

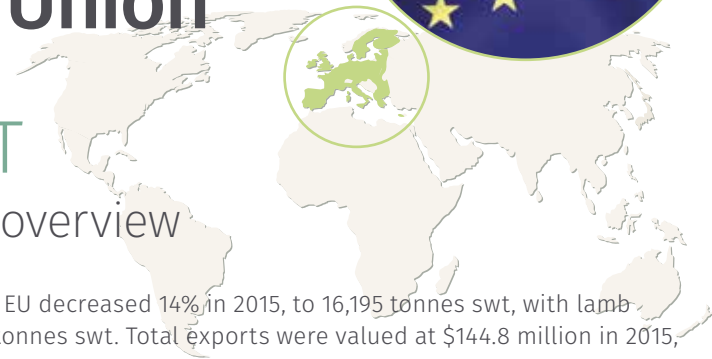
market snapshot



European Union

SHEEPMEAT

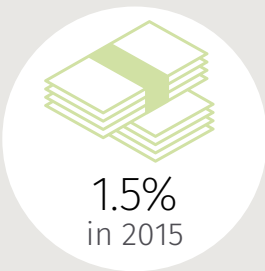
Australian trade overview



export value



EU GDP growth



EU consumption
(sheepmeat)



EU imports**
(sheepmeat)



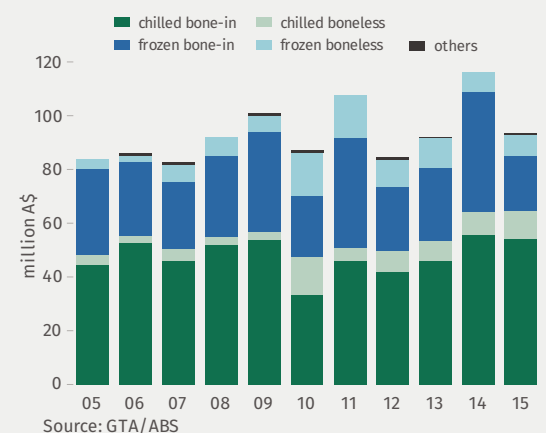
*MLA estimate
**Under EU quota regime

→ Sheepmeat exports to the EU decreased 14% in 2015, to 16,195 tonnes swt, with lamb shipments back 24%, at 10,656 tonnes swt. Total exports were valued at \$144.8 million in 2015, a decrease of 5% on the previous year.

→ Within the EU, the UK has historically been the major destination for Australian lamb and mutton, accounting for 80% of total exports last year.

→ Australian lamb and mutton exports to the EU are expected to remain steady in 2016, with its allocated quota forecast to be filled. The quota restrictions will prevent any growth, with the tight Australian and New Zealand supply forecast for 2016 helping to at least maintain prices, despite the increase expected in UK lamb production.

Lamb exports value to the EU



Key insights

→ Lamb demand continues to be sheltered from higher prices with a strong position in foodservice. Foodservice and catering provides a relatively resilient market, where high meat prices can be absorbed more easily than at retail. The EU's historical consumption trends and large Muslim community provides consistent demand for sheepmeat.

→ The growth of more convenient meat products (cuts, packaging, and ready-to-cook) will be a key driver of meat trends across Europe. Time pressure on consumers as well as a reduction in household size continues to increase demand for smaller portioned, fast and simple meal options.

→ European consumers have become more aware of the source of origin of meat products. Strong demand for production systems to deliver lamb and mutton that is safe, raised with a high degree of animal welfare, sustainable and of reliable eating quality is now a high priority amongst EU citizens.



Lamb consumption
in the
UK and France
is expected to remain
steady at
4.7 kg/person
and **3.0kg/person**
respectively (GIRA)

Consumption

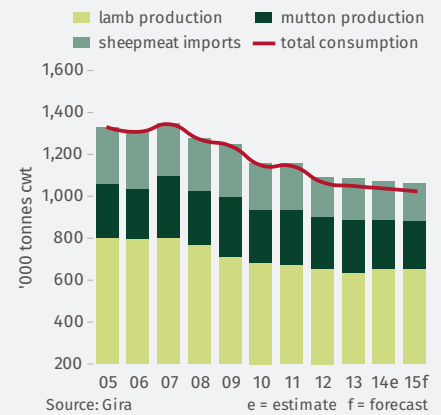
- Sheepmeat consumption has a localised pattern in the EU, with two main markets (UK and France) representing 49% of total EU-28 consumption – adding in Romania and Germany, the shares rises to 60%. In southern Europe, Spain and Greece are the major sheepmeat consumers, follow by Italy.
- Despite accounting for only 2.8% of total meat consumption (1.8 kg/per capita retail weight) total sheepmeat consumption is expected to stabilise at around 1.1 million tonnes by 2024. With a relatively low consumption rate and large population sheepmeat is assumed to react fairly inelastically (or unaffected) to price increases (GIRA).

- Although sheepmeat consumption appears to be inelastic, it is less so in the southern EU countries as, being a high priced option, there have been clear signs of weakening demand in those countries most affected by the economic crisis.

Consumer

- In some EU countries, sheepmeat consumption has traditionally been linked to production seasonal cycle (notably in the UK and Ireland, and Greece and Cyprus). Similar to Australia, Easter and holidays are the periods of higher consumption. In most other EU markets, lamb is increasingly becoming a niche product for elderly or wealthy consumers and for special occasions.
- Another niche is the cultural food within Muslim communities, which in some countries account for a large share of the population (e.g. up to 20% in Germany), where demand is high for mutton as well as lamb, and is strong enough to see the impact of Muslim festivals increasing lamb prices.
- Greater than 90% of raw meat distributed through modern retailing is sold fresh/chilled. Frozen products are commonly recognised as lower quality and are in less demand by consumers. The fresh/chilled value added segment (minced, marinated, skewers) is expected to record the strongest growth through to 2020.

EU sheepmeat supply and consumption



Market trends

- While prospects of improved economic growth should leave EU consumers with more disposable income, it may not necessarily result in an increase in overall meat (volume) consumption. In line with trends seen over the last decade, consumption of meat products is not expected to rise over the coming years. However, whilst consumption is not increasing in volume terms, consumers are spending more when purchasing meat.
- The growing importance of social concerns (animal welfare and carbon footprint), health concerns, an ageing European population and tight import barriers will all contribute to decreased consumption per capita. Some of these factors are likely to favour alternative proteins, such as poultry, over other meats, increasing poultry consumption as a proportion of total meat consumption.
- Red meat branding has significantly changed in the EU since early 2000s. The increasing offer and success of ICR (industry case ready) products has allowed major groups to establish a branding strategy visible via packaging.



Meat sales through online services are expected to remain limited in volume terms, accounting for only 3% of all raw meat modern retailing by 2020.

Sector growth

- ➔ Since the early 2000s, the hard discounters (eg. Aldi) expansion into fresh meat retailing has been highly successful in the EU with the two main chains achieving a core brand position of relatively low cost, convenience and quality. For instance, 45% of meat sales in Germany were through the hard discounters in 2014.
- ➔ In the retail sector, consumer demand for convenience has increased with buyers shopping at smaller stores, purchasing smaller portions, and moving towards meal solutions.
- ➔ There has been a steady decline in the meat roast category in the last few years in the UK, mostly attributed to the change on consumers habits (time constrain, search for more convenience, smaller families). In response, a series of new roast options have been successfully launched in the market (e.g: lamb topside, rump and thick flank mini roasts, mini leg of lamb).

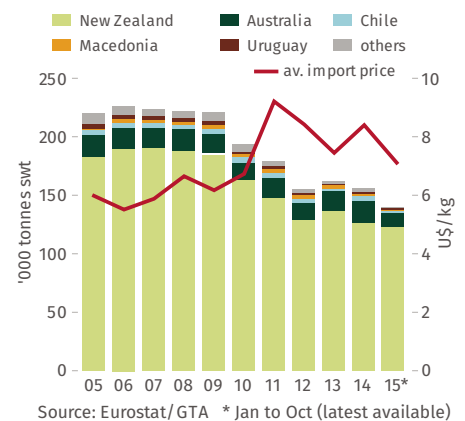
Competitors

- ➔ For the year ending September 2016, Beef + Lamb NZ forecast lamb slaughter to be 7.4%, or 1.6 million head, lower year-on-year, at 19.4 million head. This reflects higher than expected production during the previous season, a reduced lamb crop, and greater hogget retention.
- ➔ With the assumption of a return to normal climatic conditions during 2015-16, the average lamb carcase weight is expected to increase to 18.2kg. This rise will slightly offset the fall in lamb slaughter, with production forecast to reach 354,600 tonnes carcase weight (cwt) for the coming season – back 6.3% year-on-year. Beef + Lamb NZ estimate lamb exports will be 293,000 tonnes swt in 2015-16 – down 6.3% on the previous year
- ➔ UK sheepmeat production is forecast to increase in 2016, to 313,200 tonnes cwt, supported by a larger breeding flock. The rise in production is likely to impact on overall UK sheepmeat imports.
- ➔ Argentina, Uruguay and Chile combined represents 12.5% of the total EU sheepmeat quota. The three countries have consistent fallen short, shipping only 13.4% of their combined allocated quota.



Lamb Mini Roast

EU sheepmeat imports - by supplier





Market access

➔ Despite being the second largest supplier to the EU, Australian sheepmeat exports are limited by a 19,176 tonne calendar year carcase weight equivalent (cwe) Tariff Rate Quota (TRQ). In-quota shipments do not incur any duty, while out of quota shipments incur a 12.8% and 902-3,118€/tonne duty (depending on the product) – preventing any significant shipments above quota. The sheepmeat TRQ includes lamb, mutton and goatmeat, based on a carcase equivalent (cwe) basis.

➔ NZ has a distinct advantage within the EU market, dominating the Tariff Rate Quota (TRQ) allocation, with 228,254 tonnes cwe/year (80% of the total).



EU quota

Australia was the only country to fill its EU quota in 2013, 2014 and 97% in 2015, yet its access remains limited to only 19,176 tonnes cwe, or 6.7% of the quota.

EU import quota and utilisation 2010-2014

tonnes cwe	2012			2013			2014			2015		
	QUOTA	ACTUAL IMPORT	%	QUOTA	ACTUAL IMPORT	%	QUOTA	ACTUAL IMPORT	%	QUOTA	ACTUAL IMPORT	%
ORIGIN												
NEW ZEALAND	228,254	160,269	70%	228,254	167,457	73%	228,254	155,197	68%	228,254	174,540	76%
AUSTRALIA	19,186	16,456	86%	19,186	19,142	100%	19,186	19,110	100%	19,186	18,706	97%
ARGENTINA	23,000	1,814	8%	23,000	930	4%	23,000	1,426	6%	23,000	534	2%
URUGUAY	5,800	3,503	60%	5,800	3,199	55%	5,800	3,724	64%	5,800	1,785	31%
CHILE	6,800	3,123	46%	7,000	3,965	57%	7,200	3,561	49%	7,200	2,503	35%
ICELAND	1,850	340	18%	1,850	432	23%	1,850	822	44%	1,850	1,093	59%
NORWAY	300	-	0%	300	-	0%	300	-	0%	300	-	0%
TURKEY	200	-	0%	200	-	0%	200	-	0%	200	-	0%
GREENLAND	100	-	0%	100	-	0%	100	-	0%	100	-	0%
FAEROES	20	-	0%	20	-	0%	20	1	5%	20	1	7%
OTHERS	400	290	73%	400	200	50%	400	200	50%	400	200	50%
ERGA OMNES	92	-	-	92	-	-	92	-	-	92	-	-
TOTAL	286,002	185,794	65%	286,202	195,326	68%	286,202	184,041	64%	286,202	199,362	70%

Source: EU Commission

Top cuts to the EU

AUSTRALIAN SHEEPMEAT EXPORTS				2015			2014			change		
tonnes swt		TOTAL		CHILLED	FROZEN	TOTAL	CHILLED	FROZEN	TOTAL	CHILLED	FROZEN	
Europe TOTAL		16,195		5,910	10,285	18,759	6,334	12,425	-14%	-7%	-17%	
LAMB		10,656		5,910	4,746	14,043	6,334	7,709	-24%	-7%	-38%	
1	LEG	6,170		5,025	1,145	8,551	5,501	3,050	-28%	-9%	-62%	
2	SHANK	1,829		-	1,829	3,452	-	3,452	-47%	0%	-47%	
3	CHUMP	882		570	312	868	556	312	2%	3%	0%	
4	MANUFACTURING	1,182		-	1,182	583	-	583	103%	0%	103%	
MUTTON		5,539		-	5,539	4,716	-	4,716	17%	0%	17%	
1	LEG	4,439		-	4,439	3,843	-	3,843	16%	0%	16%	
2	BONELESS LOIN	271		-	271	227	-	227	19%	0%	19%	
3	BACKSTRAP	24		-	24	166	-	166	-86%	0%	-86%	
4	OTHERS	489		-	489	431	-	431	13%	0%	13%	

Source: DA

