



Department of
Agriculture and Food



final report

Project code: P.PSH.0746
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Date published: 31 December 2015

PUBLISHED BY
Meat and Livestock Australia Limited
Locked Bag 991
NORTH SYDNEY NSW 2059

Report on the Sheepmeat Insights tour to China (Beijing, Heilongjiang, Inner Mongolia and Shanghai 17-25 July 2015)

This is an MLA Donor Company funded project.

Meat & Livestock Australia and the MLA Donor Company acknowledge the matching funds provided by the Australian Government to support the research and development detailed in this publication.

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Executive Summary

The new V&V Walsh (WA):Grand Farm (China) value chain will require WA producers to meet China market specifications and it was in this regard that the opportunity was developed to take nine leading lamb producers and industry advisors to study the Grand Farm supply chain in China, and to learn about market opportunities (typical of other leading supply chains).

The objective of the tour was to increase awareness and confidence of WA delegates about the Chinese red meat market, and for the delegates to act as 'ambassadors' to inform fellow producers about the requirements in the supply chain and to in still confidence about the significant market opportunities in China. The tour, held over eight days, visited two provinces associated with Grand Farm's operations and explored the wholesale and retail opportunities in Beijing and Shanghai.

Summary of findings and implications:

1. The sheer scale and the rapid pace of structural and social change in China will mean that new opportunities and segments will constantly emerge – and the WA industry must continue to closely monitor these changes and be ready to respond.

2. The potential market opportunity in China is real despite the fact that there has been a slowing in growth of the Chinese economy. There are 360-520 million middle class consumers looking for safe and healthy animal protein. Due to our traceability and integrity systems and the 'clean & green' image of Australia, our product has a competitive advantage that can (and must) be further exploited.

3. Food security and safety are key priorities in China and there is a lack of trust in domestic food production systems due to recent scandals such as 'zombie' beef, hormone use, antibiotics in intensely farmed seafood products, melamine in milk etc.

4. A lack of reliable data presents challenges in terms of targeting the right market segments that will deliver greatest value to the WA sheepmeat industry.

5. Until December 2015 lack of market access for chilled Australian sheepmeat products undermined the potential value of products in relation to quality (frozen product is defrosted, processed, and then refrozen) and the ability to identify product as Australian.

6. Upon return from the study tour in July 2015 DAFWA highlighted to the Australian Federal Governments ' *Primary Industries Technical Market Access and Trade Development*' (PITMATD) Task Group that for the Western Australian sheep industry access to the Chinese market for chilled lamb and other sheep meat was a priority.

7. Concurrently DAFWA has continued to support V&V Walsh to expedite the process of gaining export accreditation to the Chinese market for sheep and beef meat.

8. Late December 2015 V&V Walsh became the first company in Australia to receive the approval of the Chinese General Administration for Quality Supervision, Inspection and Quarantine (AQSIQ) to export chilled lamb and goat meat to China (in Chinese the symbol for lamb and goat is the same).

9. V&V Walsh also received approval to export frozen lamb and frozen beef and chilled beef (the only establishment in Australia that has full approval and is not subject to trial conditions for chilled).

10. The dominant use of sheepmeat in China is in traditional cooking methods based on both higher and lower value secondary cuts – there are opportunities to increase awareness in Chinese consumers of alternative cooking methods particularly based on higher value cuts.

11. Developing long-term strategic business and government-to-government relationships are key to future success. There is a need to accelerate investment now in developing these relationships to identify the right partners. Partnerships with Chinese customers need to be based on mutual benefit including the sharing of knowledge and expertise.

12. Individual WA sheepmeat value chains will need to explore all potential market segments to determine how they want to 'play' in the China market – be it in high value chilled markets, value-adding to secondary cuts via the frozen trade, exploring e-commerce opportunities etc.

13. A risk management approach to the pursuit of market opportunities is critical with the need to maintain a diverse range of markets (in addition to China) remaining a key priority.

14. There is potential for increasing investment by Chinese businesses in the WA sheepmeat industry. This however is not simply a food security issue, as these investors are looking for profitable global business opportunities.

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1 Background

The Department of Agriculture and Food, Western Australia (DAFWA), together with Meat and Livestock Australia (MLA) are supporting development of the V&V Walsh:Grand Farm supply chain development program (Program). DAFWA (through its Royalties for Regions Sheep Industry Business Innovation project) / MLA / V&V Walsh have been cooperating to develop the Program of activities which aim to sustainably increase Western Australian (WA) lamb production, improve supply chain efficiencies and returns to farmers. MLA recognise the innovative nature of the Program and have branded it a 'National Flagship' project.

As part of developing new value chains into China there is a requirement for WA producers to understand intimately the China market drivers and specifications. It is with this regard the opportunity was developed to take nine leading lamb producers and other industry to study the Grand Farm supply chain. Grand Farm is China's leading red meat importer and has an outstanding reputation for its quality products. The company is the long term strategic partner of the Alliance Group (NZ) in China and Grand Farm is now looking to source a significant amount of its annual red meat requirements through a strategic partnership, which includes making cross investment, with V&V Walsh in Western Australia.

2 Projective Objectives

2.1 Objectives

The objective of the insights tour was to increase awareness and confidence of WA delegates about the Chinese red meat market, and upon return for the delegates to act as 'ambassadors' to inform fellow producers about the requirements in the supply chain and to instill confidence about the significant market opportunities in China. The participants are required to present their experiences/learnings from the immersion tour through a number of DAFWA forums with the objective of disseminating the learnings to a wider group of WA producers.

The broader value chain program which this activity forms a part aims to demonstrate how new value chains can be designed and developed to respond to market opportunities, create new value or capture lost value within chains, and how farm gate returns and other incentives may be provided, which result in an increase in the WA sheep flock and annual turn off. The aspirational target of V&V Walsh is to process an additional 500,000 lambs annually in response to the Grand Farm market opportunity.

2.2 Industry Benefit

DAFWA and MLA are supporting development of the V&V Walsh / Grand Farm supply chain development program and have developed a program of activities which aim to sustainably increase WA lamb production, improve supply chain efficiencies and returns to stakeholders within the supply chain.

The Program presents the opportunity to understand how additional value can be realised when a supply chain is designed to optimise efficiencies throughout the chain and builds in attributes, to product and services, which consumers are willing to pay extra for.

The study tour provided the opportunity to showcase one of China's leading sheep meat value chains as an example of current best in class practice to WA sheep producers and other industry. Tour participants may now respond to opportunities via V&V Walsh and / or other WA processors as well as being better placed to advise their peers about current and emerging market opportunities in potentially the world's largest market for sheep meat. Furthermore participants now have a better appreciation about how dedicated value chains can provide an alternative and more stable platform for industry and business growth as opposed to continuing to operate within an open commodity market system which has underpinned a steady decline in the WA sheep industry.

Guidelines: This section must state the project objectives as worded in the research agreement.

3 Methodology

3.1 Tour dates and supporting events

The planning and preparation for the tour was completed over four months early in 2015.

- 14 March - Workplan, draft itinerary, selection criteria developed
- 10 April - Invitation letter to processors asking for participants from their client list
- 25 May - List of participants finalised
- 17 July - Pre-tour training day with cultural awareness, introduction to china market and Australia's red meat industry.
- 18-25 July - Tour in China
- 25 July - Post tour discussion and debrief
- 26 July onwards - Media and presentations by tour participants to peers in WA

3.2 Participant selection

Selection of the participants was undertaken through a process of nomination. V&V Walsh was asked to nominate four of their key producers to attend and each other export processor was asked to nominate one to two producers that they thought would get value from the tour. This was done to ensure that the other processors were not left out of the activity and that we had a good cross section of producers from the industry. An agribusiness consultant was selected from the AAC membership with the criteria that they were not a specialist sheep consultant.

Noting the formality of doing business in China and the significance of demonstrating Government support for major projects Grand Farm invited the WA Minister of Agriculture to lead the tour. The Minister was unavailable to attend and delegated his representation on the tour to Mr Mark Lewis, MLC.

Participants were:

1. Mark Lewis MLC representing the Hon Minister for Agriculture & Food; Fisheries.
2. Scott Boyle – Feed lotter, York
3. Neville McDonald - Producer, Esperance
4. Hugh Roberts - Producer, Dandaragan
5. Andrew Gillam - Producer, Geraldton
6. Richard Coole - Producer, Frankland
7. Craig Heggaton, Producer, Kojonup, Board member WAMCO
8. Kelly Pearce - Producer, Yealering
9. Tim Macnamara - Wellard Agri Limited
10. Nick Hunt - Minderoo Beef (costs covered by Northern Beef Futures)
11. Geoffrey Fosbery— Consultant, Northam/Dongara
12. Kelvin Flugge - Indigenous Landholder Services, Albany
13. Joshua Whelan - MLA, Sydney
14. Christine Pitt - MLA, Sydney
15. Terry Burnage - DAFWA, South Perth
16. Mandy Curnow - DAFWA, Albany
17. Dr. Shimin Liu - UWA Animal Science

Plus six V&V Walsh participants; Peter and Greg Walsh, Linda Shen, Don Brady, Jack Semini, Peter Cody.

3.3 Tour Itinerary

The study tour included:

1. China market insights workshop prior to departure
2. Cultural training prior to departure
3. Biosecurity discussions with Grand Farm around importation
4. MLA market briefing provided by MLA Beijing office
5. Market visits and category management studies around wet and high end retail in Beijing
6. 'Walk of the local Grand Farm Chain'; feedlot, factory (slaughter, processing, new product development, cold storage), food service and retail channels with briefings provided by the President on market requirements and trends
7. Workshop with Government and Grand Farm to discuss supply side opportunities
8. Exposure to non Grand Farm food service and retail channels, market requirements and consumer trends in Shanghai

A detailed itinerary appears in the Appendix.

Guidelines: This section should provide a full and succinct description of how the project was conducted including experimental design(s), measurements, and statistical analysis.

4 Results

4.1 Tour Program

The China Insights Tour provided participants with the opportunity to observe first-hand many aspects of the China market. Activities included:

- Presentation of China Market Foresight Themes by MLA – detailing consumer drivers that will underpin market opportunities over the next 3-5 years.
- In-market briefings by experts including AUSTRADE; MLA China Marketing team; e-commerce specialist Santiago Mateos; Professor Hailing Luo of China Ag Uni; Professor John Edwards, Food and Agriculture Organisation of the United Nations, Beijing.
- In-depth understanding of the current and future value chain strategies of Grand Farm (reportedly the largest importer of sheepmeat into China). Included visits to processing facilities in Harbin and Inner Mongolia (under development) and Grand Farm dedicated red meat retail outlets.
- Direct experience of traditional Chinese sheepmeat cuisine.
- Visit to traditional wet markets; specialist red meat retail outlets; and high end supermarkets in major cities.
- Visit sheep farms and pasture processing plants, to gain first-hand experience of the natural grassland in the Inner Mongolian region.

4.2 Overview of visits

Monday

MLA briefing

Joy Tan, Michael Finucean (MLA Beijing office) and Santiago Mateos (e-commerce) gave overviews of the China red meat market and the Chinese consumer. Key points from these talks are captured below.

- Sheep meat consumption 2000 – 2.09kg per capita = approx 190 million sheep/year
- Sheep meat consumption 2010 – 3.01kg per capita (MLA)
- Extra 1.24 billion kg in ten years (approx 80 million sheep equivalent)
- Forecast sheep meat consumption 2020 – 3.46kg per capita – extra 450g sheep meat/hd
- Which means requirement for another 607 million kg by 2020 (approx 40 million sheep equivalent)
- Total sheep slaughter in 2020 approximately 310 million sheep/year

China Lamb Imports

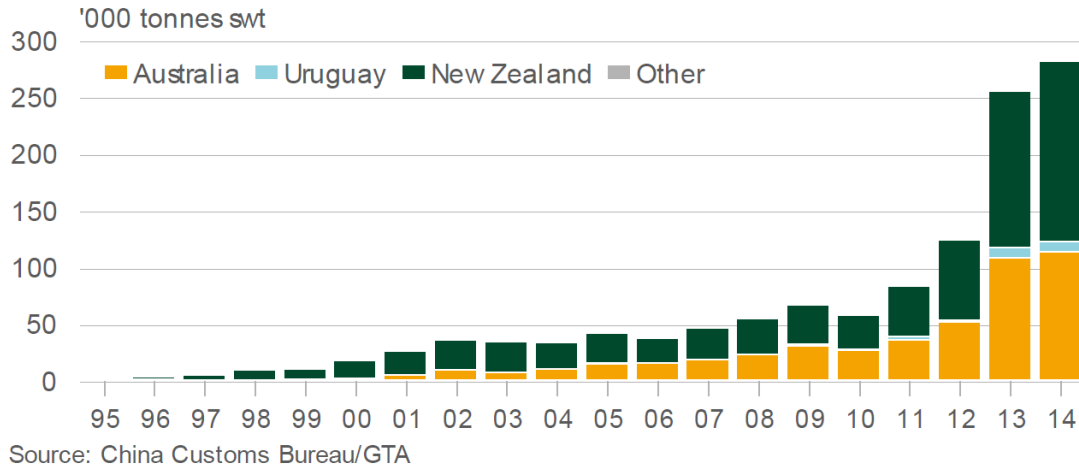


Fig. 1 The volume of lamb imports to China showing the three main importing nations.

- 200 million Chinese Muslim’s, who are traditional red meat eaters, will be challenged by the rising cost of red meat.
- Sheep main imported cuts – breast, flap, manufacturing meat. This goes into hotpot, BBQ skewers or boiled soups.
- Mutton and lamb markets demand ‘lower quality’ cuts than Australia considers as premium in Australia
- Beef and sheep meat price averages 65RMB per kilo. Chicken and pork are 1/3 of the price.
- 50% of consumers still shop in the wet market with one supermarket per 500 000 people at present. If the consumer can afford to pay for imported product, they will.
- Brazil used to supply 30% of the imported beef meat market; in 2015 fell to zero but is expected back in the China market in 2016 as a major player..
- Beef main imported cuts: whole carcass, brisket, shanks



Fig. 2 Examples of traditional preparation for lamb and mutton in China

- 52 million local sheep (tan young) in Inner Mongolia. Recently the sheep price has fallen with many farmers losing 300RMB per head. This is expected to be due to the dumping of meat from 'grey' channels (illegal meat imported through Hong Kong or Korea).
- New Zealand has worked well with the importers and has good branding in China even though it is at frozen product. Australia must work on this.
- Carcass - when importing only carcass you can lose control of brand.
- Cut and portion control - must be same plant for packaging in China.
- Sheep meat tariff will reduce to 0% over 8 years from 12% with FTA.
- Late December 2015 V&V Walsh became:
 - The first company in Australia to receive the approval of the Chinese General Administration for Quality Supervision, Inspection and Quarantine (AQSIQ) to export chilled lamb and goat meat to China (in Chinese the symbol for lamb and goat is the same).
- V&V Walsh also received approval to export frozen lamb and frozen beef and chilled beef (the only establishment in Australia that has full approval and is not subject to trial conditions).

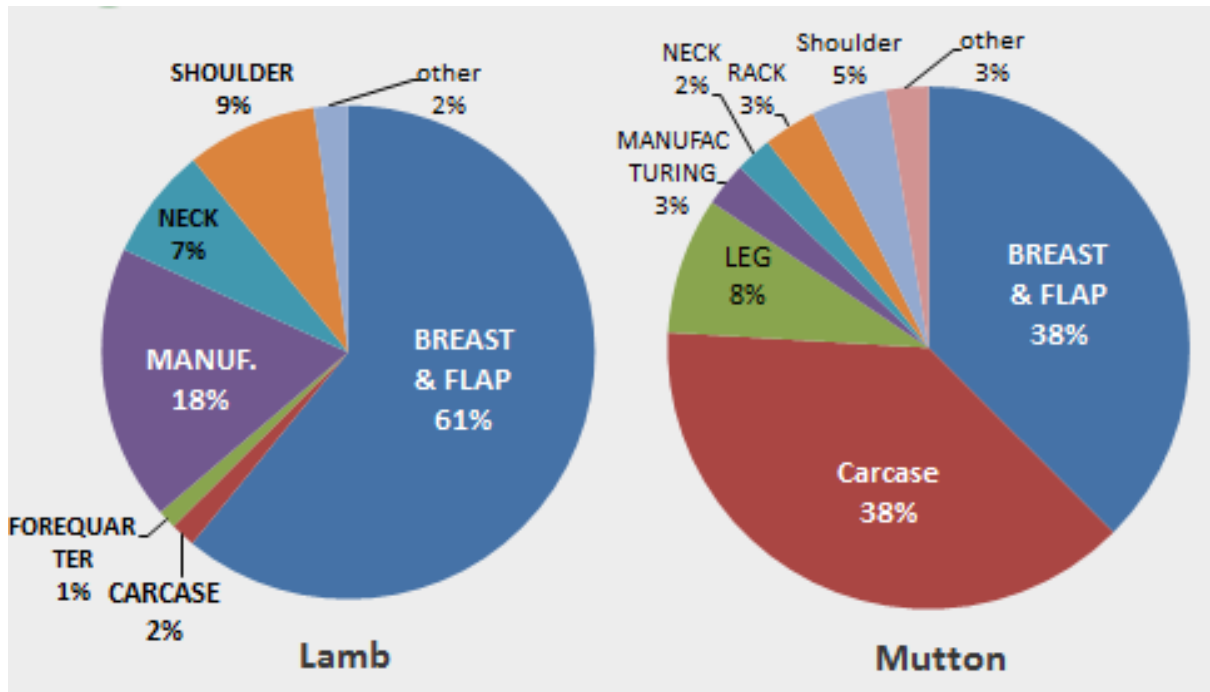


Fig. 3 Sheepmeat exports to China from Australia (source MLA)

e-commerce

There are 600 million internet purchasers in China. More people are using mobiles to access internet than computers for on-line shopping.

There are several major players in on-line shopping with the major sites offering fresh food sales.

- Taobao.com, JT.com, Tmall.com are the big performers but check out <https://www.techinasia.com/ecommerce-players-china-watch/>
- Dan Harris blog is a well-respected commentary on China Markets and trends. <http://www.chinalawblog.com/>

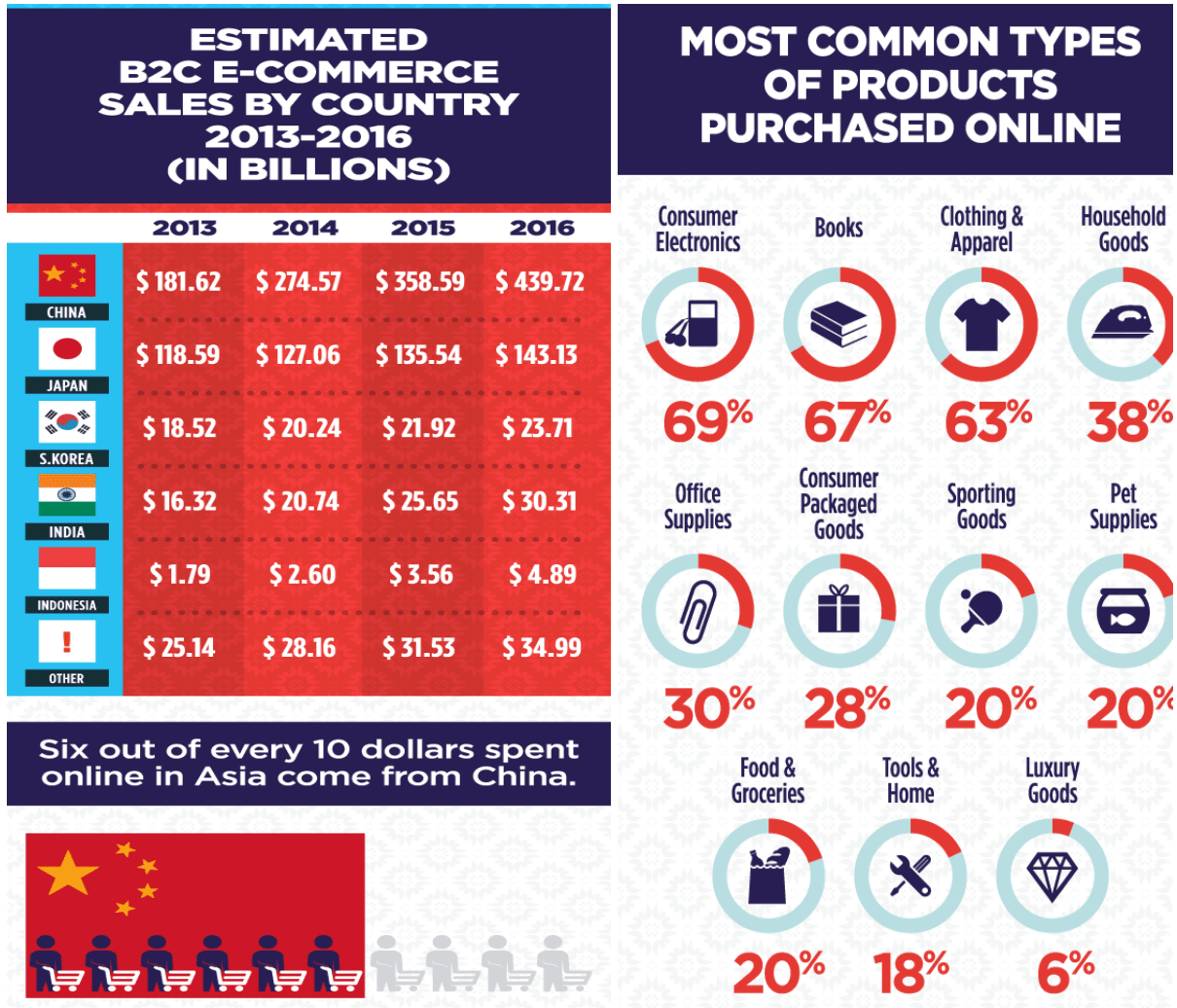


Fig. 4 A comparison of sales for internet shopping in South East Asia.

Visit to wet market and supermarket in Beijing



Fig. 5 Meat delivery to the wet market in Beijing.



Fig. 6 Butcher shop inside wholesale wet market in Beijing

Evening talks by:

- Dr John Edwards, Team Leader Food and Agricultural Organisation of the United Nations (Beijing) Centre for Trans Boundary and Animal Disease Control.
- Professor Hailing Luo of China Agriculture University on Sheepmeat production in China.

Tuesday

Grand Farm day: Harbin

Hosted by Mr Chen Xibin, owner of Grand Farm, we viewed the two key centres for processing – one in Harbin and the other in Xilinhot.

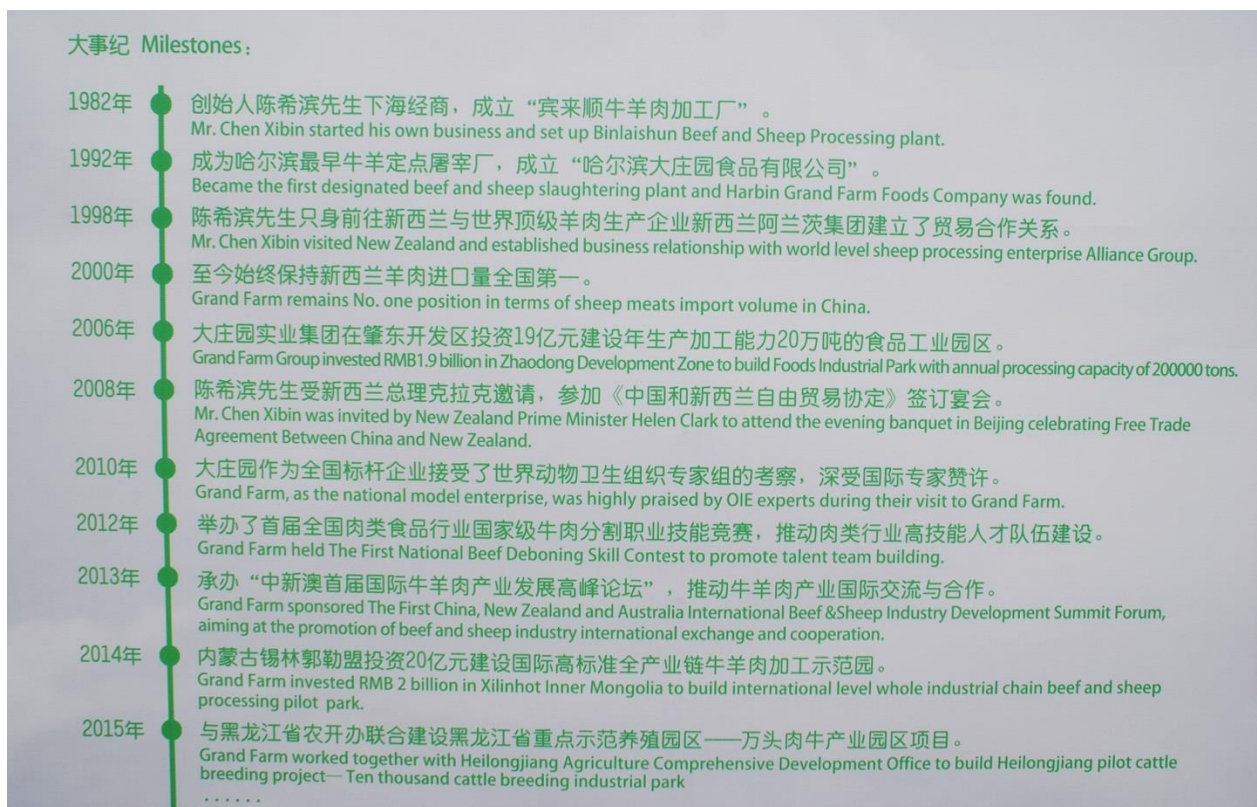


Fig. 7 A timeline of the formation and growth of Grand Farm

The Grand Farm Harbin processing plant has the largest processing floor and storage space for sheepmeat in the country. The final phase will open in October 2015. At the moment has capacity for about 2000 workers but will expand to 4000 with an average \$1200/pm plus benefits such as accommodation, transport etc.



Fig. 8 Hugh Roberts at the boning workshop floor in Harbin.

Factory to expand value-adding food processing operations for ready meals and sauces as well as meatballs and BBQ skewers. A new cold store will also be opened. The existing cold store is used to store meat supplies, and is paid for by the central government as food security.

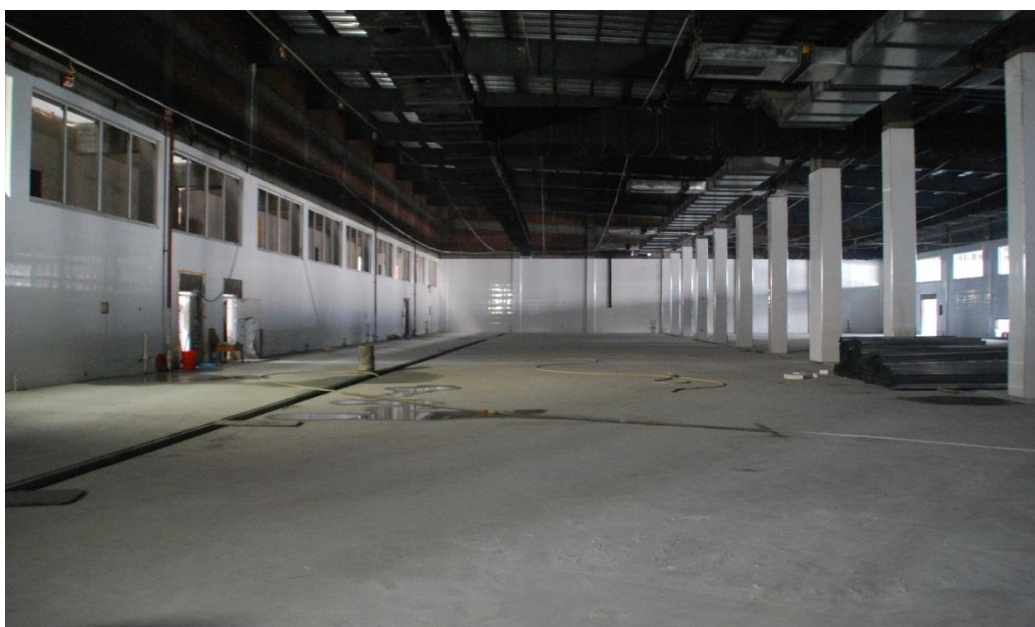


Fig. 9 The new processing centre in Harbin for Grand Farm.

- Sheepmeat importation has seen a lot of change with 113 importers of sheepmeat in 2013 but only 63 in 2015.

- Grand Farm has been the sole importer of products from the Alliance Group New Zealand (NZ) for the last 15 years.
- Grand Farm sent 12 consumers to NZ on a traceability study tour in 2013.
- Grand Farm boners also attended a NZ boning competition in NZ.
- In beef Grand Farm is looking to import 5000 head of live Angus and wagyu to bolster local production.
- The study tout visited the new Grand Farm cattle feedlot of 10 000 head capacity (to be finished in October 2015). The feedlot is surrounded by corn fields which grow a hybrid variety suitable for whole crop harvesting.



Fig. 10 Participants viewing the still to be completed feedlot facility for cattle in Harbin.

Visit to Grand Farm retail store

We visited one of Grand Farms 75 stores (or outlets) in Harbin. Each store turns over about \$800 000/pa and store makes about 10% profit. In comparison a supermarket booth where Grand Farm also sells products take 20% of the profit and stocks a more limited range. These booths do however have the potential for more turn over. Currently, booths have approximately three times the turnover. Grand Farm is moving to list on JT.com and be the distribution centre for online purchases.



Fig. 11 Grand Farm ready meals were popular as in many families both parents work, have small apartments and are time poor.

Wednesday

Signing of the MOU and presentation of gifts. Visit to Grand Farm corporate headquarters in Harbin.

DAFWA, MLA, V&V Walsh and Grand Farm signed an MOU detailing the non-binding intentions of the parties to collaborate to grow WA supply and value through a dedicated value chain.

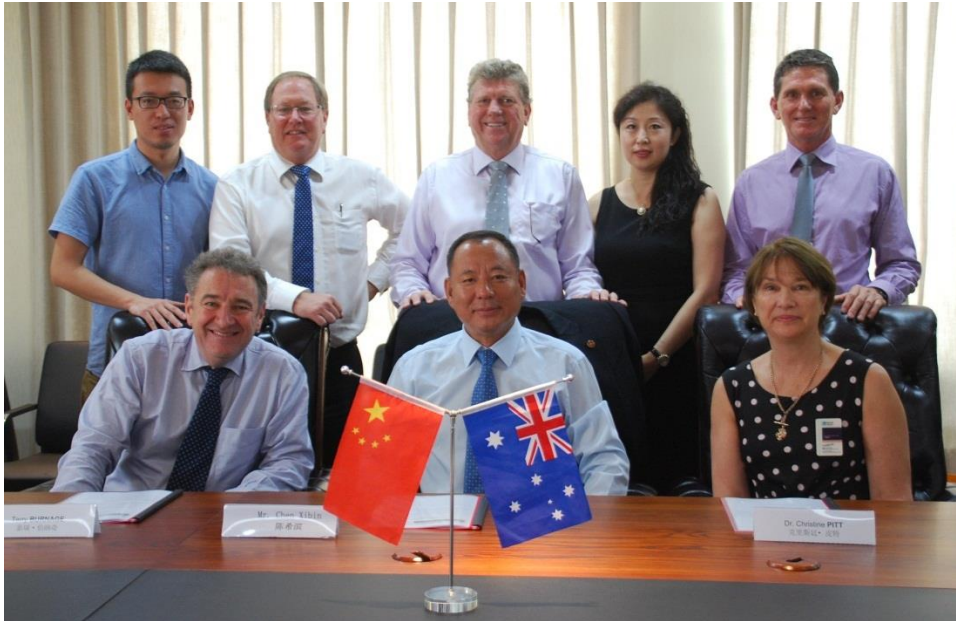


Fig. 12 The signing party for the MOU (front L to R: Mr Terry Burnage, DAFWA, Mr Chen, Grand Farm, Dr Christine Pitt, MLA. Rear L to R: Dustin, Grand Farm, Hon. Mark Lewis, MLC, Mr Peter Walsh, V&V Walsh, Ms Linda Chen, V&V Walsh, Mr Greg Walsh, V&V Walsh)

Thursday

Grand Farm day: Xilinhot, Inner Mongolia



Fig. 13 The entrance to the new processing centre in Xilinhot.

The new centre in Xilinhot which includes lairage, processing and R&D centre is being built with the cold store the first section to be completed.

Mr Chen's brother, Manager of the Xilinhot centre provided an overview of the development and function of the centre and how it will look as the region's premier centre for meat processing. The central government has matched funds for the centre in an effort to provide a state of the art centre for other businesses to emulate.

The key turn off time for local sheep is in autumn (August to December), and Grand Farm are looking to increase processing during the winter months using Australian product – carcasses, specific cuts, specifications TBD.



Fig. 14 The plans for the Harbin processing centre



Fig. 15 What appeared to be the extent of the sheep flock near the group of five lambing sheds at Big Pasture, Xilinhot. Other feedlots in the distance were for sheep, cattle and horses.

The pasture and fodder processing facility was run by the state government and provided a fodder store, pellet factory and demonstration of improved fodder species for farmers to see. It was rudimentary and the pelleting machine of low output combined with poor quality fodder (9ME and 10CP) for lambing ewes didn't hold much hope for lifting local reproductive rate and lambing.



Fig. 16 Government fodder store in Xilinhot

Lambing time was December and most lambed in sheds that they had been housed in since the start of winter. Lambing rates were reported to be up to 225% but appeared to be more like 115%.



Fig. 17 Big Pasture's planned expansion into sheep lambing sheds in Xilinhot

Friday

Shanghai retail market

The Shanghai market is expected to be different in that sheepmeat is usually consumed in the colder northern areas. We visited an upmarket retail store which stocked both beef and lamb. Mutton hotpot is growing in popularity as a specialty dish in Shanghai. BBQs are popular and more western style cuts are reasonably popular due to the affluent nature of the audience, many of whom have travelled overseas as well as expatriates living in the city.



Fig. 18 City Supermarket Co visit with procurement manager Vincent Lee, talking cuts and price with Josh Whelan, MLA

We met with City Supermarket Co. Procurement Manager Vincent Lee as well as Betty Teng, Business Development Manager MLA Shanghai, and discussed the consumer reaction to various cuts of sheepmeat and beef.

- They import 7 tonne lamb per year. An airfreight cost per pallet of 1300kg is A\$1200.
- They import 12 tonne per month beef.
- French rack retail RMB 480/kg frozen and his estimate was that chilled lamb could fetch RMB 550/kg.
- Cube roll RMB 450/kg Australian grain fed for 120 days. Local beef is RMB 175/kg grass fed which has yellower fat, Australian the same – grass fed not liked. Shin shank preferred cut. Fillet so-so.
- Wagyu beef had a large display, paid for by the supermarket as it was such a high value product to their store.

4.3 Media during and post tour

DAFWA generated media

- Two media releases:
 - First release, announcing the tour, garnered six media articles with a combined audience of over 32,700 and an estimated value of \$16,690.
 - Second release, a Ministerial announcing the MOU signing, garnered 15 media articles with a combined audience of over 194,000 and an estimated value of \$45,592.

- 14 tweets through the @DAF_WA Twitter account, with cumulatively over 15,200 impressions/views and over 500 engagements (clicks, retweets, replies, follows, favorites etc).
- Further reported in DAFWA newsletters: South West AgMemo (August), SIBI project newsletter (September) and Ovine Observer (September).

5 Discussion

5.1 Preliminary documentation and travel booking

It is a large commitment to undertake to organise the international component of air travel. Several of the participants had good reasons to travel on different days and from different departure points which made it time consuming for our booking staff. We recommend that participants should arrange their own international travel (using the recommended flights and itinerary) so that they arrive prior to the start of the tour at the first contact event.

There is a large time commitment in providing Chinese documentation, media feeds, communicating regularly with participants, obtaining visas and negotiating the itinerary bookings. Having Dr. Soon Chye Tan of DAFWA to handle visas was very helpful. Five staff in both WA and China worked over two months to secure all arrangements. All staff worked well together, achieved requirements in a timely manner and the smooth running of the tour supported this organization. Dr Soon Chye Tan, Ms Audrey Dias, Mr Charlie Li (WATO) all worked tirelessly to ensure details were followed up and jobs completed on time.

5.2 Training and pre-tour briefing

On the day prior to the tour all participants were required to attend a training session to increase their understanding of the China market and the value they would gain from the tour.

Topics included;

- Outcomes & expectations
- Cultural Awareness
- China Market Insights
- China Overview
- Sheepmeat Production in China

And an overview of other DAFWA work in China;

- Sheep CRC consumer testing of hogget and lamb in China
- Genetic Opportunities for Australia-China

This training was well received and by the end of the session participants had a much better understanding of what they were going to see and led to more in-depth questioning on tour. Such briefing is recommended as a pre-requisite for all study tours prior to departure.

5.3 Post-tour discussion and de-brief

On the last day of the tour a facilitated discussion was held with participants. The intent was to encourage reflection on learnings, feedback on the value of the tour, to generate a set of media talking points for use by the participants and to determine next steps. This was done in two, two hour sessions. These sessions were extremely important and it was valuable to run these while participants were together so an in-depth discussion could be had. A copy of the raw data collected in the session appears in the appendix; however, comments on the organization of the tour are summarized below.

Participant Feedback – provided verbatim

- Pre organisation good
- Can share rooms and cut costs a bit, MLA could travel leaner
- Mixture of people was good. Getting right people is important
- Could have halved background into 1 day (the presentations in Beijing were repeats)
- Some un planned time needed but understand hard to justify when designing itinerary
- Very linked to Walsh's business. Need a broader scope on tour
- Good interaction with Walsh's and discussion
- We were given unprecedented access to Grand Farm due to great relationship with V&V Walsh
- Wanted more depth on where we were.
- Liked visit to processing in Harbin
- Other competing enterprises were good to see
- Closer visit to market in Beijing but great talking to supermarket manager in Shanghai
- Local connection is very important and more than one was good
- Be clear about purpose of trip and plan around that.

5.4 Meeting Objectives

The objectives of the tour were to;

1. Increase awareness and confidence of WA delegates about the Chinese red meat market.
2. The delegates to act as 'ambassadors' to inform fellow producers about the requirements in the supply chain and to instil confidence about the significant market opportunities in China.

Since returning from China delegates, both producer participants and those from industry and government, have been active in communicating to others in the industry about the opportunities in China and the market requirements for WA lamb and mutton into China.

3. The participants are required to present their experiences/learnings from the immersion tour through a number of DAFWA forums with the objective of disseminating the learnings to a wider group of WA producers.

Participants on the tour have spoken about their insights and experiences of the tour at many events. Examples of events are; Pasture Updates, Sheep Updates, grower group field days, client groups and groups touring feedlots and boards of producer councils such as Sheep Industry Leadership Council (SILC) and WAMMCO. The estimated audience over 17 events is approximately 400 producers and industry representatives.

In addition to direct communication, many of the tour participants have contributed at least seven articles to grower group newsletters such as Southern DIRT and been interviewed for the major rural weekly newspapers such as Countryman and Farm Weekly. Two radio interviews on ABC were broadcast, one with Craig Heggaton and the other with Terry Burnage and Greg Walsh.

Guidelines: Full consideration and interpretation of the results is required. Structure and wording should be clear and concise. A guide as to what content should be included in the discussion is listed below:

- Inferences and insights from the data relative to previous research;
- Practical implications for industry;
- Unanswered questions/additional research recommended;
- Draft extension messages (if relevant); and
- What could have been improved in the project delivery (what worked, what didn't).

This section must also include discussion of the extent to which each specific project objective was met. This includes writing the project objectives and placing a short summary underneath.

6 Conclusions/Recommendations

6.1 Recommendations by the tour participants

1. Harness the new knowledge gained by the participants in the Insights Tour via a variety of dissemination initiatives and possible future advisory roles.
2. Develop a briefing information pack for industry consultants to extend learnings to a wider group of sheepmeat producers and value chain partners.
3. Develop a deeper understanding of the true consumer/customer drivers in the China market. Undertake R&D into new product development based on these drivers that will deliver greater value for WA sheepmeat.
4. Develop more detailed information and analysis of the comparative value of different global markets for WA sheepmeat.
5. Attract young people into the industry who will have the passion and skills to ensure the emerging opportunities in China (and in other markets) can be captured in the long term.
6. Develop a range of activities to expose Chinese consumers to new recipes and cooking methods based on higher value cuts, and the Australian 'brand' stories (including via social media).
7. Develop feasible strategies and business models to attract international and domestic investors into WA sheepmeat production.
8. Develop a suite of promotional activities in the Chinese market to "brand" Australian sheep meat (e.g., safety, traceability, integrity, special flavour, good value, "clean and green" etc....).

6.2 Recommendations from the tour leaders

- The selection process for the tour has strengthened links between producers and export processors and between export processors.
- During planning for the tour the options of whether to predominantly study the Grand Farm supply chain in detail or look at a couple of other supply chains was considered. It was decided to look at the Grand Farm supply chain largely because of the excellent relationship that DAFWA has built with both Grand Farm and V&V Walsh and because of the potential strategic importance that the relationship between the two companies has for the upstream links in the chain (pre-farm gate). It is the opinion of the leaders that in the post tour evaluation this option proved highly conducive to the tour meeting its key objectives within a very short time frame:
- The willingness of Grand Farm to show in detail its operations to the participants provided a unique opportunity to gain an in depth appreciation of a leading Chinese value chain.
- A key point to note is the on-going investment that Grand Farm makes in New Product Development and brand development and support. Grand Farm launched 60 new products last year.
- 'Walking the Supply Chain' is a very effective way of providing participants with memorable and rapid insights to take away
- Gaining in depth insights of the Chinese market in particular how the Chinese are genuinely concerned about food safety, its origins, integrity, and traceability
- Instilling confidence in producers that China is "happening" and that rapidly it will transition to consuming higher value lamb products
- That post event the gaining of both frozen and uniquely chilled lamb China market access by V&V Walsh from WA now provides the platform which WA can exploit to generate greater value in the chain between WA and China and is indeed a unique investment proposition, at least in the short to medium term.
- All participants in the chain from producer through slaughter / stage one processor to import, final processing, distribution to food service and retail is looking for greater certainty and consistency of supply which points to a strong desire, given acceptable commercial terms, to shift from unreliable open market sourcing to dedicated value chains.
- Distribution systems and market preferences move rapidly in China and e-commerce is evolving at a rapid pace providing the opportunity to sell product both B2B and B2C which hitherto hasn't been possible.
- Choosing the right business partner in China (and anywhere for that matter) is essential for success. This takes time and investment to establish. Being able to develop a common vision between the partners is essential.
- A similar type of tour should be developed and taken into the premium markets of the Middle East.
- The selection of participants and their related organization's is very important to both the success of the tour as well as on-going participation in future sheep industry development activities.

7 Appendix

7.1 Key contacts on tour

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7.2 Detailed program

Friday 17 July 2015	Contact, location, comments
Technology Park, Bentley Perth 10:30 – 17:00	<p>Cultural and Market Insights training - Tour group meet at Tech Park, Brodie Hall Drive, Bentley for day of training and preparation for tour.</p> <p>Welcome, Project and Tour Introduction by Bruce Mullan with outcomes & expectations, Introduce Mark Lewis</p> <p>Cultural Awareness– Soon Chye Tan/Shimin Liu</p> <p>Miho Kondo, MLA – China Market Insights</p> <p>Introducing China with Emphasis in Agriculture and Food & DAFWA's activities</p> <p style="padding-left: 40px;">China Overview – Soon Chye Tan</p> <p style="padding-left: 40px;">Sheepmeat Production in China- Shimin Liu</p> <p style="padding-left: 40px;">Sheep CRC consumer testing of hogget and lamb in China – Robin Jacob</p> <p style="padding-left: 40px;">Genetic Opportunities for Australia-China – Johan Greeff</p> <p>Discussion, Q&A on Visit Program Hand out the tour packs – Mandy Curnow and Terry Burnage</p>
Saturday 18 July 2015	Contact, location, comments
19:00pm	<p>Welcome to the 'Sheepmeat Insights Tour to China' by Tour leader – Hon Mark Lewis MLC and General Manager of International Market MLA Beijing, Michael Finucan.</p> <p>Confirmation of Visit Program – Charlie Li</p> <p>Delegate networking – getting to know each other over casual drinks and dinner (hosted by the Project)</p>
Sunday 19 July 2015	Contact, location, comments
Whole day Beijing	<p>Free time - Tour Beijing City and surrounding areas.</p> <p>(Delegates to pay for own tours to sites of interest such as Great Wall, Forbidden City, Tiananmen Square)</p>

Monday 20 July 2015	Contact, location, comments
Australian Embassy 11:30 – 13:00pm	<p>MLA Day: Understanding of food service and retail channels and market requirements and trends in Beijing.</p> <p>MLA & Embassy Briefing *</p> <p>MLA briefing on China Red Meat Market inc. distribution systems, internal cost structures, main players, domestic production and international competition to Australia, key issues, market situation and drivers for consideration</p> <p>Lunch : Quanjude Beijing Duck, Sanyuanqiao Tel: 8449 2760/84492791</p> <p>Beijing Muslim Wet Market Visit</p> <p>Retail Visits (High end supermarket & Chinese local chain)</p>
18:30pm	<p>Pre-Dinner drinks and dinner provided by the Project.</p> <p>Talks by:</p> <ol style="list-style-type: none"> 1. Dr John Edwards, Team Leader Food and Agricultural Organisation of the United Nations (Beijing) Centre for Trans Boundary and Animal Disease Control. 2. Professor Hailing Luo of China Agriculture University on Sheepmeat production in China.
Tuesday 21 July 2015	Contact, location, comments
Harbin, Heilongjiang Province	<p>Depart Beijing for Harbin, Heilongjiang Province</p> <p>Grand Farm Day:</p> <p>Grand Farm Zhaodong factory Grand Farm factory, feedlot and pasture visit Grand Farm retail, supermarket visit Grand Farm resort and dinner</p>
Wednesday 22 July 2015	Contact, location, comments
Harbin, Heilongjiang Province Beijing	<p>Grand Farm Day continues:</p> <p>Grand Farm HQ for Meeting/Seminar Business lunch</p> <p>Afternoon: Depart Harbin for Beijing (overnight).</p>
Thursday 23 July 2015	Contact, location, comments

<p>Xilinhot</p>	<p><i>Depart Beijing for Xilinhot</i></p> <p>Grand Farm Day: Visits to GF Xilinhot farms, factory and pasture Business lunch Visit to Pellet factory and Big Pasture feedlots Dinner with mayor of Xilinhot</p>
<p>Friday 24 July 2015</p>	<p>Contact, location, comments</p>
<p>Shanghai</p>	<p><i>Morning travel to Shanghai</i></p> <p>MLA Day:</p> <p>Understanding of online, warehousing food service and retail channels and market requirements and trends in Shanghai - MLA</p> <p>Hon Mark Lewis and Dr Christine Pitt of MLA to provide concluding remarks</p>
<p>Saturday 25 July 2015</p>	<p>Contact, location, comments</p>
<p>Shanghai</p>	<p>Post tour discussion and debrief continues</p> <p>Noon/Afternoon: Tour complete, delegates depart Shanghai.</p>

7.3 Participant reports

7.3.1 Geoff Fosbery – ConsultAg Northam

Background

My areas of influence cover the central and north midlands grain and sheep belt of Western Australia. I provide advice to individual farmers and farmer groups in these regions on farming systems and what will be best to fulfil the goals of each farm business or group of farm businesses.

I had no knowledge of the realities of the Chinese meat market let alone the sheep meat market specifically. The Chinese market was known to be a growing market but for which cuts of meat and what the trade restrictions were I did not know. It was my first visit to China so my "sensors" and "senses" were put on wide open high absorption mode.

I hoped to learn about the Chinese culture, meat industries, supply chain, business relationships and market reality and potential.

Reflection

Having the backgrounding on the Cultural requirements, geographical and ethnic variations, and the realities of population, production, consumption and trade was extremely enlightening and provided a great foundation to be able to understand and interpret the following days. We saw a good deal of the supply chain but tended to focus on the abattoirs component a little too much. I understand that this was the major focus of the trip but it would have been great to have covered from the arrival on the china wharf to the store shelf in a bit more detail. In saying this we still saw the majority of the supply chain and given the time available the tour was extremely educational and opened my eyes to the opportunities and cultural requirements of China.

Implications

1. We must develop meaningful relationships with reliable Chinese business partners. The broad acre and intensive management of sheep and pastures looked like it could be improved dramatically. This maybe an avenue to begin building a relationship where Western Australian expertise could open some trade doors.
2. China presently only accesses the frozen breast and flaps of a sheep meat carcass from Australia. There is no ability to trade chilled sheep meat to China at present as there are trade restrictions. With the FTA signed with China an agreement to trade chilled sheep meat would be an extremely high priority. A trial with chilled Australian beef we saw on the shelves of a top end Shanghai supermarket certainly indicated willingness for customers to pay an excellent premium for our chilled beef. Until this trade restriction is breached for chilled sheep meat deriving more carcass income through China is unlikely.
3. The higher prices for sheep meat are likely to stay but China is a small part of the total carcass return to sheep meat exporters. However presently China does play an important role in taking the lower priced cuts on the sheep carcass.

Communications

I have discussed the sheep meat tour with several small farmer groups in spring –

- Bruce Rock – 24 August -32 farmers
- Bulyee -25th August – 18 farmers
- Cunderdin – 31st August – 28 farmers
- Kellerberrin – 31st August – 16 Farmers
- Quairading – 11 September – 26 farmers

My intention is to do a formal presentation in February March 2016 to about 250 farmers in groups of 20 to 40.

7.3.2 Tim Macnamara – Wellard Agri

Background and expectations

- Managing Director – one of the largest sheep producers in Australia
- A subsidiary business of a large live export company
- A group business that an integrated supply chain across grains, fodder and livestock production and aggregation, distribution, processing, logistics, marketing and management services
- Expectations
 - Engage in discussion with parties across all segments of the livestock industry
 - Evaluate the true potential of the China market and where the above parties believe opportunities exist to increase production here locally in WA and provide further comfort in the production process for producers that the Chinese market can offer

Reflections on the visits and activities in China

- Further understanding of the market size and fundamental food choice changes
- The wonderful relationship between V & V Walsh and Grand Farm, developed over many years
- The governmental assistance in the Grand Farm business
- Minimal recognition of the Australian or West Australian brand through packaging
- Sheep and Beef prices were not of a premium and feel lower quality cuts are in demand and pricing points will remain low for some time, until taste and cooking methods change
- The opportunity to supply and impact the breeding quality, performance and genetics across many regions
- Access to much high quality fodder, i.e. maze

Implications for business and the WA industry

- An opportunity to open and develop a significantly large market
- Australian / Chinese relations needs to continue to develop
- A branding / marketing campaign promoting the quality of our produce
- Aligning the hogget market into Lamb, improving the pricing position and educational material noting the quality of hogget meat
- 2 way trade and investment
- Utilise local resources for their skillsets and knowledge to optimise profitability
- A local investment partner should be required for all foreign investment
- My business could / should be a valuable funnel for management, advice and assistance to optimise such foreign investment return

Communications with industry

- Post return interview with Farm Weekly at their request
- Have communicated with many of the tour participants since returning and developed business opportunities with some, effective immediately, which has been terrific
- Communication with DAFWA representatives on opportunities to achieve governmental and departmental targets. This has been most interesting and outcomes could be of material reality if implemented and commercial beneficial to many parties.

7.3.3 Scott Boyle – Feed lotter York WA

Background

I have been feedlotting sheep (predominately lambs) for 15 years for the domestic and export markets. I have seen many changes to the sheep meat industry in that time with the two main factors being a decrease in supply in WA and increased demand, especially recently from export markets.

I expected to see a more traditional feudal type of agriculture with much more poverty than what I saw. I suspect that I may have seen this in the more western areas of China. The media portrays China as food consumption, sleeping giant so I expected to see a lot more wet markets and less supermarkets. From what I saw I would say that the opposite is the case, especially in the major cities.

Reflections

I thought the visits were organized very well in that I was able to see production, importing, processing, retailing, and consumption of sheep meat in China. The group had many opportunities to discuss many facets of the sheep meat supply chain within China with the people who are dealing with it on a daily basis. We were particularly fortunate to get an in-depth look at Grand Farm's operation partly due to the relationship Grand Farm has with V & V Walsh.

Implications

I still believe that China is still only a market for our lower quality cuts. The reason being is the way they cook their meat and the fact that they only import frozen sheep meat where most is defrosted and refrozen. The cooking process and multiple freezing erode any quality that demands a higher price, which is what WA producers are good at producing.

I think the Chinese market is important as a market to export lower quality cuts, offal and skins. Until China establishes a more secure cold chain and allows importation of chilled product, the bulk of WA's lamb will continue to be consumed by higher paying markets that have the ability to maintain the products integrity.

I feel that a mountain of resources is required to change the eating habits of the middle and upper class, and to develop a cold chain that has the ability to uphold the integrity of the quality brands of WA sheep meat that enters China.

There will hopefully be implications for my business and the WA sheep industry when V & V Walsh gets their Chinese license, which will create more competition for our product.

Communications

- I spoke with the Farm Weekly
- Numerous discussions with grower groups and agents during feedlot tours
- In-depth discussion Cunderdin Agricultural College Principal, Bernard Beatty regarding the tour.

7.3.4 Kelly Pearce - Sheep Industry Leadership Council

Background and expectations

I am both a sheep producer and work in the sheep meat research industry. My major expectation of the tour was to visit and experience a variety of different sheep meat selling points and learn more about the sheep meat consumption patterns of the Chinese consumer. I also expected to meet some of the large players in the sheep meat industry in China. The tour was excellent and exceeded my expectations.

Reflections on the visits and activities in China

We had the incredible opportunity to travel across the country and experience a variety of markets, consumption patterns and selling methods- from the very affluent western influenced diets in the south to the sheep meat markets in the north where lamb is traditionally consumed. I gained a lot of personal insight from seeing this diversity.

A critical conclusion for me was how important this market was from a carcass utilisation perspective. Maintaining this market is of utmost importance to Australian sheep meat producers as it gives an excellent return on low value (trim and offal) product. The Chinese do not eat similar sort of meat cuts to us in Australia instead preferring offal and the trim for hotpot. However as their incomes rise they are becoming more affluent and adoption a western diet we will see the growth in high value cuts.

The Chinese are very focused on relationships with their suppliers and this was very evident in our trip. Therefore to ensure future supply into this market it is very important that we develop relationships with trading partners.

Although they are taking a majority of frozen low value cuts this is still a very important market to be placed in and my key take home message was that we need to actively need to stay involved in this market and further pursue chilled market access.

Visiting the Grand Farms enterprises in Harbin and Xilinhot were the highlights. It would have been great to visit other supply chains but I appreciate that there was very little input received from other WA exporters and business partners into China so it would have been hard to achieve.

The tour was very well organised with a great balance of participants. It would have been good to have been able to look around more in Harbin and Xilinhot- especially the countryside in Inner Mongolia and meet other sheep farmers and learn more about the domestic industry.

Implications for business and the WA industry

China was an incredible country to visit. I am very grateful for the opportunity to experience the burgeoning market on our doorstep. For me personally it has given me confidence in our industry to invest in our sheep meat enterprise.

For the WA industry, as mentioned above, it gives us as, a majority exporting state, another marketing opportunity to actively pursue. The potential in China for our sheep meat products is staggering. Maintaining capacity in the industry to meet the growing demand will be an ongoing issue that we must continue to address.

Communications with industry

I have spoken at Pasture Updates and regularly communicate my findings with members of my local community.

7.3.5 Craig Heggaton - WAMMCo

Background and expectations

As a large commercial lamb producer and a director of WAMMCO, I had a good insight into both sheep production systems and sheep meat processing within the Australian Sheep meat Industry. WAMMCO has been a long term supplier of secondary cuts and offal's to the China market place

Reflections on the visits and activities in China:-

Unfortunately much of the time spent in China was focussed on a single operator being Grand Farms and their expansion activities. Viewing large scale building sites, although interesting, probably didn't provide much insight into their sheep meat industry.

We didn't see any large scale sheep working properties or processing factories apart from Grand Farms reprocessing of imported secondary cuts.

It was hard to determine the level of Government support into the sheep meat industry and it seemed difficult to justify the Capex of the large scale expansion of processing factories.

At this stage China is only an importer of lower value cuts and at reduced prices. The two factors that may in the longer term have positive implications to the WA industry are:-

- i. Access to chilled markets as opposed to frozen product
- ii. Re-education of Chinese people into a Western style of eating

With the amount of Chinese investment (presumably government backed) into infrastructure, it is hard to imagine that allowing chilled market access will be high on the government's agenda.

Communications with industry

ABC Radio interview with Olivia Garnett – late July

Great Southern Herald interview with Sophie Clappin - Late July

Presentation at SILC - Sheep investment Forum workshop – Wed 7th October

Presentation to the WAMMCO board – Wed 26th August

Presentation at Southern Dirt Forum - August

7.3.6 Kelvin Flugge – Indigenous Landholder Service

Objectives

The Department of Agriculture and Food, Western Australia (DAFWA), together with Meat and Livestock Australia (MLA) are supporting development of the V&V Walsh: Grand Farm supply chain development program (Program). DAFWA (through its Royalties for Regions Sheep Industry Business Innovation project) / MLA / V&V Walsh have been cooperating to develop the Program of activities which aim to sustainably increase Western Australian (WA) lamb production, improve supply chain efficiencies and returns to farmers.

The **objective** of the tour was to increase awareness and confidence of WA delegates about the Chinese red meat market, enrol WA delegates into the Program, and for the delegates to act as ‘ambassadors’ to inform fellow producers about the requirements in the supply chain and to instil confidence about the significant market opportunities in China.

Key points of interest

1. MLA briefing on China Red Meat Market inc. distribution systems, internal cost structures, main players, domestic production and international competition to Australia, key issues, market situation and drivers for consideration.
2. Understanding of online, warehousing food service and retail channels and market requirements and trends in Shanghai - MLA

Key benefits to Western Australia

- The sheer scale of the opportunity combined with the rapid pace of structural and social change in China will mean that new opportunities and segments will constantly emerge – and the WA industry must continue to closely monitor these changes and be ready to respond.
- The potential market opportunity in China is real despite the fact that there has been a recent slowing in growth of the Chinese economy. There are between 360-520 million middle class consumers who are looking to increase their access to safe and healthy animal protein.
- Due to our traceability and integrity systems and the ‘clean & green’ image of Australia, our product has a competitive advantage that can (and must) be further exploited.
- Food security and safety are key priorities in China and there is a lack of trust in domestic food production systems due to recent scandals such as: ‘zombie’ beef; hormone use; antibiotics in intensely farmed seafood products; melamine in milk etc.

Follow up action and/or recommendation

- Developing long-term strategic business and government-to-government relationships are key to future success – otherwise we will be forced into a

transactional commodity position. There is a need to accelerate investment now in developing these relationships with careful due diligence required to identify the right partners. Partnerships with Chinese customers need to be based on mutual benefit including the sharing of knowledge and expertise.

- A one-size-fits-all business model is not appropriate as there are multiple options available. Individual WA sheepmeat value chains will need to explore all potential market segments to determine how they want to 'play' in the China market – in high value markets (once chilled protocols are established); in value-adding to secondary cuts via the frozen trade; exploring e-commerce opportunities.
- A risk management approach to the pursuit of market opportunities is critical with the need to maintain a diverse range of markets (in addition to China) remaining a key priority.
- There is potential for increasing investment by Chinese businesses in the WA sheepmeat industry. However this is not simply a food security issue as these investors are looking for profitable global business opportunities.
- A proposal has been discussed with V & V Walsh on the development of a cultural exchange protocol between the SW Noongar landholder community, and MR Chen of Grand Farms on his WA visits. It is expected Noongar sheep producers will be a focus of this initiative.

7.3.7 Hugh Roberts - Yandan Grazing Co

Background and expectations

I come from a grazing and cropping property where we grow commercial crops as well as cereals and pastures for grazing. I am involved daily with the breeding production and marketing of all livestock on the property. The livestock enterprise consists of 8500 self-replacing ewes. The flock consists of 3000 border Leister ewes and 2500 merino ewes and 3000 ewes for cross lamb production.

We turn off 6000 prime lambs a year at 21 kg/head average to V & V Walsh from September through to March, off pastures in spring and off stubbles and feedlot during summer.

The merino weathers are sold to local graziers as lambs, or grown out to 12 months of age and sold to the live export market.

The expectations I took to the tour was of a country which its economy has been rapidly growing in both infrastructure and wealth. Their hunger for safe and reliable sheep meat sourced from a country which is known around the world for its clean green image.

Reflections on the visits and activities in China

After returning back to Australia and reflecting on what we discovered in china, it is a country with 360-520 million people who are middle class consumers which are extremely passionate about food security and safety. They also want to enjoy eating high quality sheep meat products still in their traditional methods and trying more western dishes.

The business such as Grand Farms who is capturing the importance of food safety right through the supply chain from point of slaughter locally or imported from a country with high

food safety standards. The product been boned out and packaged to local supermarkets and cuisine requirements it was an eye opener to see.

The inner Mongolian development, the sheer size of the project and the foresight to invest into an area of the country which in the past has struggled with food safety and year round supply of quality sheep meat through the cold winters.

Our livestock breeding business will continue to grow with the knowledge gained from the recent trip, with an understanding of the supply chain. As with all sheep meat producers in Australia, there is a positive vibe around sheep with the growing markets around the world and the demand locally. Within future months, another processor in Western Australia will have access to markets in china, adding to the list of exporters in Australia who already sell into this growing market. As the market is so large, the demand for sheep meat will continue to grow. The main demand is for the lower base cuts of the neck, brisket and flap which is the hardest part of the animal to sell. In future years to come I can see bigger markets for chops, roasts and more western cuts of lamb. If the market gains some stability in prices of these lower price cuts, an increase in the total price of the carcass will be a win for the producer.

The more demand for sheep meat in Australia will maintain a more even price throughout the year and remove the volatility of the market going into the spring months of the year. Which over time has a negative effect on the industry.

In future years the development of a chilled market into china would be a huge advantage to the Australian producer. The Chinese consumer will enjoy eating the freshness of Australian Lamb.

Since returning from China I have spoken to many fellow sheep producers and interested farmers alike about the trip and what we saw, the wet markets, supermarket chains and the high end prices of beef and lamb. The food safety issues, V & V Walsh partnership with Grand Farms. The size and the scope of the market in china for Australian Sheep meat.

I will be doing a talk at the west midlands spring field day on the 8th September 2015.

7.3.8 Richard Coole – Sheep Industry Leadership Council

China is a vast country with a huge population - estimated to be 1.5 Billion by 2030. Of this 300 - 500 million are considered to be upper middle class with reasonable spending power. As a whole it is a large and diverse market with potentially great opportunities if well targeted. It will be prudent to expedite a dialogue with both the Chinese government and Chinese businesses to develop trade.

Food security is a major priority for the Chinese government both in terms of supply and quality assurance. For the higher end of the market "clean and green" is also a consideration.

The Chinese government appear to have co-invested significant funding with private enterprise to establish breeding, feeding and slaughter facilities in China in an attempt to

consolidate and create efficiencies for the future. An attempt is also being made to consolidate land holdings. Whether there are sufficient suitable livestock in China for these projects is up for conjecture.

There may be an expanding role for Australia in these aspirations with Strategic Alliances. Provision of assistance of a technical nature may help in accelerating growth in Chinese production, processing and marketing. Naturally a well remunerated fee for service would be expected even though past experience (as with wool) has shown that this sort of help, leads to market development for Australia and it does not detract from our own market - in fact it often grows our export market. In particular it will give us the edge over other competitors such as New Zealand. V & V Walsh have apparently invested in feedlots with Grand Farm in Inner Mongolia supplying Intellectual Property in terms of design, planning and ration mixes.

Other forms of strategic alliances in the form of Chinese investment into Australia may give us a pathway to market penetration and opening doors for change, as they have a vested interest in our domestic production. For example, chilled meat access, which is currently blocked. Government to government negotiations will be required. V&V Walsh have just agreed to a co - investment in their plant in Bunbury by Grand Farm presumably a "strategic alliance". Investment for investment sake by foreign entities will certainly inject capital into the agricultural industry but may not have the desired gain of market penetration.

Our current market in China tends to be the cheaper cuts such as brisket, shoulder, flap and neck. It is sent as a frozen product, thawed and boned, only to be refrozen as a highly value added product ready to be cooked or heated up, in some way very similar to the needs of busy households in Australia. This product sold to this market, is targeted at maximising the value of the whole carcass but is open to not being able to assure the customer of its source. In the event of the Chinese market maturing and demanding better cuts, there could be concern as to whether Australia will have sufficient product, whether we have the capacity to increase production, and most importantly whether they will be prepared to pay a premium price.

It is easy to be lulled into a sense of greater opportunity given the longer term dynamics of the Chinese market. However we need to be a little cautious. GDP growth in China has slowed. 7% is often quoted but as with all other statistics out of China, is not totally reliable because of data and sampling methodology. There has been some suggestion that GDP may be closer to 4%. The PMI index (purchasing managers index) which measures activities in factories and workshops and is seen as a key barometer of the countries health, fell to 48.5 this month. A figure of over 50 is seen as growth and below indicates contraction. Added to this the stock market crash is estimated to have impacted household income by - 2.2% and GDP at -1.3%. Possibly more importantly the psychological effect of the crash on the people may have a depressive effect on economic growth. Visually building activity was inconsistent with plenty of progress in places, whilst on hold in other locations.

In summary, the Insights tour gave the participants a small look into a vast country, with a vast and slowly changing but diverse market. A country that has very different social, cultural and business values. A country that does business based around relationships and the importance of having strategic alliances when building supply chain models from paddock to plate.

MLA and Government agencies such as DAFWA, apart from facilitating the essential R & D for on farm productivity and efficiency, have the critical role in regulation and negotiating tariff reduction. For example N.Z. will enjoy 0% tariff by 2016 through their free trade deal whilst Australia will have to wait until 2030 for the same thing. Negotiating a deal to lift the exclusion of chilled meat from this market is also needing urgent attention. Product development and strategic promotion and working with processors and exporters at a level that these parties request will help keep the industry on the right footing.

Post Script

Following the Insight Tour of China I returned to China, for a 3 week holiday and I have included a few observations that add to my impressions of this nation.

At the outset of our Insight Tour it was suggested that the growing middle class whose disposable income was said to be in the order of \$US 30,000.00/ann. would create a formidable demand for goods and services from within China and overseas. Whilst this was encouraging, it was a little perplexing that this figure was realistic. In fact subsequent inquiry indicated that the 300 to 500 million upper middle class are in fact earning \$US100,000.00 plus/ann . This would explain how people could afford expensive real estate and cars, especially in the bigger cities. Those on much lower incomes would have to be very much more discretionary with their spending. The wet markets and street stalls seemed to offer this opportunity.

The China/Australia Free Trade Agreement has generated some animated discussion in Australia with respect to the possible impact on local employment and foreign ownership of property. Some Chinese farmers have a completely different take on it. They are worried that cheap imports will undercut their domestic production. The problem is, many of them have very small production units. Currently they receive 2 to 3 times more than Australian farmers do for their farm produce. For example they receive \$AU7.50/Kg for their pig meat compared with \$3.75/Kg in Australia. Canola in China sells for \$AU1500.00 to \$AU18000.00/ton compared to \$550.00/ton in Australia. They are not permitted to grow GM canola, yet the Government imports it as a price driven decision.

One has to admire the recent Chinese development since the commencement of the leadership of Deng Xiaoping in 1978. The central governments push for reform, the so called" Four Modernisations" in Agriculture, Industry, Defence and Science. This has grown and stimulated the economy to record levels. It would seem they have been fearless with their development and none more so than the Three Gorges Dam some 1300 Kms long.

The slowing Chinese economy is a challenge to Australia. As we all know they bailed us out of the GFC and now they face the challenge of transitioning from a development driven economy to market driven economy both domestic and overseas. Obviously as we have been warned, it is imperative that we diversify our future markets. Hence the free trade agreements with Japan and South Korea.

7.3.9 Neville McDonald – Esperance Sheep Feed lotter

The background you brought to the tour and expectations

Our family run a broad acre farm and lamb feedlot east of Esperance. Cropping 8500 ha a commercial ewe flock of 5000 also put 25000 lambs through feedlot on annual basis. We have aligned ourselves with V&V Walsh to supply the Woollies and Coles markets and maybe CHINA in the future. Before leaving on tour my thoughts on China being a less developed country while this is true in some cases in others it leads the world. The boning rooms were very impressive showing people power at its finest all working quick and clean. As Aussies we could learn a thing or two about being polite to others, well done China.

Reflections on the visits and activities in China

One of the things to strike me most was the vast differing contrasts in the landscape. Up in Harbin there are big wide open plains of hundreds of thousands of hectares with lots of mobs of sheep grazing. The ability to house thousands of stock in temperatures of minus 30 for me was quite remarkable for months at a time. Then you go south to find people market gardening on a small scale and surviving. The challenge for china in the meat industry is being able to supply enough with the middle class growing at such a rapid pace. I believe with better genetics, pastures, fertiliser, animal husbandry etc. that china will close the gap. As for Australia and the rest of the world it will be a big challenge to feed them without the grey trade getting involved to keep the Chinese people safe. As Australians we are well placed with Mr Chen and V &V Walsh alignment to keep confidence for the Chinese.

On reflection we almost pale into insignificance on the grand scale China is. I feel very privileged to have been invited to take part in such a well-organized tour.

Implications for your business and the WA industry

On return my thought process was to increase our feedlot to help supply China. All looks great for the red meat industry in WA, one of the major tasks for industry leaders is the generational gap now aren't as passionate about stock as we are hopefully stock numbers have platteded and steady.

Maybe one day live export into China and chilled carcasses will help, with their cost of labour so much lower boning rooms and feedlots costs of production would help considerably.

For myself it is a good time to be in industry, and feedlot expansion is on hold for now.

List any media or communications with industry or peers on the tour (dot points with date and outlet/publication)

On return I spoke with Belinda from ABC country hour on 26th July about tour findings.

The MLA have done two interviews with publications in media outlets.

Terry Burnage has organized a phone hook-up 8th Dec to speak with students from Sydney uni

Also been spotted on odd occasion leaning on the bar @ condy tavern talking with peers about opportunities in China.

In closing I would to congratulate all on tour you we a great bunch and look forward to catching up soon .THANKYOU

To those whom put tour together pain stakingly getting us organized, getting us there and back a job well done THANKYOU.

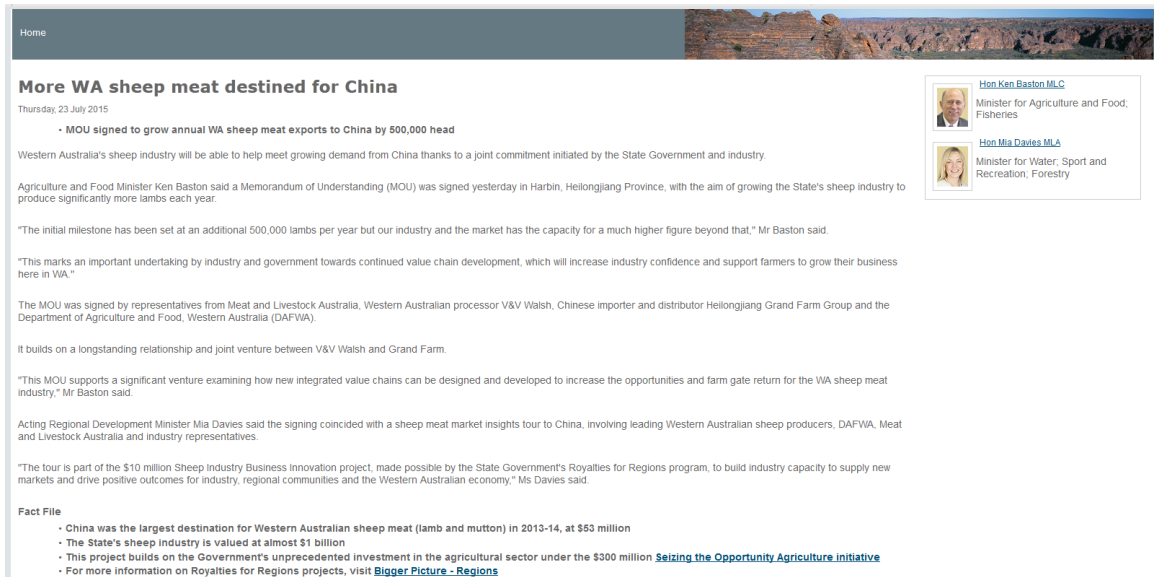
It will be looked back on fondly with many new friends and a wealth of knowledge for years to come.

Regards and take care

Neville McDonald

7.4 Media coverage

Below are some examples of the media coverage obtained.



Home

More WA sheep meat destined for China

Thursday, 23 July 2015

- **MOU signed to grow annual WA sheep meat exports to China by 500,000 head**

Western Australia's sheep industry will be able to help meet growing demand from China thanks to a joint commitment initiated by the State Government and industry.

Agriculture and Food Minister Ken Baston said a Memorandum of Understanding (MOU) was signed yesterday in Harbin, Heilongjiang Province, with the aim of growing the State's sheep industry to produce significantly more lambs each year.

"The initial milestone has been set at an additional 500,000 lambs per year but our industry and the market has the capacity for a much higher figure beyond that," Mr Baston said.

"This marks an important undertaking by industry and government towards continued value chain development, which will increase industry confidence and support farmers to grow their business here in WA."

The MOU was signed by representatives from Meat and Livestock Australia, Western Australian processor V&V Walsh, Chinese importer and distributor Heilongjiang Grand Farm Group and the Department of Agriculture and Food, Western Australia (DAFWA).

It builds on a longstanding relationship and joint venture between V&V Walsh and Grand Farm.

"This MOU supports a significant venture examining how new integrated value chains can be designed and developed to increase the opportunities and farm gate return for the WA sheep meat industry," Mr Baston said.

Acting Regional Development Minister Mia Davies said the signing coincided with a sheep meat market insights tour to China, involving leading Western Australian sheep producers, DAFWA, Meat and Livestock Australia and industry representatives.

"The tour is part of the \$10 million Sheep Industry Business Innovation project, made possible by the State Government's Royalties for Regions program, to build industry capacity to supply new markets and drive positive outcomes for industry, regional communities and the Western Australian economy," Ms Davies said.

Fact File

- China was the largest destination for Western Australian sheep meat (lamb and mutton) in 2013-14, at \$53 million
- The State's sheep industry is valued at almost \$1 billion
- This project builds on the Government's unprecedented investment in the agricultural sector under the \$300 million [Seizing the Opportunity Agriculture initiative](#)
- For more information on Royalties for Regions projects, visit [Bigger Picture - Regions](#)

Farm Weekly
JACINTA BOLSENBROEK
31 Jul, 2015 02:00 AM

Chilled lamb a China export opportunity



A shepherd rounds up a local sheep flock at Xlinhot, China.

CHILLED lamb could be a further export opportunity into China, according to some WA producers who have just returned from a sheepmeat insights tour. A delegation of WA sheep producers and industry representatives embarked on the China tour, which was led by the Department of Agriculture and Food with support from Meat and Livestock Australia (MLA) and processor V&V Walsh. York feedlot manager Scott Boyle, who runs a 20,000 head feedlot facility, said Chinese tastes are changing. "It is changing rapidly and it is becoming a lot more westernised," Mr Boyle said. "The challenge for WA producers is to push to get chilled product in there.

"The Chinese don't take any chilled lamb (currently)."

Mr Boyle said from his experience he noticed all the meat imports were frozen, then defrosted to be boned and processed and then frozen again to sell. "They can't do this with their local product because of the hygiene, whereas the Australian hygiene levels are so high this is possible," he said. "But this destroys the quality, so the challenge is, if they are becoming more westernised they could have the opportunity to appreciate the chilled product and pay for that product."

Mr Boyle said MLA and the Australian trade office could investigate the opportunity.

"I noticed there was a gap in the market and an opportunity," he said.

"The recent Memorandum of Understanding agreement (for sheep meat) and free trade agreements are a great platform to negotiate getting chilled product into China."

Mr Boyle said his experience on the tour would prompt him to make changes in his feedlot.

"The scale is hard to imagine," he said. "Food security is important and the demand is there.

"I will be increasing my capacity, but I will need more product and I will be talking to people on ways we can supply lambs, because the demand is there."

Mining and Pastoral region MLC Mark Lewis said building long-term relationships and having long-term goals was a step in the right direction. "The obvious thing was that we need to keep pursuing a chilled market," Mr Lewis said. "This would open up the most opportunity for WA producers. "This is the long-term goal, but if we want to get into that high-value end of the market, which we have to, we need to build relationships within the value chain."

The delegation not only received a taste of local cuisine, they also had a firsthand glimpse of the Grand Farm's property, lot feeding and processing facilities in Harbin, Heilongjiang province and in Xilinhot, Inner Mongolia. They looked at retail and food service channels in Beijing, Heilongjiang, Inner Mongolia and Shanghai and local sheep production systems.

Tour delegates were impressed with the size of Grand Farm's property and facilities and Grand Farm president Chen Xibin's vision, and the true extent of demand for the product. Wellard Agri chief executive officer Tim Macnamara said seeing the size of the market and demand was an

eye-opening experience. "I think there was some good engaging conversations throughout the supply chain and discussions on how do we do what we do better?" he said.

"Between the two, V&V Walsh and Grand Farm, you have two industry leading players.

"Grand Farm and Mr Chen's vision for food security, the second-to-none facilities, the thought process of how to integrate breeding, lot feeding through to processing and their demand from sourcing quality products from quality locations in Australia and New Zealand is impressive. "It continued to make me aware of working closely with the relevant parties within the industry and to work together to improve what we do and how can we play more of a part to assist with building our flock?"

Mr Lewis said WA producers and authorities needed to focus on supply given the high demand. "There is opportunity in the southern rangelands, if we get rid of the dogs," he said. "Sheep meat will be the obvious thing to grow, we could grow bigger sheep in the pastoral regions, but it is a long-term vision. "I am confident this long-term strategy would work and I hope one day we will again see sheep from Katanning up to the Goldfields, and those going into sheep meat."

DAFWA agribusiness and food trade development manager Terry Burnage said the group was able to get an insight into the strategies behind the Grand Farm supply chain. "The China Insights Tour provided participants with the opportunity to observe first-hand many aspects of this very significant market," he said. "Participants were briefed on future

consumer and supply chain drivers that will underpin opportunities over the next several years and received in-market briefings by a range of experts. "The tour allowed for an in-depth understanding of the current and future strategies of the Grand Farm supply chain, which included visits to processing facilities in Harbin and Inner Mongolia and dedicated red meat retail outlets.

"There was also the opportunity to taste traditional Chinese sheepmeat cuisine and visits to traditional wet markets, specialist red meat retail outlets and high end supermarkets in major cities."



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Countryman(WA), Perth

16 Jul 2015, by Rueben Hale

General News, page 3 - 513.00 cm²

Rural - circulation 7,078 (---T---

ID 435507562

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Producers seek Chinese sheep niche

Rueben Hale

WA's biggest meat processor has thrown its support behind a WA producer-led tour of China aimed at finding "significant market opportunities" for red meat.

V&V Walsh will join seven hand-picked producers and representatives from Meat and Livestock Australia, industry and government for the nine-day visit to the world's biggest red meat market, which will look at retail and food service channels in Beijing, Heilongjiang, Inner Mongolia and Shanghai.

Producers were selected by WA processors for the trip based on supply numbers and their ability to expand the State's dwindling sheep flock in response to China's growing demand for Australian red meat.

The State sheep herd is sitting at 14.5 million compared to 30 million 15 years ago.

The tour comes after last year's landmark deal signed between V&V Walsh and Grand Farm, China's biggest red meat importer from Australia and New Zealand.

Since that time, the Bunbury-based processor has fallen well-short of its 21,000 head a week target.

The \$1 billion deal meant the Bunbury-based processor had to process an extra 500,000 lambs and 30,000 cattle a year for Grand Farm.

Grand Farm is investing \$1 billion overall in boosting supply and production with the backing of authorities in Inner Mongolia, where the Walsh brothers have a multimillion-dollar stake in the development of an abattoir with capacity to process 10,000 lambs a day, undercover feedlots and a research centre.

The tour, scheduled to leave Perth for China tomorrow, is being led by the Department of Agriculture and Food, with support from MLA.

Countryman understands an aim of the tour is for local producers to form a relationship with Grand Farm, facilitated by the longstanding business relationship and friendship of V&V Walsh director Peter

Walsh and Grand Farm president Chen Xibin.

Department acting executive director Bruce Mullan said the delegation formed part of broader work through the Sheep Industry Business

Innovation project to enable the sheep industry to build markets and capacity to supply them.

"The aim of the project is to improve the competitiveness and grow the value of the WA sheep industry, generating benefits to producers, the regions, communities and the State's economy," he said.

"China is already Western Australia's largest sheep meat market and there is scope for further development.

"Delegates will build knowledge right through the supply chain, noting different regional market requirements through retail and food service channels as well as looking at local sheep production systems which WA also has an opportunity to target, for example through genetics and technical assistance."

Frankland sheep producer Richard Coole is looking forward to taking part in the tour.

He breeds about 4000 crossbreed lambs a year on his 7000ha farm.

"I crossbreed my Merino ewes with White Suffolk rams because it caters for feedlot, live export and domestic markets," he said.

"I am willing to make my lambs available for the Chinese market as long as the price is good. On the local market I am getting between \$5 and \$6 kg."

Other producers on the trip are Neville McDonald (Esperance), Scott Boyle (York), Craig Heggaton (Kojonup), Andrew Gillam (Dongara), Hugh Roberts (Dandaragan) and Dr Kelly Manton-Pearce (Yealering).