MARKET SNAPSHOT | BEEF

China

China is a large, complex country with significant regional variation, requiring a sophisticated market segmentation approach to identify and develop opportunities for Australian beef. Over recent years, Australia's beef exports to China have been quite volatile, with changing import protocols and the easing of restrictions placed on other countries.

Challenges and opportunities in China for Australian beef include:

- Consumer demand for premium imported beef is expected to continue to grow as China's economy shifts to become more consumption-driven, fuelled by continuing urbanisation and rising disposable incomes.
- While beef comprises a small share of dietary protein in China, wealthier consumers generally eat more beef on average and spend more when they buy it.
- Beef and beef offal are traditionally used in various stir fry, stew, soup, dumpling and hot pot dishes. While western-style beef dishes still remain mostly the domain of a segment of the foodservice sector, an increasing number of consumers are trialling new cuisines at home.
- China's beef market has two very distinct segments: foodservice and retail. Import demand in foodservice is very competitive and price-sensitive and hence particularly challenging for Australian product, while the retail segment reflects a consumer market in rapid transition, where customers are generally experimental and brand conscious.
- While ChAFTA* is reducing tariffs on Australian beef products, there are ongoing technical market access challenges facing the red meat industry – particularly increasing the number of plants (especially for chilled) that are eligible to export to China.

* China-Australia Free Trade Agreement

Population

1,415 in 2018 **1,432** in 2022

In million

Source: BMI Research, 2018 estimate & 2022 forecast

Households earning* >US$35,000/year

12.5 in 2018 **32.6** in 2022

In million households

Source: BMI Research, 2018 estimate & 2022 forecast
* Disposable income

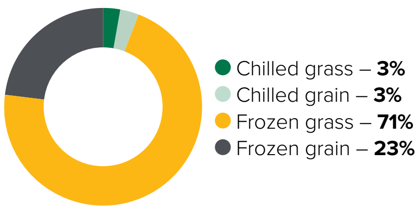
Households earning* >US$50,000/year

4.9 in 2018 **13.2** in 2022

In million households

Source: BMI Research, 2018 estimate & 2022 forecast
* Disposable income

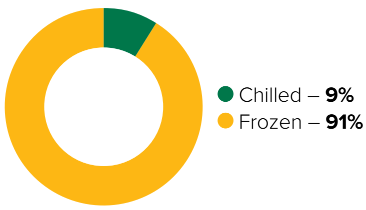
Australian beef exports – volume



Total 133,382 tonnes swt

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

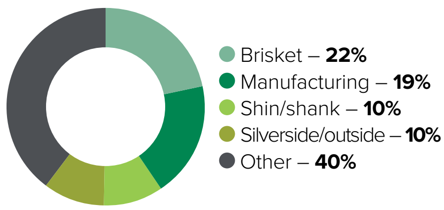
Australian beef exports – value



Total A$1,001.8 million

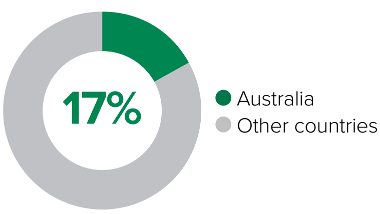
Source: ABS/GTA, 2017–18

Proportion of key cuts



Source: DAWR, 2017–18

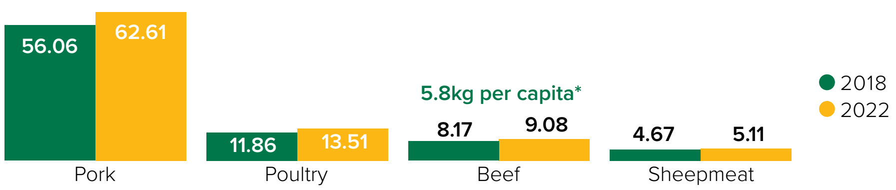
Australia's share of direct beef imports



Source: GTA, MAT April 2017 to March 2018

Meat consumption

57.2kg per capita* total meat protein**



In million tonnes cwt

Source: BMI Research, OECD (2018 estimate, 2022 forecast) * 2018e per person per year in cwt ** Excluding fish/seafood

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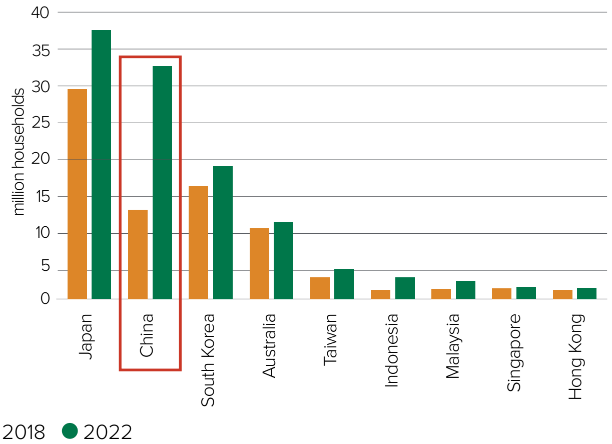
Consumers

- Due to its population size, growing wealth and shifting diets, China represents an attractive market for premium Australian beef products. Focusing on niche opportunities with a differentiated product will help to build loyalty in a very competitive market.
- China is a country of great regional cultural diversity and variation in consumption habits and preferences. There are at least eight Chinese cuisines, with the use and flavouring of beef varying.
- Despite being the most populous country in the world, the proportion of consumers who can regularly afford to buy imported beef is relatively small, with 12.5 million households earning at least US$35,000/year disposable income. That number is forecast to increase by just over 2.5 times to 32.6 million households over the next four years to 2022 (triple the number in Australia).

Number of households earning >US$35,000/year*



Source: BMI Research. 2018 and 2022 forecast. * Disposable income

- In China, beef comprises a small proportion of dietary protein compared to pork, chicken and seafood. However, with rising incomes and continued urbanisation, per capita beef consumption is forecast to increase by more than 15% from 2017 to 2027 *(Source: GIRA)*.
- Chinese consumers consider beef a premium protein with high nutritional value and great taste, but its perceived weakness is that it is considered less easy to prepare, less fresh and less tender compared to other proteins.

Attributes important for all proteins and beef associations

What attributes are important for Chinese consumers (all proteins)?	What associations do consumers have to beef?
My/my family's favourite meat	The most superior meat
Easy and convenient to prepare	High nutritional value
Tastes delicious	Willing to pay more for it
Cheaper	Animal is well cared for
Consistent quality standards	Consistent quality standards

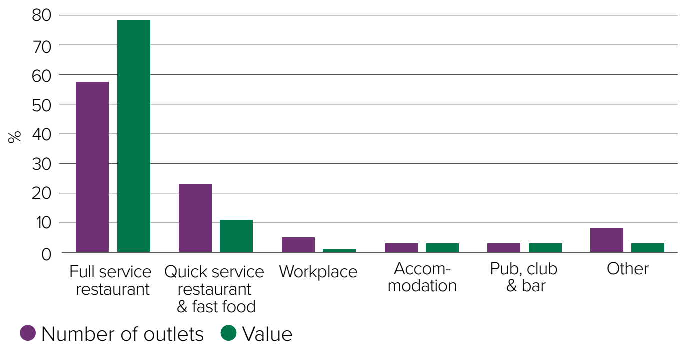
Source: MLA Global Consumer Tracker China, 2018

- Beef and beef offal are used in a variety of stir fry, stew, soup, dumpling and hot pot dishes. In urban upper middle class households, there is increasing exposure to western-style steaks, sausages, pasta dishes and burgers, particularly via foodservice but also at home.
- Affluent urban consumers appreciate Australian beef, which is recognised for being best able, among competitor products, to provide high quality steak. Consumers believe Australian beef offers several advantages considered worth paying more for, such as safety and quality consistency, nutritional value, tenderness and overall superiority *(Source: MLA Global Consumer Tracker, China 2017)*.
- Challenges with cold chain management in China remain significant, particularly for higher-end beef product, but improvements are increasing the availability and reach of Australian beef products to consumers in more cities.

Foodservice

- As a comparatively less familiar but premium protein, it is estimated that about half the beef in China is consumed outside the home *(Source: GIRA)*, which provides opportunities for affluent urban consumers to try different cuisines and enjoy their 'meal experience'.
- MLA estimates that the bulk (around 70%) of Australian beef goes into further processing items such as hot pot rolls, burgers, meatballs and sausages. A smaller but growing proportion of Australian beef goes directly into the foodservice and retail sectors.
- Australian beef has a strong, established presence in China's premium western-style foodservice sector, as well as some up-scale hot pot restaurant chains, where differentiation based on quality and country of origin is important to diners. Some product is also used in mid-level western and Chinese-style restaurants and some western quick service restaurant chains.
- Full service restaurants dominate China's foodservice sector in both number of outlets and value. This sub-sector is highly fragmented comprising mainly independent operators, though chains (like steakhouse restaurants) are expected to see somewhat faster growth in coming years *(Source: GlobalData)*.

Outlet number and value by key foodservice channel (% out of total)



Source: GlobalData. 2019 forecast.

- China is expected to continue its anti-corruption campaign for the foreseeable future, which has significantly impacted the high-end restaurant sector since it began in 2012, including beef sales through this channel.
- Some recent developments in the foodservice sector include rapid growth in takeaway food and home delivery services.

Source: iStock

Retail

- China is home to the world's largest grocery market by total sales (valued at A$1,856 billion in 2019f), but it is also one of the world's most regionalised and fragmented (Source: IGD).

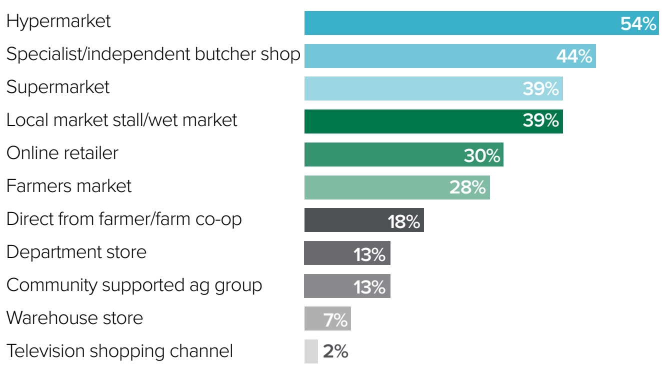
Top five grocery retailers in China by market share rank and region

	East	West	South	North
1	Sun Art Group	Wal-Mart Group	Wal-mart Group	Sun Art Group
2	Vanguard Group (+Tesco)	Yonghui Group	Vanguard Group (+Tesco)	Wu-Mart Group
3	Bailian Group	Vanguard Group (+Tesco)	WSL Group	Carrefour
4	Wal-mart Group	Carrefour	Sun Art Group	Vanguard Group (+Tesco)
5	Carrefour	New Century	Bubugao	Spar Group

Source: Kantar Worldpanel, May 2018

- China has mandatory country of origin labelling, so consumers are aware of where their beef comes from, particularly when purchased from modern retail channels. In addition, affluent urban consumers are driving growth in branded beef products as a marker of not only the important 'basics' of quality and safety, but as a source of meaning that contributes to their consumption experience via dimensions such as provenance.
- Traditional trade still plays an important role in the beef market, though much less so for imported beef. Frequent buyers of imported meat tend to source it from modern trade channels, for consumption at home. However, they will still sometimes use wet markets for meat that is served to guests, or when it is more convenient to drop by the neighbourhood wet market than visit a hypermarket.

Where frequent imported meat consumers bought beef from in the past month



Source: MLA-GlobalData China Attractive Cities Study, 2016. Top 15 attractive China cities combined.

- China's grocery retail sector is undergoing significant change, with new business models being trialled across the country including new mobile payment systems, unmanned convenience stores, small format grocery stores and same-day fresh grocery delivery, presenting new opportunities for Australian beef.
- Over the next few years, retail sales value growth for beef is forecast to be fastest in the e-commerce channel, estimated at around 15.9%, but will also be strong through hypermarkets and supermarkets (each at 9.5%) *(Source: MLA China Attractive Cities Study, 2016).*

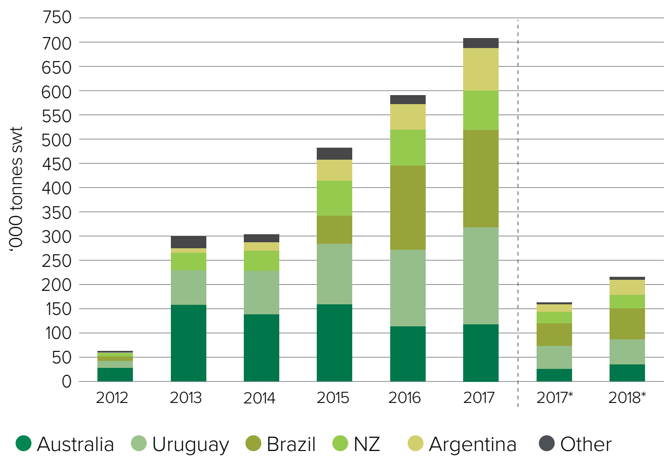
Market access

- China has signed a number of bilateral free trade agreements with other significant meat producers including New Zealand, South Korea, Costa Rica, Chile and Peru.
- In the past year or so, several countries have been granted market access to China for some beef products. The US re-gained market access for some products after being banned since 2003, when a case of bovine spongiform encephalopathy (BSE) was detected in the US. The US has an advantage over Australia as it has 53 plants approved for both chilled and frozen product, including tripe.
- In March 2017, Australia and China signed a Joint Statement on Enhancing Inspection and Quarantine Cooperation, aimed at providing Australian exporters with improved market access for chilled beef and beef offal. Pending the outcome of an audit process, an increase in the number of listed establishments will likely occur.

Other suppliers

- The China beef market is very competitive and will become more so as more countries are granted market access.
- China has a large beef cattle herd, estimated at 54 million head in 2018e *(Source: GIRA)*, and although domestic beef production is expected to see continued growth in the coming years, there will remain a significant domestic supply gap that will need to be met by imports.
- 2017 saw China's largest ever import volume of beef, with 695,115 tonnes going through customs *(Source: GTA).*
- Australia's key competitors for frozen beef are Brazil and Uruguay, as well as New Zealand and Argentina.
- Australia was the sole approved supplier of chilled beef to China from mid-2014 to mid-2017, when China granted access to the US, approving 37 establishments, and New Zealand with 7 plants now listed for chilled beef. Italy has also recently begun exporting small volumes.

Direct beef imports by country of origin



Source: GTA, China Customs.
*Jan-Mar

Live exports

- Despite high prices and the complexity of the live feeder/slaughter cattle protocol signed between Australia and China in 2015, Australia exported 24,556 live cattle for processing and 71,776 beef breeders to China in 2017–18 *(Source: DAWR, ABS).*
- China also has a live feeder/slaughter cattle protocol agreement with Uruguay and imports mostly breeder as well as some feeder/slaughter cattle from New Zealand, Uruguay and Chile *(Source: GTA).*

Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
China-Australia Free Trade Agreement **(ChAFTA)**	**2019** Chilled and frozen beef 6% Chilled carcases 10% Frozen carcases 12.5% **2024** Zero	**Brazil, Uruguay, Argentina, Canada and US** 12% tariff on meat 20/25% on chilled/ frozen carcases **NZ** Zero from 2016	**Safeguard** Additional customs duty will apply if Australian imports exceed 174,454 tonnes swt in 2019	Restrictions on the number of approved plants, chilled plants and restrictions on edible offal

Best access — Major challenges

Source: Trade agreements, DFAT, MLA
NB: China applies a 13% VAT on most items (muscle cuts, offal) and 17% on processed

Australian beef exports to China – 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	**133,382**	**100**	**97,492**	**100**	**120,525**	**100**	**11**	**12,857**
Storage	Chilled	7,764	6	6,126	6	6,671	6	16	1,093
	Frozen	125,618	94	91,366	94	113,854	94	10	11,764
Meat type	Grassfed	99,636	75	71,000	73	101,344	84	-2	-1,708
	Grainfed	33,746	25	26,492	27	19,181	16	76	14,565
Storage/meat type	Chilled grassfed	4,373	3	3,743	4	5,313	4	-18	-939
	Chilled grainfed	3,391	3	2,383	2	1,358	1	150	2,032
	Frozen grassfed	95,262	71	67,257	69	96,031	80	-1	-769
	Frozen grainfed	30,356	23	24,109	25	17,822	15	70	12,533

Source: DAWR

Value – in A$ 000

		2017–18	% out of total	2016–17	% out of total	5-year average	% out of total	%	in A$ 000
	Total	**1,001,780**	**100**	**746,648**	**100**	**713,424**	**100**	**40**	**288,356**
Storage	Chilled	93,739	9	85,294	11	61,933	9	51	31,806
	Frozen	908,041	91	661,354	89	651,490	91	39	256,551

Source: ABS/GTA

Volume – by major cut (in tonnes swt)

	2017–18	% out of total	2016–17	% out of total	5-year average	% out of total	%	in tonnes swt
Brisket	29,122	22	23,035	24	25,967	22	12	3,155
Manufacturing	24,756	19	11,450	12	10,132	8	144	14,624
Shin/shank	13,546	10	12,144	12	16,841	14	-20	-3,295
Silverside/outside	12,738	10	8,693	9	11,348	9	12	1,390
Blade	10,239	8	7,391	8	8,409	7	22	1,830
Thick flank/knuckle	6,356	5	4,301	4	7,484	6	-15	-1,129
Ribs	5,618	4	3,547	4	3,535	3	59	2,083
Chuck roll	4,905	4	5,261	5	3,557	3	38	1,348
Other	26,103	20	21,671	22	33,252	28	-21	-7,148
Total	**133,382**	**100**	**97,492**	**100**	**120,525**	**100**	**10.67**	**12,857**

Source: DAWR

Australian beef offal exports to China – by major cut (in tonnes swt)

	2017–18	% out of total	2016–17	% out of total	5-year average	% out of total	%	in tonnes swt
Tendon	884	39	945	28	1,675	39	-47	-792
Heart	807	36	1,190	36	1,615	38	-50	-808
Kidney	362	16	677	20	583	14	-38	-221
Other	219	10	518	16	374	9	-41	-154
Total	**2,272**	**100**	**3,330**	**100**	**4,247**	**100**	**-47**	**-1,975**

Source: DAWR

Value – in A$ 000

	2017–18	% out of total	2016–17	% out of total	5-year average	% out of total	%	in A$ 000
Total	**37,925**		**25,335**		**23,828**		**59**	**14,097**

Source: ABS/GTA