

# GLOBAL

---

# MARKET SNAPSHOT



## Sheepmeat

---



## January 2018

# GLOBAL

---

# MARKET SNAPSHOT

# Sheepmeat

## Contents

Australia	1
United States	5
Japan	9
Korea	13
China	17
South East Asia	21
European Union	25
MENA	30

---

© Meat & Livestock Australia, 2018. ABN 39 081 678 364. MLA makes no representations as to the accuracy of any information or advice contained in MLA's Market snapshot and excludes all liability, whether in contract, tort (including negligence or breach of statutory duty) or otherwise as a result of reliance by any person on such information or advice. All use of MLA publications, reports and information is subject to MLA's Market Report and Information Terms of Use. Please read our terms of use carefully and ensure you are familiar with its content.





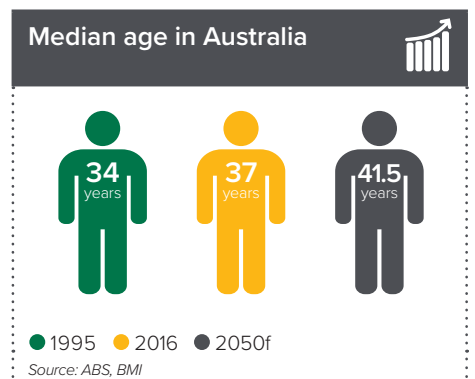
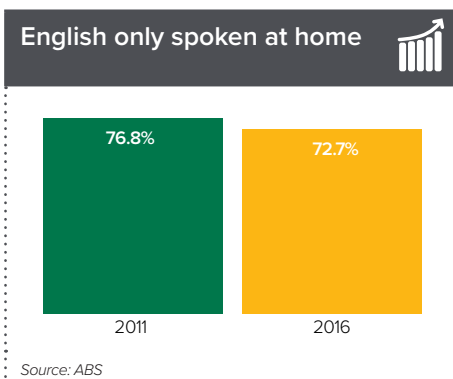
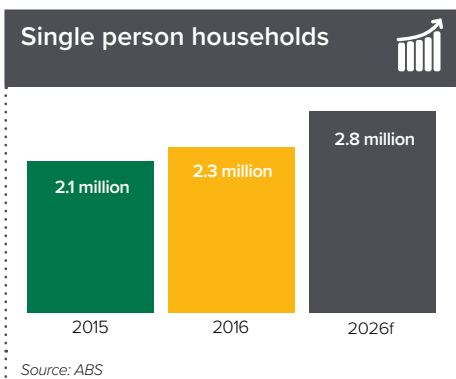
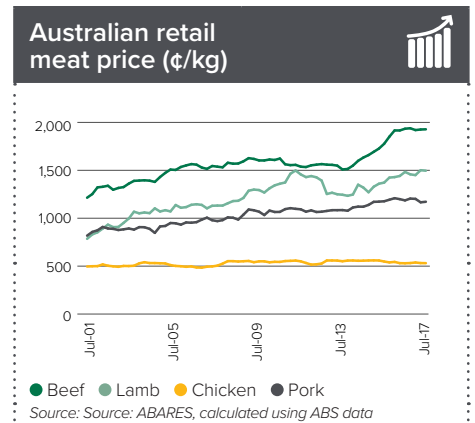
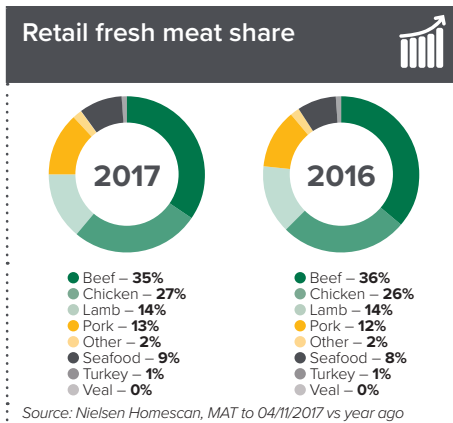
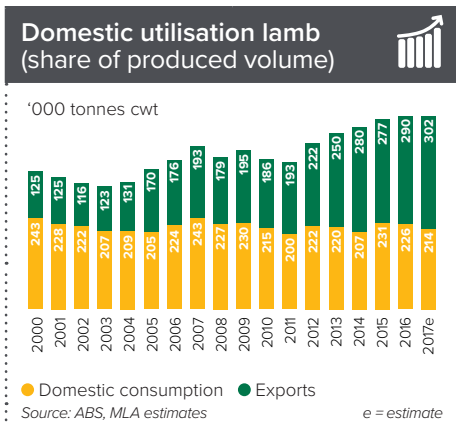
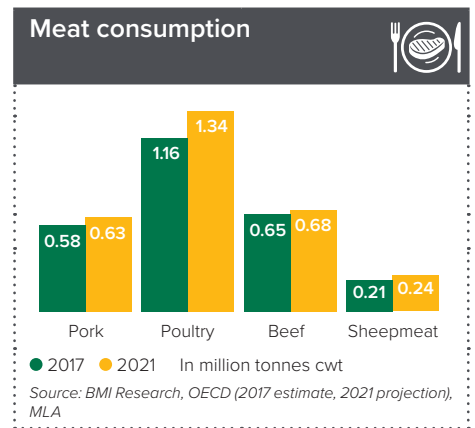
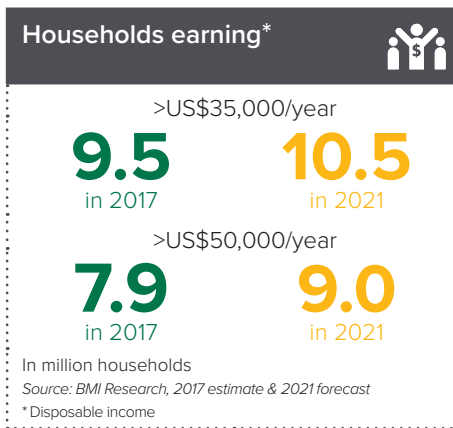
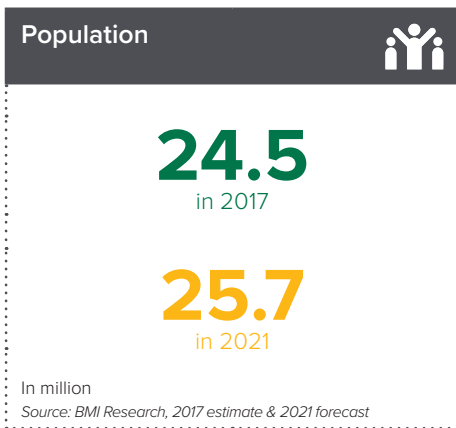
MARKET SNAPSHOT | SHEEPMEAT

# Australia

In recent years Australia's economy has remained strong; however Australian consumers' confidence is being weighed down by high household debt and low wage growth. Disposable income has failed to grow with inflation and broadly rising living costs (electricity, childcare, rent), which is impacting consumer purchasing behaviour around categories like fresh meat causing them to become 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).

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.
- 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.
- Australia's changing demography provides some macro challenges for sheepmeat with two broad trends of increased migrations 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 challenge if lamb's price premium to chicken/pork grows larger as the primary reason for consumers eating less red meat is currently due to cost and not health.



© Meat & Livestock Australia, 2018. ABN 39 081 678 364. MLA makes no representations as to the accuracy of any information or advice contained in MLA's Market snapshot and excludes all liability, whether in contract, tort (including negligence or breach of statutory duty) or otherwise as a result of reliance by any person on such information or advice. All use of MLA publications, reports and information is subject to MLA's Market Report and Information Terms of Use. Please read our terms of use carefully and ensure you are familiar with its content.



# 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, 2017).

## 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, 2017).
- When consumers are shopping for lamb, the key information they look for on pack relates to price and then freshness (meat colour and use-by date) (Source: MLA Global Consumer Tracker Australia, 2017).
- Research by Roy Morgan into Australian Food Attitudes from 2006 to 2016 highlights some key trends that lamb messaging can leverage with now almost three quarters of the population (72%) saying they enjoy food from all over the world (up from 65% in 2006). Food without additives in it has also become increasingly popular along with a preference for taste over ingredients. Interestingly some of the health-orientated dietary concerns such as a low fat diet has dropped (Source: Roy Morgan).

## 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 come out and 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 lamb?

Colour of meat

Price per kg

Date packed

Freshness

Use by date

## What are attributes that are important for Australian consumers? (all protein)

Is my/my family's favourite meat

Is easy and convenient to prepare

Is the most superior meat

Tastes delicious

Consistent quality standards

## What key strengths does lamb have?

Tastes delicious

I am willing to pay a bit more for this meat

Guaranteed safe to eat

Is the most superior meat

Is my/my family's favourite meat

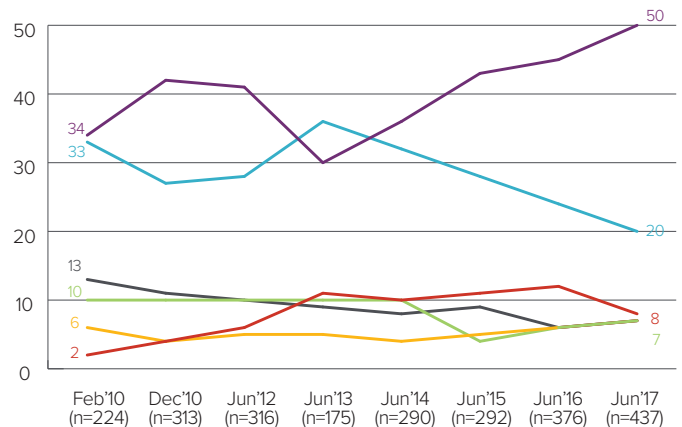
Source: MLA Global Consumer Tracker Australia, 2016

## Australia's increasingly diverse population

High levels of immigration are driving Australia's population growth and also leading to a more increasingly diverse population. In 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

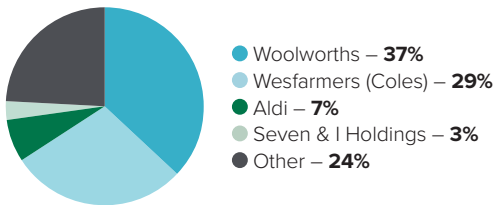


# Retail



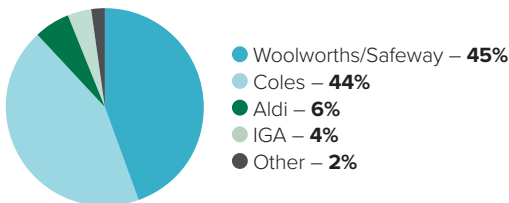
- Lamb has the third highest share of retail sales of any meat in 2016-17, with around 13% share of fresh meat sales (by value) *(Source: Nielsen Homescan)*.
- It is a critical category for retailers with the average grocery basket value typically worth \$45, it jumps to around \$80 when the basket includes fresh meat/seafood *(Source: Nielsen)*.

## Grocery retail market shares – 2017



Source: IGD

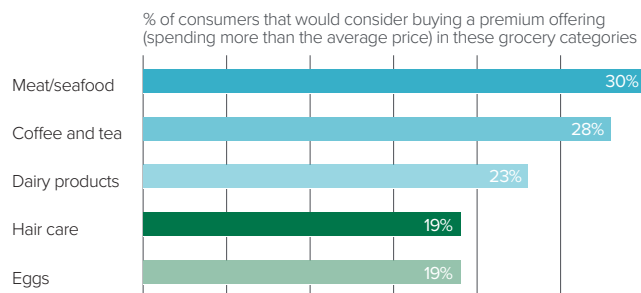
## Main supermarket of purchase – lamb



Source: MLA Global Consumer Tracker Australia, 2017

- There is an increasing focus on convenience options with supermarkets expanding their ready-to-eat meal range and convenience stores trialling new formats (i.e. Caltex's 'The Foodary') and new promotions (i.e. 7-Eleven's Friday \$2 Pie Day). 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, Marley Spoon and Aussie Farmers Direct). These generally include portioned ingredients and simple recipes that allow consumers to quickly create their meal. They now capture 0.8% of the online grocery market *(Source: Nielsen Homescan Grocery E-Commerce Survey)*.

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

Place of purchase	Average customer spend	Value market share (\$)
Butcher	\$37	23.5%
Market/Delicatessen/Other	\$34	9.4%
Woolworths/Safeway	\$27	26.4%
Coles	\$25	23.2%
Aldi	\$22	7.6%
IGA	\$22	5.4%

Source: Roy Morgan Jan-Dec 2015, quoted in press release Feb 2016

- The Australian grocery market is highly concentrated by global standards, with the two big retailers making up over 60% 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 in 2017 with the ongoing growth of Aldi and Costco placing pressure on all retailers with price emerging as a core strategy across the board.
- Woolworths:** Food sales experienced a strong turn-around this year with revenue growing +4.5% in 2017 *(Source: Woolworths)*. Key developments behind this improved performance has been a focus on store refurbishment and trialling new formats. Woolworths has also continued to invest in price with annual deflation at 2.1% *(Source IGD)*.
- Coles:** Food and liquor sales were up +2.0% year-on-year in FY2017 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 sales continued to capture low growth in 2017 up +1.3% on last year. Broadly Metcash have 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 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 Woolworth & 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 flagging a new digital portal in 2018 called IndieDirect.

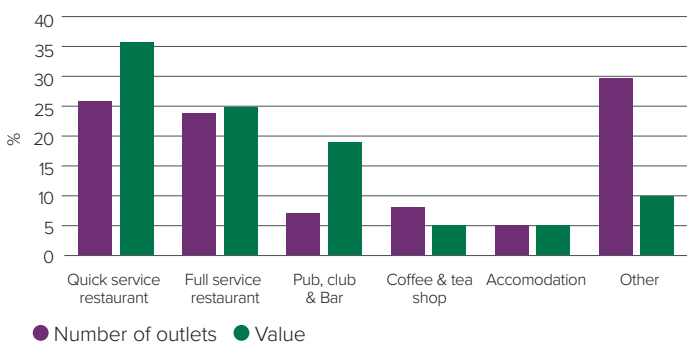


# Foodservice



- 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 quick service restaurants (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).

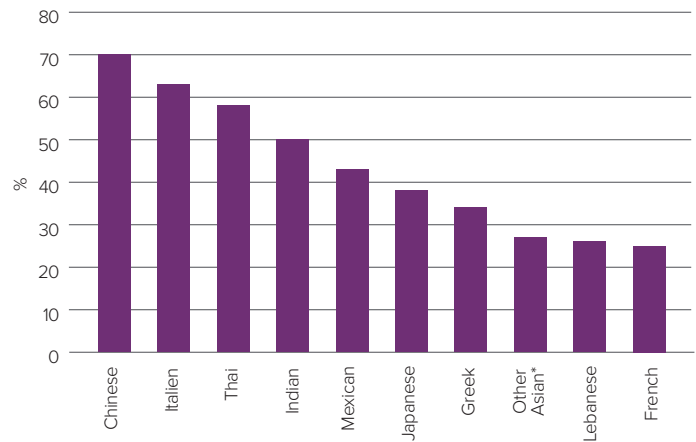
## Modern Australian dinner parties

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).

## Favourite international cuisine types

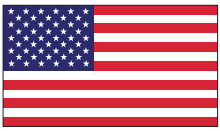


Source: Roy Morgan Single Source (Australia), Jan-Dec 2015 (n=15,367)  
\* Other Asian includes Vietnamese, Indonesian, Malaysian, Korean, etc

- 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). A Sensis eBusiness survey of 800 Australian consumers has found that nearly-half (47%) of shoppers are now buying takeaway online, up from 36% 12 months ago. 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

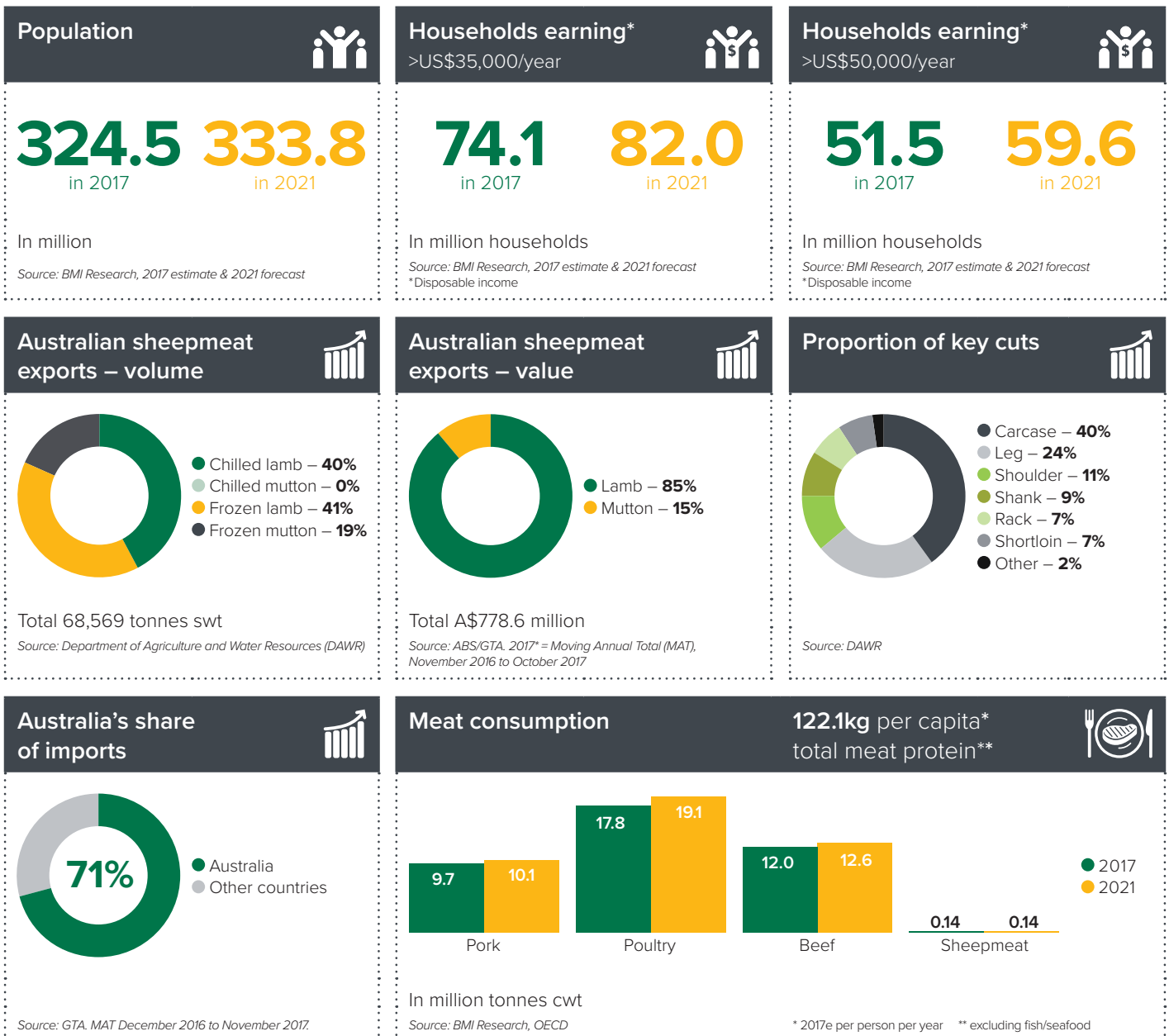
# United States (US)

The US remains one of the main destinations for Australian lamb in volume and value terms, with sheepmeat exports to the US increasing 6% in 2017, and growing opportunities expected for 2018. However, lamb continues to be an unfamiliar protein for the majority of US consumers, resulting in low per capita consumption levels (on average 0.4kg/year/person).

Challenges and opportunities in the US for Australian sheepmeat include:

- US consumers are increasing their willingness to try lamb, meaning there are opportunities for growth of Australian lamb.
- The foodservice channel represents a key area to expand lamb consumption, particularly within the quick service restaurant and casual dining sectors, which are largely frequented by millennials\*.
- 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 continue declining.
- However, differentiating Australian from New Zealand lamb remains a challenge, as many US consumers are still not able to accurately distinguish between the origins.

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



© Meat & Livestock Australia, 2018. ABN 39 081 678 364. MLA makes no representations as to the accuracy of any information or advice contained in MLA's Market snapshot and excludes all liability, whether in contract, tort (including negligence or breach of statutory duty) or otherwise as a result of reliance by any person on such information or advice. All use of MLA publications, reports and information is subject to MLA's Market Report and Information Terms of Use. Please read our terms of use carefully and ensure you are familiar with its content.



# Consumers



- Lamb remains a niche and unfamiliar protein to almost 40% of US consumers, driven by the lack of familiarity, taste concerns 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 items. Lamb chops and roasts are the most frequently purchased cuts (Source: Nielsen behaviour analysis).

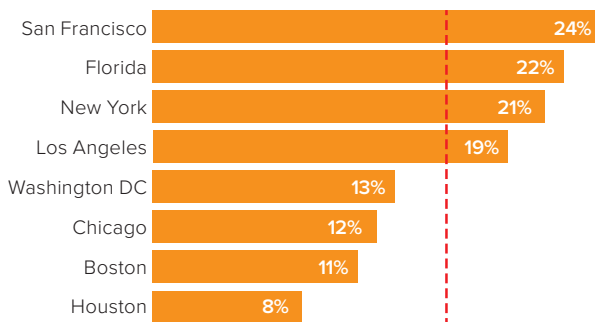
## What attributes are important for US consumers? (all proteins) Main reasons haven't bought lamb

Family's favourite	Don't like the taste
Most superior	Not familiar
Guaranteed safe to eat	Don't know how to cook it
Part of healthy diet for kids	
Consistent quality standards	

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



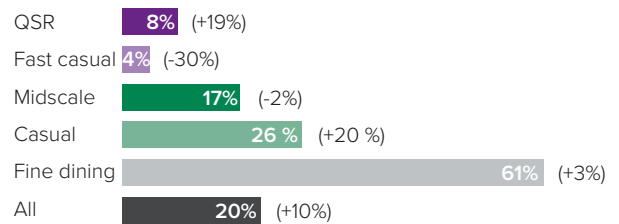
Source: MLA

# 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 restaurant/family/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 operators (QSR) operators are increasingly menuing lamb



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

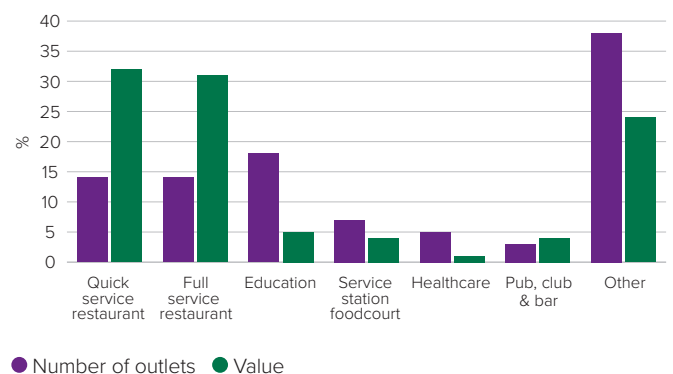
Source: Dataessential, beef and lamb menu analysis, 2017

- Another interesting growth area is the non-commercial long-term 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, 2016).
- The penetration of lamb on US restaurant menus has grown steadily over the years and overall there has been a 10% increase in the past four years. Lamb was featured on 42% more menus in 2015 than it was in 2005.

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



Source: GlobalData, 2017 estimate

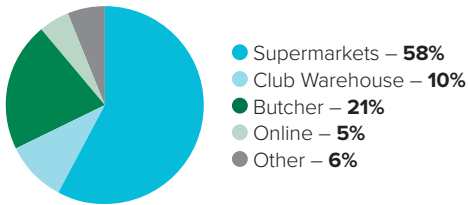


## Retail



- 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.

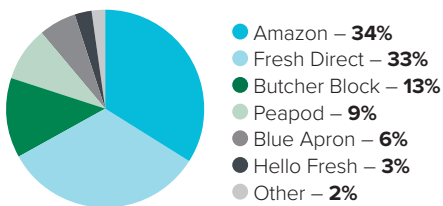
### Where do shoppers buy Australian lamb?



Source: MLA Global Consumer Tracker US, 2017

- 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 (only 5% of Australian lamb is purchased online), it is clearly a growth area, with Fresh Direct and Amazon being the leading destinations for online lamb purchasing.

### Most common online retailer for purchasing lamb



Source: MLA Global Consumer Tracker US, 2017

- One in four Americans bought a meal kit in 2016, with the industry growing 6.7%/year. This avenue offers an easier entry point for consumers wanting to trial unfamiliar products such as lamb. Millennials are 321% more likely to buy meal kits compared to other generations.

### What things do consumers look for on lamb retail packs?

- 100% all natural
- Meat colour
- Date packed
- Safety certification
- No added hormones
- Grassfed
- Use-by/sell-by date

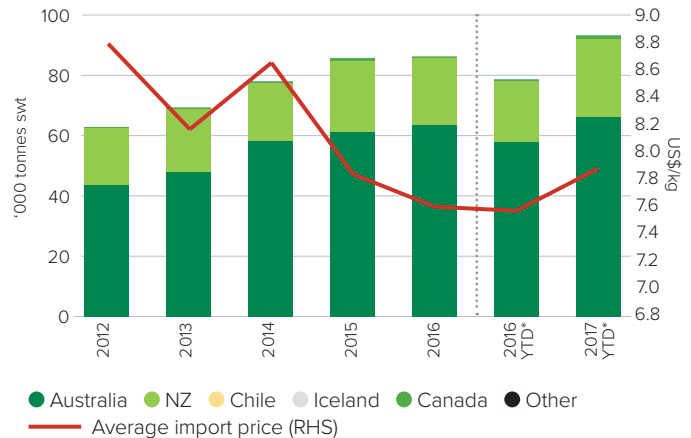
Source: MLA Global Consumer Tracker US, 2017

## Other suppliers



- Imports make a significant contribution to the lamb and mutton supply in the US. In 2017 imports accounted for approximately 70% of total sheepmeat consumed in the US. (calculated based on OECD-FAO consumption and total sheepmeat imports sourced from GTA).

### Sheepmeat imports by major supplier

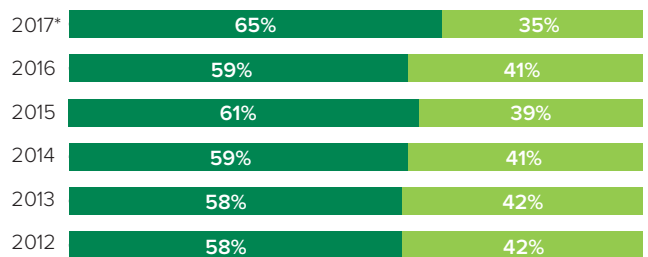


Source: GTA

\* CYTD: calendar year to Jan-Nov

- Australia is the major supplier of lamb in the US, followed by New Zealand. New Zealand sheepmeat imports to the US increased 29% in 2017, rising its market share and accounting for 28% of total imports.

### % of chilled and frozen sheepmeat imports to the US



● Frozen ● Chilled

Source: GTA \* CYTD Jan-Nov 2017



Source: MLA





## Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Australia-United States Free Trade Agreement (AUSFTA)	Australia to US – 0%	New Zealand 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		2016		5-year average (2012-2016)		change 2017 vs 5-yr av.	
			% out of total		% out of total		% out of total	%	in tonnes swt
<b>Total</b>		<b>68,569</b>	<b>100</b>	<b>64,562</b>	<b>100</b>	<b>55,799</b>	<b>100</b>	<b>23</b>	<b>12,770</b>
Storage	Chilled	27,224	40	28,376	44	24,353	44	12	2,871
	Frozen	41,346	60	36,185	56	31,447	56	31	9,899
Meat type	Lamb	55,158	80	54,545	84	45,304	81	22	9,854
	Mutton	13,411	20	10,016	16	10,495	19	28	2,915
Storage/meat type	Chilled lamb	27,223	40	28,365	44	24,304	44	12	2,919
	Chilled mutton	0	0	11	0	49	0	-100	-49
	Frozen lamb	27,935	41	26,180	41	21,000	38	33	6,935
	Frozen mutton	13,411	20	10,005	15	10,447	19	28	2,964

Source: DAWR

### Value – in A\$ 000

		2017		2016		5-year average (2012-2016)		change 2017 vs 5-yr av.	
			%		%		%	%	in A\$ 000
<b>Total</b>		<b>778,644*</b>	<b>100</b>	<b>678,717</b>	<b>100</b>	<b>521,492</b>	<b>100</b>	<b>49</b>	<b>257,152</b>
Meat type	Lamb	663,446*	85	609,670	90	461,810	89	44	201,636
	Mutton	115,198*	15	69,047	10	59,681	11	93	55,516

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

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

	2017	%	2016	%	5-year average (2012-2016)	%	change 2017 vs 5-yr av.
Carcase	17,840	32	19,303	35	12,116	27	47
Leg	14,546	26	14,906	27	13,565	30	7
Shoulder	6,211	11	4,767	9	5,186	11	20
Shank	5,465	10	5,348	10	4,335	10	26
Rack	4,844	9	4,017	7	4,450	10	9
Other	6,252	11	6,204	11	5,651	12	11
<b>Total</b>	<b>55,158</b>	<b>100</b>	<b>54,545</b>	<b>100</b>	<b>45,304</b>	<b>100</b>	<b>22</b>

Source: DAWR

## Australian sheepmeat exports to Canada

### Volume – in tonnes swt

		2017		2016		5-year average (2012-2016)		change 2017 vs 5-yr av.	
			%		%		%	%	in tonnes swt
<b>Total</b>		<b>8,976</b>	<b>100</b>	<b>7,910</b>	<b>100</b>	<b>6,838</b>	<b>100</b>	<b>31</b>	<b>2,102</b>
Storage/meat type	Chilled lamb	3,830	43	3,737	47	3,563	52	7	926
	Chilled mutton	0	0	0	0	0	0	0	149
	Frozen lamb	4,404	49	3,387	43	2,569	38	71	356
	Frozen mutton	742	8	787	10	705	10	5	672

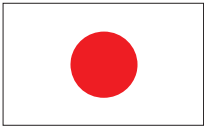
Source: DAWR

## Australian sheepmeat exports to Mexico

### Volume – in tonnes swt

		2017		2016		5-year average (2012-2016)		change 2017 vs 5-yr av.	
			%		%		%	%	in tonnes swt
<b>Total</b>		<b>2,897</b>	<b>100</b>	<b>4,078</b>	<b>100</b>	<b>3,731</b>	<b>100</b>	<b>-22</b>	<b>-834</b>
Storage/meat type	Chilled lamb	0	0	0	0	0	0	0	0
	Chilled mutton	0	0	0	0	0	0	0	0
	Frozen lamb	781	27	1,088	27	999	27	-22	-218
	Frozen mutton	2,116	73	2,990	73	2,731	73	23	-615

Source: DAWR



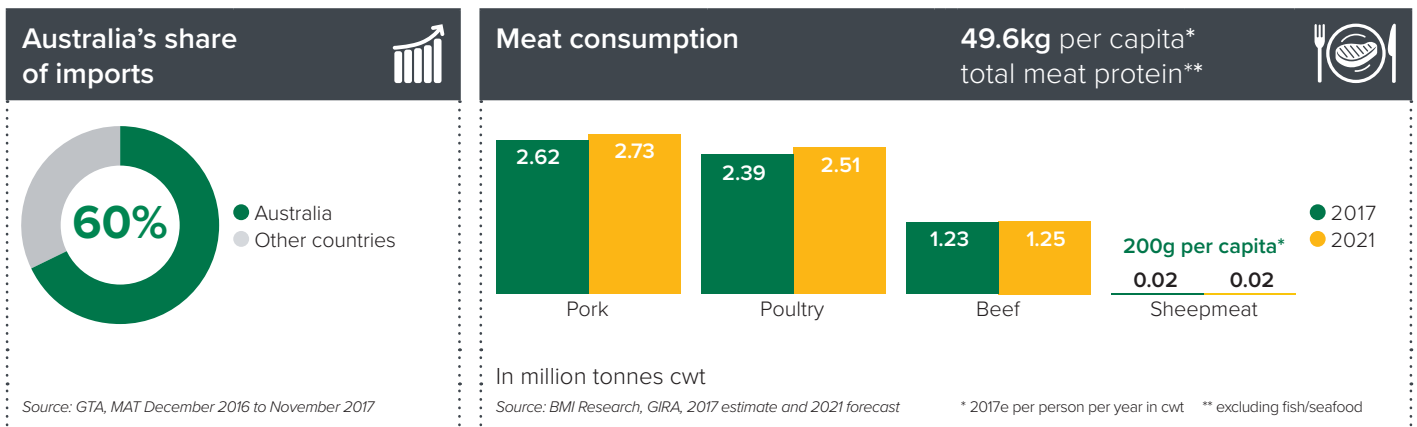
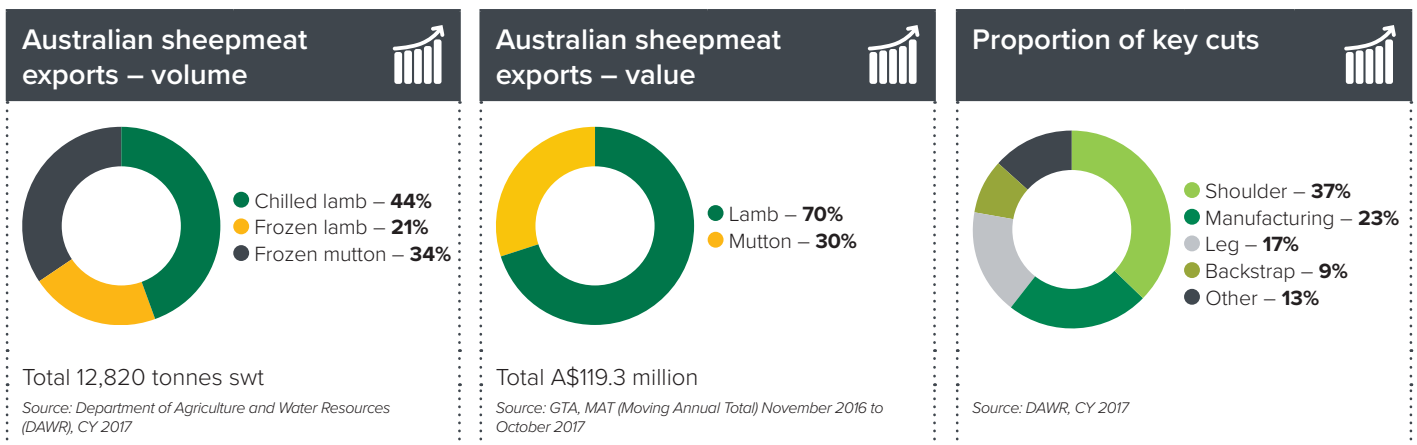
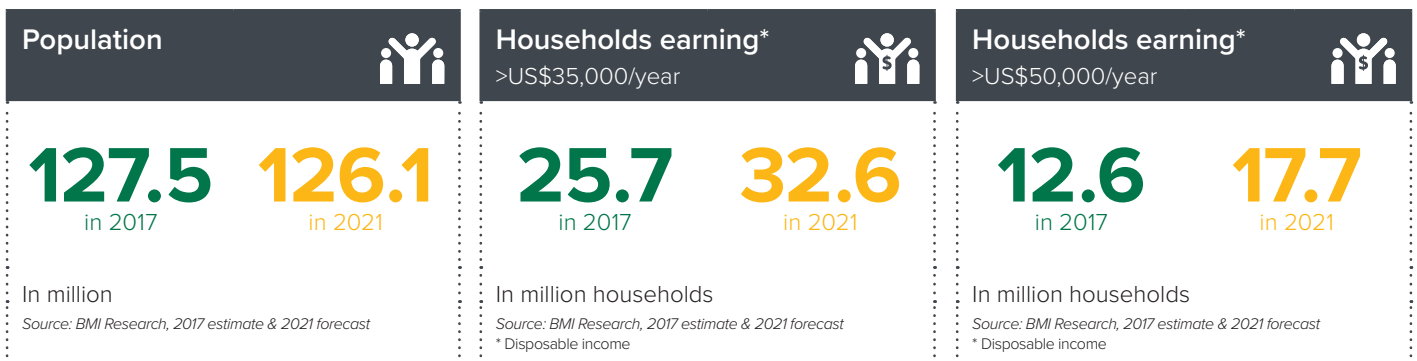
MARKET SNAPSHOT | SHEEPMEAT

# 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:

- Japanese consumers have an increasing awareness of lamb and generally have positive perceptions, 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.
- The key focus area to further stimulate demand for Australian lamb remains the foodservice sector. There is a growing number of urban restaurants incorporating lamb on their menu as a point of difference, along with the ongoing popularity of Genghis Khan. These restaurants 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, with Australia well placed as the largest supplier to capture any growth in the sheepmeat market. That said, competition from New Zealand remains strong, particularly in the retail channel.
- There are currently no sheepmeat import tariffs or volume/technical access issues into Japan.



© Meat & Livestock Australia, 2018. ABN 39 081 678 364. MLA makes no representations as to the accuracy of any information or advice contained in MLA's Market snapshot and excludes all liability, whether in contract, tort (including negligence or breach of statutory duty) or otherwise as a result of reliance by any person on such information or advice. All use of MLA publications, reports and information is subject to MLA's Market Report and Information Terms of Use. Please read our terms of use carefully and ensure you are familiar with its content.



# 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 their diet.
- However, consumers also think lamb is hard to buy and not as versatile compared to other proteins (Source: MLA Global Consumer Tracker Japan, 2017). 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 numbers of single/two person households.

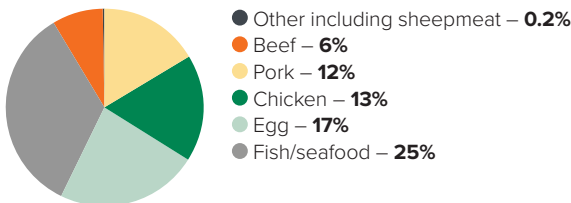
## Attributes important for all proteins and lamb associations

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
Can be used in different meals	High nutritional value
Easy to purchase	Meat is tender
Animal is well-cared for	I pay more for this meat

Source: MLA Global Consumer Tracker Japan, 2017

- 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 is captured by chicken and pork.

## Protein consumption per capita



Source: Ministry of Agriculture, Forestry and Fisheries of Japan (MAFF), JFY16-17

- 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 a sophisticated supply chain infrastructure, provides businesses with easy access to large groups of potential customers.

## Demographic comparison – Japan, China and the US – 2021

	Japan	China	US
Households with disposable income US\$50,000+ (in million)	17.7	7.8	59.6
Urban population, % population	96	62	83
Number of the US\$50,000+ households per square km	42	0.4	5.6

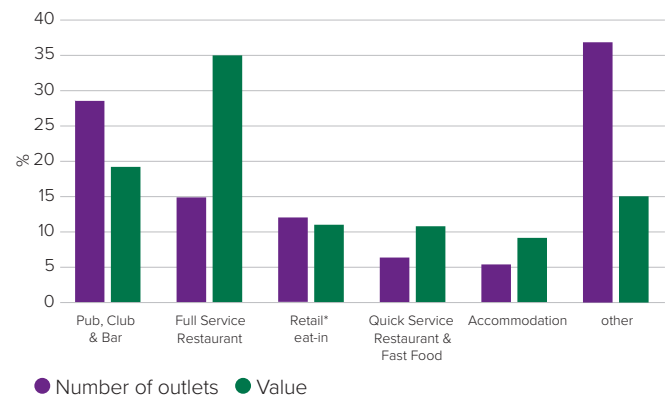
Source: BMI, the World Bank, MLA, 2021 forecast

# 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 emergence of these restaurants. Among them, there is a growing number of French, Italian and Greek restaurants serving Australian lamb and reaching out to new consumers.
- Genghis Khan restaurants are particularly popular in Hokkaido (the north island of Japan) among locals and visiting tourists. While local consumption remains flat due to a sluggish economy, a growing number of tourists to the region (especially from China and other Asian countries) support ongoing demand for Australian lamb. Many of these Asian visitors are conscious of country of origin, and the restaurants often clearly state where lamb is sourced from.
- The Japanese foodservice sector is estimated at 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 comparatively higher cost compared with other proteins.

## Number of outlets and value by key foodservice channel (% out of total) – 2017



Source: GlobalData

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

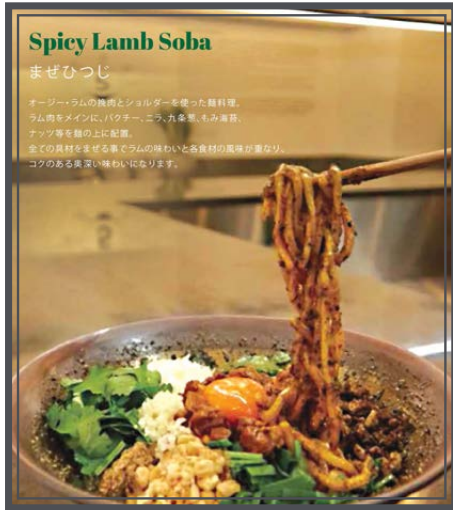


\*1 This space is called *nakashoku* and consists of delicatessen and take away food sold at supermarkets and convenience stores).

# Retail



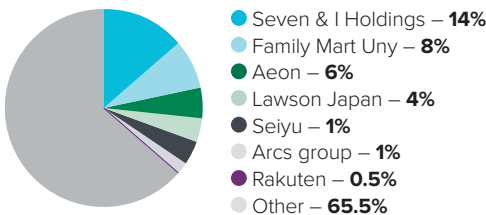
- Lack of familiarity and knowledge of how to cook lamb are major reasons for Japanese shoppers not purchasing lamb in the retail channel (Source: MLA Global Consumer Tracker Japan, 2016). Subsequently, Japanese-style lamb recipes and marinated products using Japanese flavours are perceived more 'accessible' 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 New Zealand 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 – 2017



Source: IGD, as of November 2017



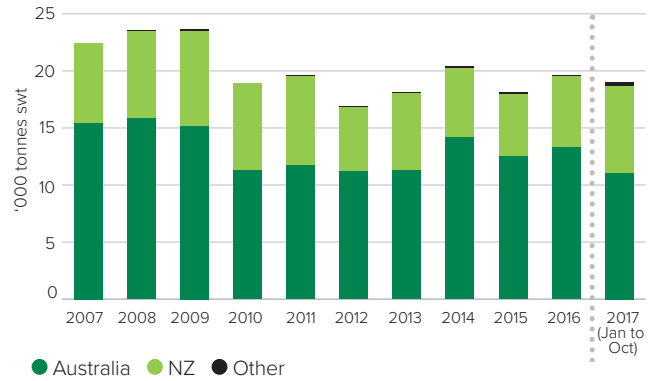
Small but creative butchers are offering a range of products.

# 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 a dominant imported sheepmeat supplier to Japan with 60% share of imports, but is facing strong competition from New Zealand who has the same access conditions.

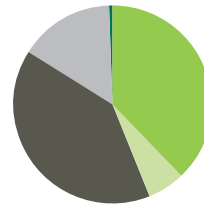
## Japan sheepmeat imports by supplier



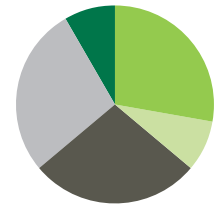
Source: GTA

## Sheepmeat imports into Japan by category

**Australia**  
Total 13,002 tonnes swt  
Average value A\$10/kg



**New Zealand**  
Total 8,375 tonnes swt  
Average value A\$9.3/kg

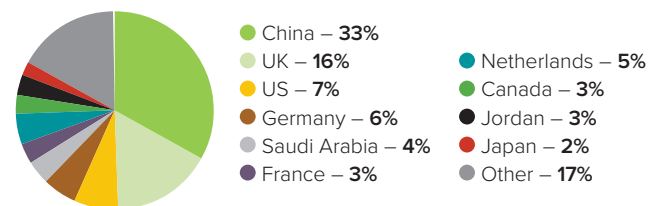


Source: GTA, MAT November 2016 to October 2017

## In focus - New Zealand

New Zealand and Australia are two major exporters of sheepmeat in the global market. New Zealand 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.

## New Zealand lamb exports – MAT 2017



Source: Statistics NZ, MAT November 2016 to October 2017

\*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)	<b>New Zealand</b> (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	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	change 2017 vs 5-yr av.	
								%	in tonnes swt
<b>Total</b>		<b>12,820</b>	<b>100</b>	<b>13,222</b>	<b>100</b>	<b>12,502</b>	<b>100</b>	<b>3</b>	<b>318</b>
Storage	Chilled	5,694	44	5,289	40	5,331	43	7	363
	Frozen	7,127	56	7,933	60	7,171	57	-1	-44
Meat type	Lamb	8,345	65	8,640	65	8,426	67	-1	-81
	Mutton	4,475	35	4,582	35	4,076	33	10	399
Storage/meat type	Chilled lamb	5,639	44	5,241	40	5,263	42	7	376
	Chilled mutton	55	0.4	48	0.4	69	1	-20	-14
	Frozen lamb	2,706	21	3,399	26	3,163	25	-14	-457
	Frozen mutton	4,420	34	4,534	34	4,008	32	10	412

Source: DAWR

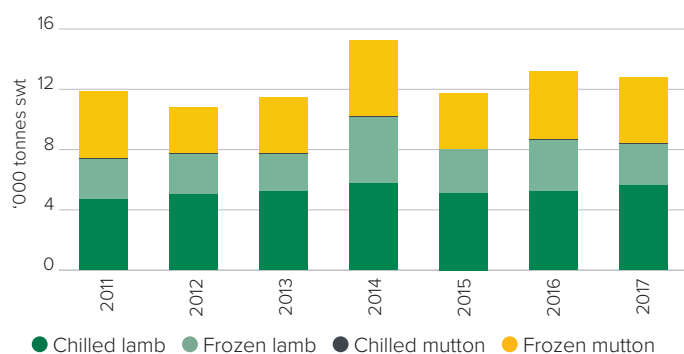
Value – in A\$ 000			%	in A\$ 000
<b>Total</b>		<b>119,304*</b>	<b>100</b>	<b>21,249</b>
Meat type	Lamb	84,086*	70	12,302
	Mutton	35,217*	30	8,946

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

Australian lamb exports to Japan – by major cut (in tonnes swt)			%	in tonnes swt
Shoulder	4,742	57	7	305
Manufacturing	1,622	19	-30	-693
Rack	745	9	35	193
Leg	662	8	-3	-18
Carcase	212	3	24	41
Other	361	4	34	91
<b>Total</b>	<b>8,345</b>	<b>100</b>	<b>-1</b>	<b>-81</b>

Source: DAWR

### Australian sheepmeat exports to Japan



Source: DAWR



Genghis Khan sheepmeat barbecue.



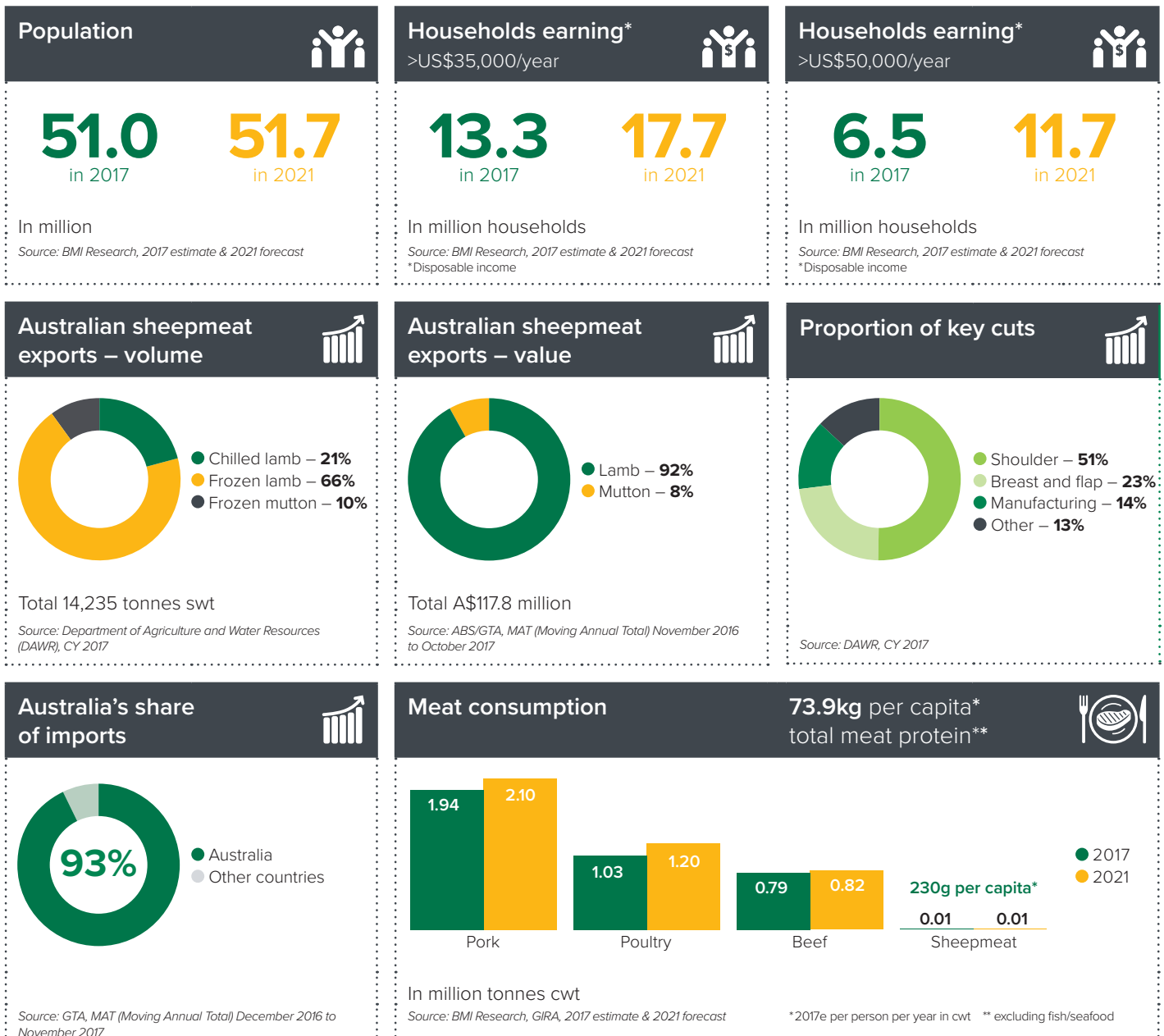
MARKET SNAPSHOT | SHEEPMEAT

# 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 lamb exports to Korea continued to grow in 2017, increasing almost seven times from only 1,869 tonnes swt in 2007, to 12,777 tonnes swt in a decade. This consistent growth in demand indicates there is an emerging appreciation for this protein and a growing consumer base.



© Meat & Livestock Australia, 2018. ABN 39 081 678 364. MLA makes no representations as to the accuracy of any information or advice contained in MLA's Market snapshot and excludes all liability, whether in contract, tort (including negligence or breach of statutory duty) or otherwise as a result of reliance by any person on such information or advice. All use of MLA publications, reports and information is subject to MLA's Market Report and Information Terms of Use. Please read our terms of use carefully and ensure you are familiar with its content.



# 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?**

Easy to prepare	High nutritional value
Consistent quality	Tastes delicious
Guaranteed safety	I pay more for this meat
Environmentally sustainable	Low in fat
Healthy diet for children	Animal is well-cared for

Source: MLA Global Consumer Tracker Korea, 2017

- Since taste is not a barrier to purchasing lamb in Korea, marketing and promotion can focus on lamb's goodness. Considering Koreans are the largest per capita consumers of meat in Asia<sup>5</sup>, inspiring consumers' curiosity to try lamb and improving availability will create growth opportunities.

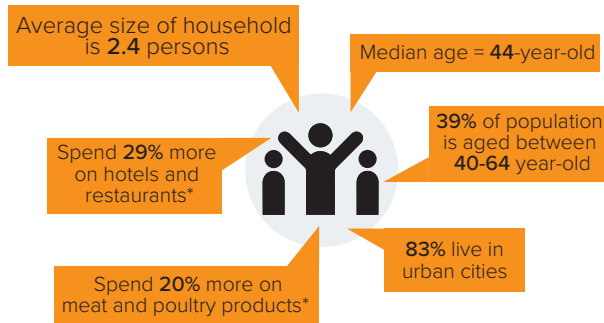
## Top three reasons – "I don't buy lamb because..."

	Global average	Korea
Not familiar with lamb	✓	✓
Don't like the taste	✓	
Don't know how to cook it	✓	✓
Not available where I shop		✓

Source: Global Consumer Tracker Korea, 2017

- 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

<sup>5</sup>Source: BMI, 'Asia' excludes Australia, New Zealand and Hong Kong (where meat imports are un-proportionally large)

# Foodservice



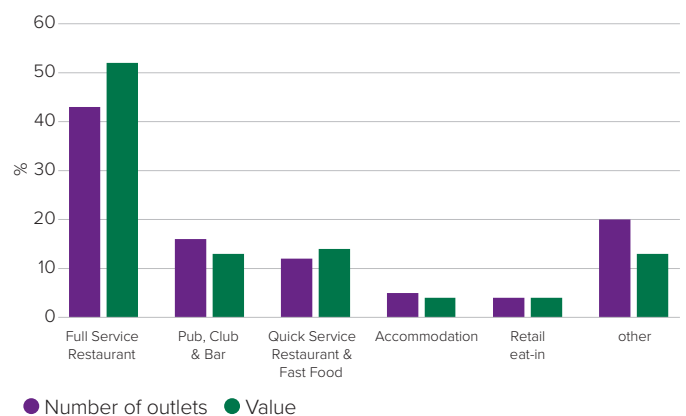
- Australian lamb demand in Korea to date has been largely driven by Chinese-influenced lamb barbecue/skewer restaurants. However, seeing increased interest in sheepmeat, Genghis Khan style (table-top sheepmeat barbecue style cooking originating from Japan) restaurants are also growing in number, while 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 (% out of total) – 2017



Source: GlobalData, 2017





## Retail

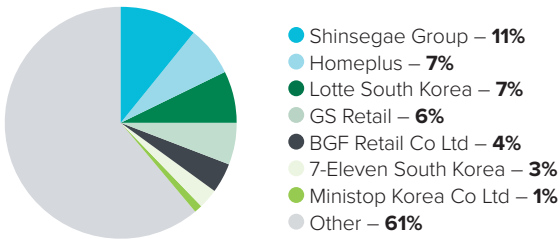


- Lamb is not commonly available across major supermarkets in Korea, with consumers not yet readily thinking of lamb as an everyday protein option. When it is purchased, it is often either an impulse buy or for a specific meal (Source: MLA Global Consumer Tracker Korea, 2017).



- That said, 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. On the other hand, 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 the comparatively expensive lamb.

### Grocery retail market shares – 2017



Source: IGD

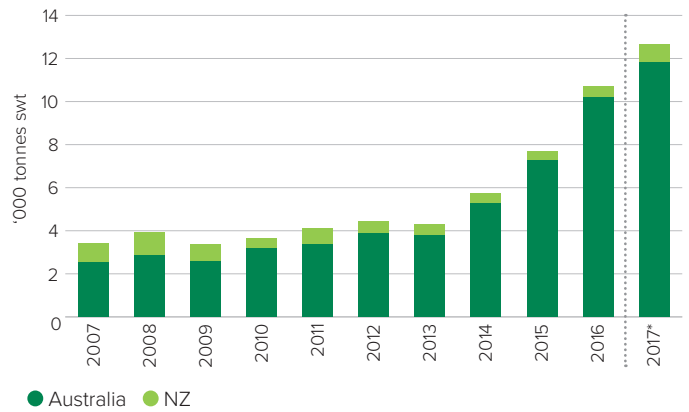


## Other suppliers



- 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 imported sheepmeat market grew five-fold over the last decade, with Australia mostly taking advantage of the growth. Imports from New Zealand also rose over the same period, however its market share remains small. The majority of New Zealand products into Korea are bone-in frozen cuts.

### Korea sheepmeat imports by supplier



Source: GTA. \* Jan to Oct

### 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. Strong competition to these restaurants is *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)	<b>2018 – 11.2%</b> 0% in 2023 Under KAFTA	<b>NZ</b> 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	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	change 2017 vs 5-yr av.	
								%	in tonnes swt
<b>Total</b>		<b>14,235</b>	<b>100</b>	<b>10,597</b>	<b>100</b>	<b>6,523</b>	<b>100</b>	<b>118</b>	<b>7,712</b>
Storage	Chilled	2,996	21	1,770	17	670	10	347	2,326
	Frozen	11,239	79	8,827	83	5,853	90	92	5,386
Meat type	Lamb	12,777	90	8,970	85	5,252	81	143	7,525
	Mutton	1,458	10	1,627	15	1,271	19	15	188
Storage/meat type	Chilled lamb	2,995	21	1,769	17	668	610	348	2,327
	Chilled mutton	1	0	1	0	2	0	-68	-1
	Frozen lamb	9,782	69	7,201	68	4,584	70	113	5,198
	Frozen mutton	1,458	10	1,626	15	1,269	19	15	188

Source: DAWR

### Value – in A\$ 000

Value – in A\$ 000								%	in A\$ 000
<b>Total</b>		<b>117,751 *</b>	<b>100</b>	<b>73,536</b>	<b>100</b>	<b>39,549</b>	<b>100</b>	<b>198</b>	<b>78,202</b>
Meat type	Lamb	107,769 *	92	64,887	88	33,066	84	226	74,703
	Mutton	9,981 *	8	8,649	12	6,482	16	54	3,499

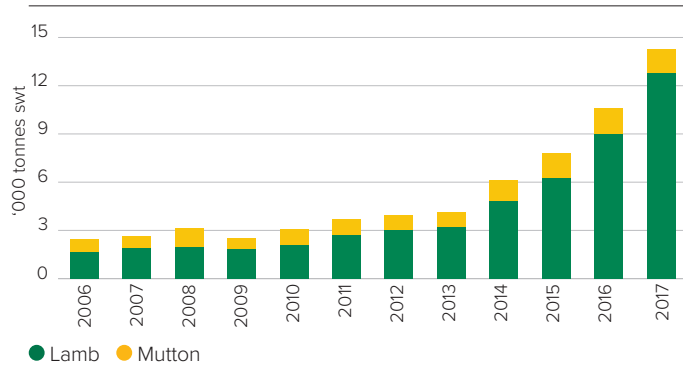
Source: ABS/GTA. 2017\* = Moving Annual Total (MAT), November 2016 to October 2017.

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

								%	in tonnes swt
Shoulder	7,248	57	4,581	51	2,527	48	187	4,721	
Breast and Flap	3,208	25	2,087	23	1,105	21	190	2,103	
Manufacturing	713	6	704	8	305	6	134	408	
Rack	672	5	883	10	682	13	-1	-10	
Intercostals	392	3	286	3	209	4	88	184	
Other	543	3	428	5	425	8	28	118	
<b>Total</b>	<b>12,777</b>	<b>100</b>	<b>8,970</b>	<b>100</b>	<b>5,252</b>	<b>100</b>	<b>143</b>	<b>7,525</b>	

Source: DAWR

### Australian sheepmeat exports to Korea



Source: DAWR





MARKET SNAPSHOT | SHEEPMEAT

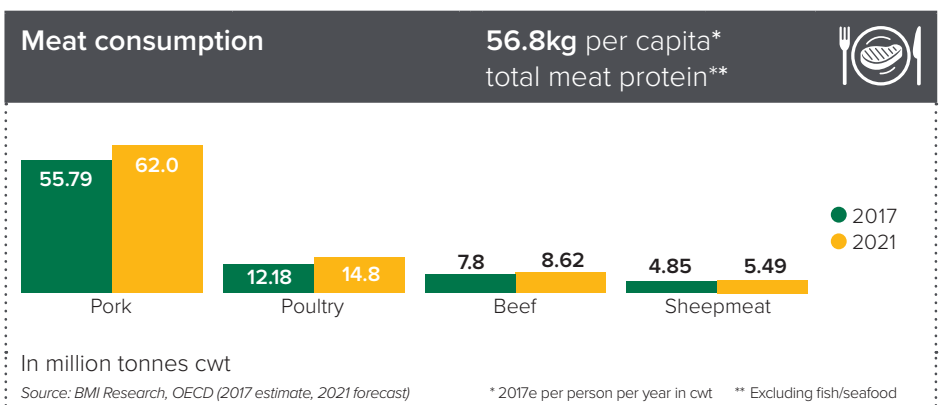
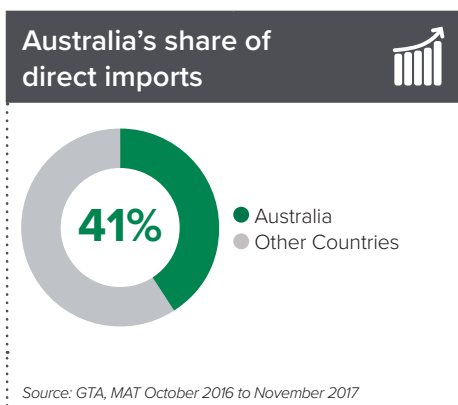
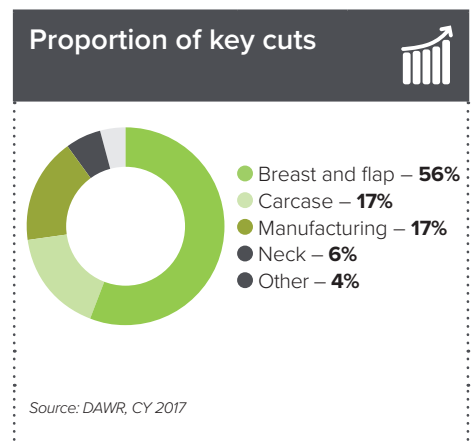
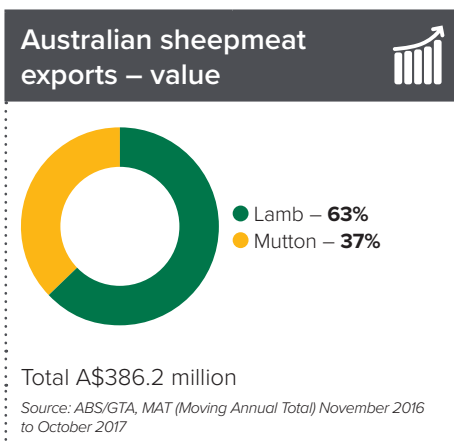
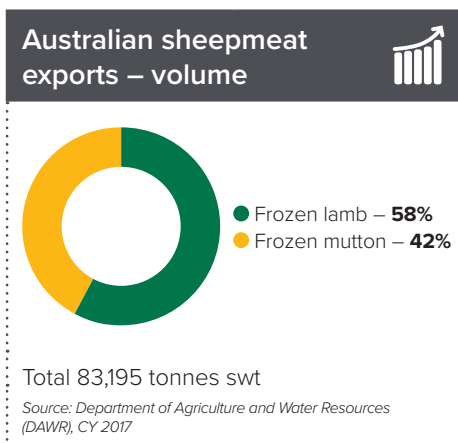
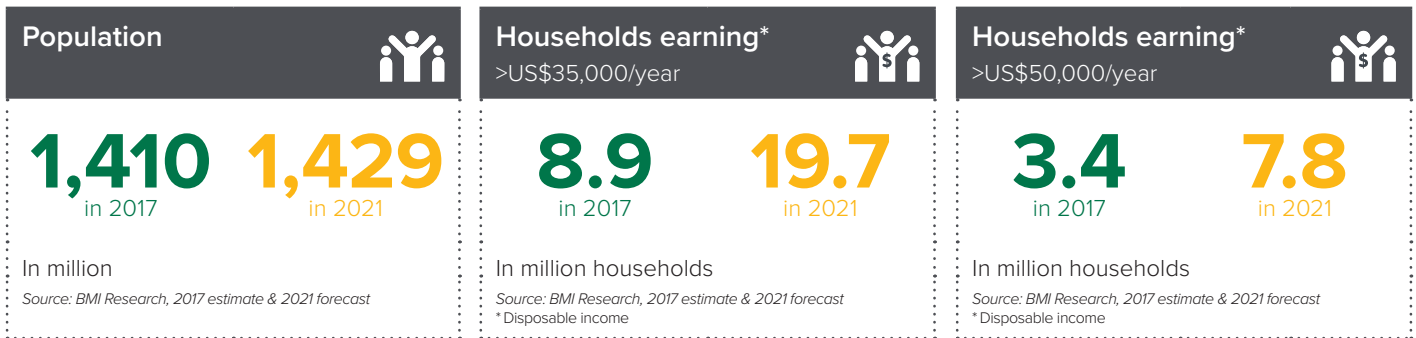
# China

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 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, and is 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. In 2017, New Zealand began a six-month trial access to China for chilled sheepmeat involving 10 plants.
- 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



© Meat & Livestock Australia, 2018. ABN 39 081 678 364. MLA makes no representations as to the accuracy of any information or advice contained in MLA's Market snapshot and excludes all liability, whether in contract, tort (including negligence or breach of statutory duty) or otherwise as a result of reliance by any person on such information or advice. All use of MLA publications, reports and information is subject to MLA's Market Report and Information Terms of Use. Please read our terms of use carefully and ensure you are familiar with its content.

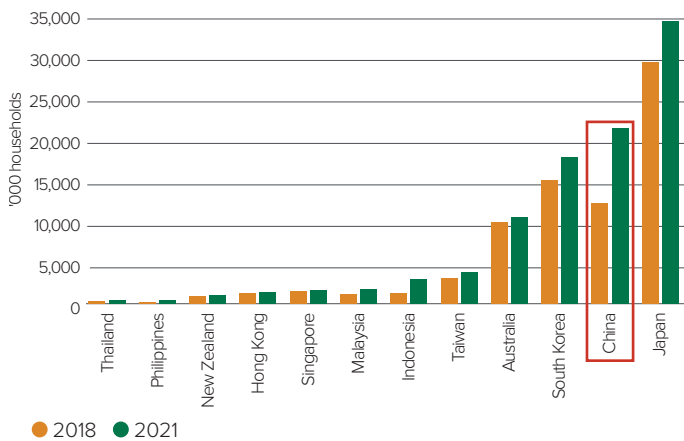


# Consumers



- 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 small, with 12.2 million households earning at least US\$35,000/year disposable income. That number is forecast to increase 74% in just the next four years to 21.2 million in 2021 (double the number in Australia).

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



Source: BMI Research, 2018 and 2021 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 14% from around 3.5kg in 2017e 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 or 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	Meat is usually tender
Easy and convenient to prepare	The most superior meat and Tastes delicious
Essential part of children's diet	High nutritional value
Cheaper	Willing to pay more for it
Can be used in many different meals	Animal is well-cared for

Source: MLA Global Consumer Tracker China, 2017

- Sheepmeat and sheepmeat offal are used in a variety of stir fry, stew, soup, dumpling and hot pot dishes, and 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 New Zealand lamb in consumer's minds.

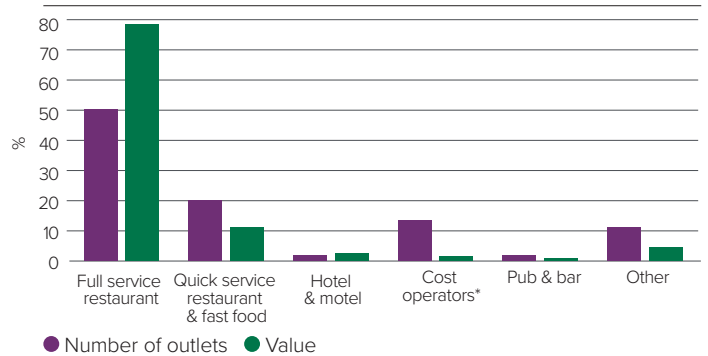
(Source: MLA Global Consumer Tracker, China 2017)

# 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. It is largely comprised of independent operators, though chains are expected to see somewhat faster growth in coming years (Source: Global Data).

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



Source: GlobalData, 2017 estimate.

\* Cost operators: includes educational, military and medical institutions, state-owned enterprises etc.

- 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-Global Data 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 US\$1,275 billion in 2018f), but it is also one of the world's most regionalised and fragmented (Source: IGD).

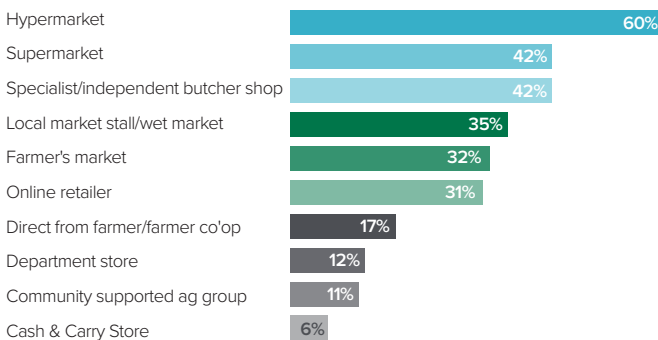
### Top five grocery retailers by market share rank in China region

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

Source: Kantar Worldpanel, September 2017

- 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 imported meat buyers buy their lamb mostly 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



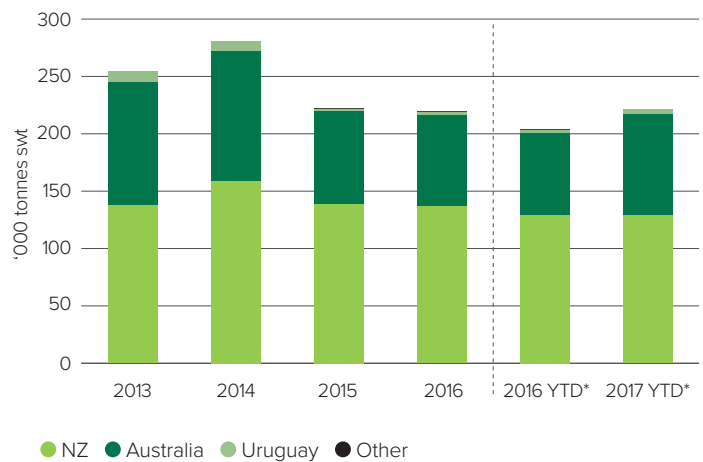
- China has been a significant market for Australian breeder sheep exports in the past. Nearly 1,400 head were exported to China in 2017 up to October, a decline of 72% on the previous year (Source: DAWR, ABS).

## Other suppliers



- China is the world's largest sheepmeat producer, with a sheep and goat flock estimated at 312 million head in 2017. Despite this, China is expected to continue to be a net importer of sheepmeat over the next 10 years (Source: GIRA).
- While imports will continue to cover a very small proportion of sheepmeat consumed in China (estimated at around 5% in 2016), they are forecast to see annual growth of around 4.4% for the next decade (Source: MLA estimates, GTA, GIRA). Import demand depends significantly on domestic production cycles which are quite volatile due to the significant impact of small opportunistic farmers on the industry.
- Australia and New Zealand are the key suppliers to the market, with smaller volumes also supplied by Chile, 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 20 million head in 2016.
- Up until 2017, Australia was the sole approved supplier of chilled lamb to China, with one plant approved as of November 2017. During 2017, China granted preliminary access for chilled lamb from New Zealand, which is conducting a six-month trial of chilled sheepmeat exports involving 10 establishments.

### China direct sheepmeat imports by country of origin



Source: GTA, China Customs. Financial year data.  
\*YTD Jan-Nov



## 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 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 in the future.





## Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
China-Australia Free Trade Agreement (ChAFTA)	Under ChAFTA: <b>2018:</b> Chilled meat and carcasses 8.3-12.8% Frozen meat and carcasses 6.7-12.8% <b>2023:</b> Zero	<b>New Zealand</b> Import tariffs zero from 2016	Zero	Restrictions on the number of approved plants, chilled plants and restrictions on edible offal

Best access Major challenges

Source: Trade agreements, DFAT, MLA

## Australian sheepmeat exports to China – summary table



Volume – in tonnes swt	2017		2016		5-year average (2012-2016)		change 2017 vs 5-yr av.		
		% out of total		% out of total		% out of total	%	in tonnes swt	
<b>Total</b>	<b>83,195</b>	<b>100</b>	<b>59,449</b>	<b>100</b>	<b>70,374</b>	<b>100</b>	<b>18</b>	<b>12,821</b>	
Storage	Chilled	8	0	2	0	15	0	-48	-7
	Frozen	83,187	100	59,447	100	70,359	100	18	12,828
Meat type	Lamb	48,209	58	39,096	66	35,664	51	35	12,546
	Mutton	34,985	42	20,353	34	34,710	49	1	275
Storage/meat type	Chilled lamb	8	0	2	0	6	0	29	2
	Chilled mutton	-	-	-	-	9	0	-100	-9
	Frozen lamb	48,202	58	39,094	66	35,658	51	35	12,544
	Frozen mutton	34,985	42	20,353	34	34,701	49	1	284

Source: DAWR

### Value – in A\$ 000

Value – in A\$ 000	2017		2016		5-year average (2012-2016)		change 2017 vs 5-yr av.		
		%		%		%	%	in A\$ 000	
<b>Total</b>	<b>386,207*</b>	<b>100</b>	<b>240,486</b>	<b>100</b>	<b>291,441</b>	<b>100</b>	<b>33</b>	<b>94,766</b>	
Meat type	Lamb	243,687*	63	162,611	68	159,501	55	53	84,187
	Mutton	142,520*	37	77,875	32	131,941	45	8	10,579

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

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

Australian lamb exports to China – by major cut (in tonnes swt)	2017		2016		5-year average (2012-2016)		change 2017 vs 5-yr av.	
		%		%		%	%	in tonnes swt
Breast and Flap	30,939	64	24,635	63	21,935	62	41	9,003
Manufacturing	10,532	22	7,486	19	6,318	18	67	4,214
Neck	4,668	10	3,914	10	2,997	8	56	1,670
Other	2,071	4	3,061	8	4,413	12	-53	-2,343
<b>Total</b>	<b>48,209</b>	<b>100</b>	<b>39,096</b>	<b>100</b>	<b>35,664</b>	<b>100</b>	<b>35</b>	<b>12,546</b>

Source: DAWR

### Australian mutton exports to China – by major cut (in tonnes swt)

Australian mutton exports to China – by major cut (in tonnes swt)	2017		2016		5-year average (2012-2016)		change 2017 vs 5-yr av.	
		%		%		%	%	in tonnes swt
Breast and Flap	15,325	44	15,072	74	14,967	0	2	358
Carcase	14,385	41	2,091	10	11,542	0	25	2,843
Leg	3,602	10	634	3	960	0	275	2,642
Other	1,674	5	2,556	13	7,242	0	-77	-5,568
<b>Total</b>	<b>34,985</b>	<b>100</b>	<b>20,353</b>	<b>100</b>	<b>34,710</b>	<b>1</b>	<b>1</b>	<b>275</b>

Source: DAWR



MARKET SNAPSHOT | SHEEPMEAT

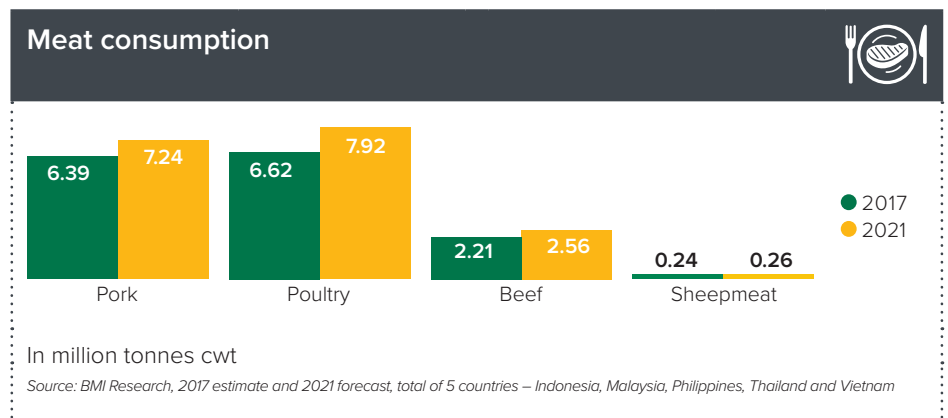
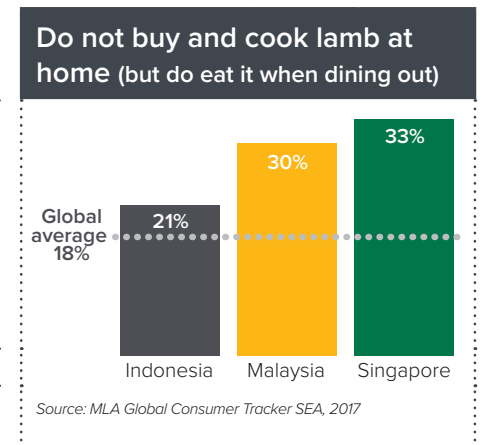
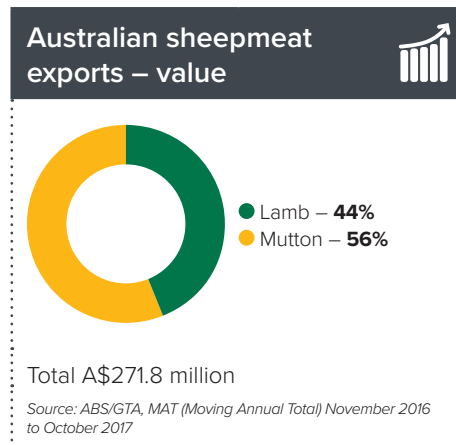
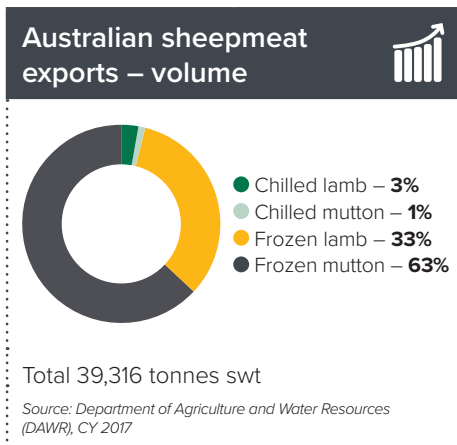
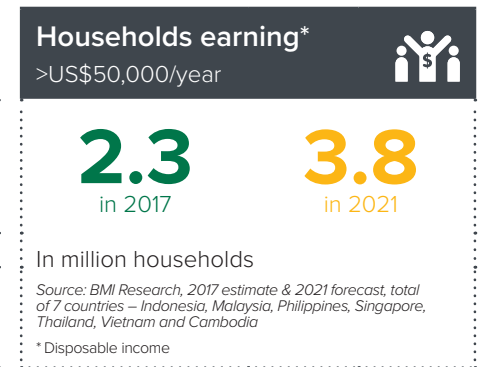
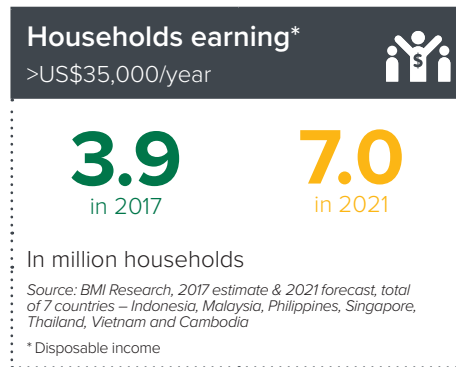
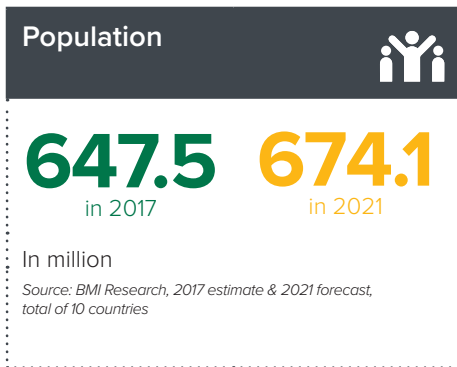
# South East Asia (including Indonesia)

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.



© Meat & Livestock Australia, 2018. ABN 39 081 678 364. MLA makes no representations as to the accuracy of any information or advice contained in MLA's Market snapshot and excludes all liability, whether in contract, tort (including negligence or breach of statutory duty) or otherwise as a result of reliance by any person on such information or advice. All use of MLA publications, reports and information is subject to MLA's Market Report and Information Terms of Use. Please read our terms of use carefully and ensure you are familiar with its content.

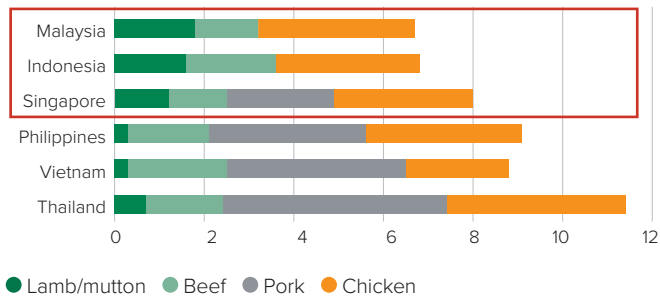


# Consumers



- SEA is home to more than 600 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 per capita sheepmeat consumption is low compared to other meat proteins, it is expected to increase across the region.

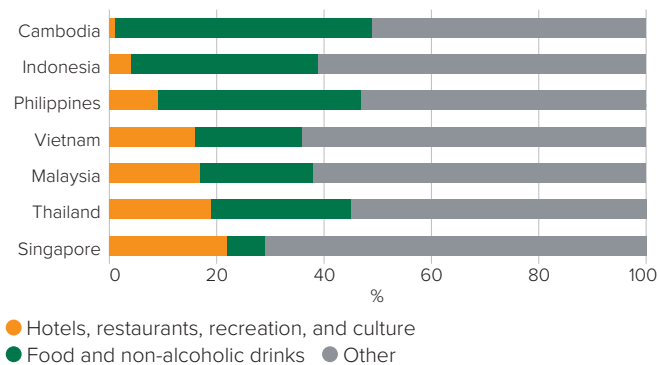
## Average serves in the last seven days



Source: MLA Global Consumer Tracker SEA, 2017 (Malaysia, Singapore); 2016 (Philippines, Thailand and Vietnam)

- 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.
- Singapore has one of the world’s wealthiest consumer bases – its gross domestic product (GDP) per capita is almost forty times higher than that of Cambodia. High incomes have allowed Singaporeans to extend household spending beyond essential items to non-essential items – such as at hotels and restaurants – while households in lower-income countries tend to spend more on essential items, including food and beverage products.

## Proportion of household spending by major category – 2017



Source: BMI Research, 2017 estimate

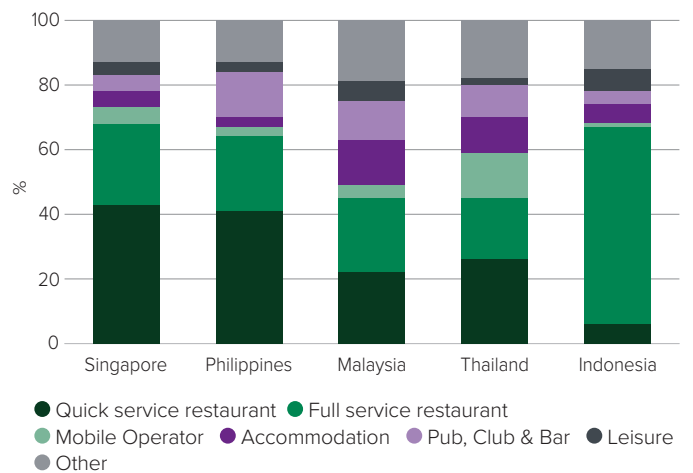


# Foodservice



- 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 – 2017\*



Source: GlobalData, 2017 estimate

\* Value does not include institutional sector (e.g. schools, hospitals, military services, etc.).

- Malaysia is forecast to be the fastest-growing market for foodservice in the region, largely supported by its rapid rise in number of high-income households and urbanites.

## Top hotel chains by foodservice sales – 2016

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

- SEA attracts more than 100 million international tourist visitors annually, generating more than US\$100 billion/year on average (Source: WorldBank, 2015 data). The strong tourism sector is expected to continue to drive demand for sheepmeat products in the foodservice across SEA’s countries.

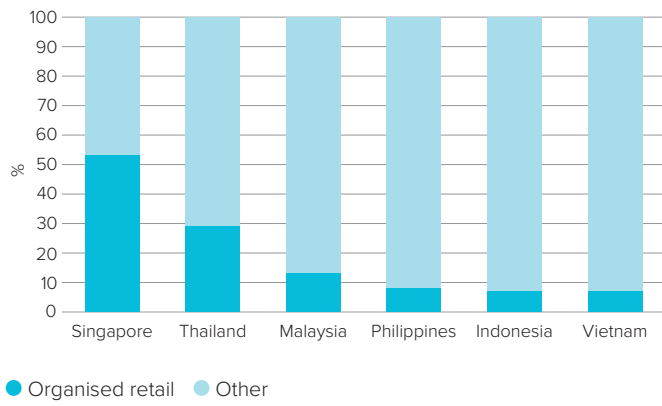


# Retail



- 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 limited to major top-tier cities.

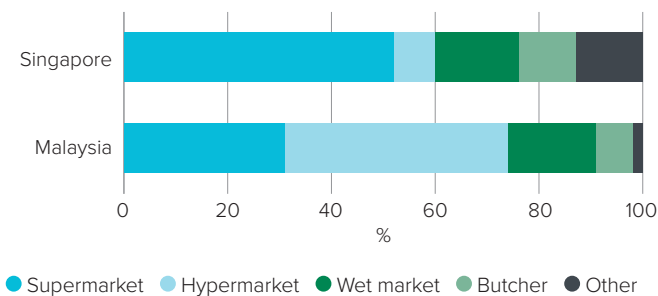
## Market share of grocery retail – 2017



Source: IGD, 2017 forecast

- Australian lamb is often purchased across multiple distribution channels in Singapore and Malaysia – the top two export markets of Australian sheepmeat in the region – however, supermarkets and hypermarkets remain the most common places.

## Where do consumers go and buy Australian lamb?



Source: MLA Global Consumer Tracker SEA, 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

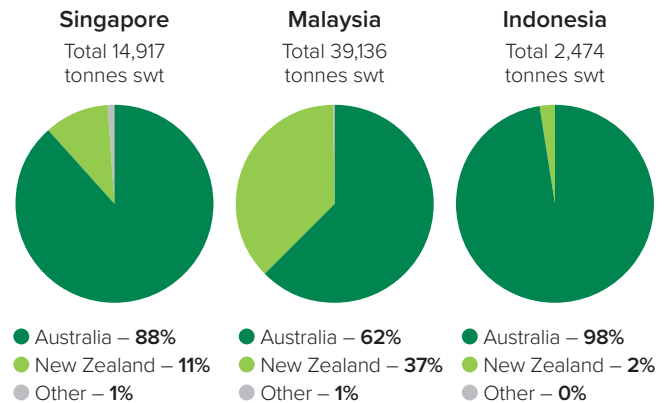
Source: MLA Global Consumer Tracker SEA, 2017

# Other suppliers



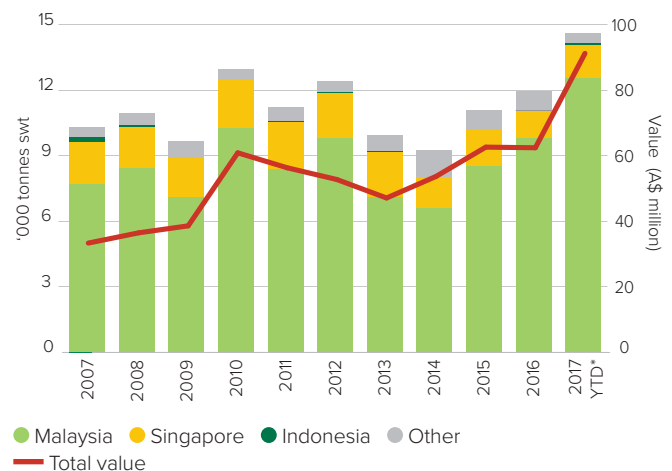
- Australia has long been the leading supplier of sheepmeat in SEA. Overall, it maintains a market share of about 70%; however, its competitive position is slightly different across markets.
- Despite a smaller market share, New Zealand's sheepmeat exports to SEA are growing at a rapid rate. From January to October 2017, shipments to SEA totalled 14,634 tonnes swt, up 54% year-on-year, of which Malaysia made up 86% (or 12,577 tonnes swt) and remained New Zealand's sixth largest sheepmeat export market.

## Sheepmeat imports by major supplier in selected markets



Source: GTA, Singapore & Malaysia: MAT September 2016 to August 2017, Indonesia: MAT August 2016 to July 2017.

## New Zealand's sheepmeat exports to SEA



Source: GTA. \*YTD Jan-Oct



Modern retail counter in Malaysia (Maxvalue)





# Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA)	0%* Except Indonesia, Cambodia, Laos and Myanmar	New Zealand (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: 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		2016		5-year average (2012-2016)		change 2017 vs 5-yr av.	
			% out of total		% out of total		% out of total	%	in tonnes swt
<b>Total</b>		<b>39,316</b>	<b>100</b>	<b>41,262</b>	<b>100</b>	<b>35,906</b>	<b>100</b>	<b>9</b>	<b>3,409</b>
Storage	Chilled	1,632	4	1,583	4	1,409	4	16	222
	Frozen	37,684	96	39,679	96	34,497	96	9	3,187
Meat type	Lamb	14,243	36	15,336	37	13,175	37	8	1,069
	Mutton	25,073	64	25,926	63	22,732	63	10	2,341
Storage/ meat type	Chilled lamb	1,239	3	1,222	3	1,104	3	12	135
	Chilled mutton	392	1	361	1	305	1	28	87
	Frozen lamb	13,004	33	14,113	34	12,071	34	8	933
	Frozen mutton	24,680	63	25,566	62	22,426	62	10	2,254

Source: DAWR

### Value – in A\$ 000

Value – in A\$ 000		2017		2016		5-year average (2012-2016)		change 2017 vs 5-yr av.	
			%		%		%	%	in A\$ 000
<b>Total</b>		<b>271,832*</b>	<b>100</b>	<b>228,443</b>	<b>100</b>	<b>192,133</b>	<b>100</b>	<b>41</b>	<b>79,699</b>
Meat type	Lamb	120,297*	44	101,612	44	88,089	46	37	32,208
	Mutton	151,535*	56	126,831	56	104,044	54	46	47,491

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

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

Australian sheepmeat exports to Singapore – by major cut (in tonnes swt)		2017		2016		5-year average (2012-2016)		change 2017 vs 5-yr av.	
			%		%		%	%	in tonnes swt
Lamb	Leg	846	35	730	34	633	33	34	213
	Carcase	436	18	357	17	316	17	38	120
	Shoulder	265	11	319	15	245	13	8	20
	Other	867	36	735	34	698	37	24	168
<b>Total</b>	<b>Total</b>	<b>2,414</b>	<b>100</b>	<b>2,141</b>	<b>100</b>	<b>1,892</b>	<b>100</b>	<b>28</b>	<b>522</b>
Mutton	Carcase	4,926	53	5,057	54	4,244	52	16	682
	Leg	2,640	29	2,879	31	2,509	31	5	131
	Manufacturing	1,122	12	1,102	12	1,008	12	11	114
	Other	525	6	295	3	327	4	61	199
<b>Total</b>	<b>Total</b>	<b>9,214</b>	<b>100</b>	<b>9,333</b>	<b>100</b>	<b>8,089</b>	<b>100</b>	<b>14</b>	<b>1,125</b>

Source: DAWR

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

Australian sheepmeat exports to Malaysia – by major cut (in tonnes swt)		2017		2016		5-year average (2012-2016)		change 2017 vs 5-yr av.	
			%		%		%	%	in tonnes swt
Lamb	Shoulder	5,802	70	7,332	75	5,194	70	12	608
	Carcase	786	10	883	9	892	12	-12	-106
	Leg	546	7	445	5	481	6	14	65
	Other	1,111	13	1,081	11	893	12	24	218
<b>Total</b>	<b>Total</b>	<b>8,246</b>	<b>100</b>	<b>9,741</b>	<b>100</b>	<b>7,460</b>	<b>100</b>	<b>11</b>	<b>785</b>
Mutton	Carcase	7,782	55	8,138	54	6,675	53	17	1,106
	Shoulder	2,679	19	2,470	17	1,922	15	39	756
	Manufacturing	1,643	12	2,743	18	2,659	21	-38	-1,016
	Other	1,999	14	1,583	11	1,250	10	60	749
<b>Total</b>	<b>Total</b>	<b>14,102</b>	<b>100</b>	<b>14,933</b>	<b>100</b>	<b>12,506</b>	<b>100</b>	<b>13</b>	<b>1,595</b>

Source: DAWR



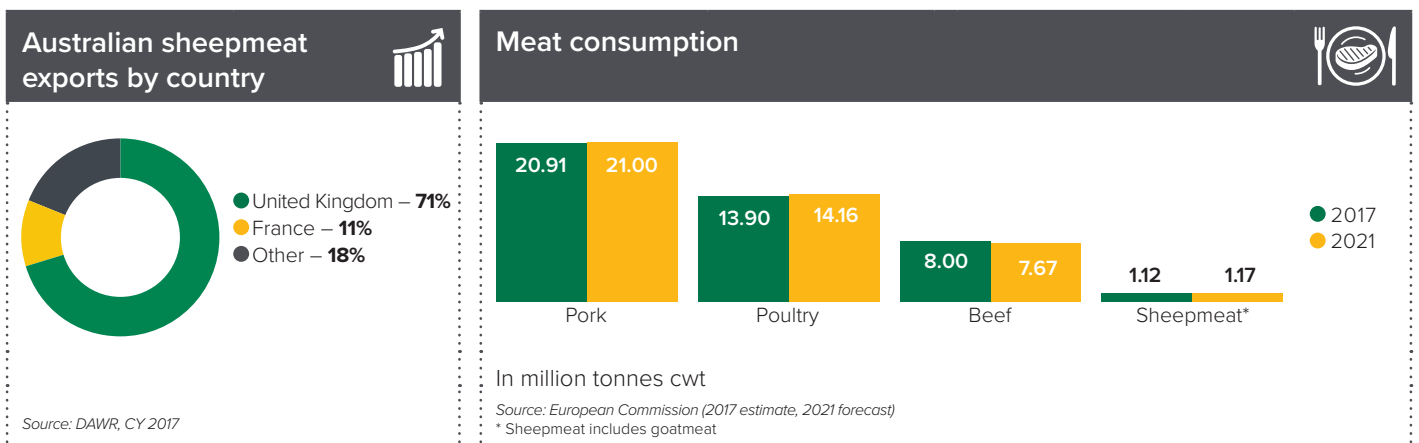
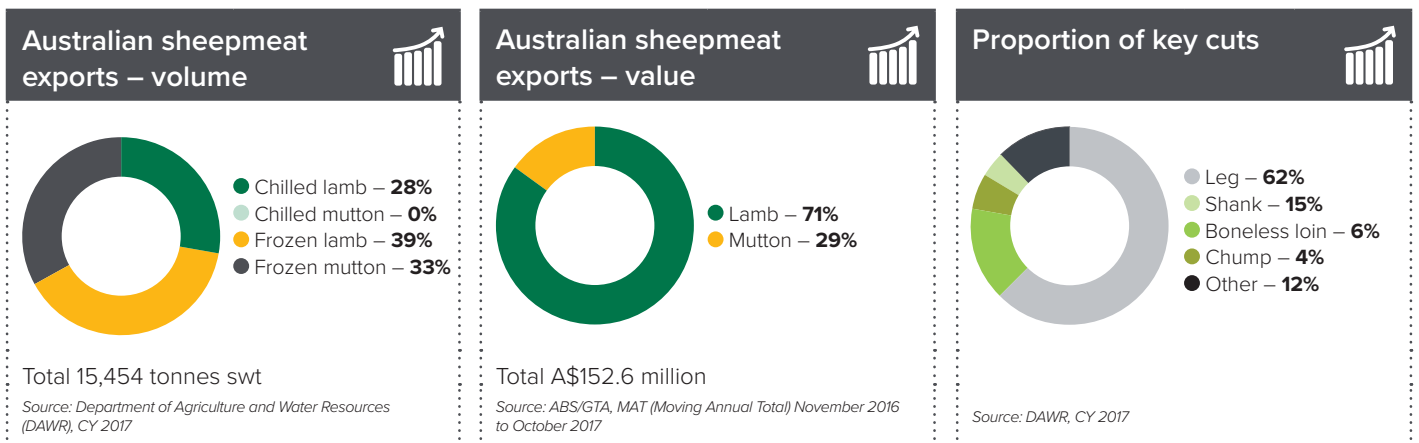
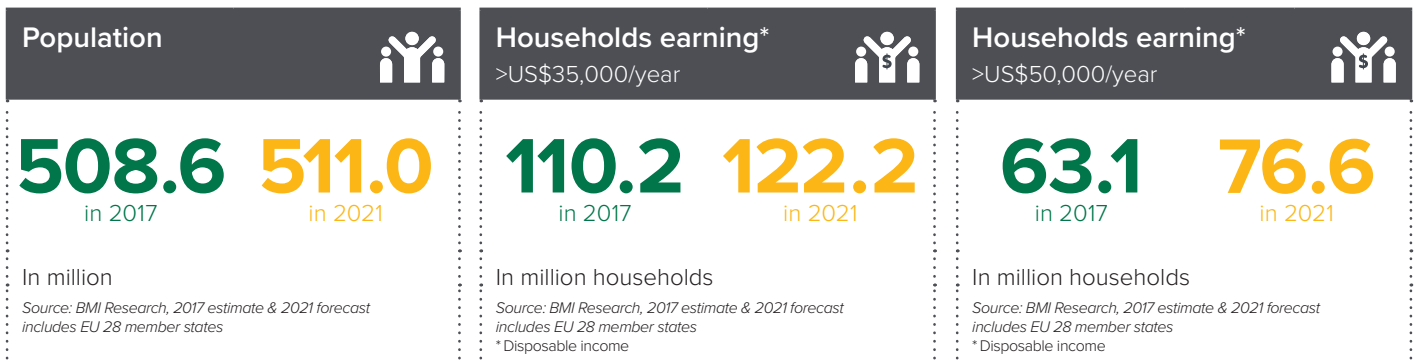
MARKET SNAPSHOT | SHEEPMEAT

# European Union

The European Union (EU) contains one of the largest pools of wealthy consumers (households earning in excess of US\$50,000/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. Australia and the EU have commenced the process of securing a closer bilateral trade partnership and it is anticipated formal Free Trade Agreement (FTA) negotiations will begin in early 2018.
- Despite the 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 our premium product.
- The United Kingdom (UK) is Australia's largest market within the 28-member union and its exit from the EU (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 in 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.



© Meat & Livestock Australia, 2018. ABN 39 081 678 364. MLA makes no representations as to the accuracy of any information or advice contained in MLA's Market snapshot and excludes all liability, whether in contract, tort (including negligence or breach of statutory duty) or otherwise as a result of reliance by any person on such information or advice. All use of MLA publications, reports and information is subject to MLA's Market Report and Information Terms of Use. Please read our terms of use carefully and ensure you are familiar with its content.

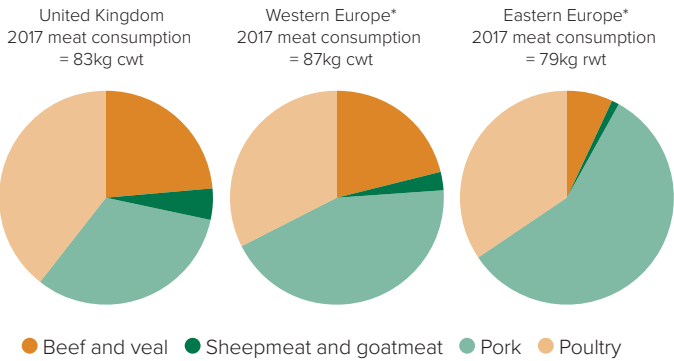


# Consumers



- 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.

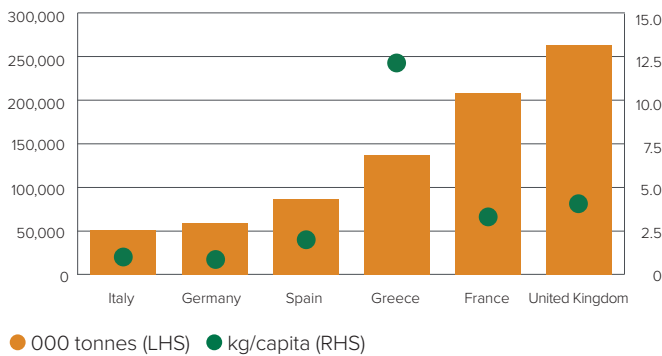
## EU per capita meat consumption



Source: European Commission European Commission, Prospects for EU agriculture markets and income 2016-2026, MLA rwt to cwt conversion  
 \* EU-15 and includes (country codes) BE, DK, FR, DE, EL, IE, IT, LU, NL, PT, ES, UK, AT, FI and SE  
 \* EU-N13 and 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 2016. However, at 12.3kg, Greece was the per capita leader in consumption (including goatmeat) in 2016.

## Sheepmeat\* consumption across the EU



Source: BMI 2017 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.

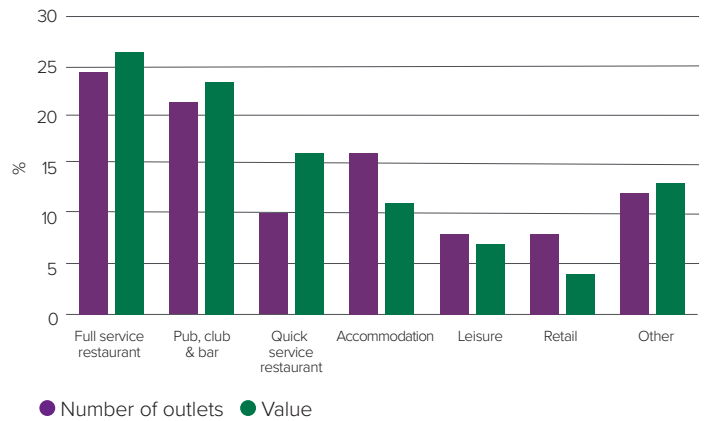
# Foodservice



- The majority of Australian lamb exported to the EU is made up of leg cuts, directed into the foodservice channel. Product from New Zealand, 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



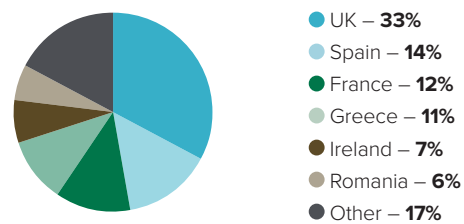
Source: GlobalData. Inclusive of the UK, Spain, Germany, Italy, France and the Netherlands.

# Production



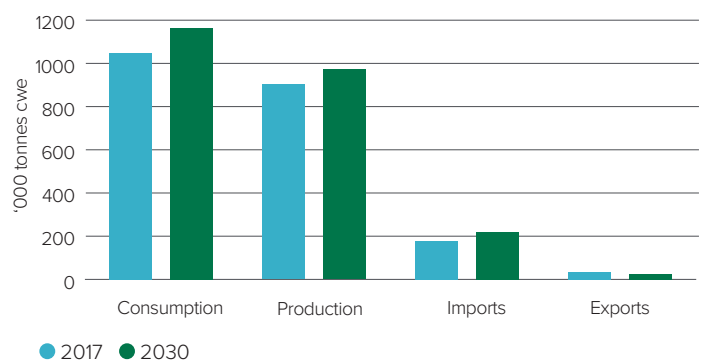
- After declining 25% over the ten years to 2014, EU sheepmeat production has since stabilised and increased throughout 2017.
- The EU is not self-sufficient in sheepmeat, with consumption outstripping production capabilities. While a modest increase in production is forecast over the next decade, the EU is estimated to require in excess of 200,000 tonnes cwe of sheepmeat imports a 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 – 2016



Source: European Commission, Prospects for EU agriculture markets and income 2016-2026

## EU sheepmeat



Source: European Commission European Commission, Prospects for EU agriculture markets and income 2016-2026. All volumes are in carcase weight equivalent. Imports and exports are EU-external trade only.

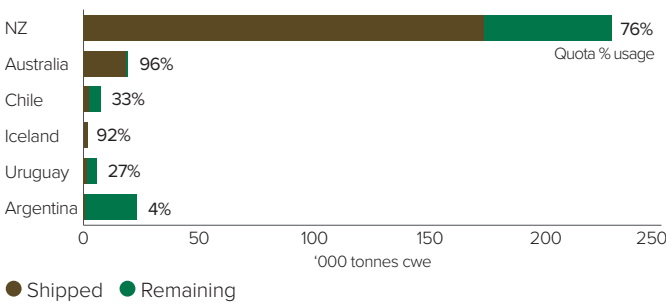


# Market access



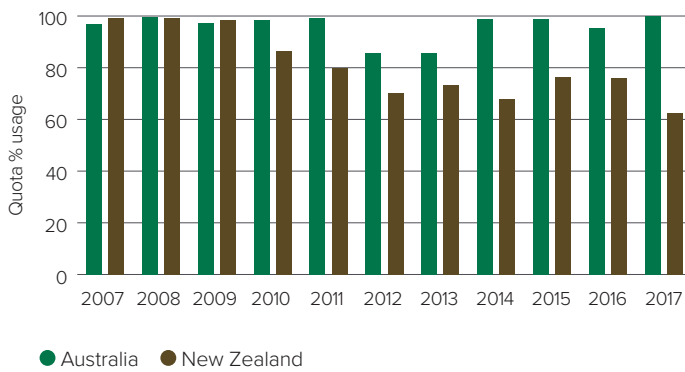
- Australia has a 19,186 tonne country-specific (carcase weight equivalent combined sheepmeat/goatmeat) import quota into the EU with 0% in-quota duty. However, out of quota imports from Australia incur prohibitive import duties of 12.8% plus up to an additional €3.1/kg, which effectively stifles most above-quota trade opportunities.
- Australia is currently disadvantaged compared to its competitors who have greater preferential access. New Zealand'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, 2016 figures

## EU import quota utilisation



Source: European Commission. Figure is estimate based off imports up to 20 October 2017.



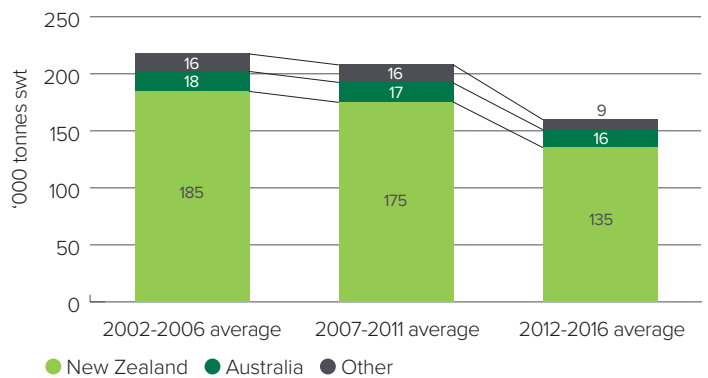
Source: Bigstock

# Other suppliers



- Imports have accounted for about 19% of EU sheepmeat consumption over the last decade, and Australia and New Zealand have remained the only significant external suppliers.
- New Zealand's preferential trading conditions over the past 40 years have allowed it to capture the majority of the import market.
- However, imports from New Zealand over the last five years have been stretched by supply constraints (land in New Zealand 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



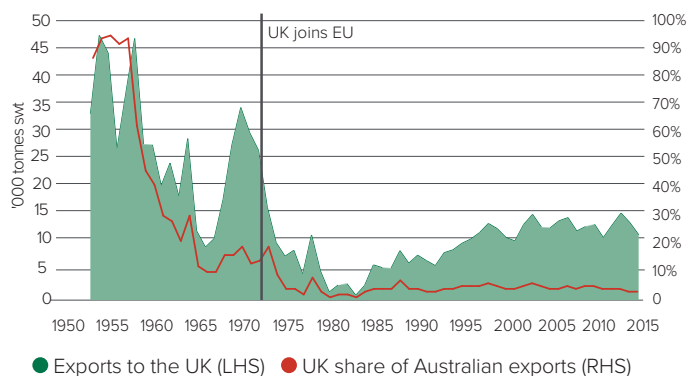
Source: Global Trade Atlas

# 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.
- 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 it joining the EU, the UK accounted for as much as 30% of Australian sheepmeat exports.

## Australian sheepmeat exports to the UK

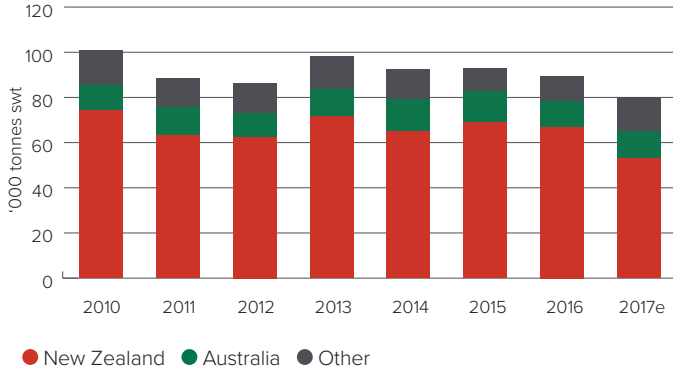


Source: AMB, AMLC, DAWR



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

### UK sheepmeat imports



Source: GTA  
 \*MAT from Nov-2016 to Oct-2017

- 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 UK is a large producer, importer and exporter of sheepmeat. Inflows of sheepmeat typically come from New Zealand and Australia and outflows are destined for other EU member states.
- The EU is the UK's single largest trading partner (overall and in the case of sheepmeat) and the future regime 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.

### UK figures

Population	Households earning* >US\$35,000/year	Households earning* >US\$50,000/year
<p>505.9 in 2017</p> <p>508.2 in 2020</p> <p>In millions</p> <p>Source: BMI Research, 2017 estimate &amp; 2021 forecast includes EU-28 countries</p>	<p>196.7 in 2017</p> <p>218.9 in 2020</p> <p>In million households</p> <p>Source: BMI Research, 2017 estimate &amp; 2021 forecast includes EU 28 member states * Disposable income</p>	<p>104.9 in 2017</p> <p>129.0 in 2021</p> <p>In million households</p> <p>Source: BMI Research, 2017 estimate &amp; 2021 forecast includes EU 28 member states * Disposable income</p>



## Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
The mandate for an EU Australia Free Trade Agreement is currently being agreed	In quota - 0% Above quota - 12.8% + 90.2~311.8 euro/100kg	<b>New Zealand</b> 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		2016		5-year average (2012-2016)		change 2017 vs 5-yr av.	
			% out of total		% out of total		% out of total	%	in tonnes swt
<b>Total</b>		<b>15,454</b>	<b>100</b>	<b>16,471</b>	<b>100</b>	<b>16,802</b>	<b>100</b>	<b>-8</b>	<b>-1,348</b>
Storage	Chilled	4,329	28	5,145	31	5,820	35	-26	-1,491
	Frozen	11,125	72	11,327	69	10,983	65	1	143
Meat type	Lamb	10,281	67	11,512	70	12,017	72	-14	-1,737
	Mutton	5,174	33	4,959	30	4,785	28	8	389
Storage/meat type	Chilled lamb	4,329	28	5,145	31	5,819	35	-26	-1,491
	Chilled mutton	0	0	0	0	0	0	-56	-0
	Frozen lamb	5,952	39	6,368	39	6,198	37	-4	-246
	Frozen mutton	5,174	33	4,959	30	4,785	28	8	389

Source: DAWR

Value – in A\$ 000									
			%		%		%	%	in A\$ 000
<b>Total</b>		<b>152,635*</b>	<b>100</b>	<b>129,216</b>	<b>100</b>	<b>129,567</b>	<b>100</b>	<b>18</b>	<b>23,068</b>
Meat type	Lamb	109,105*	71	96,282	75	97,501	75	12	11,604
	Mutton	43,530*	29	32,934	25	32,066	25	36	11,465

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

Australian lamb exports to EU – by major cut (in tonnes swt)									
			%		%		%	%	in tonnes swt
Leg		5,745	56	6,689	58	6,798	57	-15	-1,053
Shank		2,222	22	1,673	15	2,456	20	-10	-234
Boneless Loin		690	7	211	2	206	2	235	484
Chump		653	6	749	7	797	7	-18	-144
Manufacturing		508	5	1,676	15	1,321	11	-62	-813
Other		462	4	513	4	440	4	5	22
<b>Total</b>		<b>10,281</b>	<b>100</b>	<b>11,512</b>	<b>100</b>	<b>12,017</b>	<b>100</b>	<b>-14</b>	<b>-1,737</b>

Source: DAWR



MARKET SNAPSHOT | SHEEPMEAT

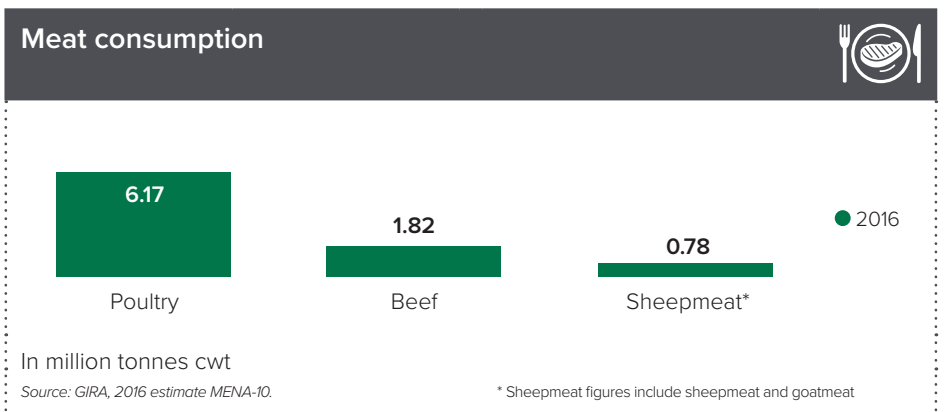
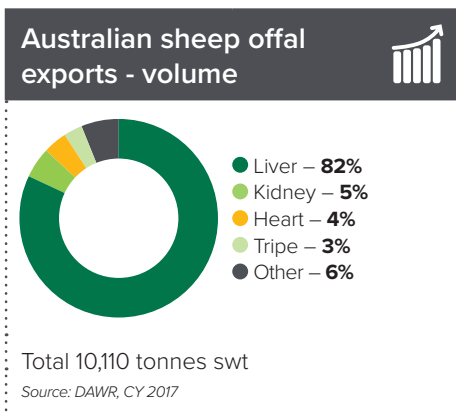
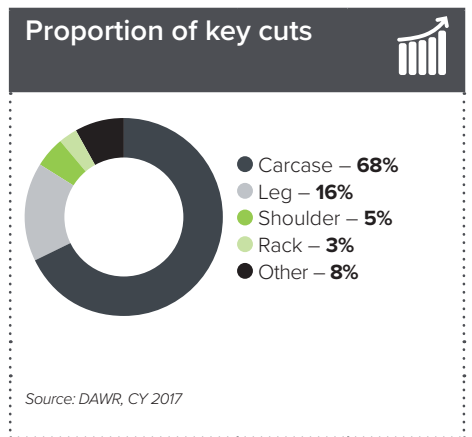
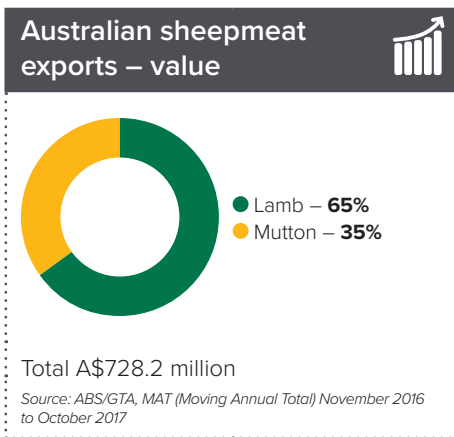
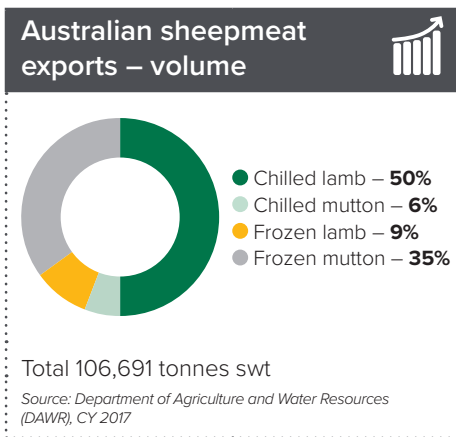
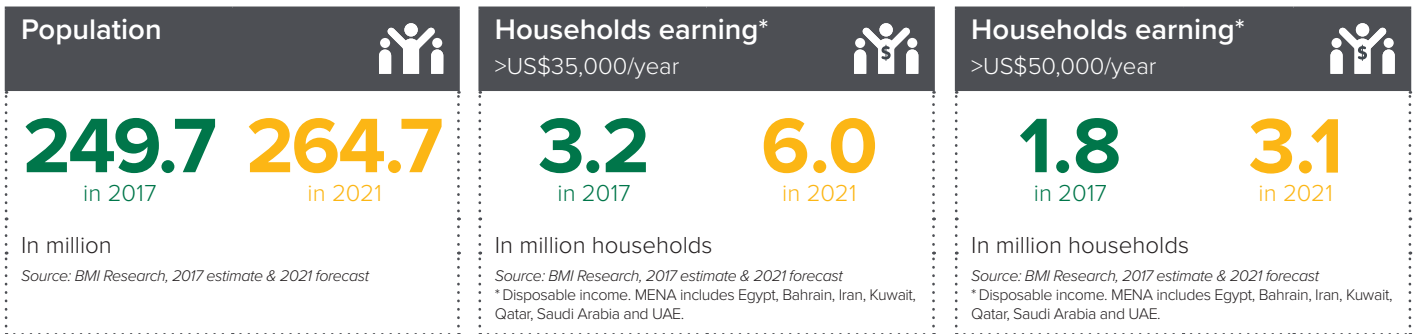
# MENA (Middle East & North Africa)

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.



© Meat & Livestock Australia, 2018. ABN 39 081 678 364. MLA makes no representations as to the accuracy of any information or advice contained in MLA's Market snapshot and excludes all liability, whether in contract, tort (including negligence or breach of statutory duty) or otherwise as a result of reliance by any person on such information or advice. All use of MLA publications, reports and information is subject to MLA's Market Report and Information Terms of Use. Please read our terms of use carefully and ensure you are familiar with its content.



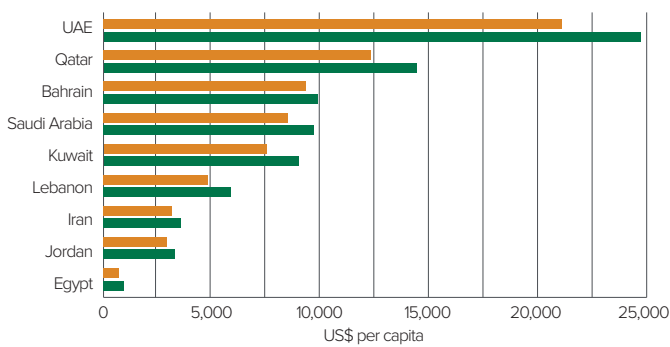


# Consumers



- 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.

## Consumer spending per capita (US\$)

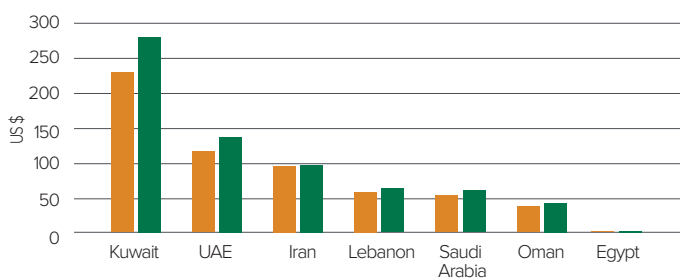


● 2018 ● 2021

Source: BMI Research. 2018 and 2021 forecast figures based on UN Classification Of Individual Consumption By Purpose.

- Understanding the differing levels of wealth and size of 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, also Saudi Arabia and Kuwait, due to taste preference and cooking styles.

## Lamb sales per capita (US\$)



● 2018 ● 2021

Source: BMI Research. Spend on lamb per person per year. 2018 and 2021 forecast figures.

- Sheepmeat is the most loved protein among many Gulf consumers and plays an important role in celebrating religious and family events and for 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 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 a frozen mutton market to being more of a chilled lamb market, and now to 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

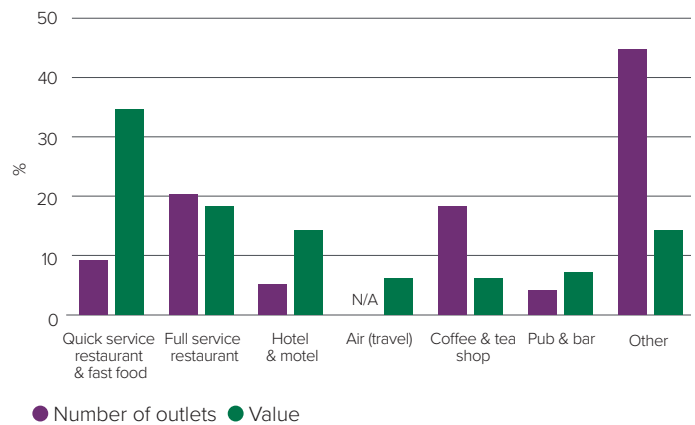
- In 2016–17, the MENA region was Australia's largest destination for sheepmeat exports, the highest volume markets within the region being the UAE, Saudi Arabia and Qatar. Jordan, Kuwait, Bahrain and Oman are also among Australia's top 20 markets for sheepmeat by volume and value.
- The role of Australian sheepmeat varies somewhat by country. In 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 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, is 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) – 2017



● Number of outlets ● Value

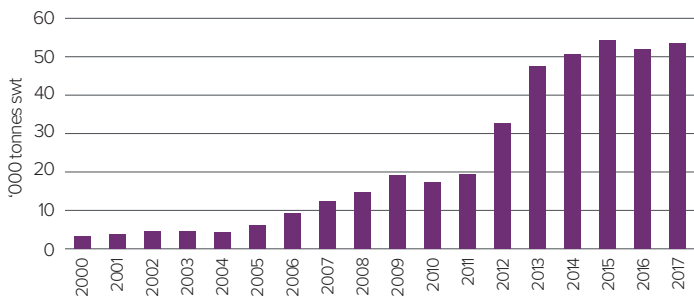
Source: GlobalData

- 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, gaining ground on beef to become the second most popular meat in the segment. In the Kingdom's full service restaurants, lamb is forecast to perform best 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\*



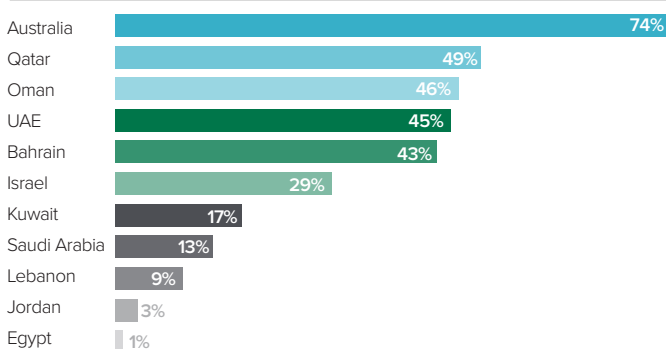
Source: DAWR. \*MENA-10.

## 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.

### Consolidated retail as a proportion of total grocery retail



Source: IGD. 2017 estimate. Share of major modernised grocery retail outlets.

- Key retailers in the region where consumers purchase Australian sheepmeat from 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

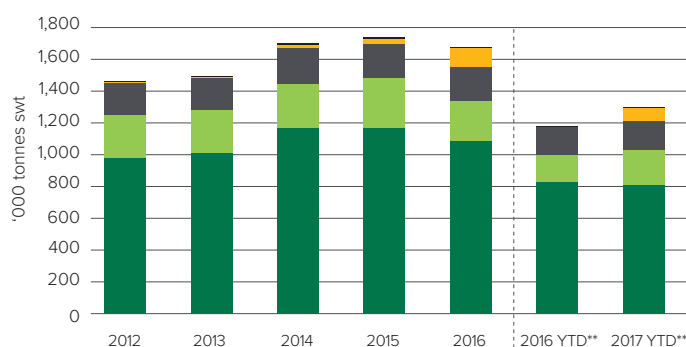
Source: MLA Global Tracker, UAE, Saudi Arabia and Jordan, 2017



## 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 and live sheep, but faces competition from New Zealand, India and increasingly some European countries.
- New Zealand exports significant volumes of both chilled and frozen lamb, particularly forequarter, mostly to Saudi Arabia and Jordan, and smaller volumes of mutton carcass to Oman. In recent years, some European countries such as Romania, Georgia and Portugal have become more significant suppliers of both live sheep and chilled lamb carcass, particularly to Jordan and Algeria but also lamb cuts to UAE, Oman and Kuwait. India supplies chilled and frozen mutton carcass to UAE, Saudi Arabia, Qatar and Kuwait.

### Sheepmeat exports to MENA\* by supplier



● Australia ● NZ ● India ● Europe\*\*\* ● Other

Source: DAWR, GTA  
\*MENA-10 \*\* year-to-date Jan-Sep \*\*\*Europe includes EU27 and UK

## Live exports



- In the 12 months to September 2017, the MENA region was the top destination for Australia's live sheep exports, accounting for almost 93% (1.63 million head) of Australia's total live sheep exports (Source: DAWR, ABS).
- During this period, Australia's key live sheep export markets in MENA were Kuwait and Qatar, each taking 33% and 28% of Australia's live sheep to the region. Other significant markets for Australian live sheep include UAE, Oman, Jordan and Israel.
- Australia's key competitors in the live export market are India, Somalia and Sudan, with some European nations now also emerging, namely Romania, Georgia, Spain 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, 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	New Zealand 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%)	New Zealand 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: Trade agreements, MOF, MLA

## Australian sheepmeat exports to MENA – summary table



### Volume – in tonnes swt

		2017		2016		5-year average (2012-2016)		change 2017 vs 5-yr av.	
			% out of total		% out of total		% out of total	%	in tonnes swt
<b>Total</b>		<b>106,691</b>	<b>100</b>	<b>107,286</b>	<b>100</b>	<b>106,833</b>	<b>100</b>	<b>0</b>	<b>-142</b>
Storage	Chilled	59,542	56	59,250	55	51,829	49	15	7,713
	Frozen	47,149	44	48,036	45	55,003	51	-14	-7,854
Meat type	Lamb	62,694	59	61,107	57	60,121	56	4	2,572
	Mutton	43,997	41	46,179	43	46,711	44	-6	-2,714
Storage/meat type	Chilled lamb	53,512	50	52,053	49	47,358	44	13	6,154
	Chilled mutton	6,030	6	7,197	7	4,471	4	35	1,559
	Frozen lamb	9,182	9	9,054	8	12,763	12	-28	-3,582
	Frozen mutton	37,967	36	38,982	36	42,240	40	-10	-4,273

### Value – in A\$ 000

		2017		2016		5-year average (2012-2016)		change 2017 vs 5-yr av.	
			%		%		%	%	in A\$ 000
<b>Total</b>		<b>728,166*</b>	<b>100</b>	<b>629,790</b>	<b>100</b>	<b>569,024</b>	<b>100</b>	<b>28</b>	<b>159,142</b>
Meat type	Lamb	473,156*	65	421,464	67	372,700	65	27	100,456
	Mutton	255,010*	35	208,326	33	196,324	35	30	58,686

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

	2017		2016		5-year average (2012-2016)		change 2017 vs 5-yr av.	
		%		%		%	%	in tonnes swt
Carcase	12,501	62	12,877	62	10,772	62	16	1,728
Leg	3,558	18	3,651	17	2,929	17	21	629
Other	3,994	20	4,376	21	3,569	21	12	425
<b>Total</b>	<b>20,052</b>	<b>100</b>	<b>20,904</b>	<b>100</b>	<b>17,269</b>	<b>100</b>	<b>16</b>	<b>2,783</b>

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

	2017		2016		5-year average (2012-2016)		change 2017 vs 5-yr av.	
		%		%		%	%	in tonnes swt
Carcase	14,528	96	15,240	96	9,683	93	50	4,845
Leg	226	2	278	2	292	3	-22	-65
Other	318	2	386	2	400	4	-20	-82
<b>Total</b>	<b>15,073</b>	<b>100</b>	<b>15,904</b>	<b>100</b>	<b>10,375</b>	<b>100</b>	<b>45</b>	<b>4,698</b>

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

	2017		2016		5-year average (2012-2016)		change 2017 vs 5-yr av.	
		%		%		%	%	in tonnes swt
Carcase	7,335	71	8,487	69	8,467	63	-13	-1,132
Shoulder	2,016	19	1,534	13	1,731	13	16	285
Other	1,021	10	2,235	18	3,222	24	-68	-2,202
<b>Total</b>	<b>10,372</b>	<b>100</b>	<b>12,256</b>	<b>100</b>	<b>13,420</b>	<b>100</b>	<b>-23</b>	<b>-3,048</b>

Source: DAWR