



MARKET SNAPSHOT | BEEF & SHEEPMEAT



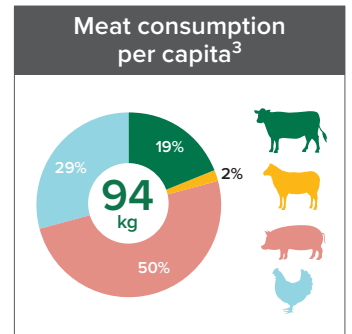
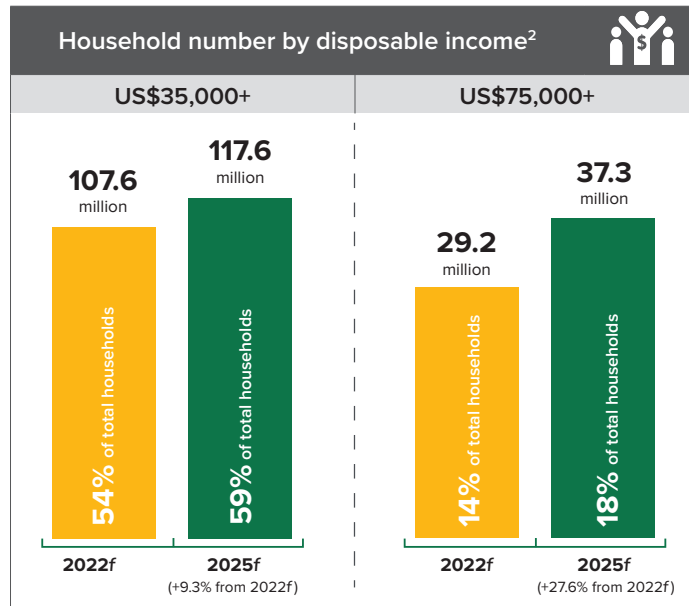
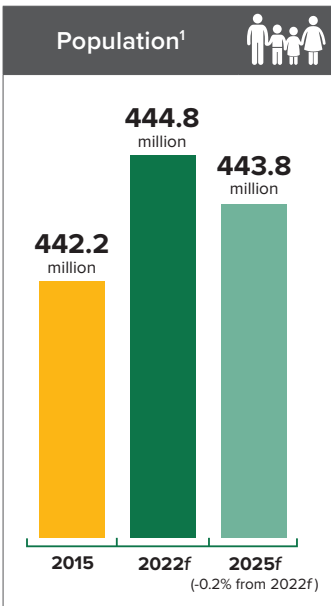
European Union

As a region of 27 countries, the European Union* (EU) contains the largest pool of households earning over US\$35,000 per year in the world, yet its stance towards agricultural imports has restricted Australia's ability to grow trade with the region.

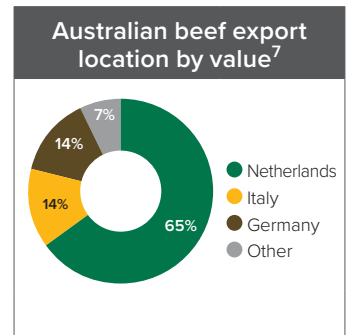
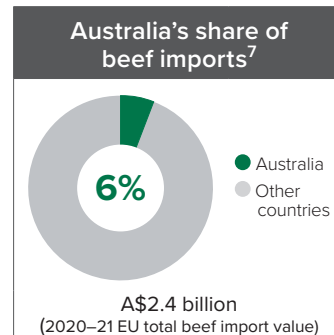
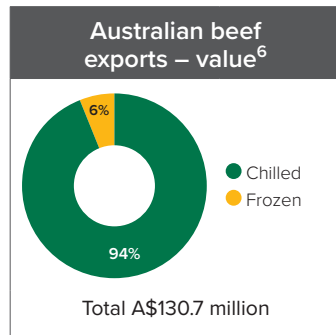
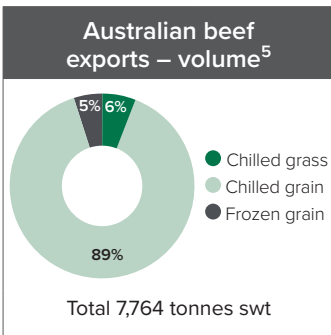
Australian trade negotiations with the EU commenced in June

2018 and represent the first opportunity in over forty years to significantly reshape Australia's red meat market access. Establishing a trade relationship with the EU would provide new trading opportunities in a high value market and is a significant opportunity to modernise the existing trading regime.

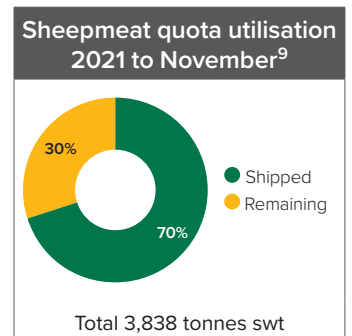
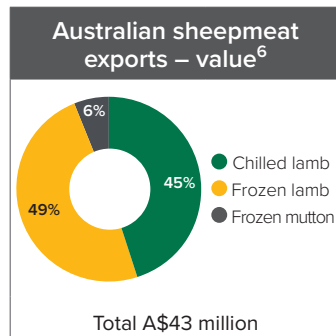
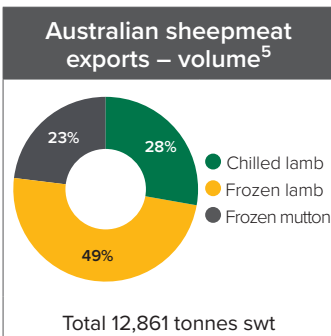
* EU27 – Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden



The EU is a small but high value market for Australian beef, especially grainfed exports. The Australian industry is seeking improved market access via bilateral trade negotiations, which are currently underway.



While around 50% of Australian sheepmeat exports to the EU were discharged in the Netherlands in 2020–21, followed by France at 23%, a proportion of this product is re-distributed to regional countries, where it is consumed.



Data source for charts: ¹Fitch Solutions 2021 (2021–25 are forecasts), ²Fitch Solutions 2021 (disposable income = earnings after taxes and social security charges), ³Fitch Solutions (beef, pork, chicken, 2021e), GIRA (sheep and goat meat combined, 2021e), ⁴IGD 2022f (defined as the total annual grocery retail market turnover in a given year, divided by the population for the same year. Grocery retail market data excludes VAT/sales tax), ⁵DAWE (2020–21), ⁶ABS/IHS Markit (2020–21), ⁷IHS Markit (2020–21), ⁸IHS Markit (Moving annual total), ⁹DAWE (swt)

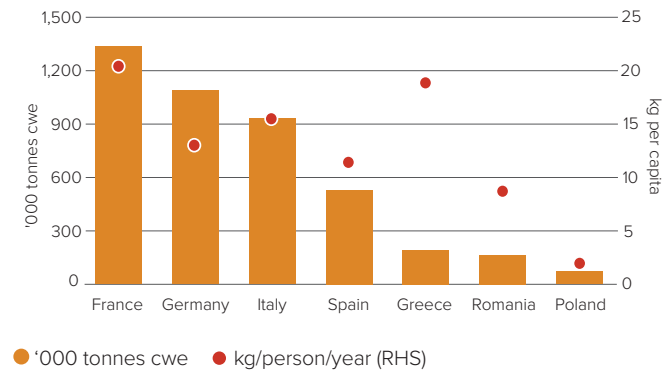
CONSUMERS



- The EU is a large per capita consumer of beef by global standards, but consumption levels range between countries, driven by varying degrees of economic development and the role of beef within traditional cuisines. France, Germany and Italy are the region's largest consumers.
- EU beef consumption has been in long-term decline – the result of reduced local production, restricted imports, an ageing population, changing lifestyles and consumer concerns regarding health, animal welfare and environmental impact. These societal concerns will continue to play a prominent role in shaping demand for meat and will also drive increased demand for organic products, with consumers becoming increasingly aware of food safety, taste and origins. It is forecast that as these trends evolve over the coming years, EU per capita beef consumption will decline by 500g/year on average to reach 9.93kg per person in 2030. (Source: OECD-FAO Agricultural Outlook 2021-2030).
- Although limited in volume, Australia predominantly exports high-value primal cuts typically destined for foodservice to the EU, such as loin. However, with restrictive access and volume in the market, consumer awareness of Australian beef remains low.

- Consumers are increasingly paying more attention to the production process, with a greater emphasis on local, organic and quality. Dietary adjustments, health considerations and convenience are key drivers that will influence the demand for meat moving forward.

EU beef consumption



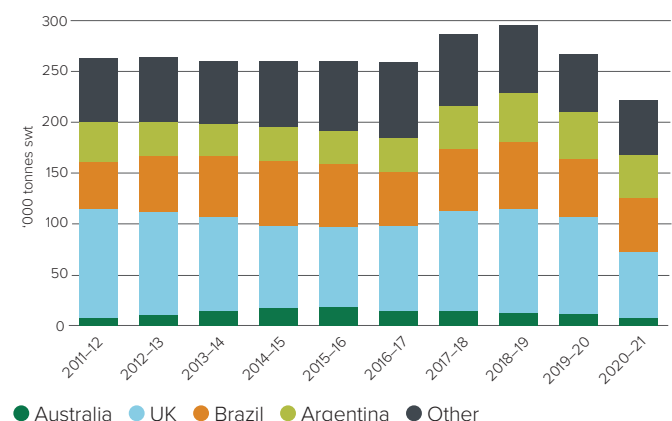
Source: Fitch Solutions 2022f

COMPETITIVE LANDSCAPE



- The EU is a significant producer of beef, but most production is derived from dairy-based herds and consumed domestically. After an increase from 2013–2019 due to a restructuring of the dairy sector, EU beef production is expected to continue its long-term decline out to 2030. Nevertheless, in 2020 beef production was estimated at 6.8 million tonnes cwe (Source: Eurostat) – more than three times that of Australia. In 2021, France is expected to account for 18% of EU production, followed by Germany and Italy with 14% and 12% production share, respectively.
- In 2021, it is expected that domestic beef production will account for 95% of total EU beef consumption, with imported beef making up the remainder. Imported beef volumes are expected to slowly rise, a result of the gradual increase of import quotas and free trade agreements with various partners. As EU beef production declines, imported beef volumes will begin to account for a larger proportion of total consumption.
- The UK is an important supplier of beef to the EU, and in 2020 exported 81,000 tonnes swt, the most of any supplier to the region. Currently, product can be traded between the EU and the UK under a duty-free/quota-free trading relationship through the EU-UK Trade and Cooperation Agreement.
- The South American trade bloc Mercosur – made up of Argentina, Brazil, Uruguay and Paraguay – concluded free trade agreement negotiations with the EU in June 2019. The outcome was that the bloc was granted 99,000 tonnes cwe of beef access (Source: USDA). However, the agreement still needs to be ratified by both sides' parliaments, with the distribution mechanism and transition timeline yet to be determined. Political hurdles remain on both sides that may delay ratification.
- Operating off a much lower cost base, South American suppliers can pay additional tariff duties and trade outside their restrictive country-specific Hilton quotas, allowing them to account for the bulk of imports. However, in the last couple of years, strong demand from China has captured the focus of South American exporters.
- After the conclusion of the EU-Canada Comprehensive Economic and Trade Agreement (CETA), which entered into force provisionally in 2017, Canada has attained access for 50,000 tonnes cwe of beef to the EU (Source: Government of Canada) – a significant improvement on previous access via the existing shared US/Canada Hilton quota – but little trade has since materialised. Regardless, the EU requires all imported beef to be strictly hormone growth promotant-free, restricting the majority of US, Canadian and Australian product, which must be European Union Cattle Accreditation Scheme accredited.

EU-27 total beef imports by supplier



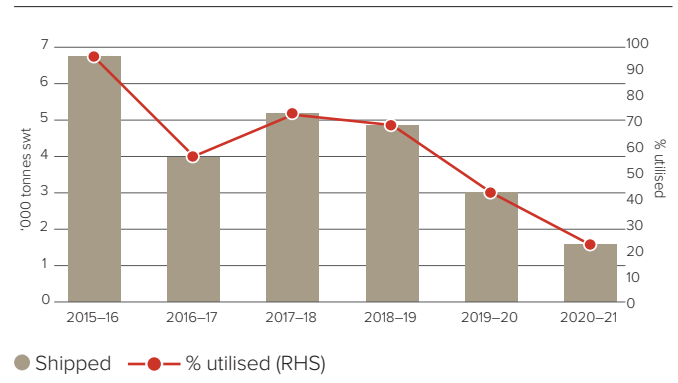
Source: IHS Markit, Australian Fiscal Year



MARKET ACCESS

- Australia’s current beef access with the EU is in stark contrast to the majority of other export markets, which have progressed in liberalising trade. Transformation of punitive EU market access (low volume import quotas and high out of quota import tariffs) will be an important component of ongoing Australia-EU free trade agreement negotiations.
- Australia has predominantly exported beef to the EU under two quotas:
 - High Quality Beef (HQB) ‘Hilton’ country specific quota: 2,481 tonnes with 20% in-quota tariff.
 - Global HB grainfed quota: 19,600 tonnes quota in 2022, allocated on a first come,first serve basis, shared between Uruguay, New Zealand, Argentina and Australia.
- Upon the conclusion of the transition period at the end of 2020, Australia’s existing HQB Hilton beef quota was split between the EU-27 and UK. Of the existing 7,150 tonnes available within the quota, 4,669 tonnes were allocated to the UK and 2,481 tonnes to the EU-27, with the 20% in-quota tariff maintained for both markets.
- While Australia has historically been a strong contributor to the HQB global grainfed quota, changes to the administration of the quota have limited access for Australian grainfed beef. Due to an agreement between the EU and US in 2020, Australia’s ability to maximise the value of this quota will be lessened over the coming years. In January 2020, the EU gave the US exclusive access to 18,500 tonnes swt of the quota (increasing incrementally to 35,000 tonnes swt over a seven-year phase-in period), with the remainder of the 45,000-tonne quota available to other suppliers (Uruguay, Argentina and Australia) on a first-come first-served basis.
- Within the EU, the majority of Australian beef is typically exported to the Netherlands. However, this may not be the point of consumption, as importing countries often serve as central distribution points for the beef to be transported to neighbouring countries.

Australian EU beef High Quality Beef Hilton utilisation



Source: DAWE.





Market access overview – beef

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Australia-EU Free Trade Agreement negotiations commenced in July 2018 Up to November 2021 there have been eleven negotiating rounds held	2021–22: 2,481 tonnes country specific HQB quota: 20% in-quota tariff; above quota tariff 12.8% + €3/kg Access to 5,500 tonnes per quarter grainfed quota shared with Argentina, Canada, New Zealand and Uruguay: 0% in-quota tariff; above quota tariff 12.8% + €3/kg	Argentina, Brazil and US/Canada have larger allocations than Australia under the Hilton quota Ongoing pressure on reduced shared grainfed quota – with quarterly allocation being filled within weeks	2021–22: 2,481 tonnes under country specific High Quality Beef quota Shared access to 5,500 tonnes per quarter global grainfed quota Access (via EU importer held licences) to shared frozen beef quota and frozen beef for processing quota, which at times source Australian product	HGP free compliance adds costs to doing business with the EU All beef supplied to market must be EUCAS accredited

Best access Major challenges

Source: Trade agreements, DFAT, MLA

Australian beef exports to EU – summary table



Volume – in tonnes swt		2020–21		2019–20		five-year average (2015–16 to 2019–20)		change 2020–21 vs five-year average	
			% of total		% of total		% of total	%	in tonnes swt
Total		6,961		8,687		11,524		-40	-4,563
Storage	Chilled	6,595	95	8,417	97	10,927	95	-40	-4,333
	Frozen	366	5	271	3	596	5	-39	-230
Meat type	Grassfed	335	5	1,208	14	1,997	17	-83	-1,662
	Grainfed	6,626	95	7,479	86	9,526	83	-30	-2,900
Storage/meat type	Chilled grassfed	322	5	1,196	14	1,919	17	-83	-1,597
	Chilled grainfed	6,273	90	7,221	83	9,009	78	-30	-2,736
	Frozen grassfed	13	0.2	12	0.1	78	1	-84	-66
	Frozen grainfed	353	5	258	3	518	4	-32	-164

Source: DAWE, figures are rounded

Value – in A\$ 000

Value – in A\$ 000		2020–21		2019–20		five-year average (2015–16 to 2019–20)		change 2020–21 vs five-year average	
			%		%		%	%	in A\$ 000
Total		129,630		166,749		174,376		-26	-44,746
Storage	Chilled	122,003	94	159,089	95	168,279	97	-27	-46,276
	Frozen	7,627	6	7,661	5	6,097	3	25	1,530

Source: ABS/IHS Markit

Volume – by major cut (in tonnes swt)

Major cut	2020–21		2019–20		five-year average (2015–16 to 2019–20)		change 2020–21 vs five-year average	
		%		%		%	%	in tonnes swt
Rump	894	13	1,065	12	1,360	12	-34	-466
Striploin	878	13	1,117	13	1,549	13	-43	-672
Topside/inside	792	11	1,078	12	1,319	11	-40	-526
Cube roll/ribeye roll	750	11	848	10	1,007	9	-26	-258
Thick flank/knuckle	544	8	539	6	753	7	-28	-208
Chuck roll	530	8	732	8	1,039	9	-49	-509
Blade	454	7	669	8	965	8	-53	-511
Tenderloin	408	6	478	6	590	5	-31	-182
Brisket	379	5	628	7	1,119	10	-66	-740
Other	1,332	19	1,534	18	1,823	16	-27	-491
Total	6,961		8,687		11,524		-40	-4,563

Source: DAWE





Sheepmeat

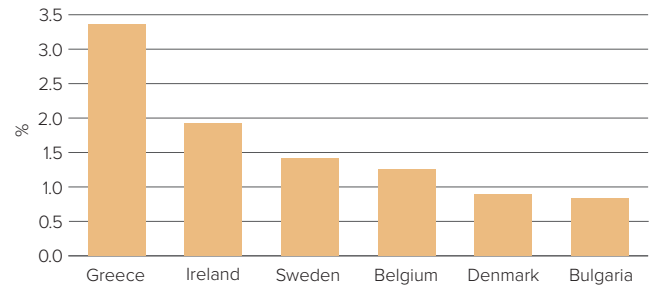
CONSUMERS



- The role and prevalence of sheepmeat consumption varies significantly between EU members. For instance, in Greece, consumption is traditionally linked to the seasonal production cycle, while in other countries, demand is tied to culturally significant occasions such as Easter. In general, sheepmeat demand in the EU is fairly inelastic, fluctuating in line with applicable religious celebrations. Sheepmeat consumption is forecast to be 1.34kg per capita in 2030, unchanged from 2020 levels (Source: OECD-FAO Agricultural Outlook 2021-2030).
- Sheepmeat plays a minor role in European consumer diets. Consumption is primarily concentrated in Western Europe, particularly France and Spain, but Romania and Greece are also significant producers and consumers. However, similar to other developed markets, social factors such as health concerns, animal welfare and environmental issues remain a challenge for increasing sheepmeat consumption in the EU, with consumers becoming increasingly aware of food safety and provenance.
- Australia predominantly exports lamb legs to the EU, which are directed into foodservice channels. However, restrictive market access means that New Zealand lamb has a larger footprint in retail due to superior trade access.

- Australian lamb is perceived as having strong food safety credentials – likely tied to a history of no major animal disease outbreaks – but is perceived as less fresh compared to locally sourced product.

Lamb sales as percentage of total food sales



Source: Fitch Solutions 2022f. Based on lamb sales through all channels

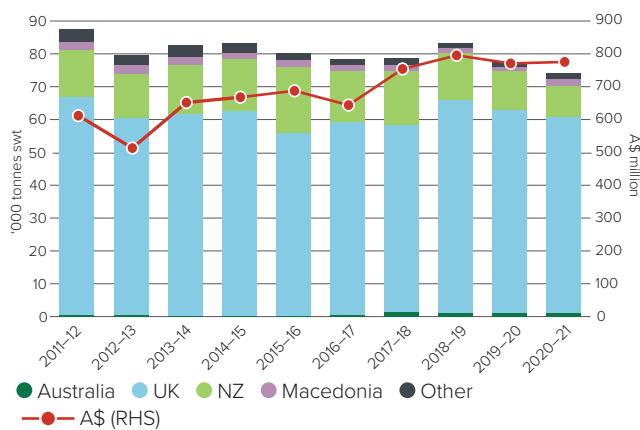
COMPETITIVE LANDSCAPE



- After declining 25% over the 10 years to 2014, EU sheepmeat production has since stabilised and is forecast to increase only modestly, if at all, over the next decade.
- UK sheepmeat production accounts for a third of lamb and mutton consumption within the EU, followed by Spain and France. EU markets accounted for 94% of all UK sheepmeat exports in 2019, highlighting the importance of the trade relationship between the two regions.

- New Zealand's preferential market access with the EU has allowed it to capture the majority of import market share. New Zealand also produces a lighter carcasse than Australia, resulting in cut sizes more in line with local product, providing an advantage into the imported UK leg roast market.
- However, imports from New Zealand over the last five years have been stretched by supply constraints (New Zealand land is increasingly being reallocated to the dairy sector) and Asian markets emerging as major buyers of imported New Zealand sheepmeat.

EU sheepmeat imports (UK inclusive)



Source: IHS Markit

- Imports have accounted for 20% of EU sheepmeat consumption over the last decade. Australia and New Zealand have remained the only significant external suppliers.



Braised lamb shank on mashed potato

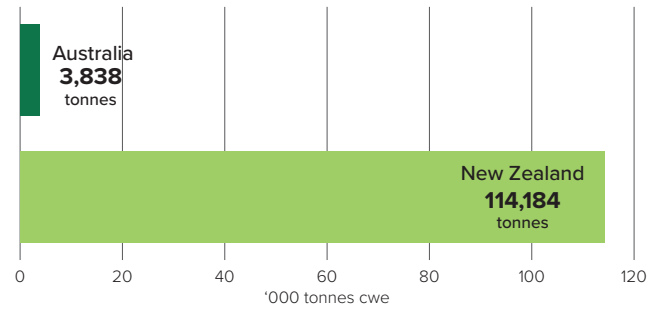




MARKET ACCESS

- Australia has a 3,838 tonne cwe (combined sheepmeat/ goatmeat) country-specific import quota into the EU. Out-of-quota imports from Australia incur prohibitive import duties of 12.8%, plus up to an additional €3.10/kg.
- There is also a 200 tonne erga omnes sheepmeat and goatmeat quota that is accessible to a number of countries.
- Australian sheepmeat access is currently disadvantaged compared to New Zealand, which has a 114,184 tonne quota.
- Australia's original EU-28 sheepmeat quota was 19,186 tonnes. However, since the UK left the EU with Brexit, the quota has been split, with 80% directed to the UK. New Zealand split its original 228,389 quota by directing 50% to the EU.
- Although New Zealand has not fully utilised its quota in recent years, reaching just 46% (across EU-28) of the allotted volume in 2020, their sheepmeat export volumes to the EU were 9 times larger compared to Australia within the 2020–2021 period. Transformation of the EU's restrictive import quotas will be a key component of ongoing Australia-EU Free Trade Agreement negotiations.

EU-27 sheepmeat quota volume: Australia compared to New Zealand



Source: IHS Markit, Australian Fiscal Year



Market access overview – sheepmeat

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Ongoing Australia-EU Free Trade Agreement negotiations commenced in July 2018	2021: In quota – 0% Above quota – 12.8% + 90.2~311.8 €/100kg	NZ: Has a quota of 114,184 tonnes (carcase weight equivalent, calendar year basis) UK: No quota or tariff applicable	Access is limited to 3,838 tonnes country-specific quota (carcase weight equivalent, calendar year basis)	No trade restrictive non-tariff barriers currently operational

Best access Major challenges

Source: Trade agreements, DFAT, MLA

Australian sheepmeat exports to EU – summary table



Volume – in tonnes swt	2020–21	% of total	2019–20	% of total	five-year average (2015–16 to 2019–20)	% of total	change 2020–21 vs five-year average		
							%	in tonnes swt	
Total	3,845		4,275		4,591		-16	-746	
Storage	Chilled	1,524	40	1,915	45	2,190	48	-30	-666
	Frozen	2,321	60	2,360	55	2,400	52	-3	-80
Meat type	Lamb	3,558	93	4,094	96	3,905	85	-9	-347
	Mutton	287	7	181	4	686	15	-58	-399
Storage/meat type	Chilled lamb	1,524	40	1,915	45	2,190	48	-30	-666
	Chilled mutton	0	0	0	0	0.3	0	-100	-0.3
	Frozen lamb	2,034	53	2,179	51	1,715	37	19	319
	Frozen mutton	287	7	181	4	685	15	-58	-399

Source: DAWE, figures are rounded

Value – in A\$ 000

Value – in A\$ 000	2020–21	% of total	2019–20	% of total	five-year average (2015–16 to 2019–20)	% of total	change 2020–21 vs five-year average		
							%	in A\$ 000	
Total	43,385		52,789		60,618		-28	-17,233	
Meat type	Lamb	40,626	94	50,285	95	50,372	83	-19	-9,746
	Mutton	2,759	6	2,504	5	10,246	17	-73	-7,487

Source: ABS/IHS Markit

Australian lamb exports to EU – by major cut (in tonnes swt)

Australian lamb exports to EU – by major cut (in tonnes swt)	2020–21	% of total	2019–20	% of total	five-year average (2015–16 to 2019–20)	% of total	change 2020–21 vs five-year average	
							%	in tonnes swt
Leg	1,699	48	2,454	60	2,244	57	-24	-545
Shank	832	23	480	12	493	13	69	338
Boneless loin	334	9	571	14	562	14	-40	-227
Manufacturing	315	9	45	1	94	2	234	221
Chump	157	4	162	4	170	4	-8	-14
Other	222	6	382	9	341	9	-35	-119
Total	3,558		4,094		3,905		-9	-347

Source: DAWE