MARKET SNAPSHOT | **BEEF**

MEAT & LIVESTOCK AUSTRALIA

China

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

Challenges and opportunities in China for Australian beef include:

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

* China-Australia Free Trade Agreement

Population

1,410 in 2017 | **1,429** in 2021

In million

Source: BMI Research, 2017 estimate & 2021 forecast

Households earning* >US$35,000/year

8.9 in 2017 | **19.7** in 2021

In million households

Source: BMI Research, 2017 estimate & 2021 forecast

* Disposable income

Households earning* >US$50,000/year

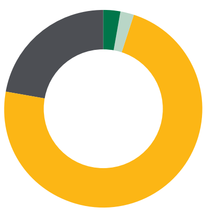
3.4 in 2017 | **7.8** in 2021

In million households

Source: BMI Research, 2017 estimate & 2021 forecast

* Disposable income

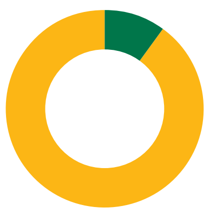
Australian beef exports – volume



Total 110,059 tonnes swt

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

Australian beef exports – value



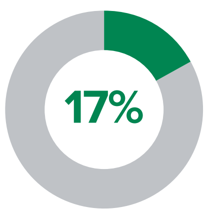
Total A$781.9.3 million

Source: ABS/GTA, MAT (Moving Annual Total) November 2016 to October 2017

Proportion of key cuts

Source: DAWR, CY 2017

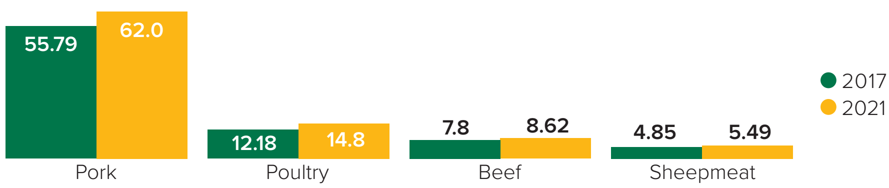
Australia's share of direct imports



Source: GTA, MAT October 2016 to November 2017

Meat consumption

56.8kg per capita* total meat protein**



In million tonnes cwt

Source: BMI Research, OECD (2017 estimate, 2021 forecast)

* 2017e per person per year in cwt ** Excluding fish/seafood

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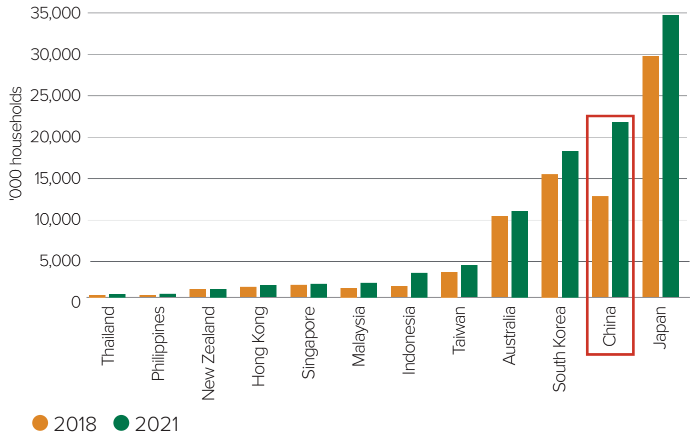
Consumers

- Due to its population size, growing wealth and shifting diets, China represents an attractive market for premium Australian beef products. Focusing on niche opportunities with a differentiated product will help to build loyalty in a very competitive market.
- China is a country of great regional cultural diversity and variation in consumption habits and preferences. There are at least eight Chinese cuisines, with the use and flavouring of beef varying.
- Despite being the most populous country in the world, the proportion of consumers who can regularly afford to buy imported beef is small, with 12.2 million households earning at least US$35,000/year disposable income. That number is forecast to increase by 74% to 21.2 million households in the next four years by 2021 (double the number in Australia).

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



Source: BMI Research. 2018 and 2021 forecast.
* Disposable income

- In China, beef contributes a small proportion of dietary protein compared to pork, chicken and seafood. However, with rising incomes and continued urbanisation, per capita beef consumption is forecast to increase some 24% from around 6.5kg in 2017e to 8.1kg in 2027f *(Source: GIRA)*.
- Chinese consumers consider beef a premium protein with high nutritional value and great taste, but its perceived weakness is that it is considered less easy to prepare, less fresh and less tender compared to other proteins.

Attributes important for all proteins and beef associations

What attributes are important for Chinese consumers (all proteins)?	What associations do consumers have to beef?
My/my family's favourite meat	High nutritional value
Easy and convenient to prepare	Essential part of children's diet
Essential part of children's diet	My/my family's favourite meat
Cheaper	Easy and convenient to purchase
Can be used in many different meals	Tastes delicious and Willing to pay more for it

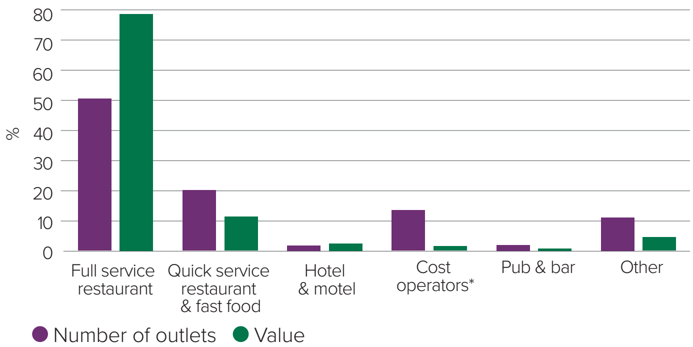
Source: MLA Global Consumer Tracker China, 2017

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

Foodservice

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

Outlet number and value by key foodservice channel (% out of total) – 2017



Source: GlobalData. 2017 estimate.
* Cost operators: includes educational, military and medical institutions, state-owned enterprises etc.

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

Source: iStock

Retail

- China is home to the world's largest grocery market by total sales (valued at US$1,275 billion in 2018f), but it is also one of the world's most regionalised and fragmented (Source: IGD).

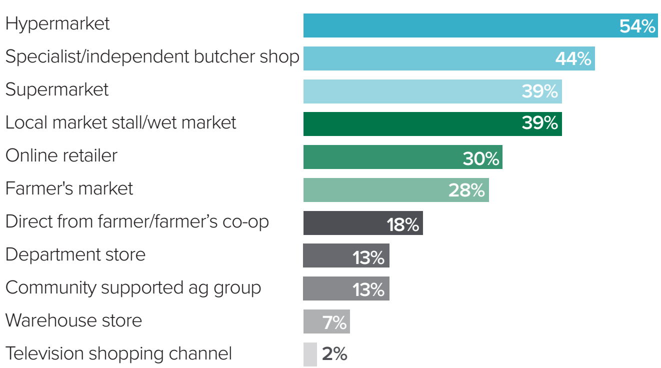
Top five grocery retailers by market share rank by China region

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

Source: Kantar Worldpanel, September 2017

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

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



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

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

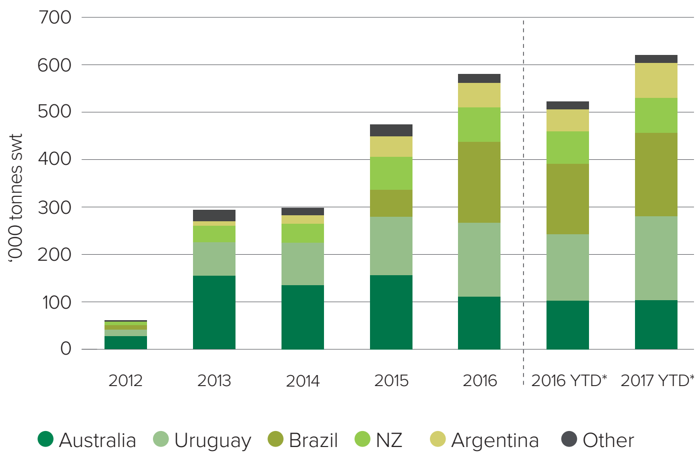
Market access

- China has signed a number of bilateral free trade agreements with other significant meat producers including New Zealand, South Korea, Costa Rica, Chile and Peru.
- In 2017, South Africa and France were granted market access to China for some beef products and the US re-gained limited market access after being banned since 2003, when a case of bovine spongiform encephalopathy (BSE) was detected in the US.
- In March 2017, Australia and China signed a Joint Statement on Enhancing Inspection and Quarantine Cooperation, aimed at providing Australian exporters improved market access for chilled beef and beef offal. Pending the outcome of an audit process, an increase in the number of listed establishments will likely occur in the future.

Other suppliers

- The China beef market is very competitive and will become more so as more countries are granted market access.
- China has a large beef cattle herd, estimated at 53 million head in 2017 *(Source: GIRA)*, and although domestic beef production is expected to see continued growth in the coming years, there will remain a significant domestic supply gap that will need to be met by imports.
- In 2016, direct beef imports comprised around 9.5% of the beef consumed in China *(Source: BMI Research, GTA).*
- Australia's key competitors for frozen beef are Brazil and Uruguay, as well as New Zealand and Argentina.
- Australia was the sole approved supplier of chilled beef to China up until 2017, when China granted access to the US, approving 37 establishments, and New Zealand on a preliminary six-month trial basis involving 10 establishments.

China direct beef imports by country of origin



Source: GTA, China Customs.
*YTD Jan-Nov

Live exports

- Despite high prices and the complexity of the live feeder/slaughter cattle protocol signed between Australia and China in 2015, some 1,200 Australian live cattle were exported for processing, as well as 11,883 beef breeders and 58,888 dairy breeders exported to China in 2016–17 *(Source: DAWR, ABS).*
- China also has a live feeder/slaughter cattle protocol agreement with Uruguay and imports mostly dairy breeder cattle, particularly from New Zealand, which supplied China with 458,179 head in 2016–17. Smaller numbers were supplied by Chile, Uruguay and Mexico *(Source: GTA).*

Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
China-Australia Free Trade Agreement **(ChAFTA)**	**2018** Chilled and frozen beef 7.2% Chilled carcases 12% Frozen carcases 15% **2024** Zero	**Brazil, Uruguay, Argentina, Canada and US** 12% tariff on meat 20/25% on chilled/frozen carcases **NZ** Zero from 2016	**Safeguard** Additional customs duty will apply if Australian imports exceed 170,000 tonnes swt in 2018	Restrictions on the number of approved plants, chilled plants and restrictions on edible offal

Best access — Major challenges

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

Australian beef exports to China – summary table

Volume – in tonnes swt

		2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	change 2017 vs 5-yr av. %	change 2017 vs 5-yr av. in tonnes swt
	Total	**110,059**	**100**	**94,040**	**100**	**110,917**	**100**	**-1**	**-858**
Storage	Chilled	6,045	5	6,526	7	6,253	6	-3	-208
	Frozen	104,014	95	87,514	93	104,664	94	-1	-650
Meat type	Grassfed	83,544	76	70,483	75	94,330	85	-11	-10,785
	Grainfed	26,515	24	23,557	25	16,588	15	60	9,927
Storage/meat type	Chilled grassfed	3,560	3	4,656	5	5,084	5	-30	-1,525
	Chilled grainfed	2,486	2	1,870	2	1,169	1	113	1,316
	Frozen grassfed	79,985	73	65,827	70	89,246	80	-10	-9,261
	Frozen grainfed	24,029	22	21,687	23	15,418	14	56	8,611

Source: DAWR

Value – in A$ 000

		2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in A$ 000
	Total	**781,921***	**100**	**670,415**	**100**	**640,560**	**100**	**22**	**141,361**
Storage	Chilled	79,327*	10	80,526	12	56,830	9	40	22,498
	Frozen	702,593 *	90	589,889	88	583,730	91	20	118,863

Source: ABS/GTA. 2017 = Moving Annual Total (MAT), November 2016 to October 2017.*

Volume – by major cut (in tonnes swt)

	2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in tonnes swt
Brisket	24,248	22	21,689	23	23,572	21	3	676
Manufacturing	17,446	16	13,071	14	9,110	8	92	8,336
Shin/shank	11,688	11	13,565	14	15,929	14	-27	-4,240
Silverside/outside	11,026	10	6,813	7	10,347	9	7	679
Blade	8,355	8	6,124	7	7,642	7	9	713
Other	37,296	34	32,779	35	44,318	40	-16	-7,022
Total	**110,059**	**100**	**94,040**	**100**	**110,917**	**100**	**-1**	**-858**

Source: DAWR

Australian BEEF OFFAL exports to China – by major cut (in tonnes swt)

	2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in tonnes swt
Heart	687	34	1,643	37	1,526	33	-55	-839
Tendon	574	29	1,618	37	1,688	25	-66	-1,114
Other	743	7	1,146	26	886	41	-16	-143
Total	**2,004**	**100**	**4,407**	**100**	**4,100**	**100**	**-51**	**-2,096**

Source: DAWR

Value – in A$ 000

	2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in A$ 000
Total	**26,019***		**27,176**		**23,264**		**12**	**2,755**

Source: ABS/GTA. 2017 = Moving Annual Total (MAT), November 2016 to October 2017.*