Required Report: Required - Public Distribution **Date:** September 26, 2022

Report Number: AS2022-0021

Report Name: Food Service - Hotel Restaurant Institutional

Country: Australia

Post: Canberra

Report Category: Food Service - Hotel Restaurant Institutional

Prepared By: Lindy Crothers

Approved By: Levin Flake

Report Highlights:

The Australian consumer foodservice industry is valued at A$54 (US$41) billion. Australia's commercial foodservice sector is a competitive market and with an ageing population, the institutional foodservice sector (aged care, hospitals, etc.) continues to grow. Most industry operators in the hotel and resort sector derive a significant portion of revenue from the sale of meals and beverages prepared at onsite restaurants. COVID-19 related government restrictions had a large impact on the HRI sector over the last two years. Information on the effects of these restrictions is included throughout the report.

Market Fact Sheet: Australia

Executive Summary

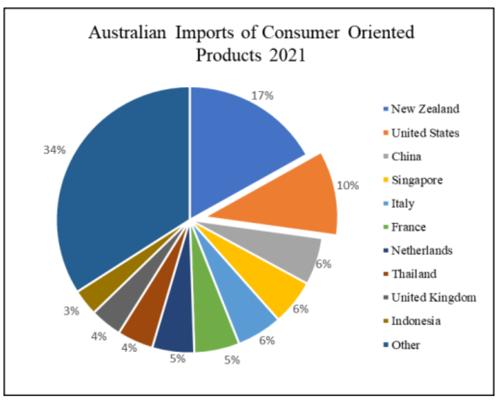
Australia has proven to be an appealing and profitable market for U.S. companies for many years. Underpinning Australia's strong economy is its open and transparent trade and investment environment, and strong trade and economic links with emerging economies, particularly in Asia.

Australia is the world's 13th largest economy. Australia has one of the highest levels of per capita GDP in the world and is ranked first for median wealth per adult according to Credit Suisse's 2021 Global Wealth Report. Prior to the onset of COVID-19 the Australian economy recorded 29 years of consecutive economic growth. Australia implemented strong restrictions to COVID-19 and has had one of the lowest rates of deaths globally. The economic recovery has been significantly better than expected with GDP growth in 2021 around five percent. Inflation has risen sharply in recent quarters, reaching 6.1 percent in the 12 months ending June 2022.

The U.S. - Australia Free Trade Agreement provides advantages for U.S. products as tariff rates for many U.S. food products exported to Australia are zero.

Imports of Consumer Oriented Products

The value of Australian consumer-oriented food imports totaled $12.2 billion in 2021 with the U.S. accounting for US$1.3 billion or 10.3 percent of total imports. Most of Australia's imports in these sectors are sourced from New Zealand with the United States being the second largest supplier.



Source: Australian Bureau of Statistics

Retail Food Industry

Supermarket and grocery expenditures continue to account for the bulk of food retailing purchases with a share of 63.5 percent. The United States accounted for US$1.3 billion (10 percent) of Australia's total food related imports in 2021. Despite the effects of COVID-19, the market remains an excellent opportunity for U.S. exporters. For more information, please see the Retail Foods report. The latest copy is available on the FAS website.

Quick Facts CY 2021

Total Imports of Consumer Oriented Products – $12.2 billion; **U.S. Share** (12%) – $1.2 billion

Food Industry by Channels ($ billion)

Imports - Consumer Oriented Total	$12.2
Imports – US Share	$1.3
Exports – Consumer Oriented Total	$19.8
Exports – to the US	$2.8
Total Food Retailing	$148.9
Food Manufacturing Turnover	$77.6

Top Australian Food Retailers
Woolworths; Coles (Wesfarmers); Aldi; Metcash/IGA

GDP/Population
Population – 25.7 million
GDP (*$ trillion*) – $1.3
GDP per capita – $58,000

Strengths	Weaknesses
• U.S. culture well accepted and similar to Australia. • No language barriers • U.S. products have excellent image and acceptance. • Northern hemisphere seasonal advantage for fresh foods, e.g., fruit and vegetables.	• Australia has strict quarantine requirements for fresh products. Import permits are required for fresh produce and some products are prohibited. • Australia is a significant producer of a similar variety of agricultural products. • Australian labeling and advertising laws are different from the United States, which may require some changes to food labels.

Opportunities	Threats
• The U.S./Australia Free Trade Agreement enables many U.S. products to enter Australia tariff free. • Australian consumers are experimental and desire new and innovative products. • Opportunity to trial innovative products and capture/gain market share. • Opportunity to enter private label arrangements as major players expand their private label offerings.	• "Buy Australian" campaign is significant. • A focus on fresh food presentation by the major supermarket chains provides advantages to local producers. • Most categories have substantial market leaders. • Country of origin labeling is compulsory and many Australian made products bear the "Australian Made" logo.

Data Sources: Trade Data Monitor; Australian Bureau of Statistics; Euromonitor; IBISWorld
Contact: FAS Canberra, Australia; AgCanberra@fas.usda.gov

SECTION 1 – MARKET SUMMARY

The Australian consumer foodservice industry was valued at A$54 (US$41) billion in 2021. By far the largest proportion of the Australia's foodservice industry is the consumer foodservice sector. An ageing population is likely to fuel faster growth in the institutional foodservice sector (aged care, hospitals, etc.) compared to the commercial foodservice sector.

Australia's multicultural population is fueling increased demand for an ever-expanding menu of ethnic foods and specialty ingredients while at the same time asking for simpler and healthier choices.

Dining out is a way of life for most Australians and it is estimated that more than one-third of Australian households' total food and non-alcoholic beverage budget is spent on eating outside of the home. Australians eat out on average two or three times a week for breakfast, brunch, lunch, or dinner. Australia offers an eclectic mix of cuisines, which are fully embraced into national culture.

Independent limited-service restaurants, full-service restaurants and cafes/bars make up most consumer foodservice establishments in Australia. This differs from other countries such as the United States and the United Kingdom where franchises and chains dominate. Australian consumers prefer the more eclectic mix of food offerings via independents, a trend borne out of historical immigration mixes. Consumer preferences are also leading to a rise in the popularity of casual dining, where growth is being experienced by bars/pubs and restaurants in suburban locations. As dining out is so deeply entrenched in Australia's culture, during times of economic downturn consumers trade down rather than stop eating out. As the market becomes increasingly competitive the focus among independents will be on offering menus that are unique while many will also focus on differentiating via ambience and level of service.

Consumers are increasingly aware of health issues associated with poor diets, excess weight, and obesity. This awareness is likely to result in a decline in demand for food and beverages containing high levels of fat, salt, and sugar, which have traditionally been sold by fast food establishments.

The Australian Government has lifted all Covid related restrictions including hotel and restaurant capacities, and domestic and international travel. This is contributing to a rapid recovery of the HRI sector, opening opportunities for US exporters.

Food and non-alcoholic beverages' price inflation reached an estimated 5.9 percent over the 12 months through June 2022 resulting in rising living costs. The rise stems from strong price increases across several product segments, including fruit and vegetables, and non-alcoholic beverages, and grocery staples. This is the result of prolonged labor shortages, rising fuel costs, disrupted logistics due to the COVID-19 pandemic and the Russia-Ukraine conflict, and extreme flooding on Australia's east coast. As a result, low- to medium-income families are expected to shift spending towards less healthy, takeaway foods until the economy recovers.

Australia's unemployment rate decreased to 3.5 percent in June 2022, the lowest official rate since August 1974. This fall means a tightened labor market for employers due to strong pressure to attract and retain employees. Labor has been scarce due to the pandemic and the lack of inbound travelers on working holiday visas who traditionally take up jobs in the hospitality sector.

Reduced inbound travel requirements (such as the removal of testing and vaccination requirements) are likely to fuel an increased volume of visitors to Australia, which will benefit the wide variety of industries that profit from international tourism, especially those in the hotel and restaurant sectors.

Advantages	Challenges
• U.S. culture well accepted and similar to Australia. • No language barriers. • U.S. products have excellent image and acceptance. • Northern hemisphere seasonal advantage for fresh foods, e.g., fruit and vegetables. • The U.S./Australia Free Trade Agreement enables most U.S. products to enter Australia tariff free. • Australian consumers constantly seeking new tastes and cuisines. • Strong dining out culture provides opportunities to supply the consumer foodservice sector with new products. • Ageing population presents opportunities in the institutional foodservice sector.	• Australia has strict quarantine requirements for fresh products. Import permits are required for fresh produce and some products are prohibited. • Australia is a significant producer of a similar variety of agricultural products. • Australian labeling and advertising laws are different from the United States, which may require some changes to food labels. • “Buy Australian” campaign is significant. • A focus on purchasing fresh local food by many restaurants and cafés provides advantages to local producers and suppliers.

SECTION 2 – ROAD MAP FOR MARKET ENTRY

ENTRY STRATEGY

It is recommended that exporters enter the market through a distributor, importer, agent or broker who has a good understanding of the Australian market and targets specific food categories or merchandise managers at major wholesalers and major supermarket chains. Specialist distributors or wholesalers may also be approached.

Due to Australia’s large geographic size and high transportation costs, exhibiting at trade shows is the most cost-effective way for U.S. companies to meet potential partners and customers in Australia.

- Fine Food Australia is the largest international food, drink, and equipment exhibition in the region and in the southern hemisphere. The show is endorsed by the U.S. Department of Agriculture and is held each September, alternating between Sydney and Melbourne. Major manufacturers, buyers, and importers from all over the country and region attend. The 2023 edition of Fine Food will take place in Sydney in September 2023. Contact IMEX Management for information on exhibiting in the USA Pavilion.
- Foodservice Australia is a show targeted specifically at the foodservice industry which also alternates between Sydney and Melbourne in the opposite years to Fine Food. The 2023 show will be held in Melbourne at the end of February.

MARKET STRUCTURE

Consumer Foodservice: Independent vs Chain Restaurants by Percent Value

	2016	2017	2018	2019	2020	2021
Chain Foodservice	27.3	27.0	26.2	25.9	28.5	30.5
Independent Foodservice	72.7	73.0	73.8	74.1	71.5	69.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor International

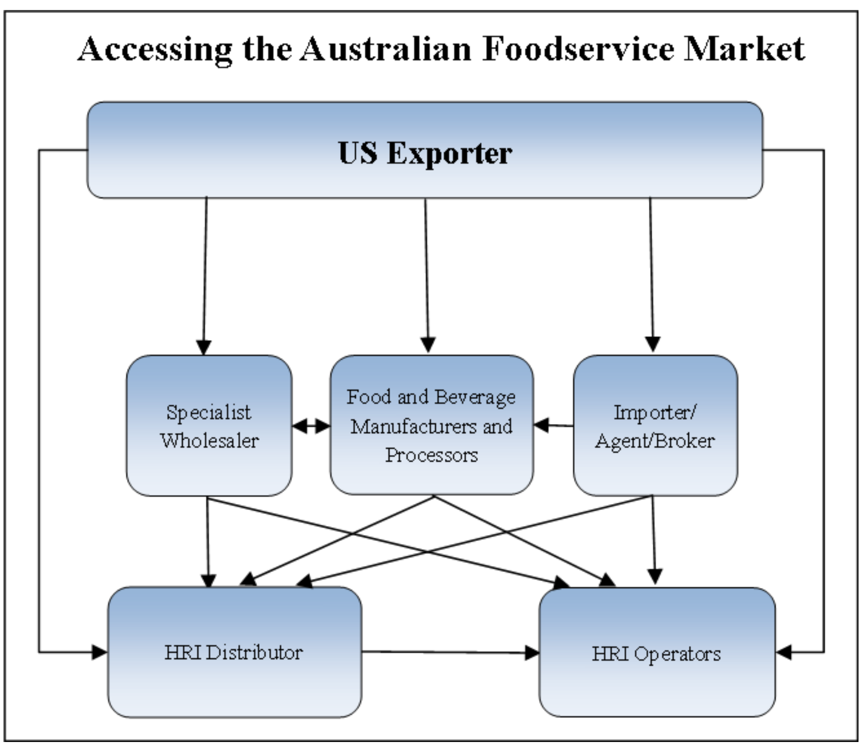
Consumer Foodservice: Independent vs Chain Restaurants by Type (Number) 2021

Outlet Type	Independent	Chain	Total
Cafés/Bars	11,120	2,852	13,972
Full-Service Restaurants	20,938	347	21,285
Limited-Service Restaurants	13,302	10,773	24,075
Self-Service Cafeterias	14	10	24
Street Stalls/Kiosks	3,006	332	3,338
Total Consumer Foodservice	48,380	14,314	62,694

Source: Euromonitor International

DISTRIBUTION

- Distribution centers and wholesalers are the two main distribution channels. Distribution points in Australia are centralized.
- Major players are: Metcash Ltd; Bidfood Australia Ltd; and PFD Food Services Pty Ltd.
- Food products will be stored in warehouses prior to delivery.
- Transport between distribution centers in Australia is predominantly by road.



SECTOR TRENDS AND MAJOR PLAYERS

Restaurants –The Australian restaurant industry is highly fragmented and dominated by many small operators who face competition from other restaurants and from operators in other hospitality sectors such as cafes and pubs.

Changing consumer behavior during Covid, labor shortages, and the increase in operating costs due to inflation, has led many operators to restructure their operations by expanding takeaway menus, reducing portion sizes, and reviewing menus. Online food delivery services supported the industry during lockdowns and have allowed the restaurant sector to compete with other sectors such as fast food. Rising inflation has meant that consumers currently have lower discretionary income available. This has meant that the focus of high-end full-service restaurants has shifted towards more middle tier outlets in the short-term.

Australia's strong "foodie" culture, combined with continuing consumer health consciousness and a focus on quality, will provide growth opportunities as the economy recovers. However, restaurateurs will face tough competition from foodservice operators, such as fast-food retailers, pubs, cafes, and prepared meals from supermarkets.

Chain Restaurants – The Australian chain restaurants industry operates on a specialized business model that represents a hybrid between traditional restaurants and fast-food services. The concept has proven successful in Australia over the years although operators have struggled over the last few years due to strong external competition and difficult trading conditions due to Covid restrictions. This trend will likely continue as fast-food operators introduce healthier options, and supermarkets and grocery stores expand their ready-meal selection. The major operators in this sector are: Hog's Breath Café; Lovely Pancakes Pty Ltd; La Porchetta Holdings; and Taco Bill Mexican.

Cafes and Coffee Shops – Australia's coffee culture and its growing number of specialty cafes and coffee shops have contributed to high industry competition. An establishment's success is largely determined by its customer service, the price and quality of its products, and the overall cafe experience. Coffee quality is crucial, with the coffee brand, texture, temperature, and milk type becoming increasingly important to customers. There is also an increased focus on fair trade and organic coffee.

Cafes have become increasingly popular as an alternative to high priced restaurants. Although spending on cafes and coffee shops is considered discretionary, many consumers consider coffee an affordable luxury and are unwilling to forgo their daily coffee. This trend provides a relatively stable revenue base for operators. Strong demand for coffee has led to an influx of new operators, with many artisan bakeries and patisseries establishing cafe operations. Consumers demand high-quality, convenient food and beverages, premium ingredients, and gourmet, cafe-style meals in this sector.

Fast Food and Takeaway – Consumer health awareness has transformed this sector with increased awareness of the nutritional content of fast food and a conscious effort by consumers to choose healthier options affecting industry demand. Industry operators have responded by introducing a range of healthier, premium choices with less fat, sugar and salt. This change in consumer preferences has also led to an influx of new operators offering higher quality fast food options including salad and juice bars, and sushi stores. The shift towards healthier options, combined with a "foodie" culture, has led to an increased number of smaller operators differentiating themselves based on quality. This trend has led to more gourmet options in the fast-food market and new food options that were previously considered restaurant meals.

Major players have sought to benefit from the food culture shift, introducing premium menus with higher quality ingredients. However, some operators have found it hard to change their image. Consequently, major players have struggled to keep up with the rapid growth of smaller premium operators. Fast food operators also face increasingly strong competition from external sources. Supermarkets have expanded their ranges of home-cooked meal replacements and heat-and-serve products such as pastas and pre-packaged mini meals. These retailers have emerged as one-stop shops that provide consumers with fast, affordable, and high-quality food. Many of these products substitute traditional fast food. Traditional convenience stores have also attempted to access this market by expanding their fast-food options such as pre-made sandwiches and salads, and baked goods. Major players are: McDonalds Australia; Domino's Pizza Enterprises; Competitive Foods Australia (Hungry Jack's which is the name of the Burger King franchise in Australia); Yum! Restaurants Australia (KFC); Subway Systems Australia.

Pubs, Bars and Nightclubs – This sector was significantly affected by the Covid-19 pandemic as most states and territories implemented stringent capacity restriction and lockdowns. Declining per capita alcohol consumption is also putting pressure on many traditional pubs and clubs. Many pubs have improved food and beverage options in response to changing consumer preferences, converting establishments to gastro-pubs. To remain competitive, operators will need to continue responding to changing consumer trends by running more family friendly establishments, offering high-quality menus, and diversifying their liquor offerings to include craft beverages. Australia also has a large number of what are referred to as 'clubs' which are run by community sporting and service organizations. These operations usually include bars, restaurants and poker (slot) machines and patrons are required to pay a membership fee to join.

Hotels and Resorts – The Covid-19 pandemic disrupted the hotel and resort industry significantly with the Australian government not only restricting inbound travel but also restricting domestic travel which is this sector's largest market. As these travel restrictions have been lifted, it is expected that the sector will recover fairly quickly over the next couple of years.

Most industry operators in this sector derive a significant portion of revenue (20-25 percent) from the sale of meals and beverages prepared at onsite restaurants. Some hotels promote their restaurant and dining establishments as a major attraction. Some of Australia's major hotels, particularly upscale brands, are attached to high-end restaurants and other food-service options that aim to provide guests with onsite dining selections. Many hotels and resorts in Australia are locally owned and operated, but there are several large foreign companies with large portfolios in the market. These include: AAPC Ltd (trading as Accor Asia Pacific) is the industry's largest operator; Event Hospitality and Entertainment Ltd (Rydges, QT, and Atura brands); Hilton International Australia; Holiday Inns Holdings (Australia) Pty Ltd (Australian subsidiary of InterContinental Hotels Group); Marriott International Inc.

Corporate Catering –The industry provides a range of catering services to airlines, mining, businesses, government, hospitals, aged care facilities, defense forces, and correctional institutions. These services include one-off catering for events such as seminars, meetings and conferences. Industry operators also engage in full-service contracts, where operators manage full-company catering, company canteens. Larger industry operators dominate lucrative business contracts, while smaller operators tend to focus on catering lunches for small businesses within a narrow geographical region.

This sector was heavily affected by the Covid-19 pandemic due to lockdowns and restrictions on public gatherings although ongoing demand from mining companies protected parts of the sector somewhat. There has been a fall in the number of players in the sector due to the inability to remain viable during pandemic restrictions.

Large players in this sector are: Spotless Group Holdings; Compass Group (Australia) Pty Ltd; and Sodexo Australia.

SECTION 3 – COMPETITION

Imported products must compete with "Australian Made" products and Australians generally have a keen awareness and affinity for buying Australian made goods, although this is less of a factor in HRI than retail where country-of-origin labeling of foods is required. Over two-thirds of Australian consumers indicate they believe it is important for food products to be sourced locally and there has been a recent push for restaurants and fast-food outlets to indicate where their products originate. Higher prices continue to be a major drawback of local offerings and imported products need to be competitively priced to compete.

Australia's quarantine regulations are stringent, and other import regulations and food labeling have different requirements than in the United States. Full details of Australia's quarantine, import, and food labeling regulations can be found in the Food and Agriculture Import Regulations and Standards (FAIRS) report which is updated each year. The latest copy of the FAIRS report is available on the FAS website.

The value of Australian consumer-oriented food imports totaled $12.2 billion in 2021. The United States accounted for $1.3 billion or 10 percent of total imports. Most of Australia's imports in these sectors are sourced from New Zealand with the United States the second largest supplier. U.S. products are well regarded as safe and good value for money. See the Exporter Guide Report for Australia available on the FAS website.

The U.S.-Australia Free Trade Agreement signed in 2005 allows most U.S. products to enter the Australian market tariff free.

Due to economies of scale in the United States, U.S. manufacturers can develop a range of products far beyond that which can be achieved by smaller manufacturers in Australia. This enables U.S. exporters to deliver innovative product lines that are otherwise not available from Australian manufacturers.

The Australian market is very 'Americanized', and most food categories are compatible with Australian tastes. Many categories are dominated by American brands that have been very successful in the Australian market.

SECTION 4 – BEST PRODUCT PROSPECTS

Food market trends in Australia include:

- **Positive nutrition:** The drive to make food and beverages healthier continues to gain momentum in Australia. Australian consumers do not want to be told what not to eat and are instead looking for more constructive guidance to assist their food and beverage purchases. This encompasses a movement from food avoidance (such as products with reduced fat and sugar) to positive nutrition and the inclusion of healthy food and ingredients.
- **Healthy indulgence:** Australians aren't really interested in strict diet plans, but there is a huge spike in people trying to control their portion sizes. They don't want to cut out certain food groups or flavors, but they are willing to control the amount they eat. Therefore, the quality over quantity mentality is an important consideration for marketers. Claim terms such as "portioned indulgence" or "treat size" convey the message that sensory benefits have not been foregone for the sake of health.
- Demand for **healthy food** is being boosted by demographic shifts. An aging population and rising birth rates have had a positive impact on the development of the health and wellness market since 2005. Middle-aged or elderly consumers and parents with young children tend to be better informed about health and dietary matters than other groups, and thus represent a key target for health and wellness manufacturers.
- **Packaging:** Packaging has grown in importance in recent years and innovative packaging is a valuable selling point in the Australian market. It is often the packaging that conveys convenience to the consumer, and snazzy packaging attracts the attention of consumers. Packaging ensures that offerings conform to market trends by communicating unique selling points and offering freshness and convenience. By being lightweight, packaging

can reduce the product's carbon footprint. Consumers expect that packaging will also be recyclable. Studies have found that half of Australians think food and drink products are over-packaged and three quarters of them would consider boycotting a product if it didn't meet their environmental criteria.

- **Freshness** is an important area of concern for packaged food sales. Foodservice players and consumers appreciate the peace of mind from knowing the offerings are in good condition. This can be achieved with single-serve pack sizes, re-sealable packaging, and clear on-pack communication.
- **Australia's top food priorities**: eating more fresh fruit and vegetables; smaller portion sizes; reducing sugar intake; eating healthier snacks; and cutting down on fat.

SECTION 5 – POST CONTACT AND FURTHER INFORMATION

POST CONTACT

Office of Agricultural Affairs, U.S. Embassy, Canberra, Australia
Tel: +61 2 6214 5854
E-Mail: AgCanberra@fas.usda.gov

IMPORT REGULATIONS

- See the Department of Agriculture and Water Resources biological import conditions (BICON) database to identify whether your product is permitted entry to Australia.
- Information on Food Law and Policy in Australia can be obtained from the www.ausfoodnews.com.au website.

AUSTRALIA'S FOOD REGULATIONS

- The Foreign Agricultural Import Regulations and Standards (FAIRS) report from this office contains detailed information on the Food Standards Code and other food regulations. This report is updated each year and a copy is available on the FAS website.
- The entire Australia New Zealand Food Standards Code is available through FSANZ website.

OTHER RELEVANT REPORTS

Copies of other relevant reports from this office can be found by searching at: https://gain.fas.usda.gov/#/search.

- Food and Agriculture Import Regulations and Standards (FAIRS) – contains detailed information on Australia's food labeling and quarantine requirements.
- Exporter Guide (search in the Exporter Assistance category).
- Food Ingredients Report (search in the Exporter Assistance category).
- Retail Report (search in the Exporter Assistance category)

INDUSTRY INFORMATION

- Foodservice Suppliers Association of Australia Inc.
- NAFDA – Australian Foodservice Distribution
- Food and Beverage Importers Association

REFERENCES

Euromonitor International, Consumer Foodservice in Australia
IBISWorld, Hotels and Resorts in Australia
IBISWorld, Chain Restaurants in Australia
IBISWorld, Fast Food and Takeaway Food Services in Australia
IBISWorld, Restaurants in Australia
IBISWorld, Cafes and Coffee Shops in Australia
IBISWorld, Catering Services in Australia
IBISWorld, Pubs, Bars and Nightclubs in Australia

Attachments:

No Attachments