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.

Population

127.5 in 2017 | **126.1** in 2021

In million

Source: BMI Research, 2017 estimate & 2021 forecast

Households earning* >US$35,000/year

25.7 in 2017 | **32.6** in 2021

In million households

Source: BMI Research, 2017 estimate & 2021 forecast

* Disposable income

Households earning* >US$50,000/year

12.6 in 2017 | **17.7** in 2021

In million households

Source: BMI Research, 2017 estimate & 2021 forecast

* Disposable income

Australian sheepmeat exports – volume

- Chilled lamb – **44%**
- Frozen lamb – **21%**
- Frozen mutton – **34%**

Total 12,820 tonnes swt

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

Australian sheepmeat exports – value

- Lamb – **70%**
- Mutton – **30%**

Total A$119.3 million

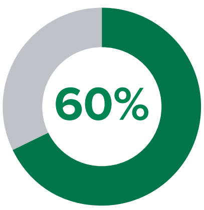
Source: GTA, MAT (Moving Annual Total) November 2016 to October 2017

Proportion of key cuts

- Shoulder – **37%**
- Manufacturing – **23%**
- Leg – **17%**
- Backstrap – **9%**
- Other – **13%**

Source: DAWR, CY 2017

Australia's share of imports

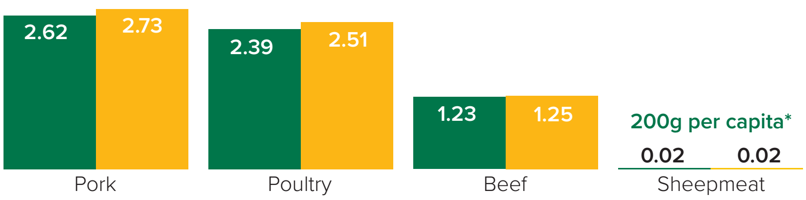


- Australia
- Other countries

Source: GTA, MAT December 2016 to November 2017

Meat consumption

49.6kg per capita* total meat protein**



In million tonnes cwt

Source: BMI Research, GIRA, 2017 estimate and 2021 forecast

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

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Consumers

- Japanese consumers appreciate lamb's eating quality, which resonates with the market's tradition of seeking a variety of foods that deliver enjoyment, but also nutritional balance in 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.

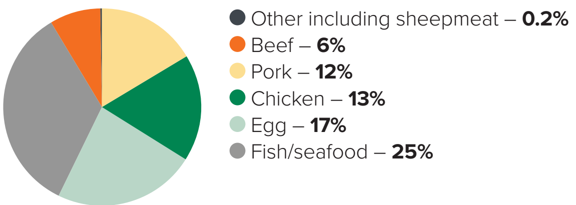
Attributes important for all proteins and lamb associations

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

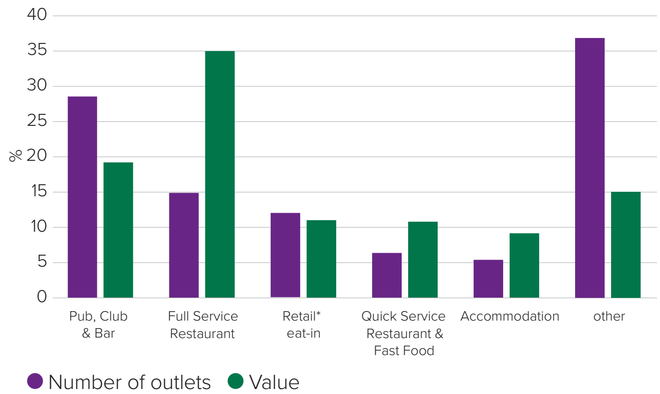
	Japan	China	US
Households with disposable income US$50,000+ (in million)	17.7	7.8	59.6
Urban population, % population	96	62	83
Number of the US$50,000+ households per square km	42	0.4	5.6

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

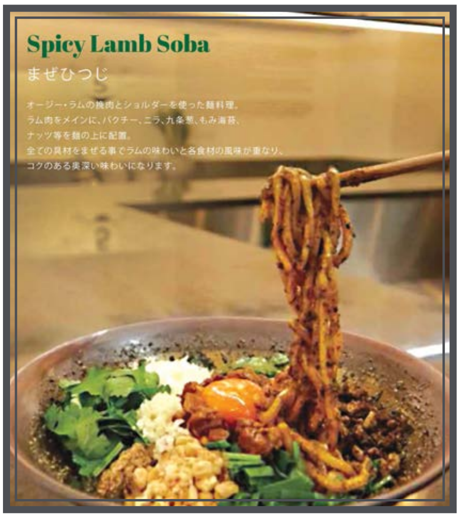


Source: GlobalData
* Retail includes cooked food sold by supermarket, convenience stores and take out specialists.

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

Retail

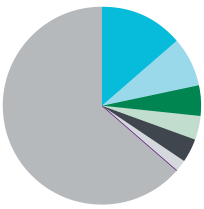
- Lack of familiarity and knowledge of how to cook lamb are major reasons for Japanese shoppers not purchasing lamb in the retail channel *(Source: MLA Global Consumer Tracker Japan, 2016)*. Subsequently, Japanese-style lamb recipes and marinated products using Japanese flavours are perceived more 'accessible'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



- Seven & I Holdings – **14%**
- Family Mart Uny – **8%**
- Aeon – **6%**
- Lawson Japan – **4%**
- Seiyu – **1%**
- Arcs group – **1%**
- Rakuten – **0.5%**
- Other – **65.5%**

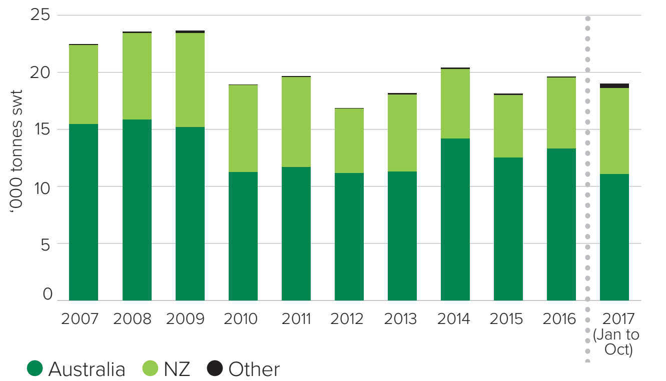
Source: IGD, as of November 2017

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.

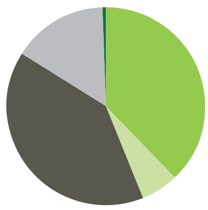
Japan sheepmeat imports by supplier

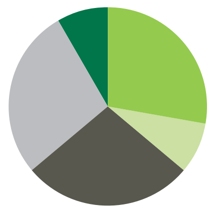


Source: GTA

Sheepmeat imports into Japan by category

Australia	New Zealand
Total 13,002 tonnes swt	Total 8,375 tonnes swt
Average value A$10/kg	Average value A$9.3/kg





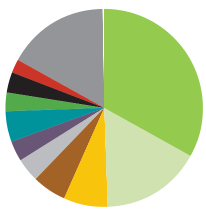
Australia	New Zealand
Chilled boneless – **38%**	Chilled boneless – **30%**
Chilled bone-in – **6%**	Chilled bone-in – **9%**
Frozen boneless – **40%**	Frozen boneless – **30%**
Frozen bone-in – **15%**	Frozen bone-in – **17%**
Carcases – **0.2%**	Carcases – **14%**

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



- China – **33%**
- UK – **16%**
- US – **7%**
- Germany – **6%**
- Saudi Arabia – **4%**
- France – **3%**
- Netherlands – **5%**
- Canada – **3%**
- Jordan – **3%**
- Japan – **2%**
- Other – **17%**

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)	**New Zealand** (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. %	change 2017 vs 5-yr av. in tonnes swt
	Total	**12,820**	**100**	**13,222**	**100**	**12,502**	**100**	**3**	**318**
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

		2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in A$ 000
	Total	**119,304***	**100**	**108,823**	**100**	**98,055**	**100**	**22**	**21,249**
Meat type	Lamb	84,086*	70	77,394	71	71,784	73	17	12,302
	Mutton	35,217*	30	31,430	29	26,271	27	34	8,946

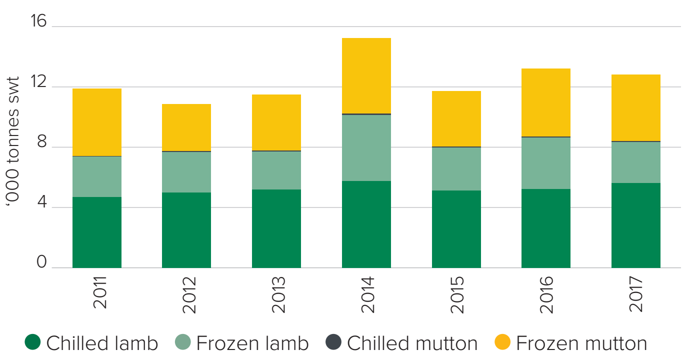
Source: ABS/GTA. 2017 = Moving Annual Total (MAT), November 2016 to October 2017.*

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

	2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in tonnes swt
Shoulder	4,742	57	4,882	57	4,437	53	7	305
Manufacturing	1,622	19	1,864	22	2,315	27	-30	-693
Rack	745	9	626	7	552	7	35	193
Leg	662	8	714	8	680	8	-3	-18
Carcase	212	3	201	2	172	2	24	41
Other	361	4	352	4	270	3	34	91
Total	**8,345**	**100**	**8,640**	**100**	**8,426**	**100**	**-1**	**-81**

Source: DAWR

Australian sheepmeat exports to Japan



Source: DAWR

Genghis Khan sheepmeat barbecue.