

GLOBAL

MARKET SNAPSHOT



Sheepmeat



October 2018

GLOBAL

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Sheepmeat

Contents

Australia	1
United States	5
China	9
MENA	13
Japan	17
Korea	21
South East Asia	25
European Union	29





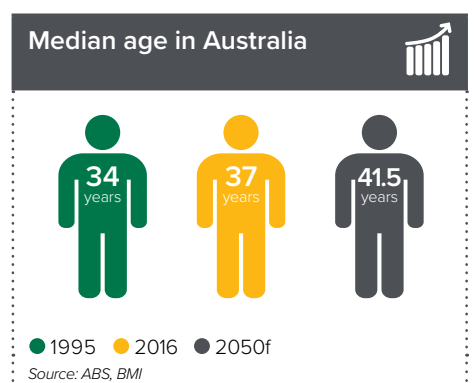
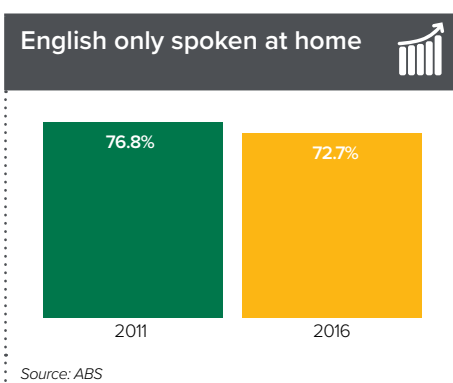
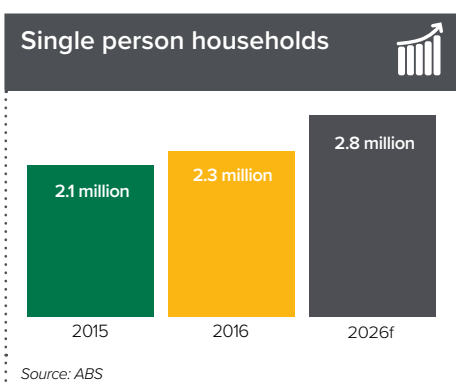
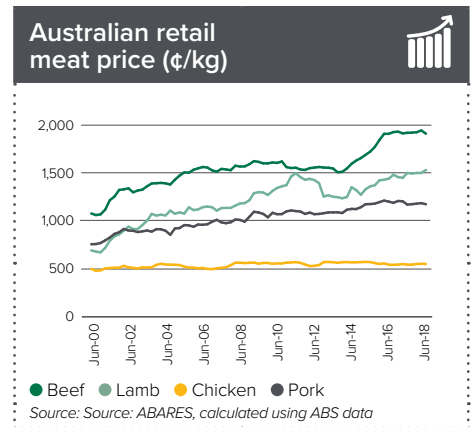
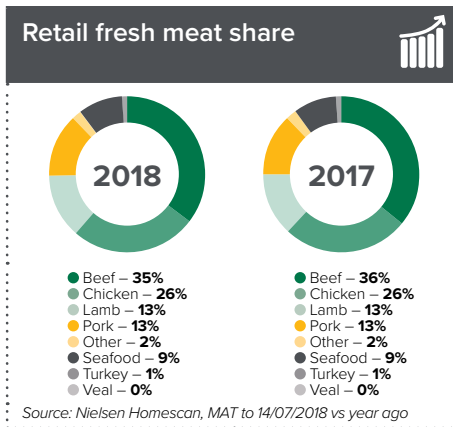
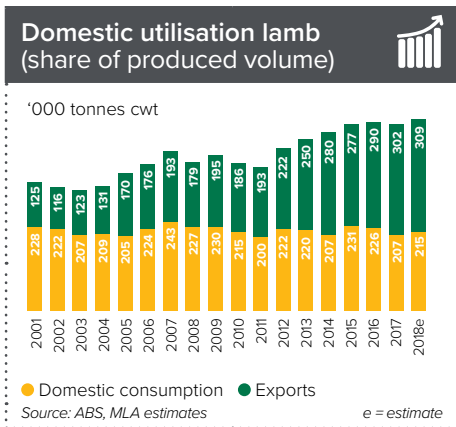
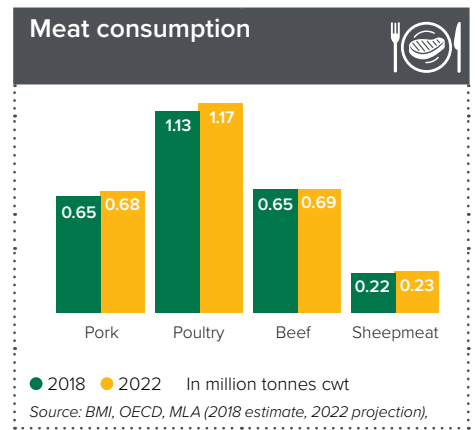
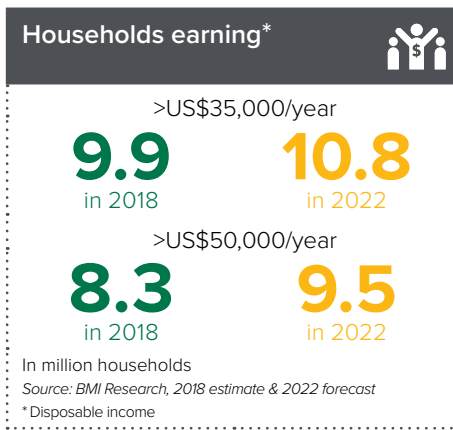
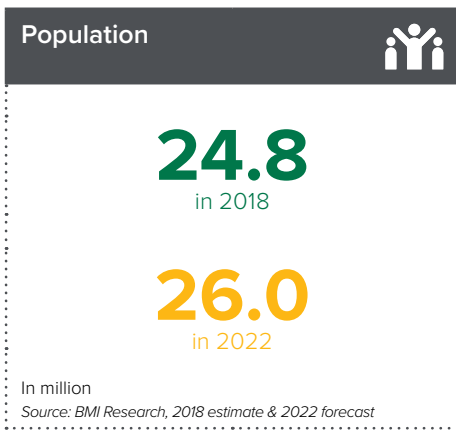
MARKET SNAPSHOT | SHEEPMEAT

Australia

Despite Australia's economy remaining strong in recent years, household income growth is relatively stagnant. Consumers continue to make trade-offs to balance the household budget, which is impacting purchasing behaviour around categories like fresh meat and making consumers more cautious and price sensitive. However, overall Australians continue to be big consumers of meat, being one of the largest per capita consumers of sheepmeat in the world (Source: OECD, ABS).

Sheepmeat consumption in Australia is facing some challenges and opportunities:

- 'Premiumisation' trend across both retail and foodservice channels highlights consumers are willing to pay more for the right offer. Fresh meat, such as lamb, is a key category consumers are willing to spend more on.
- Australia's changing demography provides some macro challenges for sheepmeat with two broad trends of increased migration from Asian countries (where pork is the dominant protein), and an ageing population who are avoiding red meat for health/functional/price reasons.
- Competitive pressures will continue on lamb with ongoing competitor marketing activity (particularly pork), aggressive pricing (chicken) and the increasing profile of alternate proteins such as turkey and salmon.
- Maintaining value share will be a challenge if lamb's price premium to chicken/pork grows larger, given the primary reason for consumers eating less red meat is currently due to cost and not health.
- Messaging around factors such as country of origin, environmental impact, animal welfare, health and safety, along with food integrity and transparency, provide opportunities to consider in consumer communication.



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Consumers



- Overall Australian consumer demand for sheepmeat is impacted by many factors, such as demographic shifts, income growth and changes in people's attitudes and beliefs towards food from family, friends and the media.
- As awareness of lamb is high among Australians, the main opportunity sits with increasing frequency of purchase and consumption (Source: MLA Global Consumer Tracker Australia, 2018).

Protein image profiles

	 Beef	 Lamb	 Chicken	 Pork	 Seafood
Easy everyday	✓		✓		
Goodness	✓				✓
A little bit special		✓			✓

Source: MLA Global Consumer Tracker Australia, 2017

* Tick = Area of strength vs other proteins

- Consumers perceive lamb as 'special' relative to other proteins and are often choosing lamb as it 'tastes delicious'. However, there is opportunity to focus on lamb's versatility and recipes that are easy to prepare (Source: MLA Global Consumer Tracker Australia, 2018).
- When consumers are shopping for lamb, the key information they look for on pack relates to freshness (meat color and use-by date) and then price (Source: MLA Global Consumer Tracker Australia, 2018).

Rising costs of living

Australian consumers are paying higher prices for utilities, childcare, health and education, which in turn is contributing to more cautious consumer spending on food and grocery items according to recent research commissioned by Coles. Coles CEO John Durkan has said Coles customers, particularly in lower socio-economic areas, are shifting from buying premium products to the supermarket giant's own range of private label products, and are spending less on fresh produce and fresh meat, despite relatively low food and grocery price inflation over the same period.



What things do consumers look for on pack/on shelf when buying sheepmeat?

- ✓ Price per kg
- ✓ Price per pack
- ✓ All natural
- ✓ Quality grading or guarantee
- ✓ Colour of meat

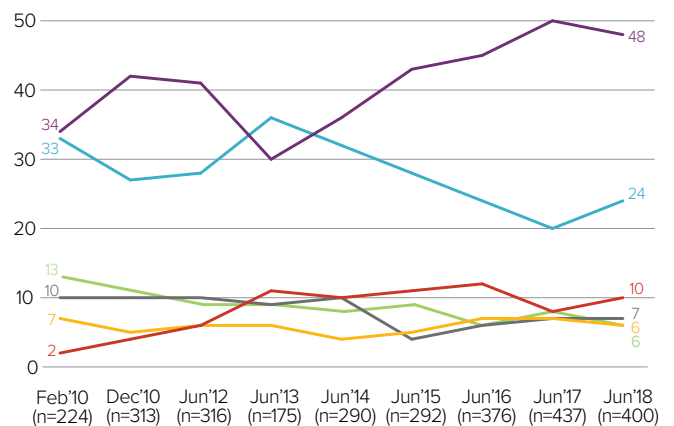
Source: MLA Global Consumer Tracker Australia, 2018

Australia's increasingly diverse population

High levels of immigration are driving Australia's population growth and also leading to an increasingly diverse population. The most recent ABS survey it showed that more than a quarter of Australia's residents are now born overseas, and for the first time in Australia's history, the majority of these people born abroad are from Asia rather than Europe. This is leading to foodservice and retailer operators looking at adjusting in-store/menu space that better targets these changing demographics.

- As the retail price of red meat has trended upwards since 2013, consumers claim price to be the main reason for eating less red meat, above health or animal welfare/environment concerns (see figure below).
- Despite lamb's price premium to many other proteins it remains a very popular meat choice with Australians, being one of the largest per capita consumers of lamb in the world (Source: OECD).

Main reason for eating less red meat



- Too expensive
- Health concerns
- Concerned about treatment of animals
- Don't like the taste anymore
- Environmental concerns (any)
- Other

Source: Pollinate/MLA

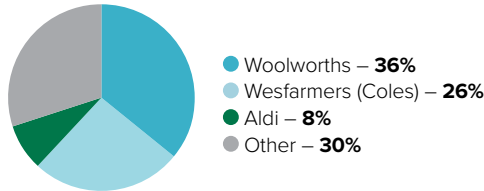


Retail



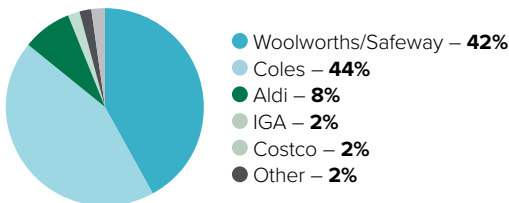
- Lamb has a similar market share as pork, with around 13% share of fresh meat sales (by value) in 2017-18, behind beef and chicken (Source: Nielsen Homescan).
- It is a critical category for retailers with the average grocery basket value typically worth \$44, it jumps to around \$78 when the basket includes fresh meat/seafood (Source: Nielsen).

Grocery retail market shares



Source: IGD, 2018

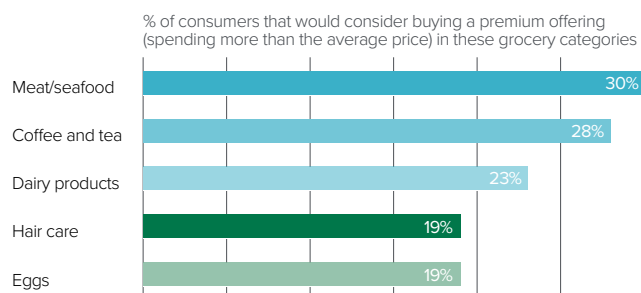
Main supermarket of purchase – lamb



Source: MLA Global Consumer Tracker Australia, 2018

- There is an increasing focus on format differentiation and in-store experience (i.e. new concept stores with enhanced customer experience and stronger digital integration) and new promotions (i.e. 7-Eleven's Tasty Wednesday campaign). These retailers are all targeting this key shopper trend and seeking incremental sales that might otherwise have gone through the foodservice channel.
- Premiumisation trend is growing within retail and red meat is well positioned with meat as a category being Australian consumers' top choice when considering a higher price tag. Just under one-in-three consumers (30%) in Australia would consider spending more on a premium meat offering (Source: Nielsen Global Online Survey on Premiumisation).

Top upgradable grocery categories – Australia



Source: Nielsen Homescan Grocery E-Commerce Survey

There is a growing food box meal kit trend in Australia (such as Hello Fresh and Marley Spoon). These generally include portioned ingredients and simple recipes that allow consumers to quickly create their meal. They now capture 1.5% of total households (around 150,000 households) in 8 months to May 2018 (Source: Nielsen Homescan Grocery E-Commerce Survey).

Place of fresh meat purchase by average customer spend and market share

Australian grocers	Value share	Average spend per trip
Supermarkets (Woolworths, Coles, IGA and ALDI)	81%	\$17.43
Other supermarkets	3%	\$26.14
Non supermarkets	19%	\$32.78

Source: Nielsen Homescan, MAT to 14/07/2018

- The Australian grocery market is highly concentrated by global standards, with the two big retailers making up over 65% of the market. Coles, Woolworths and IGA all have a broad and significant national footprint, with Aldi currently catching up through expansion into the western states and increasing store counts on the east coast.

Key facts about major Australian grocery retailers

- Strong competition has continued in the Australian grocery market with the expansion of Aldi and Amazon's market entry.
- Woolworths:** Food sales experienced a strong turnaround this year with revenue growing +4.9% in the first half of 2018 (Source: IGD). Key developments behind this improved performance has been a focus on store refurbishment and trialling new formats. Woolworths rebranded over 5,700 lines to Woolworths (mid) and Essentials (entry) that are delivering strong growth (Source IGD).
- Coles:** Food and liquor sales were up +2.0% year-on-year in 2017, behind Woolworths for the first time in recent years. Its continued 'Down Down' price strategy has led a food and liquor deflation of 0.8% for 2017 (Source: Coles).
- IGA (Metcash):** Supermarket food and liquor sales continued to capture low growth in the first half of 2018 up +0.3% on last year. Broadly, Metcash has lagged behind the growth of Coles and Woolworths in recent years as the competition, especially around price, has intensified (Source: IGD).
- Aldi:** Rapid expansion has continued at Aldi and it is forecast to operate 590 stores nationwide by 2021. It experienced the largest growth (albeit off a smaller base) out of the four majors with a +12% increase in sales year-on-year (Source: IGD). Aldi is seeking to attract new customers with a widening range and a better fresh food offering.
- Costco:** Sales grew +15% as Costco plans to continue opening more new stores, moving forward increasing from its current nine stores to 15 by 2021 (Source IGD). The focus is on having a complete food and general merchandise offer in one place, which is often sold in bulk.

The changing face of food retail

The retail sector in Australia is expected to undergo some significant change in the near future with the rapid increase in Woolworths and Coles sales through their online channels, Amazon Marketplace's launch and anticipated entry of new retailer Kaufland (operated by the world's fourth largest retailer, Germany's Schwarz Group). We are also seeing some changes in approach from current retailers with David Jones opening a premium food hall in Bondi Junction and Costco and Metcash both launching new services into the online space. Costco has introduced a B2B delivery service in Melbourne and Metcash is flagging a new digital portal in 2018 called IndieDirect.

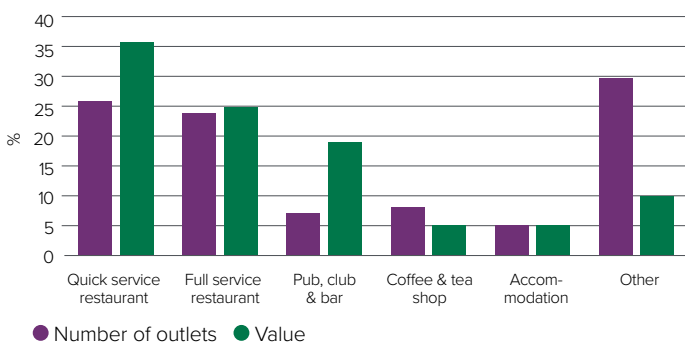


Foodservice



- The Australian foodservice sector is a key channel for sheepmeat and sources approximately 15% of our domestic lamb supply (Source: RIRDC/Fresh Agenda).
- The foodservice landscape is large, and competitive, with around 87,000 places to eat out, dominated by quick service restaurants (QSR), cafes, and casual dining restaurants. Generally, it is highly fragmented, with many individual companies having small market share. Exceptions include QSRs and institutional channels such as hospitals and aged care.
- Australians eat out an average of two to three times a week, with the foodservice market growing at a moderate pace in recent years averaging 2-3% growth annually. This is largely being driven by rising transaction prices, following the 'premiumisation' of food offerings across most channels (Source: GlobalData).

Foodservice channels: outlets number and values (% of total)



Source: GlobalData

- Over 80% of foodservice sales in Australia will go through either a QSR, a full service restaurant (FSR) or a pub, club and bar.
- Within foodservice, lamb is strong in the dining out segment, which currently accounts for 60% of the foodservice lamb volume, with an opportunity to expand in the takeaway channel. (Source: RIRDC/Fresh Agenda).
- A key trend for lamb has been the emergence of fast casual outlets that have forced up expectations of consumers. This trend has created a race among traditional QSR operators to 'premiumise' their brands and offering – this includes the removal of additives and introduction of natural ingredients (Source: GlobalData).

Modern Australian dinner parties

A recent study conducted by Galaxy Research on behalf of MLA has highlighted some new trends for Australian dinner parties with 32% attending parties where everyone helps cook a culturally diverse meal. The majority of hosts (61%) also now plan their menu based on their guests' dietary needs (with 20-25% of hosts catering to gluten and dairy intolerances).

When lamb is used at a dinner party, it is most likely to be found in an Italian, Chinese or Thai dish. Roasting is the most popular method, followed by slow-cooking and then barbecuing. Baby Boomers are more likely to stick to roasting their lamb while millennials are more likely to try different cooking methods like smoking, stir frying or using minced lamb.

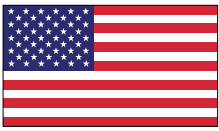
- Australia is often referred to as a 'takeaway nation' with 48% of consumers having eaten a takeaway meal in the past week. This number is expected to increase with the emergence and continued growth of numerous food delivery companies that open up the ability of FSR operators to outsource delivery (Source: GlobalData).
- There are many factors that contribute to the choice to eat out or not, mostly occasion-based (i.e. where and when the meal takes place, and with whom). Having children in the household indicates a higher level of eating out, as well as influencing choice of venue and choice of meal. When it comes to where to go, convenience, value and familiarity are key, which partly explains the rise of QSRs, supermarket meals-to-go, and other casual dining options.



Food delivery apps having an impact

The four largest food delivery apps in Australia are UberEATS, Deliveroo, Menulog and Foodora with an estimated combined market share of 75% (Source: IBIS). These food delivery apps have been a contributor to the growth in the foodservice sector and are now establishing partnerships with the major QSRs (McDonalds has partnered with UberEATS and KFC Foodora). This is driving two key trends some restaurants are changing to cater to this delivery channel (specific menus and store format), while others such as fine dining restaurants, are focusing on ensuring customers continue to come in for seated meals by offering unique dining experiences.





MARKET SNAPSHOT | SHEEPMEAT

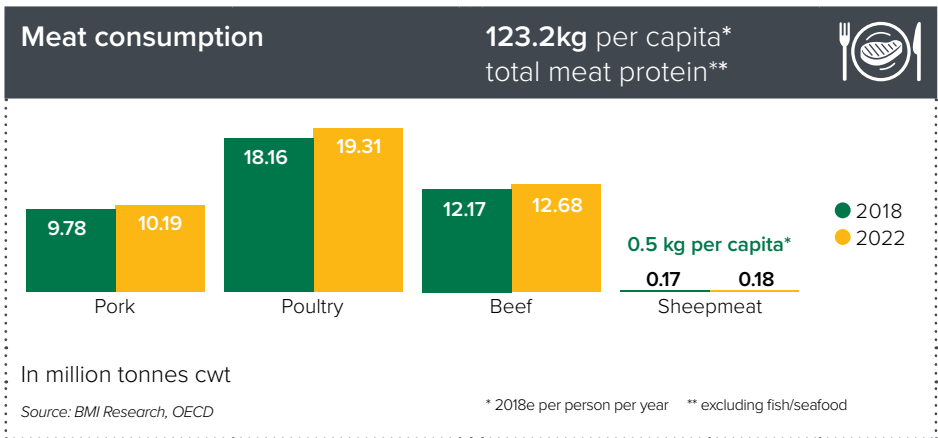
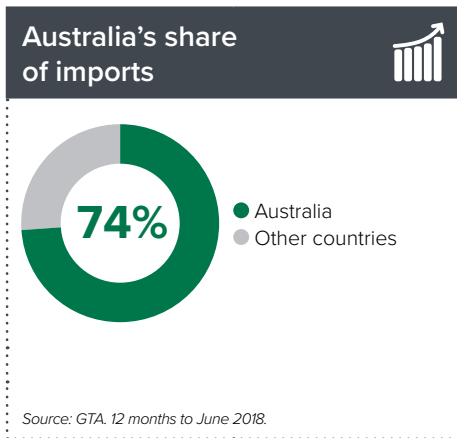
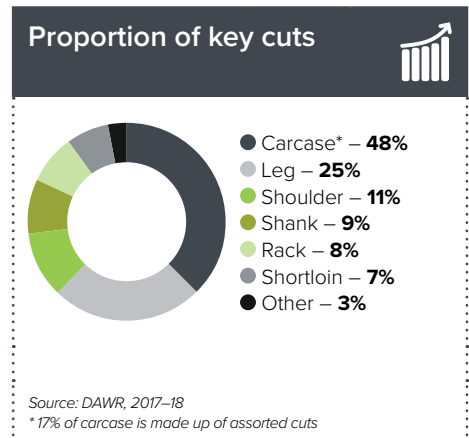
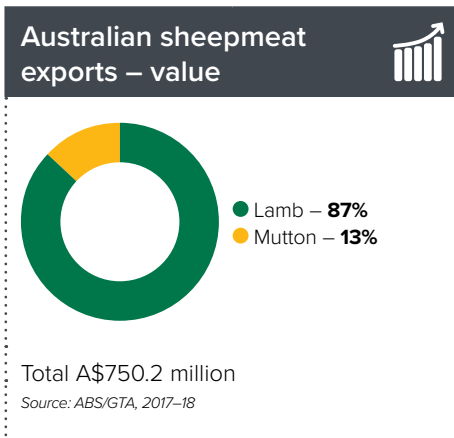
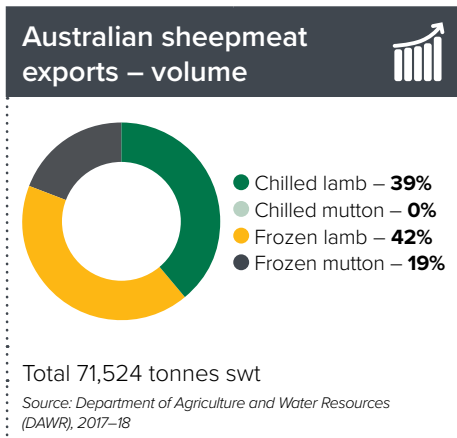
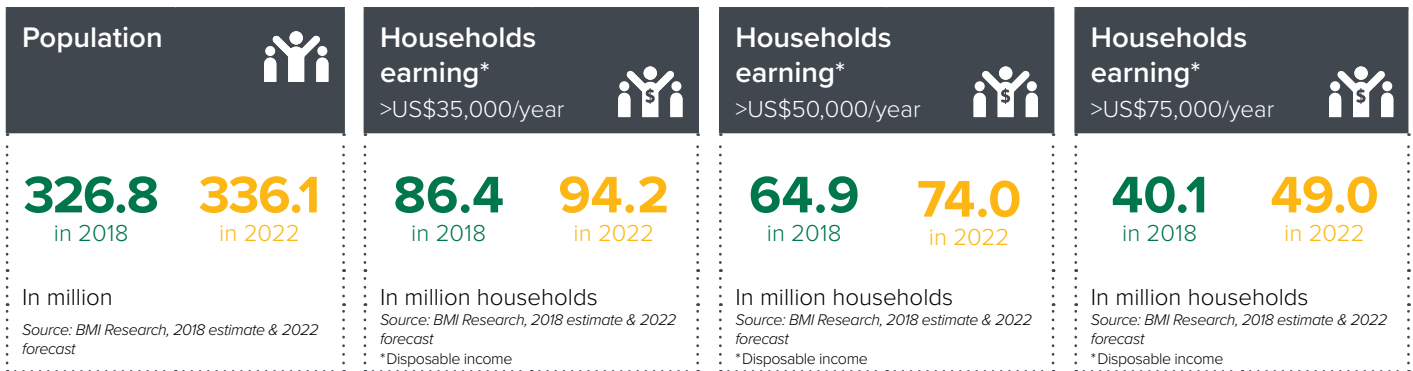
United States (US)

The US remains one of the main destinations for Australian lamb in volume and value terms, with sheepmeat exports to the US increasing for the last six years. However, lamb continues to be an unfamiliar protein for the majority of US consumers, resulting in low per capita consumption levels (on average 0.5kg/year/person).

Challenges and opportunities in the US for Australian sheepmeat include:

- US consumers are increasing their awareness and willingness to try lamb.
- The foodservice channel represents a key area to expand lamb consumption, particularly within the quick service restaurant and casual dining sectors.
- Millennials* are driving the mindset towards more adventurous eating, including alternative proteins like lamb.
- The US will continue to rely on imported sheepmeat to satisfy consumer demand, as local production is expected to be stagnant.
- When Americans do buy lamb, they are open to buying imported product. There are many opportunities for Australian lamb to differentiate from the competition, particularly in the areas of quality, tenderness and nutrition.

* Millennials: the generation that follows Generation X, with birth years ranging from the early 1980s to the early 1990s.



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Consumers



- Lamb remains a niche and unfamiliar protein to around 40% of US consumers, driven by taste concerns, the lack of familiarity and limited knowledge on how to prepare it. However, US consumers are progressively increasing their willingness to try lamb, particularly the millennial generation.
- Without any real knowledge of lamb, Americans are much more likely to consider naturalness, safety and freshness ahead of country of origin when purchasing lamb.
- Consumers who purchase chilled lamb are generally premium shoppers, spend more in store and prefer healthier, home-cooked food. Lamb loin and ribs are the most frequently purchased cuts (Source: IRI).

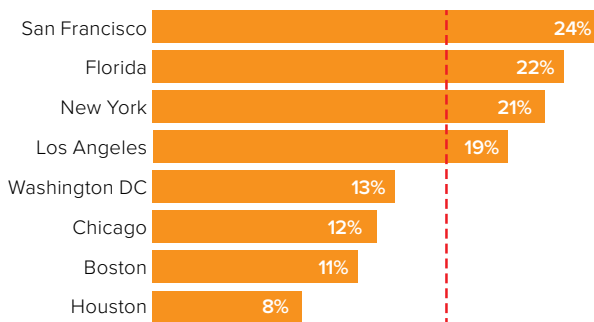
What attributes are important for US consumers? (all proteins) Main reasons haven't bought lamb

Family's favourite	Don't like the taste
Is easy & convenient to prepare	Not familiar
Consistent quality standards	Don't know how to cook it
Part of healthy diet for kids	
Most superior	

Source: MLA Global Consumer Tracker US, 2016 and 2017

- Lamb consumption patterns varied across the eight cities surveyed by MLA's global consumer research, with San Francisco, Florida, New York City and Los Angeles having above average consumption – see chart below.
- Australia has started to close the gap and has increased consumer awareness and frequency of consumption compared to both American and New Zealand lamb.

Past month Australian lamb consumption



--- National Average 17%

Source: MLA Global Consumer Tracker US, 2017

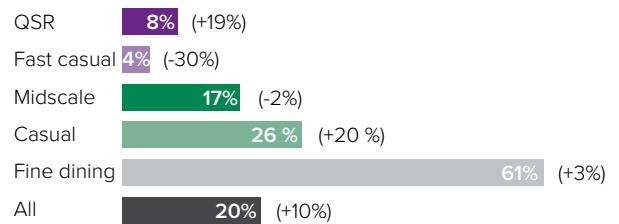


Foodservice



- Of all segments within the US foodservice sector, lamb is most prevalent in fine dining restaurants. However, strong growth is now occurring in other segments such as quick service restaurants, family and casual dining. Growth in these segments has been driven by changing demographics and the shift in demand for more convenient and affordable lamb options such as lamb burgers, meatballs and kebabs.
- It is estimated that 60% of total Australian lamb imports are consumed in the foodservice channel.

Casual and quick service restaurant (QSR) operators are increasingly menuing lamb



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

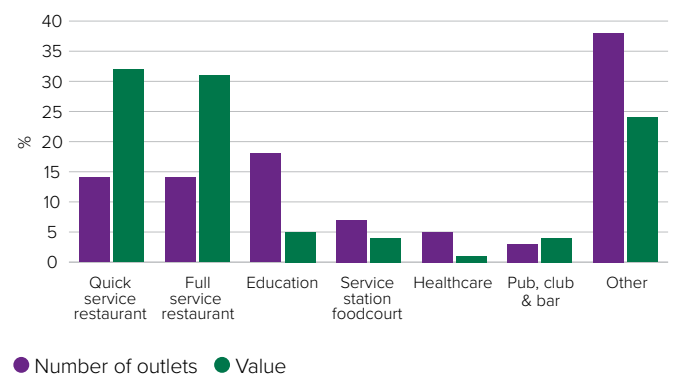
Source: Dataessential, beef and lamb menu analysis, 2017

- Another interesting growth area is the non-commercial long-term health care segment, which saw 14% penetration of lamb in the area in 2016 reflecting an older, more affluent demographic demand for natural, healthy and interesting protein options, such as lamb (Source: Dataessential menu monitor, 2017).
- The penetration of lamb on US restaurant menus has grown steadily over the years and overall, there has been a 3% increase in the past four years. Lamb was featured in an average of four menu items in 2017.

Lamb is one of the fastest growing burger proteins. Lamb burger menu penetration is still relatively small, but there has been triple digit growth on restaurant menus. (Source: DataEssential, Menu Matters beef and lamb 2017)

- The US foodservice segment is set to continue growing in coming years, with transactions and consumer spending driving strong growth, as outlet numbers are forecast to stagnate, demonstrating the maturity of the US foodservice market (Source: GlobalData, The future of foodservice to 2021).

Number of outlets and value by key foodservice channel (% of total)



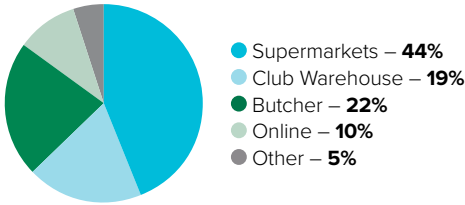
Source: GlobalData, 2017 estimate

Retail



- At the retail level, while supermarkets are still the main purchase channel for Australian lamb, butchers and club warehouses also have a significant share of lamb shoppers.

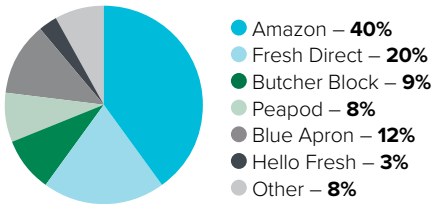
Where do shoppers buy Australian lamb?



Source: MLA Global Consumer Tracker US, 2018

- Stores such as Costco attract a younger, affluent consumer, who seeks more ethnically diverse cuisine and more exciting 'non-traditional' flavours, with lamb recognised as a viable option.
- Although there are significant barriers to purchasing meat online, it is growing rapidly. Purchasing of Australian lamb online this year has doubled, from 5% last year to 10% this year, with Amazon and Fresh Direct the leading destinations for online lamb purchases.

Most common online retailer for purchasing lamb



Source: MLA Global Consumer Tracker US, 2018

What things do consumers look for on lamb retail packs?

- Freshness
- Natural
- Value
- Quality/safety
- Environmental
- Origin
- Nutritional

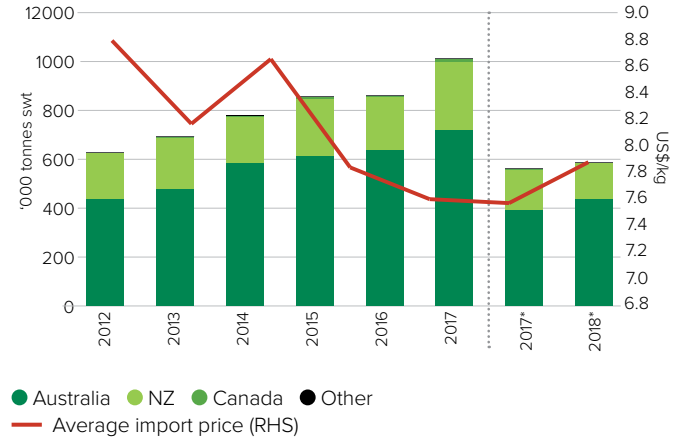
Source: MLA Global Consumer Tracker US, 2018

Other suppliers



- Imports make a significant contribution to the lamb and mutton supply in the US. In 2017, imports accounted for approximately 60–65% of total sheepmeat consumed in the US. (MLA estimates based on Steiner, USDA and BMI).

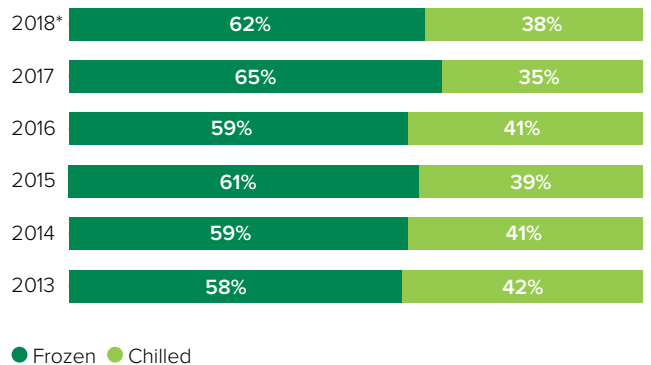
Sheepmeat imports by major supplier



Source: GTA
*Jan to Jun

- Australia is the major supplier of lamb in the US, followed by New Zealand. NZ sheepmeat imports to the US reached a peak in 2017, however it declined a little in the first half of 2018 compared to year ago, accounting for 25% of total imports.

% of chilled and frozen sheepmeat imports to the US



Source: GTA
*Jan-Jun





Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Australia-United States Free Trade Agreement (AUSFTA)	Australia to US – 0%	NZ has a tariff of US 0.7 cents per kg for lamb and US 2.8 cents per kg for mutton	Zero	Point of entry inspection, label approvals and port mark compliance

Best access Major challenges

Source: Trade agreements, DFAT, MLA



Australian sheepmeat exports to US – summary table

Volume – in tonnes swt

		2017–18		2016–17		5-year average (2012–13 to 2016–17)		change 2017–18 vs 5-year average	
			% out of total		% out of total		% out of total	%	in tonnes swt
	Total	71,524	100	64,648	100	58,463	100	22	13,061
Storage	Chilled	27,837	39	27,313	42	25,061	43	11	2,776
	Frozen	43,687	61	37,335	58	33,402	57	31	10,285
Meat type	Lamb	58,118	81	52,757	82	46,865	80	24	11,254
	Mutton	13,406	19	11,891	18	11,599	20	16	1,807
Storage/meat type	Chilled lamb	27,837	39	27,313	42	25,051	43	11	2,786
	Chilled mutton	0	0	0	0	10	0	-99	-10
	Frozen lamb	30,281	42	25,443	39	21,814	37	39	8,468
	Frozen mutton	13,406	19	11,891	18	11,588	20	16	1,818

Source: DAWR

Value – in A\$ 000

			%		%		%	%	in A\$ 000
	Total	750,234	100	721,509	100	565,362	100	33	184,873
Meat type	Lamb	650,206	87	619,202	86	493,632	87	32	156,575
	Mutton	100,028	13	102,308	14	71,730	13	39	28,298

Source: ABS/GTA

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

			%		%		%	%	in tonnes swt
Carcase		17,579	30	17,450	33	13,756	29	28	3,823
Leg		15,754	27	14,802	28	13,783	29	14	1,971
Shoulder		6,569	11	5,033	10	4,982	11	32	1,587
Shank		5,861	10	5,275	10	4,399	9	33	1,462
Rack		5,445	9	4,352	8	4,372	9	25	1,073
Other		6,911	12	5,844	11	5,574	12	24	1,337
Total		58,118	100	52,757	100	46,865	100	24	11,254

Source: DAWR

Australian sheepmeat exports to Canada

Volume – in tonnes swt

			%		%		%	%	in tonnes swt
	Total	9,829	100	7,425	100	7,049	100	39	2,780
Storage/meat type	Chilled lamb	3,798	39	3,879	52	3,703	53	3	95
	Chilled mutton	1	0	0	0	0	0	100	1
	Frozen lamb	5,046	51	3,158	43	2,626	37	92	2,419
	Frozen mutton	984	10	388	5	719	10	37	264

Source: DAWR

Australian sheepmeat exports to Mexico

Volume – in tonnes swt

			%		%		%	%	in tonnes swt
	Total	2,897	100	0	100	3,860	100	-35	-1,355
Storage/meat type	Chilled lamb	1	0	0	0	0	0	100	1
	Chilled mutton	0	0	696	0	0	0	0	0
	Frozen lamb	939	37	2,131	25	976	25	-4	-37
	Frozen mutton	1,565	62	2,990	75	2,731	75	-46	-1,319

Source: DAWR



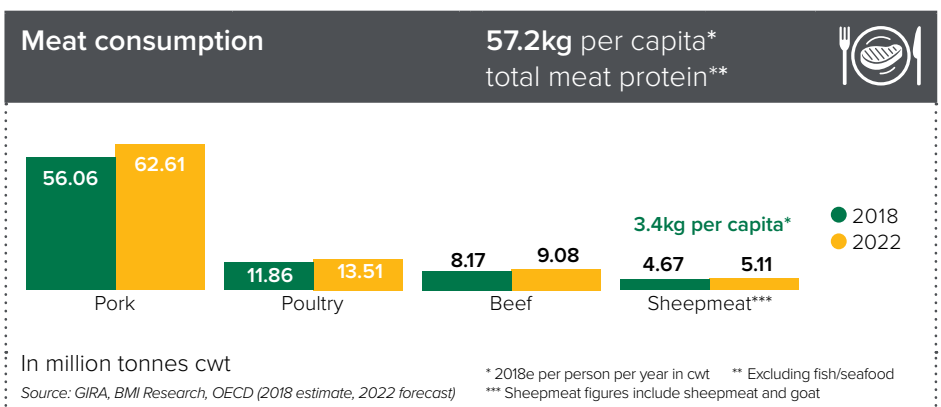
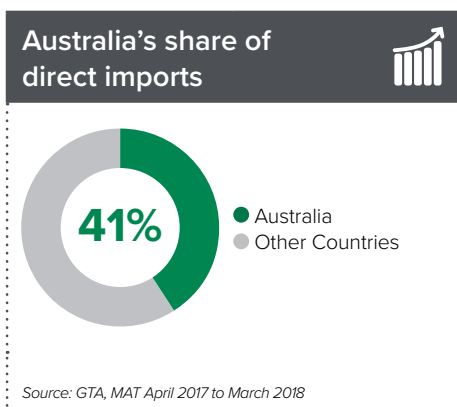
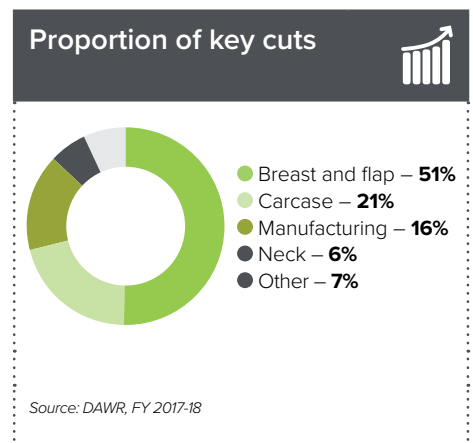
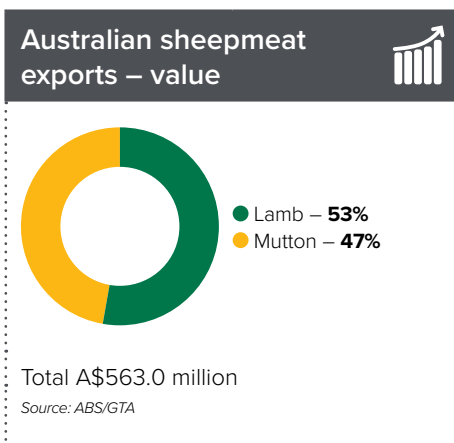
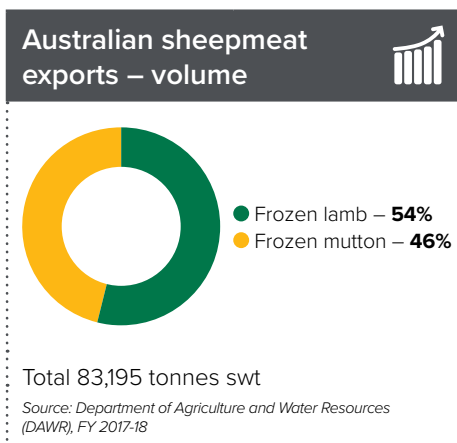
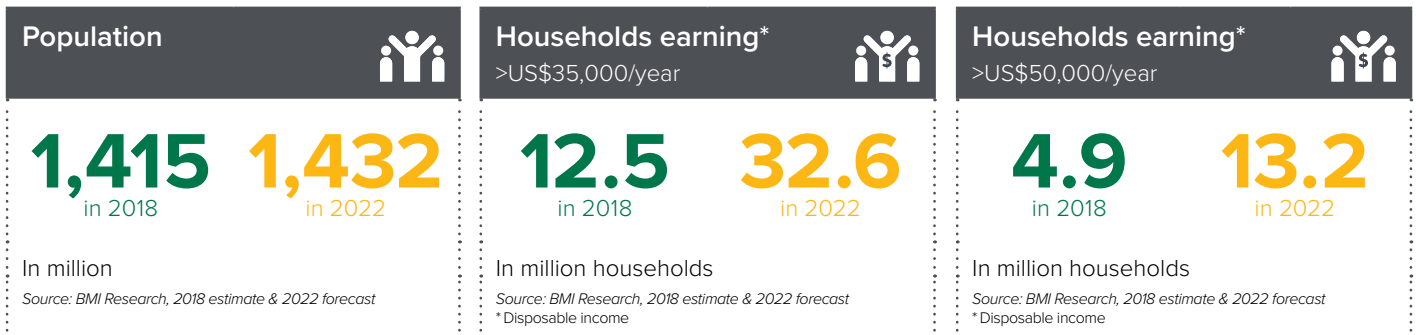
MARKET SNAPSHOT | SHEEPMEAT

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



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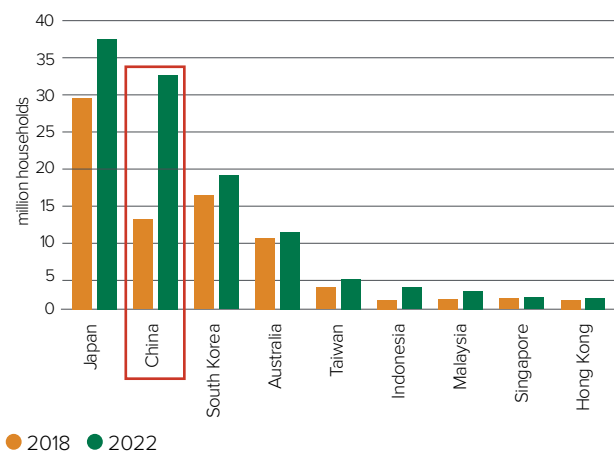


Consumers



- 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

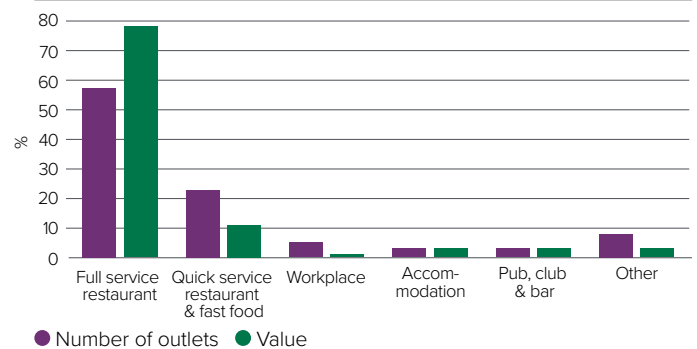
- Sheepmeat and sheepmeat offal are used in a variety of stir fry, stew, soup, dumpling and hot pot dishes, and sheepmeat is a popular street food in the form of grilled spiced kebabs. In urban upper middle class households, there is increasing exposure to western-style lamb cutlets, meatballs and sausages. 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).

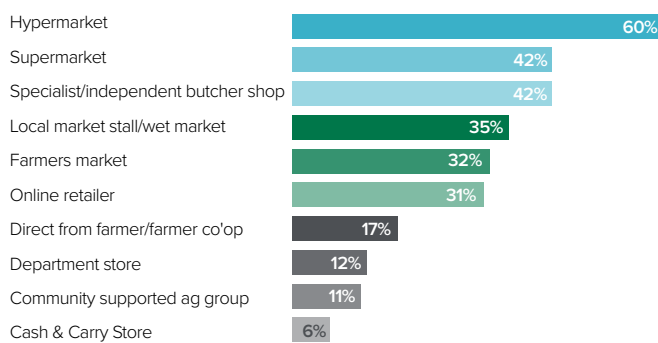
Top five grocery retailers in China by market share rank and region

	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



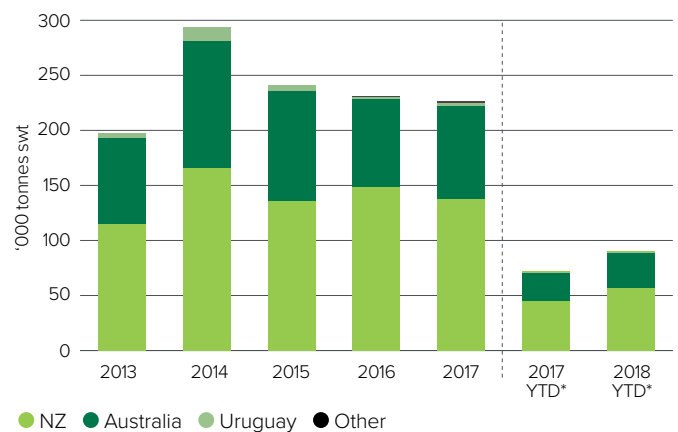
- China has been a significant market for Australian breeder sheep exports in the past. Some 1,280 head of live sheep were exported to China 2017-18, a significant decline on recent years (Source: DAWR, ABS).

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 carcasses 6.7-10.2% Frozen meat and carcasses 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		2016–17		5-year average (2012–13 to 2016–17)		change 2017–18 vs 5-year average	
			% out of total		% out of total		% out of total	%	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

Value – in A\$ 000		2017–18		2016–17		5-year average (2012–13 to 2016–17)		change 2017–18 vs 5-year average	
			%		%		%	%	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		2016–17		5-year average (2012–13 to 2016–17)		change 2017–18 vs 5-year average	
		%		%		%	%	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		2016–17		5-year average (2012–13 to 2016–17)		change 2017–18 vs 5-year average	
		%		%		%	%	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



MARKET SNAPSHOT | SHEEPMEAT

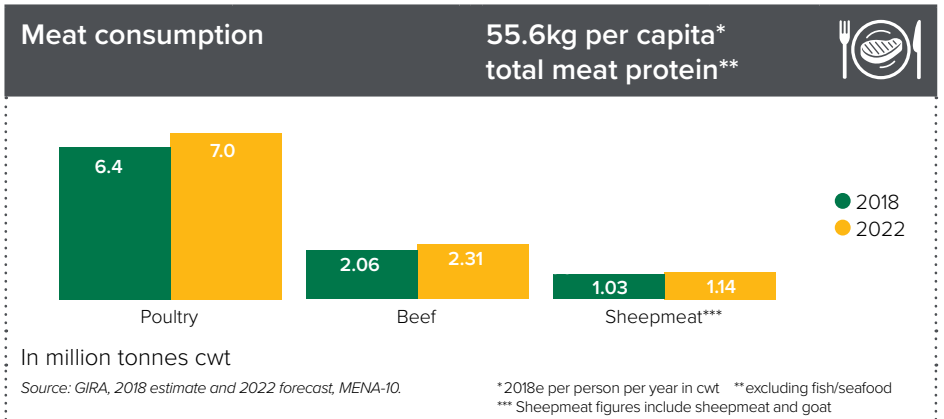
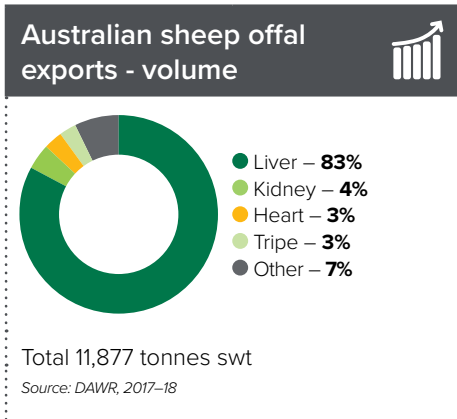
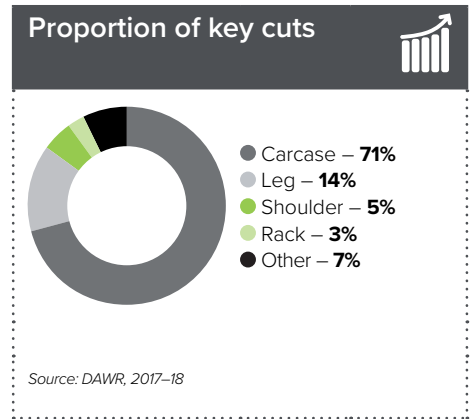
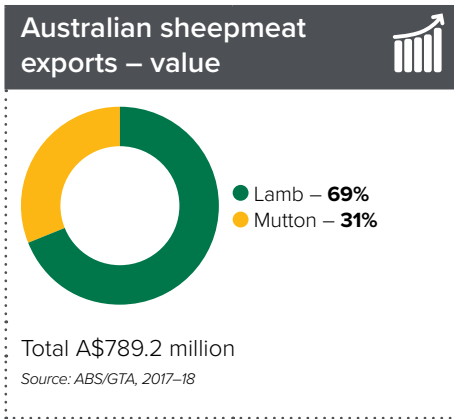
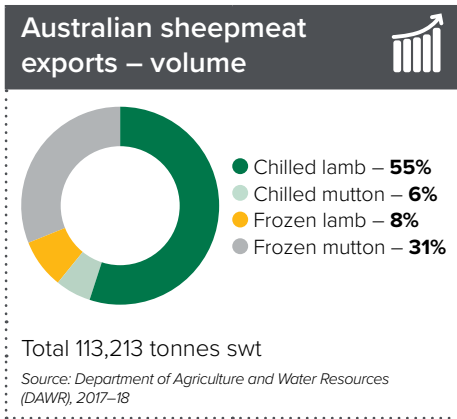
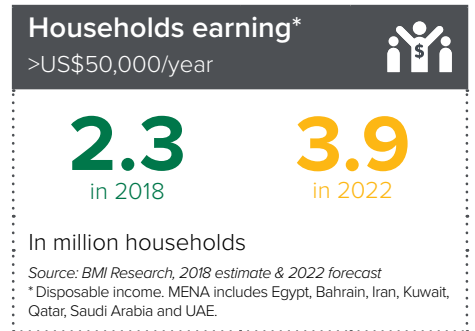
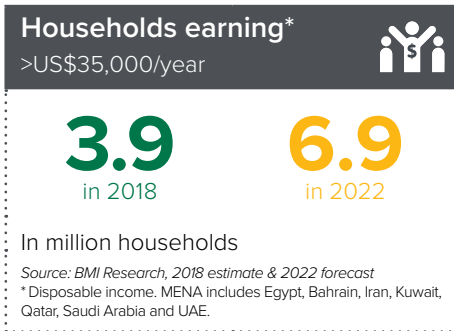
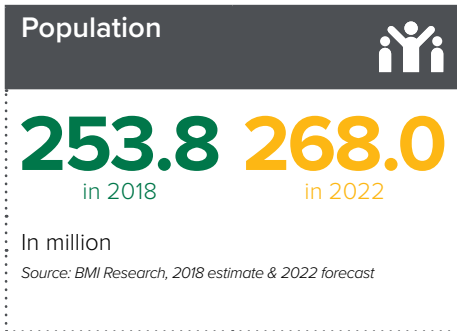
MENA (Middle East & North Africa)

MENA* is a large, complex region with many varied consumer markets. Consumer confidence, product demand and overall spending are heavily impacted by factors such as the oil price, regional political instability and conflict, but broader socio-economic trends provide numerous opportunities for premium imported sheepmeat demand across the region.

Challenges and opportunities in MENA for Australian sheepmeat include:

- Sheepmeat is an important protein in the region, associated with important religious and family celebrations and gift-giving. Australia has been a key sheepmeat supplier to MENA markets for many decades and has built a strong, positive reputation.
- Premium lamb consumption and import demand are forecast to continue increasing in a number of markets, particularly Gulf Cooperation Council* (GCC) countries, driven by trends like increasing disposable incomes, ongoing urbanisation and westernisation and large wealthy expat populations. Australia is well-placed to meet the growing demand in this higher value segment of the sheepmeat market.
- Imported frozen mutton goes mostly into the large, but price-sensitive, lower tier foodservice sector in a number of countries.
- Although the retail sector remains under-developed and fragmented, even in GCC countries, development in the sector is expected to increase, and with it, potential growth in chilled lamb sales.
- Some markets, particularly those with developing tourism sectors, are seeing a growing role for premium lamb cuts in the menus of high-end foodservice operators.
- Technical barriers to trade are significant in the region and differ between countries. Removing these barriers is a priority for Australia to improve trade, competitiveness and the ease of doing business in the region.

* Unless otherwise stated, in this snapshot MENA includes 10 countries: The Gulf Cooperation Council (GCC) 6: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Plus: Egypt, Iran, Jordan and Lebanon.



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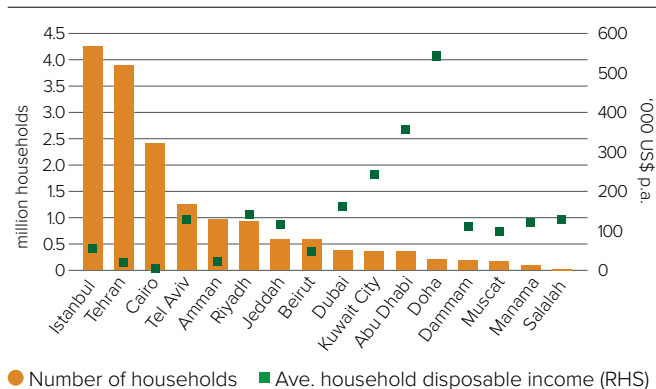


Consumers



- Sheepmeat is an important part of consumers' diets in a number of countries in the region, although per capita consumption and spending on sheepmeat varies depending on domestic production and affordability.
- Within the MENA region there are a number of trends driving growth in demand for imported sheepmeat, such as increasing urbanisation and westernisation, growing disposable incomes, a rising youth population and a large number of wealthy expatriates.

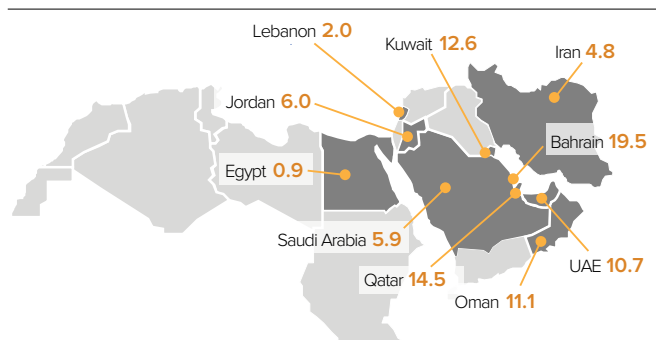
Household numbers and disposable income by city



Source: MLA-GlobalData MENA Attractive Cities Study, 2018.

- Understanding the differing levels of wealth and size of the wealthy population across the region assists with identifying priority markets for premium Australian sheepmeat.
- There are significant markets for both mutton and lamb. Although mutton has a lower price point than lamb, it is favoured in some sectors of some markets such as Oman and, to some extent Saudi Arabia and Kuwait, due to taste preference and cooking styles.

MENA-10 countries, per capita sheepmeat consumption*



Source: GIRA, 2018 forecast figures. *kg cwe/hd p.a.

- Sheepmeat is the most loved protein among many Gulf consumers and plays an important role in celebrating religious and family events and gift-giving. That said, actual protein consumption tends to be dominated in volume and frequency by chicken due to its price advantage and perceived versatility.
- Depending on consumption habits and the size of the domestic industry, demand for sheepmeat imports varies, with greatest import demand coming from Saudi Arabia and the UAE, followed by Jordan and Qatar.
- Australian sheepmeat has had a presence in the region's markets for more than 50 years and has a strong, positive reputation, based initially on live shipments and progressing through chilled and frozen carcass and cuts. Over the past 10 years, Australian exports to the region have evolved from being chiefly frozen mutton to more chilled lamb, and now premium branded lamb cuts in some markets.

Attributes important for all proteins and lamb associations

What attributes are important for MENA consumers (all proteins)?

UAE	Saudi Arabia	Jordan
Tastes delicious	Tastes delicious	My/my family's favourite
Convenient to buy	My family's favourite	Tastes delicious
Fresh	Easy to prepare	Fresh
Consistent quality	High nutritional value	Convenient to buy
Easy to prepare	Can use in different meals	Easy to prepare

What associations do MENA consumers have to lamb?

Tastes delicious	Guaranteed safe	Fresh
Animal is well-cared for	Animal is well-cared for	Tastes delicious
My/my family's favourite	Tastes delicious	Guaranteed safe
Fresh	Meat is tender	Meat is tender
Will pay more for it	Consistent quality	Essential part of children's diet

Source: MLA Global Consumer Tracker UAE, Saudi Arabia and Jordan, 2017

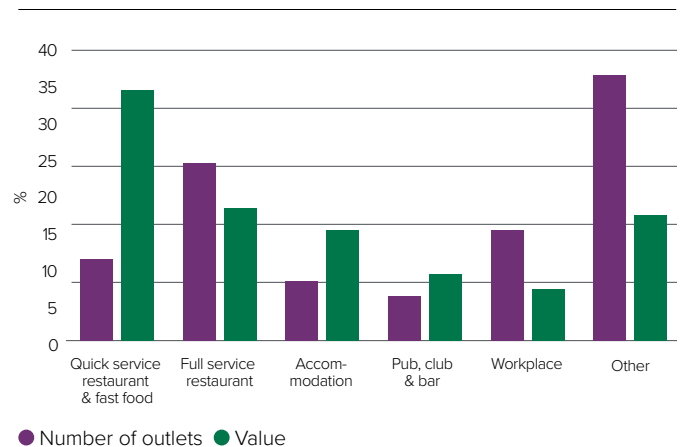
- In 2017–18, the MENA region was among Australia's largest destinations for sheepmeat exports, the highest volume markets within the region being the UAE, Saudi Arabia and Qatar. Jordan, Kuwait, Iran, Bahrain and Oman are also among Australia's top 20 markets for sheepmeat by volume and value.
- The channels through which Australian sheepmeat is sold vary somewhat by country. In the UAE, Australian product is destined for both retail and foodservice, while in Oman and Saudi Arabia, a significant proportion (especially frozen mutton) goes into foodservice, particularly low-end catering. In Qatar and Bahrain, carcasses go into butchers, where they are further cut up for sale to shoppers.

Foodservice



- In some markets, particularly those with fast-growing tourism sectors such as Dubai, Saudi Arabia and Qatar, demand for Australian high value chilled lamb cuts in the high-end foodservice sector is expected to continue to grow.
- The bulk of Australian frozen mutton imports, which are chiefly carcass, leg and manufacturing, are used in the lower-tier catering sector, which has also grown along with infrastructure development in some GCC countries.

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

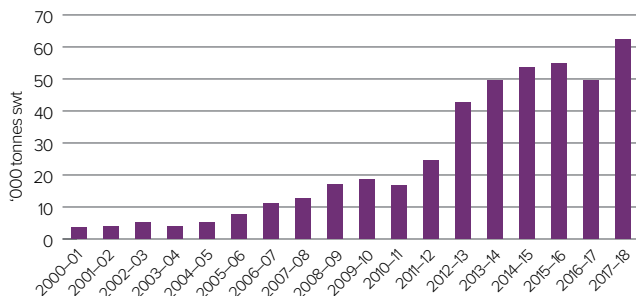


Source: GlobalData, 2018 forecast.

- In the UAE, the foodservice channel is led by quick service restaurant outlets, the largest channel for lamb sales by both volume and value. Value growth in this channel has been driven by the expatriate population and younger Emirati who seek fast but quality dining options, with the concept of 'fast casual dining' becoming particularly popular (Source: GlobalData).

- In Saudi Arabia it is also in quick service restaurants where lamb is expected to see its strongest value and volume growth to become the second most popular meat in the segment. In the Kingdom's full service restaurants, lamb is forecast to see the strongest growth among meat proteins with volumes expected to grow annually at 7.5% until 2021 (Source: GlobalData).
- Dubai's hosting of the World Expo in 2020 and Qatar's hosting of the 2022 World Cup is expected to drive growth in the foodservice channel in these markets, with many new hotels planned for construction.

Australian chilled lamb exports to MENA*



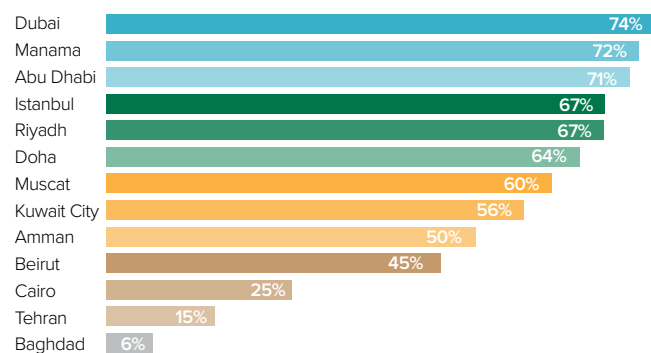
Source: DAWR. *MENA-10.

Retail



- In most MENA countries, the majority of Australian lamb is purchased from hypermarkets, followed by supermarkets, where Australia has a strong presence.
- The modern retail channel is seeing significant development across the region, which has typically been accompanied by growth in the chilled market for red meat, representing a growing opportunity for Australian premium product.
- At the same time, the MENA region's mass grocery retail segment remains quite under-developed and fragmented (apart from the few wealthier Gulf markets). Even in more developed markets like the UAE and Saudi Arabia, butchers, wet markets and *bakalas* (small corner stores) are still quite prominent.

Penetration of hyper/supermarkets



Source: MLA-GlobalData MENA Attractive Cities Study, 2018. 2018 forecast figures.

- Key retailers in the region where consumers purchase Australian sheepmeat include Carrefour and Lulu (across the region), Spinneys and Choithrams (UAE), Panda and Danube (KSA).
- Even in countries where country of origin labelling is not mandatory, at high-end retail most meat products are clearly labelled as wealthier shoppers appreciate knowing where their meat comes from, among other product attributes.
- In the MENA region, home-cooking of sheepmeat dishes like stews and slow cooking, grilling of cubes for kebabs and using mince as a filling for pastries and kofta are all popular practices. Grilling of prime cuts is also becoming more popular in the region, particularly in some of the GCC countries.

Top five most important lamb claims on pack or at shelf

UAE	Saudi Arabia	Jordan
100% all natural	100% all natural	Meat colour
Halal certification	Halal certification	Halal certification
Animal welfare credentials	Animal origin	No blood in pack
Quality grading	Animal welfare credentials	Country of origin
Safety certification	Quality grading	Antibiotic-free

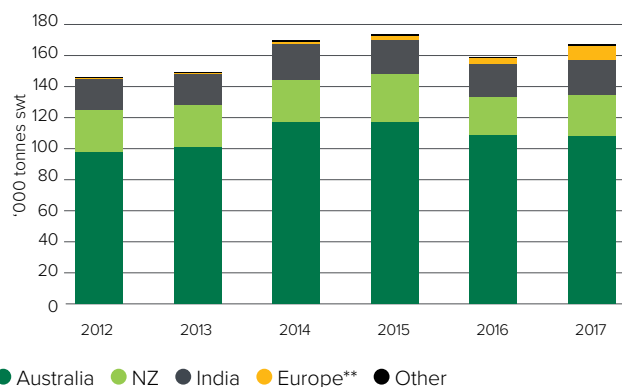
Source: MLA Global Tracker, UAE, Saudi Arabia and Jordan, 2017



Other suppliers

- Sheepmeat import demand in MENA is forecast to continue to grow as urbanisation, desertification and conflict negatively impact domestic sheep rearing, making it difficult for many countries to be self-sufficient.
- Australia is the region's leading supplier of sheepmeat but faces competition from New Zealand (NZ), India and increasingly some European countries.
- NZ exports significant volumes of both chilled and frozen lamb, particularly forequarter, mostly to Saudi Arabia and Jordan, and smaller volumes of mutton carcase to Oman. India supplies chilled and frozen mutton carcase to the UAE, Saudi Arabia, Qatar and Kuwait. In recent years, some European countries such as Romania, Georgia and Portugal have become more significant suppliers of both live sheep and chilled lamb carcase, particularly to Jordan and Algeria but also lamb cuts to the UAE, Oman and Kuwait.

Sheepmeat exports to MENA* by supplier



Source: DAWR, GTA
*MENA-10 **Europe includes EU27 and UK

Live exports



- In the 12 months to June 2018, the MENA region was the top destination for Australia's live sheep exports, with 1.8 million head exported. (Source: DAWR, ABS).
- During this period, Australia's key live sheep export markets in MENA were Kuwait, Qatar and Turkey. Other significant markets for Australian live sheep include the UAE, Oman, Jordan and Israel.
- Australia's key competitors in the live export market are Somalia, Sudan and India, with some European nations now also emerging, namely Romania, Georgia, Spain, Hungary, France and Portugal.
- Live sheep imports to MENA countries tend to be seasonal, depending on the timing of religious celebrations.





Market access overview

Gulf Cooperation Council (GCC) member countries: Kuwait, Oman, the UAE, Qatar, Saudi Arabia, Bahrain

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
No agreement yet but Australia is negotiating one	0% for chilled meat and carcasses, 5% for frozen 2.5% for chilled ovine offal, 5% for frozen	NZ* and India have the same access conditions as Australia	Zero	Numerous barriers by country including shelf life, product labelling, coding, document legalisation, quality inspections and phytosanitary standards

Non-GCC countries:

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
N/A	Australia to: Morocco and Turkey (30%), Iran (variable depending on demand/supply situation) Jordan (boneless chilled/frozen 12.5%)	NZ* and India have the same access conditions as Australia	Quota restrictions in Tunisia and Palestine	Numerous barriers by country including shelf life, product labelling, coding, document legalisation, quality inspections and phytosanitary standards

Best access Major challenges

Source: MLA, * NZ-GCC FTA negotiation was concluded but yet to be ratified.

Australian sheepmeat exports to MENA – summary table



Volume – in tonnes swt

		2017–18		2016–17		5-year average (2012–13 to 2016–17)		change 2017–18 vs 5-year average	
			% out of total		% out of total		% out of total	%	in tonnes swt
Total		113,213	100	102,002	100	109,154	100	4	4,059
Storage	Chilled	68,726	61	55,673	55	54,091	50	27	14,634
	Frozen	44,488	39	46,329	45	55,063	50	-19	-10,575
Meat type	Lamb	71,284	63	57,762	57	61,895	57	15	9,389
	Mutton	41,929	37	44,240	43	47,259	43	-11	-5,330
Storage/meat type	Chilled lamb	62,320	55	49,460	48	49,965	46	25	12,354
	Chilled mutton	6,406	6	6,213	6	4,126	4	55	2,280
	Frozen lamb	8,965	8	8,303	8	11,930	11	-25	-2,965
	Frozen mutton	35,523	31	38,027	36	43,133	40	-18	-7,610

Value – in A\$ 000

		2017–18		2016–17		5-year average (2012–13 to 2016–17)		change 2017–18 vs 5-year average	
			%		%		%	%	in A\$ 000
Total		789,199	100	669,587	100	603,205	100	31	185,993
Meat type	Lamb	546,157	69	432,111	65	395,943	66	38	150,214
	Mutton	243,042	31	237,476	35	207,262	34	17	35,780

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

						%	in tonnes swt	
Carcase	12,713	62	12,892	63	11,424	63	11	1,289
Leg	3,773	18	3,546	17	3,055	17	24	719
Other	3,928	19	4,183	20	3,714	20	6	214
Total	20,415	100	20,621	100	18,192	100	12	2,222

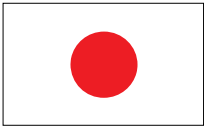
Australian lamb exports to Qatar – by major cut (in tonnes swt)

						%	in tonnes swt	
Carcase	16,065	97	14,606	96	10,799	94	49	5,266
Leg	174	1	277	2	296	3	-41	-121
Other	275	2	391	3	404	4	-32	-129
Total	16,515	100	15,274	100	11,499	100	44	5,015

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

						%	in tonnes swt	
Carcase	8,748	73	6,196	68	8,334	65	5	414
Shoulder	2,314	19	1,586	18	1,692	13	37	622
Other	996	8	1,267	14	2,866	22	-65	-1,871
Total	12,058	100	9,049	100	12,892	100	-6	-834

Source: DAWR



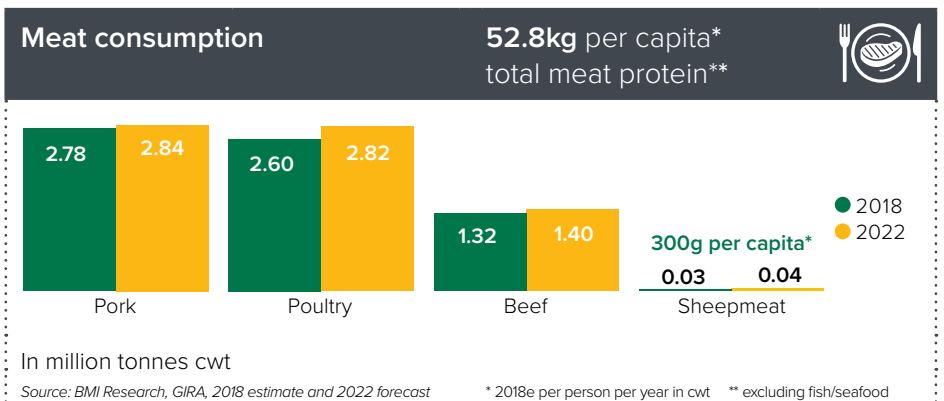
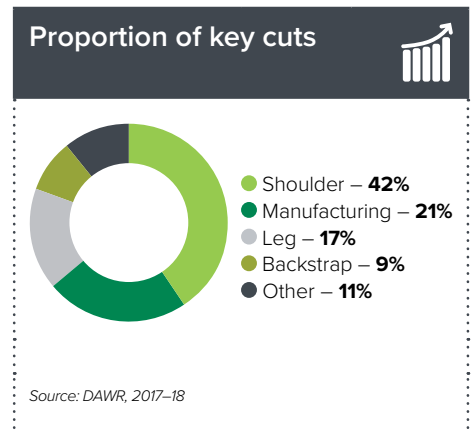
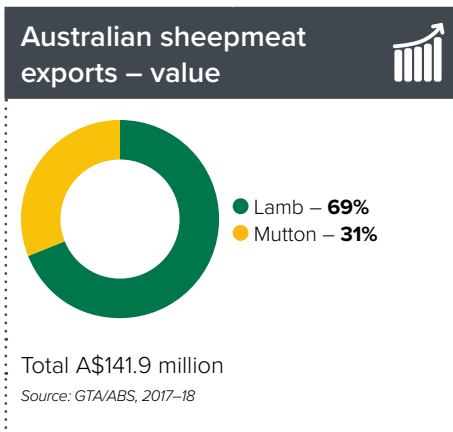
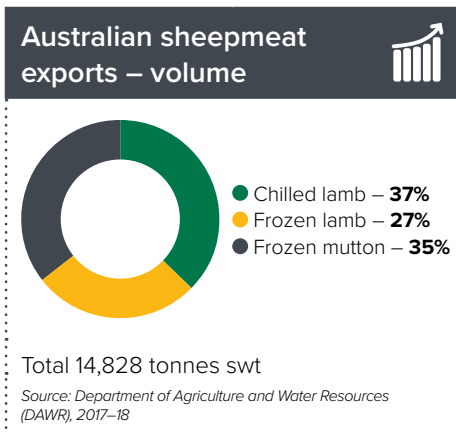
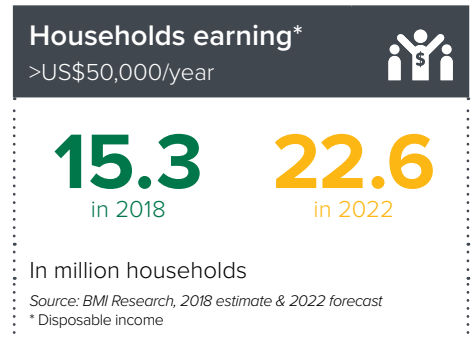
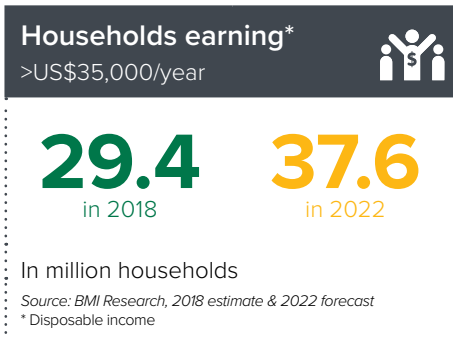
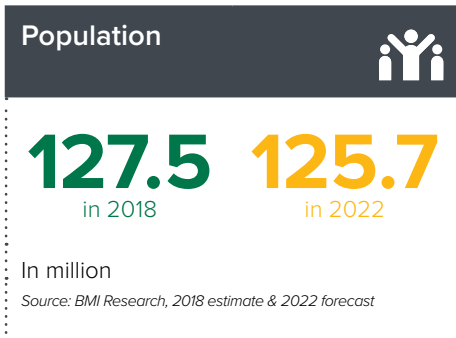
MARKET SNAPSHOT | SHEEPMEAT

Japan

Japan has been a stable and consistent buyer of Australian sheepmeat and is our largest chilled lamb customer within Asia. Its affluent and highly urbanised population is expected to continue demanding imports of high quality proteins, and Australian sheepmeat has opportunities to further expand its presence beyond Genghis Khan (sliced lamb shoulder cooked on a table-top grill).

Challenges and opportunities in Japan for Australian sheepmeat include:

- Ongoing akami-niku (leaner meat) trend and growing interest in global cuisine supported growth in lamb demand, with Australian exports to the market showing the highest volume on record since 2008-09.
- Japanese consumers generally have positive perceptions towards lamb, despite its minor presence and perceived lack of versatility as a protein. Increasing awareness and familiarity for lamb among consumers remains crucial to unlocking future growth.
- In the foodservice sector, there is a growing number of urban restaurants incorporating Australian lamb on their menu. They offer a key opportunity for Japanese consumers to become more familiar with, and consider purchasing, Australian lamb in the retail environment.
- Japan imports the majority of its sheepmeat requirements, and as the largest supplier, Australia is well placed to capture any growth in the sheepmeat market. That said, competition from New Zealand (NZ) remains strong, particularly in the retail channel.
- There are currently no sheepmeat import tariffs or volume/technical access issues into Japan.



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Consumers



- Japanese consumers appreciate lamb's eating quality, which resonates with the market's tradition of seeking a variety of foods that deliver enjoyment, but also nutritional balance in the diet.
- However, consumers also think lamb is hard to buy and not as versatile as other proteins (Source: MLA Global Consumer Tracker Japan, 2018). Making lamb more accessible in an everyday environment remains a priority in a market where people place great emphasis on convenience, underpinned by the country's ageing population and increasing number of single/two person households.

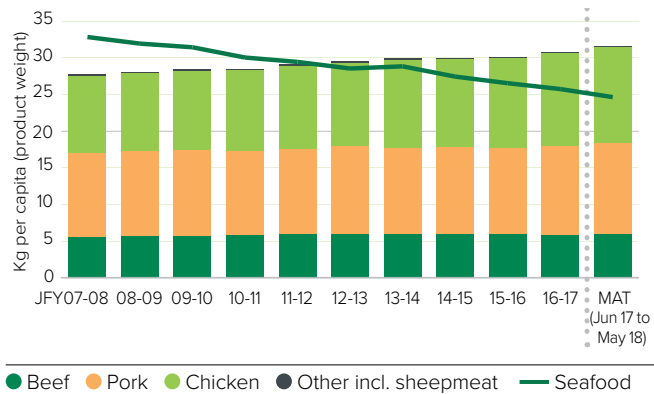
Attributes important for all proteins and lamb associations

What attributes are important for Japanese consumers (all proteins)?	What associations do consumers have to lamb?
My/my family's favourite	Tastes delicious
Easy to prepare	Low in fat
Consistent quality standards	High nutritional value
Easy to purchase	Meat is tender
Meat is tender	My/my family's favourite

Source: MLA Global Consumer Tracker Japan, 2018

- Japanese protein consumption is diverse, but per capita sheepmeat consumption is extremely low, indicating scope for future growth. There has been an ongoing shift from seafood to meat proteins, however the growth so far has been captured by chicken and pork.

Protein consumption per capita



Source: Ministry of Agriculture, Forestry and Fisheries of Japan (MAFF). JFY = Japan Fiscal Year (April-March)

- Japan's population and economic growth prospects are subdued in comparison to many neighbouring markets in Asia. That said, a high number of wealthy households concentrated in major cities, coupled with sophisticated supply chain infrastructure, provides businesses with easy access to large groups of potential customers.



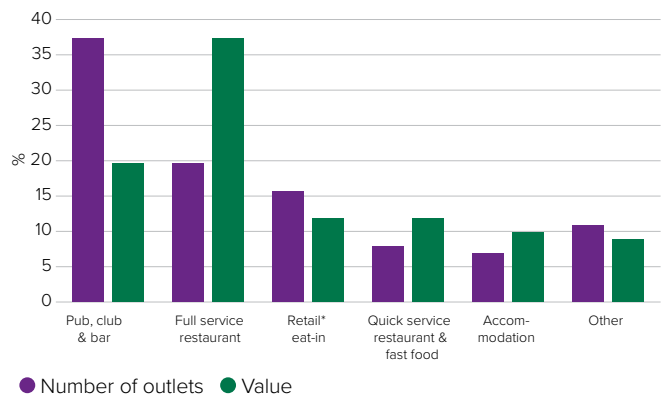
Australian chilled mutton is served and appreciated as a delicacy in sheepmeat specialised restaurants in Japan

Foodservice



- Australian lamb consumption to date has been largely led by Genghis Khan outlets. Coincidentally, the Tokyo metropolitan area is seeing an increasing number of non-Genghis Khan, mid to high-end restaurants serving lamb as a point of difference. Grilled meat and global flavours are becoming increasingly popular among Japan's sophisticated urban professionals, fuelling the emergence of these restaurants. Concurrently, Japanese chefs who have developed an appreciation for Australian sheepmeat – including a group of 'Lambassadors' under the MLA marketing initiative – are also underpinning the diversification of sheepmeat in the dining scene.
- Genghis Khan restaurants are particularly popular in Hokkaido (the north island of Japan) among locals and visiting tourists. New Genghis Khan venues have opened in major cities as well, largely focused on young consumers. Lamb is regarded as healthy and topical among young social media followers, with some restaurants offering both Genghis Khan and shabu shabu hot-pot style, or/and serving chilled lamb only to promote its high quality.
- The Japanese foodservice sector is estimated to be worth over US\$289 billion, including cooked food sales by retail outlets*1 (Source: Japan Foodservice Association, 2016 data). Full service restaurants are a clear leader in value, and the majority of Australian lamb is consumed in this channel. Lamb uptake by the retail and quick service/fast food categories has been limited to date, largely due to its higher cost compared to other proteins.

Number of outlets and value by key foodservice channel (% of total) – 2018



Source: GlobalData

* Retail includes cooked food sold by supermarket, convenience stores and take out specialists.



*1 This category is called *nakashoku* and consists of delicatessen and take away food sold at supermarkets and convenience stores).

Retail



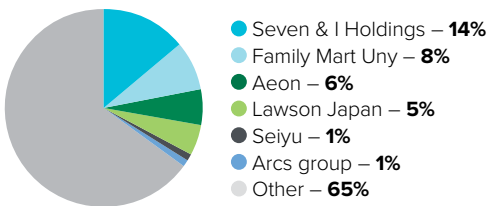
- Lack of familiarity, availability and knowledge of how to cook lamb are major reasons for Japanese shoppers not purchasing lamb in the retail channel (Source: MLA Global Consumer Tracker Japan, 2018). Subsequently, Japanese-style lamb recipes and marinated products using Japanese flavours are perceived as more 'accessible' than western-style dishes and are more popular among shoppers. When at the shelf, consumers look for markers of guaranteed safety, freshness, and value (Source: MLA Global Consumer Tracker Japan, 2017).



Introducing Australian lamb with Japanese flavours – Spicy lamb soba noodle.

- Lamb's retail presence is small compared to other proteins, particularly in the very competitive and fragmented Japanese retail environment. Major retailers in Tokyo are gradually increasing their shelf space for lamb, but NZ has a competitive presence in the sector with its smaller-sized bone-in (lamb cutlet) products. Country of origin labelling is mandatory at Japanese retail level, and provides opportunities to promote Australia as a safe, trusted and quality supplier of sheepmeat.

Grocery retail market shares – 2018



Source: IGD, as of July 2018



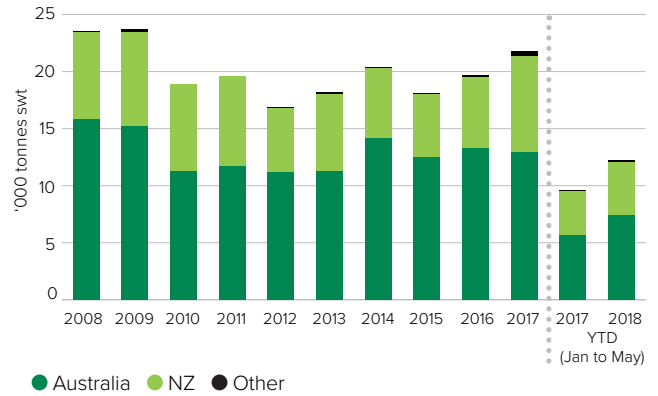
Small but creative butchers are offering a range of products.

Other suppliers



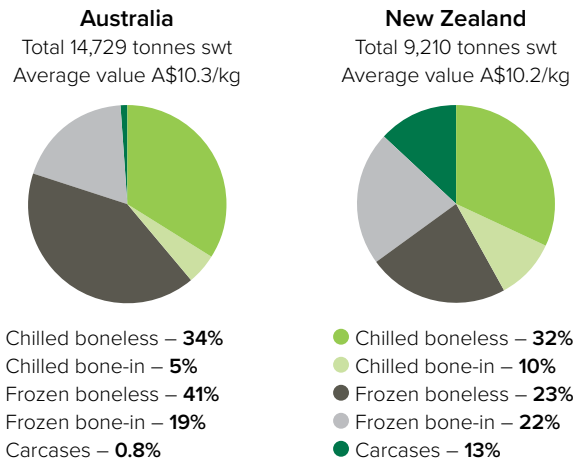
- The Japanese sheepmeat industry remains very small*² and hence sheepmeat demand in Japan has been, and will continue to be, filled by imports.
- Australia is the dominant imported sheepmeat supplier to Japan with a 60% share of imports, but is facing strong competition from NZ which has the same access conditions.

Sheepmeat imports by supplier



Source: GTA

Sheepmeat imports into Japan by category

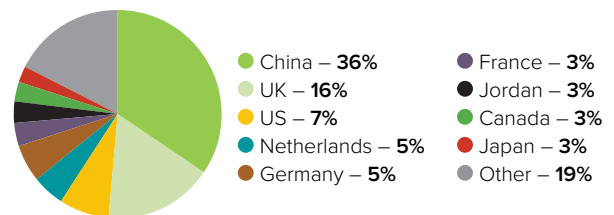


Source: GTA, MAT June 2017 to May 2018

In focus – New Zealand

NZ and Australia are two major exporters of sheepmeat in the global market. NZ exports about 300,000 tonnes swt of lamb every year, and is heavily focused on EU and China markets where the supplier has advantageous access conditions over Australia.

NZ lamb exports



Source: GTA, MAT June 2017 to May 2018

*² Last production data recorded in Japan was 2009, at 184 tonnes cwt.





Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Japan-Australia Economic Partnership agreement (JAEPA)	NIL (for all countries)	NZ (same access conditions as Australia)	Zero	No major hurdles

Best access Major challenges

Source: Trade agreements, DFAT, MLA



Australian sheepmeat exports to Japan – 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	
								%	in tonnes swt
Total		14,828	100	12,793	100	12,811	100	16	2,017
Storage	Chilled	5,564	38	5,919	46	5,460	43	2	104
	Frozen	9,265	62	6,875	54	7,351	57	26	1,914
Meat type	Lamb	9,550	64	8,742	68	8,594	67	11	957
	Mutton	5,278	36	4,051	32	4,217	33	25	1,061
Storage/meat type	Chilled lamb	5,512	37	5,865	46	5,389	42	2	123
	Chilled mutton	52	0	53	0	71	1	-27	-19
	Frozen lamb	4,039	27	2,877	22	3,205	25	26	834
	Frozen mutton	5,226	35	3,997	31	4,146	32	26	1,080

Source: DAWR

Value – in A\$ 000

Value – in A\$ 000			%	in A\$ 000					
Total		141,884	100	115,308	100	102,659	100	38	39,225
Meat type	Lamb	97,979	69	83,124	72	74,583	73	31	23,395
	Mutton	43,905	31	32,184	28	28,076	27	56	15,829

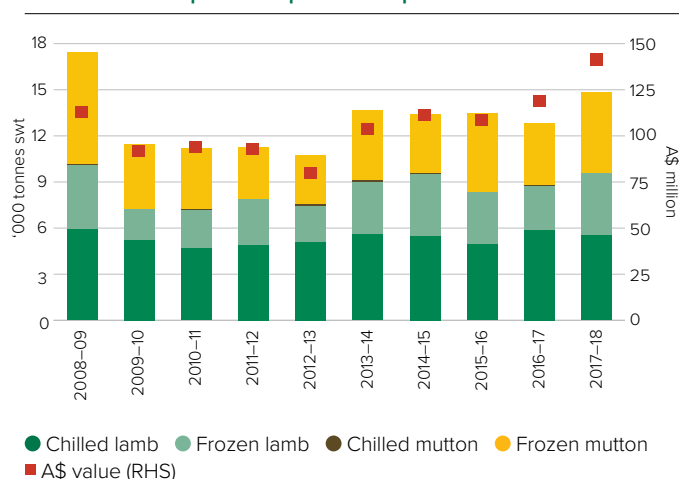
Source: ABS/GTA

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

Australian lamb exports to Japan – by major cut (in tonnes swt)			%	in tonnes swt				
Shoulder	6,168	65	4,654	53	4,676	54	32	1,492
Manufacturing	1,599	17	1,908	22	2,163	25	-26	-564
Rack	610	6	730	8	686	8	-11	-75
Leg	554	6	887	10	605	7	-9	-52
Carcase	249	3	194	2	176	2	42	73
Other	371	4	370	4	288	3	29	83
Total	9,550	100	8,742	100	8,594	100	11	957

Source: DAWR

Australian sheepmeat exports to Japan



Source: DAWR, ABS



Genghis Khan sheepmeat barbecue.



MARKET SNAPSHOT | SHEEPMEAT

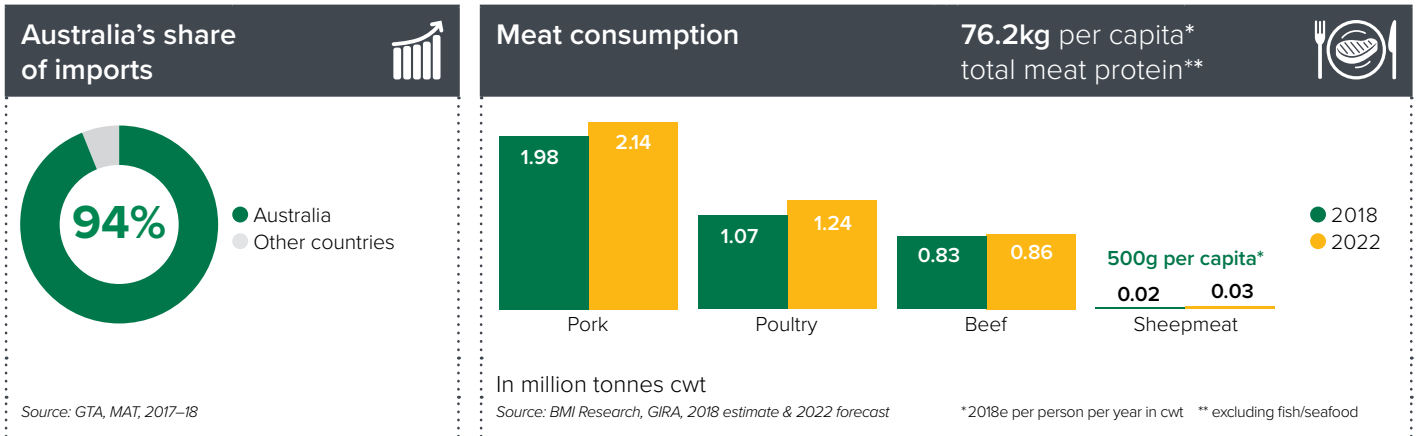
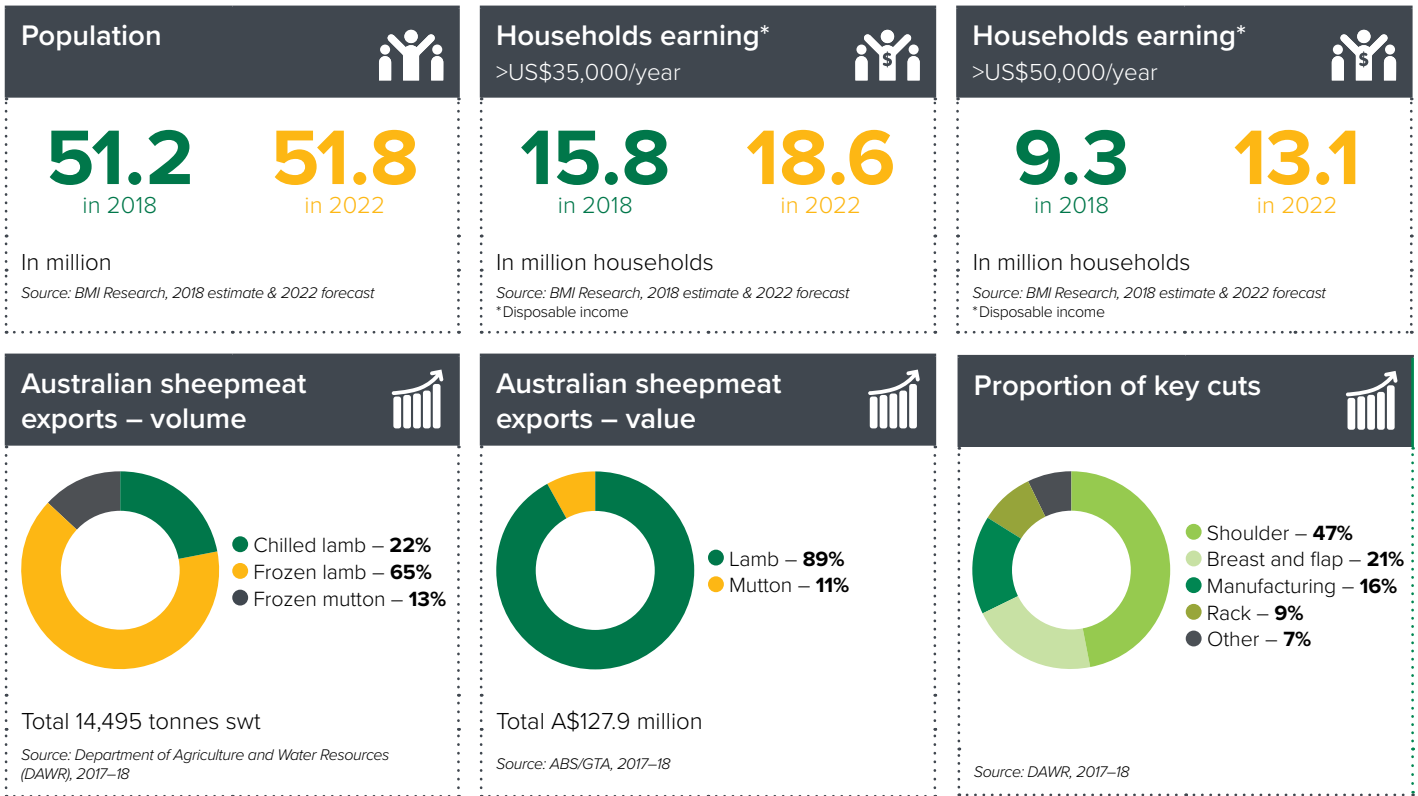
Korea (South Korea)

Sheepmeat is a minor protein in Korea but is rapidly gaining popularity, particularly in the foodservice sector. Consumption is forecast to increase, albeit from a small base. With very limited domestic supply, any rise in demand will need to be met by imports.

Challenges and opportunities in Korea for Australian sheepmeat include:

- Lamb is viewed positively by Korean consumers, associating it with great taste and high quality. Leveraging these strengths, along with its perception of being high in nutritional value, provides an opportunity to capitalise on the increasing interest in health among Korean consumers.
- To date, growth in demand has been heavily dependent on Chinese-influenced lamb barbecue/skewer outlets. The number of non-skewer venues serving lamb is gradually increasing, and further promoting usage by those restaurants remains a priority.
- Australian lamb's presence in the retail environment remains limited and provides a growth opportunity, especially for chilled product. A key component will be the establishment of lamb as a protein option, using naturalness and safety claims on packs to help attract shoppers' attention.
- Australian sheepmeat exports to Korea continue to grow, registering another record volume and value in 2017-18. This consistent demand indicates there is an emerging appreciation for this protein and a growing consumer base.

* January to June period



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Consumers



- Lamb is not a frequently consumed protein in Korea, and lacks the 'easy everyday' attributes that more common proteins (such as pork) are known for. Rather, consumers associate lamb with taste, nutritional benefits and quality.

Attributes important for all proteins and lamb associations

What attributes are important for Korean consumers (all proteins)? **What associations do consumers have to lamb?**

Most superior meat	High nutritional value
My/my family's favourite	Tastes delicious
Consistent quality	Low in fat
Taste delicious	Animal is well-cared for
Healthy diet for children	I pay more for this meat

Source: MLA Global Consumer Tracker Korea, 2018

- Taste is not a barrier to purchasing lamb in Korea, however some consumers have concerns about smell and are hesitant in cooking at home. Considering Koreans are one of the largest per capita consumers of meat in Asia, inspiring consumers' curiosity to try lamb and improving familiarity will create growth opportunities.

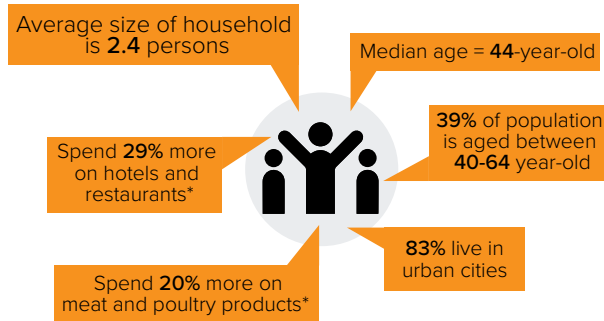
Top three reasons – "I don't buy lamb because..."

	Global average	Korea
Don't know how to cook it	✓	✓
Not familiar with it	✓	✓
Don't like the taste	✓	
Don't like the smell		✓

Source: Global Consumer Tracker Korea, 2018

- Korea is the third largest economy in Asia, with the number of households earning more than US\$50,000/year forecast to reach 54% of total households by 2021 (Source: BMI Research). This, along with an ageing population and declining birth rate, will likely further elevate consumer interest in products and services that promote a healthy lifestyle, and offer a key opportunity for Australian sheepmeat.

Who will be typical Korean consumers in 2021?



Source: BMI, based on various 2021 forecast data. * comparison between 2016 and 2021 forecast data

*Source: BMI, 'Asia' excludes Australia, New Zealand and Hong Kong (where meat imports are un-proportionally large)

Foodservice



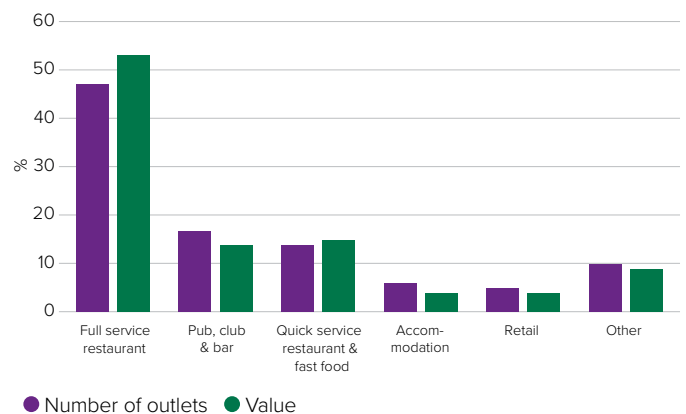
- Australian lamb demand in Korea to date has been largely driven by Chinese-influenced lamb barbecue/skewer restaurants. However, seeing increased interest in sheepmeat, Genghis Khan style (table-top sheepmeat barbecue style cooking originating from Japan) restaurants are also growing in number, while more local chefs are beginning to experiment with various lamb cuts including whole leg barbecue and bone-in rib cuts. Coincidentally, western-style racks and roasts are beginning to emerge on menus in hotels and high-end restaurants. This expansion of new lamb users – albeit from a low base – will help ensure that the sheepmeat 'boom' will not end as a 'fad' in the market.



Lamb – Genghis Khan Korean style

- While full service restaurants are the largest channel and value leader in the market, it is also highly competitive and fragmented, with a high proportion of small and independent operators. In the Korean foodservice sector overall, less than 20% of total outlets are 'chain operators' (operations with multi-unit outlets), in comparison to 31% in Australia and 43% in the US (Source: Global Data, 2017). Smaller local players with low profit margins can be financially vulnerable and hence demand for more expensive proteins like sheepmeat from these operators is more likely to fluctuate.

Number of outlets and value by key foodservice channel (% of total) – 2018



Source: GlobalData, 2018



Retail

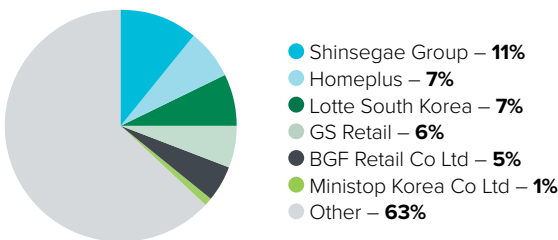


- Lamb is not commonly available across major supermarkets in Korea, with consumers not yet readily thinking of lamb as an everyday protein option. When it is purchased, it is often either an impulse buy or for a specific meal (Source: MLA Global Consumer Tracker Korea, 2017).



- However, lamb is regarded as delicious and for having strengths in animal welfare and sustainability. In comparison to the global average, more Korean shoppers look for 'markers of naturalness' on a lamb pack – such as claims of sustainability or 'free-from' (antibiotics or GMO) – and safety credentials. These claims need to stand out on packs or shelves to help drive more purchases in retail (Source: MLA Global Consumer Tracker Korea, 2017).
- Consumer interest in lamb is reportedly increasing, particularly after having enjoyed the protein at a restaurant. However, many outlets are focused on fast selling, low priced protein products, on the back of the fragmented and highly competitive retail environment, which works against comparatively expensive lamb.

Grocery retail market shares – 2018



Source: IGD

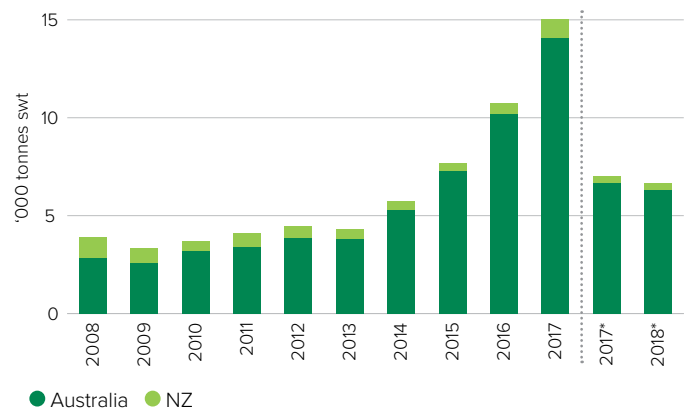


Other suppliers



- As the scale of the local lamb industry is limited, sheepmeat consumption in Korea is predominantly supported by imports. This means that any increase in sheepmeat demand in Korea will provide opportunities for a rise in imports.
- The Korean imported sheepmeat market has increased significantly over the past ten years (from a very low base), with Australia mostly taking advantage of the growth, representing 94% of total imports in 2017–18.
- New Zealand (NZ), which has also taken advantage of the rise in imports, remains the key competitor for Australia but its market share remains small. The majority of NZ products into Korea are bone-in frozen cuts.

Korea sheepmeat imports by supplier



Source: GTA. * Jan to May

Competitor watch – the rise of chicken

The majority of lamb skewer outlets serve alcohol and are popular among office workers who enjoy skewers with beer after work. These restaurants face strong competition from *chi-maek* - fried chicken and beer eateries. Typically, a customer spends about A\$40 at a *chi-maek* or a lamb skewer establishment.

Chicken consumption is rising in Korea, underpinned by competitively priced imports from Thailand and the US.

An increase in single person households, dual income families and demand for pre-prepared, convenient meals also assist demand for chicken.





Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Korea-Australia Free Trade Agreement (KAFTA)	2018 – 11.2% 2019 – 9% 0% in 2023 Under KAFTA	NZ Import tariff – 13.5% in 2018 under NZ-Korea Free Trade Agreement	Zero	No major hurdles

Best access Major challenges

Source: Trade agreements, DFAT, MLA



Australian sheepmeat exports to Korea – 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	
								%	in tonnes swt
Total		14,495	100	13,753	100	7,727	100	88	6,768
Storage	Chilled	3,205	22	2,627	19	981	13	227	2,225
	Frozen	11,289	78	11,125	81	6,746	87	67	4,543
Meat type	Lamb	12,614	87	12,156	88	6,400	83	97	6,215
	Mutton	1,880	13	1,597	12	1,327	17	42	553
Storage/meat type	Chilled lamb	3,205	22	2,626	19	979	13	227	2,226
	Chilled mutton	-	0	1	0	2	0	-100	-2
	Frozen lamb	9,409	65	9,529	69	5,421	70	74	3,988
	Frozen mutton	1,880	13	1,596	12	1,325	17	42	555

Source: DAWR

Value – in A\$ 000

Value – in A\$ 000								%	in A\$ 000
Total		127,873	100	105,825	100	49,968	100	156	77,905
Meat type	Lamb	113,884	89	95,732	90	42,845	86	166	71,040
	Mutton	13,989	11	10,093	10	7,123	14	96	6,866

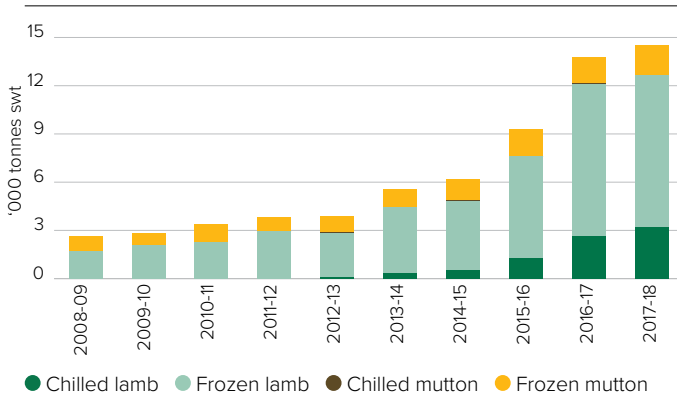
Source: ABS/GTA

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

								%	in tonnes swt
Shoulder	6,815	54	6,753	56	3,250	51	110	3,565	
Breast and Flap	3,029	24	2,982	25	1,409	22	115	1,620	
Rack	1,256	10	644	5	343	5	266	912	
Manufacturing	596	5	846	7	714	11	-16	-118	
Intercostals	423	3	336	3	232	4	82	191	
Other	496	4	596	5	451	7	10	45	
Total	12,614	100	12,156	100	6,400	100	97	6,215	

Source: DAWR

Australian sheepmeat exports to Korea



Source: DAWR





MARKET SNAPSHOT | SHEEPMEAT

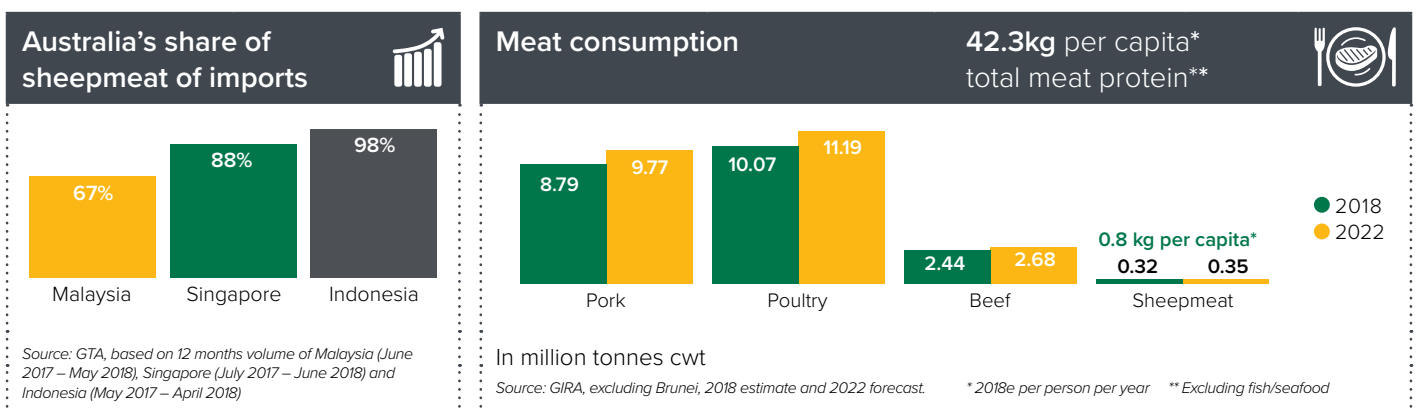
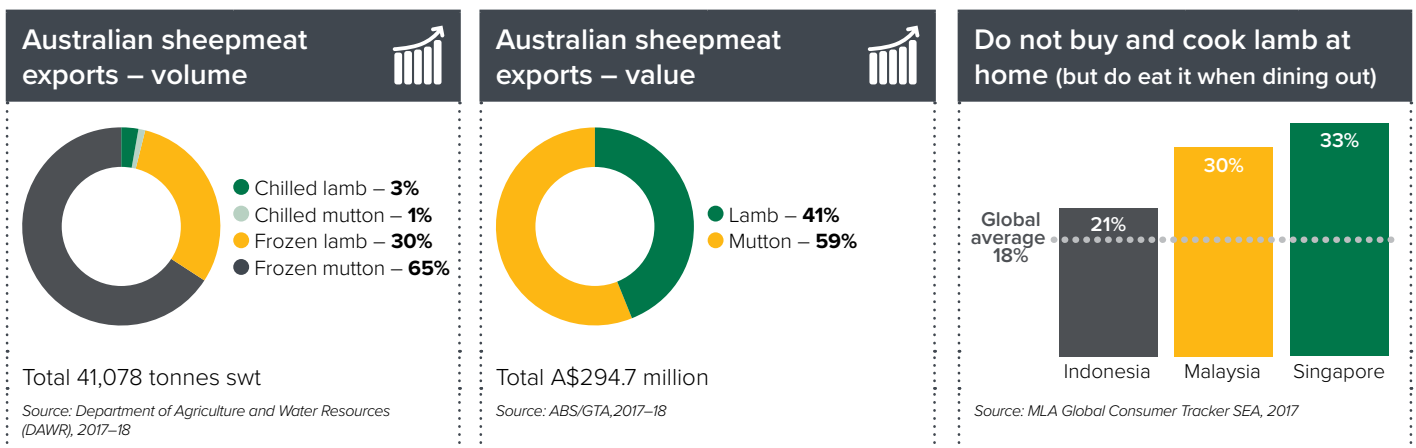
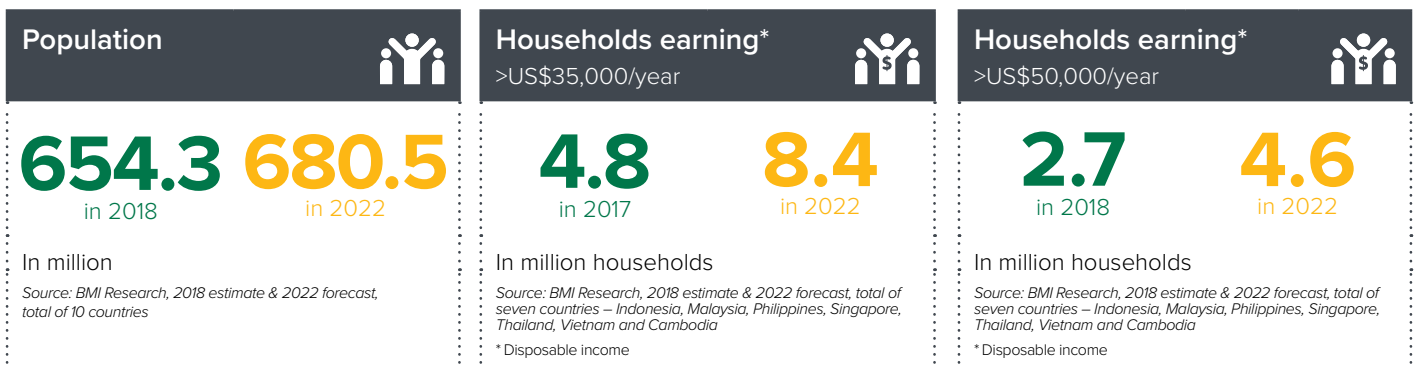
South East Asia (including Indonesia)

South East Asia (SEA*) is one of the fastest-growing consumer markets in the world, underpinned by strong economic growth, a young population, rapid urbanisation and rising incomes. Increasing demand for high quality food, coupled with a growing trend in dining out, represent growth opportunities for Australian lamb and mutton exports. However, the SEA region is diverse, with consumer spending power, consumption habits, and stage of market maturity greatly varying across countries.

Challenges and opportunities in SEA for Australian sheepmeat include:

- Sheepmeat is a niche meat protein and consumed far less than chicken, pork, and beef in the region. With many consumers not growing up eating sheepmeat, it remains rather unfamiliar. Consumers' lack of awareness and familiarity with sheepmeat, coupled with the high prices, have led to a limitation in sheepmeat consumption at home across the region.
- Overall, sheepmeat consumption across SEA is forecast to grow, supported by its large Muslim consumer base who typically consume sheepmeat to celebrate important religious festivals. Sheepmeat consumption is also supported by the expanding young and urban populations who are keen to experience new tastes and are open to international food culture.
- Robust growth in the tourism sector, increased expansion of barbecue and hot pot restaurants in large cities and the growing amount of consumers dining out across the region are underpinning a gradual uptake of lamb products.

* In this report, South East Asia (SEA) includes the following countries – Indonesia, Singapore, Malaysia, Thailand, the Philippines, and Vietnam, as well as Brunei, Cambodia, Laos and Myanmar.



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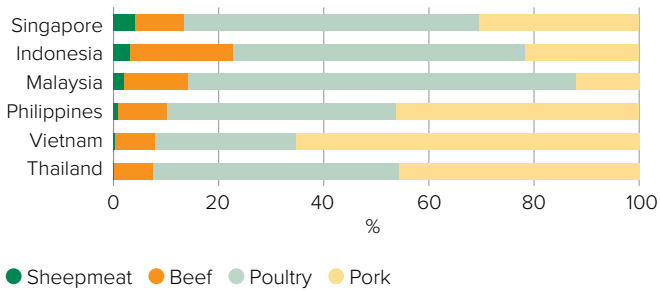


Consumers



- SEA is home to more than 650 million people from a variety of ethnic, cultural, religious and economic backgrounds. This diversity is reflected in the broad range of lifestyles, dietary habits, and consumption behaviours.
- Sheepmeat is consumed more frequently in Malaysia, Indonesia and Singapore than in other SEA countries. Although sheepmeat is a niche protein and less familiar to many consumers across the region, it is perceived as a superior meat, which consumers are willing to pay a bit more for.

Per capita meat consumption (% of total)



Source: GIRA, 2018 estimate

- Lack of familiarity and knowledge in cooking, high price point and housing structure – which is usually a small house or apartment across urban cities – remain major barriers to sheepmeat consumption at home, as consumers are afraid of failure in cooking and strong smells permeating throughout the house. Therefore, SEA consumers tend to enjoy lamb and mutton dishes outside their house, mostly at foodservice venues.
- Tasting, sampling, and providing recipe ideas and preparation tips are amongst the potential promotional activities that will help heighten consumer awareness of sheepmeat, subsequently increasing sheepmeat consumption in SEA.

What would convince consumers to buy lamb?

Indonesia	Malaysia	Thailand
Trying it at a restaurant	Recipe ideas	Trying a free sample
Trying a free sample	Trying it at a restaurant	Trying it at a restaurant
Tips on preparation	Tips on preparation	Recipe ideas

Source: MLA Global Consumer Tracker Indonesia, Malaysia and Thailand, 2018.



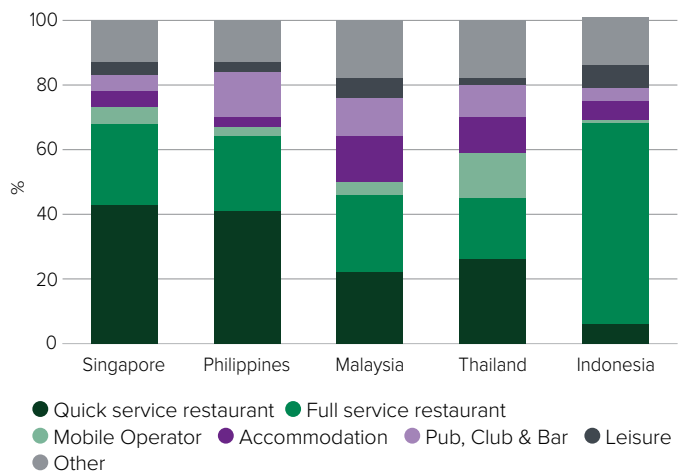
Tongseng Kambing – Indonesian lamb stew.

Foodservice



- The foodservice sector in SEA is vibrant and dynamic, with market structure and stage of maturity varying greatly across countries. With consumers preferring not to cook sheepmeat at home, foodservice remains an important channel for sheepmeat consumption in the region.
- Despite the small market size, Singapore remains the most lucrative market for foodservice in the region (in average sales per outlet terms), underpinned by a large proportion of high-income consumers (including local Singaporeans and international expats) and a strong tourism sector. Singapore's sophisticated and highly developed foodservice channel is expected to continuously offer growth opportunities for Australian sheepmeat exports, especially in the premium foodservice segment.

Value share by major foodservice channel



Source: GlobalData, 2018 estimate

Top hotel chains by foodservice sales

Singapore	Indonesia	Malaysia	Thailand	Philippines
AccorHotels	AccorHotels	Marriott International	AccorHotels	AccorHotels
InterContinental	Santika Indonesia Hotels & Resorts	InterContinental	Anantara	Wyndham Hotels & Resorts
Pan Pacific Hotels	Starwood Hotels and Resorts Worldwide	Shangri-La	Dusit International	InterContinental
Hilton Worldwide	Swiss-Belhotel International	Dorsett Hospitality International	Centara Hotels and Resorts	Crown Regency Hotels & Resorts
Millennium Hotels and Resorts	Aston International Hotels & Resorts	Resorts World Genting	InterContinental	

Source: GlobalData, 2016

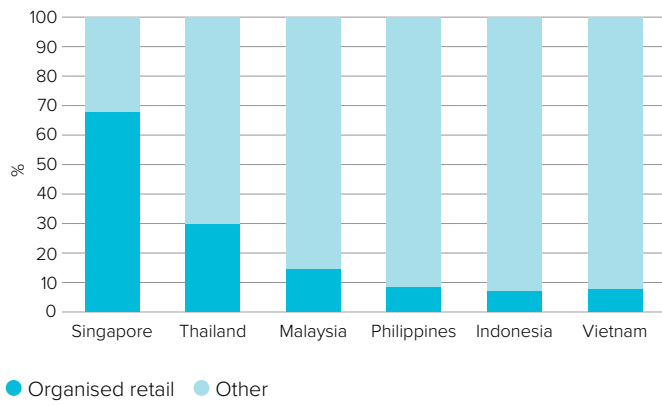
- SEA attracts more than 100 million international tourists annually, generating more than US\$100 billion/year on average (Source: WorldBank, 2016 data). The strong tourism sector is expected to continue to drive demand for sheepmeat products in the foodservice sector across SEA's countries.

Retail



- With the exception of Singapore – which has a developed and sophisticated retail market – the grocery retail sector in SEA remains highly fragmented, and dominated by traditional channels including wet markets and small, family-owned stores. The modern retail sector is growing, however, it is limited to major top-tier cities.

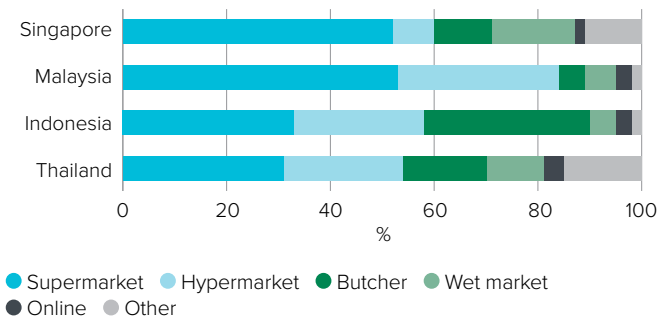
Market share of grocery retail



Source: IGD, 2018 forecast

- Consumers in large cities across SEA often buy Australian lamb through multiple retail channels with supermarkets and hypermarkets remaining the most common places of purchase.

Where do consumers go and buy Australian lamb?



Source: MLA Global Tracker Indonesia, Malaysia and Thailand, 2018; MLA Global Tracker Singapore, 2017.

- With Malaysia and Indonesia having a large number of Muslim consumers, Halal certification remains an important influence when it comes to sheepmeat purchases in these markets.

Top five important themes motivating lamb purchase

Malaysia	Indonesia	Singapore
Halal	Halal	Natural
Safety	Freshness	Safety
Natural	Natural	Freshness
Freshness	Safety	Value
Value	Value	Nutritional

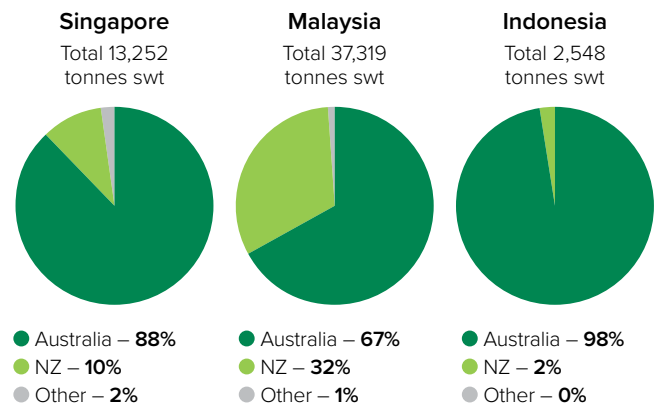
Source: MLA Global Consumer Tracker SEA, 2017

Other suppliers



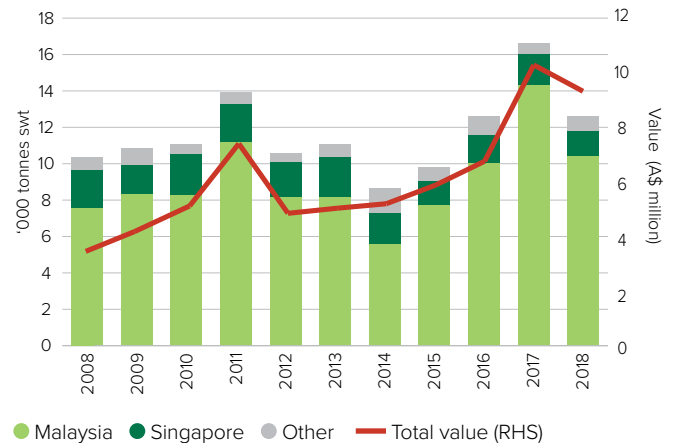
- Australia has long been the leading supplier of sheepmeat in SEA. Overall, it maintains a market share of about 70%, however, its competitive position is slightly different across markets.
- Despite a smaller market share, New Zealand's (NZ) sheepmeat exports to SEA have grown at a rapid rate of about 9% per annum on average in recent years. However, shipments to SEA dropped significantly during the period from July 2017 to June 2018, down 24% to 12,600 tonnes from 16,600 tonnes swt in the previous period, largely due to strong demand from other export markets of NZ such as China, Taiwan and the Netherlands.

Sheepmeat imports by major supplier in selected markets



Source: GTA, Singapore – from July 2017 to June 2018, Malaysia – from June 2017 to May 2018, Indonesia – from May 2017 to April 2018.

NZ's sheepmeat exports to SEA



Source: GTA, from July 2017 to June 2018.



A butcher shop in Singapore.





Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA)* Conclusion of negotiations	0% Except Indonesia, Cambodia, Laos and Myanmar**	NZ (same access conditions as Australia)	Zero	Indonesia, Malaysia and Brunei maintain import regulations in accordance with Halal requirements

Best access Major challenges

Source: Trade agreements, DFAT, MLA

* Indonesia: IA-CEPA, on entry into force, tariff cut to 2.5% (from 5%) and eliminated after five years.

** Indonesia: 5% for chilled bone-in and all frozen products; Cambodia: 15% (except a 35% tariff on frozen boneless products); Myanmar: 5%; Laos: 10%. Tariff will be 0% in Myanmar and Cambodia in 2020, and in Laos in 2021.

Australian sheepmeat exports to SEA – 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	
								%	in tonnes swt
Total		41,078	100	39,755	100	37,685	100	9	3,393
Storage	Chilled	1,705	4	1,617	4	1,459	4	17	246
	Frozen	39,373	96	38,138	96	36,226	96	9	3,147
Meat type	Lamb	13,817	34	15,869	40	13,699	36	1	118
	Mutton	27,261	66	23,886	60	23,986	64	14	3,275
Storage/ meat type	Chilled lamb	1,332	3	1,235	3	1,135	3	17	197
	Chilled mutton	373	1	383	1	324	1	15	50
	Frozen lamb	12,485	30	14,635	37	12,564	33	-1	-79
	Frozen mutton	26,888	65	23,503	59	23,662	63	14	3,226

Source: DAWR

Value – in A\$ 000

Value – in A\$ 000								%	in A\$ 000
Total		294,727	100	249,028	100	206,530	100	43	88,197
Meat type	Lamb	119,459	41	117,118	47	93,505	45	28	25,954
	Mutton	175,268	59	131,910	53	113,025	55	55	62,244

Source: ABS/GTA

Australian sheepmeat exports to Singapore – by major cut (in tonnes swt)

Australian sheepmeat exports to Singapore – by major cut (in tonnes swt)								%	in tonnes swt
Lamb	Leg	775	34	867	35	661	33	17	114
	Carcase	452	20	367	15	325	16	39	127
	Shoulder	259	12	300	12	254	13	2	5
	Other	762	34	959	38	748	38	2	15
Total	Total	2,249	100	2,493	100	1,988	100	13	261
Mutton	Carcase	3,638	42	5,537	56	4,576	53	-20	-938
	Leg	3,209	37	2,715	28	2,602	30	23	607
	Manufacturing	1,382	16	1,075	11	1,030	12	34	353
	Other	431	5	477	5	389	5	11	43
Total	Total	8,661	100	9,803	100	8,597	100	1	64

Source: DAWR

Australian sheepmeat exports to Malaysia – by major cut (in tonnes swt)

Australian sheepmeat exports to Malaysia – by major cut (in tonnes swt)								%	in tonnes swt
Lamb	Shoulder	5,044	66	7,613	78	5,537	70	-9	-493
	Carcase	834	11	724	7	898	11	-7	-64
	Leg	810	11	418	4	496	6	63	315
	Other	972	13	1,068	11	952	12	2	20
Total	Total	7,660	100	9,822	100	7,882	100	-3	-222
Mutton	Carcase	9,358	55	6,786	54	7,240	55	29	2,118
	Shoulder	3,042	18	2,177	17	1,993	15	53	1,048
	Leg	2,311	14	1,146	9	960	7	141	1,351
	Other	2,217	13	2,344	19	2,936	22	-25	-720
Total	Total	16,927	100	12,453	100	13,130	100	29	3,798

Source: DAWR



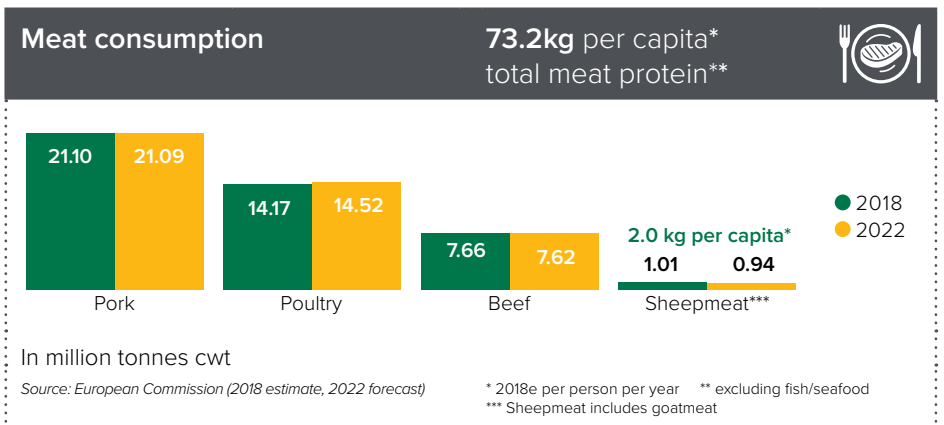
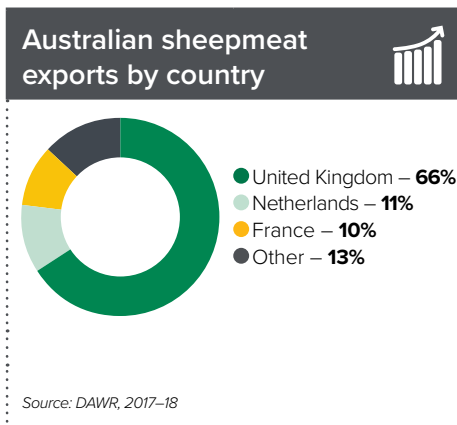
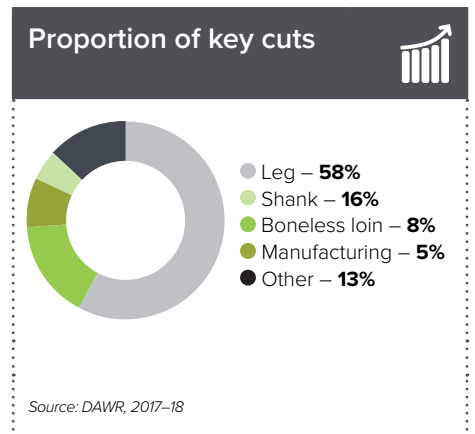
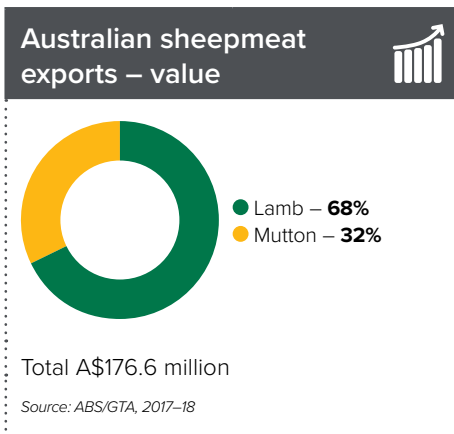
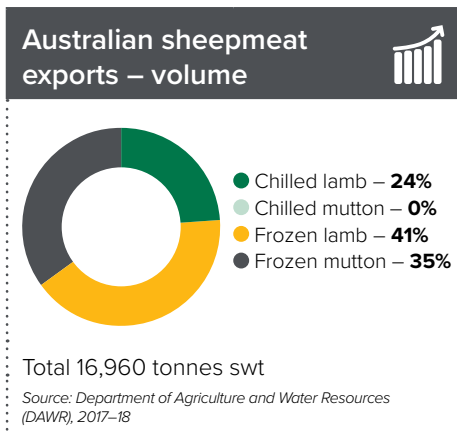
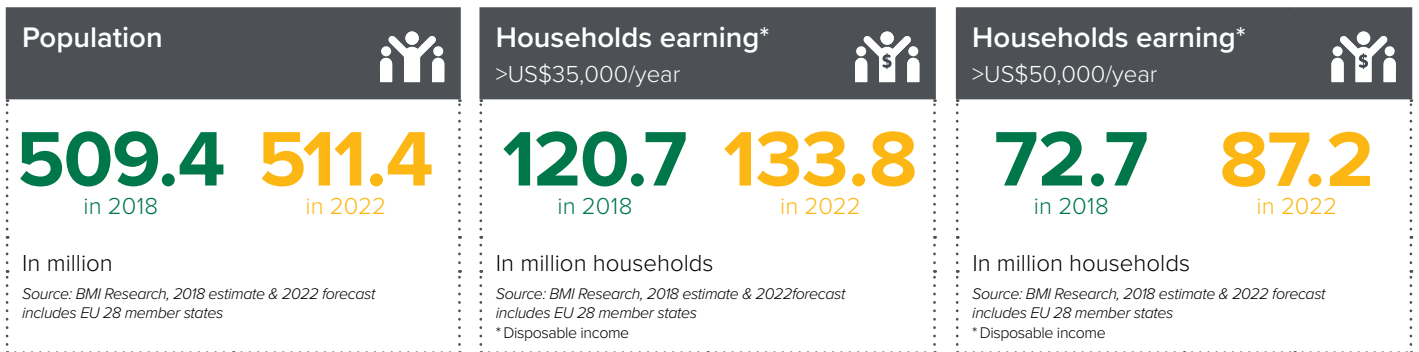
MARKET SNAPSHOT | SHEEPMEAT

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 restrictive import regime and large domestic red meat industry has limited Australia's access and growth in the market.

The challenges and opportunities in the EU for Australian sheepmeat include:

- Market access remains the primary barrier preventing higher Australian sheepmeat exports to this market. However, 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.
- Despite volume limitations, the EU is one of Australia's most valuable export markets and, with a large and growing number of wealthy consumers, remains a key region for premium product.
- The United Kingdom (UK) is Australia's largest market within the 28-member union and its exit from the EU (Brexit, which is due to occur in March 2019) may impact Australia's sheepmeat trade to the region.
- While small in per capita terms, especially compared to pork and chicken, total sheepmeat consumption across the EU is second only to China.
- Overall consumer demand for sheepmeat is expected to remain steady, finding support within the young and growing Muslim community.



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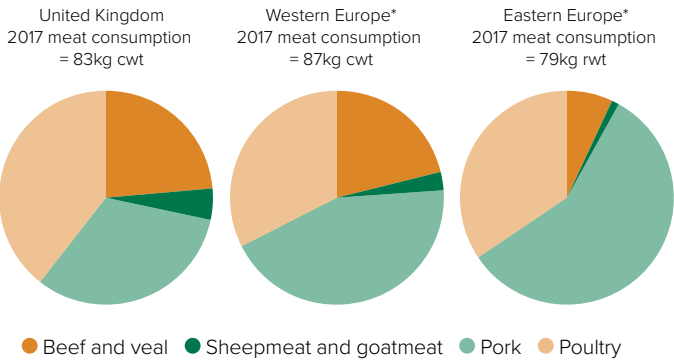


Consumers



- Sheepmeat consumption varies significantly across EU members. In some countries, such as the UK, Ireland and Greece, consumption is traditionally linked to the seasonal production cycle. In other EU countries, purchasing decisions are motivated by consumer demand at culturally significant times, such as Easter.
- Overall sheepmeat consumption remains relatively small, compared to other animal proteins, and is primarily consumed in Western Europe, while pork and chicken dominate the diet in Eastern Europe.

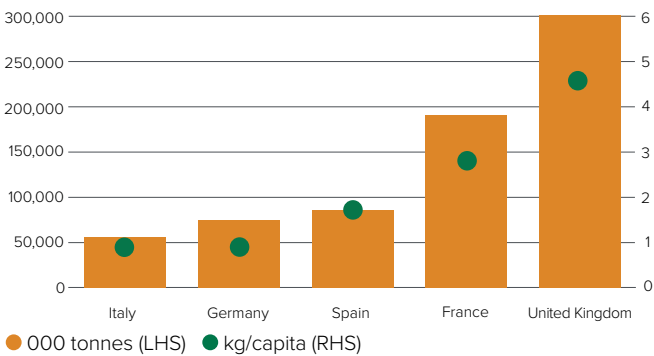
EU per capita meat consumption



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 UK remains the largest regional consumer of sheepmeat, accounting for a quarter of total EU consumption in 2017. However, at 12.3kg, Greece was the per capita leader in consumption (including goatmeat) in 2017.

Sheepmeat* consumption across the EU



Source: BMI 2018 estimate
 * Figures include goatmeat

- Similar to other developed markets, social factors – such as health concerns with consuming red meat, animal welfare and environmental issues – remain a challenge for the red meat industry.

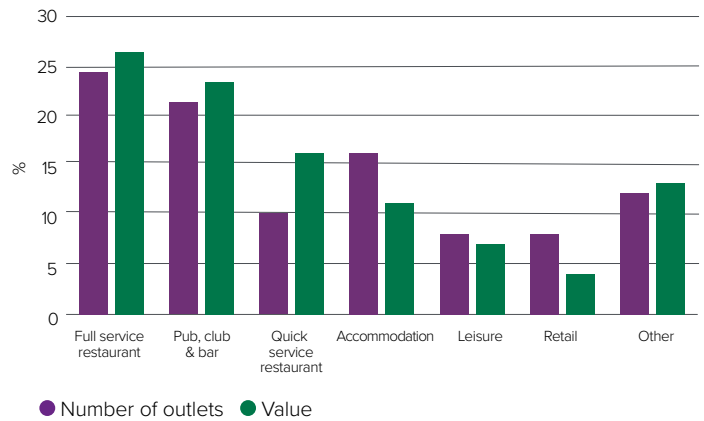
Foodservice



- The majority of Australian lamb exported to the EU is made up of leg cuts, directed into the foodservice channel. Product from New Zealand (NZ), in contrast, has a larger footprint in retail as it has historically had greater preferential access.

- 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



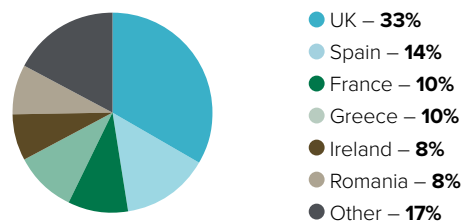
Source: GlobalData. Inclusive of the UK, Spain, Germany, Italy, France and the Netherlands.

Production



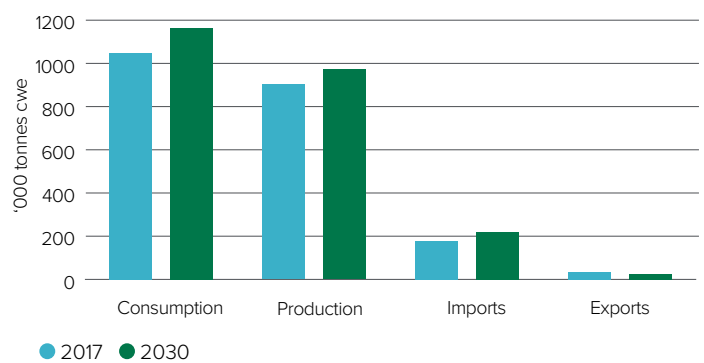
- After declining 25% over the ten years to 2014, EU sheepmeat production has since stabilised and increased throughout 2017.
- The EU is not self-sufficient in sheepmeat, with consumption outstripping production capabilities. While a modest increase in production is forecast over the next decade, the EU is estimated to require in excess of 200,000 tonnes cwe of sheepmeat imports per year to meet domestic requirements.
- The UK is the powerhouse of EU sheepmeat production, accounting for one third of production, followed by Spain and France.
- EU sheepmeat production is likely to be impacted by the evolution of the Common Agriculture Policy and the future relationship between the EU and UK post-Brexit.

EU Sheepmeat Production – 2017



Source: European Commission

EU sheepmeat



Source: European Commission, Prospects for EU agriculture markets and income 2017-2030. All volumes are in carcase weight equivalent. Imports and exports are EU-external trade only.

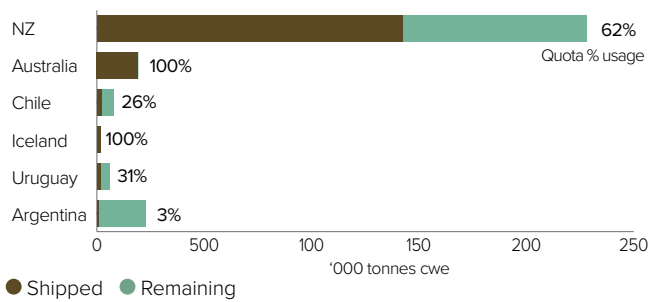


Market access



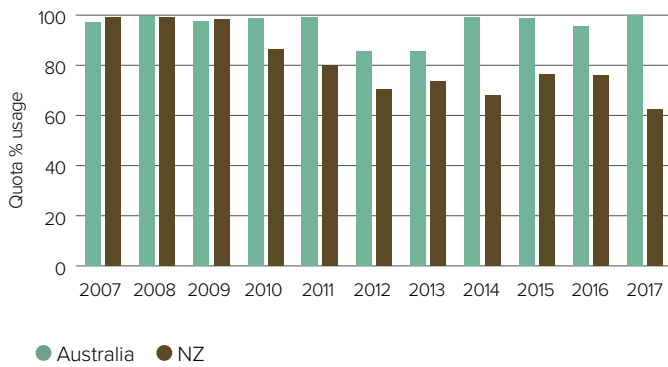
- Australia has a 19,186 tonne country-specific (carcase weight equivalent combined sheepmeat/goatmeat) import quota into the EU with 0% in-quota duty. However, out of quota imports from Australia incur prohibitive import duties of 12.8% plus up to an additional €3.1/kg, which effectively stifles most above-quota trade opportunities.
- Australia is currently disadvantaged compared to its competitors who have greater preferential access. NZ's sheepmeat quota, at 228,254 tonnes, is more than 11 times larger than Australia's but has been underutilised in recent years.
- Australia has consistently filled its allocated quota over the past decade, with occasional supply constraints the only limiting factor.

Sheepmeat quota allocation by country



Source: European Commission, 2017 figures

EU import quota utilisation



Source: European Commission

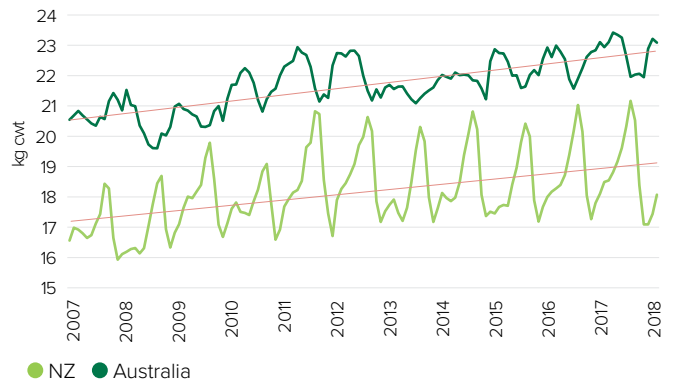


Other suppliers



- Imports have accounted for 19% of EU sheepmeat consumption over the last decade, and Australia and NZ have remained the only significant external suppliers.
- NZ's preferential trading conditions over the past 40 years have allowed it to capture the majority of the import market.
- NZ is also able to produce a lighter carcase than Australia, resulting in cut sizes more in line with local product and, particularly, provides an advantage into the imported UK leg roast market.

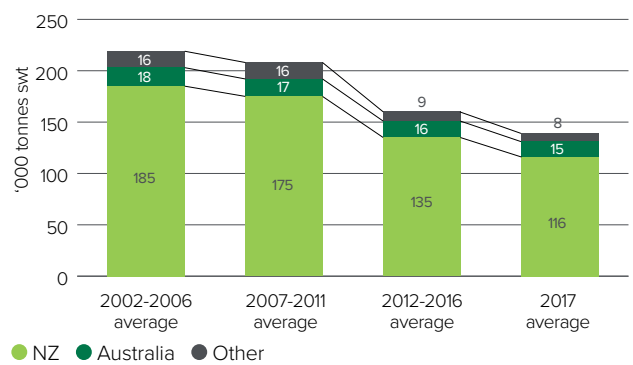
NZ and Australia lamb carcase weights



Source: Statistics NZ, ABS

- However, imports from NZ over the last five years have been stretched by supply constraints (land in NZ is increasingly being reallocated to the dairy sector) and as China has expanded onto the global stage as a competing importer of sheepmeat.
- The EU represented 31% of NZ's overall sheepmeat exports in 2017, with about half of this trade destined for the UK.

EU sheepmeat imports – NZ in decline



Source: Global Trade Atlas

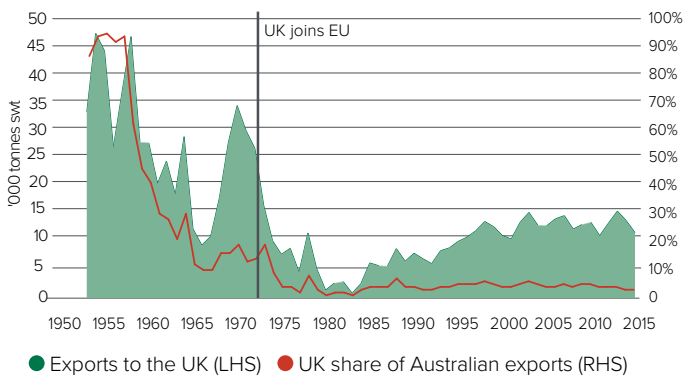


Brexit



- Prior to the UK's exit from the EU (expected in March 2019) it must agree to the terms of departure and renegotiate 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 largest primary sheepmeat market within the EU; however, product is often re-exported and consumed in other member countries after entering the single market.
- Australia has strong historical ties with the country. In the decade prior to it joining the EU, the UK accounted for as much as 30% of Australian sheepmeat exports.

Australian sheepmeat exports to the UK



Source: AMB, AMLC, DAWR

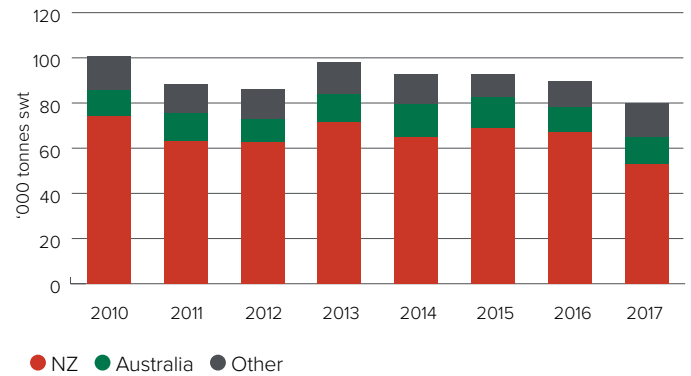
- The UK has a large population of wealthy consumers. Although the outlook for red meat consumption growth appears limited, imported product will likely remain considerable.

UK figures

Population	Households earning* >US\$35,000/year	Households earning* >US\$50,000/year
<p>66.2 in 2018</p> <p>67.3 in 2022</p> <p>In millions</p> <p>Source: BMI Research, 2018 estimate & 2022 forecast</p>	<p>24.0 in 2018</p> <p>25.8 in 2022</p> <p>In million households</p> <p>Source: BMI Research, 2018 estimate & 2022 forecast</p> <p>* Disposable income</p>	<p>15.5 in 2018</p> <p>19.4 in 2022</p> <p>In million households</p> <p>Source: BMI Research, 2018 estimate & 2022 forecast</p> <p>* Disposable income</p>

- The UK is a large producer, importer and exporter of sheepmeat. Inflows of sheepmeat typically come from NZ and Australia and outflows are destined for other EU member states.

UK sheepmeat imports



Source: GTA

- Shifts in UK-EU market access may disrupt this historical flow of sheepmeat, resulting in more UK sheepmeat on the domestic market or seeking additional non-EU export destinations.
- The EU is the UK's single largest trading partner (overall and in the case of sheepmeat) and the future structure hinges on whether the exit is smooth or disorderly.
- 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 pound sterling – however, there is still a risk that a disorderly Brexit could result in an economic slowdown, which could impact overall demand for meat.





Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Australia-EU Free Trade Agreement commenced in July 2018	In quota – 0% Above quota – 12.8% + 90.2~311.8 euro/100kg	NZ Has a quota of 228,254 tonnes	Access remains limited to 19,186 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	2017–18		2016–17		5-year average (2012–13 to 2016–17)		change 2017–18 vs 5-year average		
		% out of total		% out of total		% out of total	%	in tonnes swt	
Total	16,960	100	16,029	100	16,802	100	1	158	
Storage	Chilled	3,998	24	4,974	31	5,740	34	-30	-1,741
	Frozen	12,961	76	11,055	69	11,062	66	17	1,899
Meat type	Lamb	11,006	65	11,579	72	12,012	71	-8	-1,006
	Mutton	5,954	35	4,450	28	4,790	29	24	1,164
Storage/meat type	Chilled lamb	3,998	24	4,974	31	5,740	34	-30	-1,741
	Chilled mutton	0	0	0	0	0	0	2244	0
	Frozen lamb	7,008	41	6,605	41	6,272	37	12	736
	Frozen mutton	5,953	35	4,450	28	4,790	29	24	1,164

Source: DAWR

Value – in A\$ 000

Value – in A\$ 000							change 2017–18 vs 5-year average		
		%		%		%	%	in A\$ 000	
Total	176,640	100	139,368	100	132,628	100	33	44,012	
Meat type	Lamb	119,704	68	105,793	76	99,916	75	20	19,788
	Mutton	56,936	32	33,575	24	32,711	25	74	24,224

Source: ABS/GTA

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

Australian lamb exports to EU – by major cut (in tonnes swt)							change 2017–18 vs 5-year average	
		%		%		%	%	in tonnes swt
Leg	5,545	50	6,934	60	6,853	57	-19	-1,308
Shank	2,544	23	1,910	16	2,415	20	5	129
Boneless loin	861	8	382	3	239	2	261	622
Chump	698	6	740	6	799	7	-13	-101
Manufacturing	670	6	1,051	9	1,269	11	-47	-598
Other	688	6	562	5	437	4	57	251
Total	11,006	100	11,579	100	12,012	100	-8	-1,006

Source: DAWR