

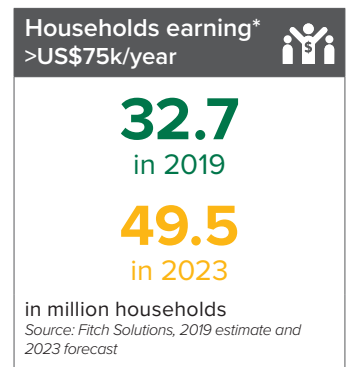
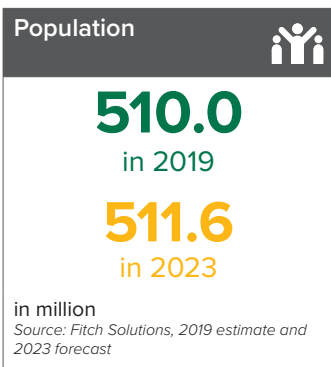
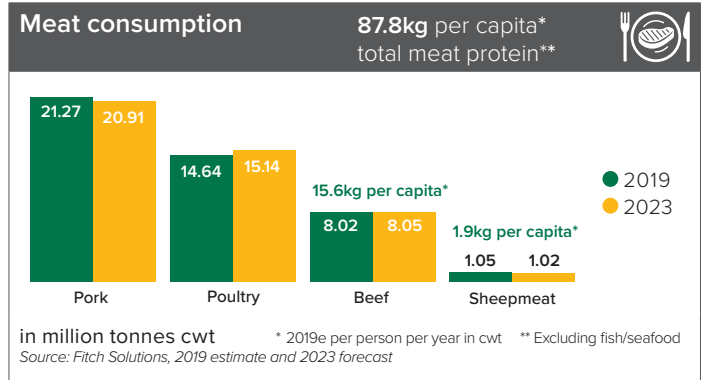


# MARKET SNAPSHOT | BEEF & SHEEPMEAT



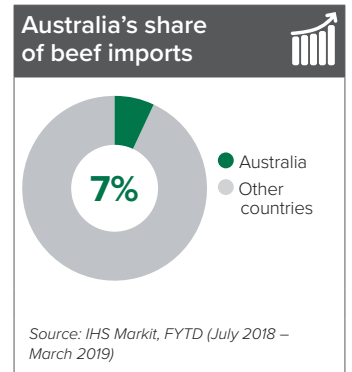
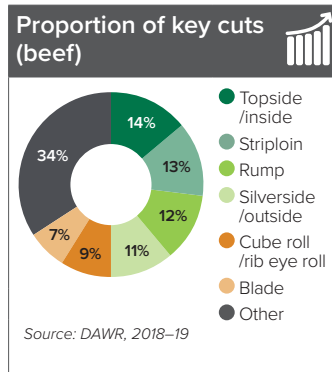
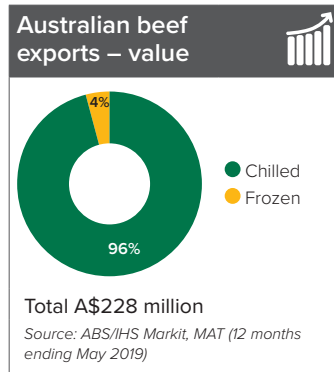
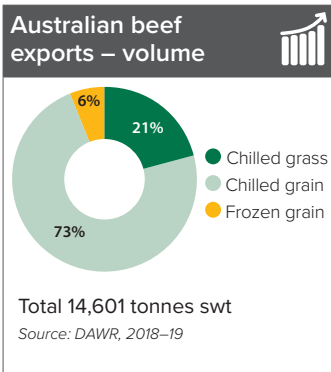
## European Union

As a region of 28 countries, the European Union (EU) contains the largest pool of households earning over US\$35,000/year in the world; however, its stance towards agricultural imports has restricted Australia's ability to grow trade with the region. Ongoing FTA negotiations with the EU seek to resolve this imbalance, while Brexit presents a longer term opportunity to grow trade with Australia's largest red meat market in the 28-member union.

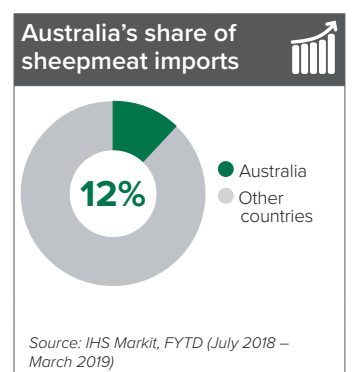
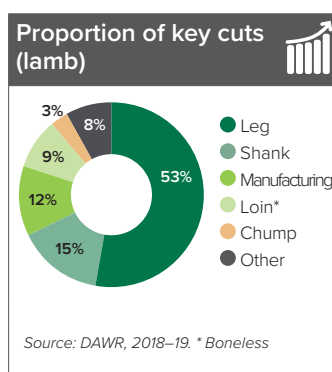
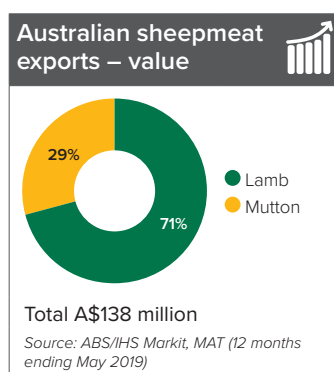
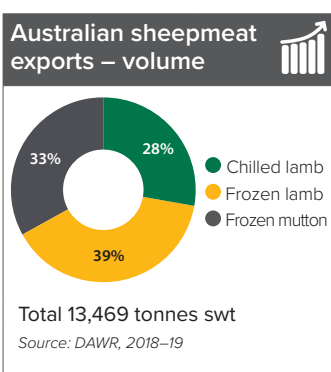


\*Disposable income: earnings after taxes and social security charge – EU 28 member states

The EU is a small but high value market for Australian beef, especially grainfed exports, however trade remains sensitive to evolving market access conditions.



The UK took 61% of Australian sheepmeat exports to the EU in 2018-19, the largest European destination for Australian lamb and mutton.

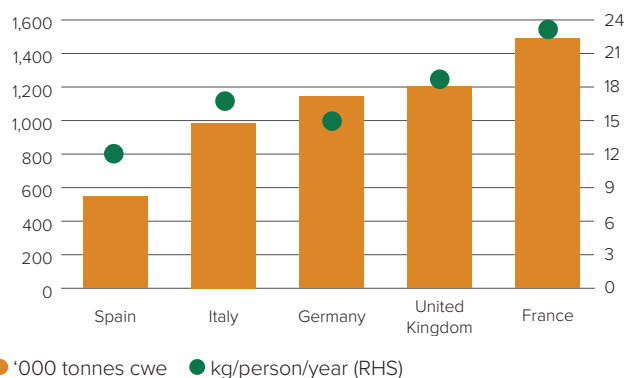


## CONSUMERS



- The European Union (EU) is a large per capita consumer of beef by global standards, but consumption levels range between countries, driven by varying degrees of economic development and beef's role within the traditional cuisine. France, the United Kingdom (UK), Germany and Italy are the region's largest consumers.
- EU beef consumption has been in long-term decline – the result of reduced local production and restricted imports, an ageing population, changing lifestyles and consumer concerns regarding animal welfare and sustainability.
- Although limited in volume, Australia predominantly exports high-value loin and other primal cuts to the EU, typically destined for foodservice. However, with restrictive access and volume in the market, consumer awareness of Australian beef remains low.
- The UK is Australia's largest market in the region but consumption remains dominated by British and Irish beef, which are perceived as fresher and more convenient to purchase. British beef also appeals to loyal UK consumers, with some supermarkets shifting to 100% local sourcing and branding, particularly following the 2013 horsemeat scandal.
- In the UK, beef is perceived as being superior, great tasting and a family favourite compared to other proteins, but falls behind chicken in terms of convenience and health perceptions.

### EU beef consumption



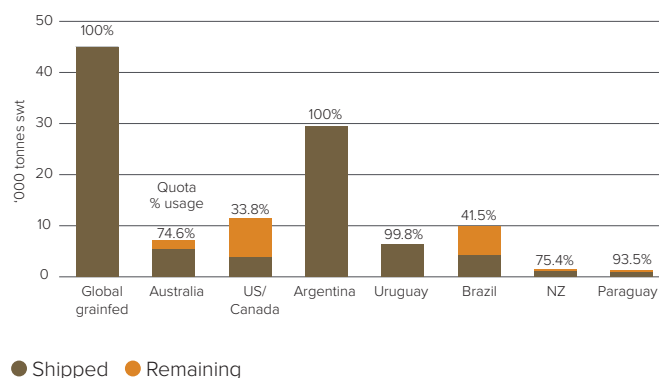
Source: Fitch Connect 2018 estimate

## MARKET ACCESS



- Punitive market access, involving low volume import quotas and high out of quota import tariffs, is Australia's greatest limiting factor to increasing exports to the EU.
- Australia's current beef access within the EU is in stark contrast to the majority of other export markets, which have progressed in liberalising trade. Transformation of these EU import arrangements will be a necessary component of ongoing free trade agreement (FTA) negotiations.
- Australia has predominantly exported beef under two quotas:
  - High Quality Beef (HQB) 'Hilton' country specific quota (7,150 tonnes with 20% in-quota tariff)
  - HQB grainfed quota (45,000 tonnes with 0% in-quota tariff shared on first-come first-served basis with US, Uruguay, New Zealand and Argentina).
- Australia has been a strong contributor to the HQB global grainfed quota, using an estimated 25% of this shared quota in 2018–19. However, the US has finalised negotiations with the EU to have exclusive access to 18,500 tonnes swt of the quota (but increasing to 35,000 tonnes swt over seven years). Remaining users will compete over the residual quota but the timing of changes is yet to be confirmed.
- Brexit poses uncertainty to Australia's existing access to the EU and UK but also presents long term opportunity (see Brexit section for more details).

### EU beef quota usage – 2018-19



Source: EU Commission. Global grainfed is a shared quota while others are country specific Hilton quotas.

## OTHER SUPPLIERS



- The EU's large dairy industry has meant the domestic dairy-based beef production has continued to account for a large share of consumption, estimated at 96% in 2018.
- After an increase from 2013–2018 due to a restructuring of the dairy sector, EU beef production is expected to continue its long-term decline out to 2030, with the market to increasingly rely on imported product to meet consumption requirements.
- The EU requires all imported beef to be strictly HGP-free, which restricts the majority of US and Canadian, and some Australian product.
- Operating off a much lower cost base, South American suppliers can pay additional tariff duties and trade outside their restrictive country-specific Hilton quotas, allowing them to account for the bulk of imports.
- Mercosur – made up of Argentina, Brazil, Uruguay and Paraguay – concluded FTA negotiations with the EU in June 2019, in which the bloc was granted 99,000 tonnes carcass weight equivalent (cwe) of beef access. However, the deal still needs to be ratified by both sides' parliaments and the distribution mechanism and transition timeline is yet to be determined.
- After the conclusion of the EU-Canada Comprehensive Economic and Trade Agreement, Canada carved out a 45,838 tonne cwe beef quota – a significant improvement from previous access – but little trade has materialised.



# Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Australia-EU Free Trade Agreement negotiations commenced in July 2018	<b>2019</b> 7,150 tonnes country specific HQB quota: 20% in-quota tariff; above quota tariff 12.8% + €3/kg Access to 45,000 tonnes* global grainfed quota: 0% in-quota tariff; above quota tariff 12.8% + €3/kg	Argentina, Brazil and US/Canada have larger allocations than Australia under the Hilton quota Ongoing pressure on global grainfed quota – with quarterly allocation being filled within weeks	<b>2019</b> 7,150 tonnes under country specific High Quality Beef quota Shared access to 45,000 tonnes* global grainfed quota Access (via EU importer held licences) to shared frozen beef quota and frozen beef for processing quota, which at times source Australian product	HGP free compliance adds costs to doing business with the EU All beef supplied to market must be EUCAS accredited

Best access Major challenges

Source: Trade agreements, DFAT, MLA

\* The EU and US have recently come to an agreement, which subsequently received the accession of other substantial suppliers of the quota (Uruguay, Argentina and Australia) to 'ring-fence' a portion of the HQB global grainfed quota for exclusive access by the US. This will see the US receive an initial allocation of 18,500, increasing to 35,000 tonnes over seven years, with the remainder available to other suppliers. However, the timing of these changes is yet to be confirmed.

## Australian beef exports to EU – summary table



Volume – in tonnes swt		2018–19		2017–18		5-year average (2013–14 to 2017–18)		change 2018–19 vs 5-year average	
			% out of total		% out of total		% out of total	%	in tonnes swt
<b>Total</b>		<b>14,601</b>		<b>17,729</b>		<b>21,207</b>		<b>-31</b>	<b>-6,606</b>
Storage	Chilled	13,743	94	17,029	96	20,327	96	-32	-6,584
	Frozen	858	6	700	4	880	4	-2	-22
Meat type	Grassfed	3,160	22	4,795	27	6,148	29	-49	-2,989
	Grainfed	11,441	78	12,933	73	15,058	71	-24	-3,617
Storage/meat type	Chilled grassfed	3,112	21	4,783	27	5,779	27	-46	-2,667
	Chilled grainfed	10,631	73	12,246	69	14,548	69	-27	-3,917
	Frozen grassfed	48	0	12	0	370	2	-87	-321
	Frozen grainfed	810	6	688	4	510	2	59	300

Source: DAWR

Value – in A\$ 000									
			%		%		%	%	in A\$ 000
<b>Total</b>		<b>228,220</b>		<b>249,218</b>		<b>266,107</b>		<b>-14</b>	<b>-37,888</b>
Storage	Chilled	219,099	96	245,017	98	256,444	96	-15	-37,345
	Frozen	9,121	4	4,201	2	9,663	4	-6	-542

Source: ABS/IHS Markit, 2018-19 = MAT (12 months ending May 2019)

Volume – by major cut (in tonnes swt)								
		%		%		%	%	in tonnes swt
Topside/inside	2,052	14	2,290	13	3,319	16	-38	-1,268
Striploin	1,926	13	2,617	15	3,030	14	-36	-1,104
Rump	1,784	12	2,354	13	2,696	13	-34	-912
Silverside/outside	1,536	11	1,767	10	2,445	12	-37	-909
Cube roll/rib eye roll	1,284	9	1,658	9	1,771	8	-27	-487
Blade	1,023	7	1,357	8	1,629	8	-37	-606
Chuck roll	963	7	1,314	7	1,603	8	-40	-640
Thick flank/knuckle	840	6	1,009	6	1,454	7	-42	-614
Tenderloin	798	5	1,033	6	1,116	5	-28	-317
Brisket	489	3	510	3	321	2	52	168
Other	1,905	13	1,818	10	1,823	9	5	82
<b>Total</b>	<b>14,601</b>		<b>17,729</b>		<b>21,207</b>		<b>-31</b>	<b>-6,606</b>

Source: DAWR



# Sheepmeat

## CONSUMERS

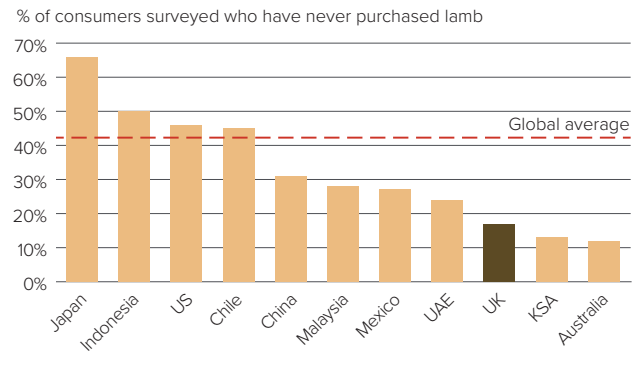


- The role and prevalence of sheepmeat consumption varies significantly between EU members. In the UK, Ireland and Greece, consumption is traditionally linked to the seasonal production cycle, while in other countries, demand is tied to culturally significant occasions such as Easter.
- Sheepmeat plays a minor role in consumer diets. Consumption is primarily concentrated in Western Europe, particularly the UK, France and Spain, but Romania and Greece are also significant producers and consumers.
- Similar to other developed markets, social factors – such as health concerns, animal welfare and environmental issues – remain a challenge for increasing sheepmeat consumption in the EU.
- Australia predominantly exports lamb legs to the EU, which are directed into foodservice channels. New Zealand lamb has a larger footprint in retail due to greater preferential access.
- The UK is Australia's largest market in the EU, however, local and New Zealand lamb are the predominant suppliers, perceived as being more convenient to purchase and familiar among consumers. Australian lamb is perceived as having

strong food safety credentials – likely tied to a history of no major animal disease outbreaks – but is perceived as less fresh compared to locally sourced product.

- Unlike other markets, the UK has a high penetration of consumers who have tried lamb due to its cultural and historical presence.

### UK consumers have a high familiarity with lamb



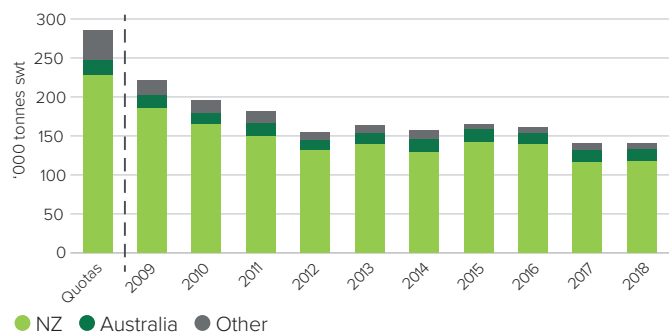
Source: MLA Global Consumer Tracker, 2018

## MARKET ACCESS



- Australia has a 19,186 tonne (carcase weight equivalent combined sheepmeat/goatmeat) country-specific 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.
- Australian sheepmeat is currently disadvantaged compared to New Zealand, which has a 228,254 tonnes quota – more than 11 times larger than Australia's. New Zealand's quota has not been fully utilised in recent years.
- The EU is negotiating FTA's with Australia and New Zealand in parallel. Transformation of the EU's restrictive import quotas will be a necessary component of ongoing negotiations.

### EU sheepmeat quotas and imports



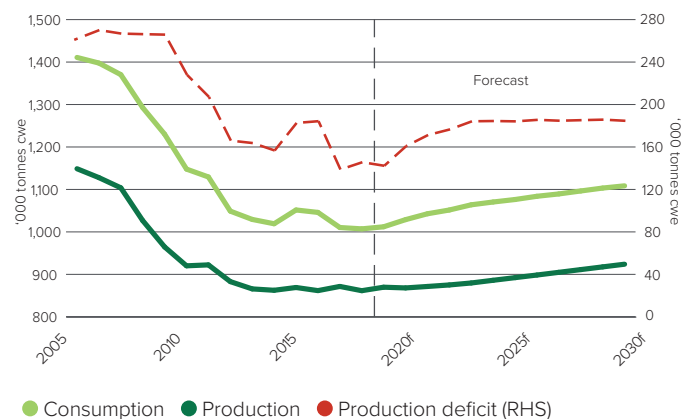
Source: EU Commission, IHS Markit

## OTHER SUPPLIERS



- After declining 25% over the ten years to 2014, EU sheepmeat production has since stabilised and is forecast to increase only modestly, if at all, over the next decade.
- The UK is the powerhouse of EU sheepmeat production, accounting for one third of supply, followed by Spain and France.
- Imports have accounted for 20% 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 has allowed it to capture the majority of import market share. New Zealand also produces a lighter carcase than Australia, resulting in cut sizes more in line with local product, providing an advantage into the imported UK leg roast market.
- However, imports from New Zealand over the last five years have been stretched by supply constraints (New Zealand land is increasingly being reallocated to the dairy sector) and China emerging as a major buyer of imported New Zealand sheepmeat.

### EU sheepmeat production and consumption



Source: EU agricultural outlook for markets and income, 2018-2030 (figures include goatmeat)



## Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Australia-EU Free Trade Agreement negotiations commenced in July 2018	<b>2019</b> In quota – 0% Above quota – 12.8% + 90.2~311.8 euro/100kg	<b>NZ</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	2018–19	% out of total	2017–18	% out of total	5-year average (2013–14 to 2017–18)	% out of total	change 2018–19 vs 5-year average		
							%	in tonnes swt	
<b>Total</b>	<b>13,469</b>		<b>16,960</b>		<b>16,847</b>		<b>-20</b>	<b>-3,377</b>	
Storage	Chilled	3,736	28	3,998	24	5,354	32	-30	-1,618
	Frozen	9,734	72	12,961	76	11,493	68	-15	-1,759
Meat type	Lamb	9,072	67	11,006	65	11,782	70	-23	-2,710
	Mutton	4,398	33	5,954	35	5,065	30	-13	-667
Storage/meat type	Chilled lamb	3,734	28	3,998	24	5,354	32	-30	-1,620
	Chilled mutton	1	0	0	0	0	0	1503	1
	Frozen lamb	5,338	40	7,008	41	6,428	38	-17	-1,090
	Frozen mutton	4,396	33	5,953	35	5,065	30	-13	-669

Source: DAWR

### Value – in A\$ 000

Value – in A\$ 000	2018–19	% out of total	2017–18	% out of total	5-year average (2013–14 to 2017–18)	% out of total	change 2018–19 vs 5-year average		
							%	in A\$ 000	
<b>Total</b>	<b>137,940</b>		<b>175,754</b>		<b>147,041</b>		<b>-6</b>	<b>-9,102</b>	
Meat type	Lamb	97,815	71	118,855	68	107,210	73	-9	-9,395
	Mutton	40,124	29	56,899	32	39,831	27	1	293

Source: ABS/IHS Markit, 2018-19 = MAT (12 months ending May 2019)

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

Australian lamb exports to EU – by major cut (in tonnes swt)	2018–19	% out of total	2017–18	% out of total	5-year average (2013–14 to 2017–18)	% out of total	change 2018–19 vs 5-year average	
							%	in tonnes swt
Leg	7,085	53	5,545	50	6,715	57	6	370
Shank	1,970	15	2,544	23	2,398	20	-18	-429
Manufacturing	1,572	12	670	6	1,042	9	51	529
Boneless loin	1,292	10	861	8	361	3	258	931
Chump	430	3	698	6	785	7	-45	-355
Other	1,121	8	688	6	480	4	134	641
<b>Total</b>	<b>13,469</b>		<b>11,006</b>		<b>11,782</b>		<b>14</b>	<b>1,688</b>

Source: DAWR

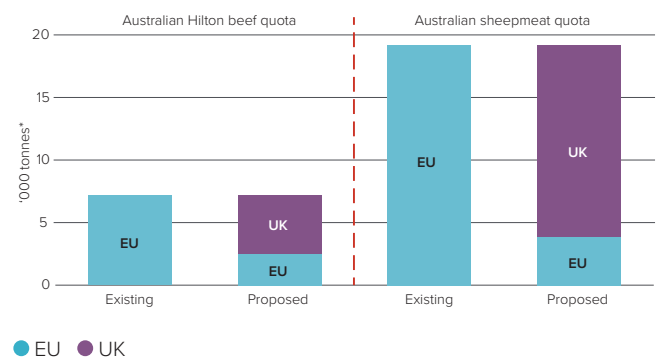
## BREXIT



- Brexit presents opportunities and challenges for Australian red meat. Despite the UK's decision in the June 2016 referendum to leave the EU, the timing, final Brexit construct and future trading relationship between the UK, EU and rest of the world remains in flux.
- Both the UK and Australian governments have indicated a willingness to engage in free trade agreement (FTA) negotiations if and when Brexit is finally realised. The UK presents a compelling value proposition, given it's Australia's largest existing red meat market in the EU and is host to a large pool of wealthy consumers already familiar with red meat.
- However, upon the UK's departure from the single customs union (and likely before an FTA will be concluded with the EU or UK) the EU and UK have proposed splitting country-specific tariff rate quotas between the two markets based on prior trade data. This proposal would see Australia's HQB Hilton beef quota split 65% and 35% between the UK and remaining EU respectively, and the sheepmeat quota split 80% and 20%.
- Further quantitative restrictions between both markets presents an erosion of Australia's access and would have negative implications for Australian exports, as it would reduce the industry's ability to target the most attractive opportunities across both markets and respond to changing market conditions.
- Depending on the Brexit outcome (deal or no deal), there is potential for severe disruption to red meat trade flows between the UK, EU and third party countries. For instance, the UK was Ireland's largest beef market, importing 210,000 tonnes shipped weight (swt) in 2018, which, in the case of a no-deal Brexit, would be competing with beef from other exporters via the UK's new import regime. In addition, the UK exported 79,000 tonnes swt of mostly shoulder and loin sheepmeat cuts to the rest of the EU (and imported 15,000 tonnes swt of mostly leg cuts) – if that two-way trade is disrupted, a greater amount of sheepmeat may remain in the UK or be diverted to non-EU markets.

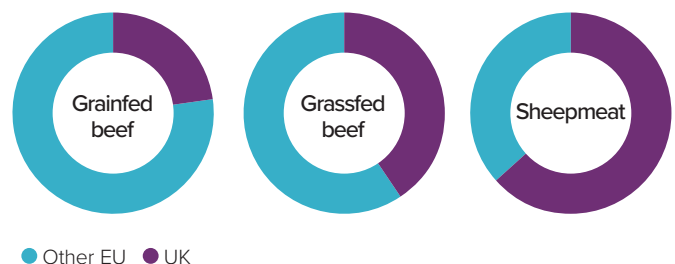
- Many scenarios may yet play out and impact future trade dynamics within and outside the EU. Most pressing, the UK Parliament is yet to decide upon and gain consensus for the form of Brexit desired. For now, the UK and EU have delayed the deadline to 31 October 2019, unless a withdrawal agreement is ratified by UK Members of Parliament before this date.

### Australian quota splits upon the UK leaving the EU



\*beef quota is measure in tonnes shipped weight and sheepmeat quota in tonnes carcass weight equivalent

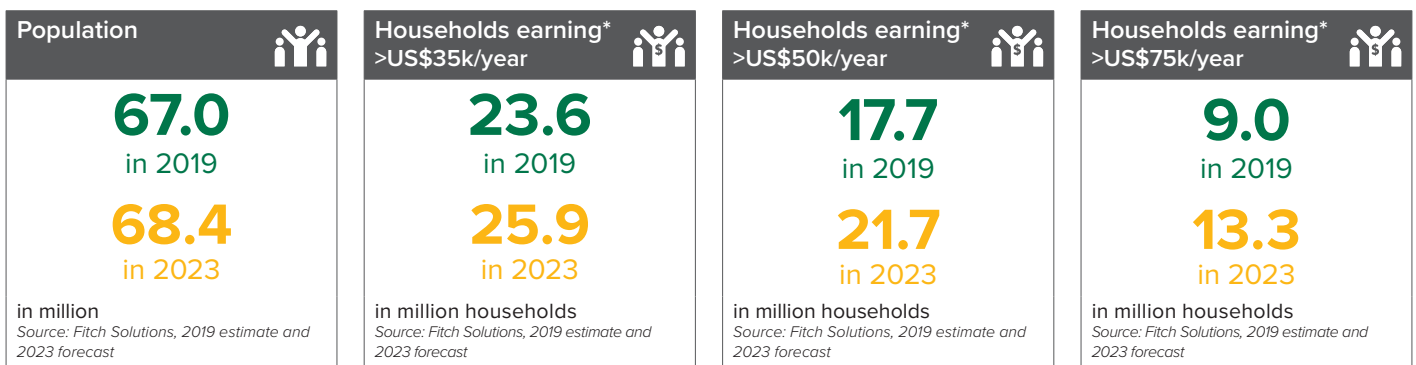
### Australian red meat exports to the EU and UK



Source: : DAWR (2018)

Note, exports are per port of entry. However, once in the EU customs union product can move freely and may be consumed outside the country of entry. For instance, survey research by GIRA found that 10-40% of non-EU imported beef in the UK was re-exported to other EU member states.

## UK figures



\*Disposable income.