MARKET SNAPSHOT | **BEEF**

European Union

The European Union covers 28 European countries with varied population sizes. Consumption of beef and sheepmeat is expected to increase in 2017 on the back of slightly improved economic conditions and lower meat prices.

Challenges and opportunities in EU for Australian Beef include:

- Australian beef through its strong presence in the foodservice sector is positioned to capitalise on improved spending on goods & services in 2017.
- The demand for more convenient meals will be a key driver of meat trends across Europe. Foodservice channels that cater to convenience are proving popular particularly quick service restaurants in the UK.
- Social factors such as an ageing European population, animal welfare and environmental issues are concerns the red meat industry is facing is likely to face going forward.
- Australia's beef access to the EU remains constrained by low volume tariff rate quotas, therefore improving market access remains a priority. Despite limited access the EU is Australia's highest value export market on a per tonne basis reaching $13,430/tonne in 2016* and almost double the global average.
- The 'Brexit' vote significantly affected global stock prices, as the United Kingdom voted to leave the EU; creating an extremely attractive proposition for Australian exporters if further trade access can be granted.

**YTD November 2016*

This report covers EU28 unless otherwise stated. EU28 – Austria, Belgium, Bulgaria, Croatia, Cyprus Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

Population

505.9 in 2016 **508.2** in 2020

In million

Source: BMI Research, 2016 estimate & 2020 projection includes EU-28 countries

Households earning US$15000+ p.a.

196.7 in 2016 **218.9** in 2020

In million households

Source: BMI Research, 2016 estimate & 2020 projection includes EU-28 countries

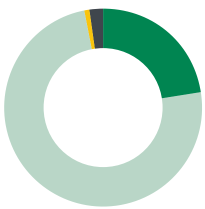
Households earning US$35000+ p.a.

104.9 in 2016 **129.0** in 2020

In million households

Source: BMI Research, 2016 estimate & 2020 projection includes EU-28 countries

Australian beef exports – volume

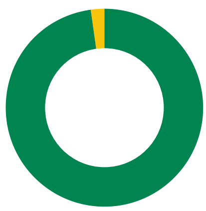


- Chilled grass – **23%**
- Chilled grain – **75%**
- Frozen grass – **1%**
- Frozen grain – **2%**

Total 20,841 tonnes swt

Source: Department of Agriculture and Water Resources (DAWR), CY 2016

Australian beef exports – value



- Chilled – **98%**
- Frozen – **2%**

Total A$ 291.9 million

Source: A$ '000, MAT (Moving Annual Total) November 2015 to October 2016. EU excluding Croatia. Source: ABS/GTA

Proportion of key cuts

- Topside – **15%**
- Striploin – **14%**
- Rump – **12%**
- Silverside/ outside – **12%**
- other – **47%**

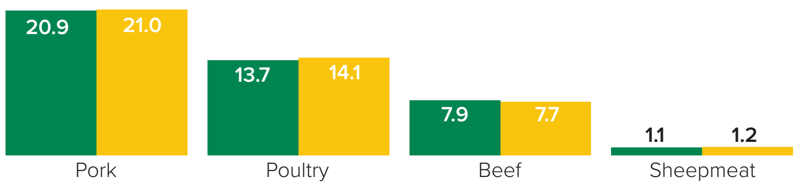
Source: DAWR, CY 2016

Australian beef exports by country

- United Kingdom – **37%**
- Netherlands – **32%**
- Italy – **22%**
- Denmark – **4%**
- Other – **5%**

Source: DAWR, CY 2016

Meat consumption



In million tonnes cwt

Source: European Commission, Prospects for EU agriculture markets and income 2016-2026, OECD-FAO, 2016 estimate and 2020 projection

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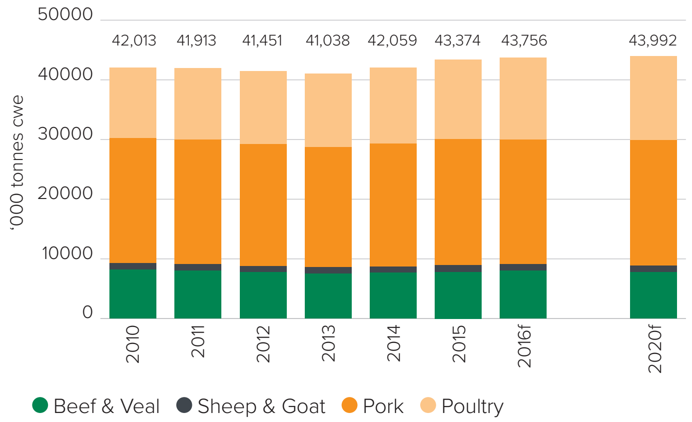
Consumption

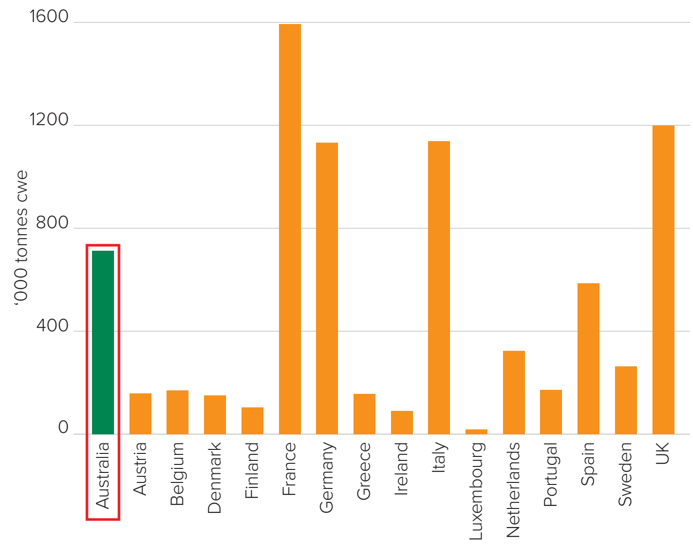
- Total EU meat consumption has shown a recovery since 2014 attributed to improved economic conditions and growth in population. Beef accounts for 18% of total meat consumption at 16kg per capita estimated in 2016 *(Source: GIRA Meat Club).*
- The EU consumed an estimated 7.99 million tonnes of beef in 2016 with consumption forecast to decline slightly in 2018 as beef competes with other proteins such as chicken, alternative proteins (faux meats), and an increase in flexitarinism (occasional consumption of meat).
- Fresh and chilled foods represent a large share of customer spending at food stores in Europe with more than 90% of raw meat distributed sold through modern retailing *(Source: GIRA Meat Club).*

EU meat consumption by meat types



Source: European Commission *f = forecast*

Beef & veal consumption by selected country – 2016 estimates

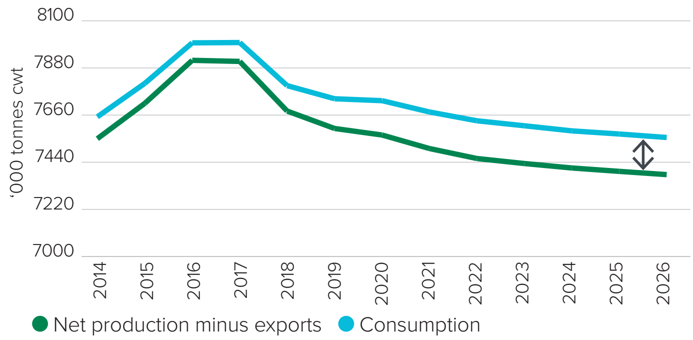


Source: Gira GMC16, Australia figure – BMI Research

Production

- The EU produced an estimated 7.92 million tonnes in 2016 and is forecast to decrease to 7.7 million tonnes by 2018 *(Source: European Commission)*. France continues to be the largest beef producer in the region, producing an estimated 1.5 million tonnes cwt in 2016, up 2% from 2015 and a 19% share of total EU beef production in 2016. Germany was the second largest producer at 14% market share following by United Kingdom (11%) *(Source: BMI Research estimates).*
- Beef production in the EU is driven largely by dairy herd development with an estimated 65% of EU beef production derived from the diary industry.
- According to figures by the European Commission, by 2026 the EU will require an additional 354,000 tonnes from overseas markets to meet domestic requirements.

EU Beef Production & Consumption



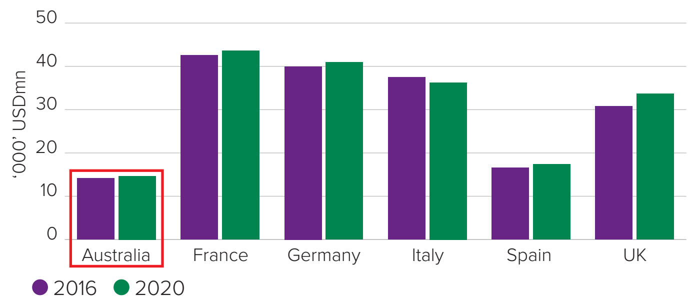
Source: European Commission European Commission, Prospects for EU agriculture markets and income 2016-2026.

Opportunities

- European consumer confidence is improving with private consumption* within the EU forecast to increase from USD8.8 billion in 2016 to USD9.6 billion in 2020, up 9% *(Source: BMI Research).* Across key member states, economic growth and household spending on meat is expected to increase.

** Private consumption is the sum of all household spending on goods and services within the economy.*

Annual meat sales, USDmn



Source: BMI Research estimates

Macroeconomic variables

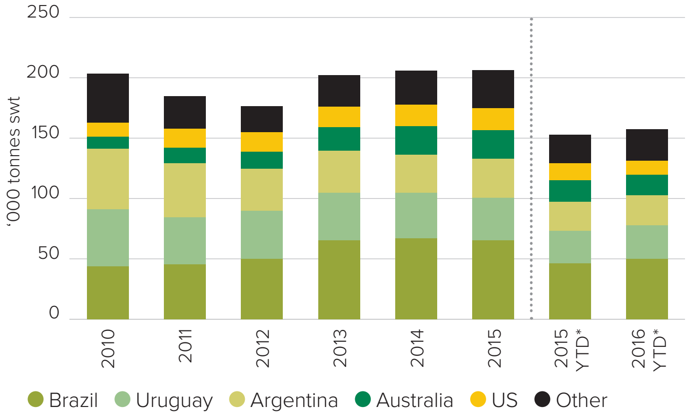
Country	GDP Per capita 2016	GDP Per capita 2020 % growth	Population (millions)	Population 2020 % growth
Germany	42,260	3%	80.7	0%
UK	40,192	12%	65.1	2%
France	37,747	1%	64.7	2%
Italy	30,043	-1%	59.8	0%
Spain	26,021	6%	46.1	0%

Source: BMI Research accessed January 2017, estimates

Other suppliers

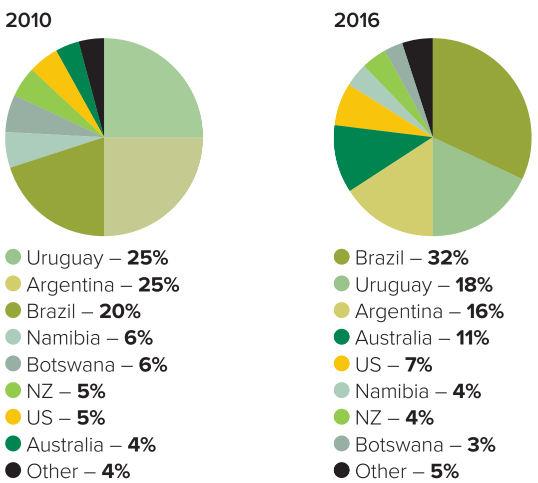
- Brazil is the largest supplier of beef imports to EU with 32% market share, followed by Uruguay (18%) and Argentina (16%). Majority of beef imported from Brazil during the year to date September 2016 was frozen (63%) whereas Australia imported mainly chilled beef (96%) over the same period.

Beef Imports by supplier



*Source: Global Trade Atlas * YTD Sep 2016*

EU Beef Imports by supplier – market share*

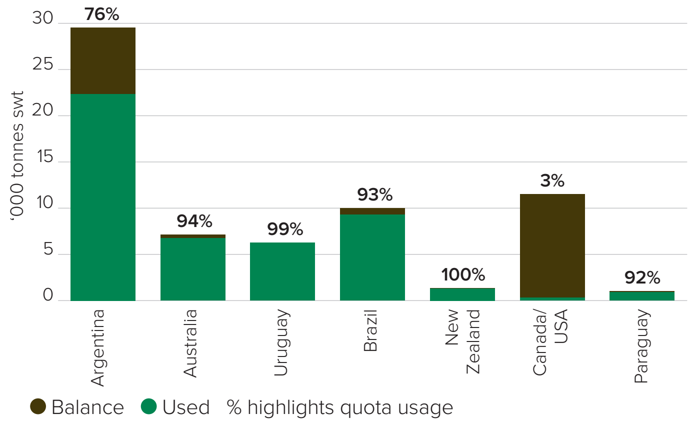


*Source: Global Trade Atlas, * YTD September 2016*

Market Access

- Australia's current red meat access is limited by the EU's highly restrictive import regime – involving low volume import quotas and high out of quota import tariffs. The EUs regime is in stark contrast to the majority of Australia other export markets.
- Current trading arrangements between Australia and EU (including the UK) will remain unchanged for the next two years (until April 2019) while Brexit negotiations are carried out.
- Australia and the EU have begun procedures to secure a closer bilateral trade partnership with formal free trade agreement (FTA) negotiations between the two parties expected to commence in mid-2017.
- Beef exports are shipped under two major quotas—the High Quality Beef (HQB) 'Hilton' country specific quota and the HQB global grainfed quota.
- 7,150 tonnes of Australian country specific High Quality Beef with 20% in-quota tariff.
- Shared access (with US, Canada, Uruguay, NZ, Argentina) to 48,200 tonne global grainfed beef quota with 0% in-quota tariff.

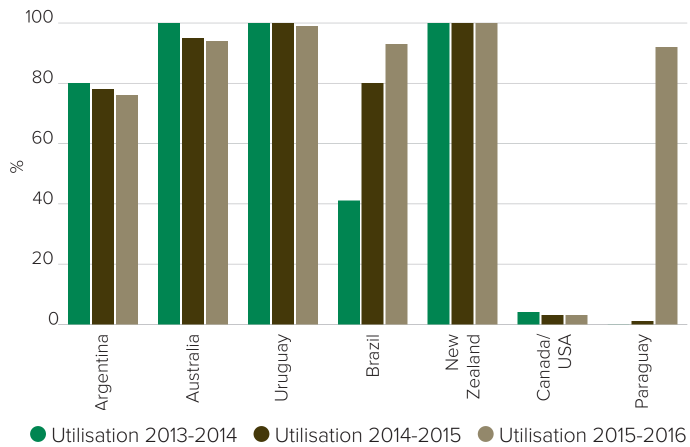
Hilton beef quota 2015/2016



Source: European Commission, Meat Market Observatory Beef and Veal

- Australia is a significant supplier of beef to the EU under the High Quality Grain Fed (HQB GF) quota with 35% share in 2015/2016 *(Source: DAWR)*.
- Australia has been a consistently high user of its HQB Hilton Quota allocation, reaching 94.4% utilisation (6,750 tonnes swt) in 2015-16 following 95.3% in 2014-15 and 99.8% in 2013-14 *(Source: European Commission)*.

Hilton quota utilisation rate



Source: European Commission. Note: Hilton quota allocation (swt tonnes) – Argentina 29,500, Australia 7,150, Uruguay 6,300, Brazil 10,000, New Zealand 1,300, US & Canada 11,500, Paraguay 1,000

Market Access Overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
A-EU FTA currently being scoped with formal negotiations between the two parties expected to commence in mid-to-late 2017.	2016 (12.8% + 3 euro /kg out of quota).	Argentina, Brazil & US/ Canada have larger quota allocations than Australia under the Hilton quota.	7,150 tonnes of Australian country specific High Quality Beef with 20% in-quota tariff Shared access (with US, Canada, Uruguay, NZ, Argentina) to 48,200 tonne global grainfed beef quota with 0% in-quota tariff.	The European Union Cattle Accreditation Scheme (EUCAS) allows Australia to meet the European Union (EU) market requirements for beef by segregating cattle that have never been treated with hormonal growth promotants (HGPs) at any time.

Best access — Major challenges

Source: Trade agreements, DFAT, MLA

Australian beef exports to EU – summary table

volume – in tonnes swt

		2016	% out of total	2015	% out of total	5 year average (2011-2015)	% out of total	change 2016 vs 5-yr av. %	change 2016 vs 5-yr av. in tonnes swt
	Total	**20,841**	**100**	**23,445**	**100**	**19,155**	**100**	**9**	**1,686**
by storage	Chilled	20,273	97	22,598	96	17,702	92	15	2,571
	Frozen	568	3	846	4	1,453	8	-61	-885
by meat type	Grassfed	4,862	23	7,317	31	8,235	43	-41	-3,374
	Grainfed	15,980	77	16,128	69	10,920	57	46	5,060
by storage/ meat type	Chilled grassfed	4,727	23	6,960	30	7,237	38	-35	-2,510
	Chilled grainfed	15,546	75	15,639	67	10,465	55	49	5,081
	Frozen grassfed	134	1	357	2	998	5	-87	-864
	Frozen grainfed	433	2	489	2	455	2	-5	-22

Source: DAWR

value – in A$ 000

		2016	% out of total	2015	% out of total	5 year average (2011-2015)	% out of total	%	in A$ 000
	Total	**291,961***	**100**	**302,455**	**100**	**210,840**	**100**	**38**	**81,121**
by storage	Chilled	285,683*	98	290,389	96	195,307	93	46	90,376
	Frozen	6,278*	2	12,066	4	15,533	7	-60	-9,254

Source: ABS/GTA. 2016 = Moving Annual Total (MAT), November 2015 to October 2016.*

volume – by major cut (in tonnes swt)

	2016	% out of total	2015	% out of total	5 year average (2011-2015)	% out of total	%	in tonnes swt
Topside/Inside	3,127	15	3,789	16	3,520	18	-11	-393
Striploin	2,957	14	3,459	15	2,849	15	4	108
Rump	2,590	12	2,998	13	2,495	13	4	96
Silverside/Outside	2,469	12	2,799	12	2,310	12	7	159
Cube Roll/Rib Eye Roll	1,771	8	1,968	8	1,510	8	17	260
Blade	1,643	8	1,634	7	1,211	6	36	432
Chuck Roll	1,633	8	1,789	8	1,269	7	29	365
Thick Flank/Knuckle	1,453	7	1,605	7	1,361	7	7	91
Tenderloin	976	5	1,205	5	1,102	6	-11	-125
Chuck	544	3	530	2	322	2	69	221
other	1,678	8	1,670	7	974	5	72	704
Total	**20,841**	**100**	**23,445**	**100**	**19,155**	**100**	**9**	**1,686**

Source: DAWR