



GLOBAL SNAPSHOT | SHEEPMET

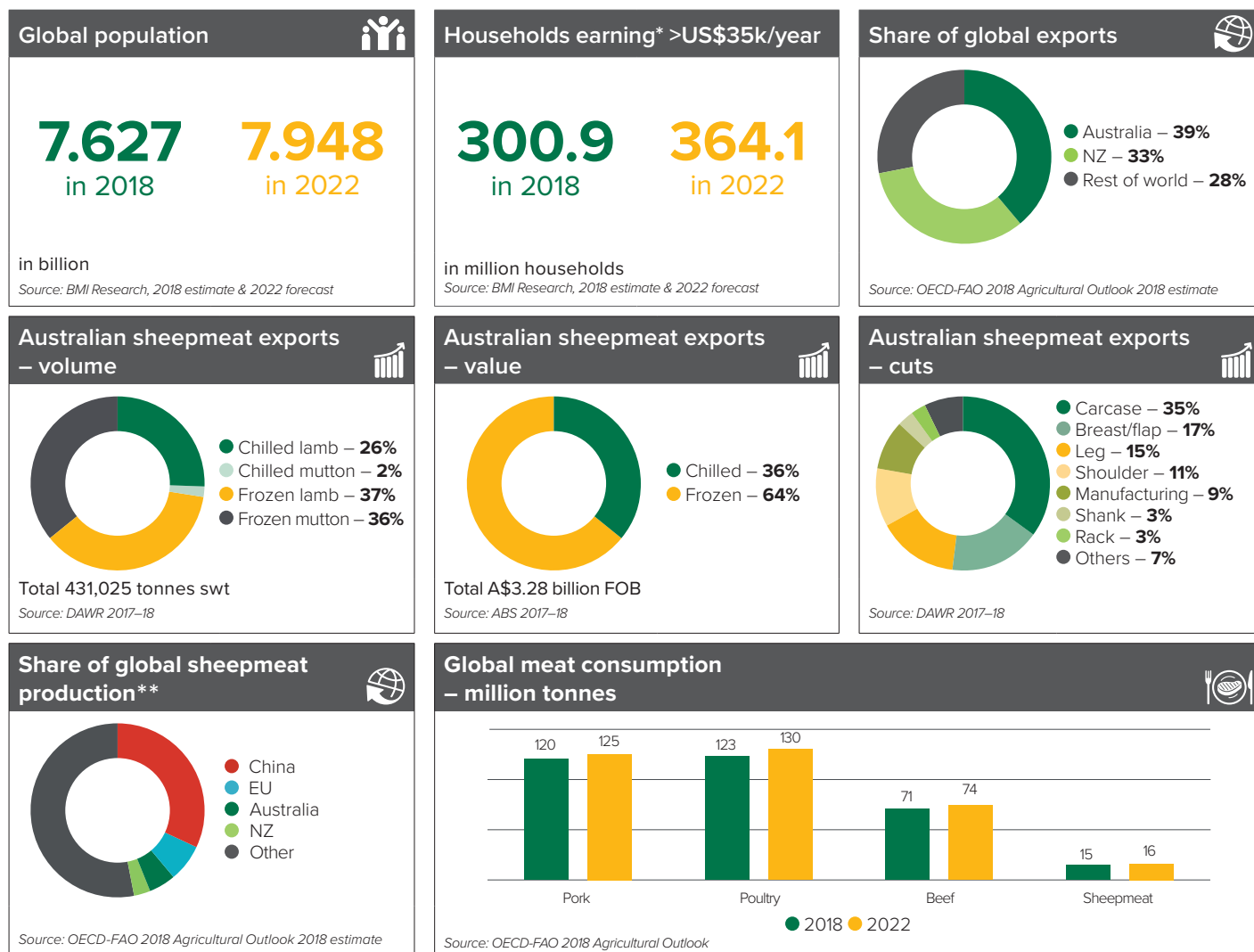


This report offers a comprehensive overview of the global sheepmeat industry and Australia's trade relationship with the world.

The outlook for global sheepmeat consumption is positive, driven largely by growth in population and household wealth in developing markets. Australia produces a small portion of the world's sheepmeat supply but accounts for almost 40% of exports and is the largest supplier to the global market. In most markets, lamb and mutton remain niche components of consumer diets compared to beef, poultry and pork. While sheepmeat is experiencing some challenges, particularly around affordability and familiarity, there are many opportunities for targeted growth.

Consumption of Australian sheepmeat globally is facing a range of opportunities and challenges:

- Global sheepmeat consumption will benefit from expected population and economic growth, with eight of Australia's top 10 sheepmeat markets expecting gross domestic product growth over 2% in the coming year (IMF).
- Growth is highest in Asia, the Middle East and Africa, where sheepmeat is more widely consumed and a greater number of consumers are shifting into the middle-upper income bracket and seeking higher quality meat.
- In most developed markets, sheepmeat remains a niche protein with low per capita consumption, which can be considered both a challenge and opportunity, especially in wealthier markets like the US.
- Sheepmeat's high price, compared to competitor proteins such as chicken and pork, will continue to challenge growth and make demand susceptible to economic shocks.
- Messaging around provenance, sustainability, animal welfare, along with food integrity and transparency, are opportunities for Australian brands to consider in targeted consumer communication.
- Australia has only one major export competitor – New Zealand, whose production is forecast to flat line in coming years. This will provide opportunities for Australia to capture a greater share of high value global markets.
- China, the world's largest producer and consumer of sheepmeat, has emerged to become the leading importer over the last decade and has underpinned the recent rise in global prices. China's domestic production is cyclical and a downturn in import demand would impact global markets.



*Includes: EU, Egypt, Bahrain, Iran, Jordan, Kuwait, Qatar, Saudi Arabia, UAE, US, Canada, Mexico, Japan, Korea, China, Australia, ASEAN, Taiwan and Hong Kong **includes goatmeat.

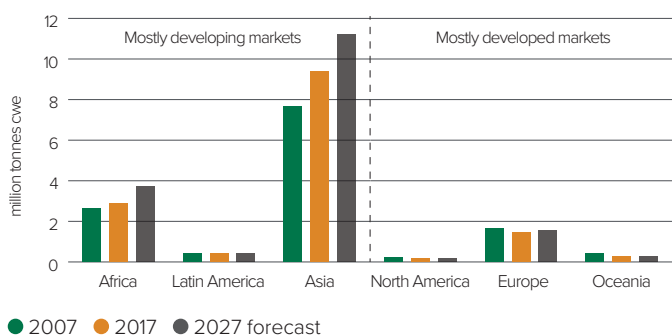


GLOBAL CONSUMPTION

Global sheepmeat consumption is forecast to grow between 1.7–1.9% annually in the coming years, with its share of global meat protein consumption to gradually rise but remain below 5%.

Developing markets, led by Asia, are the driving force behind sheepmeat consumption growth, accounting for 95% of forecast growth in the next decade. In developed countries, sheepmeat consumption is less affected by purchasing power but rather consumer perceptions, availability and familiarity. Developed markets, such as the US, UK and Australia, have a preference for high quality product (specifically lamb, in many cases).

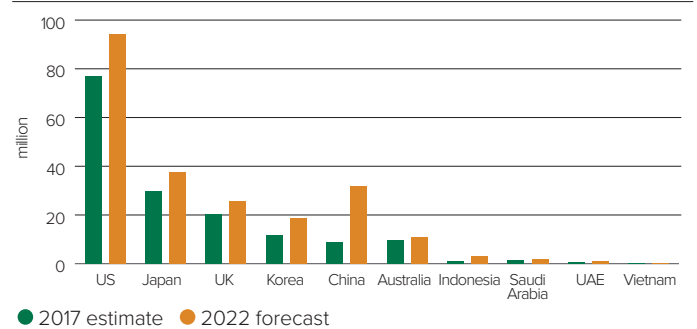
Sheepmeat consumption



Source: OECD-FAO 2018 Agricultural Outlook
Middle East and North Africa (MENA) split across Africa and Asia

However, consumption growth is increasingly limited by supply availability and prices rising at a faster rate than other major meat proteins. For Australia, targeting export markets that have the ability to purchase high quality sheepmeat is key, with households earning over US\$35,000 one measure of the potential market size.

Number of households earning over US\$35,000



Source: BMI

World sheepmeat prices have been gradually growing against beef, pork and poultry and are anticipated to remain at a premium over the next decade (FAO-OECD). In 2000, the global sheepmeat price was half that of beef and cheaper than pork; however, recently it's been close to parity with beef and 30–50% more expensive than pork. Despite the historical rise in price, sheepmeat consumption has continued to edge higher.

CONSUMER LANDSCAPE

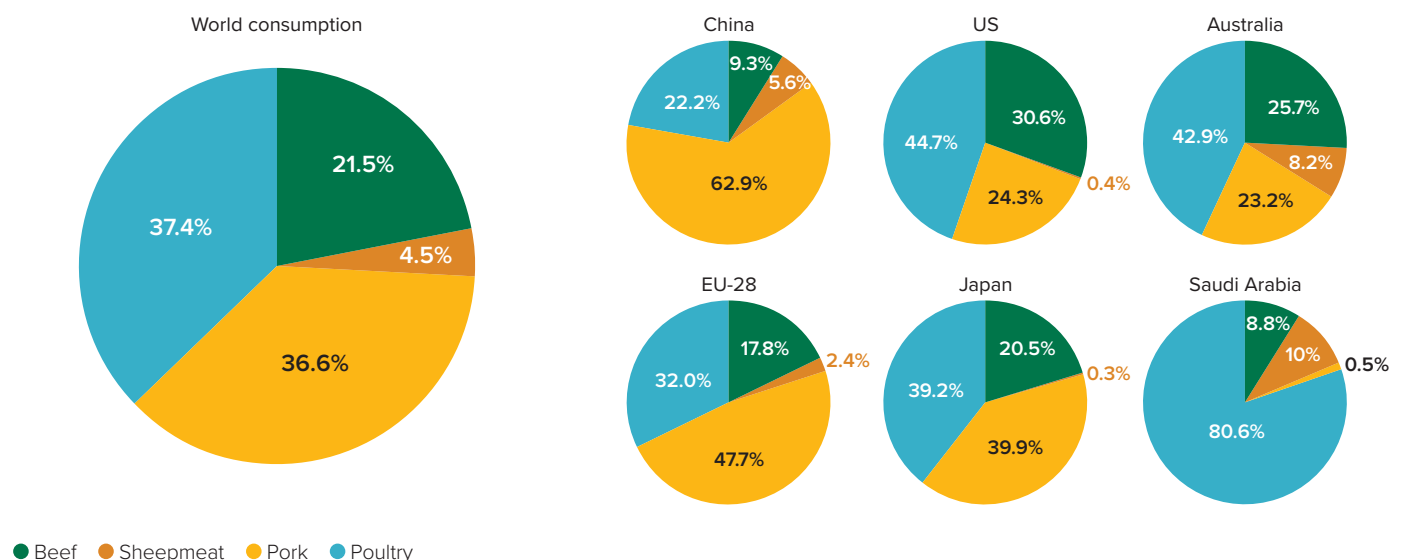
Sheepmeat's position in consumer diets around the world varies greatly, subject to a range of cultural, economic, social and geographical factors. It is considered the preferred meat in many countries – especially those with predominantly Muslim populations and a history of sheepmeat or goatmeat production and consumption – but plays a niche role in many developed markets.

In European countries, such as the UK, France and Spain,

Sheepmeat a niche in many markets

sheepmeat is heavily consumed over the Easter period. In the Muslim world, however, consumption peaks during the religious festivals of *Eid Al-Fitr* and *Eid Al-Adha*.

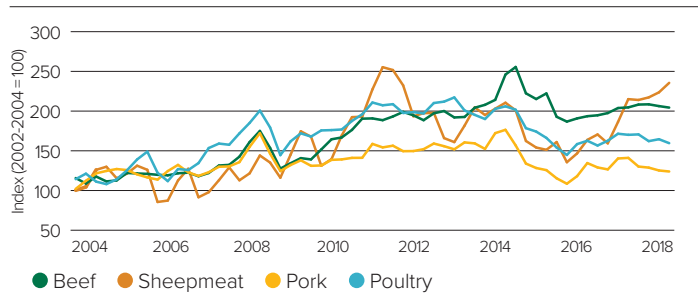
Sheepmeat encompasses a range of products – prime lamb, mutton (often interchangeable with goatmeat), high quality loin cuts and lower value secondary cuts for manufacturing products or hot pots – each of which hold a unique position depending on market and consumer segment.



Source: OECD-FAO 2018 Outlook



World meat price indices



Source: FAO

Sheepmeat is often regarded as a traditional meat, constituting a major part of many diets before the intensification of pork and poultry production. Today, it plays a limited role in modern convenience cooking.

Developed markets, such as China and those in the Middle East, tend to have a stronger affinity with sheepmeat through cultural or religious customs, but price remains a major barrier for many consumers. These regions are forecast to record the highest growth in population, urbanisation and household incomes.

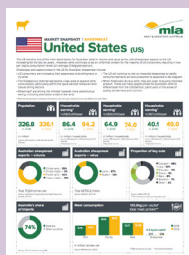
In many developed countries, such as the US, Japan and Korea, lamb is a niche product, not readily available or commonly consumed (except in certain demographic segments), with many consumers unfamiliar with how to prepare and cook the product. However, due to the size and wealth of their populations, they still represent strong potential growth opportunities for imported Australian sheepmeat – particularly in foodservice.

In contrast, the position of lamb in Australia, with strong awareness and preference arising from a long history of consumption, is different from most developed countries. A key challenge in Australia is keeping lamb relevant in homes and restaurants as demographics and consumer preferences evolve.

Considering the product diversity of Australian sheepmeat, understanding the consumer in each market, and what drives their purchasing decisions, is essential to targeted growth. MLA conducts a global consumer survey annually across major export markets to do just this.

For a detailed overview of Australia's primary sheepmeat markets, visit:

mla.com.au/market-snapshots



Perceptions of sheepmeat and other proteins vary significantly around the world but there is consistency regarding consumers

GLOBAL SUPPLY

Sheep feature in traditional production systems across Asia, the Middle East, Africa and Europe. Farms often remain small-scale, with nomadic foraging still present in some cases – a stark contrast to industrialised pork, poultry and, to a lesser extent, beef production. Sheep are regularly grazed on marginal country and can be integrated with wool and dairy production, with meat sometimes being a by-product.

Sheepmeat often plays a minor part in the agricultural mix and a niche role in consumer diets. As such, most production is largely consumed in the country of origin and few countries have an exportable surplus – under 10% of production is traded and Australia and New Zealand account for over 70% of global exports.

Predominantly raised on pasture or supplemented with grain, in

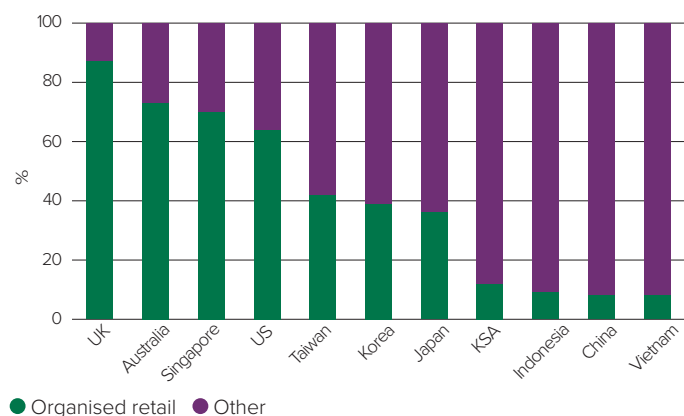
seeking products that are fresh, safe and enjoyed by the whole family. The development stage of the country does affect the importance of attributes, with developing countries typically focusing more on safety and freshness, and developed nations emphasising quality and differentiation.

Broad consumer trends, evident around the world in foodservice and retail channels, affecting sheepmeat consumption, are shifts towards:

- more fresh and less processed offerings
- customised meals
- health claims such as 'free from' and 'natural'
- premiumisation
- convenient, on-the-go offerings
- provenance messaging
- smaller, but higher quality, portions.

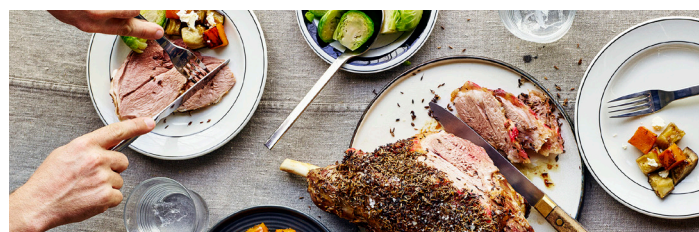
The retail landscape around the world can differ significantly from region to region and between countries. Locations such as Australia and the US have a highly consolidated grocery retail network that enables easier supply chain integration and greater ability for Australian exporters to get a broad footing in the market.

Share of organised retail



Source: BMI

However, in developed markets, like China and South-East Asia, organised retail is a minor component and the market is highly fragmented. Many traditional channels, such as wet markets, still play a key role in the retail landscape, adding greater complexity when seeking high penetration of Australian red meat.

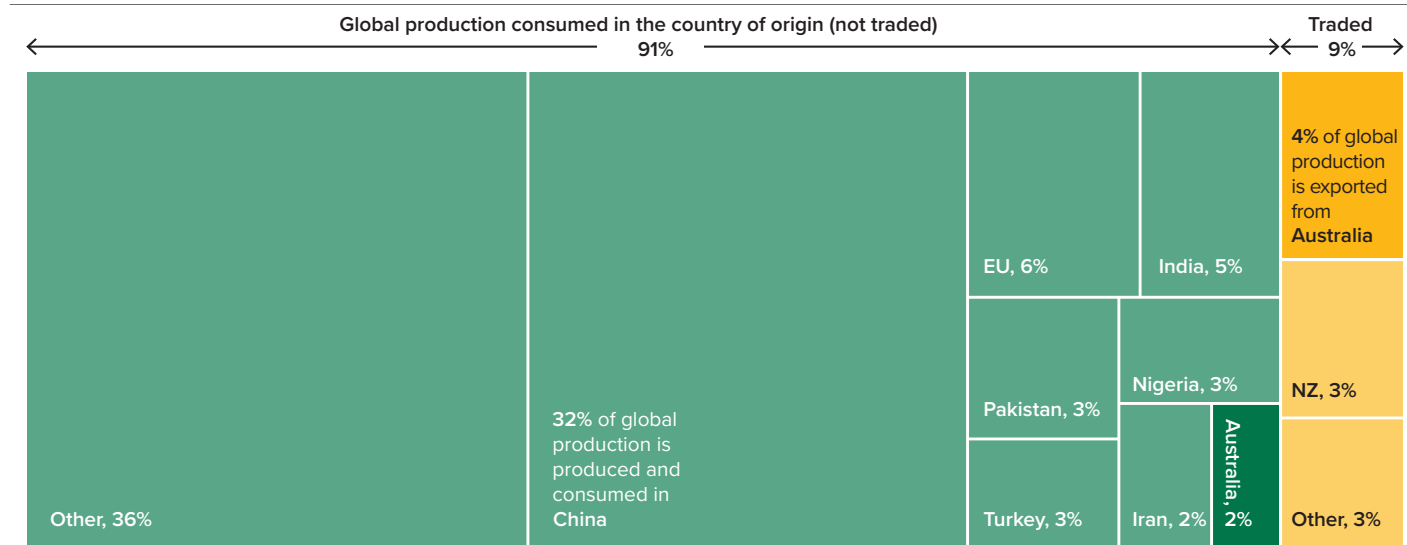


contrast to other meat proteins, sheepmeat production is less dependent upon the global feed grain market and more so influenced by climate variability. In many countries, cropping and intensive animal production have competed with and squeezed out extensive sheep systems – as has been the case with broadacre cropping in Australia and dairy in New Zealand.

Global sheepmeat production has been rising, albeit at a slower rate than pork and poultry. According to OECD-FAO, over the decade to 2017, global sheepmeat production grew at a compound annual growth rate of 1.1% – well below the 1.7% and 3.2% of pork and poultry, respectively. While global sheepmeat production is forecast to continue expanding, it will remain a minor protein and make up less than 5% of the global meat supply over the coming decade.



Global production breakdown: sheepmeat consumed domestically versus exported, by country of origin



Source: OECD-FAO 2018 Outlook

Country labels reflect origin of sheepmeat production. Box area and % labels reflect size of production volume split across sheepmeat consumed domestically in country of production or exported.

Sheepmeat supply in three countries has been key to driving global markets in recent years: China, the world largest producer, consumer and importer of sheepmeat; and Australia and New Zealand, the two leading global exporters.

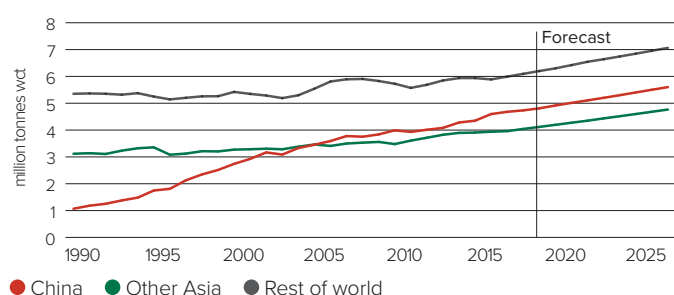
China

China has been unable to achieve sufficient productivity gains, hampered by land degradation and resource constraints, to match growing sheepmeat demand over the last decade. The emergence of China as a major importer has completely transformed the global sheepmeat market and pressured prices to record levels in recent years.

China has the world largest sheep flock and accounts for one third of global sheepmeat production – yet sheepmeat pales in comparison to the nation's domestic pork, poultry and beef sectors. The Chinese sheep industry is cyclical in nature, with opportunistic small-scale producers in poor provinces entering and exiting depending on the market. Given 95% of consumption is domestically produced, small shifts in local supplies can lead to major swings in import demand. Pre-empting the cycle is difficult due to a broad range of interconnecting factors – from Chinese government policy on food security and rural development, to ongoing drought and resource constraints in Inner Mongolia and Xinjiang.

While dominated by traditional production, modern sheepmeat producers, using imported genetics and intensive feeding, have gained a footing in north-eastern provinces.

Global sheepmeat production growth led by China



Source: FAO-OECD 2018 Outlook

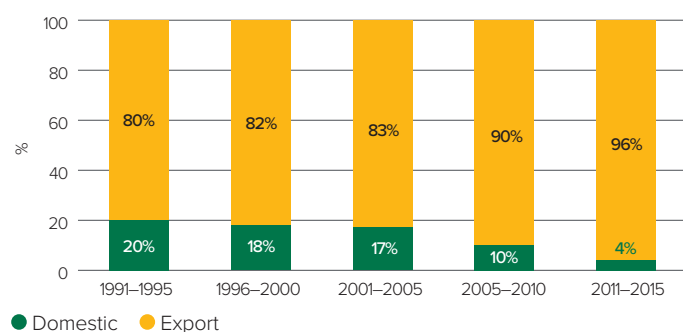
New Zealand

New Zealand is Australia's principle competitor on the global export market, particularly when it comes to high quality lamb, exporting 395,000 tonnes swt of sheepmeat in 2017–18 (Australia shipped 431,000 tonnes swt). New Zealand, however, has been unable to lift productivity sufficiently over the last decade to arrest the impact of a decline in the national flock.

Squeezed out by an expansion in the dairy herd, the sheep flock contracted 23% between 2007 and 2014 and has continued to decline, albeit at a slower rate.

Despite a contraction in supply, exports were maintained at the expense of the domestic market over the last decade – the domestic share of production declined from 20% in the early 1990s to now less than 5%.

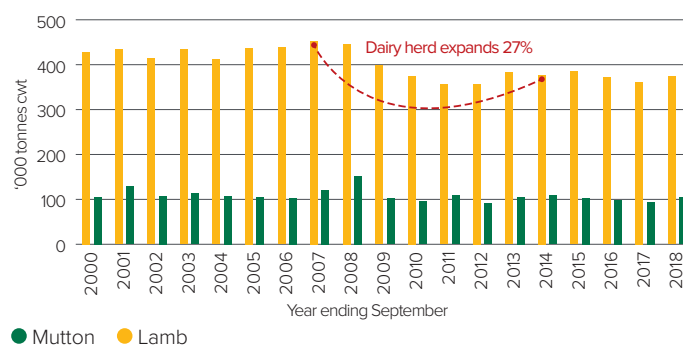
NZ sheepmeat market mix



Source: OECD-FAO 2018 Outlook

Encroaching environmental regulation in New Zealand, designed to limit nitrogen leaching from the dairy sector, may also limit expansion of the beef and sheep industries. Meanwhile, the New Zealand government's ambitious target for the country to be carbon neutral by 2050 may see marginal sheep country converted to forestry and some shift to horticulture and low-emission crops on more productive land.

NZ sheepmeat production



Source: Statistics NZ

Australia

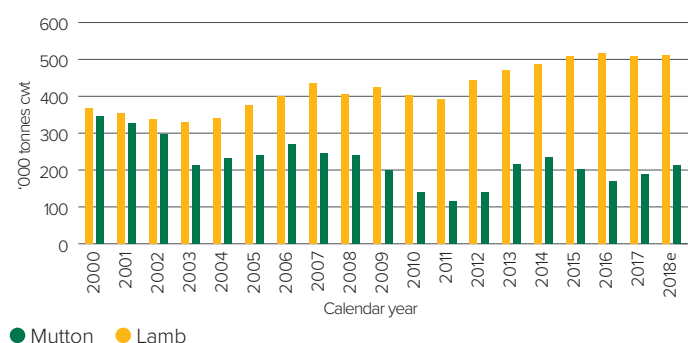
In contrast, the supply outlook for Australia is more positive. While subject to volatile seasonal conditions, production is expected to expand. Growth in lamb production over the last three decades has been underpinned by an industry shift from predominantly wool to an increased emphasis on meat production, and corresponding improvements in lambing rates and carcase weights. However, mutton production has generally declined since 1990, following trends in the national flock, and mirrors short-term variation in seasonal conditions.

For a detailed update on the Australian supply outlook, visit:

mla.com.au/sheepprojections



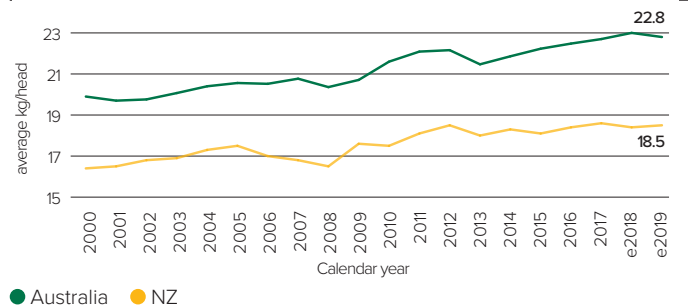
Australian sheepmeat production



Source: ABS, MLA forecast

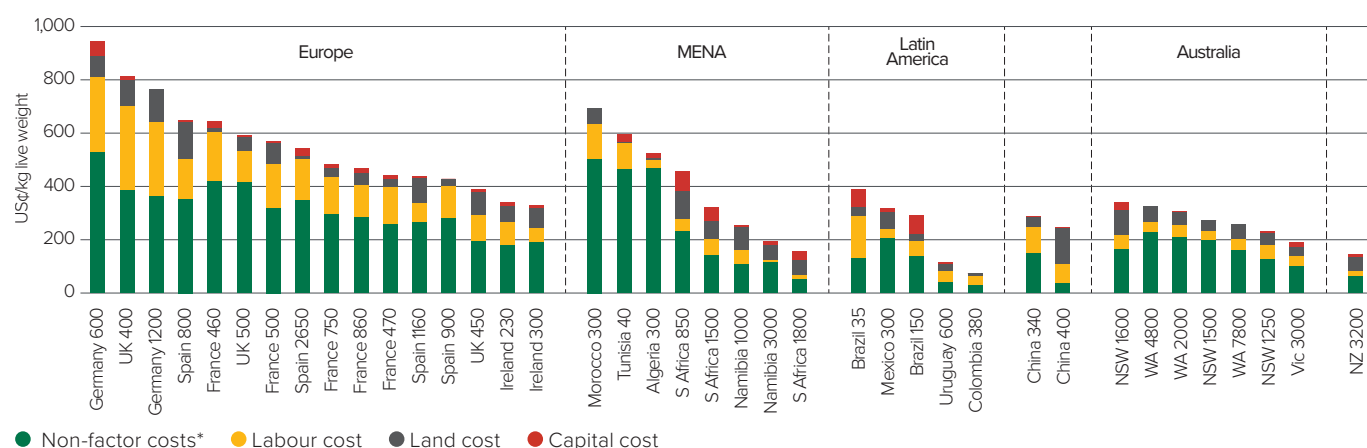
Despite being two of the most efficient and cost-competitive producers in the world, neither Australia or New Zealand is in a position to capture the entirety of the growing lamb market. Both suppliers will continue to focus on premium segments of global export markets.

Australian and NZ lamb carcase weights



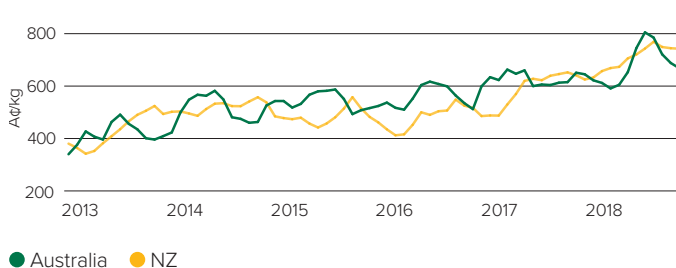
Source: MLA calculations

Costs of sheepmeat production



Source: agri benchmark 2017 data. Data are for typical farms across a range of sheep producing countries. Country identification indicates number of ewes per farm. *Non-factor costs largely represent variable costs directly associated with the sheep enterprise, such as feed, machinery, shearing, marking and replacement sheep purchases.

Australian and NZ lamb prices



Source: MLA (Australia: 18-22kg cwt trade lamb), Agri HQ (NZ: 17.5kg cwt lamb)

Record lamb prices and cost of production

With supply growth of sheepmeat out of Australia and New Zealand unable to keep pace with growing global demand led by China, prices have continued to break records in recent years. In addition, as highlighted in the latest *agri benchmark* report, global returns for sheep enterprises have been strong and profitable in the medium term (far better than beef cattle enterprises) in recent years. Typically, this would attract an array of new entrants to the export market; however, this is yet to happen, likely due to resource constraints limiting expansion and a general inability for most countries to be cost-competitive with Australia and NZ, particularly in producing high quality lamb.

Europe, particularly the UK, remains the alternative production centre for prime lamb; however, it lacks the economies of scale and efficiency to compete with the rest of the world and predominantly relies upon EU Common Agriculture Policy subsidies to remain profitable.

While some countries in Latin America can produce sheepmeat relatively cheaply, they remain small in the global picture, domestic focused and unable to export significant volumes (the entire region produces half that of Australia). Asia will likely be the driving force of future production growth; however, countries such as India, Pakistan and China are unable to match Australia and New Zealand on quality (with goatmeat accounting for a large part of supply), while producers across the Middle East grapple with increasing climate variability and resource constraints.

For more information on the performance and competitiveness of Australian sheep producers, visit:

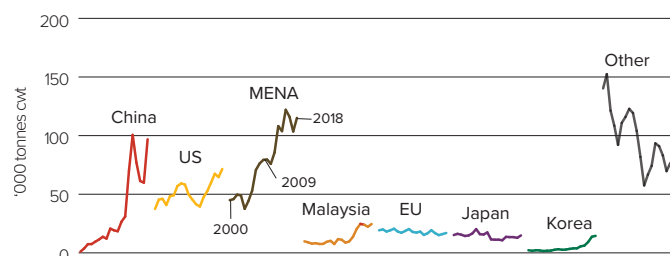
mla.com.au/agribenchmark



TRADE

Asia and the Middle East have underpinned global import demand growth over the last decade and will remain key markets for Australian sheepmeat. These regions are diverse and cater to a broad array of cuts and products – from chilled airfreight carcasses into Qatar, to frozen breast and flap into China. In addition, high value targeted opportunities exist in developed markets, such as the US and the EU, where lamb plays a niche role in diets.

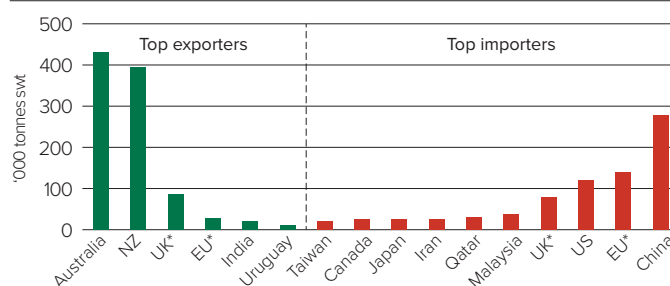
Australian sheepmeat exports



Source: DAWR, exports are for year ending June (2000-2018)
Other is largely comprised of South Africa, Russia, Singapore, Mexico and PNG

A diverse and expanding array of markets and a considerable rise in the price of sheepmeat prompted the value of Australian sheepmeat exports to double over the last decade to A\$3.28 billion in 2017–18.

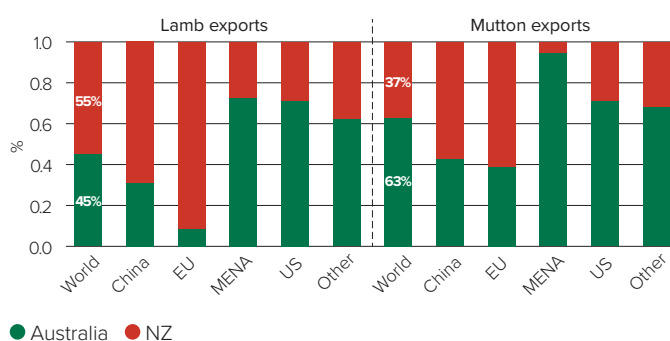
Top sheepmeat exporters and importers



Source: Global Trade Atlas, DAWR (Australia) 2017-18.
*EU only includes external trade but UK includes trade within and outside the EU.

In most markets, New Zealand product is the principle competitor (other than domestic supply) to Australian sheepmeat; however, Australia has a stronger presence in the US and Middle East while New Zealand has greater share in China and the EU.

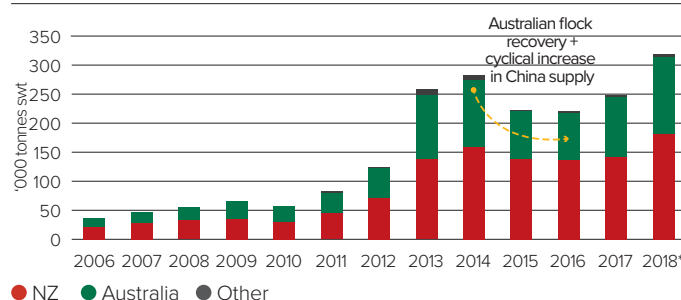
Australia and NZ sheepmeat market shares*



Source: Statistics NZ, DAWR
*Shares are solely between Australia and NZ and ignore domestic product and other exporters

China rapidly expanded as a major buyer of sheepmeat in 2013 and New Zealand has since continued to expand its presence in the market – China now accounts for a greater amount of New Zealand exports than the EU. While Australia has also increased exports to China, it has not come at the expense of other major markets, with shipments to the US and Middle East breaking record volumes in 2018.

China sheepmeat imports



Source: China Customs.
*2018 covers the 12-months ending November

Market access

With growth in the Australian domestic market limited, trade is central to the ongoing viability of the sheepmeat industry, and pursuing unrestrained entry to global customers remains critical. Australia's access to export markets has generally improved over the past three decades, led initially by multilateral negotiations through the World Trade Organization, and more recently, through a series of bilateral and regional free trade agreements (FTAs). Reductions in non-tariff barriers have also been advantageous; however, many remain and these have a noticeable impact on the cost of doing business.

Australia has some of the best market access globally but trails New Zealand on access to China, with a modest tariff disadvantage due to New Zealand signing a bilateral FTA with China in 2008. Australia also trails New Zealand in regards to EU access, with a disproportionately smaller quota.

However, FTA negotiations with the EU began in July 2018 and the Australian government has signalled a desire to engage the UK when it is in a position to do so following 'Brexit'. However, the UK departure from the EU also poses interim risks to Australia's access to the region, with existing country specific tariff rate quotas due to be split between the UK and remaining EU upon separation, reducing Australia's flexibility to target consumers and market opportunities.

Recent political shifts have meant trade liberalisation, and securing additional benefits for Australian sheepmeat, has become increasingly challenging. The increase in protectionism, led by the US approach to trade, does pose some risk but Australian sheepmeat exports have largely avoided any ramifications from the unfolding US-China trade war.

Australia's access to global markets is underpinned by strong animal health credentials, having never had a case of foot and mouth disease and being a host to a world-leading animal traceability system.

Live export

Australia is a leading global exporter of live sheep, with the ability to supply lines of disease-free, healthy sheep year-round that perform well in destination feedlots. However, an evolving regulatory environment and shifting political and community perceptions pose risks to the long-term viability of the sheep export industry.

The majority (95%) of Australian sheep exports are destined for the Middle East. While some markets have evolved and now receive sheepmeat in carcase form, demand for fresh meat will ensure that live sheep continue to be drawn into the region.

Australian sheep play a key role in the sheepmeat supply mix in some MENA markets, particularly Qatar, Kuwait and Jordan, but sheep and goats across the region are also sourced from Sudan, Somalia, India, Romania and Georgia. Australia enforces strict regulatory animal welfare, control and traceability standards on exported livestock through to point of slaughter.



SUMMARY TABLE

	Australia	NZ	UK†	EU‡	China	Uruguay	Chile	Argentina	India	Pakistan	Iran	Nigeria
Sheep flock (million head)*	72.1	27.6	34.9	99.4	301.2	6.6	2.5	19.6	196.4	102.3	55.7	120.5
Sheepmeat production ('000 tonnes cwt)**	724	459	285	972	4,734	14	16	63	743	489	315	386
Lamb production ('000 tonnes cwt)**	511	358	253	-	-	-	-	-	-	-	-	-
Mutton production ('000 tonnes cwt)**	213	101	32	-	-	-	-	-	-	-	-	-
Average carcase weight (kg/head)***	22.7	18.6	20.1	15.0	-	-	-	-	-	-	-	-
Sheep and lamb exports ('000 head)†	1,865	0	229	2,620	-	50	4	0	214	-	-	0
Total domestic consumption ('000 tonnes cwt)††	201	21	299	1,081	4,971	-	11	61	713	484	306	391
Production surplus (deficit) ('000 tonnes cwt)†††	523	438	-14	-109	-237	-	5	2	30	5	10	-5
Per capita domestic consumption (kg/person cwt)††	8.0	4.4	-	2.1	3.5	-	0.6	1.4	0.5	2.4	3.7	2.0
Sheepmeat exports ('000 tonnes swt)††	431	395	85	28	0	12	6	1	20	5	0	-
Lamb % share of exports††	63%	77%	-	-	-	-	-	-	-	-	-	-
Chilled % share of exports††	27%	17%	87%	29%	-	0%	0%	0%	90%	-	69%	-
Average export price (\$US/kg)†††	5.63	6.5	5.99	5.77	-	5.61	6.22	5.86	5.93	-	8.14	-
Top-3 export markets††	China US UAE	China UK US	France Germany Ireland	Hong Kong Switzerland Jordan	-	Brazil China Oman	China US Brazil	EU Israel Brazil	UAE KSA Qatar	-	Oman UAE	-

Source: *FAO, EU Commission, ABS (Australia) 2017 estimate; **OECD-FAO (includes goatmeat), EU Commission, MLA (Australia), B+L NZ, AHDB 2018 estimate; ***MLA (Australian lamb), B+L NZ (NZ lamb), AHDB, EU Commission 2018 estimate; †FAO 2016 estimate, DAWR (Aust.) 2017-18 actual; ††OECD-FAO (includes goatmeat), MLA (Australia), AHDB 2018 estimate; †††calculation; †UK exports include trade to the EU, while EU exports include only external EU trade; †GTA, DAWR (Aust.) 2017-18 actual; ††GTA 2017-18 actual. Pakistan export data is not available so OECD-FAO carcase weight equivalent estimate included.

