MARKET SNAPSHOT | SHEEPMEAT

China

MEAT & LIVESTOCK AUSTRALIA

China is a large, complex country with significant regional cultural variation, and a mixed demand outlook for imported sheepmeat. A sophisticated market segmentation approach to identifying and developing niche opportunities for Australian sheepmeat is required.

Challenges and opportunities in China for Australian sheepmeat include:

- China's sheepmeat import demand is quite volatile and is heavily impacted by domestic production cycles and opportunistic small farmers. This is especially evident at the commodity end of the market, where frozen mutton is particularly impacted.
- Sheepmeat currently accounts for only 3% of dietary protein consumption. However, consumption is forecast to increase, with particular opportunity to target wealthier urban consumers seeking a wider variety of premium proteins.
- Sheepmeat and sheepmeat offal are traditionally used in a variety of stew, soup and particularly hot pot dishes, and is a popular street food in the form of spiced grilled kebabs. Western-style sheepmeat dishes remain mostly the domain of the high-end foodservice sector, but there are opportunities to build familiarity of premium lamb to generate growth in retail.
- There is a small but growing niche market for premium Australian lamb in the high-end foodservice and retail sectors of the larger coastal cities. Australia has had one plant granted access to China for chilled sheepmeat since early 2016. In 2017, New Zealand began a six-month trial access to China for chilled sheepmeat involving 10 plants.
- While ChAFTA* is reducing tariffs on Australian sheepmeat, increasing the number of plants eligible to export to China remains a priority, particularly for chilled product.

*China-Australia Free Trade Agreement

Population

1,410 in 2017 **1,429** in 2021

In million

Source: BMI Research, 2017 estimate & 2021 forecast

Households earning* >US$35,000/year

8.9 in 2017 **19.7** in 2021

In million households

Source: BMI Research, 2017 estimate & 2021 forecast

*Disposable income

Households earning* >US$50,000/year

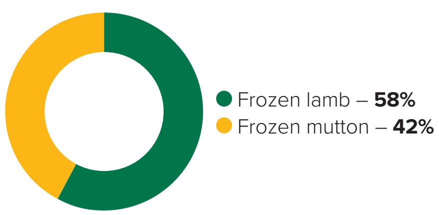
3.4 in 2017 **7.8** in 2021

In million households

Source: BMI Research, 2017 estimate & 2021 forecast

*Disposable income

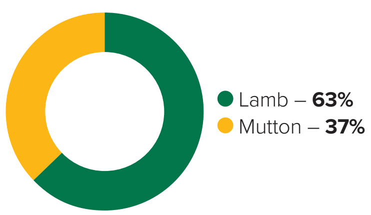
Australian sheepmeat exports – volume



Total 83,195 tonnes swt

Source: Department of Agriculture and Water Resources (DAWR), CY 2017

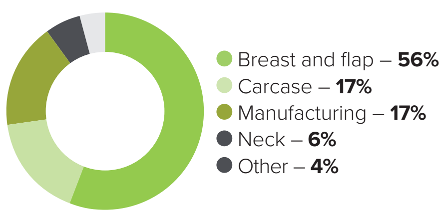
Australian sheepmeat exports – value



Total A$386.2 million

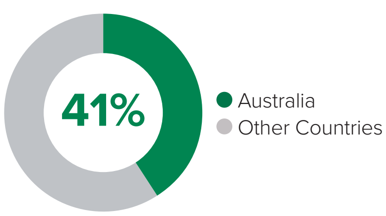
Source: ABS/GTA, MAT (Moving Annual Total) November 2016 to October 2017

Proportion of key cuts



Source: DAWR, CY 2017

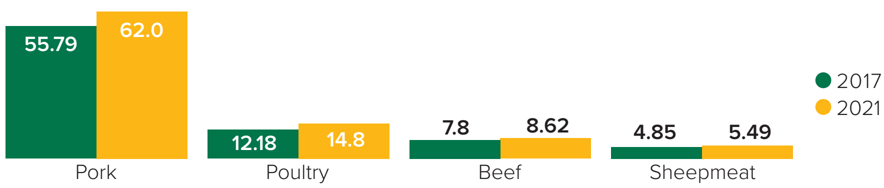
Australia's share of direct imports



Source: GTA, MAT October 2016 to November 2017

Meat consumption

56.8kg per capita* total meat protein**



In million tonnes cwt

Source: BMI Research, OECD (2017 estimate, 2021 forecast)

*2017e per person per year in cwt ** Excluding fish/seafood

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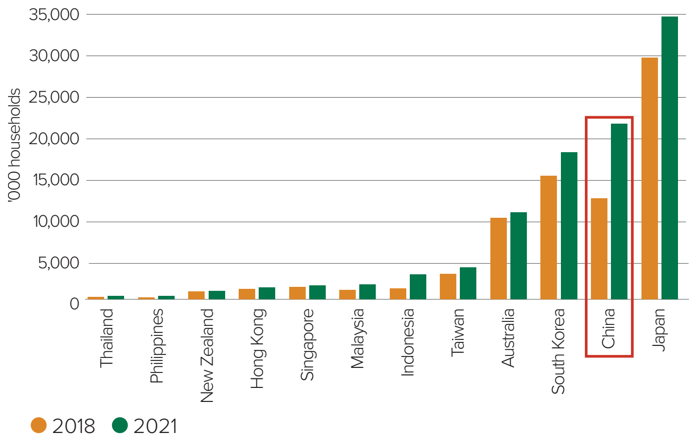
Consumers

- Due to its large population, growing incomes and shifting diets, China is an attractive market for premium Australian sheepmeat. However, care needs to be taken to minimise the risks of market volatility, which tends to impact the commodity end of the market due to domestic production cycles.
- China is a country of great regional cultural diversity and variation in consumption habits and preferences. Considering cuisine alone, there are at least eight distinct Chinese cuisines, with the use and flavouring of sheepmeat varying.
- Despite being the most populous country in the world, the proportion of consumers who can regularly afford to buy imported lamb is small, with 12.2 million households earning at least US$35,000/year disposable income. That number is forecast to increase 74% in just the next four years to 21.2 million in 2021 (double the number in Australia).

Number of households earning >US$35,000/year*



Source: BMI Research. 2018 and 2021 forecast.
* Disposable income

- Traditionally, sheepmeat consumption is higher in the cooler northern areas of China and during the cooler months, as it is considered to generate 'internal heat'. However, interest in consuming sheepmeat has grown faster in warmer coastal cities, where wealthier consumers seek more variety in their proteins from a taste and nutritional benefit perspective, and are more likely to be able to regularly afford to buy imported sheepmeat.
- Per capita sheepmeat consumption is small relative to the staple proteins of pork, chicken and seafood. However, with rising incomes and continued urbanisation, per capita sheepmeat consumption is forecast to increase some 14% from around 3.5kg in 2017e to 4kg in 2027f *(Source: GIRA)*.
- Chinese consumers consider lamb a premium, great-tasting protein, but its perceived weakness is that it is difficult to prepare or buy and less versatile to cook compared to other proteins.

Attributes important for all proteins and lamb associations

What attributes are important for Chinese consumers (all proteins)?	What associations do consumers have to lamb?
My/my family's favourite meat	Meat is usually tender
Easy and convenient to prepare	The most superior meat and Tastes delicious
Essential part of children's diet	High nutritional value
Cheaper	Willing to pay more for it
Can be used in many different meals	Animal is well-cared for

Source: MLA Global Consumer Tracker China, 2017

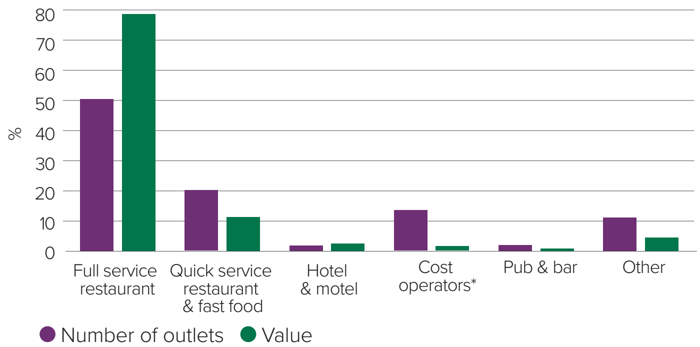
- Sheepmeat and sheepmeat offal are used in a variety of stir fry, stew, soup, dumpling and hot pot dishes, and is a popular street food in the form of grilled spiced kebabs. In urban upper middle class households, there is increasing exposure to western-style lamb cutlets, meatballs and sausages. Popular western cooking methods such as roasting are only available to the very small proportion of households that have an oven at home.
- Affluent urban consumers appreciate Australian lamb, which offers several advantages that are considered worth paying more for, such as safety and quality consistency, good animal welfare and nutritional value, though it is not yet well differentiated from New Zealand lamb in consumer's minds.

(Source: MLA Global Consumer Tracker, China 2017)

Foodservice

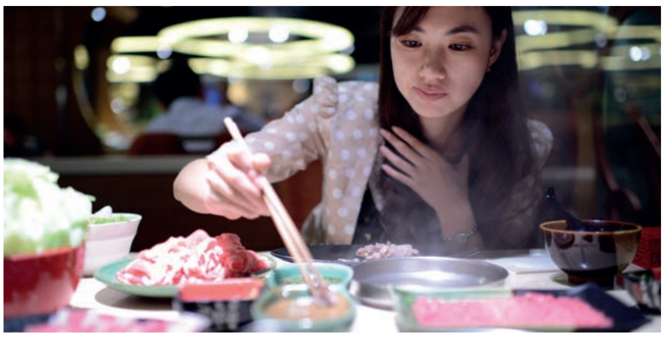
- As a less familiar but premium protein, it is estimated that about 65% of the sheepmeat consumed in China is done so outside the home *(Source: USMEF)*.
- Imported Australian lamb can be found on menus in high-end western-style restaurants and five-star hotels, as well as some reputable high-end hot pot restaurant chains.
- Full service restaurants dominate China's foodservice channel in both number of outlets and value. It is largely comprised of independent operators, though chains are expected to see somewhat faster growth in coming years *(Source: Global Data)*.

Outlet number and value by key foodservice channel (% out of total)



Source: GlobalData, 2017 estimate.
* Cost operators: includes educational, military and medical institutions, state-owned enterprises etc.

- As China's economy shifts to become more consumption-driven, dining out will increase, fuelled by rising disposable incomes and urbanisation. This, in turn, is expected to grow the market for high quality imported lamb. The premium-level restaurants that charge at least RMB300/head (equivalent A$58/head) in 15 major Chinese cities are forecast to see a combined annual growth rate of 9.6% in their lamb sales value from 2015 to 2020 *(Source: MLA-Global Data China Attractive Cities Study, 2016)*.
- Some recent developments in the foodservice sector include a rapid growth in food takeaway, home meal delivery services, and ordering methods.



Source: iStock

Retail

- China is home to the world's largest grocery market by total sales (valued at US$1,275 billion in 2018f), but it is also one of the world's most regionalised and fragmented *(Source: IGD)*.

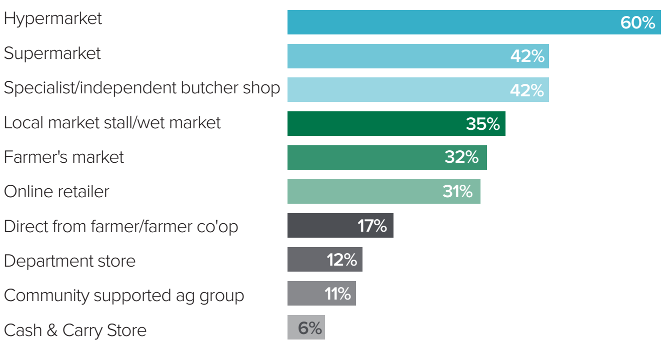
Top five grocery retailers by market share rank in China region

East region	West region	South region	North region
Sun Art Group	Wal-Mart Group	Wal-mart Group	Sun Art Group
Vanguard Group (+Tesco)	Yonghui Group	WSL Group	Wu-Mart Group
Bailian Group	Vanguard Group (+Tesco)	Vanguard Group (+Tesco)	Carrefour
Carrefour	New Century	Sun Art Group	Vanguard Group (+Tesco)
Wal-mart Group	Carrefour	Bubugao	Spar Group

Source: Kantar Worldpanel, September 2017

- In China, country of origin labelling is mandatory so consumers know where their lamb comes from, particularly when purchased from modern retail channels. In addition, urban affluent consumers are driving growth in branded lamb products, as a marker of not only the important 'basics' of quality and safety, but as a source of meaning that contributes to their consumption experience via dimensions such as provenance.
- Retail has been a small channel for Australian sheepmeat in China to date, but branded lamb product is becoming available in stores in some of the larger cities and online.
- Frequent imported meat buyers buy their lamb mostly from modern retail channels, but still use wet markets for some lamb purchases.

Where frequent imported meat consumers bought lamb from in the past month



Source: MLA-GlobalData China Attractive Cities Study, 2016. Top 15 attractive cities combined.

- China's grocery retail sector is undergoing significant change, with new business models being trialled across the country including new mobile payment systems, unmanned convenience stores, small format grocery stores and same-day fresh grocery delivery, presenting potential new opportunities for Australian lamb.

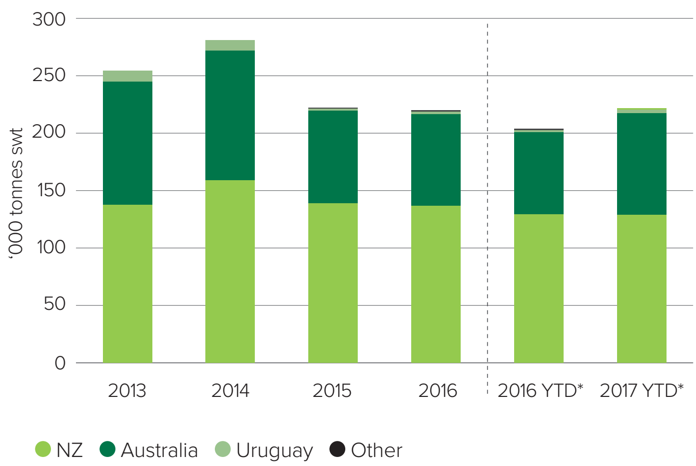
Live exports

- China has been a significant market for Australian breeder sheep exports in the past. Nearly 1,400 head were exported to China in 2017 up to October, a decline of 72% on the previous year *(Source: DAWR, ABS)*.

Other suppliers

- China is the world's largest sheepmeat producer, with a sheep and goat flock estimated at 312 million head in 2017. Despite this, China is expected to continue to be a net importer of sheepmeat over the next 10 years *(Source: GIRA)*.
- While imports will continue to cover a very small proportion of sheepmeat consumed in China (estimated at around 5% in 2016), they are forecast to see annual growth of around 4.4% for the next decade *(Source: MLA estimates, GTA, GIRA)*. Import demand depends significantly on domestic production cycles which are quite volatile due to the significant impact of small opportunistic farmers on the industry.
- Australia and New Zealand are the key suppliers to the market, with smaller volumes also supplied by Chile, Uruguay and Mongolia.
- The US and Kazakhstan may also be granted access to China for sheepmeat in the near future. While the expected volume impact from the US is likely to be small, being a net importer itself, Kazakhstan may potentially have more volume impact, with a flock size of around 20 million head in 2016.
- Up until 2017, Australia was the sole approved supplier of chilled lamb to China, with one plant approved as of November 2017. During 2017, China granted preliminary access for chilled lamb from New Zealand, which is conducting a six-month trial of chilled sheepmeat exports involving 10 establishments.

China direct sheepmeat imports by country of origin



Source: GTA, China Customs. Financial year data.
**YTD Jan-Nov*

IMPROVING MARKET ACCESS FOR AUSTRALIAN SHEEPMEAT

- In March 2017, Australia and China signed a Joint Statement on Enhancing Inspection and Quarantine Cooperation, aimed at providing Australian exporters improved market access for chilled sheepmeat and sheepmeat offal and a live slaughter sheep export protocol. Pending the outcome of an audit process, an increase in the number of listed establishments will likely occur in the future.

Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
China-Australia Free Trade Agreement **(ChAFTA)**	Under ChAFTA: **2018:** Chilled meat and carcases 8.3-12.8% Frozen meat and carcases 6.7-12.8% **2023:** Zero	**New Zealand** Import tariffs zero from 2016	Zero	Restrictions on the number of approved plants, chilled plants and restrictions on edible offal

Best access — Major challenges

Source: Trade agreements, DFAT, MLA

Australian sheepmeat exports to China – summary table

Volume – in tonnes swt

		2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	change 2017 vs 5-yr av. %	change 2017 vs 5-yr av. in tonnes swt
	Total	**83,195**	**100**	**59,449**	**100**	**70,374**	**100**	**18**	**12,821**
Storage	Chilled	8	0	2	0	15	0	-48	-7
	Frozen	83,187	100	59,447	100	70,359	100	18	12,828
Meat type	Lamb	48,209	58	39,096	66	35,664	51	35	12,546
	Mutton	34,985	42	20,353	34	34,710	49	1	275
Storage/meat type	Chilled lamb	8	0	2	0	6	0	29	2
	Chilled mutton	-	-	-	-	9	0	-100	-9
	Frozen lamb	48,202	58	39,094	66	35,658	51	35	12,544
	Frozen mutton	34,985	42	20,353	34	34,701	49	1	284

Source: DAWR

Value – in A$ 000

		2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in A$ 000
	Total	**386,207***	**100**	**240,486**	**100**	**291,441**	**100**	**33**	**94,766**
Meat type	Lamb	243,687*	63	162,611	68	159,501	55	53	84,187
	Mutton	142,520*	37	77,875	32	131,941	45	8	10,579

Source: ABS/GTA. 2017 = Moving Annual Total (MAT), November 2016 to October 2017.*

Australian lamb exports to China – by major cut (in tonnes swt)

	2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in tonnes swt
Breast and Flap	30,939	64	24,635	63	21,935	62	41	9,003
Manufacturing	10,532	22	7,486	19	6,318	18	67	4,214
Neck	4,668	10	3,914	10	2,997	8	56	1,670
Other	2,071	4	3,061	8	4,413	12	-53	-2,343
Total	**48,209**	**100**	**39,096**	**100**	**35,664**	**100**	**35**	**12,546**

Source: DAWR

Australian mutton exports to China – by major cut (in tonnes swt)

	2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in tonnes swt
Breast and Flap	15,325	44	15,072	74	14,967	0	2	358
Carcase	14,385	41	2,091	10	11,542	0	25	2,843
Leg	3,602	10	634	3	960	0	275	2,642
Other	1,674	5	2,556	13	7,242	0	-77	-5,568
Total	**34,985**	**100**	**20,353**	**100**	**34,710**	**1**	**1**	**275**

Source: DAWR