MARKET SNAPSHOT | **SHEEPMEAT**

China

China is a large, complex country with significant regional cultural variation, and a mixed demand outlook for imported sheepmeat. A sophisticated market segmentation approach to identifying and developing niche opportunities for Australian sheepmeat is required.

Challenges and opportunities in China for Australian sheepmeat include:

- China's sheepmeat import demand is quite volatile and is heavily impacted by domestic production cycles and opportunistic small farmers. This is especially evident at the commodity end of the market, where frozen mutton is particularly impacted.
- Sheepmeat currently accounts for only 3% of dietary protein consumption. However, consumption is forecast to increase, with a particular opportunity to target wealthier urban consumers seeking a wider variety of premium proteins.
- Sheepmeat and sheepmeat offal are traditionally used in a variety of stew, soup and particularly hot pot dishes, with sheepmeat also being a popular street food in the form of spiced grilled kebabs. Western-style sheepmeat dishes remain mostly the domain of the high-end foodservice sector, but there are opportunities to build familiarity of premium lamb to generate growth in retail.
- There is a small but growing niche market for premium Australian lamb in the high-end foodservice and retail sectors of the larger coastal cities. Australia has had one plant granted access to China for chilled sheepmeat since early 2016, while New Zealand (NZ) achieved multiple plant listings for chilled sheepmeat and sheep tripe in mid-2018.
- While ChAFTA* is reducing tariffs on Australian sheepmeat, increasing the number of plants eligible to export to China remains a priority, particularly for chilled product.

*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 sheepmeat exports – volume

- Frozen lamb – **54%**
- Frozen mutton – **46%**

Total 83,195 tonnes swt

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

Australian sheepmeat exports – value

- Lamb – **53%**
- Mutton – **47%**

Total A$563.0 million

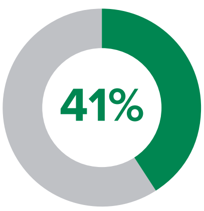
Source: ABS/GTA

Proportion of key cuts

- Breast and flap – **51%**
- Carcase – **21%**
- Manufacturing – **16%**
- Neck – **6%**
- Other – **7%**

Source: DAWR, FY 2017-18

Australia's share of direct imports

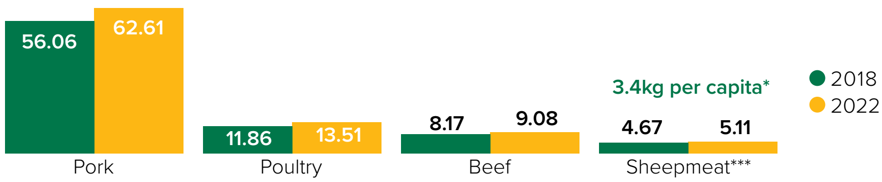


- Australia
- Other Countries

Source: GTA, MAT April 2017 to March 2018

Meat consumption

57.2kg per capita* total meat protein**



In million tonnes cwt

Source: GIRA, BMI Research, OECD (2018 estimate, 2022 forecast)

* 2018e per person per year in cwt ** Excluding fish/seafood
*** Sheepmeat figures include sheepmeat and goat

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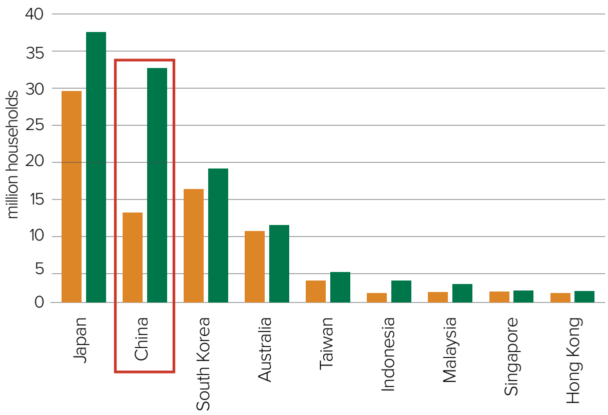
Consumers

- Due to its large population, growing incomes and shifting diets, China is an attractive market for premium Australian sheepmeat. However, care needs to be taken to minimise the risks of market volatility, which tends to impact the commodity end of the market due to domestic production cycles.
- China is a country of great regional cultural diversity and variation in consumption habits and preferences. Considering cuisine alone, there are at least eight distinct Chinese cuisines, with the use and flavouring of sheepmeat varying.
- Despite being the most populous country in the world, the proportion of consumers who can regularly afford to buy imported lamb is relatively small, with 12.5 million households earning disposable income of US$35,000 a year or more. That number is forecast to increase just over 2.5 times over the next four years to 32.6 million in 2022 (triple the number in Australia).

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



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

- Traditionally, sheepmeat consumption is higher in the cooler northern areas of China and during the cooler months, as it is considered to generate 'internal heat'. However, interest in consuming sheepmeat has grown faster in warmer coastal cities, where wealthier consumers seek more variety in their proteins from a taste and nutritional benefit perspective, and are more likely to be able to regularly afford to buy imported sheepmeat.
- Per capita sheepmeat consumption is small relative to the staple proteins of pork, chicken and seafood. However, with rising incomes and continued urbanisation, per capita sheepmeat consumption is forecast to increase some 17% from around 3.4kg in 2018e to 4kg in 2027f *(Source: GIRA)*.
- Chinese consumers consider lamb a premium, great-tasting protein, but its perceived weakness is that it is difficult to prepare and buy and less versatile to cook compared to other proteins.

Attributes important for all proteins and lamb associations

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

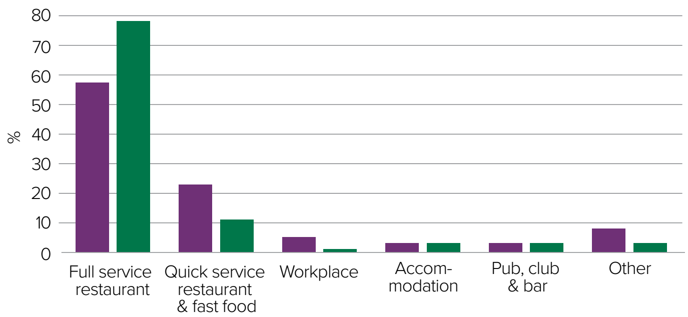
Source: MLA Global Consumer Tracker China, 2018

- Sheepmeat and sheepmeat offal are used in a variety of stir fry, stew, soup, dumpling and hot pot dishes, and sheepmeat is a popular street food in the form of grilled spiced kebabs. In urban upper middle class households, there is increasing exposure to western-style lamb cutlets, meatballs and sausages. Popular western cooking methods such as roasting are only available to the very small proportion of households that have an oven at home.
- Affluent urban consumers appreciate Australian lamb, which offers several advantages that are considered worth paying more for, such as safety and quality consistency, good animal welfare and nutritional value, though it is not yet well differentiated from NZ lamb in consumer's minds *(Source: MLA Global Consumer Tracker, China 2018)*.

Foodservice

- As a less familiar but premium protein, it is estimated that about 65% of the sheepmeat consumed in China is done so outside the home *(Source: USMEF)*.
- Imported Australian lamb can be found on menus in high-end western-style restaurants and five-star hotels, as well as some reputable high-end hot pot restaurant chains.
- Full service restaurants dominate China's foodservice channel in both number of outlets and value. This channel is largely comprised of independent operators, though chains are expected to see somewhat faster growth in coming years *(Source: GlobalData)*.

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



Source: GlobalData. 2018 forecast.

- As China's economy shifts to become more consumption-driven, dining out will increase, fuelled by rising disposable incomes and urbanisation. This, in turn, is expected to grow the market for high quality imported lamb. The premium-level restaurants that charge at least RMB300/head (equivalent A$58/head) in 15 major Chinese cities are forecast to see a combined annual growth rate of 9.6% in their lamb sales value from 2015 to 2020 *(Source: MLA-GlobalData China Attractive Cities Study, 2016)*.
- Some recent developments in the foodservice sector include a rapid growth in food takeaway, home meal delivery services, and ordering methods.

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)*.

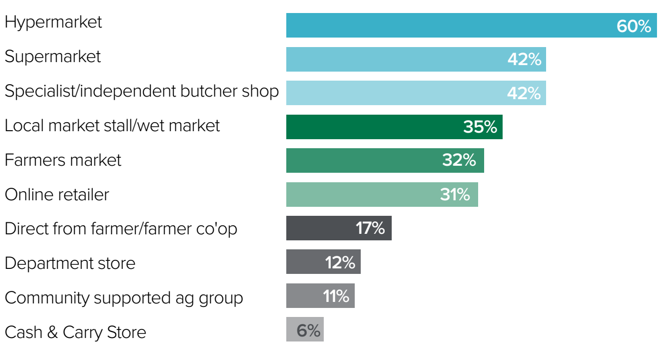
Top five grocery retailers in China by market share rank and region

	East region	West region	South region	North region
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

- In China, country of origin labelling is mandatory so consumers know where their lamb comes from, particularly when purchased from modern retail channels. In addition, urban affluent consumers are driving growth in branded lamb 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.
- Retail has been a small channel for Australian sheepmeat in China to date, but branded lamb product is becoming available in stores in some of the larger cities and online.
- Frequent buyers of imported meat typically buy their lamb from modern retail channels, but still use wet markets for some lamb purchases.

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



Source: MLA-GlobalData China Attractive Cities Study, 2016. Top 15 attractive 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 potential new opportunities for Australian lamb.

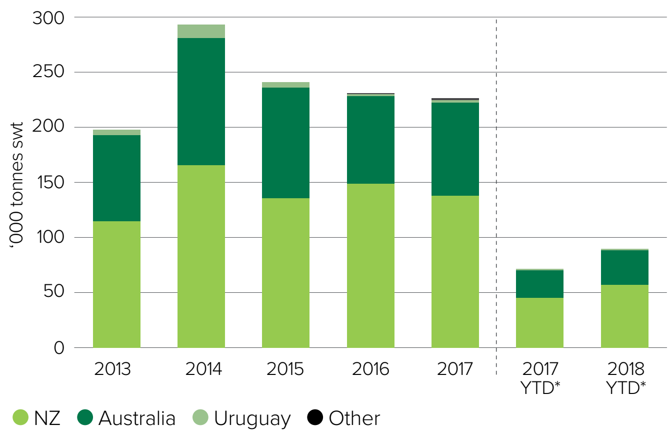
Live exports

- China has been a significant market for Australian breeder sheep exports in the past. Some 1,280 head of live sheep were exported to China 2017-18, a significant decline on recent years *(Source: DAWR, ABS)*.

Other suppliers

- China is the world's largest sheepmeat producer, with a sheep and goat flock estimated at 303 million head in 2018f. Despite this, China is expected to continue to be a net importer of sheepmeat over the next 10 years *(Source: GIRA)*.
- Imports will continue to cover a very small proportion of sheepmeat consumed in China (estimated at around 6% in 2018f) *(Source: GIRA)*. Strength of import demand depends significantly on domestic production cycles which are quite volatile due to the significant impact of small opportunistic farmers on the industry.
- NZ is the lead imported sheepmeat supplier to China, followed closely by Australia. Smaller volumes are supplied by China, Uruguay and Mongolia.
- The US and Kazakhstan may also be granted access to China for sheepmeat in the near future. While the expected volume impact from the US is likely to be small, being a net importer itself, Kazakhstan may potentially have more volume impact, with a flock size of around 19 million at end 2017.
- Up until 2017, Australia was the sole approved supplier of chilled lamb to China, with one plant approved as of November 2017. After a 6 month trial in 2017, NZ achieved China listing of several plants for chilled sheepmeat and sheep tripe in mid-2018.

Direct sheepmeat imports by country of origin



Source: GTA, China Customs
**YTD Jan-Mar*

IMPROVING MARKET ACCESS FOR AUSTRALIAN SHEEPMEAT

- 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 sheepmeat and sheepmeat offal and a live slaughter sheep export protocol. Pending the outcome of an audit process, an increase in the number of listed establishments will likely occur.

Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
China-Australia Free Trade Agreement **(ChAFTA)**	Under ChAFTA: **2019:** Chilled meat and carcases 6.7-10.2% Frozen meat and carcases 6.7-10.2% **2023:** Zero	**NZ** Import tariffs zero from 2016 Multiple plant listings for chilled sheepmeat and sheep tripe	Zero	Restrictions on the number of approved plants, chilled plants and edible offal

Best access — Major challenges

Source: Trade agreements, DFAT, MLA

Australian sheepmeat 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		**96,844**	**100**	**59,846**	**100**	**73,716**	**100**	**31**	**23,128**
Storage	Chilled	10	0	4	0	12	0	-18	-2
	Frozen	96,835	100	59,842	100	73,704	100	31	23,131
Meat type	Lamb	52,255	54	42,594	71	37,935	51	38	14,320
	Mutton	44,590	46	17,252	29	35,781	49	25	8,808
Storage/meat type	Chilled lamb	10	0	4	0	3	0	213	7
	Chilled mutton	0	0	0	0	9	0	-100	-9
	Frozen lamb	52,245	54	42,590	71	37,932	51	38	14,313
	Frozen mutton	44,590	46	17,252	29	35,772	49	25	8,817

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		**562,994**	**100**	**297,974**	**100**	**315,181**	**100**	**79**	**247,813**
Meat type	Lamb	297,502	53	208,465	70	176,064	56	69	121,438
	Mutton	265,493	47	89,509	30	139,117	44	91	126,376

Source: ABS/GTA

Australian lamb 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
Breast and flap	32,170	62	28,130	66	23,403	62	37	8,767
Manufacturing	11,463	22	9,151	21	6,832	18	68	4,631
Neck	5,181	10	4,215	10	3,276	9	58	1,906
Other	3,441	7	1,098	3	4,424	12	-22	-983
Total	**52,255**	**100**	**42,594**	**100**	**37,935**	**100**	**38**	**14,320**

Source: DAWR

Australian mutton 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
Carcase	20,237	45	616	4	11,598	32	74	8,639
Breast and flap	16,883	38	13,820	80	15,735	44	7	1,148
Manufacturing	3,773	8	2,119	12	1,227	3	207	2,546
Other	3,697	8	697	4	7,221	20	-49	-3,524
Total	**44,590**	**100**	**17,252**	**100**	**35,781**	**100**	**25**	**8,808**

Source: DAWR

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