MEAT & LIVESTOCK AUSTRALIA

MARKET SNAPSHOT | **BEEF**

European Union

The European Union (EU) contains one of the largest pools of wealthy consumers (households earning in excess of US$35,000/year) in the world. While a lucrative market, the EU's stance towards agricultural imports has restricted Australia's ability to grow exports to this market.

Challenges and opportunities in the EU for Australian beef include:

- Australia's primary barrier to growing beef exports to the EU remains the highly restrictive, low volume tariff rate quotas. The high tariffs applied on imports outside the two main quotas makes further trade commercially prohibitive.
- Australia and the EU have begun the process of securing a closer bilateral trade partnership and formal Free Trade Agreement (FTA) negotiations commenced in July 2018. The outcome of these negotiations will be the main determinant of Australia's future prospects in the region.
- The United Kingdom (UK) is Australia's largest market for beef within the 28-member union and its exit from the EU (Brexit, which is due to occur in March 2019) creates an attractive opportunity for Australia to improve its current market access.
- Australia's trade to the EU is made up of a large portion of high value chilled primal cuts, primarily targeting foodservice and catering which prefer Australian product for its size, quality and consistent supply. Continuing to capture niche, premium markets remains Australia's biggest opportunity outside of trade negotiations.

Population

509.4 in 2018 **511.4** in 2022

In million

Source: BMI Research, 2018 estimate & 2022forecast includes EU 28 member states

Households earning* >US$35,000/year

120.7 in 2018 **133.8** in 2022

In million households

Source: BMI Research, 2018 estimate & 2022 forecast includes EU 28 member states

* Disposable income

Households earning* >US$50,000/year

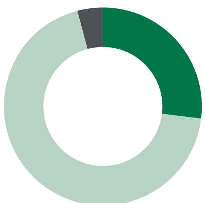
72.7 in 2018 **87.2** in 2022

In million households

Source: BMI Research, 2018 estimate & 2022 forecast includes EU 28 member states

* Disposable income

Australian beef exports – volume

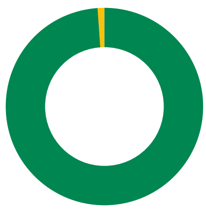


- Chilled grass – **27%**
- Chilled grain – **69%**
- Frozen grass – **0%**
- Frozen grain – **4%**

Total 17,729 tonnes swt

Source: Department of Agriculture and Water Resources (DAWR), 2017–18

Australian beef exports – value



- Chilled – **98%**
- Frozen – **2%**

Total A$250.0 million

Source: ABS/GTA, 2017–18

Proportion of key cuts

- Loins – **30%**
- Rump – **13%**
- Topside/inside – **13%**
- Silverside/ outside – **10%**
- other – **34%**

Source: DAWR, 2017–18

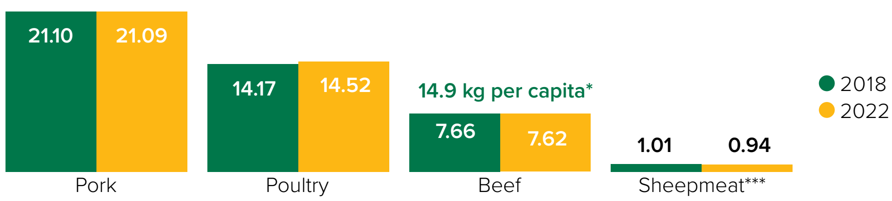
Australian beef exports by country

- Netherlands – **43%**
- United Kingdom – **31%**
- Italy – **19%**
- Other – **7%**

Source: DAWR, 2017–18

Meat consumption

73.2kg per capita* total meat protein**



In million tonnes cwt

Source: European Commission (2018 estimate, 2022 forecast)

* 2018e per person per year ** excluding fish/seafood

*** Sheepmeat includes goatmeat

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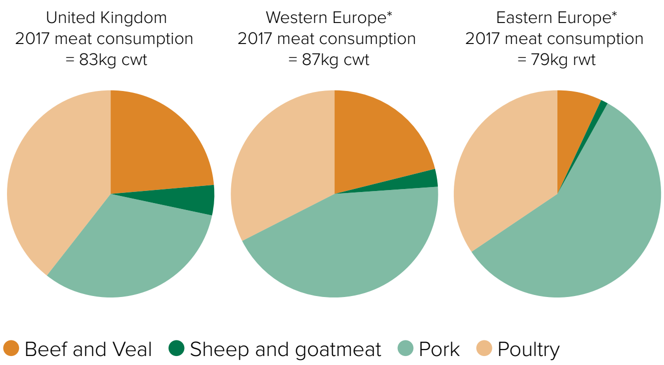
Consumers

- The EU is a large per capita consumer of beef by global standards. However, within the market, consumption levels range between countries, driven by varying degrees of economic development and beef's role within the traditional cuisine.

EU per capita meat consumption



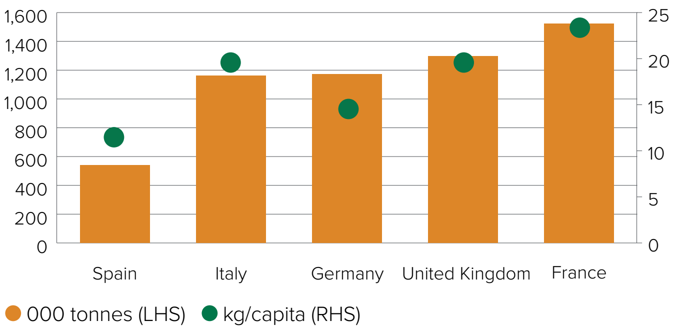
Source: European Commission, Prospects for EU agriculture markets and income 2017-2030, MLA rwt to cwt conversion

* Western Europe, includes (country codes) BE, DK, FR, DE, EL, IE, IT, LU, NL, PT, ES, UK, AT, FI and SE

* Eastern Europe, includes CY, CZ, EE, HU, LV, LT, MT, PL, SK SI, BG, RO and HR

- The EU was one of the largest beef consumer markets in the world in 2017, at just under 8 million tonnes cwe – behind the US but comparable to that of China and Brazil.
- Within the EU, the UK accounts for about 16% of total consumption across the region and, at 17.9kg in 2017, is one of the largest per capita consumers in the market. France, Germany and Italy are the other major consumer markets in the region.
- Overall EU consumption growth in animal protein appears limited, with many countries close to economic maturity and host to an ageing population. Beef is also challenged by consumer concerns over animal welfare, the environment and emphasis on locally produced products.

Beef consumption across the EU



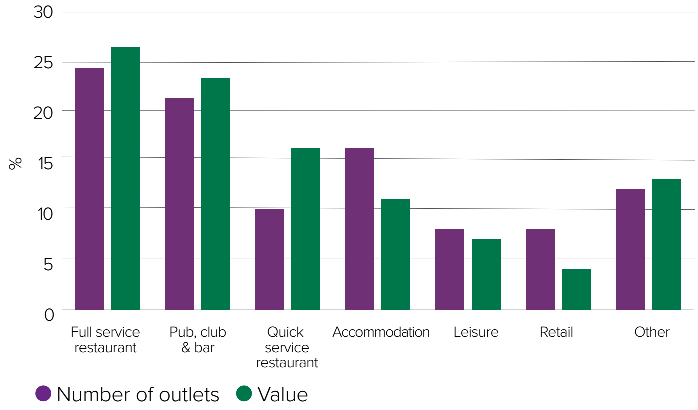
Source: BMI. Data are carcase weight equivalent 2017 estimates.

Source: bigstock

Foodservice

- Although limited in volume, the majority of Australian beef exported to the EU is destined for foodservice.
- The foodservice sector (inclusive of the UK, Spain, Germany, Italy, France and the Netherlands) is dominated by full service restaurants, pubs and clubs and quick service restaurants.

Outlet number and value by key foodservice channel

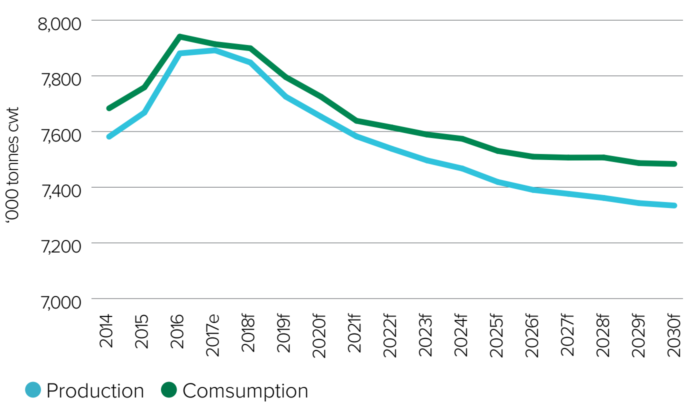


Source: GlobalData. Inclusive of the UK, Spain, Germany, Italy, France and the Netherlands.

Production

- The EU is a significant producer of beef, but most production is derived from a dairy-based herd. In 2017, beef production was an estimated 7.89 million tonnes cwt (almost four times that of Australia). France holds the position as the largest beef producer in the region, accounting for 18% of EU production in 2017, followed by Germany (14%) and the UK (11%).
- While there was a short-term recovery in 2016 and 2017, due to a milk price induced liquidation of the dairy herd, beef production in the EU is expected to continue its gradual decline, in line with a falling herd and reduced local demand.
- The EU is not self-sufficient in beef, with demand exceeding EU production capabilities. By 2030, the European Commission estimates that the EU will require 353,000 tonnes cwe of beef imports to cover the domestic shortfall.

EU beef production and consumption

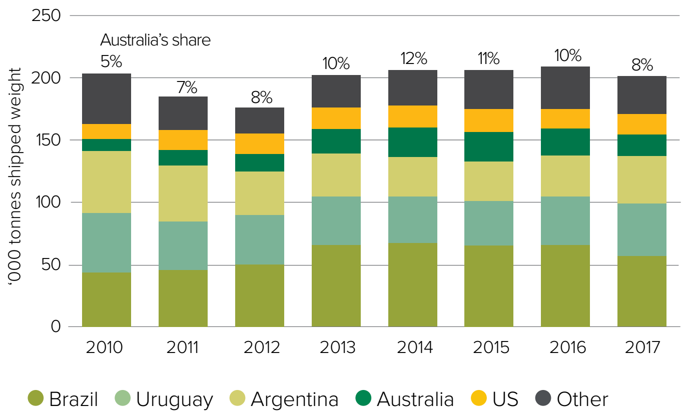


Source: European Commission, Prospects for EU agriculture markets and income 2017-2030

Other suppliers

- Imports outside the EU account for just 4% of EU beef consumption and the majority of imported product is sourced from South America, due to higher quotas and lower import prices and their ability to trade outside quota.
- Brazil, the imported beef market leader, supplies a lower cost, mostly frozen product into the EU (which declined 13% in 2017 to 56,500 tonnes).
- Imports from Uruguay (which increased 9% to 42,000 tonnes swt), Argentina (which increased 15% to 38,000 tonnes) and the US in 2017 were of higher quality and comprise mostly chilled product.

Beef imports by supplier*



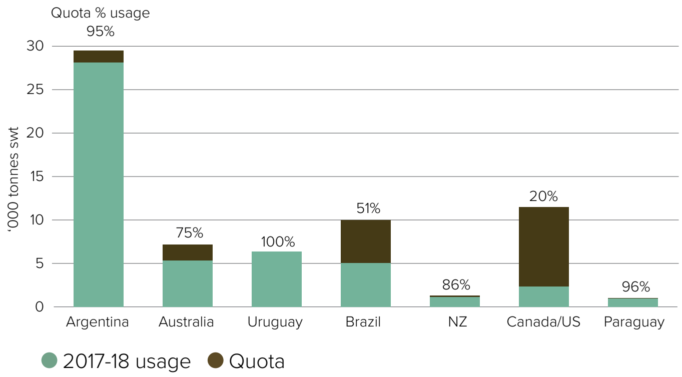
Source: Global Trade Atlas
* Excludes internal trade.

- Under the weight of increasing global supplies, EU import prices have largely eased from the major South American beef suppliers over the last two years, in-part affected by currency movements. This is in contrast to Australian prices over the same period trending higher, exceeding that of product from Argentina and well above the price of beef from Uruguay and Brazil.
- Mercosur – the bloc of Argentina, Brazil, Uruguay and Paraguay – has been in on-off FTA negotiations with the EU since 2000 but the two have come close to a final agreement more recently. However, beef remains a critical stumbling block in negotiations, with the Mercosur trade bloc rejecting a proposed 99,000 tonne quota offer earlier this year.

Market access

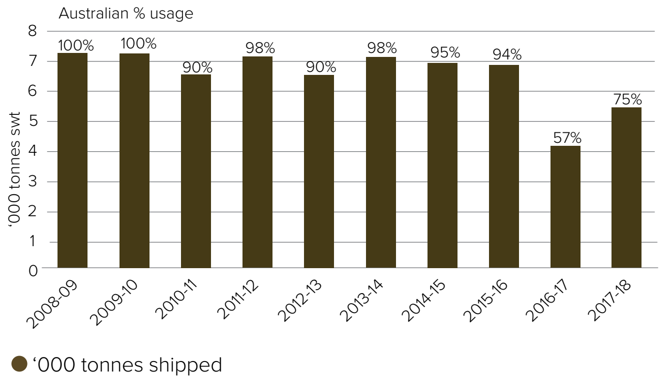
- Australia's current market access – involving low volume import quotas and high out of quota import tariffs – is the greatest limiting factor preventing an increase in exports to the EU.
- Australia predominantly exports beef under two quotas; the High Quality Beef (HQB) Hilton country specific quota (7,150 tonnes with 20% in-quota tariff) and the HQB global grainfed quota (45,000 tonnes with 0% in-quota tariff shared on first-come first-served basis with US, Uruguay, NZ, Argentina).
- Australia's current beef trading regime with the EU is in stark contrast to the majority of its other export markets – which are embracing either free trade or import regime reform. Transformation of these EU import arrangements will be a necessary component of any FTA negotiations.
- Since 1979, Australia has had access to a country specific Hilton beef quota and has consistently filled the majority of its annual allocation. However, Brexit may cause existing country-specific Hilton quotas to be split between the EU and UK, restricting Australia's flexibility adapt to market conditions and target the most attractive consumer markets in the region.

Hilton quota usage



Source: EU Commission

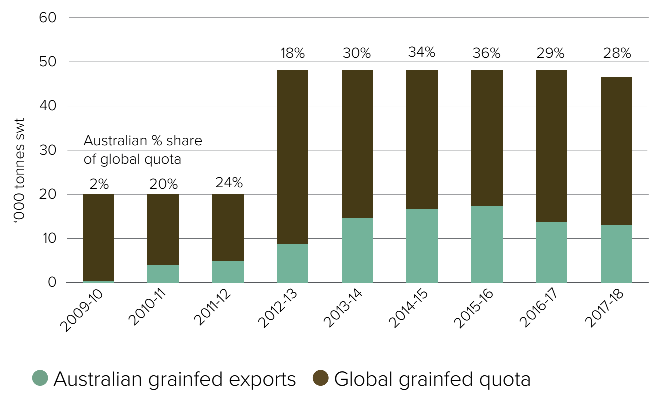
Australian Hilton quota usage



Source: EU Commission

- Australia has often been a high contributor to the HQB global grainfed quota, using 28% of this shared quota in 2017–18. Strong demand for high quality Australian beef has led to the EU now being Australia's fourth largest grainfed beef export market.
- In October 2018, the EU Commission received a mandate to negotiate a settlement with the US over a longstanding WTO dispute – from which the existing global grainfed quota was earlier compensation. As a principle supplier of the shared quota, Australia will be consulted on any reviewed trading arrangements. This potentially places Australia's access to supply grainfed beef under the shared quota at risk.

Australian global grainfed quota usage



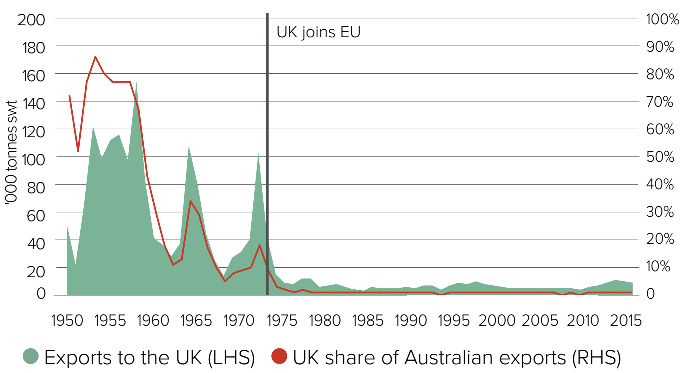
Source: DAWR

- The HQB global grainfed quota reduced from 48,200 tonnes to 45,000 tonnes following the provisional entering into force of the Canada–EU FTA in September 2017.

Brexit

- Prior to the UK's exit from the EU (expected in March 2019) it must negotiate the terms of departure and its future trade relationship with the single market.
- The UK will need to develop a new trading regime incorporating its own World Trade Organization (WTO) tariff schedule, as well as adjusting its bilateral relations accordingly. This has the potential to have a significant effect on Australia's red meat access, as does the possibility of a 'hard' Brexit after March 2019, or a 'soft' Brexit after December 2020.
- The UK is Australia's single largest red meat export market within the EU, and Australia has long had historical ties with the country. In the decade prior it joining the EU, the UK accounted for as much as 34% of Australian beef exports globally.

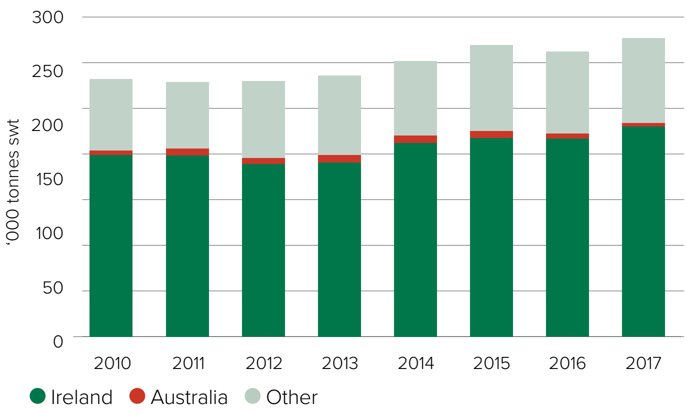
Australian beef exports to the UK



Source: AMB, AMLC, DAWR

- The UK hosts a large population of wealthy, beef eating consumers. While red meat consumption growth prospects remain limited, imports will likely remain considerable and Brexit provides Australia with an opportunity to improve its access to a high value market.
- While a large producer of beef, the UK is still a net beef importer. Benefiting from unrestricted access, Ireland supplied 68% of UK imports in 2017 with an additional 23% coming from within the EU.

UK beef imports



Source: Global Trade Atlas

- If no trade relationship is agreed upon by March 2019, imports and exports between the UK and EU will default to World Trade Organisation (WTO) Most Favoured Nation rules.
- The UK government has indicated it would continue the level of Common Agriculture Policy support to local beef producers out to 2020, but longer term the level of farm subsidies and other support measures are uncertain. Agribenchmark data indicates 5–26% of typical UK beef finisher income in 2016 was derived from government payments.
- The EU is the UK's single largest trading partner, overall and in the case of red meat, and the future regime hinges on whether the exit is smooth (a free trade agreement is reached before March 2019) or disorderly (the relationship reverts to WTO trading rules).
- The UK must finish negotiating the terms of its exit from the EU, prior to engaging other countries in formal trade negotiations. The Australian government has expressed an appetite to pursue future trade opportunities with the UK through an eventual FTA.
- The UK economy has been resilient post-Brexit vote – in part supported by a significant devaluation of the currency – however, there is significant risk that a disorderly Brexit could result in an economic slowdown and inflated food prices, which could impact overall demand for meat.

UK figures

Population

66.2 in 2018

67.3 in 2022

In millions

Source: BMI Research, 2018 estimate & 2022 forecast

Households earning*

>US$35,000/year

24.0 in 2018

25.8 in 2022

In million households

Source: BMI Research, 2018 estimate & 2022 forecast

* Disposable income

Households earning*

>US$50,000/year

15.5 in 2018

19.4 in 2022

In million households

Source: BMI Research, 2018 estimate & 2022 forecast

* Disposable income

Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Australia-EU Free Trade Agreement commenced in July 2018	**2018** 7,150 tonnes country specific HQB quota: 20% in-quota tariff; above quota tariff 12.8% + €3/kg Access to 45,000 tonnes* global grainfed quota: 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 but are severely underutilised Ongoing pressure on global grainfed quota – with quarterly allocation being filled within weeks	**2018** 7,150 tonnes under country specific High Quality Beef quota Shared access to 45,000 tonnes* global grainfed quota Access (via EU importer held licences) 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

Best access ——— Major challenges

Source: Trade agreements, DFAT, MLA

* The shared global grainfed beef quota shrank following the implementation of the EU-Canada Comprehensive Economic and Trade Agreement (CETA). The quota reduced to 45,000 tonnes however, given the change occurred midway through the fiscal year, the 2017–18 quota was 46,600 tonnes. In October 2018, the EU Council provided the EU Commission a mandate to negotiate a settlement with the US over a longstanding WTO dispute – from which the existing global grainfed quota was earlier compensation. As a principle supplier of the shared quota, Australia will be consulted on any reviewed trading arrangements.

Australian beef exports to EU – summary table

Volume – in tonnes swt

		2017–18	% out of total	2016–17	% out of total	5-year average (2012–13 to 2016–17)	% out of total	change 2017–18 vs 5-year average %	change 2017–18 vs 5-year average in tonnes swt
	Total	**17,729**	**100**	**17,330**	**100**	**21,168**	**100**	**-16**	**-3,451**
Storage	Chilled	17,029	96	16,909	98	20,014	95	-15	-2,985
	Frozen	700	4	421	2	1,153	5	-40	-465
Meat type	Grassfed	4,795	27	3,581	21	6,951	33	-31	-2,168
	Grainfed	12,933	73	13,749	79	14,217	67	-9	-1,283
Storage/meat type	Chilled grassfed	4,783	27	3,547	20	6,332	30	-24	-1,549
	Chilled grainfed	12,246	69	13,362	77	13,682	65	-10	-1,437
	Frozen grassfed	12	0	34	0	619	3	-100	-619
	Frozen grainfed	688	4	386	2	534	3	29	153

Source: DAWR

Value – in A$ 000

		2017–18	% out of total	2016–17	% out of total	5-year average (2012–13 to 2016–17)	% out of total	%	in A$ 000
	Total	**250,024**	**100**	**228,696**	**100**	**248,986**	**100**	**0**	**1,037**
Storage	Chilled	245,823	98	227,212	99	237,162	95	4	8,660
	Frozen	4,201	2	1,484	1	11,824	5	-64	-7,623

Source: ABS/GTA.

Volume – by major cut (in tonnes swt)

	2017–18	% out of total	2016–17	% out of total	5-year average (2012–13 to 2016–17)	% out of total	%	in tonnes swt
Striploin	2,617	15	2,441	14	3,027	14	-14	-410
Rump	2,354	13	2,233	13	2,662	13	-12	-308
Topside/inside	2,290	13	2,351	14	3,537	17	-36	-1,258
Silverside/outside	1,767	10	1,810	10	2,494	12	-29	-727
Cube roll/rib eye roll	1,658	9	1,544	9	1,702	8	-3	-44
Blade	1,357	8	1,411	8	1,558	7	-13	-201
Chuck roll	1,314	7	1,375	8	1,554	7	-15	-240
Tenderloin	1,033	6	874	5	1,120	5	-8	-86
Thick flank/knuckle	1,009	6	1,139	7	1,478	7	-32	-469
Brisket	510	3	502	3	231	1	121	279
Other	1,818	10	1,650	10	1,805	9	1	13
Total	**17,729**	**100**	**17,330**	**100**	**21,168**	**100**	**-16**	**-3,451**

Source: DAWR