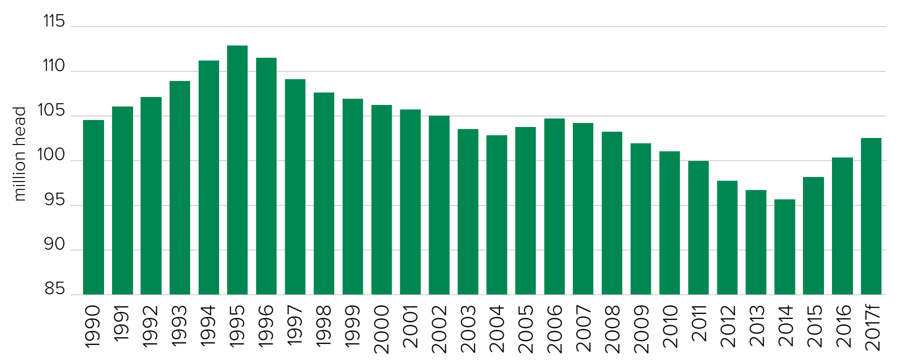
MARKET SUPPLIER SNAPSHOT | **BEEF**

The US beef industry

The recovery of the US cattle herd saw beef supplies surge in 2016, with production expected to reach a nine-year high in 2017. As a result, US beef exports have increased, creating stronger competition in some of Australia's key markets – particularly in Asia.

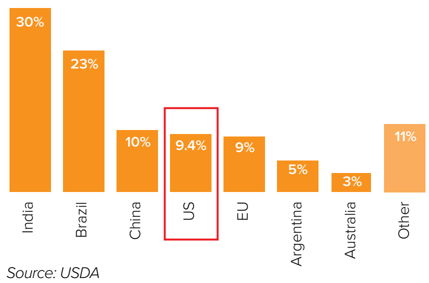
- The US cattle herd was estimated at 102.6 million head in mid-2017, up 7% (or almost 7 million head) from where it bottomed out in 2014. The growth has been underpinned by an expansion in the beef cow herd, and subsequent growth in the calf crop.
- The rise in US cattle prices in the first half of 2017 was associated with a range of factors: reduced imports from Australia and NZ; growing exports to Japan and Korea; poor weather impacting fed cattle weights and declining cattle prices in 2016, leading many retailers to increase beef promotions, stimulating demand.
- Beef and veal production is expected to grow by more than 5% in 2017, totaling 12 million tonnes cwe, reaching a nine-year high. The rise is mostly due to greater than expected commercial slaughter, a result of the cattle herd expansion. The higher domestic beef production is expected to drive total beef consumption to increase by 4% in 2017.
- US beef exports have surged in the past year and are expected to increase by 7% by the end of 2017, to 1.2 million tonnes cwe, with major growth in shipments to Japan and Korea. The rise in US beef exports has intensified competition in Australia's most valuable markets.

US cattle herd



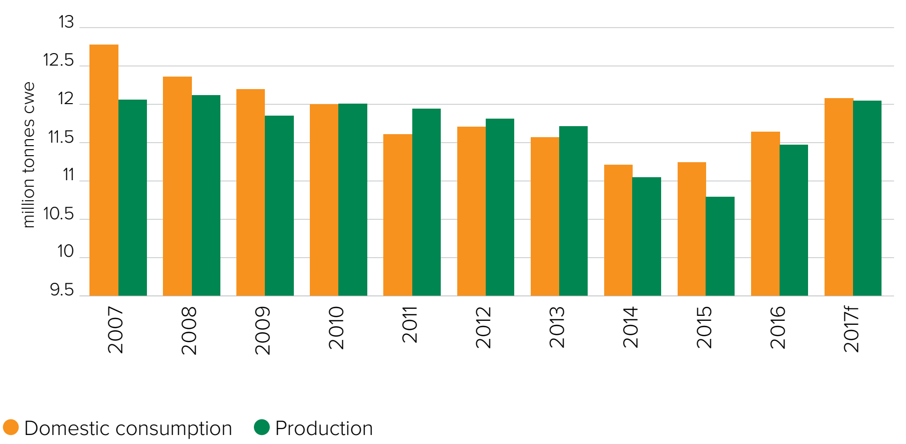
Source: USDA *f = forecast*

World share of cattle supply



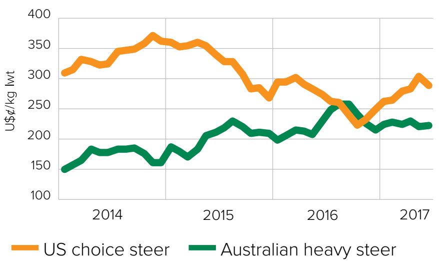
Source: USDA

US beef and veal production and consumption



Source: USDA *f = forecast*

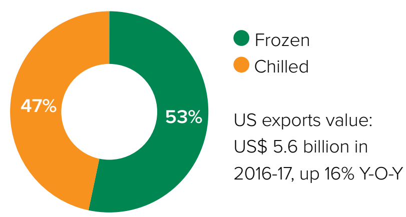
US and Australian steer prices



Source: MLA, USDA, Steiner Consulting Group

US beef exports 2016-17

874,459 tonnes swt



US exports value: US$ 5.6 billion in 2016-17, up 16% Y-O-Y

Source: Global Trade Atlas

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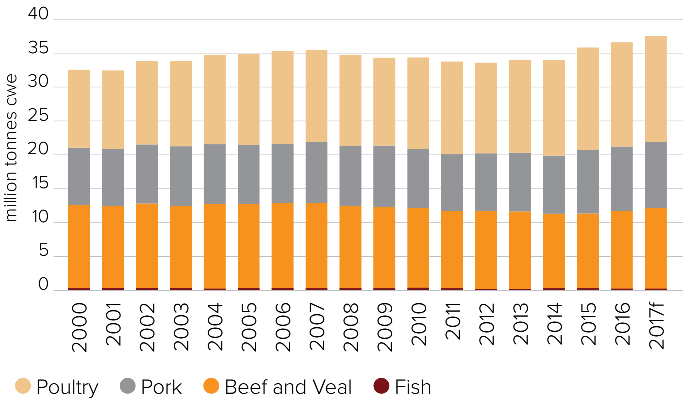
Consumption and consumer trends

- US consumers are eating more meat, and an increase in chicken consumption has largely driven the boom in meat-eating in the past years.

US meat consumption

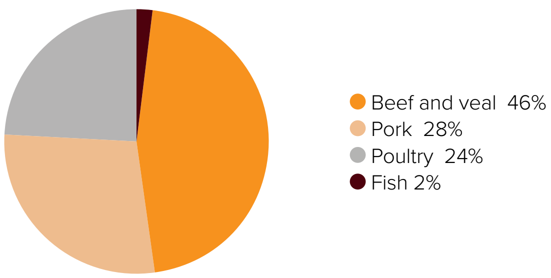


Source: USDA

f = forecast

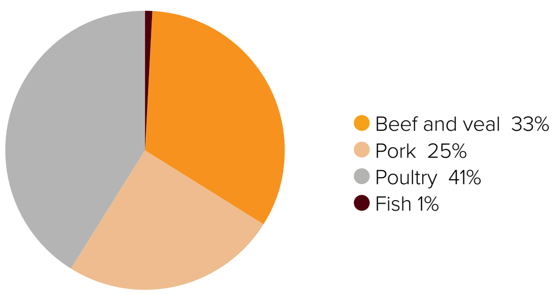
- Poultry has been increasing its market share for the past decades. Chicken per capita consumption has increased from averaging 27.5 kg/person in the 1980s to 45.4 kg/person in the 2000s and has increased further in recent years. Driving the surge has been a higher availability of supplies (due to a strong rise in production), lower prices and being perceived by consumers as a healthier protein choice. Poultry currently accounts for about 40% of total meat consumption in the US.

US meat consumption in the 1980s



Source: USDA

US meat consumption in 2010-2017 f



Source: USDA

f = forecast

- In contrast, US beef consumption has been on a long-term decline due to its higher price compared to poultry and pork. Per capita beef consumption has fallen from averaging 33.4kg/person in the 1980s to 29.8 kg/person in the 2000s and dropping further in recent years. With the recent increase in domestic production and lower beef prices, beef consumption increased in 2016 and further growth is expected in 2017.
- Per capita pork consumption has also declined slightly, from averaging 23.5 kg/person in the 1980's to 22.9 kg/person in the 2000s. In recent years, consumption has increased, reflecting the large rise in production.
- According to USDA long-term projections, beef per capita consumption is expected to increase in the next few years, but a downward trend is expected from 2020 through to 2026. Meanwhile, pork per capita consumption is also forecast to increase in 2017 but is expected to ease as production slows and exports are projected to increase.
- Poultry per capita consumption is expected to stabilise at a higher level compared with the previous ten years and account for about half of total US meat consumption by 2026.
- Vegetarians and vegans represent a minority in the US, with only 3% following a strict vegetarian or vegan diet.

Consumption and consumer trends continued...

- According to MLA's Global Tracker Survey, beef remains the protein with the highest awareness among US consumers. However, chicken – of all proteins – has the highest incidence of being prepared and eaten at home.

Spontaneous awareness:

	Top of mind	Total awareness
Beef	44%	74%
Chicken	18%	58%
Pork	7%	55%
Lamb	2%	25%
Turkey	1%	25%
Goat	-%	3%

Source: *MLA Global Consumer Tracker, 2017*

- When considering healthier eating, US consumers are more likely to limit sugar, meat and dairy consumption in their diets. Within the meat category, US consumers are more likely to limit beef, followed by fish and pork. Despite this, beef consumption is forecast to increase steadily in the coming years as production continues to rise.

Bought last month:

			2016	2015
Beef	88%		88	87
Chicken	92%		93	93
Pork	62%	▼	66	69
Lamb	28%	▲	21	35
Turkey	44%	▼	50	48
Goat	11%	▲	7	-
Fish	66%		-	-

▲ Increase ▼ Decrease

Source: *MLA Global Consumer Tracker, 2017*

Limitation of consumption for health reasons:

	%	Diff to 2016	Global average*
Sweet foods	65%	n/a	62
Meat	41%	+2	37
Dairy products	29%	=	23
Soy products	26%	+5	21
Grains	20%	n/a	18
Fruit & veg	14%	+2	14
None of these	12%		

Source: *MLA Global Consumer Tracker, 2017*

Limitation of consumption for health reasons:

	%	Diff to 2016
Beef	76%	+1
Fish	66%	n/a
Pork	53%	+9
Lamb	31%	+10
Goat	26%	+11
Chicken	20%	+6
Seafood	20%	+7
Turkey	15%	+7
other	2%	=

Source: *MLA Global Consumer Tracker, 2017*

- Grassfed beef is experiencing significant growth in both retail and foodservice sectors, and is perceived by consumers as a natural and healthier option compared with grainfed beef.

Beef associations:

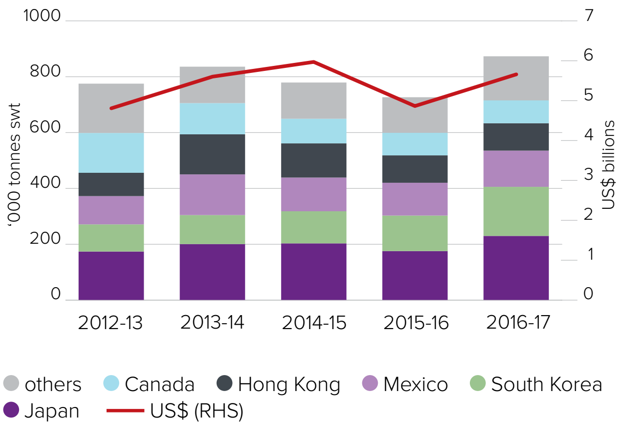
	Grass fed beef	Grain fed beef
	%	%
Better for the animals	63	29
Natural	61	28
Better quality beef	59	28
Better for my health	54	25
Better for the environment	50	22
More flavourful beef	46	24
More tender	39	21
Less food safety risks	37	19
Minimally processed	36	18
More visually appealing	33	19
Just a marketing gimmick	15	17

Source: *MLA Global Consumer Tracker, 2017*

Exports

- The primary export markets of US beef are Japan, Korea and Mexico, with demand for chilled beef product growing in these markets.
- US exports to all key markets have increased in 2016-17 with the biggest growth in Japan (up 31%, to 230,360 tonnes swt) and Korea (up 38%, to 175,972 tonnes swt).
- Overall, US beef exports were valued at US$5.6 billion FOB in 2016-17 – the second highest fiscal year on record (GTA).
- The relative strength of the US dollar remains a challenge to export growth in some markets such as Mexico and Canada, although lower US prices are offsetting some of the exchange rate impacts.
- The US has regained access to export beef to China after a 14 year absence. However, import regulations will limit the amount of beef the US can supply to China in the short-term. Meeting the new requirements will incur additional costs, which are expected to be reflected in the price of US beef exported to China.
- The surge in US beef exports combined with the tighter Australian beef supplies have intensified competition in Australia's most valuable export markets.

US beef exports frozen/chilled – 2016-17

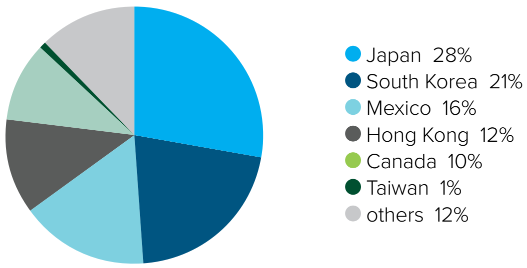


Source: Global Trade Atlas

Key export markets

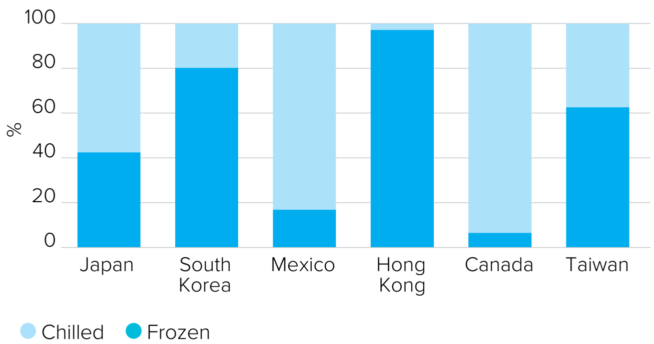
US beef exports 2016-17

874,459 tonnes swt



Source: Global Trade Atlas

US beef exports frozen/chilled

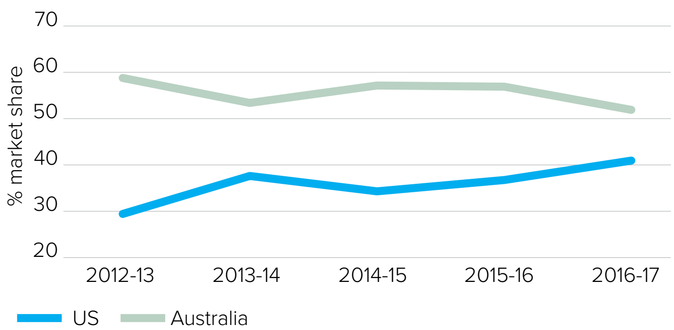


Source: Global Trade Atlas

JAPAN

- The US is the second largest supplier of imported beef to Japan after Australia, accounting for 41% of the market in 2016-17, up five percentage points from the previous year.
- Growth has largely been a result of a considerable rise in chilled beef sent to Japan, with the US capturing 49% of the chilled market and outpacing Australia during 2016-17.
- Japan predominantly imports shortplate and chuck roll from the US. Shipments of these products (categorised as 'brisket' and 'chuck' in Japan imports data) have surged during the year, supported by demand from Japan's foodservice sector, as well as supermarkets (for chilled products).
- Japan's tariff on frozen US beef imports has risen to 50% from 1 August 2017 and will remain at this level until 31 March 2018, a result of the safeguard system being triggered at the end of July. Australia is exempt from this system, under the Japan-Australia Economic Partnership Agreement (JAEPA).

Beef market share in Japan

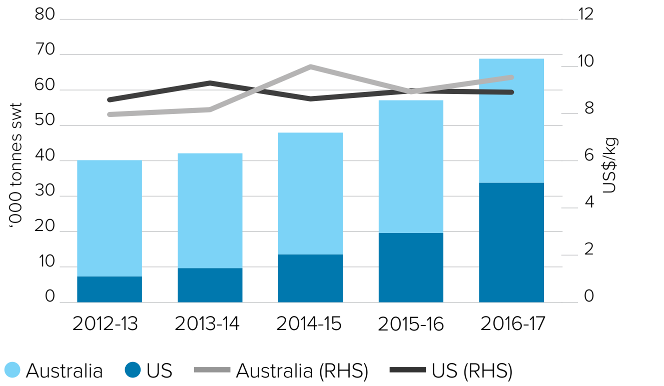


Source: Global Trade Atlas

SOUTH KOREA

- The market share of US beef in Korea increased significantly to 46% during 2016-17, up seven percentage points from the previous year.
- The most common US beef product imported into Korea is frozen short rib. However, there was a significant increase in chilled beef shipments during 2016-17, up 72% year-on-year to 33,643 tonnes swt.
- US retailer Costco converted its imported chilled beef selection to US product in 2017, adding a momentum to overall demand.

Korean chilled beef imports from Australia and US



Source: Global Trade Atlas

- The US benefits from a favourable tariff compared to Australia, due to its free trade agreement (Korea-US FTA, or KORUS FTA) being signed two years earlier than the Korea-Australia Free Trade Agreement (KAFTA).
- The safeguard* restricts the tariff benefits that Australia gained under the KAFTA.

**Safeguard tariff bounces back to 40% if Australian imports exceeds trigger levels (164,046 tonnes swt in 2017).*

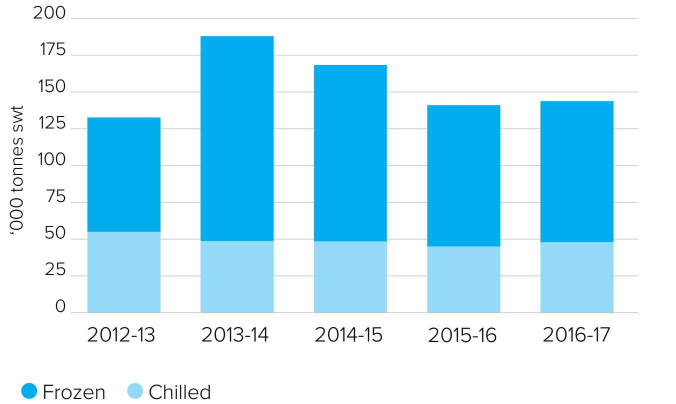
MEXICO

- The US is by far the main beef supplier to Mexico, accounting on average for 80% of total imports. Fresh/chilled muscle cuts such as shoulder clods and rounds are the most popular US cuts imported to Mexico.
- Mexico is also the largest market for tripe, and second-largest for livers (only behind Egypt) and tongues (only behind Japan).
- US beef benefits from a favourable access condition, as beef shipments enter Mexico duty and quota-free under NAFTA (North America Free Trade Agreement).

HONG KONG

- Hong Kong's imports of frozen beef declined 20% in 2016-17, as market access conditions in neighbouring countries changed and volumes exported to other Asian markets such as South Korea, Japan and Taiwan increased.
- US beef shipments to Hong Kong remained steady in 2016-17, at 98,719 tonnes swt.
- With the US regaining access to China, frozen beef exports to Hong Kong are expected to decline.

US beef exports to Hong Kong



Source: Global Trade Atlas

Market access overview

	Tariffs on Australian beef	Tariffs on US beef
South Korea	29.3% beef tariff 164,046t beef safeguard; 40% safeguard tariff Under Korea-Australia FTA (2014), 40% tariff eliminated by 2028	24% beef tariff
Japan	29.9% chilled; 27.2% frozen beef tariffs 135,000t chilled and 200,000t frozen beef safeguards; 38.5% safeguard tariff Under Japan-Australia Economic Partnership (2015), 38.5% tariff on frozen to fall to 19.5% over 18 years, and tariff on chilled to fall to 23.5% over 15 years	US has no FTA with Japan and is applied 38.5% import tariff for both chilled and frozen beef Japan's tariff on frozen US beef imports has risen 50% from 1 August 2017 and will remain at this level until March 2018
Mexico	20 - 25% Shared access to 200,000 tonne quota at 0% in-quota tariff (until end 2017)	NAFTA (North America Free Trade Agreement) Quota and tariff free
Hong Kong	Australia-Hong Kong Free Trade Agreement (A-HKFTA) negotiations officially commenced in May 2017. No tariffs applied	No tariffs applied
Canada	In quota: 0% Out of quota: 26.5% 35,000 tonne quota	NAFTA (North America Free Trade Agreement) Quota and tariff free
USA	In quota: 0% Out of quota: 17.6% 423,214 tonne quota - expanding to 448,214 tonnes by 2022 under Australia-USA FTA (2005) 26.4% out of quota tariff eliminated by 2022	
Taiwan	NT $10/kg	NT $10/kg
China	Under ChAFTA: 2017: • Chilled bone-in/ boneless meat: 8.4% • Chilled carcases/ half-carcases: 14% • Frozen bone-in/ boneless meat: 8.4% • Frozen carcases/ half carcases: 17.5% • Chilled offal: 4.8% • Frozen offal: 4.8-11.3% China-Australia Free Trade Agreement (entered into force 20 December, 2015)	12% tariff for chilled and frozen beef

Source: USDA

US beef long-term projections

Beef ('000 tonnes cwe)	2015	2016	2017 f	2018 f	2019 f	2020 f	2021 f	2022 f	2023 f	2024 f	2025 f	2026 f
Total production	10,777	11,394	11,895	12,341	12,209	12,205	12,239	12,287	12,369	12,427	12,517	12,613
Imports	1,529	1,366	1,216	1,246	1,279	1,294	1,302	1,314	1,331	1,348	1,356	1,358
Export	1,027	1,115	1,193	1,246	1,197	1,189	1,224	1,259	1,272	1,279	1,291	1,296
Total consumption	11,237	11,637	11,963	12,359	12,291	12,311	12,317	12,342	12,429	12,496	12,583	12,675

Source: USDA *f = forecast*

US beef exports (volume and unit value)

	2012-13		2013-14		2014-15		2015-16		2016-17	
Partner country	Volume (kg)	Value US$/kg	Volume (kg)	Value US$/kg	Volume (kg)	Value US$/kg	Volume (kg)	Value US$/kg	Volume (kg)	Value US$/kg
World	776,873,625	6.20	837,606,030	6.70	780,300,840	7.67	728,154,217	6.70	874,459,374	6.49
Japan	173,682,203	6.22	200,960,316	5.79	203,202,561	6.44	175,611,286	5.74	230,360,268	5.69
Korea, South	98,073,221	5.05	103,379,212	6.58	115,389,298	7.41	127,450,091	6.06	175,972,834	6.25
Mexico	101,002,192	5.46	146,256,807	5.76	121,014,481	7.03	118,068,442	6.40	129,634,685	5.54
Hong Kong	84,205,510	5.54	143,799,734	6.78	122,939,077	8.02	98,294,494	6.08	98,719,123	6.72
Canada	142,259,145	7.47	112,335,185	7.86	87,936,988	8.77	81,251,115	7.57	81,835,016	7.12
Taiwan	28,449,026	7.40	32,509,648	8.07	34,134,642	9.13	35,681,830	8.68	47,092,847	8.48
Netherlands	12,327,515	11.24	13,211,892	10.93	13,821,021	12.42	11,751,712	12.48	12,426,002	11.44

Source: Global Trade Atlas

Australia beef exports (volume and unit value)

	2012-13		2013-14		2014-15		2015-16		2016-17	
	Volume (kg)	Value US$/kg	Volume (kg)	Value US$/kg	Volume (kg)	Value US$/kg	Volume (kg)	Value US$/kg	Volume (kg)	Value US$/kg
World	1,013,878,178	4.92	1,184,435,490	4.86	1,348,997,101	5.47	1,166,989,180	5.18	962,982,758	5.41
Japan	298,839,734	4.94	279,702,184	4.75	303,519,077	5.29	268,405,552	4.99	278,799,256	5.26
Korea, South	137,695,445	4.77	155,656,139	4.98	156,915,180	5.38	173,189,476	5.11	162,050,311	5.17
Mexico	463,091	5.22	595,128	5.43	779,807	6.41	389,783	6.36	84,246	5.57
Hong Kong	5,190,944	6.87	7,244,842	6.78	13,764,467	6.25	5,442,621	8.48	4,579,128	10.89
Canada	16,633,536	4.22	26,535,035	3.96	40,862,416	4.67	31,728,734	4.13	16,961,029	4.52
Taiwan	37,610,355	5.48	38,195,362	5.40	31,131,643	5.72	30,802,526	5.55	30,634,240	6.22
Netherlands	3,314,469	8.31	4,413,613	8.53	5,711,052	9.13	7,082,181	9.73	6,787,347	10.66

Source: DAWR, Global Trade Atlas