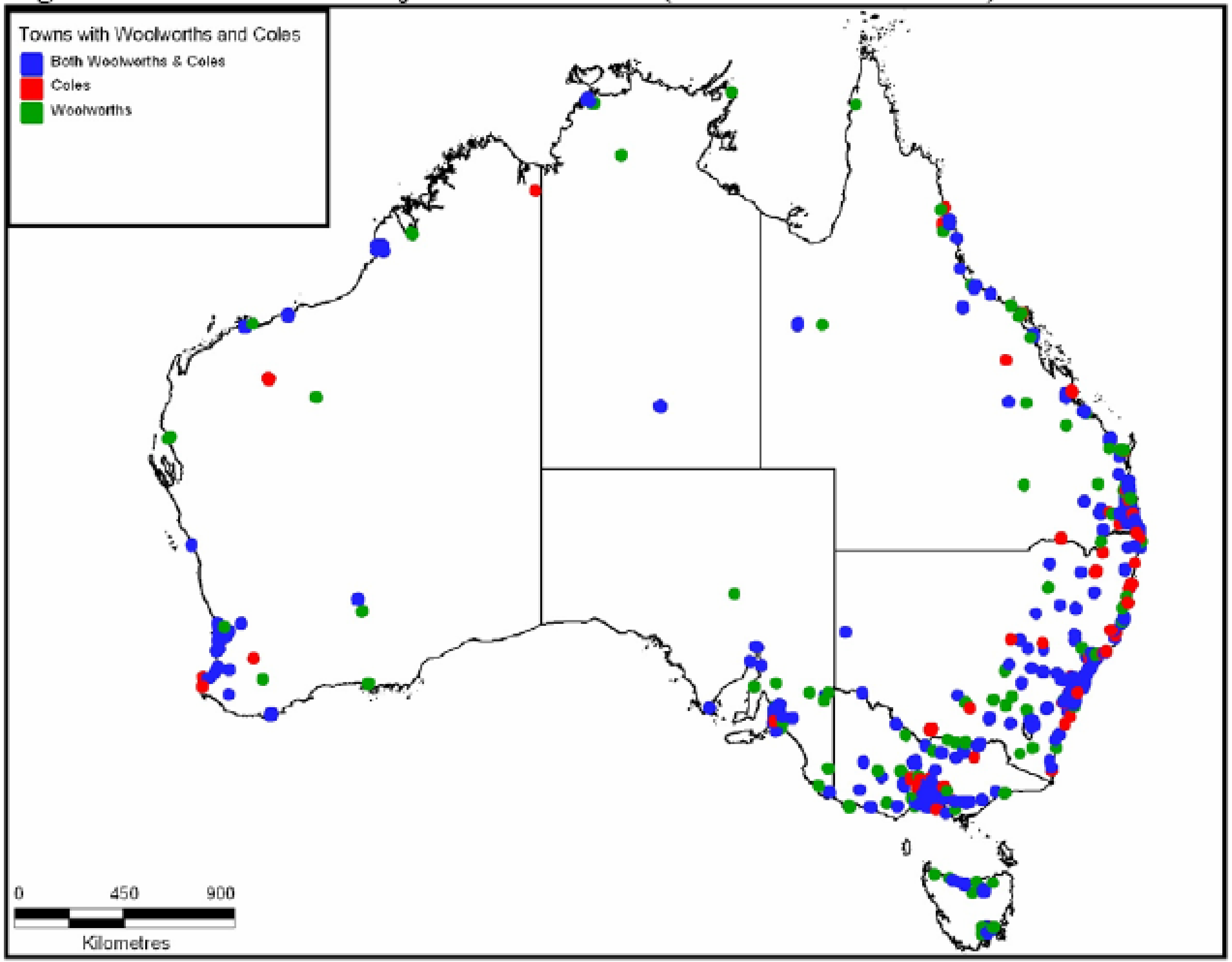


In other words: Innovation

Meat Industry- geographical locations

Supermarkets- geographical locations

Figure 13 Location of Major Chain Stores (Woolworths & Coles)



Source: BITRE 2008 compiled from Woolworths and Coles web sites March 2008

Major players (abattoir work)

QLD: Australia Meat Holdings Pty Ltd, Australian Country Choice, Consolidated Meat Group P/L (Teys Bros), Churchill Abattoir, Killarney Abattoir, Oakey Abattoir, Kilcoy Pastoral Company Limited, South Burnett Beef Trading Pty Ltd, Stanbroke Beef PTY LTD.

NSW: Cargill Australia Limited, EC Throsby Pty Ltd, Narasell Pty Ltd, Northern Co-Operative Meat Company Ltd, Southern Meats Pty Ltd, Wingham Beef Exports, Bindaree Beef, Burragong Meat processor, Rockdale Beef, Ramsey Food Processing.

VIC: H W Greenham & Sons P/L, G.H.Keily Meat Exporters P/L, Midfield Meat Processing P/L, Cedar Meats (Aust) Pty Ltd, G & B Gathercole (Vic) Pty Ltd.

Major meat industry associations:

1. Australian Meat Industry Council (AMIC). AMIC encompasses the Retail and General Industry Group, Smallgoods Industry Group and the Processor Exporter Group.
2. Australian Meat Processor Corp (AMPC)
3. Australian Beef Association (ABA)
4. AUSMEAT LTD
5. Cattle Council of Australia (CCA)
6. National Meat Industry Training Advisory Council LTD (MINTRAC)
7. Australasian Meat Industry Employees' Union (AMIEU)
8. Queensland Country Meat Processors Association (QCMPA)
9. Red Meat Advisory Council Ltd (RMAC)
10. Meat and Livestock Australia (MLA).
11. The Australian Organic Red Meat Association

Meat Industry-differences with respect to NZ

•20% beef consumed domestically
•Carcass weights for local market = 210-220 kg
•Carcass weights for export= 270-320 kg.
•NZ counterparts are more professional and sophisticated as result of a stronger export focus.
•NZ firms demonstrate superior innovation capability
•NZ competitors have better relationship with regulators (interviews; MLA Report – TAP 2000

•40% beef consumed domestically
•Average slaughter weight= 246 kg
•Meat industry has a low risk profile (not investing in innovation enough)
•Adversarial relationships across the chain and with regulators

THE DAIRY INDUSTRY

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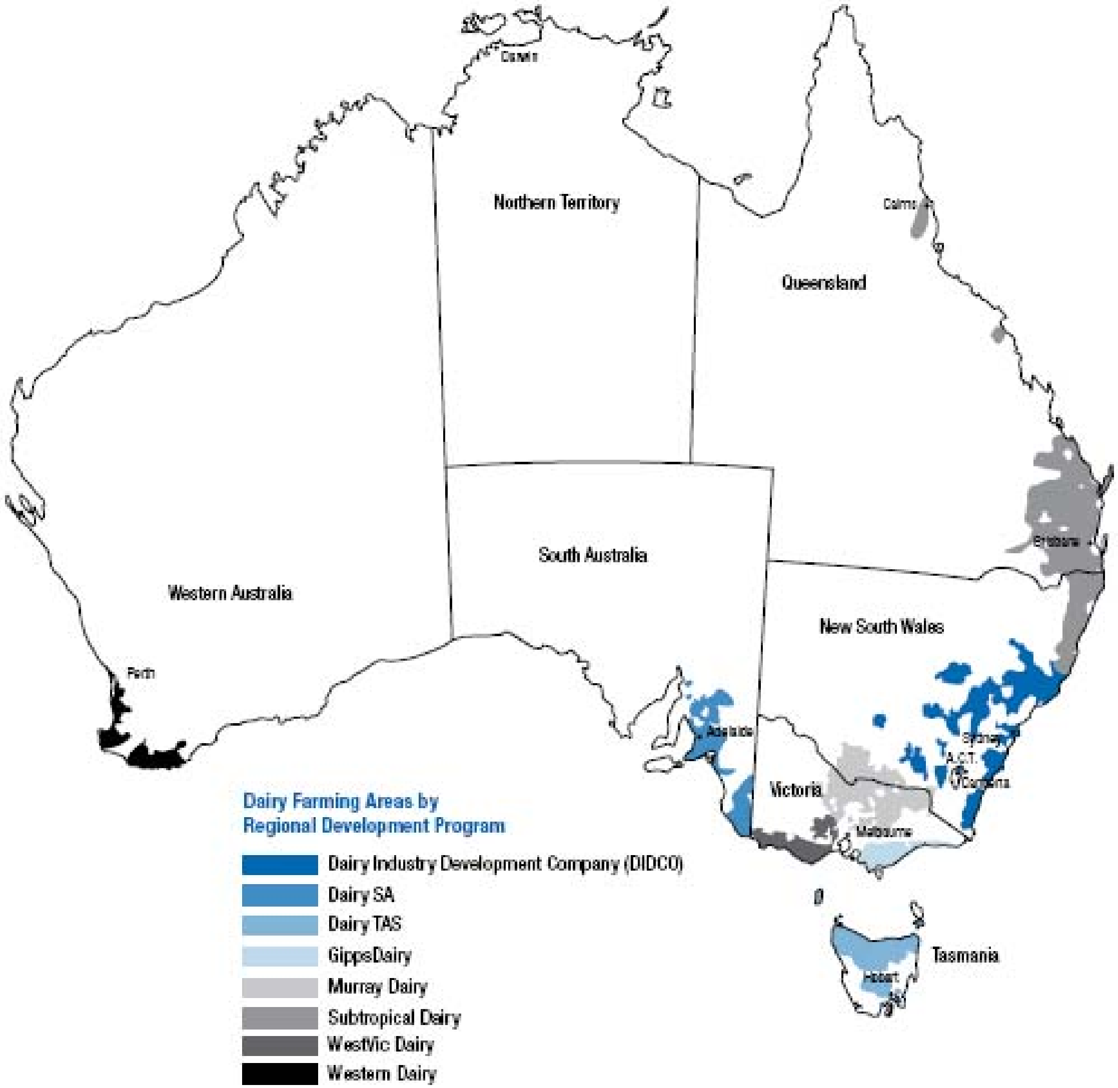


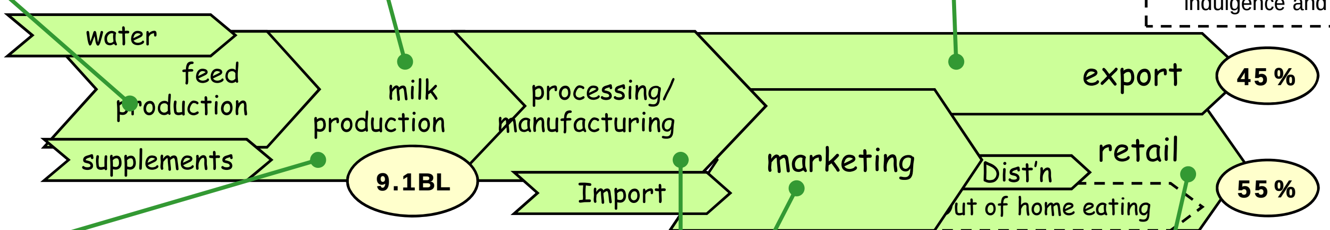
Dairy Value Chain - A$14.6bn

Dairy farms
- About 8000 farm enterprises, dominated by family farm models
- Low-cost production by world standards
- Confidence and image threatened by sustained drought conditions

Trade position
- Tight supply-demand conditions in the world market for dairy commodities with supply constraints affecting major exporters
- Growing demand from emerging economies in Asia and the Middle East
- Improved trade environment with less intervention to support EU and US exporters
- Expanded share of global ingredients trade in the hands of fewer major traders
- Emerging low-cost exporters gaining market share

Resource competition
- Development of water markets allowing trading of water between different user industries and irrigation systems
- Greater competition for feed grains and fodder from other intensive livestock sectors
- Increased competition for land, water and cattle has increased options for producers

Dairy's proposition to consumers
- A platform based on wellness, indulgence and convenience



Milk production
- Output falling by 5-7% last 2 seasons
- Decline forecast in 2007/08 due to effects of drought on pasture growth and cost of purchased feed
- Encouraging signs of growth at farm level, offset by effect of exits, and a large % maintaining constant output

Consolidating processing / marketing
- Fewer owners of dairy facilities through acquisition
- Integration of Fonterra operations in Australia
- Consolidating brand ownership
- Restructuring of plant configuration and factory rationalisation has reduced plant capacity
- Contraction of regional milk supplies in NSW and Queensland has meant consolidation of facilities

Domestic retail markets
- Retailer control of supply chain increasing
- Growing strength of independent retail sector
- Pressure from retailers for brand consolidation alongside expansion of private label
- Consolidating but expanding food service channels

Reference: Fresh Logic Report February 2008

Freshlogic, 2008

Value contributed:	
Farmgate	$4.1bn
Ex-factory	$7.5bn
Exports	$3.0bn

Dairy Industry-Major markets

Markets by tonnage:

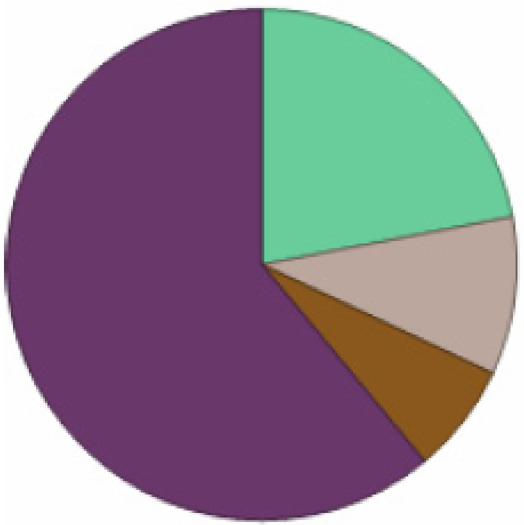
1. Australia 395,800
2. Japan 137,700
3. Singapore 84,600
4. Malaysia 64,400
5. Indonesia 63,650
6. Philippines 45,600

- Australian dairy exports represents 12% of world trade
- A$2.5billion per annum (NZ exports NZ$6.3 billion)
- North Asia
  - Rapidly aging
  - Increasingly affluent
- ***Demand exceeds our ability to supply***

THE DAIRY INDUSTRY

MAJOR PLAYERS

Market Share



Major Player	Market Share Range
Fonterra Co-operative Group Limited	22.00% (2007)
Murray Goulburn Co-operative Co Limited	10.00% (2007)
Australian Co-operative Foods Limited	7.00% (2007)
Other	61.00% (2007)

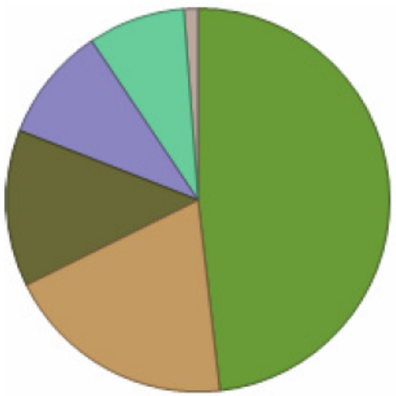
Dairy Farmers: Fonterra and National Foods
Are discussing a joint bid

Warrnambool Cheese and Butter Factory (Est. 2006-07 market share: 3.4%), National Foods, Burra Foods, Tatura Milk Industries, San Miguel, Bulla,Parmalat, Nestlé, Kraft, Bongrain, Butler, Unilever, Brown Foods.

THE DAIRY INDUSTRY

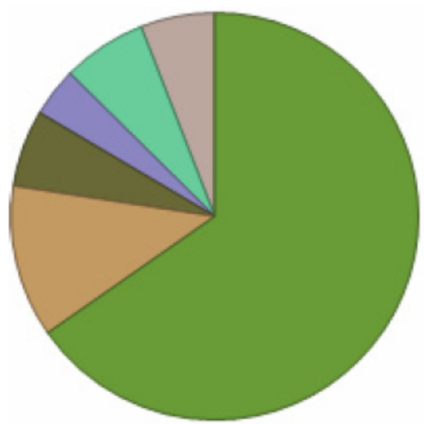
Year: 2007

Geographic Spread of Other Dairy Product Manufacturers



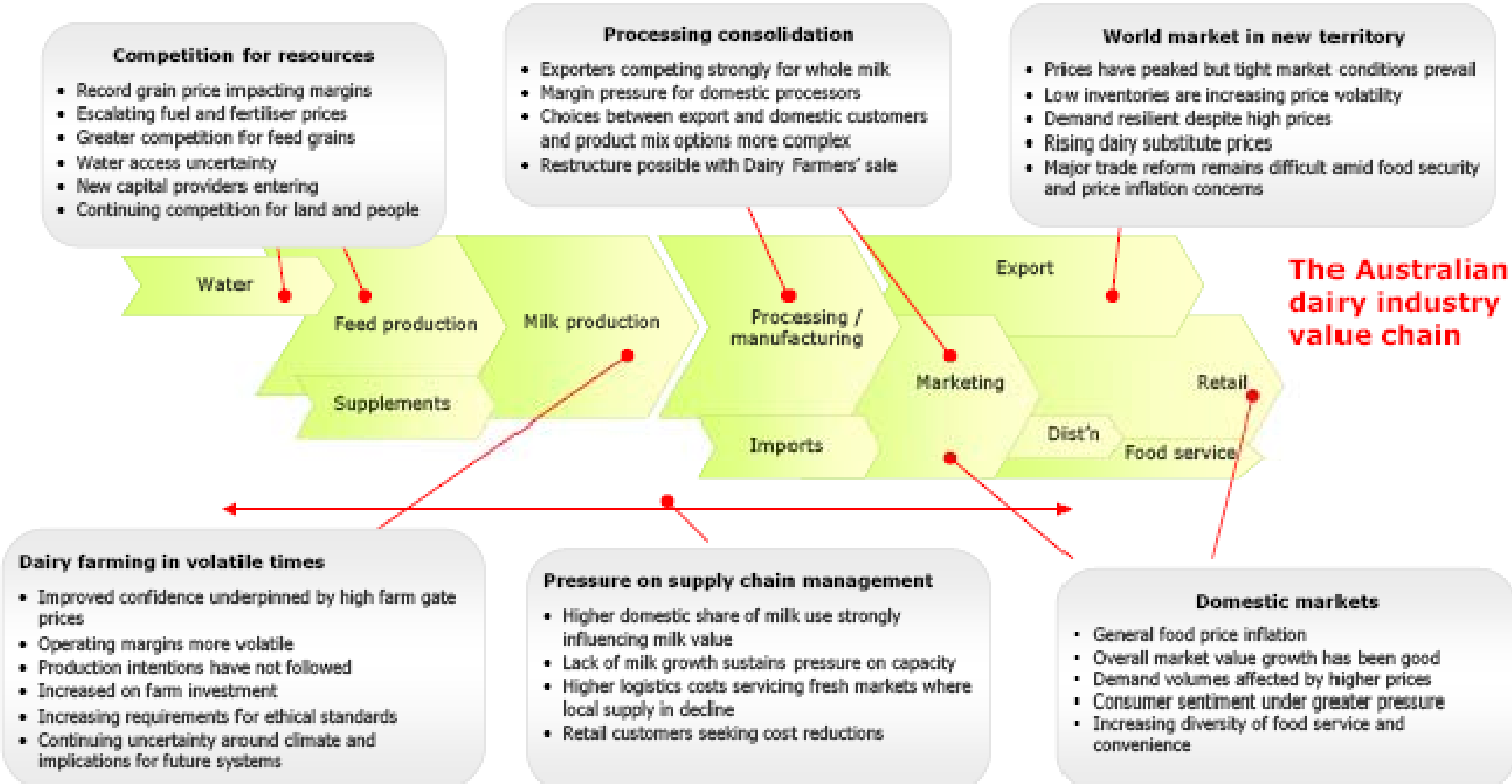
Region	Percentage
VIC	48.2
NSW	19.5
QLD	13.2
WA	9.7
SA	8.2
TAS	1.2
ACT	0.0
NT	[illegible]

Milk Production by State



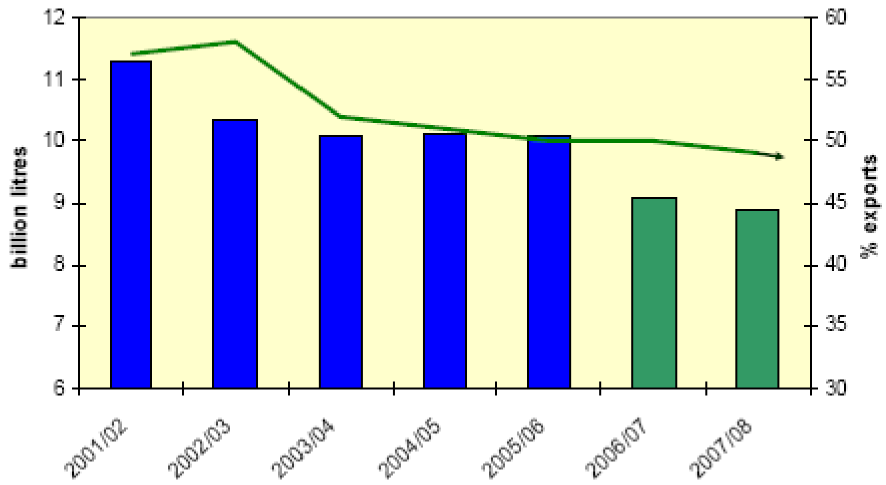
Region	Percentage
VIC	65.3
NSW	12.1
QLD	6.1
WA	3.9
SA	6.7
TAS	5.9
ACT	0.0
NT	0.0

Dairy Industry-structural analysis

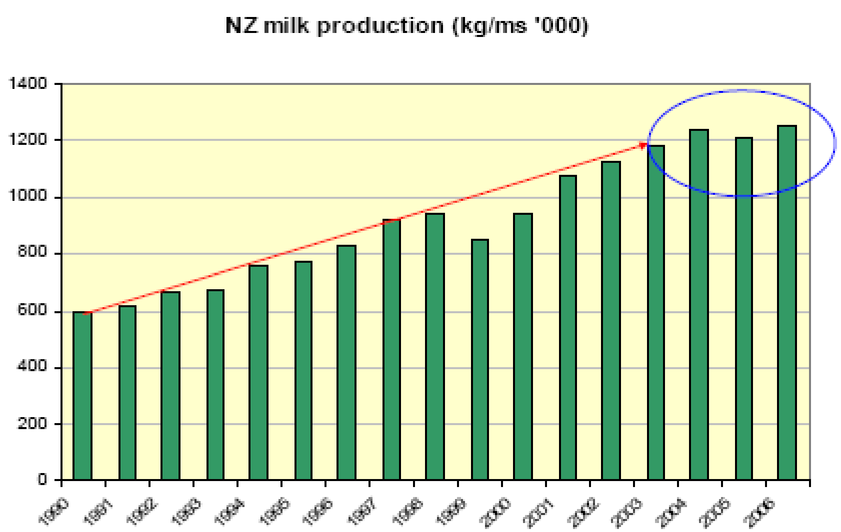


Freshlogic, 2008

THE DAIRY INDUSTRY



- Slow to moderate growth in exports.
- Widespread drought and sharp costs increases sees Aus production down in 07/08 but recovering in 08/09



- Only major exporter expected to increase production over 2012-2013
- An expansion expected in response to high prices
- Concerns over environmental impacts and lead times in building herds

Dairy-Associations

1. Dairy Industry Association of Australia (DIAA)
2. Queensland Dairy farmers Organisation
3. NSW Farmers Association
4. Dairy Industry Development Company (NSW) Ltd
5. Dairy Australia (R&D)
6. Australian Dairy Farmers
7. Australian Dairy Products Federation
8. Dairy Australia
9. Department of Primary Industries Victoria
10. Geoffrey Gardiner Foundation
11. National Dairy Alliance
12. Regional Development Victoria
13. United Dairy Farmers Victoria

OPPORTUNITIES IN OTHER SECTORS

Horticulture

•Valued at $6.9bn and 3rd in size to meat and grains within the agricultural sector

•Exports account for 10% of total production at farm gate value.

•Australia is a very small player (> 1%) in the world trade and does not have competitive advantages in management, marketing, distribution or packaging.

•There are currently 18,800 growers of horticultural products in Australia that collectively employ 80,200 people (20 % of the total employment in agriculture)

OPPORTUNITIES IN OTHER SECTORS

Investing in Breweries – Tooheys & Castlemaine XXXX

	Tooheys	Castlemaine XXXX
Utilities, cellar automation & beer processing	• Boiler replacement • Air, refrigeration and electrical systems upgrades • Energy Management System improvements • Upgrade and automation of beer processing to packaging	
Packaging development	• De-link stubby and can lines – Install new can line • Increase speed and flexibility of other bottle packaging lines – Replace bottle palletisers – Replace bottle filler	• De-link bottle and can lines – Install new pasteuriser • Replace palletisers with robotics • Increase packaging flexibility – Relocate new and existing packaging equipment in building extension