MEAT & LIVESTOCK AUSTRALIA

MARKET SNAPSHOT | SHEEPMEAT

European Union

The European Union (EU) contains one of the largest pools of wealthy consumers (households earning in excess of US$50,000/year) in the world. While a lucrative market, the EU's restrictive import regime and large domestic red meat industry has limited Australia's access and growth in the market.

The challenges and opportunities in the EU for Australian sheepmeat include:

- Market access remains the primary barrier preventing higher Australian sheepmeat exports to this market. Australia and the EU have commenced the process of securing a closer bilateral trade partnership and it is anticipated formal Free Trade Agreement (FTA) negotiations will begin in early 2018.
- Despite the volume limitations, the EU is one of Australia's most valuable export markets and, with a large and growing number of wealthy consumers, remains a key region for our premium product.
- The United Kingdom (UK) is Australia's largest market within the 28-member union and its exit from the EU (due to occur in March 2019) may impact Australia's sheepmeat trade to the region.
- While small in per capita terms, especially compared to pork and chicken, total sheepmeat consumption across the EU is second only to China.
- Overall consumer demand for sheepmeat is expected to remain steady, finding support within the young and growing Muslim community.

Population

508.6 in 2017 | **511.0** in 2021

In million

Source: BMI Research, 2017 estimate & 2021 forecast includes EU 28 member states

Households earning*
>US$35,000/year

110.2 in 2017 | **122.2** in 2021

In million households

Source: BMI Research, 2017 estimate & 2021 forecast includes EU 28 member states
* Disposable income

Households earning*
>US$50,000/year

63.1 in 2017 | **76.6** in 2021

In million households

Source: BMI Research, 2017 estimate & 2021 forecast includes EU 28 member states
* Disposable income

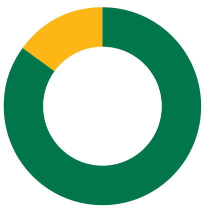
Australian sheepmeat exports – volume

- Chilled lamb – **28%**
- Chilled mutton – **0%**
- Frozen lamb – **39%**
- Frozen mutton – **33%**

Total 15,454 tonnes swt

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

Australian sheepmeat exports – value

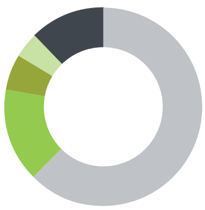


- Lamb – **71%**
- Mutton – **29%**

Total A$152.6 million

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

Proportion of key cuts



- Leg – **62%**
- Shank – **15%**
- Boneless loin – **6%**
- Chump – **4%**
- Other – **12%**

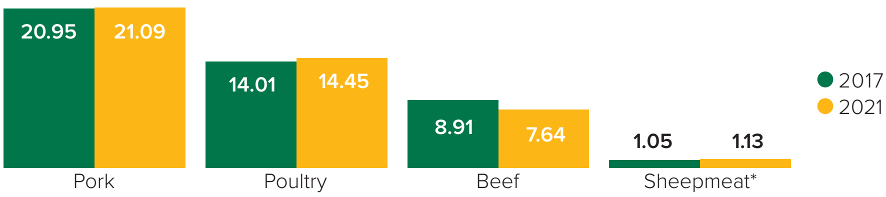
Source: DAWR, CY 2017

Australian sheepmeat exports by country

- United Kingdom – **71%**
- France – **11%**
- Other – **18%**

Source: DAWR, CY 2017

Meat consumption



In million tonnes cwt

Source: European Commission (2017 estimate, 2021 forecast)
* Sheepmeat includes goatmeat

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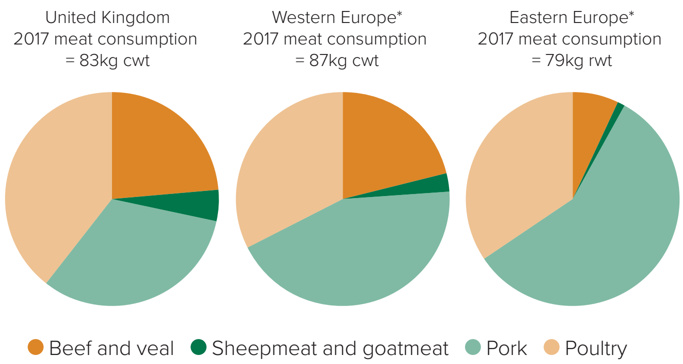
Consumers

- Sheepmeat consumption varies significantly across EU members. In some countries, such as the UK, Ireland and Greece, consumption is traditionally linked to the seasonal production cycle. In other EU countries, purchasing decisions are motivated by consumer demand at culturally significant times, such as Easter.
- Overall sheepmeat consumption remains relatively small, compared to other animal proteins, and is primarily consumed in Western Europe, while pork and chicken dominate the diet in Eastern Europe.

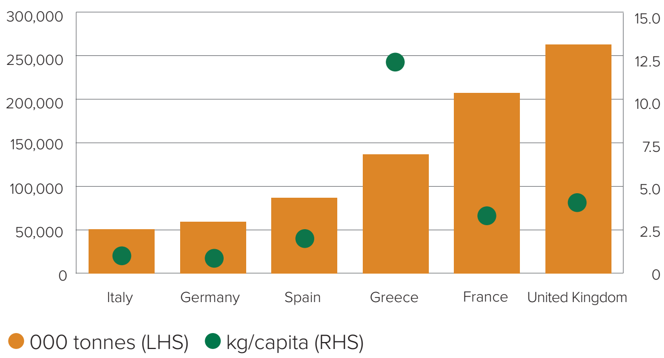
EU per capita meat consumption



Source: European Commission, Prospects for EU agriculture markets and income 2017-2030, MLA rwt to cwt conversion
* Western Europe, includes (country codes) BE, DK, FR, DE, EL, IE, IT, LU, NL, PT, ES, UK, AT, FI and SE
* Eastern Europe, includes CY, CZ, EE, HU, LV, LT, MT, PL, SK SI, BG, RO and HR

- The UK remains the largest regional consumer of sheepmeat, accounting for a quarter of total EU consumption in 2016. However, at 12.3kg, Greece was the per capita leader in consumption (including goatmeat) in 2016.

Sheepmeat* consumption across the EU



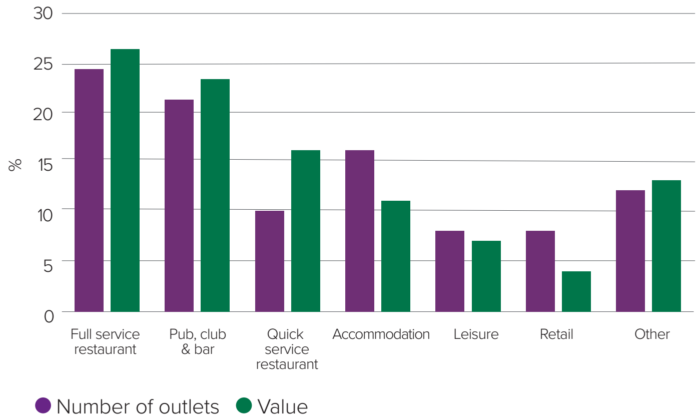
Source: BMI 2017 estimate
* Figures include goatmeat

- Similar to other developed markets, social factors – such health concerns with consuming red meat, animal welfare and environmental issues – remain a challenge for the red meat industry.

Foodservice

- The majority of Australian lamb exported to the EU is made up of leg cuts, directed into the foodservice channel. Product from New Zealand, in contrast, has a larger footprint in retail as it has historically had greater preferential access.
- The foodservice sector (inclusive of the UK, Spain, Germany, Italy, France and the Netherlands) is dominated by full service restaurants, pubs and clubs and quick service restaurants.

Outlet number and value by key foodservice channel

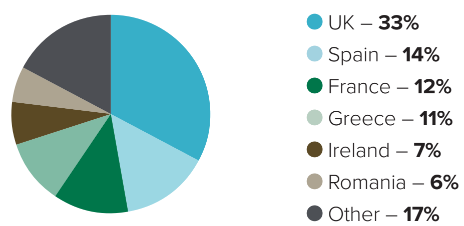


Source: GlobalData. Inclusive of the UK, Spain, Germany, Italy, France and the Netherlands.

Production

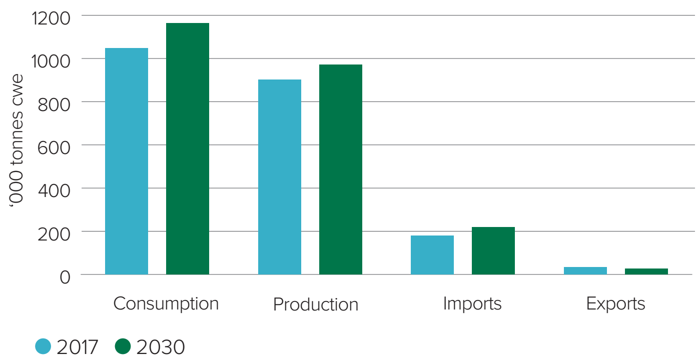
- After declining 25% over the ten years to 2014, EU sheepmeat production has since stabilised and increased throughout 2017.
- The EU is not self-sufficient in sheepmeat, with consumption outstripping production capabilities. While a modest increase in production is forecast over the next decade, the EU is estimated to require in excess of 200,000 tonnes cwe of sheepmeat imports per year to meet domestic requirements.
- The UK is the powerhouse of EU sheepmeat production, accounting for one third of production, followed by Spain and France.
- EU sheepmeat production is likely to be impacted by the evolution of the Common Agriculture Policy and the future relationship between the EU and UK post-Brexit.

EU Sheepmeat Production – 2016



Source: European Commission

EU sheepmeat

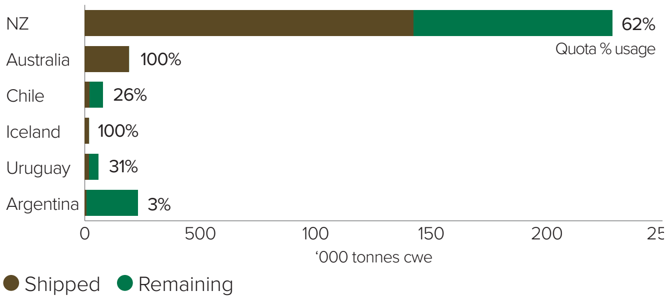


Source: European Commission, Prospects for EU agriculture markets and income 2017-2030. All volumes are in carcase weight equivalent. Imports and exports are EU-external trade only.

Market access

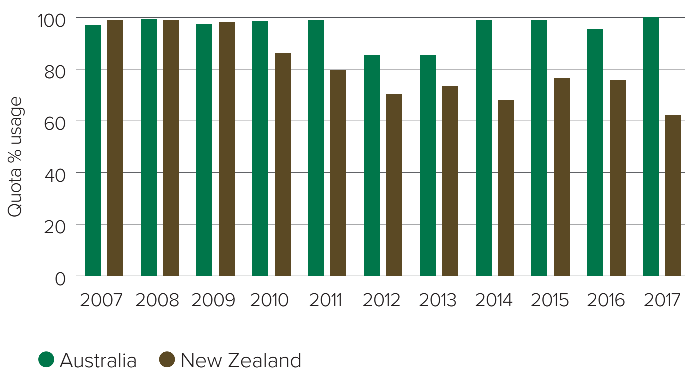
- Australia has a 19,186 tonne country-specific (carcase weight equivalent combined sheepmeat/goatmeat) import quota into the EU with 0% in-quota duty. However, out of quota imports from Australia incur prohibitive import duties of 12.8% plus up to an additional €3.1/kg, which effectively stifles most above-quota trade opportunities.
- Australia is currently disadvantaged compared to its competitors who have greater preferential access. New Zealand's sheepmeat quota, at 228,254 tonnes, is more than 11 times larger than Australia's but has been underutilised in recent years.
- Australia has consistently filled its allocated quota over the past decade, with occasional supply constraints the only limiting factor.

Sheepmeat quota allocation by country



Source: European Commission, 2017 figures

EU import quota utilisation



Source: European Commission

Source: Bigstock.

Other suppliers

- Imports have accounted for about 19% of EU sheepmeat consumption over the last decade, and Australia and New Zealand have remained the only significant external suppliers.
- New Zealand's preferential trading conditions over the past 40 years have allowed it to capture the majority of the import market.
- However, imports from New Zealand over the last five years have been stretched by supply constraints (land in New Zealand is increasingly being reallocated to the dairy sector) and as China has expanded onto the global stage as a competing importer of sheepmeat.
- The EU represented 31% of NZ's overall sheepmeat exports in 2017, with about half of this trade destined for the UK.

EU sheepmeat imports – NZ in decline

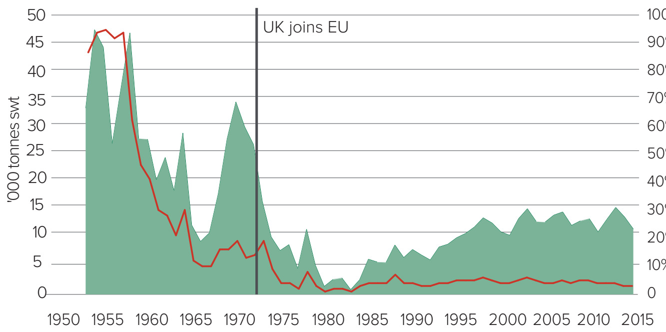
Source: Global Trade Atlas

Source: Shutterstock

Brexit

- Prior to the UK's exit from the EU (expected in March 2019) it must agree to the terms of departure and renegotiate its future trade relationship with the single market.
- The UK will need to develop a new trading regime incorporating its own World Trade Organization (WTO) tariff schedule, as well as adjusting its bilateral relations accordingly. This has the potential to have a significant effect on Australia's red meat access.
- The UK is Australia's largest primary sheepmeat market within the EU; however, product is often re-exported and consumed in other member countries after entering the single market.
- Australia has strong historical ties with the country. In the decade prior it joining the EU, the UK accounted for as much as 30% of Australian sheepmeat exports.

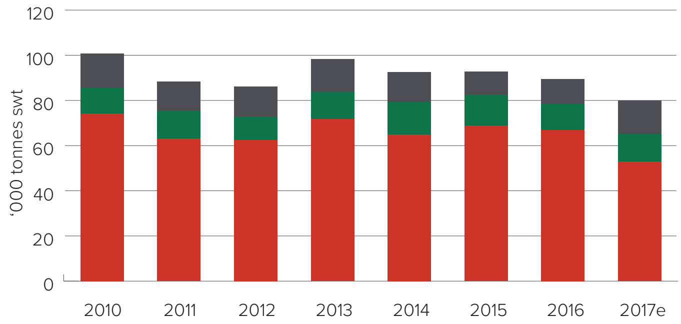
Australian sheepmeat exports to the UK



Source: AMB, AMLC, DAWR

- The UK has a large population of wealthy consumers. Although the outlook for red meat consumption growth appears limited, imported product will likely remain considerable.
- The UK is a large producer, importer and exporter of sheepmeat. Inflows of sheepmeat typically come from New Zealand and Australia and outflows are destined for other EU member states.

UK sheepmeat imports



Source: GTA
*MAT from Nov-2016 to Oct-2017

- Shifts in UK-EU market access may disrupt this historical flow of sheepmeat, resulting in more UK sheepmeat on the domestic market or seeking additional non-EU export destinations.
- The EU is the UK's single largest trading partner (overall and in the case of sheepmeat) and the future regime hinges on whether the exit is smooth or disorderly.
- The UK must finish negotiating the terms of its exit from the EU, prior to engaging other countries in formal trade negotiations. The Australian Government has expressed an appetite to pursue future trade opportunities with the UK through an eventual FTA.
- The UK economy has been resilient post-Brexit vote – in part supported by a significant devaluation of the pound sterling – however, there is still a risk that a disorderly Brexit could result in an economic slowdown, which could impact overall demand for meat.

UK figures

Population	Households earning* >US$35,000/year	Households earning* >US$50,000/year
505.9 in 2017 / **508.2** in 2020	**196.7** in 2017 / **218.9** in 2020	**104.9** in 2017 / **129.0** in 2021
In millions	In million households	In million households
Source: BMI Research, 2017 estimate & 2021 forecast includes EU-28 countries	*Source: BMI Research, 2017 estimate & 2021 forecast includes EU 28 member states* * Disposable income	*Source: BMI Research, 2017 estimate & 2021 forecast includes EU 28 member states* * Disposable income

Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
The mandate for an EU Australia Free Trade Agreement is currently being agreed	In quota - 0% Above quota - 12.8% + 90.2~311.8 euro/100kg	**New Zealand** Has a quota of 228,254 tonnes	Access remains limited to 19,186 tonnes country-specific quota (carcase weight equivalent, calendar year basis)	No trade restrictive non-tariff barriers currently operational

Best access — Major challenges

Source: Trade agreements, DFAT, MLA

Australian sheepmeat exports to EU – 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	**15,454**	**100**	**16,471**	**100**	**16,802**	**100**	**-8**	**-1,348**
Storage	Chilled	4,329	28	5,145	31	5,820	35	-26	-1,491
	Frozen	11,125	72	11,327	69	10,983	65	1	143
Meat type	Lamb	10,281	67	11,512	70	12,017	72	-14	-1,737
	Mutton	5,174	33	4,959	30	4,785	28	8	389
Storage/meat type	Chilled lamb	4,329	28	5,145	31	5,819	35	-26	-1,491
	Chilled mutton	0	0	0	0	0	0	-56	-0
	Frozen lamb	5,952	39	6,368	39	6,198	37	-4	-246
	Frozen mutton	5,174	33	4,959	30	4,785	28	8	389

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	**152,635***	**100**	**129,216**	**100**	**129,567**	**100**	**18**	**23,068**
Meat type	Lamb	109,105*	71	96,282	75	97,501	75	12	11,604
	Mutton	43,530*	29	32,934	25	32,066	25	36	11,465

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

Australian lamb exports to EU – 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
Leg	5,745	56	6,689	58	6,798	57	-15	-1,053
Shank	2,222	22	1,673	15	2,456	20	-10	-234
Boneless Loin	690	7	211	2	206	2	235	484
Chump	653	6	749	7	797	7	-18	-144
Manufacturing	508	5	1,676	15	1,321	11	-62	-813
Other	462	4	513	4	440	4	5	22
Total	**10,281**	**100**	**11,512**	**100**	**12,017**	**100**	**-14**	**-1,737**

Source: DAWR