

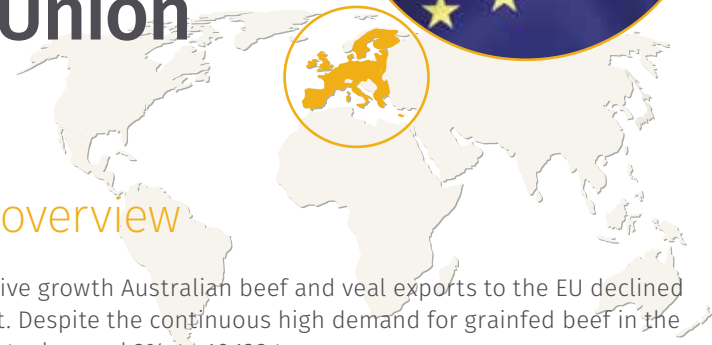
market snapshot



European Union

BEEF

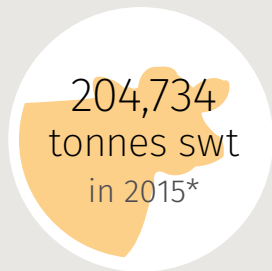
Australian trade overview



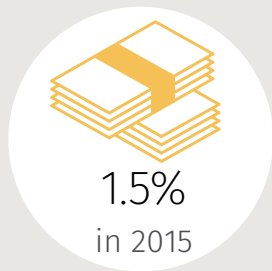
export value



EU beef imports



EU GDP growth



EU consumption
(beef)



*MLA estimates

➔ After six years of consecutive growth Australian beef and veal exports to the EU declined 5% in 2015, to 23,445 tonnes swt. Despite the continuous high demand for grainfed beef in the EU, Australian grainfed shipments dropped 2%, to 16,128 tonnes.

➔ The UK continues to be the primary destination, accounting for 40% of total exports in 2015. Improved market access however has permitted Australian beef to diversify into a greater number of export destinations throughout Europe in the past few years, with a noticeable growth to the Netherlands, Italy and the Nordic countries.

➔ The EU remains Australia's highest value large¹ export market on a per tonne basis, with shipments averaging \$12,610/tonne². Total beef exports were valued at \$297 million in 2015, an increase of 4% year-on-year.

¹ A large beef market classified to be exports greater than 10,000 tonnes per annum.

² Jan to Nov average.



Key insights

➔ Australian beef, through its strong presence in the foodservice sector, is positioned to capitalise on the European consumers improving discretionary spending power. Expected economic growth, combined with a recovery in consumer confidence, will see increased spending for non-essential personal consumption items.

➔ The growth of more convenient meat products (portion size, 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 portioned, fast and simple meal options.

➔ European consumers have become more aware of point of origin of meat products. Strong demand on production systems to deliver beef that is safe, raised with a high degree of animal welfare, sustainable and of reliable eating quality is now a high priority amongst citizens.

Consumer

- ➔ The financial crisis, which affected Europe at the end of 2008, continues to impact on disposable incomes, with consumers now more aware of spending habits. At retail particularly there is continued demand for grinding beef over premium cuts. However, the positive economy outlook for the EU economy is likely to improve primal cuts consumption.
- ➔ In 2014, the UK suffered a food safety scare through horsemeat incorrectly labelled as beef. The scandal has had ongoing repercussions notably with pressure on retailers to improve their control of beef supply chains and preferably local products.
- ➔ 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 lower demand by consumers.
- ➔ The fresh/chilled value added elaborated segment (minced, marinated, skewers) will record the strongest growth through to 2020.

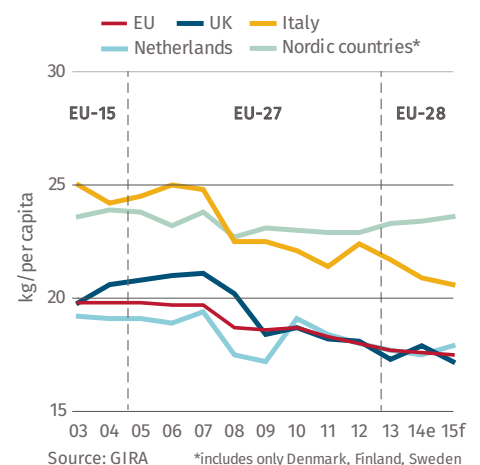
Consumption

- ➔ After seven years of robust consumption recovery from the 2000-01 BSE crises, EU beef consumption peaked in 2007, and has since been in slow but steady decline. EU beef consumption remains very dependent on availability and price.
- ➔ The growth of more convenient meat products (cuts, packaging, and ready-to-cook) will be a key driver of meat trends across Europe. Likewise in Australia, time pressure on consumers as well as a reduction in household size continues to increase demand for portioned, fast and simple meal options.
- ➔ For instance, there has been a steady decline in the meat roast category in the last few years in the UK, mostly attributed to the change in consumers habits. In response, a series of new mini roast options have been successfully launched in the market.

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 consumption. In line with trends seen over the last decade, consumption of meat products is not expected to rise over the coming years. The growing importance of social concerns (animal welfare and carbon footprint), health concerns and an ageing European population will all contribute to decrease 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 consumption³.
- ➔ In the retail sector, consumer demand for convenience has increased with buyers shopping at smaller stores, purchasing smaller portions, and moving towards meal solutions.
- ➔ Red meat branding has significantly changed in the EU since early 2000's. The increasing offer and success of ICR⁴ (industry case ready) has allowed major groups to establish a branding strategy visible via packaging.

Beef consumption per capita



Raw meat retailing accounts on average for 45% of total apparent consumption within the EU-27, further processing for 40% and catering for 15%.

³ EU Commission – EU Agricultural Markets and Income 2014/24.

⁴ ICR – Industry Case Ready (retail packed off site in a commercial operation).



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

Sector growth

- ➔ Since early 2000's, the hard discounters⁴ 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.
- ➔ Since the expansion of the HQB grainfed quota (from 20,000 tonnes to 48,200 tonnes) in mid-2012, EU demand for grainfed beef has grown strongly, with total imports under the EU HQB grainfed quota up substantially in 2014-15, to 47,605 tonnes swt.
- ➔ According to the EU Commission, global usage of the "Hilton" quota increased 6% in 2014-15, totalling 45,618 tonnes swt, or 67.8% of the total quota. The rise was mainly driven by the increase in Brazilian beef shipments under the quota.
 - ⇒ Brazil filled 80% of its allocated quota (or 7,990 tonnes swt) in 2014-15, up from 41% (4,079 tonnes swt) in the previous fiscal year. A greater number of cattle meeting the specifications to supply beef under the quota underpinned exports.
 - ⇒ Australia has been a consistently high user, but registered a slightly decline in 2014-15, with utilisation at 95% (6,815 tonnes swt)
 - ⇒ New Zealand and Uruguay continued to use all of their annual allocation; both countries have recorded high usage since 2009-10.
 - ⇒ Argentina has the largest quota allocation, at 30,000 tonnes swt, but has consistently fallen short, shipping 76% (or 22,867 tonnes swt) of its total allocation in 2014-15.
 - ⇒ The US and Canada share a quota of 11,500 tonnes swt and its quota utilisation remained very low, at 3% (353 tonnes).

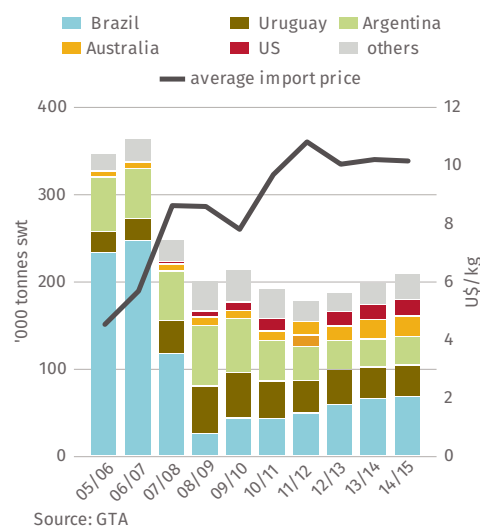
Hilton Quota 2014/15

| Countries | Quota allocation (tonnes swt) | Quota utilisation (tonnes swt) | Quota utilisation (%) |
|--------------|-------------------------------|--------------------------------|-----------------------|
| Argentina | 30,000 | 22,867 | 76 |
| Australia | 7,150 | 6,815 | 95 |
| Uruguay | 6,300 | 6,281 | 100 |
| Brazil | 10,000 | 7,990 | 80 |
| New Zealand | 1,300 | 1,299 | 100 |
| US & Canada | 11,500 | 353 | 3 |
| Paraguay | 1,000 | 12 | 1 |
| TOTAL | 67,250 | 45,618 | 67.8 |

Competitors

- ➔ Uruguay has been a growing supplier of beef to the EU, increasing its market share under the Grainfed Quota and with "Hilton Quota" utilisation ranging from 90% to 100% each year. Uruguayan beef production is forecast to reach 600,000 tonnes cwe in 2016, the highest since 2006. (USDA).
- ➔ Brazil remains the major beef supplier to the EU, despite the decline on shipments in 2015. However, they are currently far behind the volumes shipped prior the 2008 partial ban. The weak Brazilian Real has helped boost exports, supplying the lower end of the foodservice industry with relatively cheaper beef.
- ➔ Argentina gained access to the EU HQB grainfed quota in September 2014, with the first shipments expected to occur in the fourth quarter of 2014-15. Argentina already ships beef to the EU under the Hilton Quota, but has consistently fallen short of its annual allotment of 30,000 tonnes swt (the largest quota allocation).
- ➔ US beef shipments to the EU have risen in recent years despite the reported tight supply. The US was the major supplier under the HQB grainfed quota in 2014-15, although with a smaller market share year-on-year.

EU beef imports – by supplier



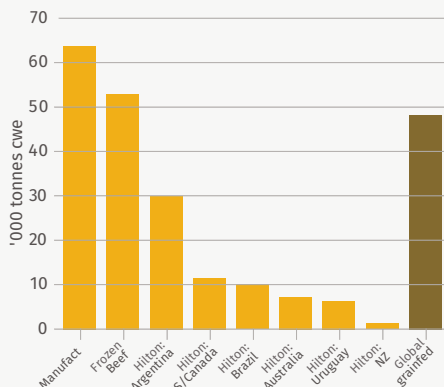
Source: GTA

⁴ Normally a small to medium sized store belonging to a chain that sells a relatively reduced number of stock keeping units at the lower price points and with high penetration of private label products.

Market access

- The vast majority of Australian beef and veal exports to the EU are shipped under two major fiscal year quotas, the HQB Hilton quota (Australia's share of this quota is 7,150 tonnes swt/year and has 20% in-quota duty) and HQB grainfed quota (48,200 tonnes swt/year – first come first served import allocation and in-quota duty 0%).
- Australia has been a consistently high user of its HQB Hilton Quota allocation and reached utilisation 95% (6,815 tonnes swt) in 2014-15.
- The HQB grainfed quota usage registered a record in 2014-15, with all quarters achieving critical volumes (90% quota usage) and up 15% on the previous year, to 47,605 tonnes swt (IMTA), with Australia's share at 35%, totaling 16,545 tonnes swt.
- In the first two quarters of 2015-16, EU grainfed quota usage have also achieved critical volume (on average above 95%).

EU Beef import quota regime

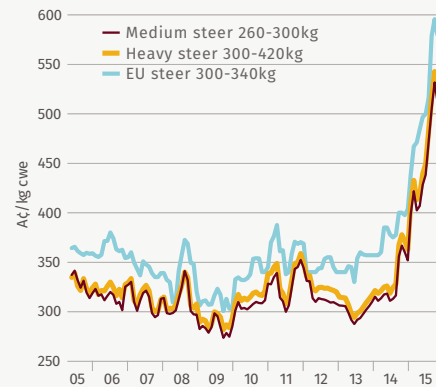


Source: EU Commission

Cattle price comparison

- Since early 2009, Australian EU OTH (over-the-hook) grass-fed cattle prices have consistently been quoted 33¢ above the heavy and medium steer. In 2015, over-the-hook EU cattle price across NSW & QLD reached new highs, achieving a record (nominal) yearly average price, at 524¢/kg cwt, an increase of 37% year-on-year. Heavy and medium steer indicators also increased, up 40% and 41%, to average 475¢, and 465¢/kg cwt, respectively. High international demand, combined with a downward trending Australian dollar, has seen beef supplies tighten significantly throughout 2015, resulting in climbing beef prices across all major categories year-on-year. With Australian herd size now forecast to trend lower for some time, (as it moves through a rebuilding phase), it is expected that prices will hold at such heights for some time.

Cattle prices comparison



Source: MLA/NLRS

Top cuts to the EU

| AUSTRALIAN BEEF EXPORTS | | | | 2015 | | | 2014 | | | change | | |
|-------------------------|------------------------|--------|-----------|-----------|--------|-----------|-----------|-------|-----------|-----------|--|--|
| tonnes swt | | TOTAL | GRASS FED | GRAIN FED | TOTAL | GRASS FED | GRAIN FED | TOTAL | GRASS FED | GRAIN FED | | |
| | Europe TOTAL | 23,445 | 7,317 | 16,128 | 24,618 | 8,135 | 16,483 | -5% | -10% | -2% | | |
| 1 | TOPSIDE/INSIDE | 3,789 | 1,719 | 2,070 | 4,230 | 1,942 | 2,288 | -10% | -11% | -10% | | |
| 2 | STRIPLOIN | 3,458 | 1,663 | 1,795 | 3,413 | 1,683 | 1,730 | 1% | -1% | 4% | | |
| 3 | RUMP | 2,997 | 1,485 | 1,512 | 3,096 | 1,615 | 1,481 | -3% | -8% | 2% | | |
| 4 | SILVERSIDE/OUTSIDE | 2,800 | 633 | 2,167 | 3,018 | 639 | 2,379 | -7% | -1% | -9% | | |
| 5 | CUBE ROLL/RIB EYE ROLL | 1,968 | 927 | 1,041 | 1,880 | 934 | 946 | 5% | -1% | 10% | | |
| 6 | TENDERLOIN | 1,205 | 536 | 669 | 1,312 | 684 | 628 | -8% | -22% | 7% | | |
| 7 | CHUCK ROLL | 1,789 | 69 | 1,720 | 1,808 | 26 | 1,782 | -1% | 165% | -3% | | |
| 8 | BLADE | 1,633 | 7 | 1,626 | 2,038 | 96 | 1,942 | -20% | -93% | -16% | | |
| 9 | THICK FLANK/KNUCKLE | 1,605 | 174 | 1,431 | 1,882 | 367 | 1,515 | -15% | -53% | -6% | | |
| 10 | CHUCK | 530 | 2 | 528 | 486 | 4 | 482 | 9% | -50% | 10% | | |
| | Other | 1,671 | 102 | 1,569 | 1,455 | 145 | 1,310 | 15% | -30% | 20% | | |

Source: DA