MARKET SNAPSHOT | **BEEF**

North America (US, Canada & Mexico)

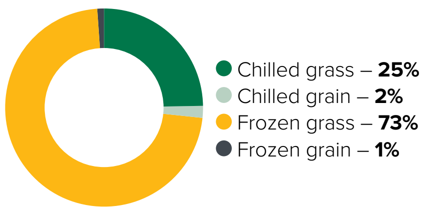
UNITED STATES (US) – The United States is one of the largest consumers of beef globally, with its per capita consumption increasing in recent years. Despite the drop in Australian beef exports to the US from it's peak in 2014–15, it remains one of the main destinations for Australian beef in volume and value terms, and is also a growing market for Australian chilled grassfed beef.

Challenges and opportunities in the US for Australian beef include:

- Although frozen manufacturing accounts for a large proportion of Australian beef exports to the US, the valuable chilled sector is gradually taking a greater volume share of exports, representing 27% of total exports in 2017 compared to 15% in 2012.
- Grassfed beef is a key growth area in both retail and foodservice. Its growing profile in the US has been on the back of strong demand by consumers who perceive it as better for the environment and the welfare of animals, along with it being more natural and better for their health.
- Growing beef consumption in the US has helped to absorb increased domestic production, as well as larger volume of imports from its North America Free Trade Agreement (NAFTA) partner countries – Canada and Mexico – and other suppliers including Australia.

Population	Households earning* >US$35,000/year	Households earning* >US$50,000/year	Households earning* >US$75,000/year
326.8 in 2018 / **336.1** in 2022	**86.4** in 2018 / **94.2** in 2022	**64.9** in 2018 / **74.0** in 2022	**40.1** in 2018 / **49.0** in 2022
In million	In million households	In million households	In million households
Source: BMI Research, 2018 estimate & 2022 forecast	*Source: BMI Research, 2018 estimate & 2022 forecast* *Disposable income	*Source: BMI Research, 2018 estimate & 2022 forecast* *Disposable income	*Source: BMI Research, 2018 estimate & 2022 forecast* *Disposable income

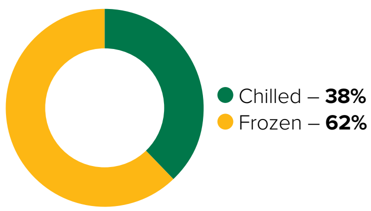
Australian beef exports – volume



Total 234,833 tonnes swt

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

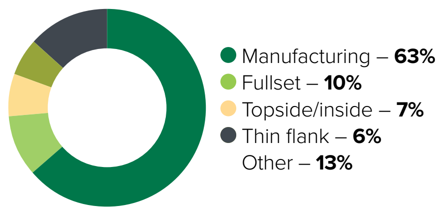
Australian beef exports – value



Total A$1,709.0 million

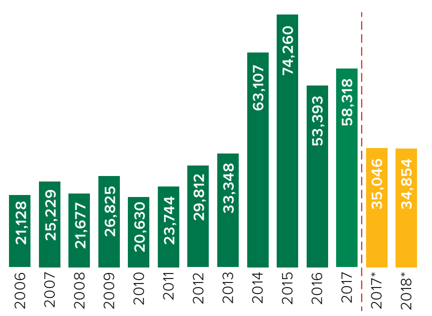
Source: ABS/GTA, 2017–18

Proportion of key cuts



Source: DAWR, 2017–18

Chilled grassfed beef exports to the US

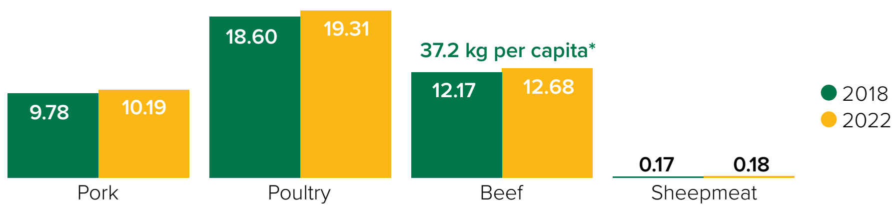


In tonnes swt

Source: DAWR. *Jan to Jul

US meat consumption

123.2 kg per capita*
total meat protein**



In million tonnes cwt

Source: BMI Research, OECD *2017e per person per year ** Excluding fish/seafood

FOR FURTHER INFORMATION VISIT US ONLINE AT:
www.mla.com.au or email us at: globalindustryinsights@mla.com.au

Consumers

- US beef consumption recovered in 2017 after a period of long-term decline. This has been strongly driven by higher US beef production which has continued throughout 2018 and is expected to continue in 2019.
- The majority of US consumers would consider buying imported beef and are aware of grassfed beef. Nine out of 10 would consider buying grassfed beef.
- Australian grassfed beef awareness and consumption is higher in New York, Washington DC, Boston, Florida and San Francisco. Purchasers of grassfed beef are interested in quality and 'naturally' raised beef, with concern for animal welfare and environmental sustainability also majors factor considered when purchasing beef *(Source: MLA Global Tracker, 2017)*.

Awareness of types of beef

Source: MLA Global Consumer Tracker US, 2018

- Australia is well placed to meet the demands for quality and animal welfare with superior food safety, traceability protocols and unique quality grading system, Meat Standards Australia (MSA).

Attributes important for all proteins and beef associations

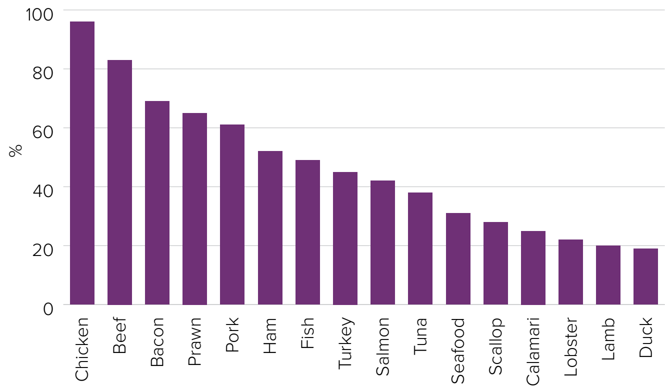
What attributes are important for US consumers (all proteins)?	What associations do consumers have to grassfed beef?
My/my family's favourite	Better for the animals
Easy & convenient to prepare	Better quality
Consistent quality standards	Naturally raised
Essential part of children's diet	Better for my health
Most superior	More flavourful beef

Source: MLA Global Consumer Tracker US, 2018

Foodservice

- Manufacturing beef for burgers and other processed beef products make up a large proportion of Australian beef sold into the foodservice sector in the US, while chilled grassfed beef is largely destined for full service restaurants and retail.

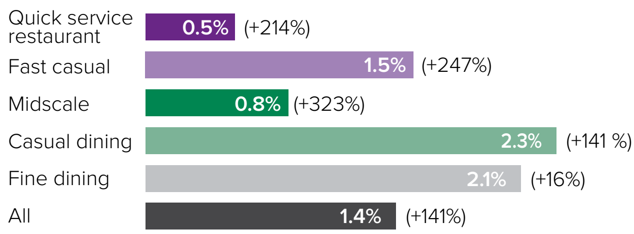
Chicken and beef drive US protein menuing



Source: Dataessential, beef and lamb menu analysis, 2017

- Although grassfed beef is most common in casual dining and fine dining restaurants, its growth is solid across all segments, particularly midscale*1 and fast casual*2 restaurants albeit from a low base *(Source: DataEssential, beef and lamb menu analysis 2017)*.

Grassfed beef - penetration by restaurant segments

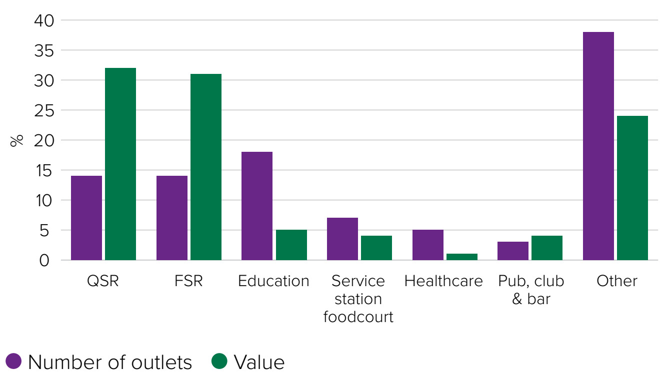


(Bracket percentage) = 4 year % change 2016 vs. 2012

Source: Dataessential, beef and lamb menu analysis, 2017

- The US foodservice segment is set to continue growing in the coming years, with more transactions and consumer spending driving strong growth. At the same time, there are shifts within the market as traditionally popular family and casual dining outlets are struggling to compete with fast casual options *(Source: Global Data – US the future of foodservice 2021)*.

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



Source: GlobalData, 2017 estimate

*[1] Midscale: waiter service at a moderate price; often breakfast focused and generally no alcohol

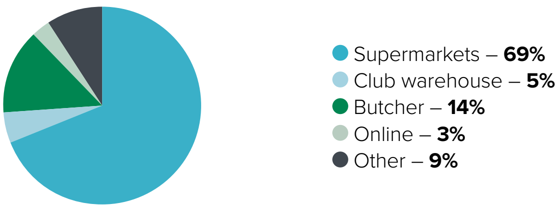
*[2] Fast casual: counter service with focus on higher quality, fresh ingredients and customisation

Retail

- Although the grassfed beef retail segment in the US is relatively small, demand for higher value chilled grassfed beef is increasing. Some of the most popular cuts include ground and steak cuts like tenderloin, striploin and rib eye. Sales of grassfed beef have been doubling since 2012 at the same time conventionally raised beef has largely stagnated.

- In the retail sector, supermarkets are the main purchase channel for Australian grassfed beef. However, no requirement for 'country of origin' labelling at point of purchase is challenging for Australian product to be differentiated in the sector.

Where do shoppers buy Australian beef – 2018

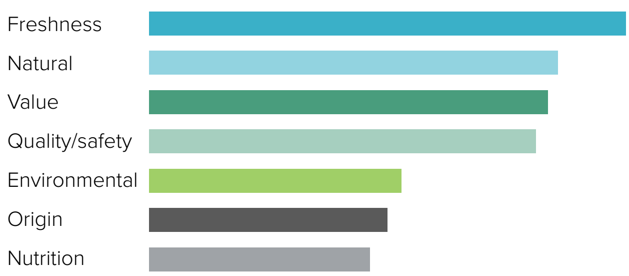


Source: MLA Global Tracker US, 2018

- Interestingly, Trader Joe's and Whole Foods shoppers are more likely to know the origins of their grassfed beef than the average supermarket shopper, representing an opportunity for Australian beef to increase origin awareness and preference.
- Australian grassfed beef is seen to provide the highest quality steak amongst imported product, with Costco and Whole Foods the most trusted sources for high quality steak *(Source: MLA Global Tracker, 2017)*.

Motivation to choose and eat beef

Important themes ranked by relative importance

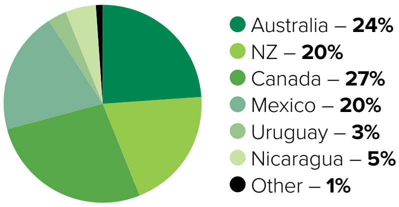


Source: MLA Global Consumer Tracker, 2018

Other suppliers

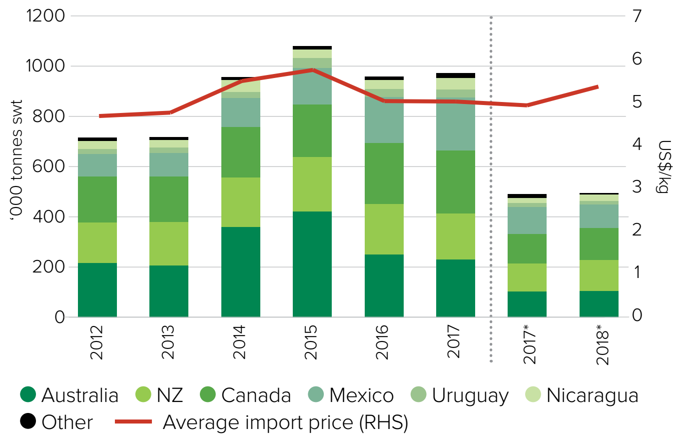
- The main competitors for Australian beef in the US market are US domestic beef, Canada, Mexico and New Zealand. Smaller suppliers include Uruguay and Nicaragua which have access to smaller quotas.
- Australia maintains its preferred access status to the US, only behind NAFTA partners (Canada and Mexico – with no quota restrictions). NZ has a quota of 213,402 tonnes with an out-of-quota tariff of 26.4%.
- In June 2017, the US Department of Agriculture (USDA) announced the immediate suspension of fresh beef imports from Brazil, as shipments failed food safety tests. The decision will remain in place until satisfactory corrective actions are taken.

US beef imports by market share



Source: GTA, Jan to Jul 2018

US beef imports by major supplier



Source: GTA
*Jan to Jul

US – Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Australia-United States Free Trade Agreement **(AUSFTA)**	Zero within quota (14.08% above quota)	Canada and Mexico NAFTA, no quota	Australia to US – 428,214 tonnes swt	E. coli and Salmonella sampling programs, label approvals and port mark compliance

Best access — Major challenges

Source: Trade agreements DFAT, MLA

Australian beef exports to US – 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	**234,833**	**100**	**209,424**	**100**	**297,518**	**100**	**-21**	**-62,684**
Storage	Chilled	63,200	27	57,600	28	61,157	21	3	2,043
	Frozen	171,633	73	151,824	72	236,361	79	-27	-64,727
Meat type	Grassfed	228,647	97	203,229	97	288,836	97	-21	-60,189
	Grainfed	6,186	3	6,195	3	8,682	3	-29	-2,496
Storage/meat type	Chilled grassfed	58,270	25	52,909	25	54,164	18	8	4,106
	Chilled grainfed	4,930	2	4,692	2	6,993	2	-29	-2,063
	Frozen grassfed	170,378	73	150,320	72	234,672	79	-27	-64,294
	Frozen grainfed	1,256	1	1,504	1	1,689	1	-26	-433

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	**1,709,030**	**100**	**1,493,923**	**100**	**1,909,142**	**100**	**-10**	**-200,112**
Storage	Chilled	652,619	38	523,025	35	544,776	29	20	107,842
	Frozen	1,056,411	62	970,899	65	1,364,366	71	-23	-307,955

Source: ABS/GTA

Australian beef exports to US – by major cut

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	%	in tonnes swt
Manufacturing	148,358	63	128,191	61	197,539	66	-25	49,181
Fullset	24,125	10	13,199	6	3,052	1	690	21,073
Topside/inside	17,294	7	16,565	8	20,722	7	-17	-3,428
Thin flank	14,284	6	15,447	7	22,011	7	-35	-7,727
Silverside/outside	8,028	3	8,668	4	13,601	5	-41	-5,573
Other	22,744	10	27,354	13	40,592	14	-44	-17,848
Total	**234,833**	**100**	**209,424**	**100**	**297,518**	**100**	**-21**	**-62,684**

Source: DAWR

Australian beef exports to Canada – by major cut

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	%	in tonnes swt
Manufacturing	14,489	70	11,860	70	19,637	74	-26	-5,148
Silverside/outside	1,985	10	2,332	14	2,896	11	-31	-911
Cube roll/rib eye roll	1,621	8	723	4	704	3	130	917
Other	2,512	12	2,046	12	3,305	12	-24	-793
Total	**20,607**	**100**	**16,961**	**100**	**26,543**	**100**	**-22**	**-5,936**

Source: DAWR

Australian beef exports to Mexico – by major cut

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	%	in tonnes swt
Thin flank	366	99	84	100	453	98	-19	-87
Other	4	1	0	0	9	2	-59	-6
Total	**370**	**100**	**84**	**100**	**462**	**100**	**-20**	**-93**

Source: DAWR

CANADA – Overall meat consumption is declining in Canada, driven by changing demographics (growing number of immigrants) and an ageing population concerned about their health. Beef remains the second most popular protein in Canada, with per capita consumption averaging 19kg/year, behind poultry (34kg/year).

Challenges and opportunities in Canada for Australian beef include:

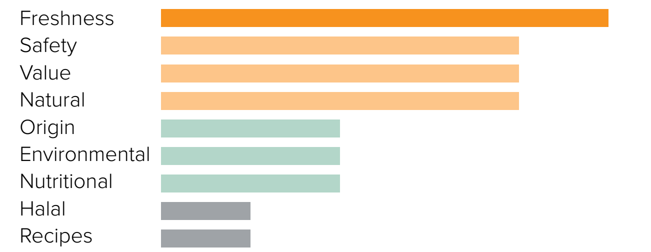
- The proportion of high income households in Canada is increasing steadily and can represent a growth opportunity for high quality beef through high-end retailers and foodservice.
- Australian beef exports to Canada are mostly comprised of frozen manufacturing beef, and are currently limited by a quota and an above-quota tariff.
- The US remains the main imported beef supplier to Canada, accounting on average for more than 50% of total imports. The US and Mexico benefit from neither a tariff nor quota restrictions as part of North America Free Trade Agreement (NAFTA). Year-to-date June 2018 data shows that imports from Australia have increased by 23% and New Zealand by 10% while imports from the US decreased.

Consumers

- Most Canadian consumers already buy imported beef, and a growing majority of grassfed beef buyers are aware of the country of origin (68%), and most would consider buying imported beef (82%) *(MLA Global Tracker 2017)*.
- Compared to global consumers, Canadian beef buyers are more concerned about natural produce, price and no added hormones.
- When purchasing beef, 'naturalness' is something buyers look for and grassfed is seen as an authentic differentiator. However, the appeal of grassfed beef has plateaued at the same time that newer descriptors have become more prevalent like organic, hormone-free, non-GMO and antibiotic-free. It appears consumers are not fully aware of the differences between these types of beef.

Motivation to choose and eat beef

Important themes ranked by relative importance

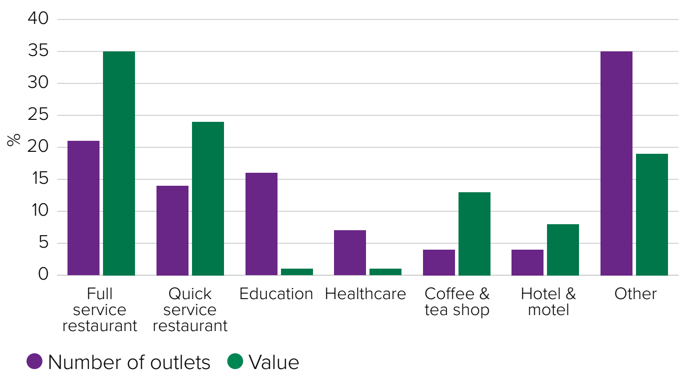


Source: MLA Global Tracker US, 2017

Foodservice and retail

- The full service restaurant and quick service restaurant channels lead the Canadian foodservice sector, generating a combined 60% of total revenue in 2017.
- Beef is the most valuable meat category in the quick service segment, representing 39% of the channel's total animal protein value*3 in 2016. *(Source: GlobalData – Canada, The future of foodservice to 2021)*.

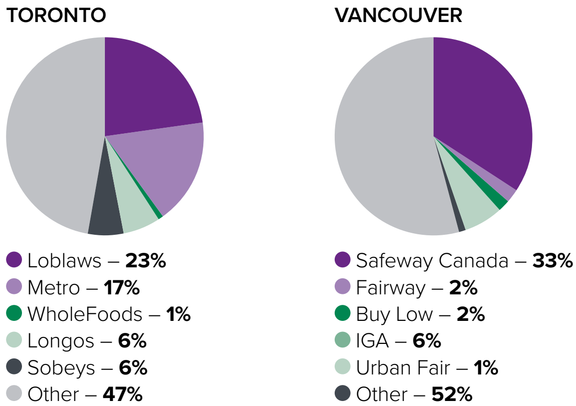
Outlet number and value by key foodservice channel (% of total)



Source: GlobalData, 2017 estimates

- At the retail level, Australian beef is mainly purchased from supermarkets, and as the retail sector is quite fragmented in Canada, each city has a different leader in claimed total beef sales *(Source: MLA Global Tracker US, 2017)*.

Main supermarkets for purchasing beef



Source: MLA Global Tracker Canada, 2017

Canada – Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
No agreement	Zero within quota (26.5% above quota)	US and Mexico NAFTA, no quota	35,000 tonnes/year swt 26.5% tariff apply over quota	E. coli and Salmonella sampling programs, label approvals and port mark compliance

Best access — Major challenges

Source: Trade agreements DFAT, MLA

*3On-base percentage

MEXICO – Mexico has experienced stable economic growth over recent years, which has fuelled an expanding middle class who are expected to increase their appetite for beef.

Challenges and opportunities in Mexico for Australian beef include:

- Australian beef exports to Mexico have historically consisted of small volumes of frozen product used for further processing. Prior to March 2017, Australian beef faced tariffs which aren't payable by larger North American beef importers.
- The relaxation of tariffs, which has been extended to December 2019, and the superior shelf-life of Australian chilled beef have presented opportunities in this market, particularly considering that Mexican consumers have a growing appetite for premium, high quality fresh meat.
- Rising incomes and an expansion of urban lifestyles have boosted growth prospects for products of high quality and value in Mexico through both the foodservice and retail channels.

(Source: BMI)

Consumers

- Mexicans are expected to consume approximately 1.86 million tonnes cwe of beef in 2018 and demand is projected to rise, as the peso strengthens and the middle class grows.
  (Source: United States Department of Agriculture – USDA)
- Young, wealthy consumers are driving beef consumption growth in Mexico. Younger consumers with more money to spend are fuelling demand for high quality food and more formal dining experiences.
- The number of households with a higher income (above US$35,000/year) is expected to register notable growth by 2021. In addition, hotel and restaurant expenditure is also set to increase, creating new opportunities for high value products such as Australian beef and lamb.

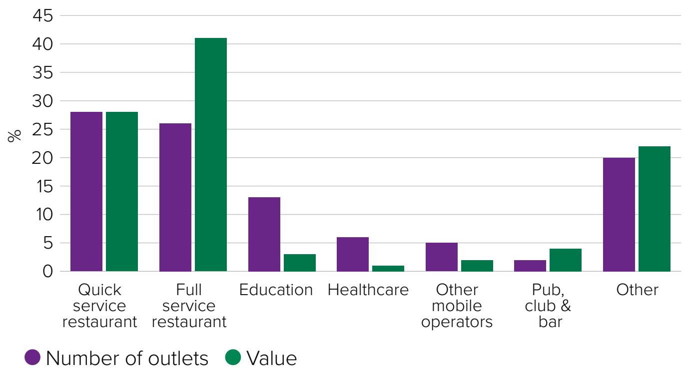
Trade access

- In late 2017, the Mexican government extended the agreement establishing detailed provisions on unilateral tariff rate quotas, which allows 220,000 tonnes/year from non-NAFTA countries of beef to enter Mexico duty-free from any exporting countries until the end of 2019. The annual quota will be shared with other non-NAFTA countries.

Foodservice and retail

- Foodservice spending in Mexico is forecast to grow 60% in the next five years, with the growing working-age population and urbanisation lifting demand for more convenience among foodservice customers.
- Full service restaurants' is the largest segment within foodservice, holding over 40% share of sales in 2017. The channel is set to be the main beneficiary of Mexico's positive economic scenario, with rising discretionary incomes allowing families to trade up from quick service restaurants and being more receptive to higher value imported Australian beef.
- In the retail sector, hypermarkets are the most prevalent outlet type in the country. Retailers will increasingly target the upper-middle class segment in the coming years, through premium formats that offer popular imported produce *(Source: BMI).*

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



Source: GlobalData, 2017 estimates

Mexico – Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
No agreement Australia is an associate member of Pacific Alliance and is in the early stages of negotiating a FTA	Zero within quota (20-25% above quota)	US and Canada NAFTA, no quota	**220,000 tonnes/year swt** shared with other non-NAFTA countries until December 2019	Listing restrictions on who has approval to send to Mexico, labelling and language issues on carton and inner packaging, sample tests on arrival for all consignments, port of entry options limited

Best access — Major challenges

Source: Trade agreements DFAT, MLA