MARKET SNAPSHOT | RED MEAT

Hong Kong SAR, China

Hong Kong SAR (Special Administrative Region) is a unique, high value market for red meat, with its comparatively wealthy local population, large number of in-bound tourists, relatively low market access barriers and its traditional role as a regional re-export hub.

Challenges and opportunities in Hong Kong for Australian beef and sheepmeat include:

- Hong Kong demand for premium chilled beef and lamb, of which Australia is a key supplier, in both high-end retail and foodservice sectors has steadily grown over the years and is expected to remain robust into the medium term.
- However, it is anticipated Australia will face increased competition from a range of suppliers and in all segments of the market as Hong Kong becomes more of a target destination for exports.
- Australia-Hong Kong Free Trade Agreement (A-HKFTA) negotiations officially commenced in May 2017. Although Hong Kong is one of the world's most open markets, Australia is seeking to formalise the current tariff-free arrangement for Australian red meat and livestock imports, as well as progress market access for a number of co-products where there is currently no agreed certification.

Population

7.4 in 2017

7.6 in 2021

In million

Source: BMI Research, 2017 estimate & 2021 forecast

Households earning* >US$35,000/year

1.2 in 2017

1.5 in 2021

In million households

Source: BMI Research, 2017 estimate & 2021 forecast

*Disposable income

Households earning* >US$35,000/year

0.8 in 2017

1.0 in 2021

In million households

Source: BMI Research, 2017 estimate & 2021 forecast

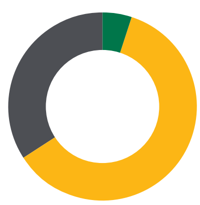
*Disposable income

Australian beef exports – volume

Total 7,691 tonnes swt

Source: DAWR, CY2017

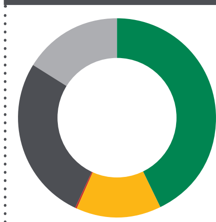
Australian sheepmeat exports – volume



Total 5,932 tonnes swt

Source: DAWR, CY2017

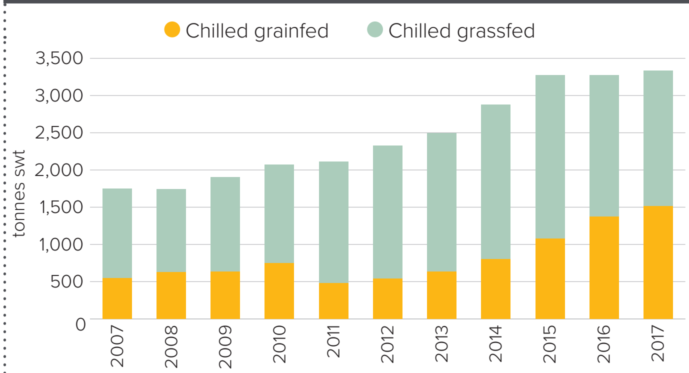
Australian red meat exports – value



Total A$197.6 million

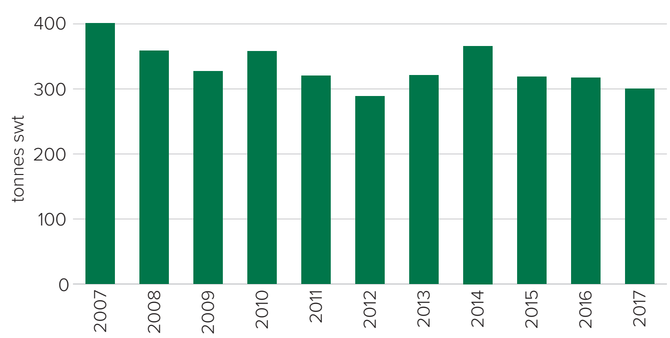
Source: GTA, CY 2017

Australian chilled beef exports – volume



Source: DAWR

Australian chilled sheepmeat exports – volume



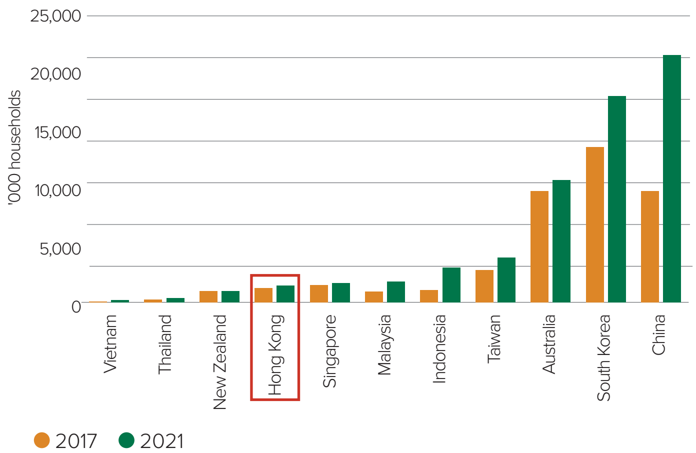
Source: DAWR

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

Consumers

- Hong Kong is an attractive market for premium Australian red meat due to its large tourist visitor numbers and a wealthy population that is open to western-style foods and who can regularly afford premium imported meat products.
- Hong Kong is one of the world's most densely populated cities and the region's most affluent. The proportion of households forecast to earn over US$35,000/year disposable income in Hong Kong will be 47% in 2018 (compared to 2.5% in China), including many wealthy expatriates *(Source: BMI Research)*.

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



Source: BMI Research. 2017 estimate, 2021 forecast.
* Disposable income

- Hong Kong's traditional food style reflects China's southern cuisines with diets traditionally dominated by seafood, pork and poultry due to local production, versatility and price.
- However, beef and lamb are forecast to see stronger year-on-year sales growth compared to other proteins in Hong Kong, driven by a growth in demand for cuisines that use red meat, such as western, Japanese, Korean, and northern Chinese. Hong Kong's long history as a regional trade centre, British colonial influence and large international tourism in-flows makes consumers particularly receptive to international foods and flavours.

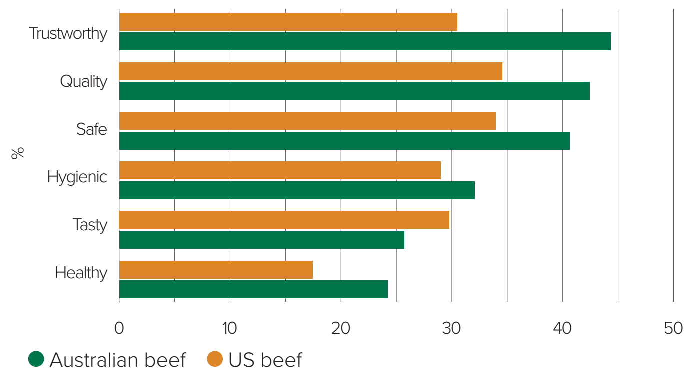
Hong Kong, sales, US$ million, % year-on-year growth

	2018	2021
Beef	7.7	8.2
Lamb	6.5	7.0
Other meats and preparations	7.0	7.6
Shellfish and preserved fish	5.1	5.7
Poultry	5.1	5.6
Fish and fish products	4.5	5.1
Pork	3.0	3.3
Bacon and ham	-3.6	2.6
Other preserved/processed fish and seafood	0.7	0.4

Source: BMI Research. 2018 and 2021 forecast figures.

- Food safety is a prominent consideration for consumers, contributing to growing demand for natural and organic foods with traceable provenance, including in the meat category.
- Despite an ageing population and decreasing household size, wealthy, urbanised and technologically proficient consumers in Hong Kong will spend more on premium, specialised propositions such as convenience and functional foods *(Source: BMI Research)*.
- Although awareness of Australian beef isn't quite as high as US beef, Australian product is highly regarded by those who have consumed it, especially when it comes to trust, quality and safety.

Hong Kong consumer perceptions of Australian and US beef

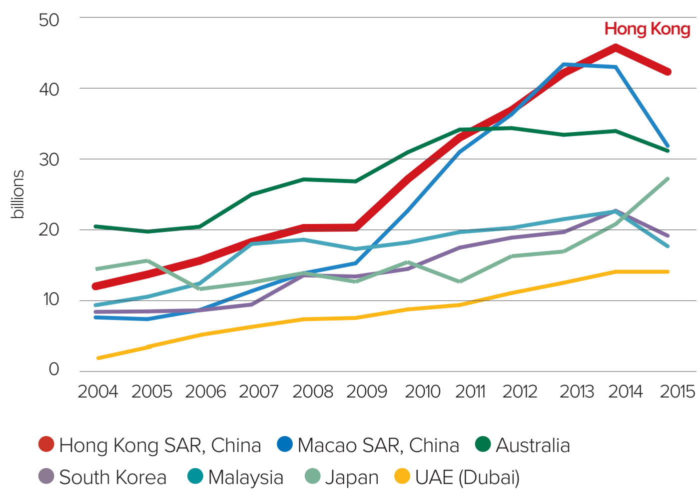


Source: MLA Report, Understanding of the Hong Kong Beef Market, 2013

Foodservice

- Hong Kong has a large, well-developed foodservice sector that is fuelled by its significant tourist visitor numbers and accounts for a significant portion of red meat consumption.

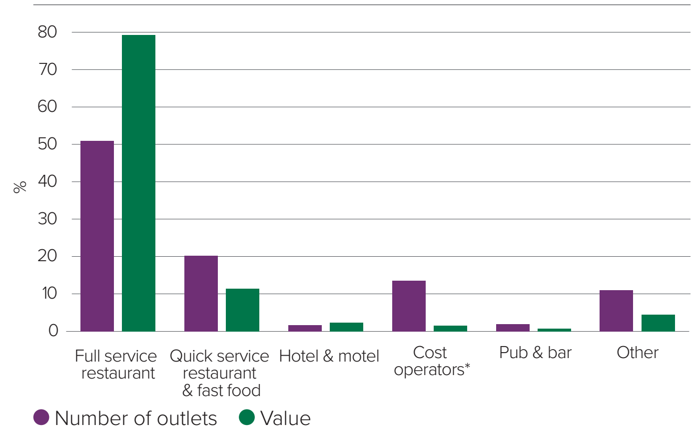
International tourism receipts (current US$)



Source: World Bank

- Hong Kong's foodservice sector is dominated by full service restaurants, which is also the largest channel by value for beef and lamb, followed by quick service restaurants. These restaurants demand chilled and frozen whole, raw beef cuts and chilled, processed lamb products in the form of coated portions (e.g. crumbed) and sausages *(Source: GlobalData)*.

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



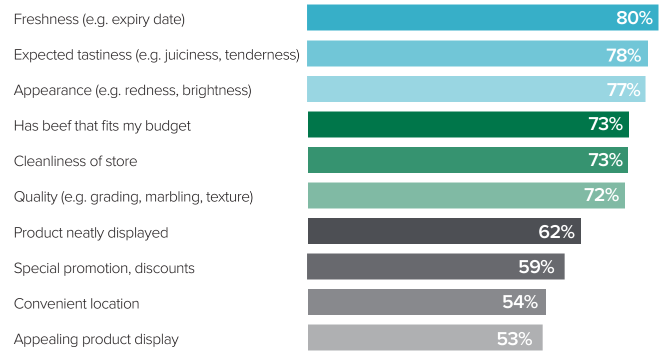
Source: GlobalData. 2017 estimate.
* Cost operators: includes educational, medical, welfare institutions.

- Australian beef and lamb is sold in a wide variety of foodservice channels in the mid to high-end range. When consumers want a premium red meat experience, they tend to enjoy it at steakhouses and western and Japanese restaurants, where product provenance is more prominent.

Source: iStock

- When buying beef at retail, freshness, appearance and expected taste are the top considerations of Hong Kong shoppers.

Hong Kong consumer's top 10 beef purchase considerations

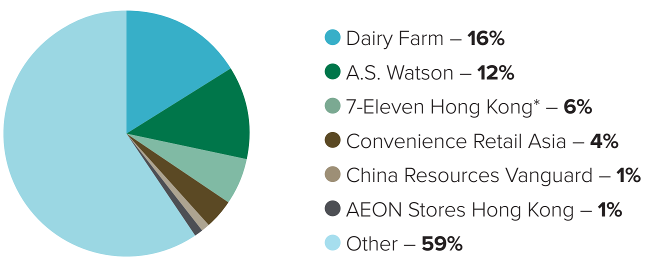


Source: MLA Report, Understanding of the Hong Kong Beef Market, 2013.
Top 2 Box Agree: Extremely + Very important.

Retail

- Hong Kong's grocery retail sector is highly developed and very competitive due to its wealthy but comparatively small market size and increasing availability of cheaper food products from neighbouring markets. It is a vital channel for Australian red meat with around 75% of Australian chilled beef, and around a third of Australian chilled lamb sold through retail *(MLA estimates)*.

Hong Kong Grocery Retail Market Share – 2018



Source: IGD. 2018 forecast.
* In Hong Kong, 7-Eleven is part of the Dairy Farm Group.

- Country of origin labelling is not mandatory in Hong Kong but pre-packed portioned red meat products must list the company name and address where the portioning occurred. Where meat is processed on-site, this labelling information is not required. However, as a mature market, Hong Kong consumers want to know where their meat comes from and consequently most product indicates origin at point-of-sale in some way.
- Hong Kong consumers are cosmopolitan and sophisticated, reflected in the growing presence of food halls, gourmet and specialist stores. 'Premiumisation' is a major driver of retail growth, shaped by a growing demand for healthier, more innovative value-added food propositions, such as ready-made and frozen foods *(Source: BMI Research)*.
- New local convenience and specialist stores are emerging in the market, intensifying competition and providing premium meat with new channels. Online grocery shopping penetration levels remain low, as a high population density makes local smaller format stores more convenient for busy working shoppers and the elderly.

Trade issues

- Imported food is essential in Hong Kong, with imports expected to account for at least 95% of all food consumed into the foreseeable future. In 2018, all beef, lamb and poultry consumption is expected to be sourced from imports *(Source: BMI Research)*.
- Hong Kong has been an important regional re-export hub, particularly for frozen meat. In recent years, Hong Kong frozen red meat import volumes have seen more volatility and general declines, as market access conditions in neighbouring countries have changed. As China's meat market opens up to more suppliers and importing policy reforms are implemented in coming years, Hong Kong's role in meat re-exporting is likely to gradually decline over the coming decade.
- The 29km-long Hong Kong–Zhuhai–Macau Bridge, due to open late 2017, will connect Hong Kong, Macau and mainland China. This area will become an important economic hub along the Maritime Silk Road, part of China's Belt and Road Initiative. This project is likely to further boost tourism visitors to the region, shorten goods transportation times and integrate Hong Kong further with mainland processing industries.

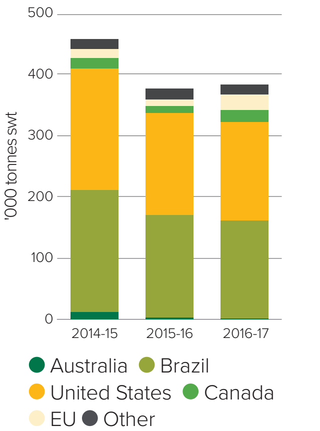
Other suppliers

Beef

- Of Hong Kong's total frozen beef imports in 2016–17 (totalling 312,240 tonnes swt), Brazil supplied just over half (51%) followed by the US (29%), with Australia supplying a much smaller share of 0.5%.
- Despite their small volumes, frozen imports from EU countries such as the UK, Ireland, Poland and the Netherlands have been increasing, intensifying competition.
- Of Hong Kong's total chilled beef imports in 2016–17, Australia was the largest supplier (47% volume share), followed by the US (29%) and Brazil (8%). The 2016–17 average unit price of Hong Kong's chilled beef imports was A$23.78/kg, compared to A$6.33/kg for frozen beef.

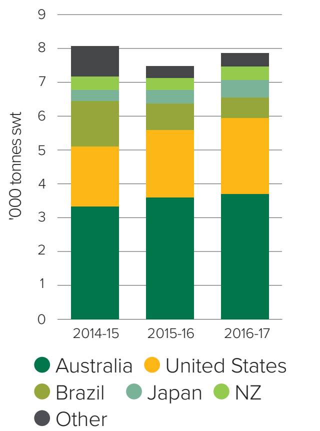
- Japan's chilled beef volume share of 7% accounts for 20% of the value share, largely consisting of highly marbled Wagyu beef products.

Hong Kong FROZEN beef imports



Source: GTA. Financial year data.

Hong Kong CHILLED beef imports

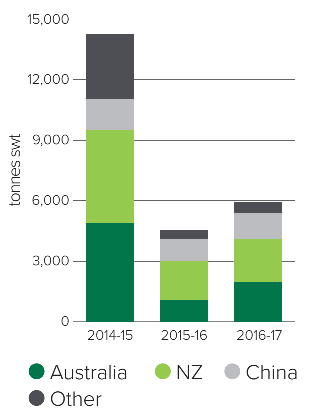


Source: GTA. Financial year data.

Sheepmeat

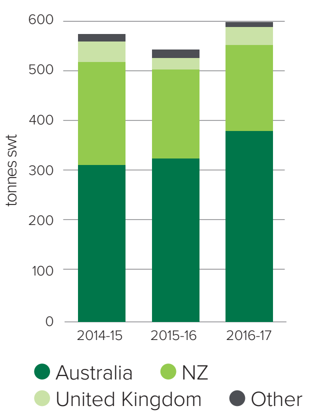
- Hong Kong's frozen sheepmeat imports have fallen sharply in recent years due to a drop in demand from China. Frozen mutton imports peaked at 20,785 tonnes swt in 2010, dropping to 3,806 tonnes swt in 2016. Australia, New Zealand and China are Hong Kong's main sheepmeat suppliers.
- Hong Kong's chilled lamb import volumes have been steadier in recent years with Australia consistently the leading supplier, with a volume share of 85% in 2016–17.

Hong Kong TOTAL Sheepmeat imports



Source: GTA. Financial year data.

Hong Kong CHILLED Sheepmeat imports



Source: GTA. Financial year data.

Offal

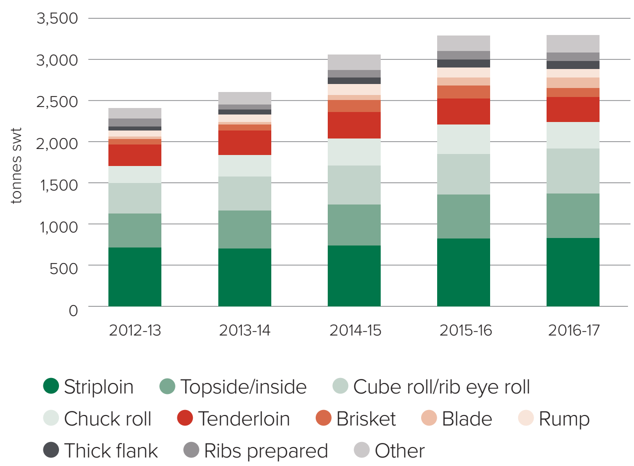
- Hong Kong is the world's largest importer of beef and sheep offal. In 2016–17, beef offal imports totalled 279,391 tonnes swt, valued at A$1.1 billion – 99% is frozen and most is tripe. Much of this product is re-exported to China, where it is used in a wide variety of dishes. For the same period, frozen sheep/goat offal imports totalled 21,155 tonnes swt, valued at A$78.5 million.
- Brazil supplies just over 50% of Hong Kong's beef offal imports, followed by the US and Argentina.
- In 2016–17, Australia exported 18,174 tonnes swt of frozen bovine offal to Hong Kong, representing 7% of Hong Kong's total frozen bovine imports, consisting mostly of tripe. Australia's small volume of chilled beef offal exports to Hong Kong (132 tonnes swt), which are most likely consumed in Hong Kong, were mostly cheek meat, skirt and tail.

- Sheep offal imports are supplied by Australia (98% of which is frozen tripe), as well as the UK and New Zealand.

SPOTLIGHT ON AUSTRALIAN PREMIUM RED MEAT EXPORTS TO HONG KONG

- In 2016–17, Australia's chilled beef exports to Hong Kong reached a 10-year high of 3,317 tonnes swt, valued at A$64.5 million.
- The unit prices earned were almost 80% higher (A$19.37/kg) than the average of all Australia's chilled beef export markets (A$10.87/kg). Striploin comprised the largest proportion (25%) of chilled beef cuts exported to Hong Kong in 2016–17. The proportion and quantity of grainfed beef has been increasing in recent years as demand for more premium quality cuts has grown.

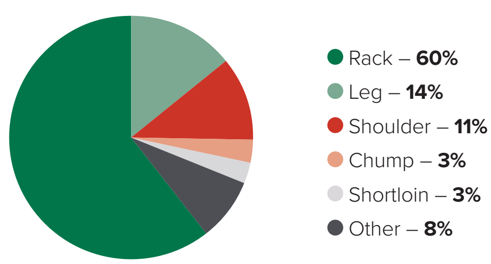
Australian chilled beef cuts exports to Hong Kong



Source: DAWR. Financial year data.

- Australia's chilled lamb exports to Hong Kong have consistently hovered near the 300-tonne mark for 10 years. In 2016–17, Australia exported 304 tonnes swt, valued at A$8.1 million.
- Unit prices in 2016–17 were 28% higher (A$12.29/kg) than the average of all Australia's chilled lamb export markets (A$9.64/kg).
- Rack comprised the largest proportion (60%) of Australia's chilled lamb cuts exported to Hong Kong.

Australian chilled lamb cuts exports to Hong Kong 2016-17



Source: DAWR. Financial year data.

Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
N/A, but Australia is negotiating an agreement*	N/A	Australia has same access with other suppliers	Zero	No major hurdles

Best access — Major challenges

Source: Trade agreements, DFAT, MLA

* Australia-Hong Kong Free Trade Agreement (A-HKFTA) negotiations officially commenced in May 2017.

Australian red meat exports to Hong Kong – summary table

Australian BEEF exports to Hong Kong

Volume – in tonnes swt

		2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	change 2017 vs 5-yr av. %	change 2017 vs 5-yr av. in tonnes swt
Total		**7,691**	**100**	**4,494**	**100**	**7,460**	**100**	**3**	**231**
Storage/meat type	Chilled grassfed	1,825	24	1,901	42	1,963	26	-7	-138
	Chilled grainfed	1,513	20	1,374	31	886	12	71	627
	Frozen grassfed	2,650	34	948	21	4,083	55	-35	-1,433
	Frozen grainfed	1,702	22	271	6	527	7	223	1,175

Source: DAWR

Value – in A$ 000

		2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in A$ 000
Total		**85,727***	**100**	**76,585**	**100**	**82,055**	**100**	**4**	**3,672**
Storage	Chilled	65,407*	76	62,495	82	45,451	55	44	19,955
	Frozen	20,320*	24	14,090	18	36,603	45	-44	-16,283

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

Australian SHEEPMEAT exports to Hong Kong

Volume – in tonnes swt

		2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	change 2017 vs 5-yr av. %	change 2017 vs 5-yr av. in tonnes swt
Total		**5,932**	**100**	**1,264**	**100**	**6,938**	**100**	**-15**	**-1,006**
Storage/meat type	Chilled lamb	300	5	317	25	322	5	-7	-22
	Chilled mutton	-	0	-	0	0.4	0	-100	-0.4
	Frozen lamb	3,599	61	842	67	4,563	66	-21	-964
	Frozen mutton	2,033	34	105	8	2,053	30	-1	-20

Source: DAWR

Value – in A$ 000

		2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in A$ 000
Total		**26,794***	**100**	**12,161**	**100**	**32,786**	**100**	**-18**	**-5,992**
Storage	Chilled	20,179*	75	11,723	96	25,546	78	-21	-5,366
	Frozen	6,615*	25	439	4	7,240	22	-9	-626

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

Australian BEEF OFFAL exports to Hong Kong

Volume - by major cut (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.	
Tripe	20,069	97	19,790	96	21,184	96	-5	-1,116
Tendon	414	2	652	3	665	3	-38	-251
Other	179	1	222	1	213	1	-16	-34
Total	**20,662**	**100**	**20,664**	**100**	**22,063**	**100**	**-6**	**-1,402**

Source: DAWR

Value – in A$ 000

	2017		2016		5-year average		%	in A$ 000
Total	**53,778***		**58,919**		**73,215**		**-27**	**-19,437**

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

Australian SHEEP OFFAL exports to Hong Kong

Volume - by major cut (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.	
Tripe	10,223	98	9,075	99.4	9,072	96.6	13	1,151
Kidney	229	2	1	0.0	304	3.2	-25	-75
Other	4	0	52	1.6	19	0.2	-79	-15
Total	**10,456**	**100**	**9,128**	**100**	**9,395**	**100**	**11**	**1,061**

Source: DAWR

value – in A$ 000

	2017		2016		5-year average		%	in A$ 000
Total	**31,151***		**29,780**		**31,002**		**0**	**150**

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