

# MARKET SNAPSHOTS

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## Beef & Sheep

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September 2020



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## Beef & Sheep

### Contents

Overarching impact of COVID-19 on the global market	1
Australian exports – key cuts summary	4
Australia	10
North America	14
Japan	23
Korea	29
Greater China	35
South-East Asia	45
Middle East and Northern Africa (MENA)	52
European Union (EU)	59

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# Overarching impact of COVID-19 on the global market

COVID-19 has had an overbearing influence upon Australia's domestic and global markets since the start of 2020. The outbreak of COVID-19 has caused widespread global disruption and never before seen action from governments around the world, impacting all industries. The impact of the pandemic across red meat markets varies and has been shaped by many pre-existing factors, such as a country's dependence on imports, the level of consumer disposable income and the prominence of red meat in consumer diets. The market impact has also reflected evolving factors, such as the success of virus containment, the level of restrictions imposed by the government and the speed of economic recovery.

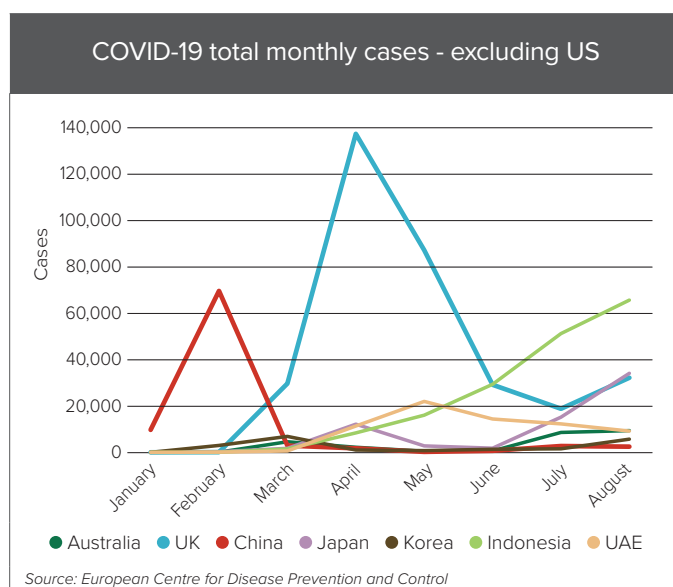
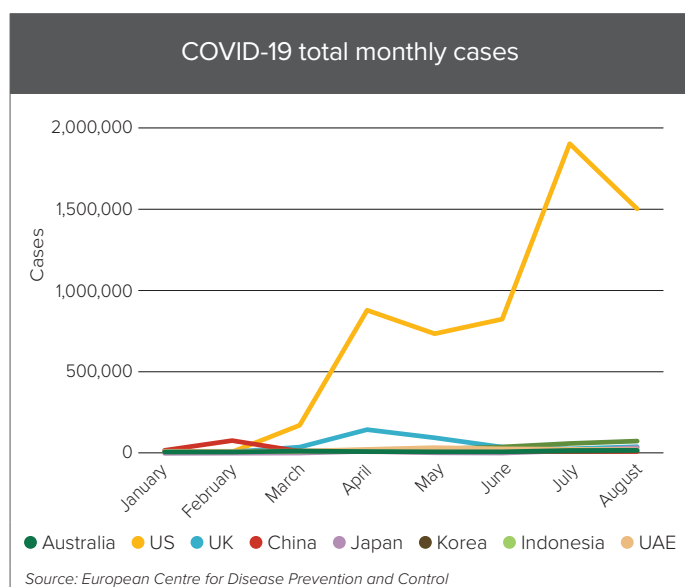
COVID-19 has caused widespread social, economic, logistical, travel and trade disruptions and triggered unprecedented regulatory and stimulatory action from governments around the world. The combined impact on the Australian red meat industry from the economic slowdown, disruption to foodservice channels and dislodgement of supply chains is impossible to estimate as conditions remain fluid.

The pandemic has created a volatile trading environment with many unique circumstances. Government restrictions have caused significant changes to where Australian red meat is purchased and consumed. COVID-19 has also caused a significant downgrade in the global economic outlook that will result in a recession that is both broader and deeper than the Global Financial Crisis (GFC), hitting disposable income and, subsequently, purchasing behaviour. With no vaccine available, COVID-19 will continue to disrupt the consumption of Australian red meat both domestically and internationally.



## EVOLUTION OF IMPACT

The evolution of COVID-19 and its impact on markets, can be considered in a number of phases. The initial phase is shock and reaction, followed by lockdown and adaption, and then a gradual shift to a 'new normal'. However, as many countries have faced a refreshed outbreak, it is unknown how these will evolve. Each of these stages have different impacts upon consumers, the economy, logistics, channels of operation and ultimately how and what Australian red meat is consumed and purchased.

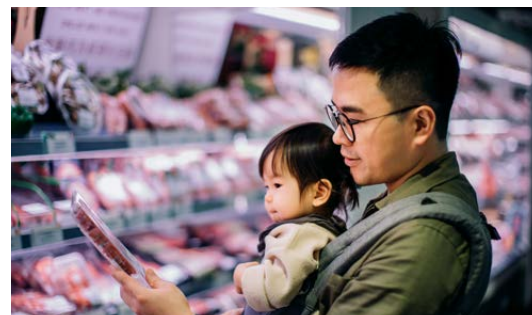


## CONSUMER IMPACT



The multi-layered impact of COVID-19 has prompted some significant shifts in consumer purchasing behavior and perceptions. Broadly, COVID-19 has led many consumers to seek products that they trust and have an increased focus on health, hygiene and quality. Australia's strong credibility, with high safety and quality standards, gained in markets over decades of combined industry investment, should continue to bolster strong consumer demand for Australian red meat.

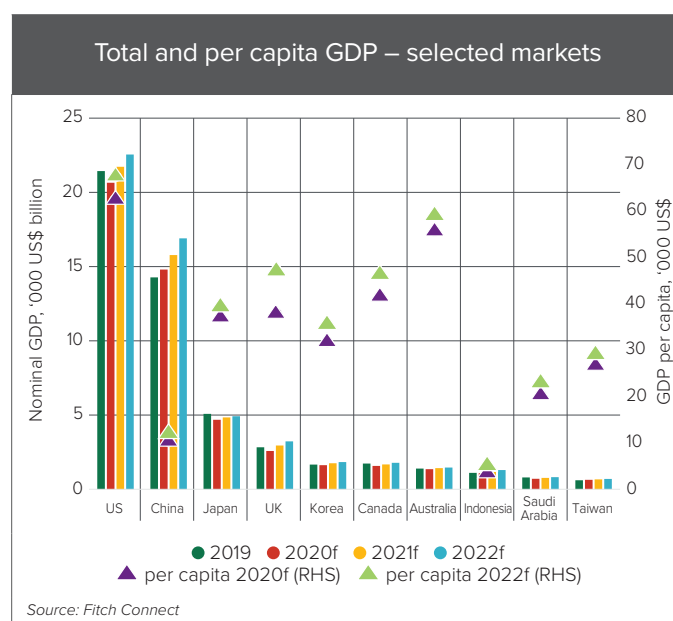
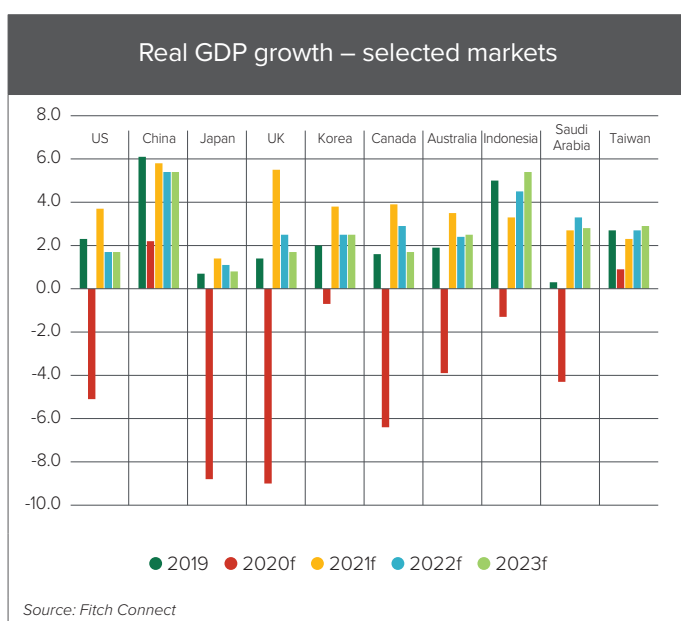
When thinking about current concerns, COVID-19 is top of mind for consumers globally (followed by unemployment and healthcare). However, consumer sentiment varies significantly across countries impacted by COVID-19. Generally optimism and anticipated spending are largely correlated globally and is typically higher at the start and end life stages of the outbreak curve. More than two in five consumers globally are spending more time cooking/preparing food at home. While approaches to recipe and cuisine experimentation vary, familiarity with red meat remains key at this time.



## ECONOMIC IMPACT



The full impact of COVID-19 on the global economy will depend on when the virus comes under control, but much damage has already been done. The global economy, and most of Australia's key red meat markets, are facing a significant slowdown or outright recession as a result of COVID-19.



Dropping gross domestic product level across markets doesn't determine demand for Australian red meat on its own. It does, however, reflect the broader health of an economy and correlates with unemployment, consumer confidence and income – factors which directly impact red meat sales. With many key markets now in the midst of an economic recession, tighter disposable incomes may encourage greater consumption of lower-priced substitutes.

While the impact from COVID-19 on Australian red meat demand may be more severe than any economic downturn in recent history, the industry will be more sheltered than many sectors. People still need to eat, and red meat plays a central role in a broad mix of cultures and cuisines.

There are some lessons from recent economic downturns and the impact on consumer behaviour, which include:

- more budgeting/planning and reduced spending (particularly for non-essentials)
- price and promotions become more critical and private label becomes more acceptable
- discount retail grows; retailer variety becomes accepted.





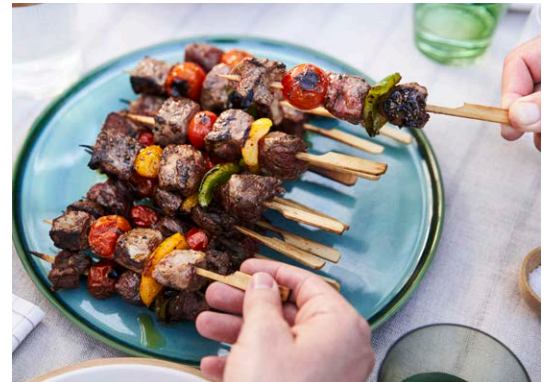
The unprecedented nature of the outbreak has created a multitude of headwinds, one of which is the slowdown of global foodservice industries, a key channel for Australian red meat. Correspondingly, the retail channel has experienced an increase in demand as people have been restricted to home and spent more time cooking and preparing meals.

While increasing retail demand is a positive and has helped offset the slowdown in foodservice channels, a number of issues have emerged from this shift. Typically, higher value loin cuts make their way into foodservice, balancing out the overall value of the carcase for processors. With most markets facing a slowdown in foodservice demand, carcase balance has become a major challenge.

The impact of this shifting demand differs across markets, depending on the weighting of consumption between retail and foodservice channels, as well as the ability for supply chains to adapt and repurpose products. It is clear, however, that the recovery of the foodservice sector, a key channel for higher-value beef and lamb cuts, will be critical for the future demand prospects of Australian red meat.

While fundamental consumer needs for foodservice are likely to remain unchanged, their behaviour towards foodservice will be influenced by the economic situation, channel choice (online/offline) and experience during the pandemic (i.e. more cooking at home, supporting local community etc.). Some operational trends that appear to have emerged in the foodservice channel due to COVID-19 are around sanitation, cashless/contactless services, delivery, changed offerings, hybrid operations, ghost kitchens and automation/innovation.

Unlike the foodservice channel, retail has largely benefited from the COVID-19 outbreak. The retail shopper's response changes and evolves over the various COVID-19 stages from stockpiling and switching to online, to a focus on fresh/ local and finally a shift to health/value. Similarly, retailers have adapted as well, with many ramping up online capacity, creating new partnerships, developing new ways of delivery and generally adjusting to meet new or evolved consumer needs.



## SUPPLIER IMPACT



COVID-19 difficulties have been compounded by the logistical and operational barriers it has created, such as port bottlenecks, limited refrigerated container availability, disruptions to air-freight and labour shortages. These factors have all complicated red meat supply and caused temporary disruptions across markets. Australia's ability to adapt to various supply chain difficulties and continue supplying product with as much normality and consistency as possible will enable it to continue servicing demand, which is particularly important for markets that rely on imports for national food security.



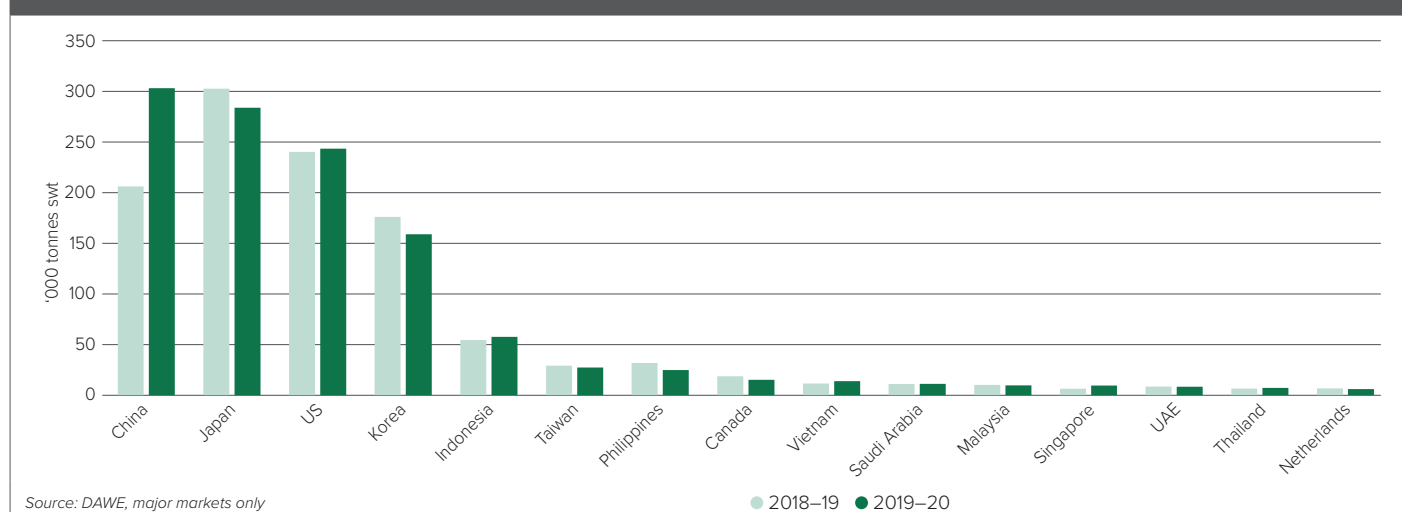
## Australian exports – key cuts summary

### BEEF



- In 2019–20, Australian beef production increased by 1% year-on-year, while export volume was up 5% from year-ago levels.
- 1,778,000 tonnes carcase weight (cwt), or 76% of Australian beef produced in 2019–20, was exported to overseas markets.

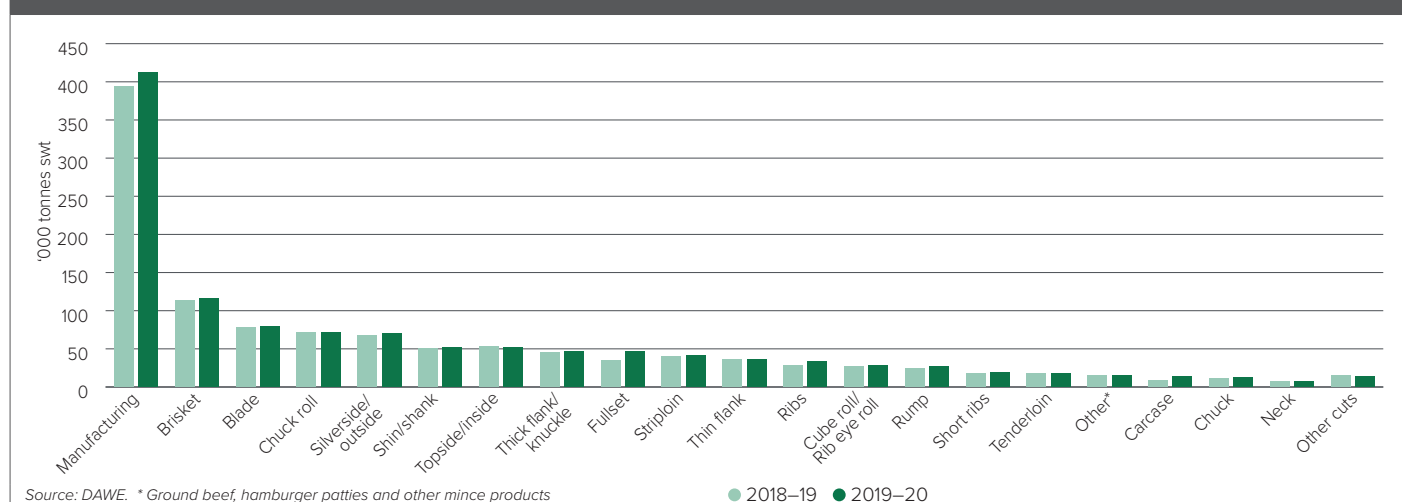
Australian beef export volume by market



- Australian beef exports are heavily geared towards Asia, with 74% of total beef exports in 2019–20 destined for the region. The remainder was split between North America (21%) and the Middle East region (2%).
- Asian markets have been consistent customers of forequarter cuts, taking more than 95% in 2019–20. Their share of total manufacturing and loin cuts also increased from 57% in 2018–19 to 60% in 2019–20.
- A large proportion of export growth in Asia in 2019–20 was driven by China, as the country increased imports of all proteins, including beef, as a result of the protein shortage caused by African Swine Fever (ASF) wiping out 40–50% of China's pig herd.
- There has been a strong increase in chilled grassfed fullsets\* to the US, registering a 23% year-on-year rise during 2019–20.

\* Fullsets are commonly a set of 12–14 cuts. Some fullset exports may be captured under individual cuts.

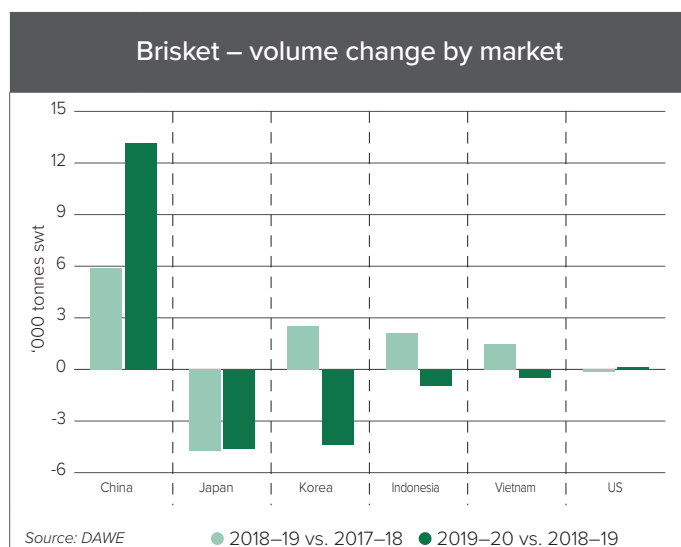
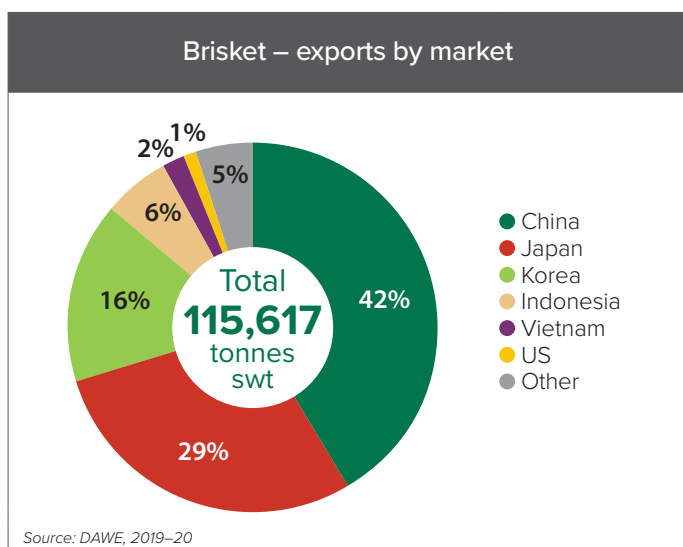
Australian beef exports by cut





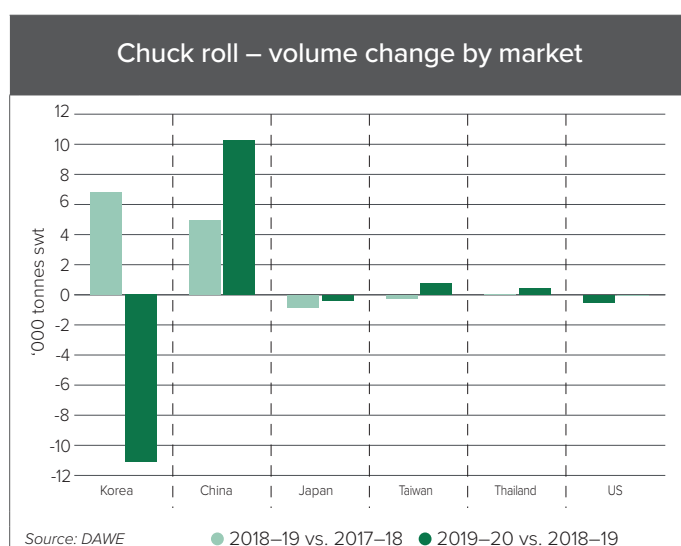
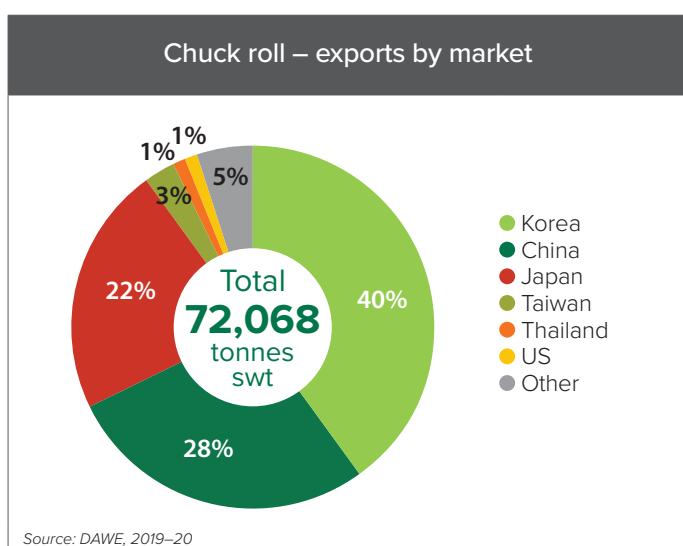
## Brisket

- Brisket has long been a popular cut with Chinese buyers for local processing into the foodservice sector, suited to slow-cook and hot pot recipes popular with Chinese consumers. Besides strong overall demand for Australian beef across sectors, the growth in chilled brisket exports was also supported by affluent Chinese consumers, who prefer chilled products for home cooking, which they have been doing more of due to COVID-19.
- This cut has also continued to see strong demand from Japan and Korea, where it is a popular ingredient in various local dishes such as *gyudon* (beef rice bowl in Japan) and in many soups in Korean cuisine. That said, more Japanese and Korean buyers likely shifted from Australian to US product recently with increasing supplies of US shortplates, combined with strong competition from China for Australian briskets.



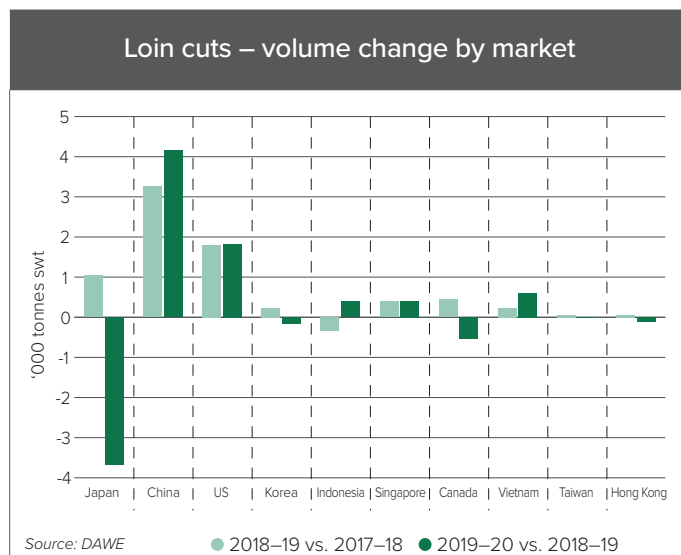
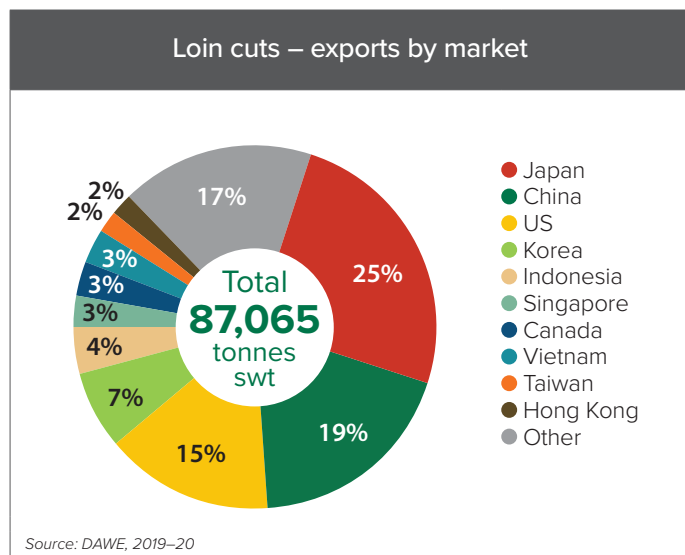
## Chuck roll

- Korea remains as the largest destination for Australian chuck roll. The ongoing challenge of price pressure from US product, as well as the tightened supply of Australian beef, saw exports into Korea decrease year-on-year. The cut is mostly imported frozen and utilised across the foodservice sector in casual and mid-level eateries as well as the catering sector.
- China emerged as the second largest market for Australian chuck roll (particularly chuck eye roll and chuck roll five-rib), a cut already popular for its versatility for foodservice processing. In line with overall exports to the market, Australian chuck roll exports to China have continued to grow, more than doubling from 2018–19 levels. However, 2020 has seen stronger growth in demand for chilled chuck roll than frozen, due to consumers buying more beef at retail for cooking at home as a result of COVID-19, based on the convenience, quality, nutrition and taste advantages of chilled over frozen meat.



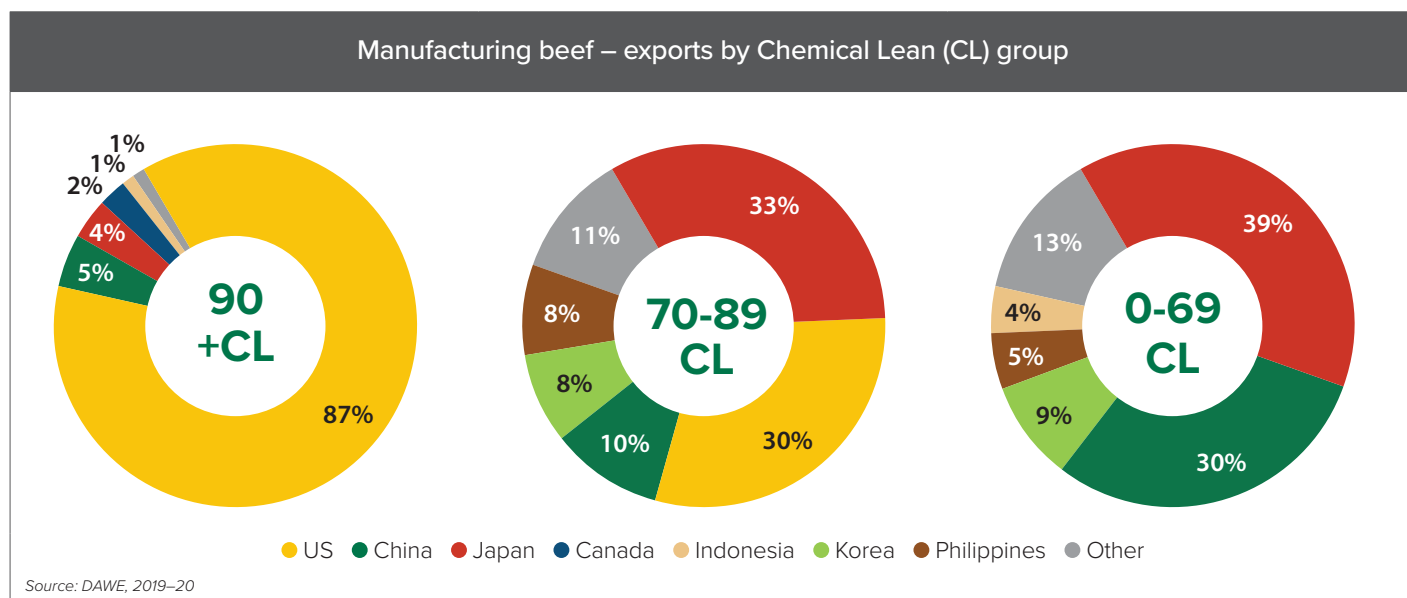
## Loin cuts (striploin, tenderloin, cube roll/ribeye roll)

- The Japanese foodservice sector is one of the largest outlets for Australian loin cuts, however the market suffered a significant loss in demand from weddings and business functions in 2020 as a result of the COVID-19 pandemic.
- In 2020, demand in China for chilled beef, particularly the favoured loin cuts of cube roll/ribeye roll and striploin, saw notable growth in retail as affluent consumers increased their purchase of higher quality beef products for home consumption during and post the lockdown period. This has seen these chilled loin cuts grow faster than frozen in 2019–20 compared to the year before – by 83% and 24% year-on-year, respectively.
- Albeit from a small base, loin exports to South-East Asia have been gradually growing, supported by the region's economic growth and international tourism.



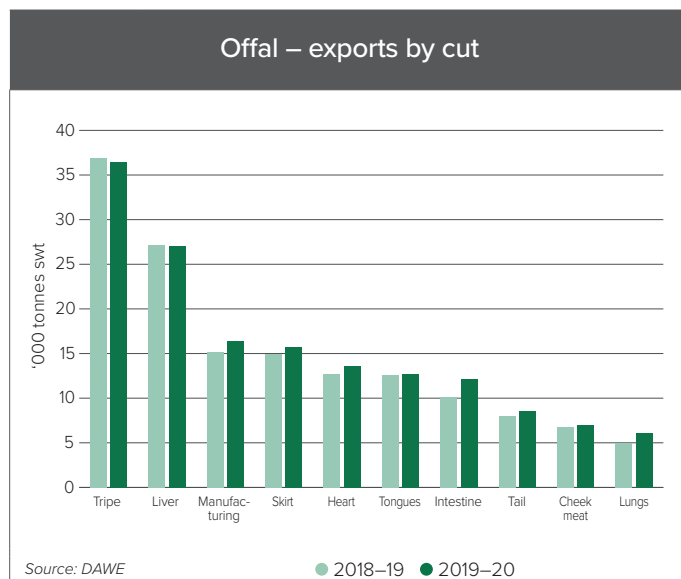
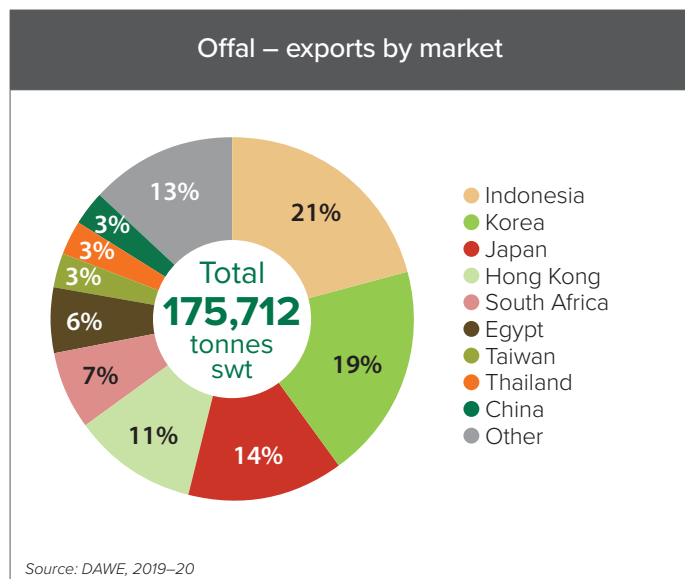
## Manufacturing beef

- The US is a dominant buyer of 90 Chemical Lean (CL) manufacturing trim, however volumes to the market during 2019–20 declined, largely due to tight supply from Australia combined with COVID-19 related foodservice disruptions across the market.
- 65CL and 85CL are the most popular items among Japanese importers, with demand during 2019–20 supported by firm performance of the market's fast food sector.
- In China, consumers seeking higher eating quality items has driven more demand for 'better burgers' (higher-fat content burgers such as 'Wagyu' burgers). However, growth in demand for low CL content manufacturing beef is likely more driven by the growing use of manufactured beef products for traditional cuisine, such as thinly sliced beef used in hot pot.



## Beef offal

- As the largest volume market for Australian beef offal exports, Indonesia mainly takes manufacturing (mostly tongue roots), heart, liver and lungs for further processing.
- Shipments to Japan and Korea are predominantly higher value items for *yakiniku* (table-top barbecue) dishes, namely tongue (mainly for Japan), intestines and skirts. Korea is also a major buyer of cheek meat and tripe.
- Australia does not have market access to China to export tripe. However, popular offal cuts to the market include heart, tail, tendon and kidney. Hong Kong is the largest destination for tripe, taking 52% of total exports.



## SHEEPMEAT



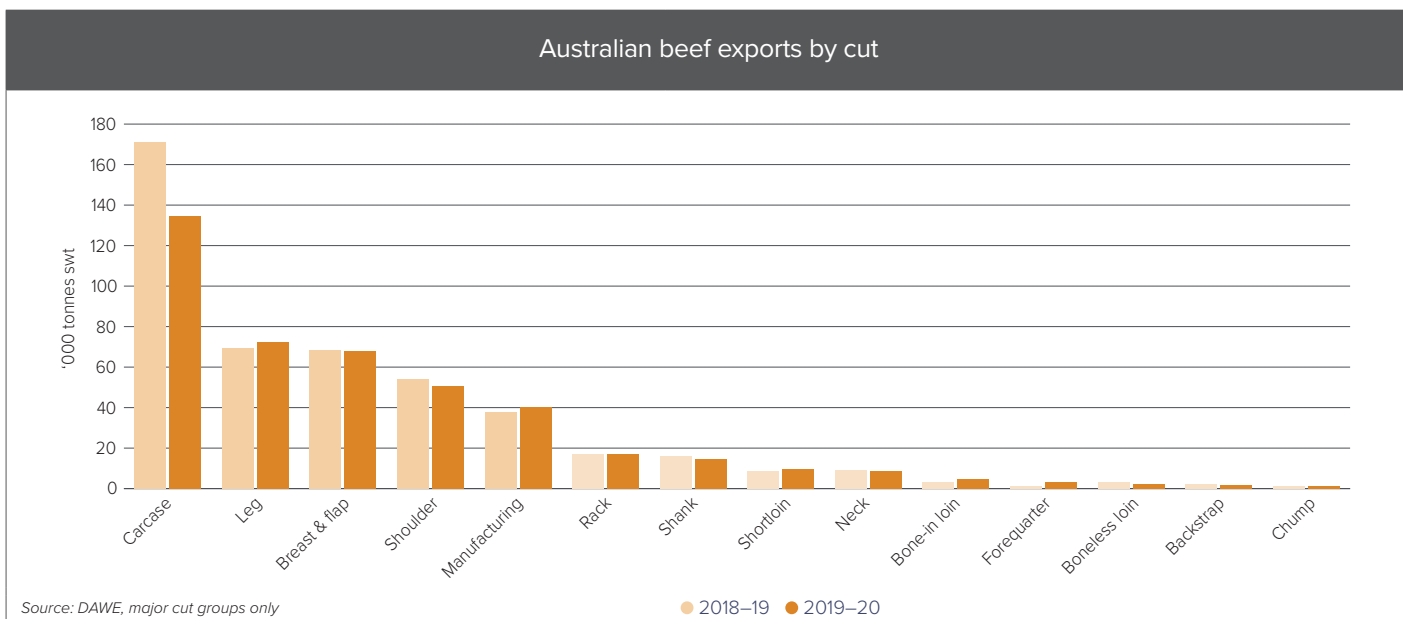
- For sheepmeat, 2019–20 production was back 6% on 2018–19, influenced by a reduced breeding flock, following high levels of ewe turn-off through 2018. Exports mirrored this drop, easing by 7% year-on-year, accounting for 75% of total production volumes for the 2019–20 period.



- Greater China was the largest destination for Australian sheepmeat exports in 2019–20, taking 35% of total shipments. North America and the Middle East followed, taking 20% and 19% respectively.
- Shipments to the Middle East have been hampered by the decrease in air traffic during the COVID-19 pandemic, as most chilled shipments are via air freight. Despite this challenge, the region remained as the largest destination for chilled sheepmeat exports during 2019–20, representing 50% of all chilled shipments (mostly lamb carcasses).



- The US remains the largest destination for leg (taking 24% of total volume), followed by China (22%) and EU (11%).
- Manufacturing is the third largest sheepmeat cut exported to China, comprising 13% of sheepmeat exports to the market in 2019. The bulk of this product is processed in China into thin slices/rolls for use in hot pot restaurants.

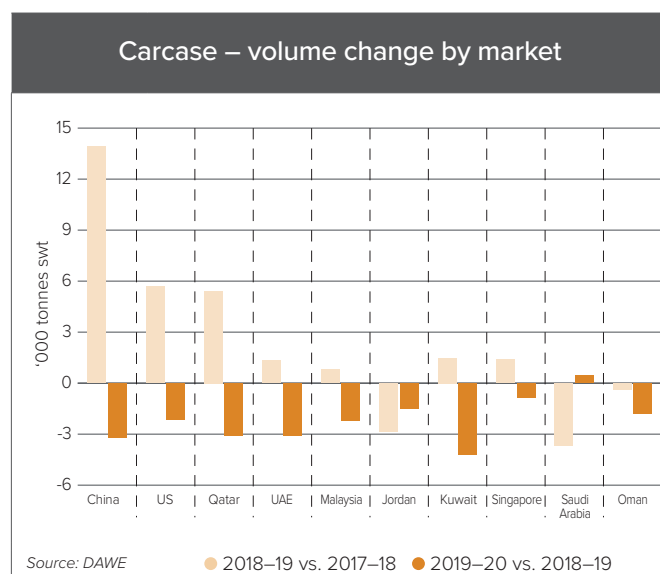
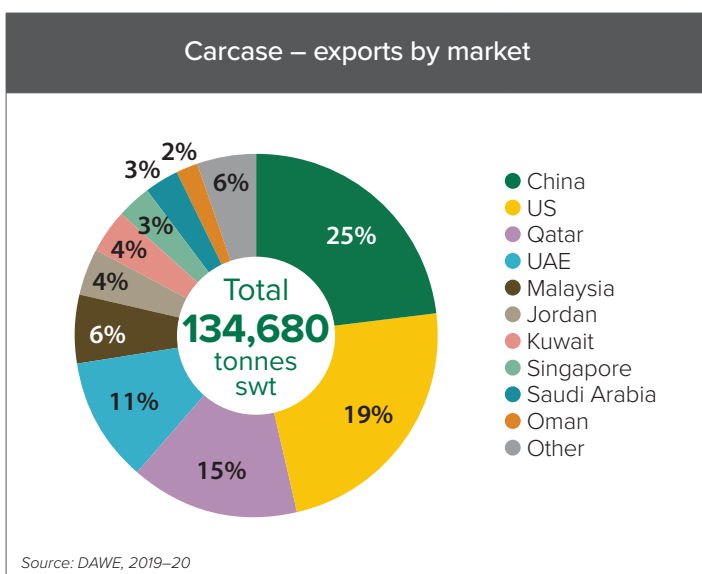


## KEY CUTS SUMMARY



### Carcase

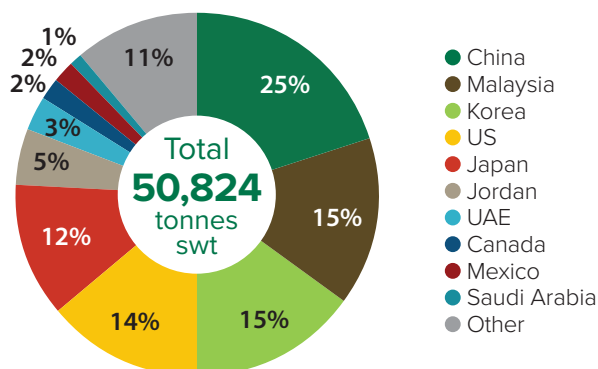
- The fall in exports of carcase to China is relatively small and is largely a result of softer demand from foodservice during the COVID-19 period. A drop in mutton carcase shipments was only partly offset by an increase in lamb carcase shipments.
- By contrast, the fall in carcase exports to Middle East markets is more a reflection of the sudden loss of air freight capacity as international air travel slumped. Air freight flights were chartered to help meet demand from the Middle East region, with funding support from governments.
- The US remains as a major destination for chilled lamb and frozen mutton carcase shipments. Reduced trade with the Middle East markets was likely to have assisted US buyers to secure slightly more mutton carcase during 2019-20.



## Shoulder

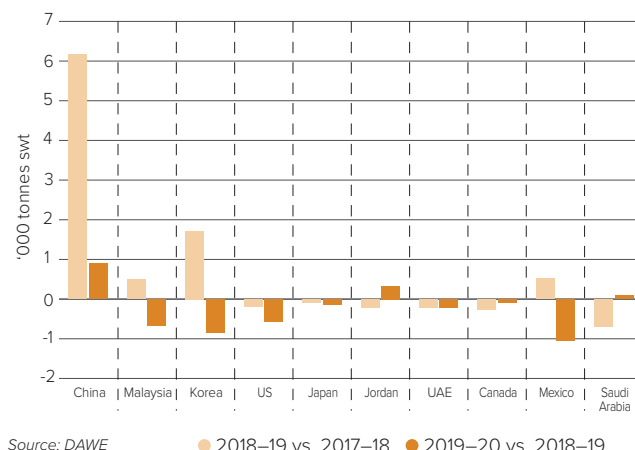
- Shoulder is a popular item in Asian markets due to its versatility for various cuisines, including hot pot, *Genghis Khan* sheepmeat barbecue and stir fry.
- An increase in lamb shoulder exports to China more than offset a decline in mutton shoulder shipments to the market.
- While lamb shoulder shipments to Malaysia were impacted by strong demand from China, the market maintained its position as the largest destination for mutton shoulder during 2019–20.

Shoulder – exports by market



Source: DAWE, 2019–20

Shoulder – volume change by market 2020/19

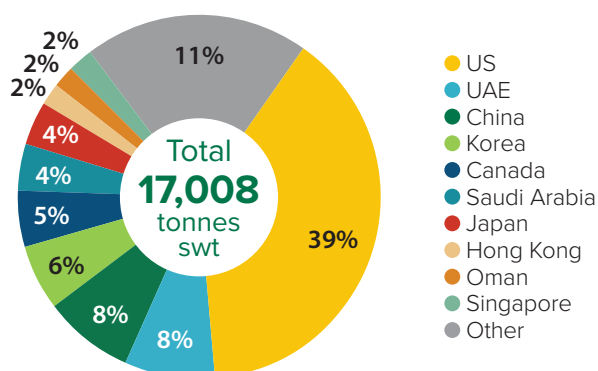


Source: DAWE

## Rack

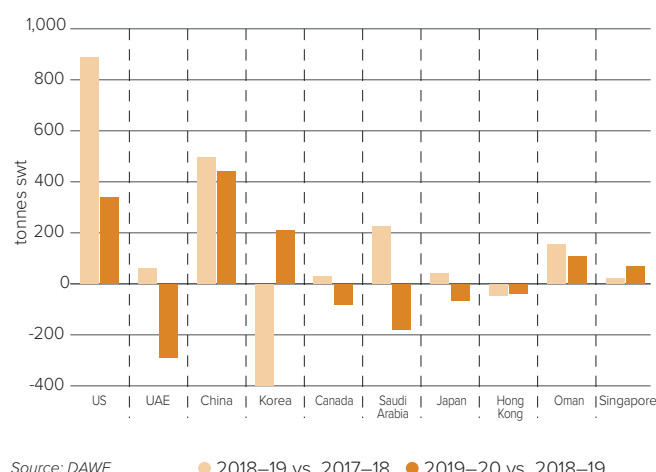
- 87% of rack exported during 2019–20 was lamb, with the US remaining as the largest customer. Mutton rack was largely distributed to the Middle East markets, China and a small proportion to Indonesia.
- Demand for frozen rack softened across the Middle East region and China due to the impact of COVID-19 on foodservice, where the bulk of this product is used. Demand for chilled rack in the Middle East, by contrast, has remained stable as consumers have been eating at home more, where chilled product is preferred.
- After a slump in 2018–19, Korea re-emerged as a growing destination for lamb rack, supported by rising interest from foodservice, as well as e-commerce platforms.

Rack – exports by market



Source: DAWE, 2019–20

Rack – volume change by market 2020/19



Source: DAWE



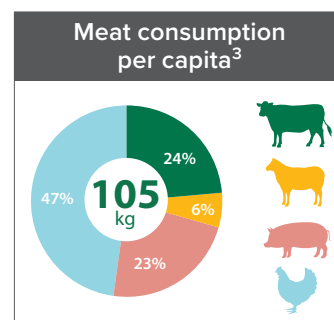
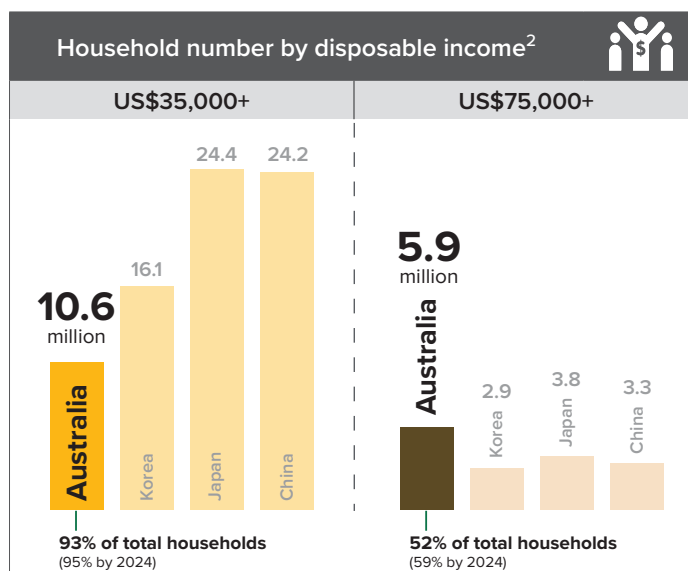
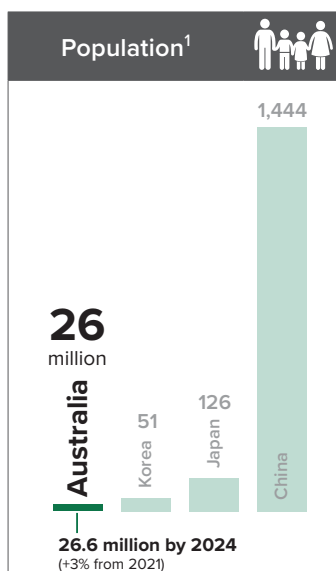
# MARKET SNAPSHOT | BEEF & SHEEPMEAT



## Australia

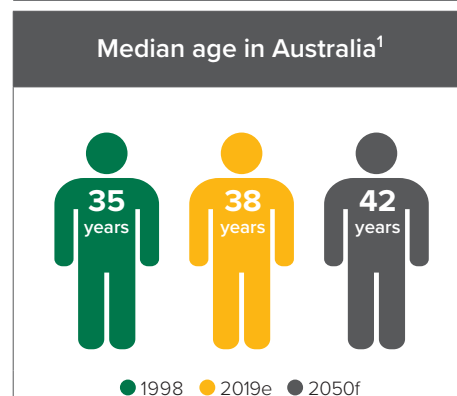
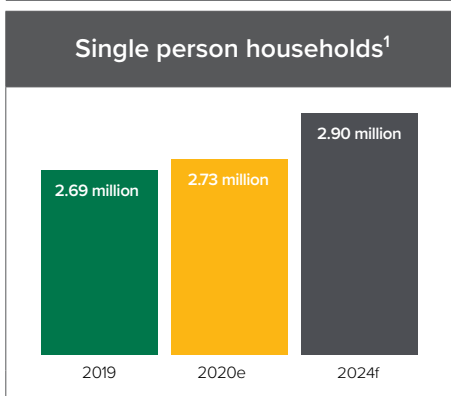
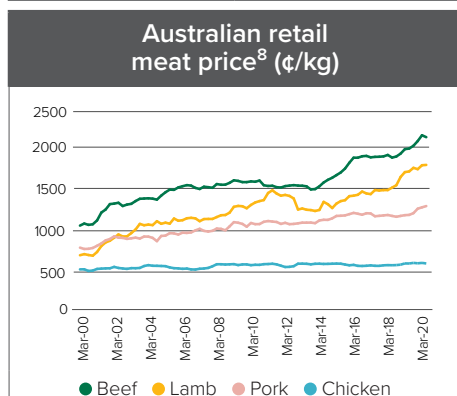
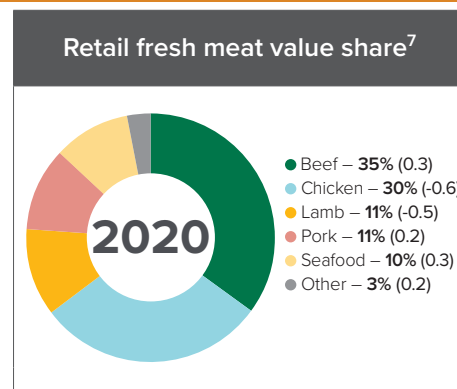
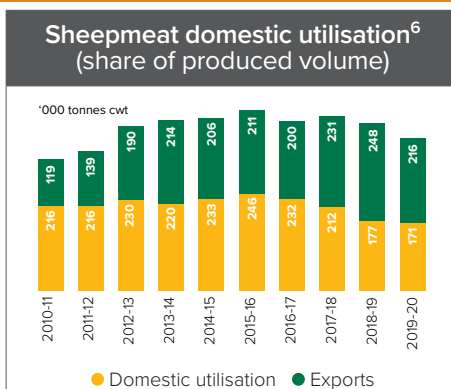
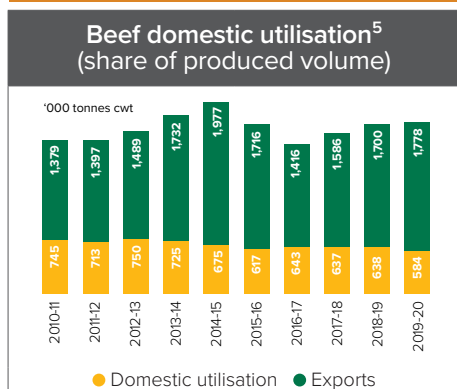
The domestic market is the largest destination for Australian red meat. Despite a small population, Australian consumers have comparatively high disposable incomes, allowing them to spend on premium food items that meet their needs and lifestyles.

While the Australian red meat market is dominated by home-grown products, a changing demography and competitive pressures from other proteins remain strong. Targeted messaging on provenance, quality, environmental credentials and animal welfare – along with food integrity and transparency – provide opportunities to enhance consumer preferences for red meat and grow community trust.



The Australian domestic market is the largest destination for Australian beef, consistently consuming almost 30% of total beef production volume.

Australia is also the largest market for Australian sheepmeat, consuming about 35% of total production. Lamb occupies 95% of domestic distribution, while the majority of mutton produced is exported to overseas markets.



Data source for charts: <sup>1</sup>Fitch Solutions, <sup>2</sup>Fitch Solutions (Disposable income = earnings after taxes and social security charges), <sup>3</sup>Fitch Solutions, GIRA (per person per year in cwt excluding fish/seafood), <sup>4</sup>IGD, 2021f, (It is defined as the total annual grocery retail market turnover in a given year, divided by the population for the same year. Grocery retail market data excludes VAT/sales tax), <sup>5</sup>DAWE, ABS, IHS Markit, MLA calculations, <sup>6</sup>DAWE, ABS/IHS Markit, <sup>7</sup>Nielsen Homescan, MAT to 14/07/2020 (year-on-year change), <sup>8</sup>ABARES, calculated using ABS data








## CONSUMERS



- Australian consumer demand for beef 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.
- Overall awareness of beef is high among Australians. Beef is the largest animal protein type ranked by value and has also grown on year-ago levels. (Source: MLA Global Consumer Tracker Australia, 2018, Nielsen Homescan).

### Protein image profiles

					
	Beef	Lamb	Chicken	Pork	Seafood
Easy everyday	✓		✓		
Goodness	✓				✓
A little bit special		✓			✓

Source: MLA Global Tracker Australia, 2018. \* Tick = Area of strength vs other proteins

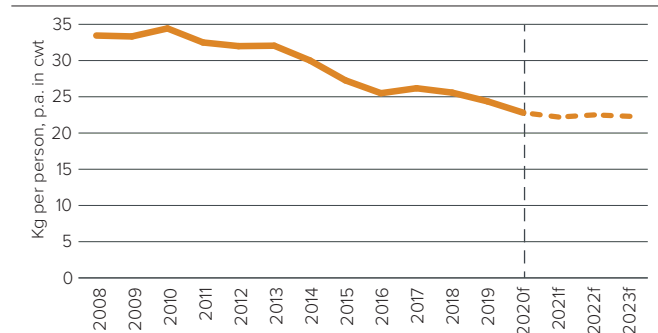
- Beef's strengths are around its perception of being a 'trusted quality' product and as 'the greatest meat'. It is also perceived as 'suitable for everyday meals' when compared to other proteins such as lamb, seafood and pork, but is behind chicken on this measure (Source: MLA Global Consumer Tracker Australia, 2019).
- There is an opportunity to increase beef's appeal by reinforcing quick, easy and convenient ways that it can be prepared for everyday healthy meals, especially when it comes to boosting consumers' confidence in preparing beef (Source: MLA Global Consumer Tracker Australia, 2019).
- When consumers are shopping for beef, the key information they look for on the pack relates to freshness and then price, followed by elements such as 'naturalness' and quality grading or guarantee (Source: MLA Global Consumer Tracker Australia, 2018).
- While domestic consumption of beef has steadily declined over the past two decades, Australia remains one of the world's largest consumers, with per capita consumption sitting well above the global average.

### What things do consumers look for on pack/on shelf when buying beef?

✓ Price per kg	✓ Price per pack
✓ All natural	✓ Quality grading or guarantee
✓ Colour of meat	

Source: MLA Global Consumer Tracker Australia, 2018

### Australia beef consumption per capita



Source: ABS, DAWE, IHS Markit, MLA calculations

### Australia's increasingly diverse population

High levels of immigration are driving Australia's population growth and leading to an increasingly diverse population. The most recent Australian Bureau of Statistics Census showed around 30% of Australia's residents are now born overseas. This is leading to foodservice and retailer operators looking at adjusting in-store/menu space to better target these changing demographics. The COVID-19 outbreak has seen cost, health and 'easiness' rise in importance when consumers are selecting products (Source: Global Data).

## FOODSERVICE



- Beef is one of the largest fresh meat proteins consumed through foodservice in value terms and has been growing steadily year-on-year (Source: RIRDC/Fresh Agenda, Global Data).
- The foodservice sector is a key channel for beef as approximately 28% of domestic beef and veal supply is sold through this channel (Source: RIRDC/Fresh Agenda).
- The foodservice landscape is large and competitive, with around 87,000 places to eat out. It is highly fragmented, with many individual companies having a small market share.
- Australians spend 40% of food expenditure on 'eating out' and this percentage is growing. Many factors contribute to the choice to eat out or not – most are occasion-based.
- The top three appealing factors for eating out are: convenience, variety and hard to recreate at home.
- Beef's share in foodservice is under threat from lower-cost proteins such as chicken and pork.

- The COVID-19 outbreak has had a great impact on the foodservice sector and brought uncertainties in the future. Delivery has become more important, however, it has not offset the loss of on-premises sales. It has been estimated that it will take at least a year to recover from the negative impact. Consumer needs for hygiene and value are out-weighting others like connectivity and shareability. It will take some time to reach a new balance.

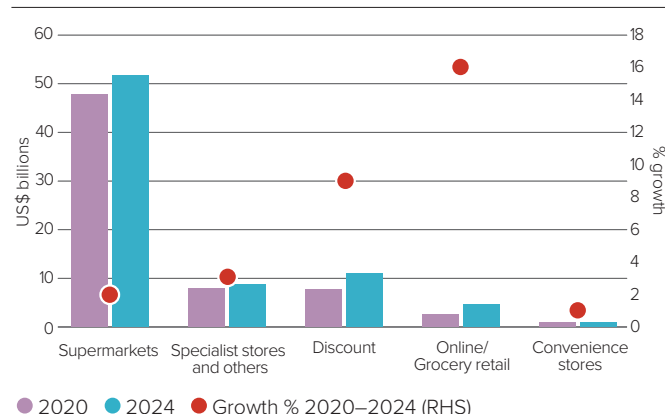
### Food delivery apps having an impact

Food delivery apps have been a contributor to the growth in the foodservice sector and are establishing partnerships with the major quick service restaurants. This is driving two key trends – some restaurants are changing to cater to this delivery channel (specific menus and store format), while others are focusing on ensuring customers continue to come in for seated meals by offering unique dining experiences.



- Total fresh meat is the largest supermarket category (excluding liquor and tobacco) and plays a key role in driving store traffic and store loyalty (Source: Nielsen Homescan).
- Beef had the highest share of retail sales of any meat in the last 12 months, with around a 35% share of fresh meat sales (by value) (Source: Nielsen Homescan).
- Beef is a critical product for retailers, with the average grocery basket typically worth A\$24. This jumps to around A\$77 when the basket includes beef.

## Grocery retail sales by channel



Source: IGD, Growth % = Compound annual growth rate (CAGR) 2020–2024, IGD forecast

- Retailers are responding to changing consumer needs and continue to seek category differentiation in the pursuit of sustainable growth and profitability. An example of this is the growth in premium products across the retail market. Red meat is seeing more premium cuts and healthier options experiencing growth ahead of the total category. This has been balanced with retailers introducing more affordable value offerings with fixed priced packaging at smaller transactional price points (Source: Nielsen). However, as a result of the COVID-19 outbreak, it is expected that the need for value options will increase, with some consumers experiencing ongoing financial concerns.
- The Australian grocery market is highly concentrated by global standards, with the two big retailers making up more than 60% of the market. However, during COVID-19, local channels have taken an increasing share from the big supermarkets as a result of a more convenient location, better product availability and the growing consumer trend of localism.
- 81% of fresh meat is sold in supermarkets, predominantly Woolworths and Coles, with butchers making up the other 19%. Butchers have gained a 2% share since the onset of the COVID-19 outbreak, which aligns with the localism trend.

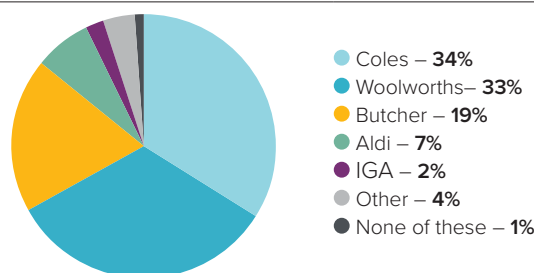
## Place of fresh meat purchase by average customer spend and market share

	Value share	\$ per trip
Australia	100%	20.3
Aust. supermarkets	81%	18.5
Aust. non supermarkets	19%	35.1

Source: Nielsen Homescan MAT Jun 2020

- **Woolworths (AU):** Grocery sales were worth A\$48 billion in 2019 and are forecast to be A\$53 billion in 2022 (Source: IGD).
- **Coles:** Grocery sales were worth A\$35 billion in 2019 and are forecast to be A\$38 billion in 2022. (Source: IGD).
- **IGA (Metcash):** Grocery sales are steady at \$12.7 billion with an annual growth rate of 5% expected out to 2022 (Source: IGD).
- **Aldi (AU):** Grocery sales were worth A\$10 billion in 2019. Rapid expansion has continued, with the chain forecast to operate 645 stores and be worth A\$13.6 billion in 2022 (Source: IGD).
- **Costco:** Grocery sales were A\$2.2 billion in 2019 and are forecast to be A\$2.8 billion in 2022, with sales expected to continue to grow (Source: IGD).

## Main supermarket of purchase – beef and lamb

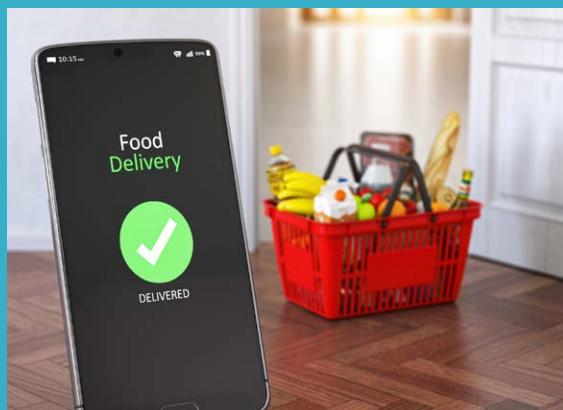


Source: MLA's Global Tracker 2018

- There's a growing food box meal kit trend in Australia (such as Hello Fresh and Marley Spoon). These generally include portioned ingredients and simple recipes that allow consumers to quickly create their meal. It has grown 1.5 times faster than total online growth and 10 times faster than total grocery growth in 2019 (Source: Nielsen).

## The changing face of retail

The retail sector in Australia is expected to undergo significant change in the near future, with the rapid increase in Woolworths and Coles sales through their online channels, and localism trends creating an opportunity for smaller retailers like local butchers. Emerging health trends and local sourcing are also two growing trends which are becoming more important to consumers.





# Sheepmeat

## CONSUMERS



- Lamb remains one of Australia's favourite proteins and has a unique role in the national diet of Australians, who are some of the largest per capita consumers of lamb in the world (Source: OECD).
- As awareness of lamb is high among Australians, the main opportunity sits with increasing frequency of purchase and demonstrating the value of lamb so people are happy to pay more, and thus keep consuming lamb. (Source: MLA Global Consumer Tracker Australia, 2019).
- Consumers perceive lamb as 'special' relative to other proteins and are often choosing lamb as it 'tastes delicious'. However, there is an opportunity to focus on lamb's versatility and recipes that are easy to prepare (Source: MLA Global Consumer Tracker Australia, 2019).

- When consumers are shopping for lamb, the key information they look for on-pack relates to freshness (meat colour and use-by date) and then price (Source: MLA Global Consumer Tracker Australia, 2019).

### What things do consumers look for on pack/on shelf when buying sheepmeat?

- |                  |                                |
|------------------|--------------------------------|
| ✓ All natural    | ✓ Colour of meat               |
| ✓ Price per kg   | ✓ Quality grading or guarantee |
| ✓ Price per pack |                                |

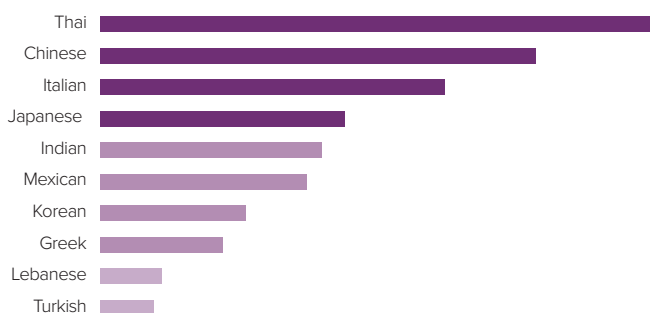
Source: MLA Global Consumer Tracker Australia, 2018

## FOODSERVICE



- 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 the expectations of consumers. This trend has created a race among traditional quick service restaurant operators to 'premiumise' their brands and offering – including the removal of additives and introduction of natural ingredients (Source: GlobalData).
- Cuisines and food concepts are very diverse in Australia and lamb is regarded as a good protein source to fit most cuisines.
- There are also opportunities in new concepts for example, presenting lamb in non-traditional ways beyond roasts and premium grilling cuts, such as protein bowls, burritos and salads.

### Top 10 most popular ethnic cuisines in Australia



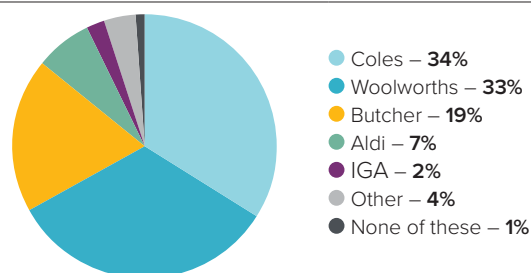
Source: "The Drop" – An analysis of Google Trends data by Chef's pencil Oct 2019 – the-drop.com.au/most-popular-ethnic-cuisine-in-australia

## RETAIL



- In retail, lamb has a similar market share to pork, with around 11% share of fresh meat sales (by value) in the last 12 months, behind beef and chicken (Source: Nielsen Homescan).
- Lamb buyers are premium buyers for retailers, with the average grocery basket value typically worth A\$24. This jumps to around A\$84 when the basket includes lamb (Source: Nielsen Homescan 12 months to June 2020).
- More than 80% of lamb is purchased at supermarkets, mainly from Woolworths and Coles.
- However, other supermarkets (e.g. Costco) and butchers are growing in both share and absolute sales (source: Nielsen Homescan 12 months to June 2020).
- Australia's consumption of lamb has come under pressure in the last year, as volatile supply and strong international demand combined to drive domestic prices into record territory.

### Main supermarket of purchase – beef and lamb



Source: MLA's Global Tracker 2018

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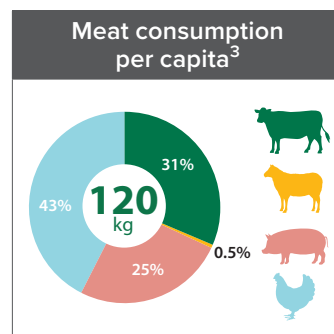
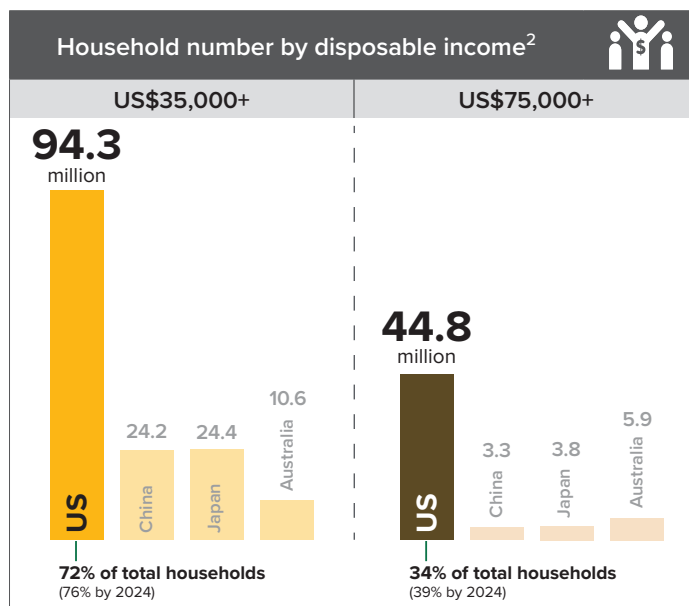
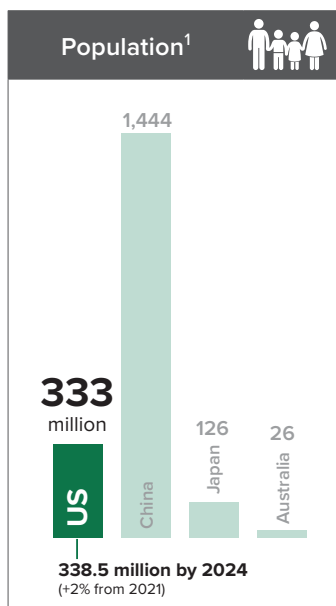
## MARKET SNAPSHOT | BEEF & SHEEPMATE

# North America

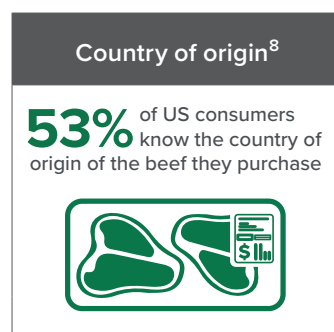
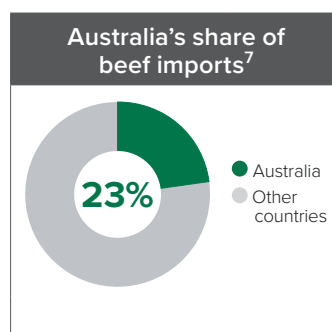
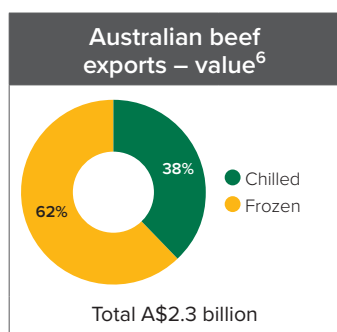
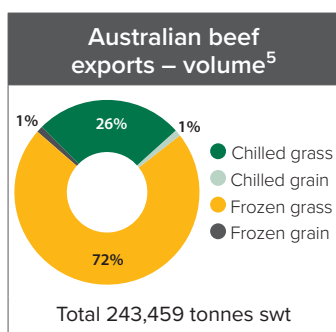
(United States, Canada and Mexico)

While the COVID-19 pandemic continues to cast a shadow on the US economic recovery and its foodservice sector, fundamental consumer needs for quality and healthy lifestyles remain strong. Opportunities exist for Australian red meat to enhance its profile in the US, on the back of growing demand from consumers for natural, healthy and environmentally sustainable products.

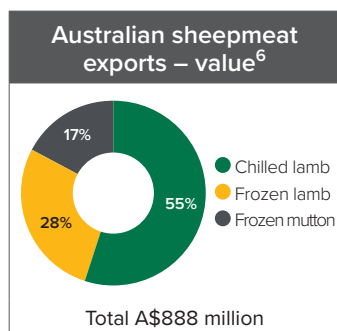
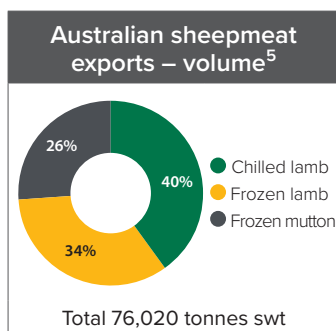
Globally, the United States (US) has the highest number of households earning disposable incomes over US\$35,000 and US\$75,000 per year. This affluent consumer base, combined with large and increasing meat consumption, means the country remains highly attractive and influential in the global protein trade landscape.



The US is Australia's third largest export market for beef in both volume and value. Traditionally a manufacturing beef market, the country is also the largest export destination for chilled grassfed beef.



The US is the second largest export customer for Australian lamb, growing almost 70% in volume during the last decade. It is also the second highest value destination for Australian sheepmeat, superseded by China.



Data source for charts: <sup>1</sup>Fitch Solutions, <sup>2</sup>Fitch Solutions (Disposable income = earnings after taxes and social security charges), <sup>3</sup>Fitch Solutions, GIRA (US data only, per person per year in cwt excluding fish/seafood), <sup>4</sup>IGD, 2021f, (US data only. It is defined as the total annual grocery retail market turnover in a given year, divided by the population for the same year. Grocery retail market data excludes VAT/sales tax), <sup>5</sup>DAWE (2019–20), <sup>6</sup>ABS/IHS Markit (FY 2019–20), <sup>7</sup>IHS Markit, (FY 2019–20), <sup>8</sup>Global Tracker 2019, note there is no country-of-origin labelling requirements in the US for beef

## CONSUMERS



- The US is one of the largest global consumers of animal protein, with the level of meat consumption near maturity. Going forward, within the beef category, the growth opportunity will be to grow value, through premium products like chilled grassfed beef, rather than grow volume of more conventional beef.
- Beef consumption has increased since 2015, in line with higher US beef production and a return to a more favourable price point for US consumers, especially in the 'better for me' category, which includes grassfed beef, organic beef and beef with no added hormones or antibiotics.
- However, due to the impact of COVID-19 on many consumers' financial situations, some shoppers will return to more cost-effective options for a while.
- The majority of US consumers would consider buying imported beef and are aware of grassfed beef.

### Awareness of different types of beef – top four in US



Source: MLA Global Consumer Tracker US, 2019

- Two-thirds of US shoppers are looking for 'better for me' options at the meat case and tie production claims to both their own health and animal welfare. During the COVID-19 pandemic this trend has also been evident, with grassfed beef growing much faster than conventional beef, with sales up by 60–70%, while conventional beef has increased by around 40% (from March to August 2020) (Source: IRI).
- Purchasers of grassfed beef are more interested in quality and 'naturally raised', with concerns for animal welfare and environmental sustainability also being major factors considered when purchasing grassfed beef.
- Australia is well positioned to meet the demands for quality and animal welfare with superior food safety, traceability protocols and a unique quality grading system (Source: MLA Global Tracker 2018, Voice of Consumers 2018, Menu Matters 2018, USDA).

### Top three reasons to buy grassfed beef

Better quality beef

Natural

Better for my health

### Top three perceptions of Australian grassfed beef

Consistent quality

Higher quality than beef from other countries

Better taste than beef from other countries

Source: Voice of consumer 2018

## FOODSERVICE

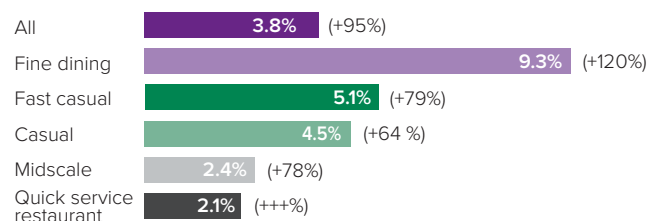


- Pre-COVID saw stable foodservice growth, especially for full-service restaurants. Retail foodservice has seen strong expansion. However, the COVID-19 outbreak has had an impact, especially for high-end restaurants.
- The COVID-19 outbreak has impacted foodservice, with restrictive dine-in regulations and consumers' rising health concerns becoming a challenge for the sector. Foodservice has seen a significant decline, which has not been offset by the increase in delivery. Dining-in will remain a concern in the near future.
- Manufacturing beef for burgers and other processed beef products make up a large proportion of Australian beef sold into the foodservice sector in the US, while chilled grassfed beef is largely destined for full-service restaurants and retail.



- Grassfed beef is most common in fast-casual and fine dining restaurants, however, growth is solid across all segments, tripling within the last 10 years. In fact prior to COVID-19, US industry researcher, Datassential predicted grassfed beef will grow by 27.9% over the next four years to achieve 4.9% penetration across foodservice operations overall. Post COVID-19, it is predicted that some high-income consumers will look for healthy comfort foods, like grassfed beef.

### Penetration by restaurant segment – Grassfed beef



(Bracket percentage) = 4 year % change 2018 vs. 2014, +++ indicates growth over 200%

Source: Datassential, beef and lamb menu analysis, 2018

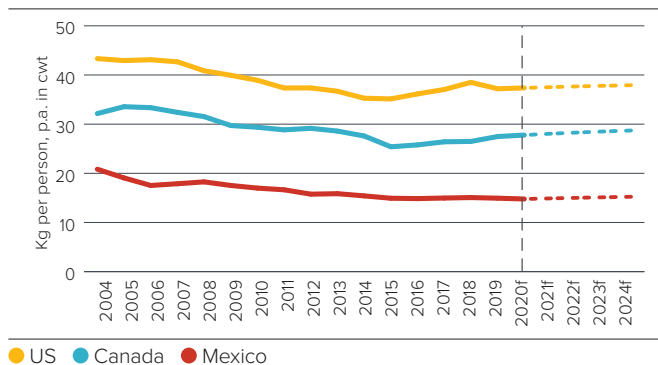
- Wagyu is another fast growing product in foodservice, with a high conversion rate from 'tried' to 'liked', especially in fine dining (Source: Datassential, beef and lamb menu analysis 2019).





- Although grassfed beef in US retail is a relatively small offering, it has seen some of the strongest growth in the meat case, with predictions indicating no slow down in demand for the coming year. While ground grassfed beef is now quite common, demand for higher value chilled grassfed beef is increasing. Some of the most popular cuts include tenderloin, striploin and ribeye.
- Limited 'country of origin' labelling at point of purchase is a challenge for Australian product to be differentiated in the sector, with retailers preferring 'local' callouts in their meat case. On the contrary, research indicates US consumers consider Australia as aspirational and able to deliver ethical production claims on their grassfed beef purchases.

## North American beef consumption



Source: Fitch Solutions

- Reflecting the retail environment in the US, supermarkets are the main purchase channel for Australian grassfed beef, followed by independent and regional butchers, online retailers and warehouse club stores.
- Australian grassfed beef is perceived to provide higher quality steak than other imported products (Source: MLA Global Tracker, 2019, Voice of consumers 2018, Grassfed Shop-a-long research, 2018).

- Grassfed beef is perceived as healthy and natural which matches rising consumer needs. However, the trend of localism may continue to grow in the advent of COVID-19, which could act as a barrier to Australian beef.

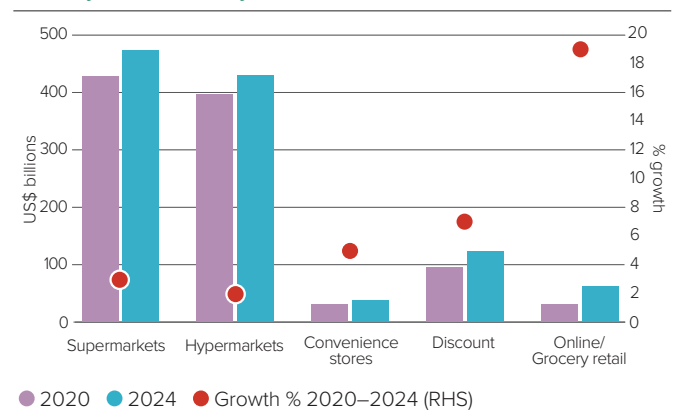
## Motivation to choose and eat beef – top five

Important themes ranked by relative importance



Source: MLA Global Consumer Tracker US, 2019

## Grocery retail sales by channel



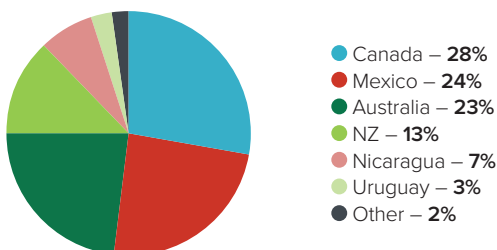
Source: IGD, Growth % = Compound annual growth rate (CAGR) 2020–2024, IGD forecast

# COMPETITIVE LANDSCAPE



- The main competitors in the US market are US domestic beef and imported beef from Canada and Mexico.

## US beef imports by market share – 2019–20

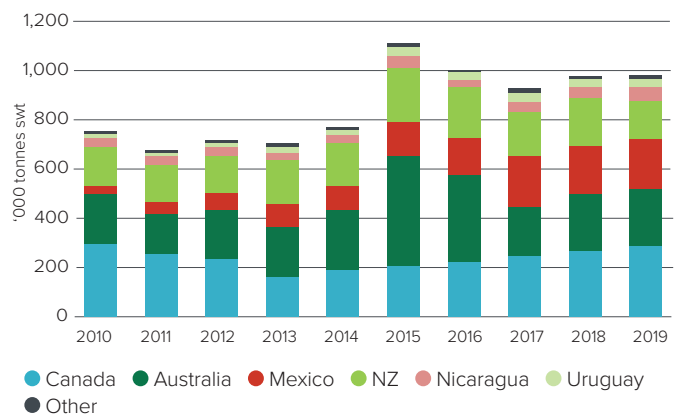


Source: IHS Markit

- As most of the Australian beef into the market is grassfed beef, the key competitors are New Zealand, and increasingly the growing mobilisation of local US grassfed beef production. Other smaller suppliers include Uruguay and Nicaragua, which have access to smaller quotas.
- Australia maintains its preferred access status to the US, only behind United States-Mexico-Canada Agreement (USMCA) partners (Canada and Mexico – with no quota restrictions). New Zealand has an annual quota of 213,402 tonnes shipped weight (swt), with an out-of-quota tariff of 26.4% (within quota 4.4¢/kg).

- Australia is one of the largest importers of grassfed beef, and is growing faster than its largest competitor, New Zealand. In addition, 99% of New Zealand imports are manufacturing beef, whereas 26% of Australian exports are chilled cuts.
- In recent years imports from South American countries have seen continued growth in volume, although they are still coming from a smaller base.

## US beef imports by major supplier



Source: IHS Markit



## US – Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Australia-United States Free Trade Agreement (AUSFTA)	Zero within quota (7.04% above quota)	<b>Canada and Mexico:</b> USMCA, no quota; <b>New Zealand:</b> 213,402 tonnes quota, with an in-quota tariff of US\$4.4¢/kg <b>Nicaragua and Costa Rica:</b> CAFTA-DR with US, shares the same 65,000 tonnes with other countries, in quota 4–4.4¢/kg, 26.4% out of quota tariff <b>Uruguay and Argentina:</b> no FTA, quota of 20,000 tonnes each, tariff 4–4.4¢/kg in quota and 26.4% out of quota	<b>Australian beef quota:</b> 43,214 tonnes swt	E. coli and Salmonella sampling programs, label approvals and port mark compliance

Best access Major challenges

Source: Trade agreements DFAT, MLA

## Australian beef exports to North America – summary table



Volume – in tonnes swt

		2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	change 2019–20 vs five-year average	
								%	in tonnes swt
<b>Total</b>		<b>259,092</b>		<b>259,904</b>		<b>324,323</b>		<b>-20</b>	<b>-65,231</b>
Storage	Chilled	69,919	27	66,916	26	72,087	22	-3	-2,169
	Frozen	189,173	73	192,988	74	252,236	78	-25	-63,063
Meat type	Grassfed	253,285	98	253,479	98	313,495	97	-19	-60,209
	Grainfed	5,807	2	6,425	2	10,829	3	-46	-5,022
Storage/meat type	Chilled grassfed	65,657	25	62,463	24	64,027	20	3	1,630
	Chilled grainfed	4,262	2	4,453	2	8,061	2	-47	-3,799
	Frozen grassfed	187,628	72	191,016	73	249,468	77	-25	-61,839
	Frozen grainfed	1,545	1	1,972	1	2,768	1	-44	-1,223

Source: DAWE

Value – in A\$ 000

		2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	%	in A\$ 000
<b>Total</b>		<b>2,452,653</b>		<b>2,060,544</b>		<b>2,327,541</b>		<b>5</b>	<b>125,112</b>
Storage	Chilled	927,968	38	765,328	37	727,568	31	28	200,400
	Frozen	1,524,685	62	1,295,216	63	1,599,973	69	-5	-75,288

Source: ABS/IHS Markit

## Australian beef exports to US – by major cut

Volume – in tonnes swt

	2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	%	in tonnes swt
Manufacturing	143,496	59	146,981	61	191,855	64	-25	-48,359
Fullset	39,606	16	27,349	11	16,683	6	137	22,923
Thin flank	16,854	7	16,727	7	19,229	6	-12	-2,375
Topside/inside	10,953	4	15,750	7	21,063	7	-48	-10,110
Striploin	5,809	2	5,275	2	4,772	2	22	1,037
Other	26,741	11	28,287	12	44,458	15	-40	-17,716
<b>Total</b>	<b>243,459</b>		<b>240,368</b>		<b>298,060</b>		<b>-18</b>	<b>-54,600</b>

Source: DAWE

## Australian beef exports to Canada – by major cut

Volume – in tonnes swt

	2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	%	in tonnes swt
Manufacturing	10,820	72	12,306	66	18,305	71	-41	-7,484
Cube roll/ribeye roll	1,377	9	1,531	8	1,131	4	22	245
Striploin	1,101	7	1,471	8	928	1	19	172
Other	1,826	12	3,239	17	5,377	21	-66	-3,551
<b>Total</b>	<b>15,124</b>		<b>18,547</b>		<b>25,741</b>		<b>-41</b>	<b>-10,617</b>

Source: DAWE Note: Import tariff on Australian beef is 0% within quota (35,000 tonnes swt) and 176% for over quota. Canada is a member of the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP).

## Australian beef exports to Mexico – by major cut

Volume – in tonnes swt

	2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	%	in tonnes swt
Thin flank	424	83	955	97	508	97	-17	84
Other	84	17	33	3	14	3	501	70
<b>Total</b>	<b>508</b>		<b>988</b>		<b>522</b>		<b>-3</b>	<b>-14</b>

Source: DAWE Note: Australia shares 200,000 tonnes swt quota with other non-NAFTA countries. Import tariff within quota is 0% (over quota is 16% for chilled and 20% for frozen beef). Mexico is a member of the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP).

## CONSUMERS



- Most Canadian consumers already buy imported beef. The growing majority of grassfed beef buyers are aware of the 'country of origin' (68%), and most would consider buying imported beef (82%) (Source: MLA Global Tracker).
- Compared to global consumers, Canadian beef buyers are more concerned about 'naturalness', price and no added hormones.
- When purchasing beef, 'naturalness' is something buyers look for, and grassfed is seen as an authentic differentiator. However, the appeal of grassfed beef has plateaued. At the same time, newer descriptors have become more prevalent like organic, hormone-free, non-GMO and antibiotic-free. It appears consumers are not fully aware of the differences between these types of beef.

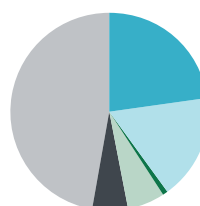
## FOODSERVICE & RETAIL



- Full-service and quick service restaurant channels continue to lead the Canadian foodservice sector, generating more than 60% of total revenue.
- Beef is the most valuable meat category for commercial foodservice operators (such as restaurants, cafés, hotels and leisure venues etc.), and is forecast to represent a 37% value share of total animal protein in this channel in 2021 (Source: GlobalData – Canada, The future of foodservice to 2021).
- The majority of imported Australian grassfed beef is 'manufacturing' grade and is used in quick service restaurants.
- At the retail level, Australian beef is mainly purchased from supermarkets, and as the retail sector is quite fragmented in Canada, each city has a different leader in claimed total beef sales (Source: MLA Global Tracker Canada).
- The COVID-19 outbreak will likely have a lasting effect on foodservice, with consumers focusing more on healthy and cost-effective products.

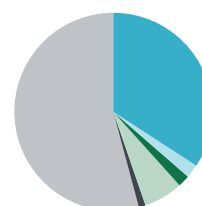
### Main supermarkets for purchasing beef

#### TORONTO



- Loblaws – 23%
- Metro – 17%
- WholeFoods – 1%
- Longos – 6%
- Sobeys – 6%
- Other – 47%

#### VANCOUVER



- Safeway Canada – 33%
- Fairway – 2%
- Buy Low – 2%
- IGA – 6%
- Urban Fair – 1%
- Other – 52%

Source: MLA Global Tracker Canada

## COMPETITIVE LANDSCAPE



- The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is a free trade agreement (FTA) between Australia and another 11 countries, including Canada and Mexico, signed in 2018.
- Under the trade agreement, Australia has favourable market access into Canada and a good trading environment, with no tariff in 2023. The majority of Australian beef exports to Canada are grassfed and follow a similar trend to the US.
- The main competitors are US beef and product from New Zealand. Australia is a modest supplier of beef to Canada.



## Canada – Market access overview



Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)	Current tariff at 13.2%, 0% in 2022	<b>US and Mexico:</b> USMCA, no quota; <b>New Zealand:</b> 29,600 tonnes quota, in quota 0% tariff, out 13.2%	<b>35,000 tonnes</b> out of quota pays tariff	E. coli and Salmonella sampling programs, label approvals and port mark compliance

Best access  Major challenges

Source: Trade agreements DFAT, MLA



# Mexico – Beef

## CONSUMERS



- Mexican consumers are expected to consume approximately 2.07 million tonnes carcass weight equivalent (cwe) of beef in 2020. Demand is also projected to rise, as the Mexican peso strengthens and the middle class grows (Source: United States Department of Agriculture – USDA).
- Beef is the largest animal protein in Mexico, in terms of value, compared to chicken and pork.
- Young, wealthy consumers are driving beef consumption growth in Mexico. Younger consumers with more money to spend are fuelling the demand for high quality food and more formal dining experiences.
- The number of households with a higher income (over US\$75,000/year) is expected to register notable growth of 10% compound annual growth rate (CAGR) from 2020 to 2024. In addition, hotel and restaurant expenditure is also set to increase, creating new opportunities for high-value products such as Australian beef and lamb.

## FOODSERVICE & RETAIL



- Mexico's spend in the foodservice sector is expected to grow by 7% each year (CAGR) from 2019 to 2024 (COVID-19 adjusted), with the growing working-age population and urbanisation lifting demand for more convenience among foodservice customers.
- Full-service and quick service restaurants dominate the channel, holding around a 70% share of sales. Full-service restaurants are set to be the main beneficiary of Mexico's positive economic scenario, with rising disposable incomes allowing families to trade up from quick service restaurants and become more receptive to higher value imported beef (Source: GlobalData – Mexico, The future of foodservice to 2021).
- Pre-COVID-19, the foodservice sector was growing, with younger consumers willing to eat out more and try new things.
- Top steakhouses are dominated by USDA graded prime steaks, as grainfed product is more preferred than grassfed. However, there is high potential for Australian grassfed beef to enter the market.
- Uniquely in this market, the most common cut used in foodservice is *arrachera*, or hanger steak, normally marinated in spices.
- In the retail sector, hypermarkets are the most prevalent outlet type in the country. Retailers will increasingly target the upper middle class segment in the coming years, through premium formats that offer popular imported produce (Source: Fitch Solutions).

## COMPETITIVE LANDSCAPE



- Mexico is also a member of the CPTPP (The Comprehensive and Progressive Agreement for Trans-Pacific Partnership).
- There is still restricted market access and a mixed trading environment.
- The main competitors are the US, Japan and Canada. Australia is a very small part of the beef market and competing at the top end. The future is bright for premium beef (mostly grainfed) but current circumstances have put a dent in economic growth, with potential likely put back.



## Mexico – Market access overview



Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)	Current tariff 14 to 17.5%, 0% in 2027	<b>US and Canada:</b> USMCA, no quota  <b>New Zealand:</b> no quota and tariff 14%	No quota	Labelling, restriction on ports of entry, health certificates extra information required compared with other markets

Best access  Major challenges

Source: Trade agreements DFAT, MLA

## CONSUMERS



- Lamb remains a niche and unfamiliar protein to around 40% of US consumers, driven by the lack of familiarity, taste concerns and limited knowledge on how to prepare. However, US consumers are progressively increasing their willingness to try lamb, particularly the millennial generation (Source: MLA Global Tracker 2019).
- Lamb has been regarded as a seasonal food for specific holidays and is often eaten out-of-home. Most consumers who eat lamb when dining out are more likely to try cooking lamb at home, if it is available (Source: Voice of consumer 2018).
- 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 (Source: Voice of consumer 2018).
- Consumers who purchase chilled lamb are generally premium shoppers, spend more in store and prefer healthier, homecooked items. According to IRI, loin and leg are the most consumed cuts, accounting for 47% of volume share (another 21% from shoulders) (Source: IRI).
- Lamb consumption patterns vary by region in the US, according to IRI, California, the Great Lakes region and the North East are the areas that are seeing faster growth than the national rate.

### Top five factors influencing lamb purchases and top five barriers to purchasing lamb

Important factors influencing lamb purchase – top five	Reasons don't buy lamb – top five
Price	Don't know how to cook lamb
Colour of meat	Too expensive
All natural	It is not available where I shop
USDA grade or a rating from another independent grading system	Not familiar with lamb enough to buy
Natural ingredients	I like the taste but other family members don't

Source: Voice of consumers 2018

- Australia has started to close the gap and has increased consumer awareness and frequency of consumption compared to both American and New Zealand lamb.

## RETAIL



- At retail, while supermarkets are still the main purchase channel for Australian lamb, sales are also highly skewed to online retailers and club store warehouses.
- Stores such as Costco attract a younger, more affluent consumer, who seeks more ethnically diverse cuisine and more exciting 'non-traditional' flavours, with lamb recognised as a viable option.
- Although there were significant barriers to purchasing meat online pre-COVID, recent research from Midan stated that 26% shoppers say online will become their regular way to purchase meat (more than once every week). It is a growth area and Australian lamb is well placed in this space.
- More than 40% of Americans bought a meal kit in 2018, mostly from grocery stores. Compared to 25% in 2016, meal kit shoppers have grown by 60% over two years, skewing to younger families, higher income and multicultural shoppers.

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

✓	100% All natural
✓	Quality grading or guarantee
✓	Colour of the meat
✓	Safety certification
✓	No added hormones
✓	Grassfed
✓	Use by date/sell by date

Source: MLA Global Consumer Tracker US, 2018

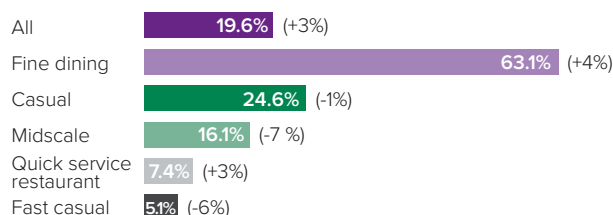
- According to a Globaldata COVID survey, in the recovery phase of the pandemic, consumers agreed that they will order grocery deliveries from online meal delivery services (e.g. UberEats) more often than before. Moreover, 44% of respondents say that they will buy more products online rather than visiting a store post COVID-19.
- In general, American lamb buyers are willing to pay more for better quality meat and are more adventurous in their (meat) purchasing habits (Source: Voice of consumers, 2018).





- Prior to COVID-19, lamb had seen steady growth across foodservice operations. Lamb performs steadily in foodservice, although there had been some market correction on fast and casual channels, however, lamb gains were made strongly in fine-dining and quick service restaurants.
- The foodservice sector is driven by changing demographics and the shift in demand for more convenient and affordable meals, however lamb growth opportunities are more prominent among millennials, who are very much interested in exploring their ethnic heritage.
- The penetration of lamb on US restaurant menus has grown steadily over the last decade, underpinned by growth in casual, fine dining and quick service restaurants (Source: *Datassential menu monitor, 2019*).

## Quick service restaurants (QSR) are increasing the appearance of lamb on menus



(Bracket percentage) = 4 year % change 2017 vs. 2013

Source: *Datassential, beef and lamb menu analysis, 2018*

- Another interesting growth area is the non-commercial long-term care segment, which saw 15% penetration of lamb in the area in 2019, reflecting an older, more affluent demographic's demand for natural, healthy and interesting protein options (Source: *Datassential menu monitor, 2018*). However, the US foodservice industry has experienced a flux, with a decline in the number of full-service restaurants, as well as upheaval in fast casual restaurants. Due to COVID-19, outlet numbers and turnover have both been impacted, with some restaurants having to close permanently. It will take some time for consumers to feel comfortable enough to return to dining-in.

- The impacts of COVID-19 to the foodservice sector may have some flow on effects for Australian lamb, as it is estimated that 60% of total Australian lamb imports are consumed in the foodservice channel.

## Lamb popularity increases

Interest in international cuisines and upscaling traditional American fare have been driving lamb menu placements recently. Ethnic cuisines are likely to be a key tool in driving lamb usage and those ethnic cuisines poised to grow over the next few years are heavier users of lamb – mostly Middle Eastern and North African. Lamb has also gained some ground with consumers through more familiar and approachable applications such as burgers and flatbreads, although the versatility of lamb is underleveraged currently in foodservice.

Continuing to place lamb in comfortable and familiar applications could facilitate experimentation among consumers and make it a more relevant protein for a broader array of operators.

(Source: *Datassential, Menu Matters beef and lamb 2019*).

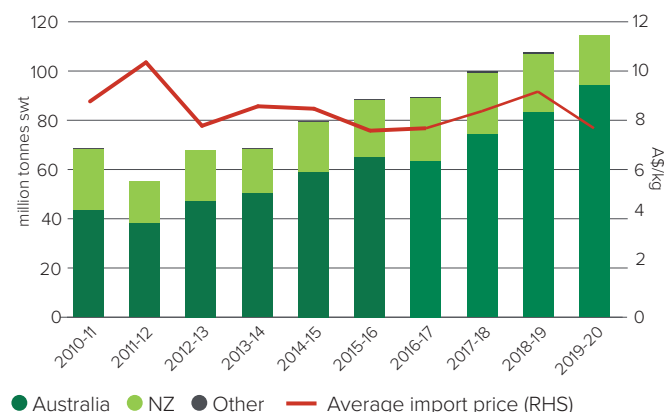


# COMPETITIVE LANDSCAPE



- Imports make a significant contribution to the lamb and mutton supply in the US. In 2019, imports accounted for approximately 70% of total sheepmeat consumed in the US (Source: *IHS Markit, calculated based on OECD-FAO consumption and total sheepmeat imports*).

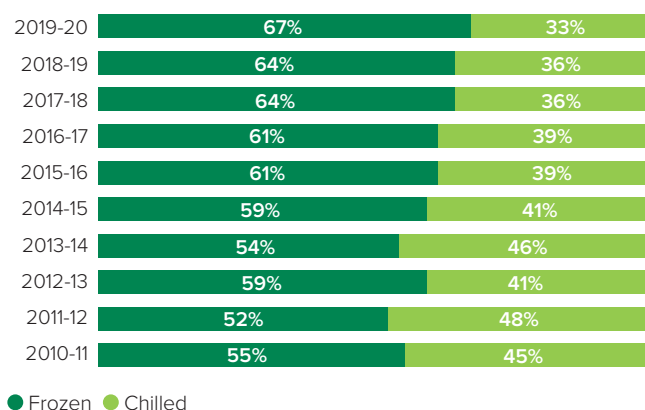
## Sheepmeat imports into US by major supplier



Source: *IHS Markit*

- Australia is the major supplier of lamb in the US (79% of imported lamb), and the fastest growing major importer (127% growth compared to 2012). The second largest supplier is New Zealand, accounting for 20% of total imports, and growing by 105% since 2012 (Source: *IHS Markit*).

## % of imported chilled and frozen sheepmeat volume to the US



● Frozen ● Chilled


Source: *IHS Markit*





# Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Australia-United States Free Trade Agreement (AUSFTA)	Zero	NZ, Uruguay and Chile: has a tariff of US 0.7¢/kg for lamb and US 2.8¢/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

		2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	change 2019–20 vs five-year average	
								%	in tonnes swt
<b>Total</b>		<b>76,020</b>		<b>79,258</b>		<b>68,556</b>		<b>11</b>	<b>7,465</b>
Storage	Chilled	30,273	40	29,636	37	27,528	40	10	2,745
	Frozen	45,747	60	49,622	63	41,027	60	12	4,720
Meat type	Lamb	55,833	73	59,954	76	54,523	80	2	1,310
	Mutton	20,187	27	19,304	24	14,033	20	44	6,155
Storage/meat type	Chilled lamb	30,273	40	29,636	37	27,526	40	10	2,747
	Chilled mutton	0	0	0	0	6	0	-100	-6
	Frozen lamb	25,560	34	30,317	38	26,997	39	-5	-1,437
	Frozen mutton	20,187	27	19,304	24	14,030	20	44	6,157

Source: DAWE

### Value – in A\$ 000

								%	in A\$ 000
<b>Total</b>		<b>887,572</b>		<b>931,196</b>		<b>744,609</b>		<b>19</b>	<b>142,963</b>
Meat type	Lamb	737,519	83	796,303	86	642,743	86	15	94,776
	Mutton	150,053	17	134,893	14	101,866	14	47	48,187

Source: ABS/IHS Markit

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

								%	in tonnes swt
Carcase		15,827	28	18,578	31	16,761	31	-6	-933
Leg		14,191	25	15,259	25	15,274	28	-7	-1,083
Rack		6,674	12	6,335	11	5,066	9	32	1,608
Shoulder		5,916	11	6,242	10	5,777	11	2	139
Shortloin		5,911	11	5,258	9	4,607	8	28	1,304
Other		7,314	13	8,283	14	7,038	13	4	275
<b>Total</b>		<b>55,833</b>		<b>59,954</b>		<b>54,523</b>		<b>2</b>	<b>1,310</b>

Source: DAWE

## Australian sheepmeat exports to Canada

### Volume – in tonnes swt

								%	in tonnes swt
<b>Total</b>		<b>8,902</b>		<b>9,556</b>		<b>8,560</b>		<b>4</b>	<b>343</b>
Storage/meat type	Chilled lamb	3,813	43	3,834	40	3,833	45	-1	-21
	Chilled mutton	0	0	0	0	1	0	-100	-1
	Frozen lamb	3,755	42	4,437	46	3,784	44	-1	-29
	Frozen mutton	1,334	15	1,285	13	942	11	42	393

Source: DAWE

## Australian sheepmeat exports to Mexico

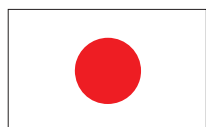
### Volume – in tonnes swt

								%	in tonnes swt
<b>Total</b>		<b>1,543</b>		<b>3,104</b>		<b>3,783</b>		<b>-59</b>	<b>-2,240</b>
Storage/meat type	Chilled lamb	0	0	0	0	1	0	-100	-1
	Frozen lamb	619	40	836	27	996	26	-38	-378
	Frozen mutton	924	60	2,268	73	2,786	74	-67	-1,862

Source: DAWE



## MARKET SNAPSHOT | BEEF & SHEEPMEAT

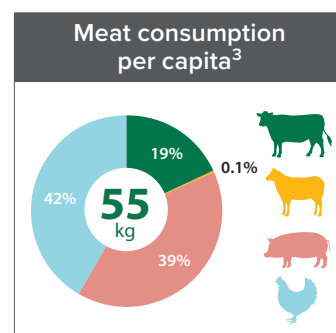
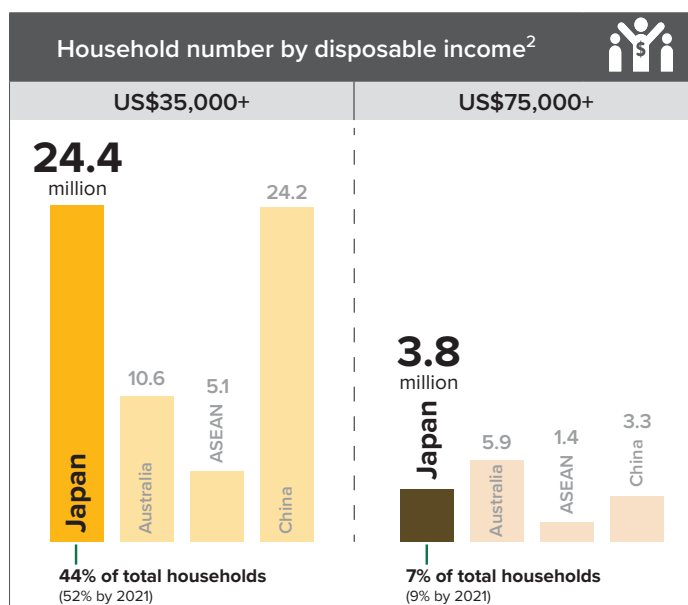
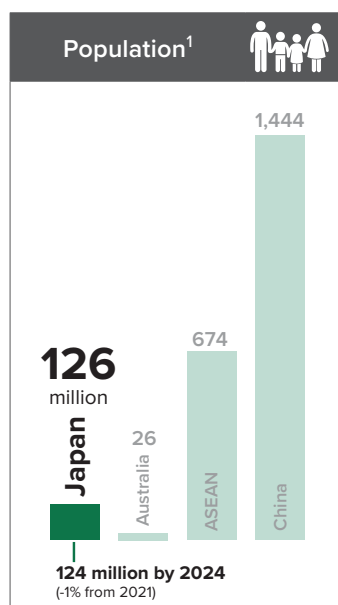


# Japan

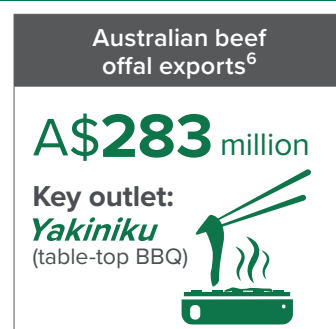
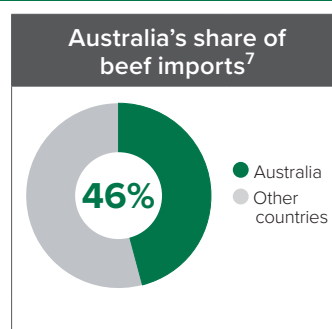
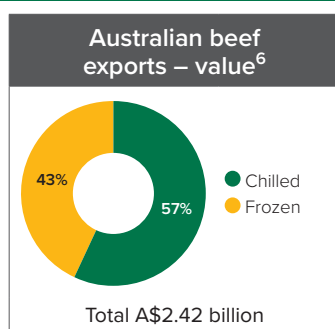
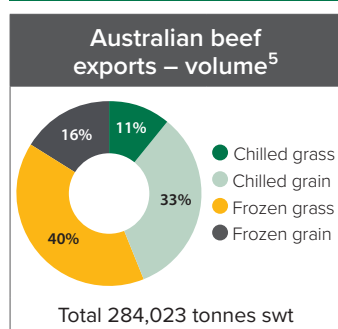
Japan is geographically a small country, with less than one tenth of the population in China. Yet the market has a high number of comparatively affluent households and sophisticated supply chain infrastructure. A balanced diet based on variety, quality and good flavour is highly important for Japanese consumers, and coupled

with the country's low food sufficiency rate, Japan is a major importer of various food products from global suppliers, including beef.

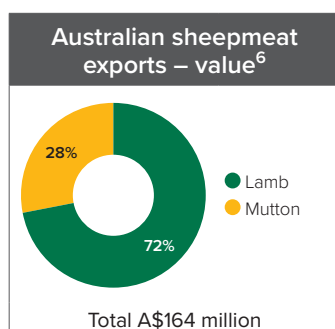
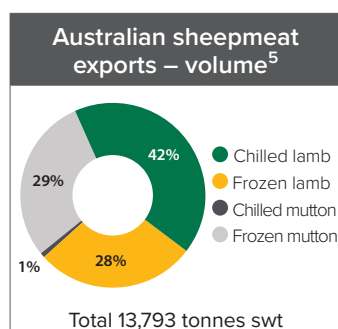
While the country's economic growth is subdued compared with many neighbouring markets in Asia, Japanese consumers have a strong interest in healthy living, and will continue to demand high volumes of quality imported proteins, such as Australian red meat.



Japan is one of the largest export destinations for Australian beef, alongside the US and China. It is also the largest market for grainfed beef, taking close to half of total grainfed exports.



Japan is a consistent buyer of Australian sheepmeat and is the largest chilled lamb customer in Asia. In 2019–20, total sheepmeat fell 3% on year-ago levels, largely due to a decrease in supply.



Data source for charts: <sup>1</sup> Fitch Solutions 2021, ASEAN = Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam, <sup>2</sup> Fitch Solutions 2021 (disposable income = earnings after taxes and social security charges), ASEAN = Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam, <sup>3</sup> Fitch Solutions, GIRA (per person per year in cwt excluding fish/seafood) 2020 and 2021, <sup>4</sup> IGD 2021 (defined as the total annual grocery retail market turnover in a given year, divided by the population for the same year. Grocery retail market data excludes VAT/sales tax), <sup>5</sup> DAW (FY 2019–20), <sup>6</sup> ABS/IHS Markit (FY 2019–20), <sup>7</sup> IHS Markit (most recent 12 months due to data availability), <sup>8</sup> MLA



## CONSUMERS



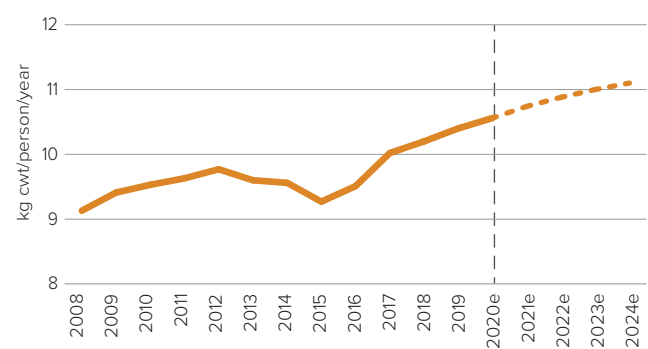
- Japanese consumers appreciate balance and variety in their diet, and often seek food that delivers both enjoyment and health benefits. With more than one quarter of the population (28%) over 65 years old, Japanese consumers have a strong interest in staying healthy, active and alert.
- Beef is considered to be the most premium protein with good taste, underpinned by a strong emotional connection and a unique flavour experience. Japanese consumers highly regard marbled Japanese Wagyu beef as the most prestigious beef for special occasions, while *akami* (leaner meat) such as Australian beef is more suited to a variety of western and Japanese-style everyday meals.



Australian beef is seen as "my/my family's favourite beef" by consumers.

- Sustainability is a developing concept in Japan. Japanese interest in sustainability is currently more focused around saving resources, recycling and reducing waste, rather than actively buying products that support ethical/sustainable causes (source: GlobalData, online research). Coincidentally, leading Japanese businesses are already promoting their sustainability commitment as a part of Corporate Social Responsibility programs, particularly in the lead-up to the anticipated Tokyo 2020 Olympics (to be held in 2021).
- Despite flat population growth, beef consumption is projected to increase in Japan due to growing consumption per capita. Australia has opportunities to enhance this growth into the future by continuously reinforcing the goodness of beef through consumer marketing and leveraging Australia's reputation as a safe, natural and trusted supplier.

### Beef consumption per capita



Source: Fitch Solutions. Note: Drop in consumption in 2004 was due to US BSE outbreak (December 2003) and subsequent market disruption.

- The outbreak of COVID-19 impacted many aspects of consumers' lives in Japan. That said, a survey conducted in May 2020 by MLA revealed that the majority of consumers have not changed their consumption patterns across protein and non-protein food groups. Beef consumption saw a slight increase among those who said they increased their consumption of different foods.

## FOODSERVICE



- Japan's restaurant sector is one of the most developed in the world in size and sophistication, with a diverse range of global cuisines and price points being available to consumers. Consumers appreciate highly marbled Japanese Wagyu beef for high-end dining, while leaner/less marbled Australian beef is used across the foodservice sector.
- Australia is a dominant supplier of beef to hamburger chains and casual dining restaurants in Japan. While the 2020 pandemic impacted all foodservice businesses, some operators in this segment weathered the challenge comparatively well, supported by their take-out/delivery capability.

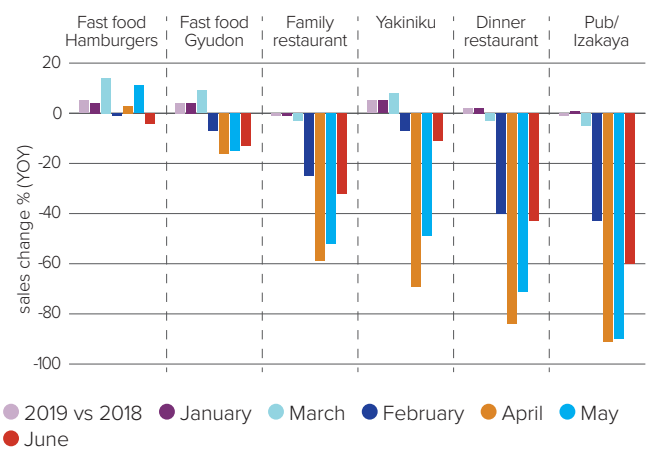
- Mid-range eateries and hotels are also the major users of Australian beef, however, their demand was severely reduced due to social-distancing rules, shortened business hours and loss of tourists/business functions. The speed of recovery will be particularly slow for operators whose business largely catered for international tourists.

### Estimated value of Japanese foodservice sector



Source: Fitch Solutions 2020

### Japan foodservice performance – 2020

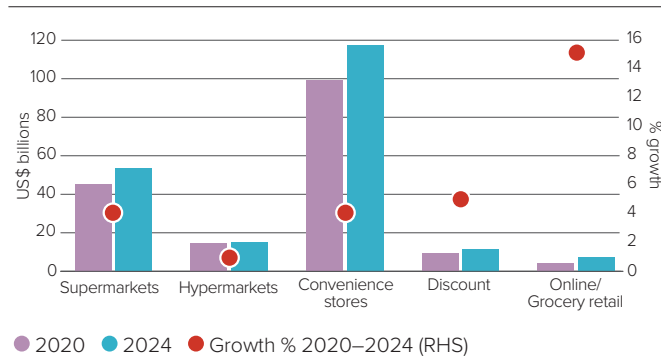


Source: Japan Foodservice Association, Family restaurant = Western style venues.



- The Japanese retail food market is highly sophisticated, but also very fragmented, with over 60% of the grocery market occupied by many regional and/or second-tier businesses.
- Supermarkets are the most common place for Japanese consumers to purchase both fresh and cooked food items, including imported beef. Sales of livestock products surged during 2020 on the back of COVID-19, with increased interest in quick, easy and 'something different' meal solutions among housebound consumers. Demand for frozen food, assorted packs of meat and cut vegetables, and long-life retort food (such as curry and stews) has also been brisk according to trade sources.

## Grocery retail sales by channel



Source: IGD, Growth % = Compound annual growth rate (CAGR) 2020-2024, IGD forecast.

- Convenience stores largely focus on processed and delicatessen products, with Australian beef often used for bento lunch box and frozen/long-life items.

- Take up of online grocery shopping increased as a result of the pandemic and is anticipated to grow further, albeit off a low base. Many Japanese consumers, particularly older generations, still prefer to seek out the 'value of the day' (price, freshness, seasonality and variety) in-store.
- Variety, convenience and maintaining a healthy lifestyle are highly important for Japanese consumers. Despite increased competition from US beef, Australian beef is well-positioned to take advantage of this space in the imported beef market, supported by perceived advantages in quality and safety of 'brand Australia' True Aussie (Source: MLA Global Consumer Tracker 2018) and commercial brand promotions.



Key attributes consumers look for on a beef pack:

- Safety
- Freshness
- Value
- Origin



Key associations consumers have with the 'True Aussie' logo:

"This beef is..."

- ✓ Safe to eat
- ✓ Guaranteed/certified
- ✓ High quality/premium
- ✓ Delicious

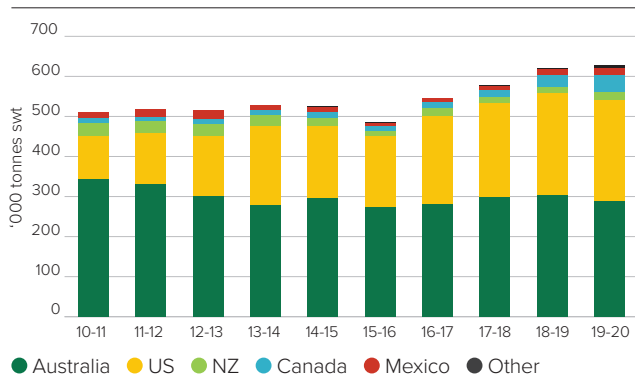
Source: MLA Global Consumer Tracker Japan 2018.

# COMPETITIVE LANDSCAPE



- Beef consumption in the Japanese fiscal year 2019 (April 2019 to March 2020) was the highest since 2000, buoyed by increased imports and shifting preferences for meat over fish/seafood among consumers.
- Japanese beef production has been relatively stable at around 330,000 tonnes (boneless cut equivalent) per year, with half of production being Wagyu. Sales of high value Wagyu beef have been subdued during 2020, as consumers tighten their budgets under the uncertainties of COVID-19.
- Australia and the US are the main suppliers of imported beef into Japan. Almost 65% of imports from the US are brisket/shortplate cuts (largely supplied to Gyudon rice bowl users), and another 25% are chilled shoulder/rounds for other foodservice and supermarket trade. The US is also a major supplier of beef offal (tongue in particular) to Japan's yakiniku restaurants.

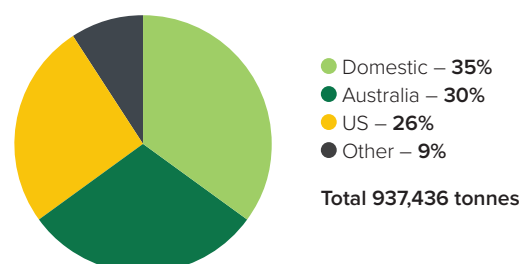
## Japan beef imports by supplier



Source: IHS Markit, Australian Fiscal Year.

- Under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (commonly called TPP-11 or CPTPP), the import tariff on beef from member countries, including Australia, will be reduced to 9% by 2033, from the current 25.8%. The tariff on US beef is matched with the CPTPP rate, under the US-Japan Trade Agreement.
- Albeit off a small base, Canada, New Zealand and Mexico have increased their shipments to Japan significantly since beginning of the CPTPP. Other competitors include Uruguay and Argentina but their collective volumes to date remain limited.
- Japan exports a very small quantity of premium beef (4,106 tonnes swt in Japanese fiscal year 2019), with the majority being highly marbled Wagyu beef. Their main markets are North Asia, South-East Asia and the US, which take almost 90% of total shipments. Australia imported 52 tonnes swt of Japanese beef during the same period.

## Japanese beef consumption by supplier



Source: ALIC, IHS Markit, MLA estimate, Product weight, JFY 19-20.



## Market access overview – beef

Trade agreements	Import tariffs*	Competitors**	Volume restrictions	Technical access
<p>Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP)</p> <p>Japan-Australia Economic Partnership agreement (JAEPA)</p>	<p><b>Under CPTPP:</b> Until <b>31 March 2021</b> – 25.8% for chilled, and frozen beef</p> <p>From <b>1 April 2021</b> – 25% 9% in 2033 under CPTPP</p>	<p><b>US</b> The US-Japan Trade Agreement – tariff is matched with CPTPP</p> <p><b>Canada, NZ, Mexico</b> Same condition as Australia under CPTPP</p>	<p><b>Safeguard</b> Tariff bounces back to 38.5% (30% after 1 April 2021) if imports exceed trigger level*</p>	No major hurdles

Best access Major challenges

Source: Trade agreements, DFAT, MLA

\* Visit DFAT Free Trade Agreement Portal (<https://ftaportal.dfat.gov.au>) for detailed tariff schedule under JAEPA and CPTPP, safeguard, prepared meat, offal and live animals.  
\*\* Beef sourced from specified states in Brazil is allowed to be imported into Japan, however, there has been no commercial shipments recorded in imports data in 2019 and 2020 (data as of May 2020). India does not have access due to animal health concerns.



## Australian beef exports to Japan – summary table

Volume – in tonnes swt		2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	change 2019–20 vs five-year average	
								%	in tonnes swt
<b>Total</b>		<b>284,023</b>		<b>302,756</b>		<b>292,164</b>		<b>-3</b>	<b>-8,141</b>
Storage	Chilled	124,186	44	126,647	42	124,065	42	0	122
	Frozen	159,837	56	176,110	58	168,099	58	-5	-8,262
Meat type	Grassfed	145,263	51	155,351	51	150,903	52	-4	-5,640
	Grainfed	138,760	49	147,405	49	141,260	48	-2	-2,500
Storage/meat type	Chilled grassfed	30,583	11	31,908	11	32,202	11	-5	-1,619
	Chilled grainfed	93,603	33	94,738	31	91,863	31	2	1,740
	Frozen grassfed	114,680	40	123,443	41	118,702	41	-3	-4,022
	Frozen grainfed	45,157	16	52,667	17	49,397	17	-9	-4,241

Source: DAWE

### Value – in A\$ 000

		2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	%	in A\$ 000
<b>Total</b>		<b>2,424,374</b>		<b>2,304,418</b>		<b>2,000,390</b>		<b>21</b>	<b>423,984</b>
Storage	Chilled	1,374,109	57	1,316,308	57	1,140,512	57	20	233,596
	Frozen	1,050,265	43	988,109	43	859,877	43	22	190,388

Source: ABS/IHS Markit

### Volume – by major cut (in tonnes swt)

	2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	%	in tonnes swt
Manufacturing	115,295	41	118,643	39	110,660	38	4	4,635
Brisket	33,676	12	38,293	13	42,652	15	-21	-8,977
Silverside/outside	20,311	7	20,178	7	18,150	6	12	2,162
Blade	16,906	6	17,857	6	17,717	6	-5	-811
Topside/inside	16,246	6	17,395	6	15,190	5	7	1,056
Chuck roll	15,547	5	15,935	5	16,795	6	-7	-1,248
Striploin	12,704	4	14,285	5	13,090	4	-3	-387
Thick flank/knuckle	7,741	3	8,061	3	7,245	2	7	496
Other	45,596	16	52,109	17	50,665	17	-10	-5,068
<b>Total</b>	<b>284,023</b>		<b>302,756</b>		<b>292,164</b>		<b>-3</b>	<b>-8,141</b>

Source: DAWE

### Australian beef offal exports to Japan – by major cut (in tonnes swt)

	2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	%	in tonnes swt
Tongues	8,759	35	8,792	35	8,620	34	2	139
Skirt	8,744	35	8,663	34	8,134	32	7	610
Tripe	2,574	10	2,925	12	2,663	11	-3	-89
Other	5,061	20	4,830	19	5,721	23	-12	-660
<b>Total</b>	<b>25,138</b>		<b>25,210</b>		<b>25,138</b>		<b>0</b>	<b>0</b>

Source: DAWE

### Value – in A\$ 000

	2019–20	2018–19	five-year average (2014–15 to 2018–19)	%	in A\$ 000
<b>Total</b>	<b>282,874</b>	<b>226,479</b>	<b>210,916</b>	<b>34</b>	<b>71,957</b>

Source: ABS/IHS Markit





# Sheepmeat

## CONSUMERS



- Sheepmeat has a minor but relatively established presence in Japan, in comparison to other niche proteins such as goatmeat and game meat. Lamb resonates with the market's tradition of seeking a variety of foods that deliver enjoyment, but also nutritional balance in the diet.
- Consumers appreciate lamb's eating quality, but also think it is hard to buy and not as versatile as other proteins (Source: MLA Global Consumer Tracker Japan, 2019). Current per capita sheepmeat consumption is extremely low, indicating scope for future growth.
- Making lamb more accessible in an everyday environment remains a priority in a market where people place great emphasis on convenience, variety and a healthy diet.

### 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
Healthy diet for growing children	High nutritional value
Easy to purchase	Meat is tender
Can be used in many different meals	My/my family's favourite

Source: MLA Global Consumer Tracker Japan, 2019.

## FOODSERVICE



- *Genghis Khan* (sheepmeat barbecue on a table-top grill) restaurants have been a significant driver of Australian sheepmeat demand in Japan. They are particularly popular in Hokkaido (the north island of Japan), however have been hard-hit by the pandemic and subsequent decline in tourists.
- While the COVID-19 impact has been felt across all foodservice operators, some businesses weathered it better, due to their focus on local customers. Lamb menus started to

appear in casual to mid-range chain outlets, including Chinese style lamb hot pot, grilled lamb skewers and *yakiniku* lamb.

- Lamb does not have the price competitiveness of pork or chicken, but is appealing for restaurants that seek a point of difference and higher value dishes. With the pandemic reinforcing Japanese consumers' interests in health and immunity through diet, there are opportunities for Australian lamb to leverage its positive perceptions in the foodservice sector.

## 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, 2019). New Zealand has a competitive presence in the sector with its smaller-sized bone-in (lamb cutlet) products, while Australia offers a greater range of products including shoulder, neck fillet and steak cuts.
- Hokkaido remains the largest region in terms of sales volume, however, retailers in Kanto (East Japan) and Kansai (West Japan) are gradually increasing their shelf space for lamb. The demand

has been assisted by home-bound consumers (due to the pandemic) who became "tired of the same chicken and pork repertoire" (MLA trade intelligence) and reached out for alternative proteins including lamb.

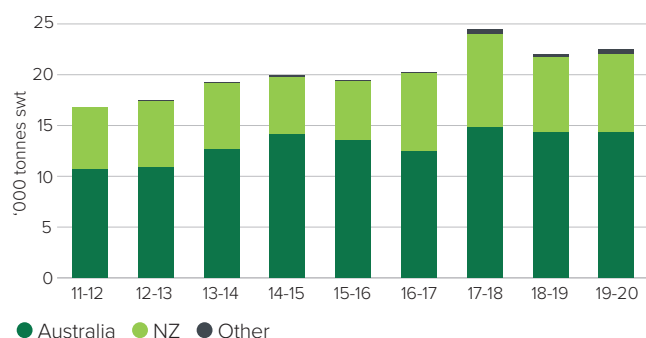
- Country of origin labelling is mandatory at Japanese retail level, and provides opportunities to promote Australia as a safe, trusted and quality supplier of sheepmeat via 'brand Australia' (True Aussie) and commercial brand promotions.

## COMPETITIVE LANDSCAPE



- The Japanese sheepmeat industry remains very small\* and hence sheepmeat demand in Japan has been, and will continue to be, filled by imports.

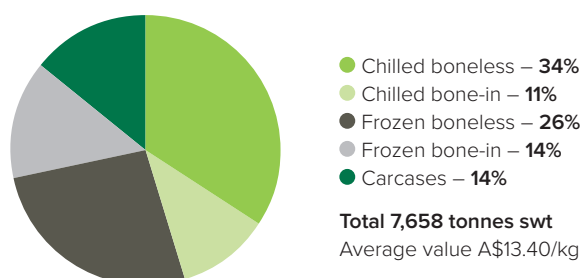
### Sheepmeat imports by supplier



Source: IHS Markit, Australian Fiscal Year.

- Australia is the dominant imported sheepmeat supplier to Japan, but is facing ongoing competition from New Zealand, which has the same access conditions. Other suppliers include Iceland, France, Argentina and the US, but collective volumes have been limited.

### Sheepmeat imports from New Zealand



Source: IHS Markit, FY19-20.

\* Last production data recorded in Japan was 2009, at 184 tonnes cwt.





## Market access overview – sheepmeat

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Japan-Australia Economic Partnership Agreement (JAEPA)  Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)	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		2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	change 2019–20 vs five-year average	
								%	in tonnes swt
<b>Total</b>		<b>13,793</b>		<b>14,210</b>		<b>13,742</b>		<b>0</b>	<b>50</b>
Storage	Chilled	5,890	43	6,107	43	5,623	41	5	268
	Frozen	7,902	57	8,104	57	8,120	59	-3	-217
Meat type	Lamb	9,643	70	9,367	66	9,090	66	6	554
	Mutton	4,149	30	4,843	34	4,653	34	-11	-503
Storage/meat type	Chilled lamb	5,815	42	6,028	42	5,562	40	5	254
	Chilled mutton	75	1	79	1	61	0	23	14
	Frozen lamb	3,828	28	3,339	24	3,528	26	9	300
	Frozen mutton	4,075	30	4,764	34	4,592	33	-11	-517

Source: DAWE

### Value – in A\$ 000

								%	in A\$ 000
<b>Total</b>		<b>164,320</b>		<b>142,806</b>		<b>124,096</b>		<b>32</b>	<b>40,225</b>
Meat type	Lamb	118,252	72	101,123	71	88,043	71	34	30,209
	Mutton	46,069	28	41,684	29	36,053	29	28	10,016

Source: ABS/IHS Markit

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

								%	in tonnes swt
Shoulder		5,898	61	6,041	64	5,464	60	8	433
Manufacturing		1,806	19	1,283	14	1,724	19	5	82
Leg		667	7	702	7	654	7	2	13
Rack		585	6	652	7	667	7	-12	-82
Carcase		255	3	270	3	225	2	13	30
Other		432	4	419	4	355	4	22	77
<b>Total</b>		<b>9,643</b>		<b>9,367</b>		<b>9,090</b>		<b>6</b>	<b>554</b>

Source: DAWE



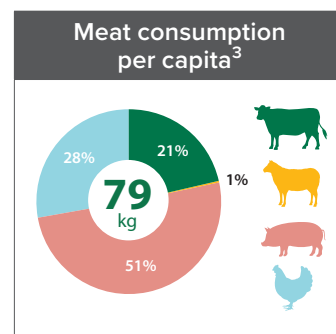
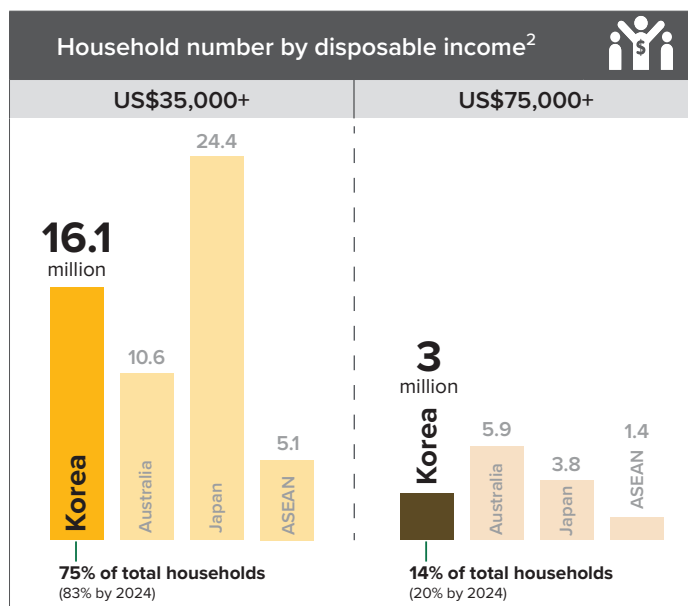
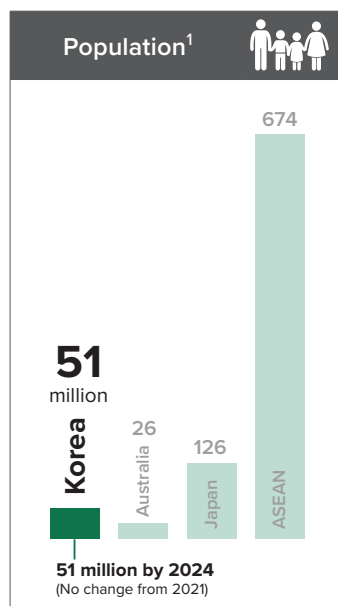
# MARKET SNAPSHOT | BEEF & SHEEPMEAT



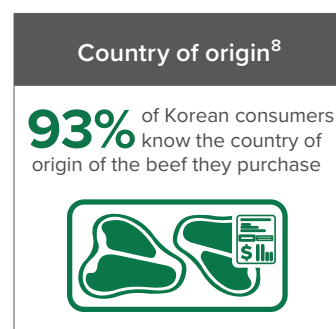
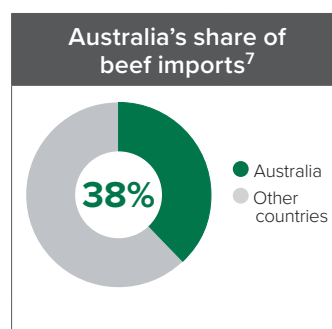
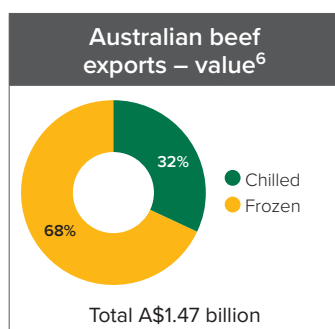
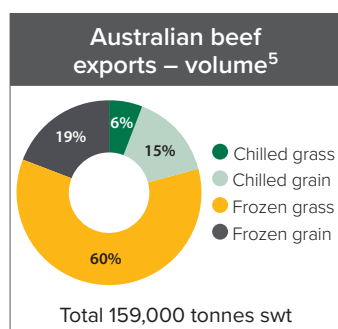
## Korea

Korean consumers love meat and are the highest per capita consumers across Asia. Korea is also one of the most affluent markets in the region, with over 80% of total households estimated to be earning a disposable income over US\$35,000/year by 2024. Meat consumption is forecast to grow further,

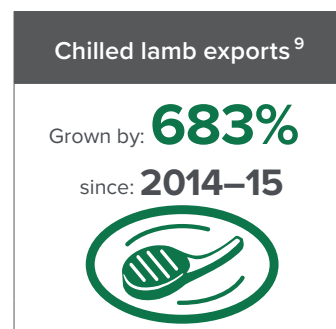
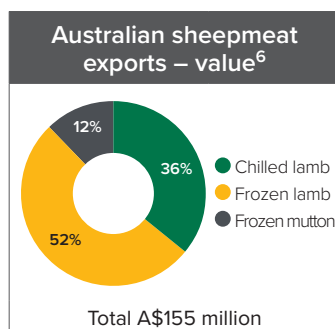
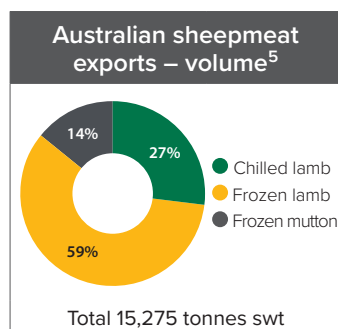
highlighting an ongoing need for quality imports. Australian red meat is well known and most favoured among imports, backed by Korean consumers' strong awareness of country of origin and preference for quality product.



 Korea has long been one of the top-ranking export destinations for Australian beef, and is now the fourth largest market after the US. It is also the second largest export customer of Australian chilled grainfed beef.



 Australian sheepmeat exports to Korea have grown consistently over the past decade, making Korea the second largest Australian lamb customer in Asia.



Data source for charts: <sup>1</sup>Fitch Solutions 2021, ASEAN = Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam, <sup>2</sup>Fitch Solutions 2021 (disposable income = earnings after taxes and social security charges), ASEAN = Cambodia, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam, <sup>3</sup>Fitch Solutions, GIRA (per person per year in cwt excluding fish/seafood) 2020 and 2021, <sup>4</sup>IGD 2021 (defined as the total annual grocery retail market turnover in a given year, divided by the population for the same year. Grocery retail market data excludes VAT/sales tax), <sup>5</sup>DAWE (FY 2019–20), <sup>6</sup>ABS/IHS Markit (FY 2019–20), <sup>7</sup>IHS Markit (most recent 12 months due to data availability), <sup>8</sup>MLA Global Tracker 2019, <sup>9</sup>DAWE

## CONSUMERS

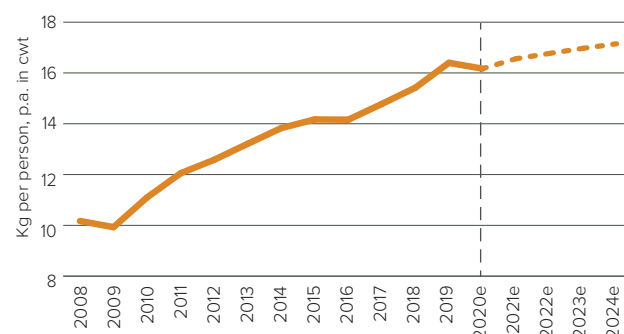


- Beef is considered a premium protein, and the market's per capita beef consumption is the highest in Asia (Source: Fitch Solutions)\*.
- Among imported beef, Australian beef is the most favoured by Korean consumers (Source: MLA Global Consumer Tracker Korea, 2019), while highly marbled domestic *Hanwoo* is generally regarded as the most superior. Pork is the most consumed meat in Korea, but chicken consumption is forecast to grow fastest, backed by its affordable price and versatility for pre-prepared meals.
- Country of origin is very important to Korean beef buyers, as the country relies on imports for about 65% of its beef requirements (Source: Fitch Solutions).
- Australian and US beef have similar levels of awareness among consumers, with Australian beef perceived as being safer and of superior quality. US beef appeals mainly for its 'lower price', 'convenience to purchase' and 'cuts suited for everyday cooking' (Source: MLA Global Consumer Tracker Korea, 2019). Further building on consumer confidence and trade loyalty to Australian beef will remain crucial for maintaining Australia's position in the market.

\* 2020 data and 2024 forecast, total of beef, excludes Australia, New Zealand (NZ) and Hong Kong.

- In Korea, the number of single and two-person households has been on the rise, accounting for 55% of total households in 2020 (Source: Fitch Solutions). This has been accelerating consumers' demand for portion controlled, convenient meals.

### Beef consumption per capita



Source: Fitch Solutions

## FOODSERVICE



- Korea's foodservice market is valued at A\$2.5 trillion (Source: Statistics Korea, 2018 data).
- Korean consumers enjoy eating out, and traditional Korean flavours remain popular across generations. Almost half of all foodservice outlets serve Korean-style dishes (Source: MLA Korea industrial statistics, estimated figure 2019). Localised flavours infused into western fast foods are commonly seen, such as *bulgogi* burgers and pizzas (Australian beef burger with local *bulgogi*-style sauce).

### Korean foodservice sector – key users of Australian beef

Category	Major brands	Major cuts used
Fast food	Hamburger (Lotteria, Burger King, McDonald's)	Manufacturing beef
Casual eatery	Brisket soup (Shinsun Seolongtang, Hanchon SLT), Shabu shabu (Chasundang), various small BBQ outlets	Chuck roll, briskets, ribs, skirts, tail, oyster blade (BBQ style), offal
Mid-end	Steak (Outback Steakhouse), family restaurant (TGI Fridays, VIPs, Mad for Garlic), various BBQ chains	Chuck roll, loins, bone-in rib eye, various fore/hind cuts, offal
High-end	Five-star hotels, independent restaurants, celebrity chef venues	Loins
Canteen and catering*	LG ourhome, Samsung Wellstory, CJ Freshway	Brisket, chuck roll, clod

Source: MLA

\* Largely supplying to institutions (schools, hospitals) and businesses.

- The sector has been impacted by COVID-19, with many consumers opting not to dine out during the height of the pandemic. While the Korean foodservice sector was never fully shut-down by the government, restaurant sales have been slow in 2020. Many companies suspended business dining, and the catering sector (school canteens, banquet buffets and hotels) also suffered from a decline in revenue.
- The COVID-19 outbreak has also seen the ongoing growth of *Honbap* (solo dining), with some operators launching single-serve dishes and set menus, to allow consumers to enjoy their meals safely, on their own.
- Australian beef is consumed across the whole foodservice sector, with products ranging from frozen manufacturing beef to highly marbled Australian Wagyu loin cuts. In the traditional Korean barbecue sector, highly marbled domestic beef is the most popular product, followed by US beef, Australian Wagyu then grainfed products.

### Demand for convenience

The rise of single-person households has seen growing demand for convenience by Korean consumers, increasing interest in Home Meal Replacements (HMR) products and use of e-commerce platforms.

HMR are fully or partially prepared foods including ready to eat, ready to heat and ready to cook products.

In 2019, the Korean HMR market was worth A\$4.07 billion, (Source: Industry estimate). The segment has seen substantial growth over the past few years with further opportunities emerging for Australia. Most HMR products are made in Korea, using key ingredients such as imported beef. Among HMR products, Australian beef is used in soup, *Jjigae* (pot stew), porridge dishes, marinated steaks and meal kits. The COVID-19 outbreak has accelerated the existing HMR trend, with more consumers choosing to prepare and eat meals at home.

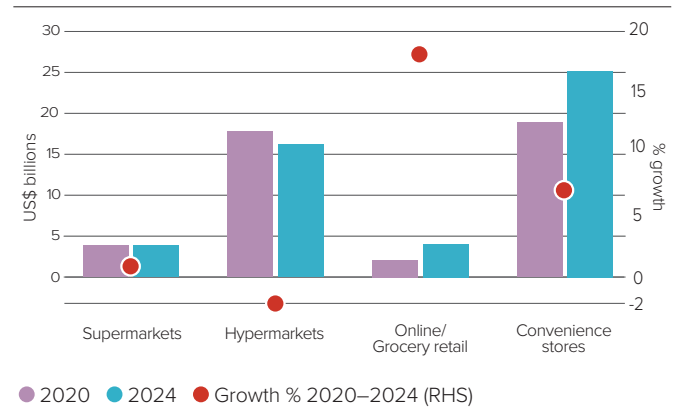


- The Korean retail sector is highly sophisticated and modernised, but also fragmented, with a high number of second-tier and regional chains. This drives strong price competition, with consumer and trade loyalty crucial to maintaining market position.
- It is estimated that approximately 45% of Australian beef is distributed via retail and e-commerce, including fresh, value-added and cooked products (Source: Trade research, MLA). Hypermarkets and supermarkets are key channels for Australian (and other imported) beef, while domestic *Hanwoo* has a particularly strong presence in department stores.
- Korea's retail sector has been experiencing a decline over the past few years, however, the COVID-19 outbreak in early 2020 resulted in significant increases in retail sales, both online and offline. Beef sales were supported by strong growth in online sales.
- Korea's e-commerce channel is well developed and among the largest in the world. Consumers can purchase Australian beef and lamb across several online platforms. The uptake of online delivery and "untact"\* services in Korea by some consumer groups has been fast-tracked by the COVID-19 outbreak.
- E-commerce retail channels including SSG.com, Coupang, Market Kurly, GS Fresh, Homeplus and Lotte mart online malls, have recently boosted their sales of Australian beef.

\* contactless services such as delivery or ordering and picking up groceries from an offline store.

- Besides fresh beef for home cooking, demand for Home Meal Replacements (HMR) has further accelerated on the back of the pandemic outbreak and more consumers staying home rather than dining-out (see page 2 for more on HMR).

## Grocery retail sales by channel



Source: IGD, Growth % = Compound annual growth rate (CAGR) 2020–2024, IGD forecast

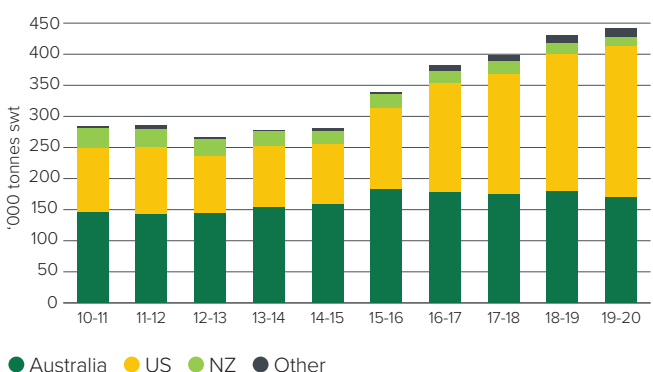
- Korean shoppers place a greater emphasis on where beef comes from compared to the global average. On-pack information about country of origin, along with environmental and 'naturalness' credentials, are highly important considerations at the point of purchase (Source: MLA Global Consumer Tracker Korea, 2018). The COVID-19 wave has further increased consumer needs for safe, healthy and natural products.

# COMPETITIVE LANDSCAPE



- Local beef production is relatively small, at around 250,000 tonnes per year, supplying approximately 36% of total beef consumption. Growth in production is likely to remain limited in coming years, largely due to producer uncertainty over future cattle prices, an ageing farmer population and rising costs.
- Major suppliers of imported beef to Korea are the US and Australia. US beef imports into Korea have continued to grow during 2019–20, reaching 441,549 tonnes shipped weight (swt), up 3% year-on-year and the highest on record for the period. Growth in total imports was predominantly due to increased imports from the US, with imports from Australia and New Zealand registering a decline of 6% and 26%, respectively.

## Korea beef imports by supplier



Source: IHS Markit, Korea Customs and Trade Development Institution

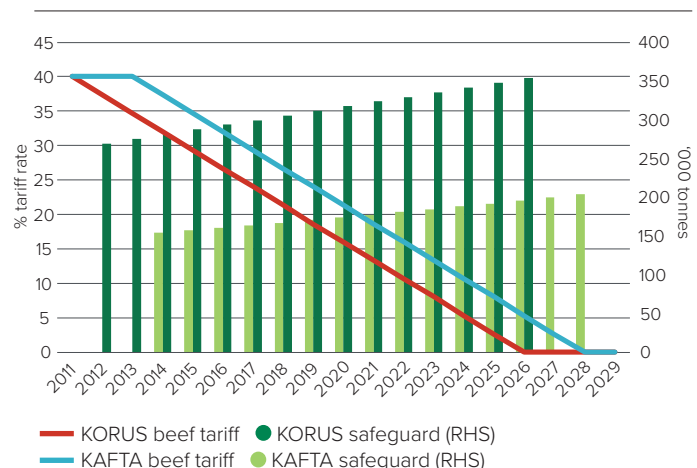
- The tariff for Australian beef into Korea has been reduced to 21.3% in 2020 under the Korea-Australia Free Trade Agreement (KAFTA). However, the tariff on US beef is 5.3% lower than

Australia (at 16%) under their trade agreement, providing them with a competitive advantage.

- The US also has a significantly larger safeguard triggering volume\* under its trade agreement (KORUS). It has not been triggered since the agreement came into effect in 2012, in comparison to Australia which has triggered the restrictive mechanism every year since the signing of the KAFTA.
- Brazil and India do not have access to the market due to Korea's stringent animal health and food safety requirements. Holland and Denmark were granted access into Korea in 2019 – however both are yet to make any significant shipments into the market.

\*318,000 tonnes swt for 2020.

## KAFTA and KORUS beef tariff schedules



Source: Austrade and USDA FAS



# Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Korea-Australia Free Trade Agreement (KAFTA)	2020 – 21.3% 2021 – 18.6% 0% in 2028 Under KAFTA	US 2020 – 16% 2021 – 13.3% 0% in 2026 under KORUSFTA*	Safeguard Tariff bounces back to 30%** when Australian imports exceed trigger level***	No major hurdles

Best access Major challenges

Source: Trade agreements, DFAT, MLA

\* Korea-US Free Trade Agreement

\*\* safeguard tariff drops to 24% in 2024

\*\*\* 2020, safeguard volume does not include offal

## Australian beef exports to Korea – summary table



### Volume – in tonnes swt

		2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	change 2019–20 vs five-year average	
								%	in tonnes swt
<b>Total</b>		<b>159,000</b>		<b>176,094</b>		<b>164,892</b>		<b>-4</b>	<b>-5,893</b>
Storage	Chilled	33,195	21	35,432	20	35,437	21	-6	-2,241
	Frozen	125,804	79	140,662	80	129,456	79	-3	-3,651
Meat type	Grassfed	103,998	65	118,846	67	113,686	69	-9	-9,687
	Grainfed	55,001	35	57,249	33	51,207	31	7	3,795
Storage/meat type	Chilled grassfed	9,025	6	9,219	5	10,652	6	-15	-1,627
	Chilled grainfed	24,171	15	26,213	15	24,785	15	-2	-614
	Frozen grassfed	94,974	60	109,627	62	103,034	62	-8	-8,060
	Frozen grainfed	30,831	19	31,036	18	26,422	16	17	4,409

Source: DAWE

### Value – in A\$ 000

								%	in A\$ 000
<b>Total</b>		<b>1,466,411</b>		<b>1,500,121</b>		<b>1,259,188</b>		<b>16</b>	<b>207,222</b>
Storage	Chilled	462,993	32	470,798	31	406,471	32	14	56,522
	Frozen	1,003,418	68	1,029,323	69	852,717	68	18	150,701

Source: ABS/IHS Markit

### Volume – by major cut (in tonnes swt)

								%	in tonnes swt
Chuck roll	28,952	18	40,056	23	37,893	23		-24	-8,940
Manufacturing	26,134	16	21,149	12	20,360	12		28	5,774
Blade	19,807	12	23,551	13	25,065	15		-21	-5,258
Brisket	18,218	11	22,598	13	18,512	11		-2	-294
Ribs	15,695	10	13,447	8	12,724	8		23	2,970
Short ribs	10,503	7	10,634	6	11,188	7		-6	-685
Silverside/outside	10,500	7	12,700	7	10,503	6		0	-3
Thick flank/knuckle	6,297	4	7,252	4	5,057	3		25	1,240
Other	22,893	14	24,707	14	23,590	14		-3	-697
<b>Total</b>	<b>159,000</b>		<b>176,094</b>		<b>164,892</b>			<b>-4</b>	<b>-5,893</b>

Source: DAWE

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

								%	in tonnes swt
Intestines	9,645	28	7,596	26	4,521	17		113	5,124
Skirt	5,983	18	5,435	19	5,346	21		12	637
Tripe	5,712	17	3,468	12	3,685	14		55	2,027
Other	12,523	37	12,680	43	12,499	48		0	24
<b>Total</b>	<b>33,863</b>		<b>29,179</b>		<b>26,051</b>			<b>30</b>	<b>7,812</b>

Source: DAWE

### Value – in A\$ 000

								%	in A\$ 000
<b>Total</b>	<b>158,289</b>		<b>140,339</b>		<b>125,333</b>			<b>26</b>	<b>32,956</b>

Source: ABS/IHS Markit





# Sheepmeat

## 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.
- Taste is not a barrier to purchasing lamb in Korea; however, some consumers have concerns about lamb's smell and are hesitant to cook it at home. Considering Koreans are one of the largest per capita consumers of meat in Asia, inspiring consumers' curiosity to try lamb and improving familiarity will create growth opportunities.

## FOODSERVICE



- Australian sheepmeat exports to Korea have seen significant value growth over the past five years, with a CAGR\* of 22% since 2015–16 (Source: IHS Markit). Primarily used in foodservice, the proportion of high-value chilled lamb has grown over the past few years, reaching 36% of total sheepmeat export value to Korea in 2019–20 (Source: IHS Markit).
- The growth in demand has been largely driven by the growing popularity of Chinese-influenced lamb barbecue/skewer restaurants. However, with the increased interest in sheepmeat, *Genghis Khan-style* (Japanese table-top sheepmeat barbecue-style cooking) restaurants are also growing in numbers, and more local chefs are beginning to experiment with various lamb cuts including whole leg barbecue and bone-in rib cuts.
- In recent years, *Huo Guo* and *Mala* soup (Chinese-style hotpot and soup) restaurants have risen in popularity among young Koreans. This cuisine leverages trimming from lamb shoulder cuts.
- 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.



Lamb – Genghis Khan Korean-style

\*Compound annual growth rate

## RETAIL



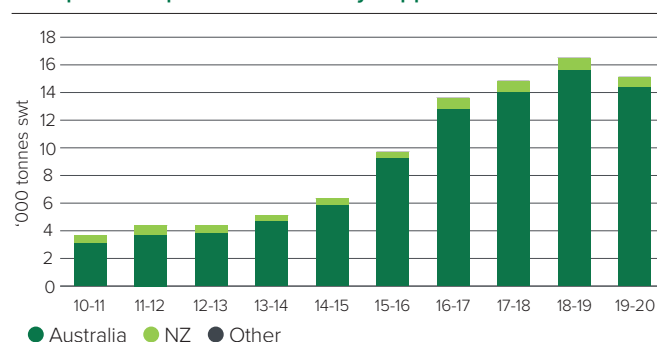
- Lamb is not commonly available across major supermarkets in Korea, with consumers not yet readily thinking of lamb as an everyday protein option. When it is purchased, it is often either an impulse buy or for a specific meal (Source: MLA Global Consumer Tracker Korea). However, lamb is regarded as having high nutritional value and being environmentally sustainable.
- Consumer interest in lamb is reportedly increasing, particularly after having enjoyed the protein at a restaurant. However, 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 comparatively expensive lamb.
- The presence and sales of lamb on online platforms have been increasing, with a growing number of consumers willing to try lamb at home. Major online only vendors such as Market Kurly and Coupang already have a diversified range of lamb available for purchase. Recently, lamb sales in the home shopping channel have also seen some growth.

## COMPETITIVE LANDSCAPE



- 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 Korean imported sheepmeat market has increased significantly over the past 10 years (from a very low base), with Australia mostly taking advantage of the growth, representing 95% of total imports in 2019–20. Total imports reached 15,072 tonnes swt in 2019–20, a decline of 9% year-on-year, on the back of tight Australian supply.
- New Zealand has also taken advantage of the rise in imports and remains the key competitor for Australia, although its market share remains small. Most New Zealand products into Korea are bone-in frozen cuts.

### Sheepmeat imports into Korea by supplier



Source: IHS Markit, Korea Customs and Trade Development Institution





## Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Korea-Australia Free Trade Agreement (KAFTA)	2020 – 6.7% 2021 – 4.5% 0% in 2023 under KAFTA	NZ 2020 – 9% 2021 – 6.7% 0% in 2024 under NZ-Korea FTA*	Zero	No major hurdles

Best access Major challenges

Source: Trade agreements, DFAT, MLA  
\* New Zealand-Korea Free Trade Agreement



## Australian sheepmeat exports to Korea – summary table

Volume – in tonnes swt		2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	change 2019–20 vs five-year average	
								%	in tonnes swt
<b>Total</b>		<b>15,276</b>		<b>15,347</b>		<b>11,811</b>		<b>29</b>	<b>3,465</b>
Storage	Chilled	4,139	27	4,034	26	2,332	20	78	1,807
	Frozen	11,136	73	11,313	74	9,479	80	17	1,657
Meat type	Lamb	13,115	86	13,759	90	10,204	86	29	2,911
	Mutton	2,160	14	1,588	10	1,607	14	34	553
Storage/meat type	Chilled lamb	4,139	27	4,032	26	2,330	20	78	1,809
	Chilled mutton	-	0	2	0	2	0	-100	-2
	Frozen lamb	8,976	59	9,727	63	7,874	67	14	1,102
	Frozen mutton	2,160	14	1,587	10	1,605	14	35	555

Source: DAWE

Value – in A\$ 000								%	in A\$ 000
<b>Total</b>		<b>154,991</b>		<b>147,651</b>		<b>95,600</b>		<b>62</b>	<b>59,391</b>
Meat type	Lamb	135,420	87	135,779	92	85,232	89	59	50,188
	Mutton	19,571	13	11,872	8	10,369	11	89	9,203

Source: ABS/IHS Markit

Australian lamb exports to Korea – by major cut (in tonnes swt)								%	in tonnes swt
Shoulder		7,604	58	8,459	61	5,698	56	33	1,906
Breast and flap		2,516	19	2,599	19	2,178	21	16	338
Rack		1,067	8	848	6	709	7	51	358
Manufacturing		789	6	752	5	741	7	6	48
Intercostals		387	3	439	3	335	3	16	52
Other		752	6	662	5	543	5	38	209
<b>Total</b>		<b>13,115</b>		<b>13,759</b>		<b>10,204</b>		<b>29</b>	<b>2,911</b>

Source: DAWE



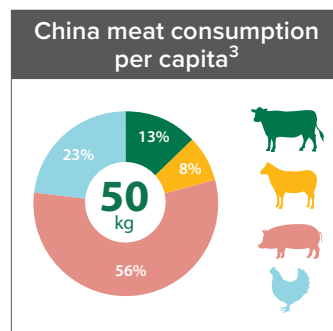
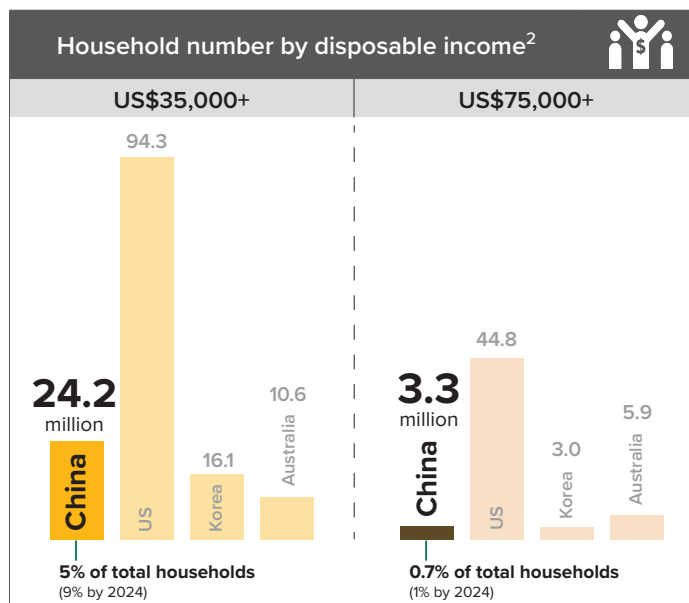
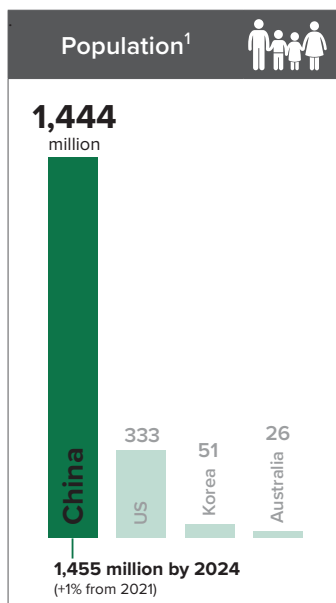


## MARKET SNAPSHOT | BEEF & SHEEPMEAT

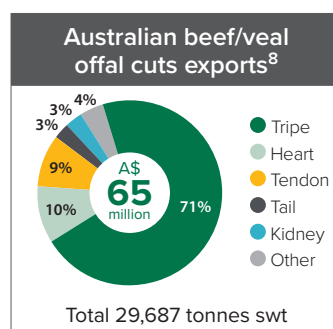
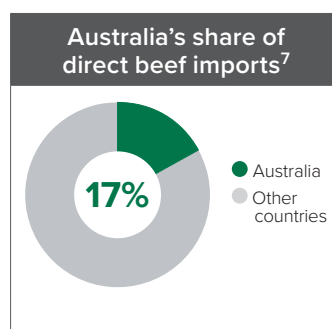
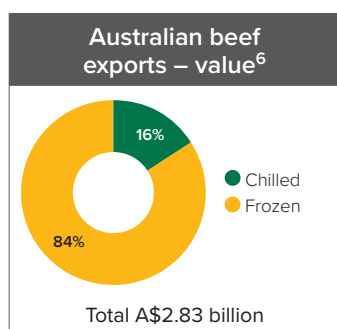
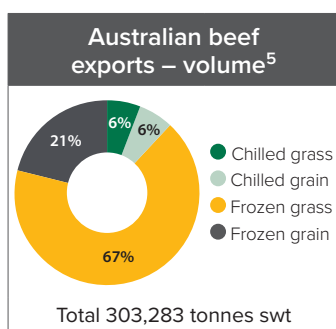
# Greater China (China, Hong Kong and Taiwan)

driven by a significant increase in the number of wealthy households. Focusing on targeted opportunities with a differentiated product will help to build preference in what is a large, complex and competitive market. Taiwan and Hong Kong are smaller by comparison but still important markets for Australian red meat, underpinned by a high proportion of affluent households.

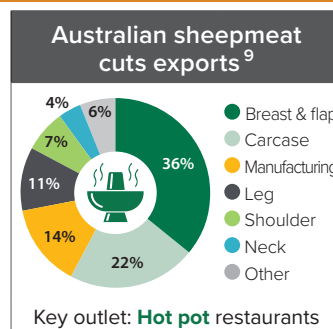
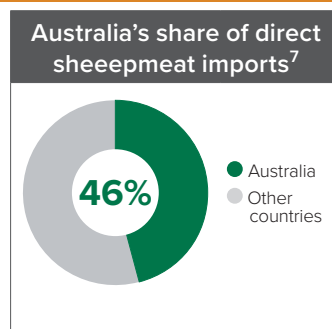
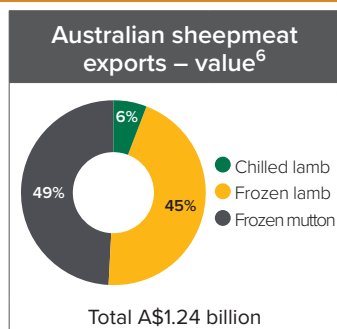
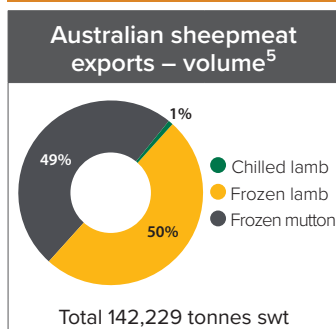
Despite being the most populous country in the world, the proportion of Chinese consumers who can regularly afford to buy high quality imported meat is relatively small in comparison to more developed markets such as the US and Japan. However, continued strong import demand for premium red meat will be



Australian beef exports to China have grown rapidly, increasing 70-fold over the past 10 years, with the country becoming Australia's largest market in 2019.



China has rapidly become Australia's single largest export destination for both lamb and mutton. Total sheepmeat exports have registered an eight-fold increase over the last 10 years.



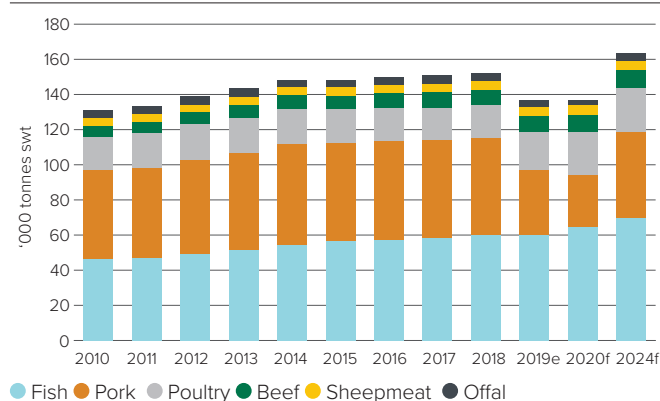
Data source for charts: <sup>1</sup>Fitch Solutions 2021, <sup>2</sup>Fitch Solutions 2021 (disposable income = earnings after taxes and social security charges), <sup>3</sup>Fitch Solutions, GIRA (China data only per person per year in cwt excluding fish/seafood) 2020 and 2021, <sup>4</sup>IGD 2021 (It is defined as the total annual grocery retail market turnover in a given year, divided by the population for the same year. Grocery retail market data excludes VAT/sales tax), <sup>5</sup>DAWE (FY 2019–20), <sup>6</sup>ABS/IHS Markit (FY 2019–20), <sup>7</sup>IHS Markit (most recent 12 months due to data availability), <sup>8</sup>DAWE 2019–20 (China, Hong Kong, Macau and Taiwan combined), <sup>9</sup>DAWE, IHS Markit 2019–20 (Lamb and mutton combined).

## CONSUMERS



- In China, beef comprises a small proportion of dietary protein intake compared to pork, fish and chicken. However, with rising incomes and continued urbanisation, national per capita beef consumption is forecast to increase from 6.4kg in 2018 to 7.0kg in 2024f (Source: GIRA).
- The impact of African Swine Fever (ASF) on higher pork prices in China is likely to result in a permanent increase in consumption of other meat proteins, particularly fish and poultry, but also beef.

### China beef consumption in context

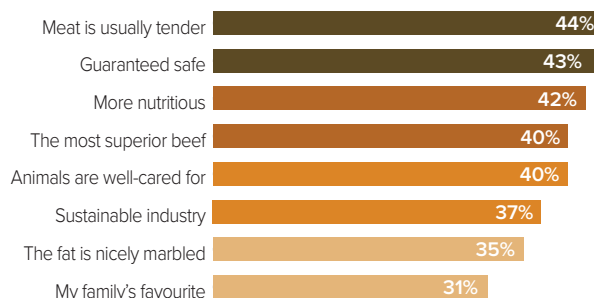


Source: GIRA 2019

- Chinese consumers consider beef a superior protein, making it a family favourite due to its high nutritional value and great taste. Barriers to more frequent consumption, apart from price, are driven by perceptions that beef is more difficult to prepare, less fresh and less tender compared to other proteins.

- Beef and beef offal are used in a variety of slow-cooked, stir fry, soup, dumpling and hot pot dishes. In urban upper middle class households, there is increasing exposure to western-style steaks, sausages, pasta dishes and burgers, both at home and via foodservice.
- A growing number of affluent consumers seek higher quality branded beef products offering higher safety, more consistent quality, more nutritional value and better eating quality. Australia is well-positioned to meet this demand as a widely recognised and well-regarded supplier of premium beef.

### Affluent\* Chinese consumer perceptions of Australian beef



Source: MLA Global Consumer Tracker, 2019. % Agree.

\*Consumers living in households earning >RMB200,000 p.a. in Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu and Chongqing cities

- Busy urban consumers are increasingly seeking convenience without having to compromise on quality and freshness, leading to growth in premium food and meal solutions. This trend has been further accelerated as a result of COVID-19 lockdowns.

## FOODSERVICE



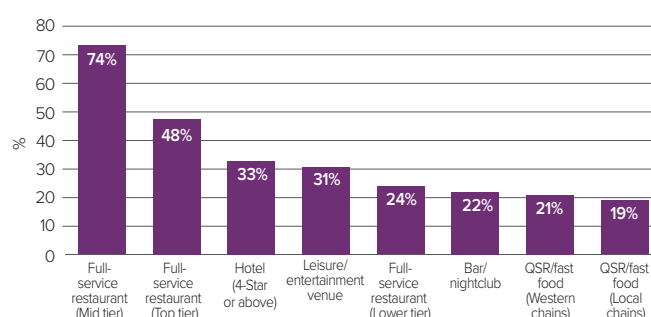
- As a comparatively less familiar but premium protein, estimates are that about two-thirds of the beef in China is consumed outside the home (Source: GIRA), where consumers are increasingly enjoying trying different cuisines that involve beef, such as western-style, Japanese and Korean.
- MLA estimates that in 2019, some 80% of Australian beef in China was sold in foodservice channels, with a proportion going into further processing of items such as hot pot rolls, burgers, meatballs and sausages, and a higher value product going into more premium full-service restaurants.



Growing popularity of western and other Asian cuisines has increased beef consumption.

- Australian beef has a strong, established presence in China's premium western-style foodservice sector, as well as some upscale hot pot restaurant chains, where differentiation based on quality and country of origin is important to diners.
- Developments in the foodservice sector such as the growth in popularity of steakhouse restaurants, Korean and Japanese cuisines are presenting more opportunities for Australian beef – particularly grainfed product.
- Despite the short-term challenges of COVID-19, the foodservice sector is forecast to see long-term growth and premiumisation, driven by expected strong affluent population growth.

### Foodservice consumption of beef by affluent\* consumers



Source: MLA China Attractive Cities Study, 2016. Consumed beef in the past month at.

\*Consumers living in households earning >RMB80,000 monthly.

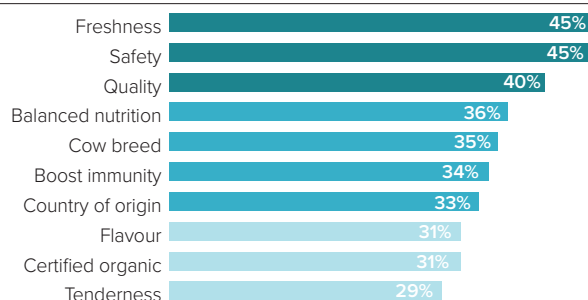
Top tier: >RMB300/head. Mid-Tier: RMB150-300/head. Lower Tier: <RMB150/head

## RETAIL



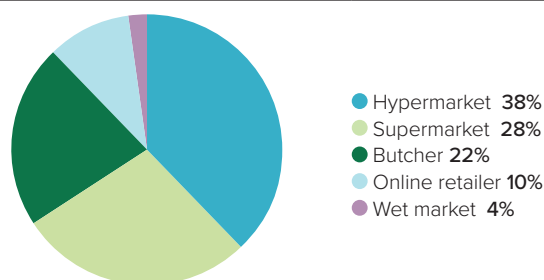
- As the world's largest grocery market by total sales, the share of modern retail in China is forecast to increase from 54% in 2019 to 61.5% in 2024 (Source: IGD). This shift away from traditional channels has been accelerated by the impact of COVID-19, with more consumers turning away from wet markets and using more online retail.
- Retail sales of beef have seen significant growth in 2020 so far due to both higher pork prices encouraging more beef consumption as a result of ASF, as well as a shift from dining-out to at-home consumption due to COVID-19.
- When buying beef for home consumption, Chinese consumers prioritise naturalness, safety and markers of quality such as country of origin. As a result of COVID-19, both safety and nutritional benefits have become even more important. Hence, Australian beef has seen strong demand growth for chilled and grainfed product in big cities, where affluent consumers seek the benefits of premium Australian product.
- Affluent urban consumers are driving growth in branded beef products as a marker of not only the important 'basics' of quality and safety, but as a source of meaning that contributes to their consumption experience via factors such as provenance. Quality beef products are also given as gifts at important celebration or occasions such as Spring Festival.
- China's grocery retail sector is undergoing significant change, with new business models and payment systems being trialled, presenting new opportunities for Australian beef. Retail sales value growth for beef is forecast to be fastest in the e-commerce channel in the coming years, as significant investments are being made in improving refrigeration capacity along the supply chain.

### China affluent\* consumers' beef purchase considerations



Source: MLA China COVID-19 Consumer Impact Survey, March 2020  
 \*Average monthly household income RMB28,000. Base: frequent imported beef consumers at home in Shanghai, Beijing, Guangzhou and Chengdu.

### Where affluent\* Chinese consumers buy Australian beef



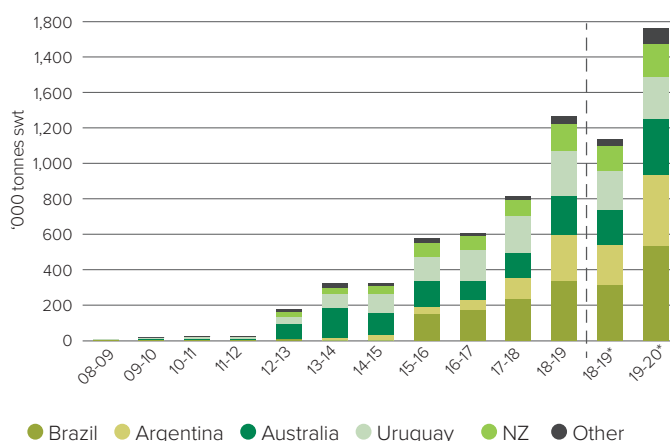
Source: MLA Global Consumer Tracker China, 2019  
 \*Consumers in Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu and Chongqing. Living in households earning >RMB200,000 p.a.

## COMPETITIVE LANDSCAPE



- The competitiveness of the China beef market is intensifying as more countries are granted market access. During the 12 months ending May 2020, some eight new supplier countries began exporting beef to China for the first time.
- China has a large beef cattle herd, estimated at 51 million head in 2021f (Source: GIRA). Although domestic beef production is expected to see some growth in coming years, for the foreseeable future there will remain a significant and growing domestic supply gap that will need to be met by imports.
- 2020 has seen the country's largest-ever monthly import volumes of beef through customs, totalling just under 2 million tonnes shipped weight (swt) for the year ending May, up 56% year-on-year. Chilled beef imports, which are mostly supplied by Australia, doubled over this same period to reach an all-time high of 46,673 tonnes in the 12 months to May, indicating growing demand for higher-quality beef (Source: IHS Markit).
- In the chilled beef market, Australia's main competitors are New Zealand and the US. Another nine countries, mainly South American and European, have also recently begun supplying smaller volumes. Australia's key competitors for frozen beef are Brazil, Argentina, Uruguay and New Zealand.

### China direct beef imports by supplier



Source: IHS Markit, China Customs. \*FYTD Jul-May. Excludes offal.

## LIVESTOCK EXPORTS



- Australia exported 15,512 head of live cattle for processing and 150,239 head of breeder cattle to China in the 12 months to June 2020, a combined increase of 36% on the previous 12 months (Source: DAWF).
- Australia is the largest supplier of direct live cattle exports to China, which also imports smaller numbers of mostly dairy breeder cattle from New Zealand, Uruguay and Chile (Source: GIRA).



## Market access overview – China

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
China-Australia Free Trade Agreement (ChAFTA) (entered into force 20 December 2015)	<b>Under ChAFTA</b> <b>2020:</b> Chilled and frozen beef 4.8% chilled carcasses 8%, frozen carcasses 10% Offal 0-8% <b>2021:</b> Chilled and frozen beef 3.6%, chilled carcasses 6%, frozen carcasses 7.5% Offal 0-6% <b>2024:</b> Zero	<b>US:</b> Phase One Economic and Trade Agreement signed 15 January 2020. China agreed to lift most restrictions on US beef products. Tariffs from 2 March 2020 until 1 March 2021*: Meat 37%, carcass – chilled 35%, frozen 40%**. <b>NZ:</b> Zero from 2016 <b>Brazil, Uruguay, Argentina (Most-favoured nation tariff rate):</b> Meat 12%, carcass – chilled 20%, frozen 25%	<b>Safeguard:</b> Most-favoured nation tariffs apply if Australian imports exceed: 179,687 tonnes swt in 2020 185,078 tonnes swt in 2021 <b>Most-favoured nation tariffs:</b> Chilled and frozen beef 12%, chilled carcasses 20%, frozen carcasses 25%	Restrictions on the number of approved plants, chilled plants and restrictions on edible offal

Best access Major challenges

Source: Trade agreements, DFAT, MLA. NB: China applies a 9% VAT on most items. \*As at 24 February, 2020. \*\* 18 February 2020 China announced a new tariff waiver application system for Chinese companies importing US frozen and chilled beef and by-products, available from 2 March 2020, with de facto tariffs in line with the MFN rate (12% meat, 20% chilled carcass, 25% frozen carcass). Competitors differentiated on market access terms, tariff rates and number of China-approved plants.

## Australian beef exports to Greater China – summary table



### Volume – in tonnes swt

Volume – in tonnes swt		2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	change 2019–20 vs five-year average	
								%	in tonnes swt
Total		336,039		240,986		176,003		91	160,036
Storage	Chilled	47,362	14	28,634	12	17,784	10	166	29,578
	Frozen	288,678	86	212,352	88	158,219	90	82	130,459
Meat type	Grassfed	248,950	74	175,738	73	140,277	80	77	108,673
	Grainfed	87,090	26	65,248	27	35,726	20	144	51,363
Storage/meat type	Chilled grassfed	24,823	7	16,329	7	11,810	7	110	13,013
	Chilled grainfed	22,539	7	12,304	5	5,974	3	277	16,565
	Frozen grassfed	224,127	67	159,409	66	128,466	73	74	95,660
	Frozen grainfed	64,551	19	52,943	22	29,753	17	117	34,798

Source: DAWE

### Value – in A\$ 000

Value – in A\$ 000								%	in A\$ 000
Total		3,187,593		2,086,249		1,354,785		135	1,832,808
Storage	Chilled	595,464	19	377,201	18	223,113	16	167	372,350
	Frozen	2,592,130	81	1,709,048	82	1,131,672	84	129	1,460,458

Source: ABS/IHS Markit

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

							%	in tonnes swt
Manufacturing	63,219	19	40,111	17	21,747	12	191	41,471
Brisket	48,800	15	36,248	15	30,807	18	58	17,993
Shin/shank	36,667	11	33,212	14	26,831	15	37	9,836
Blade	31,571	9	24,526	10	17,039	10	85	14,532
Silverside/outside	26,516	8	20,550	9	13,264	8	100	13,253
Chuck roll	22,519	7	11,495	5	7,110	4	217	15,408
Thick flank/knuckle	17,758	5	14,051	6	9,323	5	90	8,435
Ribs	13,369	4	9,023	4	5,712	3	134	7,657
Other	75,620	23	51,770	21	44,170	25	71	31,451
<b>Total</b>	<b>336,039</b>		<b>240,986</b>		<b>176,003</b>		<b>91</b>	<b>160,036</b>

Source: DAWE

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

							%	in tonnes swt
Tripe	21,194	71	23,263	76	22,444	78	-6	-1,250
Heart	3,006	10	2,312	8	1,567	5	92	1,439
Tendon	2,633	9	3,031	10	3,356	12	-22	-723
Other	2,854	10	1,862	6	1,551	5	84	1,303
<b>Total</b>	<b>29,687</b>		<b>30,467</b>		<b>28,918</b>		<b>3</b>	<b>768</b>

Source: DAWE

### Value – in A\$ 000

							%	in A\$ 000
<b>Total</b>	<b>149,432</b>		<b>130,544</b>		<b>119,273</b>		<b>25</b>	<b>30,159</b>

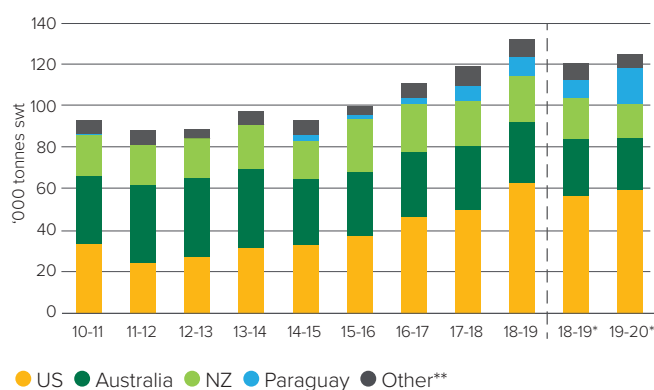
Source: ABS/IHS Markit

## SUMMARY



- Taiwan has been a significant export market for Australian beef for over two decades, consistently ranking among the top 10 markets for both grassfed and grainfed.
- Beef consumption has increased in recent years, driven by a large young adult population, increasing numbers of affluent households and openness to cuisines that feature beef such as western-style, Japanese and Korean.
- By regional standards, Taiwanese are big spenders on food and restaurants and have above-average per capita spending levels on beef (Source: Fitch Solutions).
- Reflecting growing demand, Taiwan's total beef imports reached an all-time high of 136,519 tonnes shipped weight (swt) for the year-to-May 2020, up 5% year-on-year.
- Taiwanese consumers appreciate Australian beef, particularly for its safety and consistent quality. MLA estimates that around 22% of Australian beef is sold through retail and 78% through foodservice channels in the market.
- As a wealthy and urbanised population, Taiwan's retail sector is quite mature by global standards, with Australian beef bought mostly from hypermarkets and supermarkets.
- The western-style fine dining segment has grown in recent years, using premium beef cuts such as cube/ribeye roll, striploin and tenderloin. Some consumer segments have developed an appreciation for highly marbled beef such as US prime, Australian Wagyu and Japanese Wagyu, while others seek quality, leaner grassfed beef.
- Taiwan has a small beef herd and while production is forecast to grow, the country will continue to rely on imports to meet over 90% of its beef needs for the foreseeable future.
- Australia's main competitors are the US, New Zealand and Paraguay, which has doubled its exports in the year-to-May 2020 compared to the year prior. Smaller volumes are also supplied by Nicaragua, Canada and Panama. Increasing competition, particularly from the US, has seen Australian volumes edge lower in recent years.
- Taiwan has seen strong growth demand for high-quality chilled beef in recent years. Australia competes mainly with the US and Japan in the high-end grainfed beef market.

### Taiwan total beef imports by supplier



Source: IHS Markit \*FYTD Jul-May

\*\*Other includes: Nicaragua, Panama, Honduras, Japan, Netherlands and Canada.



Taiwan's famous dish of beef soup noodles.

## Market access overview – Taiwan



Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
N/A	NT* \$10/kg 15% tariff on offal	<b>US, Japan and Canada:</b> access the same as Australia  <b>Paraguay, Honduras, Panama, Nicaragua, New Zealand:</b> 0% tariff on beef	Zero	No major hurdles

Best access  Major challenges

Source: Trade agreements, DFAT, MLA.

\* New Taiwan Dollar



# Hong Kong – Beef

## SUMMARY

- Hong Kong has been an attractive market for premium Australian beef due to its large tourist visitor numbers and a wealthy population base that can regularly afford premium imported meat products.
- Social unrest since March 2019 has had some impact on discretionary spending domestically and reduced tourist visitor numbers, further compounded by a halt on international tourism due to COVID-19 since February 2020, weighing on demand for beef in all channels. Demand for commodity frozen product has been impacted more than premium chilled product.
- Despite these market disruptions, Hong Kong total beef sales are still forecast to see the strongest growth of all proteins in coming years, averaging 5% year-on-year until 2024f (Source: Fitch Solutions). The increasing popularity of cuisines such as western, Japanese, Korean, and northern Chinese is also growing demand for beef.
- Australian beef enjoys a high profile in the market and is well-regarded by consumers.

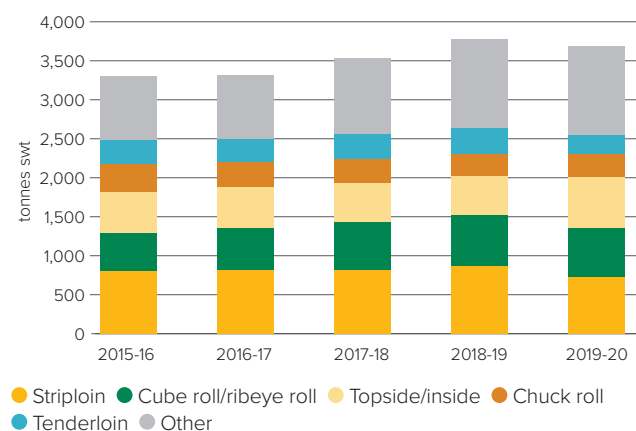
### Hong Kong consumer perceptions of Australian beef

✓	Guaranteed safe to eat
✓	Offers suitable cuts to suit my meals
✓	Is easy and convenient to buy
✓	Fresh
✓	Is my/my family's favourite beef
✓	Consistent quality standards

Source: MLA Global Consumer Tracker Hong Kong, 2018

- Hong Kong's grocery retail sector – a vital channel for Australian beef – is highly developed and competitive. MLA estimates around 60% of Australian chilled beef is sold through retail, with demand growth benefiting from increased penetration of food halls and specialist gourmet stores.
- Australian beef is also sold in a wide variety of foodservice channels from mid to high-end full-service restaurants to mid-level fast casual and quick service restaurants. Diners also enjoy special occasion experiences with premium beef at western and Japanese cuisine restaurants, where product provenance is more prominent on-menu.

### Australian chilled beef exports to Hong Kong – top five cuts



Source: DAWE

- Premium chilled beef represents the majority of Australia's exports to Hong Kong, with key competitors being the US, Brazil and Japan. Australia exports only small volumes of frozen beef to Hong Kong, with the majority of volumes supplied by Brazil, the US, Canada and the UK. India has also increased its exports of frozen buffalo meat in 2020.



A popular Hong Kong beef stir fry dish with rice flour noodles.

## Market access overview – Hong Kong



Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
The Australia-Hong Kong Free Trade Agreement (A-HKFTA) (entered into force 17 January 2020)	Zero	Australia has same access as other suppliers	Zero	No major hurdles

Best access  Major challenges

Source: Trade agreements, DFAT, MLA



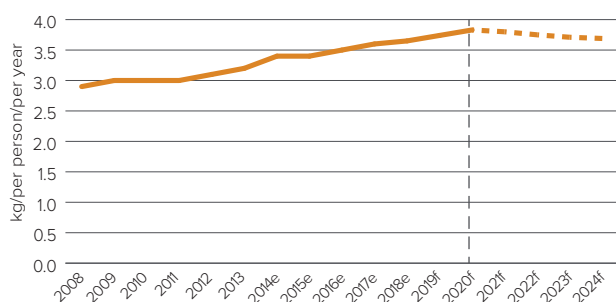
# China – Sheepmeat

## CONSUMERS



- China has been Australia's single largest sheepmeat export market by volume since 2012, and the second largest by value after the US until 2019, when export value to China overtook the US, driven largely by the protein shortage caused by African Swine Fever (ASF) (Source: IHS Markit).
- Sheepmeat currently accounts for a small proportion of dietary protein in China but has grown gradually over the past decade with rising incomes and urbanisation. Upper middle class consumers have been consuming more sheepmeat due to the pork shortage caused by ASF. As pork production returns to normal levels, per capita sheepmeat consumption is also expected to fall again somewhat by 2024.

### China sheepmeat consumption per capita



Source: GIRA. Includes sheep and goatmeat.

- Traditionally, sheepmeat consumption has been higher in the northern areas of the country and during the cooler months.

However, interest in the protein has grown faster in coastal cities, where wealthier consumers seek more protein variety in terms of taste and nutritional benefit.

- Sheepmeat and sheepmeat offal are traditionally used in a variety of stew, soup and particularly hot pot dishes, and are also a popular street food in the form of spiced grilled kebabs.
- In urban upper middle class households, there is increasing exposure to western-style lamb cutlets, meatballs and sausages. However, popular western cooking methods such as roasting are only available to the small proportion of households that have an oven at home.
- Affluent urban consumers appreciate Australian lamb, which offers several advantages considered worth paying more for, such as safety, high quality consistency and higher nutritional value (Source: MLA Global Consumer Tracker China 2019).

### Attributes associated with lamb compared to other proteins

Strengths	Weaknesses
✓ Is the most superior meat	✗ Easy and convenient to purchase
✓ The meat is usually tender	✗ Can use in many different meals
✓ I'm willing to pay more for this meat	✗ Easy and convenient to prepare
✓ The animal is well-cared for	✗ Cheaper
✓ Has high nutritional value	✗ My/my family's favourite meat

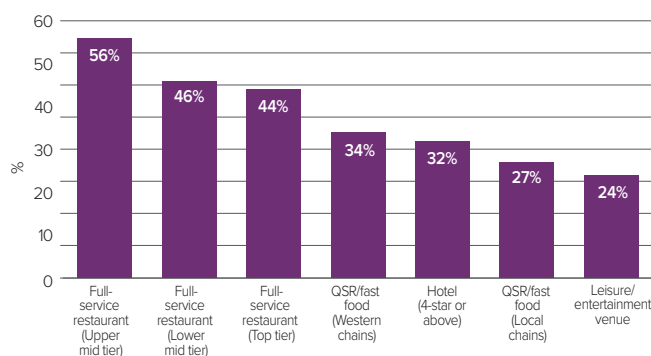
Source: MLA Global Consumer Tracker China, 2019

## 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). Prior to COVID-19, China's foodservice sector sales value of lamb for 2020 was estimated at around US\$13.2 billion (Source: GlobalData).
- The majority of Australian sheepmeat exported to China is sold in foodservice channels in the form of breast and flap, manufacturing, carcase and neck cuts that are processed for use in the sector, particularly in the form of hot pot rolls.

### Foodservice consumption of lamb by affluent\* consumers



Source: MLA China Attractive Cities Study, 2016. Consumed lamb in the past month at.  
 \*Consumers of imported meat at least weekly, either at-home or out-of-home.  
 Top tier: >RMB300/head. Upper Mid-Tier: RMB151-300/head. Lower Mid-Tier: RMB51-150/head. Lower Tier: <RMB50/head.

- 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.
- For affluent consumers, higher-end full-service restaurants are the most popular venues for dining out on lamb, where it features in a wide range of cuisines and dishes, including western-style.
- As urban consumers' disposable incomes grow, demand for dining out and meal-order for home delivery are increasing in larger cities, accelerated by temporary restaurant shutdowns due to COVID-19 in 2020. Increasingly health-conscious, these affluent consumers are less willing to sacrifice quality and nutrition for convenience. This, in turn, is expected to contribute to further growth in demand for higher quality meat, including imported lamb.



Hot pot is a popular way to eat sheepmeat out of home.

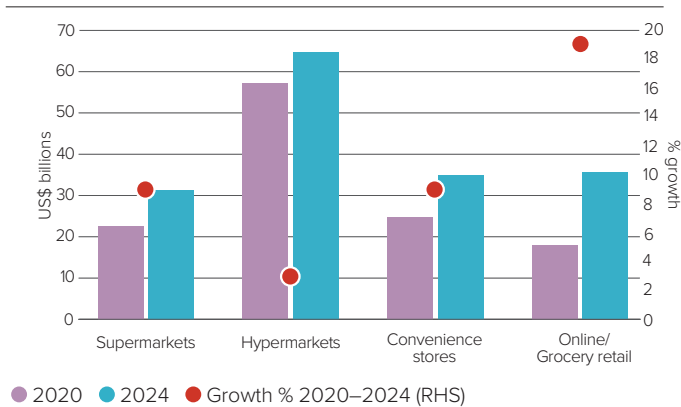
## RETAIL



- Of China's 300+ cities, MLA has identified 15 cities where demand for imported Australian sheepmeat will be strongest in the coming years. Sales value growth for lamb is anticipated to be particularly strong in Tianjin, Beijing, Shanghai and Hangzhou cities, where there are large concentrations of affluent consumers who already enjoy lamb frequently.
- Lack of familiarity and knowledge about how to cook lamb are the key barriers to growing lamb sales through retail channels. Among those who do purchase it, most use it in traditional 'slow wet cooking' recipes such as stews, soups as well as hot pot.

- Retail has been a relatively small channel for Australian sheepmeat, but branded lamb product is becoming available in stores in some larger cities and online. This is driven by affluent urban consumers seeking higher quality products offering not only safety and consistent quality, but also unique eating experiences and provenance characteristics.
- Frequent buyers of imported meat typically buy their lamb from modern retail channels. In China, e-retailers are playing an increasingly important role in making lamb more easily available to consumers across the country.

### Grocery retail sales by channel



Source: IGD, Growth % = Compound annual growth rate (CAGR) 2020-2024, IGD forecast

### Affluent\* consumer associations with Australian lamb

✓	Guaranteed safe to eat
✓	Offers suitable cuts to suit my meals
✓	Industry is sustainable
✓	Animals are well-cared for
✓	Consistent quality standards
✓	More nutritious
✓	Usually tender
✓	The most superior lamb

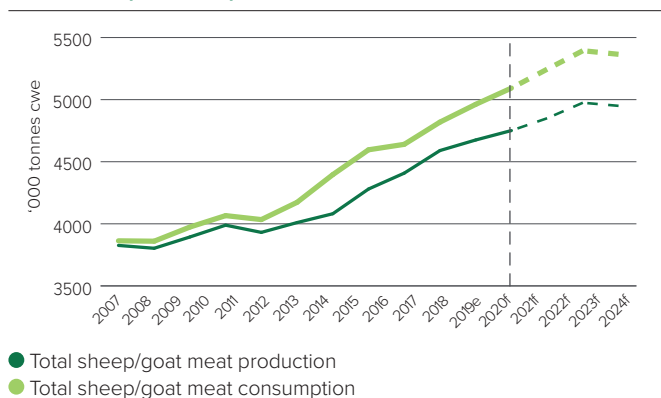
Source: MLA Global Consumer Tracker China, 2019  
\*Affluent = living in households earning >RMB17,000 per month

## COMPETITIVE LANDSCAPE



- China is the world's largest producer of sheepmeat, with a sheep and goat flock estimated at 315 million head in 2020. However, China is forecast to continue to remain a net importer of sheepmeat over the coming years (Source: GIRA). In 2019, imports were estimated to contribute around 8% of consumption volume (Source: GIRA).
- The strength of import demand in China depends on domestic production cycles, which have tended to be volatile due to the significant impact of small, opportunistic producers on the industry.
- Production and consumption of sheepmeat is forecast to peak around 2021 and then return to more normal levels, as the pig herd recovers from ASF.

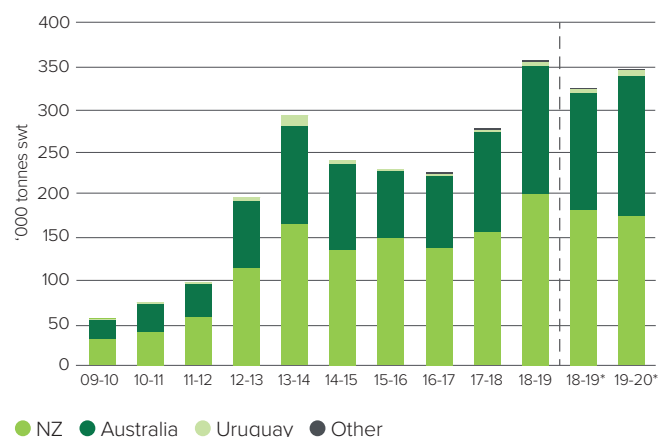
### China sheepmeat import demand



Source: GIRA

- New Zealand is the lead imported sheepmeat supplier to China, followed by Australia. Smaller volumes are supplied by Uruguay and Chile, with another five countries recently granted access but not exporting significant volumes yet.
- Australia and New Zealand are approved suppliers of chilled sheepmeat, however, New Zealand has an advantage with a greater number of listed plants, including for tripe.

### China direct sheepmeat imports by supplier



Source: IHS Markit  
\*FYTD Jul-May

- While New Zealand has been China's largest supplier of sheepmeat imports for over a decade, it has also become increasingly dependent on China. In 2019, the country exported just over 54% of its total sheepmeat exports to China, compared to 36% of Australia's sheepmeat going to China.



## Market access overview – China

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
China-Australia Free Trade Agreement (ChAFTA) (entered into force 20 December 2015)	Under ChAFTA: <b>2020:</b> Chilled meat and carcasses 5.0–7.7% Frozen meat and carcasses 4.0–7.7% Offal: frozen 4.5%, Chilled 8% <b>2021:</b> Chilled meat and carcasses 3.3–5.1% Frozen meat and carcasses 2.7–5.1% Offal: frozen 2.3%, chilled 6% <b>2023:</b> Zero	<b>NZ</b> Import tariffs zero from 2016 Multiple plant listings for chilled sheepmeat and sheep tripe	Zero	Restrictions on the number of approved plants, chilled plants and edible offal

Best access Major challenges

Source: Trade agreements, DFAT, MLA. Note: China applies a 9% VAT on most items.

## Australian sheepmeat exports to Greater China – summary table



Volume – in tonnes swt		2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	change 2019–20 vs five-year average	
								%	in tonnes swt
Total		150,890		136,651		96,156		57	54,734
Storage	Chilled	1,793	1	681	0	684	1	162	1,110
	Frozen	149,096	99	135,970	100	95,472	99	56	53,624
Meat type	Lamb	76,044	50	62,861	46	50,703	53	50	25,341
	Mutton	74,846	50	73,790	54	45,453	47	65	29,393
Storage/meat type	Chilled lamb	1,591	1	680	0	683	1	133	908
	Chilled mutton	203	0	1	0	1	0	21105	202
	Frozen lamb	74,453	49	62,181	46	50,020	52	49	24,434
	Frozen mutton	74,643	49	73,789	54	45,452	47	64	29,191

Source: DAWE

### Value – in A\$ 000

								%	in A\$ 000
Total		1,315,610		945,438		535,659		146	779,951
Meat type	Lamb	671,729	51	465,418	49	292,399	55	130	379,330
	Mutton	643,881	49	480,020	51	243,259	45	165	400,621

Source: ABS/IHS Markit

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

Australian lamb exports to China – by major cut (in tonnes swt)							%	in tonnes swt
Breast and flap	35,377	47	32,322	51	29,108	57	22	6,268
Manufacturing	15,734	21	14,729	23	11,665	23	35	4,069
Leg	7,356	10	4,395	7	1,189	2	519	6,167
Other	17,577	23	11,416	18	8,740	17	101	8,837
Total	76,044		62,861		50,703		50	25,341

Source: DAWE

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

Australian mutton exports to China – by major cut (in tonnes swt)							%	in tonnes swt
Carcase	28,850	39	34,790	47	15,352	34	88	13,498
Breast and flap	17,802	24	16,854	23	17,549	39	1	253
Manufacturing	9,337	12	6,769	9	5,141	11	82	4,196
Other	18,857	25	15,377	21	7,411	16	154	11,446
Total	74,846		73,790		45,453		65	29,393

Source: DAWE

# Taiwan – Sheepmeat

## SUMMARY



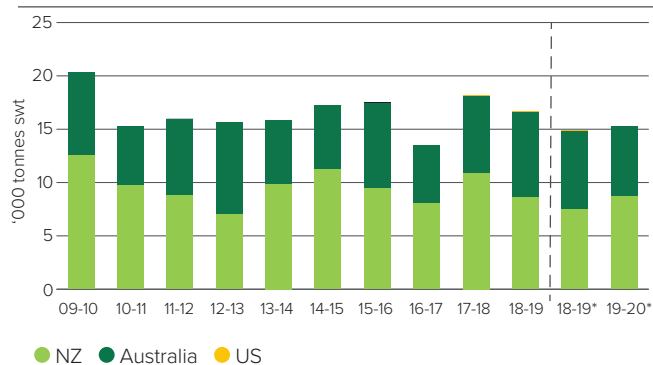
- Taiwan has been a significant importer of sheepmeat for the past several decades, reaching a total import volume of 17,025 tonnes shipped weight (swt) in the 12 months ending May 2020.
- The vast majority of the market's imports are supplied by New Zealand and then Australia, with a small quantity supplied by the US more recently. Due to the Agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu on Economic Cooperation (ANZTEC), New Zealand product has preferential access over Australia's, with zero tariffs applied.
- While Taiwan sheepmeat consumption is forecast to fall in 2020, mainly driven by the impact of lower supply from New Zealand and Australia, consumption is expected to rebound at 3.3% CAGR growth from 2019–2024f (Source: GIRA).



Slow-cooking with vegetables is a popular way to cook lamb at home across Greater China, including Taiwan.

- The majority of Australia's sheepmeat exports to Taiwan are comprised of frozen lamb and mutton, particularly in the form of manufacturing, breast and flap, and carcass. However, Australian chilled lamb has seen a notable compound annual growth rate of 13% over the past decade, driven particularly by demand for rack and shoulder cuts.
- Slow-cook recipes such as casseroles, soups and hot pot are among the more popular sheepmeat dishes to cook at home. Roasting, grilling and pan-frying of prime cuts is available at high-end western-style restaurants.

### Taiwan sheepmeat imports by supplier



Source: IHS Markit. \*FYTD Jul-Apr

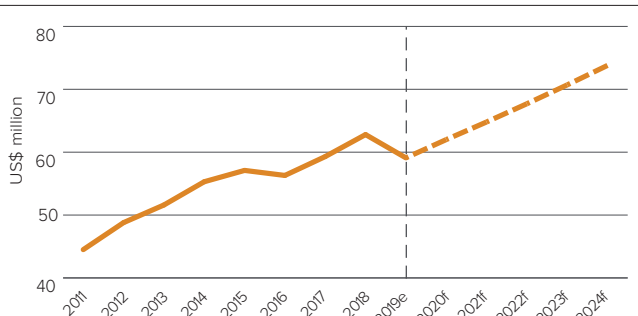
# Hong Kong – Sheepmeat

## SUMMARY



- Hong Kong has been a significant importer of sheepmeat over the years, though a proportion of the imported frozen product has traditionally been re-exported to other destinations such as China, Vietnam and Macau. In the 12 months ending June 2020, Hong Kong imported 8,569 tonnes swt.
- Sheepmeat is a relatively small part of Hong Kong locals' diets, with per capita consumption in 2020 estimated at 1kg/person/year (Source: GIRA). However, as an important tourism destination, a significant proportion of consumption occurs in the foodservice sector by non-locals. This is a key driver of strong growth in lamb sales forecast for the coming years (Source: Fitch Solutions).

### Hong Kong lamb sales



Source: Fitch Solutions. Household spend, all channels.

- The majority of the country's imports are supplied by Australia and New Zealand.
- Australian sheepmeat exports to Hong Kong are mostly lamb, with the majority of product frozen manufacturing (rack cap), leg, rack and breast and flap. Chilled lamb exports are mostly rack as well as some leg and shoulder.
- Due to competition from China and tightening supply, Australia's lamb exports are 8% lower year-on-year for the 12 months to June 2020 and 17% lower for mutton, also reflecting weaker domestic and tourist visitor demand in the wake of social unrest and COVID-19.



Braising is a popular way to cook sheepmeat across Greater China.



## MARKET SNAPSHOT | BEEF & SHEEPMEAT

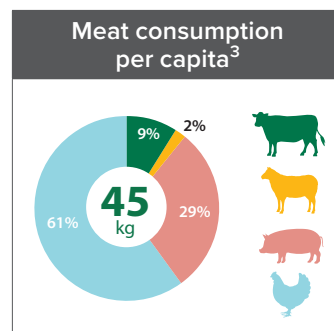
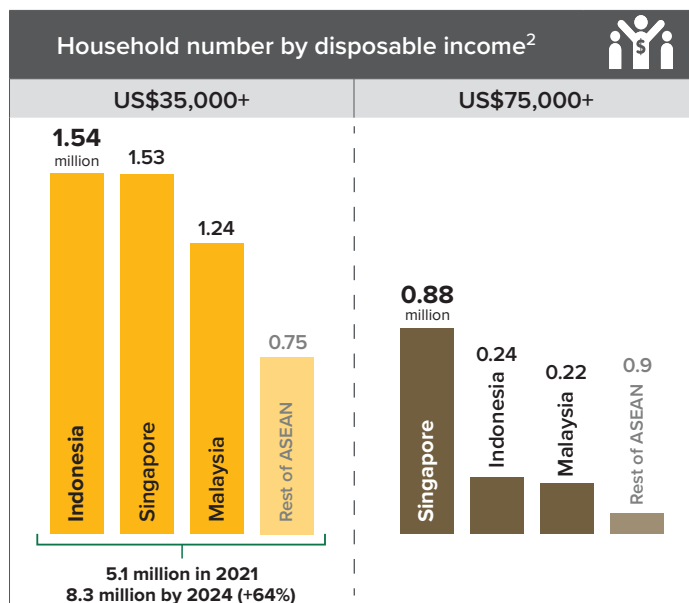
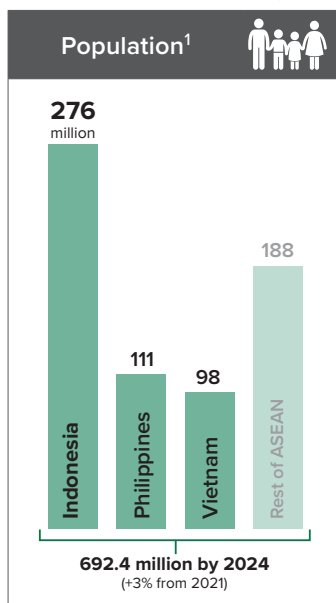


### South-East Asia\*

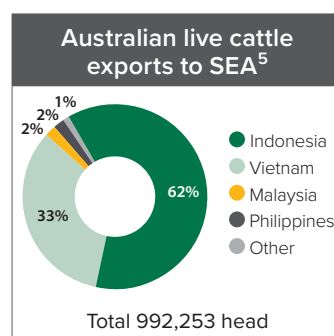
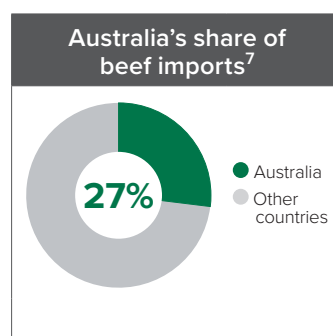
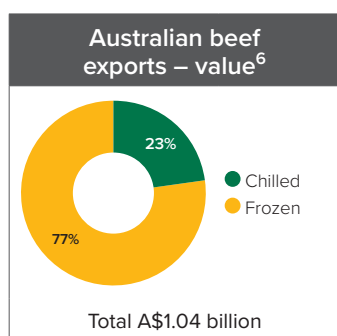
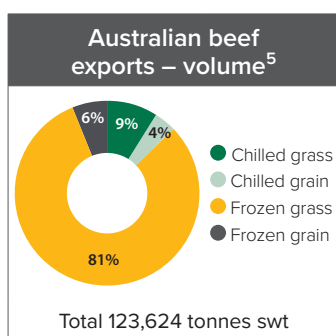
This dynamic and fast-growing region is diverse in population size, economic status and cultural/ethnic background. Improving household incomes and changing consumer tastes in the region are driving a rapid rise in red meat consumption, particularly in urban cities of developing markets. The variance in market

maturity and consumption habits requires a highly targeted approach to identify and develop opportunities for Australian red meat.

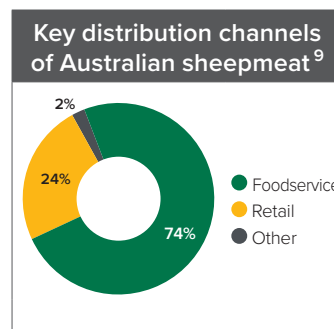
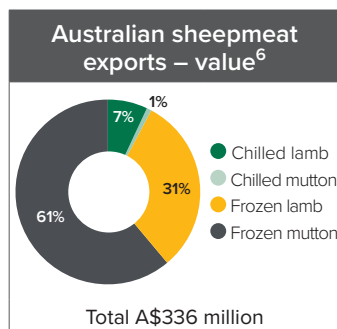
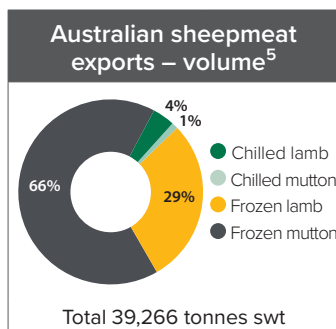
\* In this report, South-East Asia (SEA) includes the following countries – Indonesia, Singapore, Malaysia, Thailand, the Philippines and Vietnam, as well as Brunei, Cambodia, Laos and Myanmar.



Within the region, Indonesia and the Philippines are high volume markets for Australian beef, followed by fast-growing Vietnam. Singapore and Thailand take smaller volumes of high value products.



Malaysia and Singapore are key markets for Australian sheepmeat, ranking the third and fifth largest among global mutton exports, respectively. Exports to other SEA countries are growing, although demand has been volatile.



Data source for charts: <sup>1</sup>Fitch Solutions 2021, <sup>2</sup>Fitch Solutions 2021 (disposable income = earnings after taxes and social security charges) (Rest of ASEAN total of Vietnam, Philippines and Thailand), <sup>3</sup>Fitch Solutions, GIRA (per person per year in cwt excluding fish/seafood) 2020 and 2021, <sup>4</sup>IGD 2021 (defined as the total annual grocery retail market turnover in a given year, divided by the population for the same year. Grocery retail market data excludes VAT/sales tax), <sup>5</sup>DAWE 2019–20, <sup>6</sup>ABS/IHS Markit (FY 2019–20), <sup>7</sup>IHS Markit, Vietnam Customs, MLA estimate FYTD (July 2019 – May 2020) Chart represents Singapore, Indonesia, Malaysia, Thailand, Philippines and Vietnam., <sup>8</sup>IHS Markit FYTD (July 2019 – May 2020), <sup>9</sup>MLA estimate



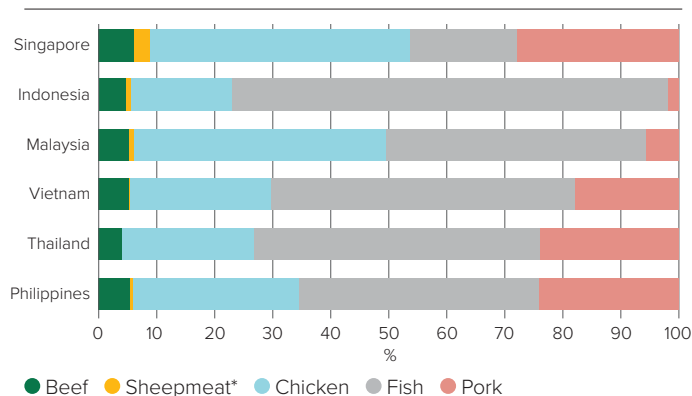
## CONSUMERS



- Beef comprises a small proportion in the daily diets of SEA consumers compared to fish, chicken and pork. However, it is forecast to be the second-fastest growing meat category in the region after chicken, with consumption volume estimated to increase 8% year-on-year from 2019 to 2024 (Source: GIRA). This strong growth is partly driven by rising incomes, a growing number of affluent consumers and expanding modern retail and foodservice sectors.
- SEA consumers associate beef with superiority and good taste, which typically drive consumers to pay a premium for it. Consumers also have positive perceptions of imported beef products, with 'premium quality' and 'better taste' being commonly perceived benefits.
- Beef is mostly utilised in local traditional cuisines such as stir-fries, stews and soups, however, there's a growing trend to try new, international beef dishes at home. Japanese beef *gyudon*, *shabu-shabu*, Korean *bulgogi* and western-style steaks are among popular international beef recipes being adopted by

many urban SEA consumers. Beef is also often used as a special family treat.

### Per capita meat consumption proportion



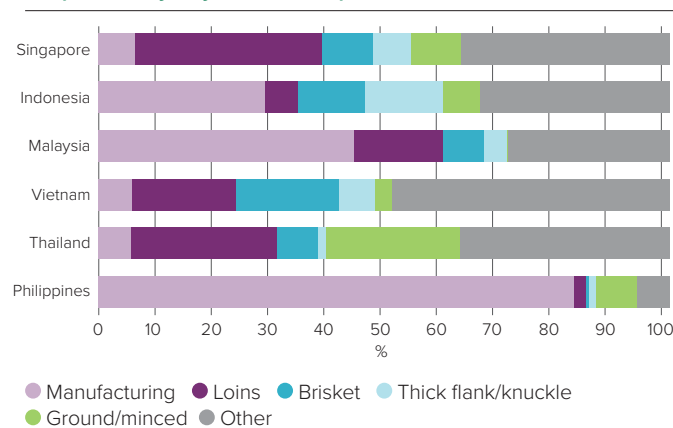
## FOODSERVICE



- SEA has a vibrant foodservice sector, with a wide range of food and price options. Although the market remains fragmented and dominated by local mid-range restaurants, the modern higher-end segment – a major foodservice channel of Australian beef in the region – is undergoing rapid expansion.
- Key motivations for SEA consumers to dine out on beef are the joyful eating experiences including the taste of beef and variety in beef dishes, especially those that are difficult to cook at home.
- Young, affluent foodies in urban cities are a major driving force of foodservice growth in SEA. Local and international foodservice operators continue to introduce new restaurants, concepts and menus to capture evolving preferences of this consumer group. Continuous development in SEA's foodservice sector is expected to grow demand for Australian beef.
- This consumer segment also shows strong interest in trying out new food trends and cuisines from different cultures (Source: MLA ASEAN Attractive Cities Study). Local cuisines are key offerings, however, the region is seeing a rapid growth and rising popularity of Japanese, Korean and western cuisines. Enjoyment, variety and novelty are key themes that Australian beef can leverage to attract SEA consumers.
- As SEA foodservice offers many different food choices, it demands a wide range of beef products, spanning from grassfed, grainfed, marbled to different breeds (e.g. Angus, Wagyu). It also demands various beef cuts.

- Like other markets around the globe, SEA tourism and foodservice sectors have been heavily affected by the COVID-19 outbreak. With uncertainty around COVID-19 still high, domestic consumption is expected to be the key for SEA to overcome ongoing challenges until international travel resumes. A local customer-centric approach within foodservice is essential to growing Australian beef in SEA as COVID-19 continues to unfold globally.

### Proportion by key beef cut exports



## RETAIL



- The SEA retail sector shares similar trends to foodservice. Apart from Singapore, SEA has a relatively fragmented retail market, with traditional channels making up approximately 70% of market share (Source: IGD). However, modern retail is developing rapidly as major retailers seek to expand their store networks and formats to keep up with evolving consumer needs.
- Australian (boxed) beef has high penetration in modern retail, especially in high-end supermarkets. Within this channel, Australian beef mainly competes with the US, New Zealand and Argentina, and with Japan on Wagyu.
- In SEA modern retail, Australian beef is one of the most commonly consumed products after domestic (except in

Singapore, where there is no local supply) a result of its strong market presence and perceived advantages including high quality, good taste and higher hygiene standards (Source: MLA ASEAN Attractive Cities Study).

- The region is seeing an increase in the number of gourmet grocer outlets across major cities, which target emerging affluent local and expatriate consumers. This trend creates further opportunity to grow premium beef products.
- COVID-19 has impacted consumers' shopping habits, with many moving online to purchase their groceries during the outbreak. Online grocery shopping is expected to reduce once things settle down, but is likely to continue to evolve going forwards, albeit at a slow pace.



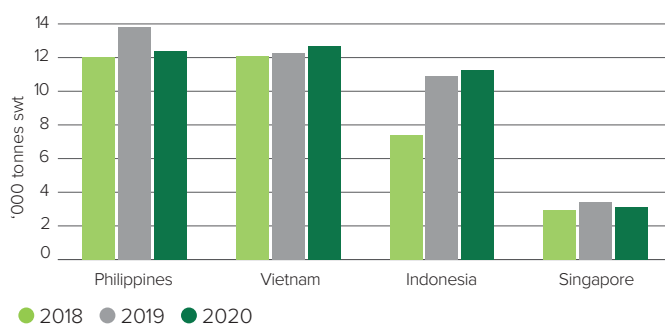
## COMPETITIVE LANDSCAPE



- Growing beef consumption, combined with a local supply deficit, has resulted in a steady increase in beef imports to SEA in recent years.
- Australia accounts for about a quarter of SEA's imported beef market and is the largest supplier of chilled beef to the region, with a market share of over 80%, followed by New Zealand (7%), US (3%), and Brazil (2%).
- Overall, India is the largest supplier of bovine meat (buffalo meat) to the region, followed by Australia, Brazil, US and New Zealand.
- Indian buffalo meat is dominant across SEA markets except Singapore and Thailand. It is mostly utilised in low-end traditional retail and foodservice channels, including wet markets and small restaurants, and by small to medium-sized food manufacturers. It is also sold in modern retail, in Malaysia and Indonesia in particular, in frozen or thawed form at relatively competitive prices.
- Brazilian beef's presence has increased steadily in SEA, at 13% a year on average in recent years. Strong growth has been underpinned by increased demand from the Philippines, Singapore and Malaysia. Brazil has regained access for frozen beef to Indonesia since August 2019. Importation of Brazilian beef is undertaken by state-owned enterprises with an allocation for 2019 totalling 50,000 tonnes shipped weight (swt). However, only 3,525 tonnes swt was realised by the end of 2019. The allocation for Brazilian beef for 2020 is 20,000 tonnes swt, which is expected to arrive in Indonesia during the second half of the year.
- SEA is also seeing a robust increase in the presence of US beef. US beef imports have grown at 25% a year on average over the past three years. Strong growth is occurring across all US export markets in SEA.
- SEA is the largest export market for Japanese beef, albeit at a small volume, accounting for 45% of total shipments in 2019 (1,934 tonnes swt). Japanese beef exports to SEA have grown at a significant rate of 38% a year on average over the past three years (2016–2019).
- Despite the COVID-19 outbreak, SEA saw an uplift in beef imports in Singapore, Malaysia\*, Thailand and Vietnam in the year-to-May period. Indonesia and the Philippines\*\* beef imports declined by 46% and 28% respectively over the same period. The decline was caused by a combination of factors including COVID-19 induced disruptions to supply such as Indian buffalo meat imports and weakening purchasing power due to economic uncertainty. Indonesia's allocation for Indian buffalo meat for 2020 is around 170,000 tonnes swt, but due to COVID-19 disruptions, only 672 tonnes were realised as at May 2020. The market is expected to see more Indian buffalo meat coming in during the rest of the year.
- New Zealand imports to SEA have continuously declined due to subdued supply recently. However, New Zealand imports from January to May 2020 grew 21% compared to the same period last year, largely supported by increased demand from Indonesia.
- Australia has a strong trade and economic relationship with the SEA region. The commencement of the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) in July 2020, as well as the removal of tariffs and safeguard for Australian beef to Thailand under the ASEAN-Australian-New Zealand Free Trade Agreement in January 2020, will create further growth opportunities for Australian beef exports to the region (see details in the 'Market access overview' tables).

\*Malaysia and Philippines: year to April

### US beef imports by key SEA markets



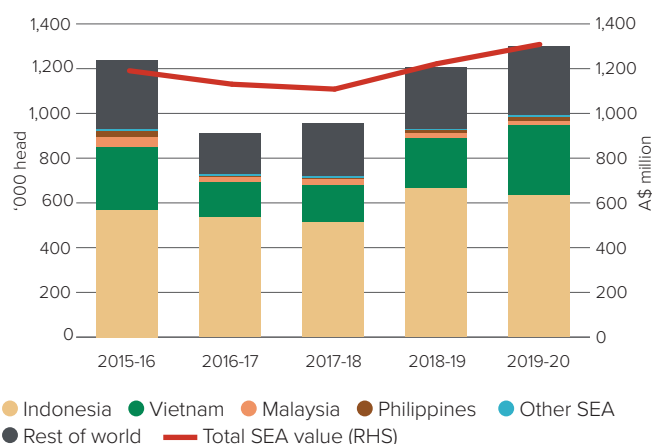
Source: IHS Markit, (FY July–June)

## LIVESTOCK EXPORTS



- SEA is the largest market for Australian live cattle exports with a combined volume share of 76%, of which Indonesia makes up almost two thirds by volume, and Vietnam accounts for about 32%. Australian cattle exports to SEA grew 7% from 931,197 head in 2018–19 to 992,320 head in 2019–20.
- Australian cattle have played an important role in meeting SEA's rising demand for beef and SEA consumers' strong preference for freshly slaughtered meat. It is estimated to represent approximately 20% of the total beef consumed in Indonesia and Vietnam.
- Cattle exports to Vietnam are up 39% for the year-to-June 2020, at 166,500 head. The reduced supply of regional live cattle trade due to COVID-19 and shortage of pork supply due to African Swine Fever outbreak has benefited Australian live cattle exports to Vietnam.
- Australian feeder cattle exports to Indonesia totalled 254,000 head in the first half of 2020, down 16% on 2019 levels. Mixed market signals amid the COVID-19 outbreak and fluctuating prices have resulted in importers being more cautious about buying in large numbers.

### Australian live cattle exports



Source: DAWE, ABS/IHS Markit (FY 2019–20)





# Market access overview – Indonesia

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
ASEAN*– Australia-NZ Free Trade Agreement ( <b>AANZFTA</b> ) Indonesia-Australia Comprehensive Economic Partnership Agreement ( <b>IA-CEPA</b> )	<b>Boxed beef – 2.5%</b> for frozen with bone-in, removed by 2023; 0% for all other product lines <b>Live cattle – 0%</b> <b>0%</b> for male cattle within quota (281,215 head, reset on 1 January 2021), <b>2.5% out of quota</b> ; 0% for all other product lines	<b>India</b> (buffalo meat): India-ASEAN FTA. 5% tariff <b>Brazil</b> No FTA. 5% tariff	Volumes managed by the Indonesian government's import permit system	Highly regulated market, with complex import conditions and regulations The government controls type of meat and offal products that can be imported into the country

Best access  Major challenges

Source: Trade agreements, DFAT, MLA

\* Association of Southeast Asian Nations. Members include Indonesia, Malaysia, Singapore, the Philippines, Thailand, Vietnam, Brunei, Myanmar, Laos and Cambodia.



## Australian beef exports to Indonesia – summary table

Volume – in tonnes swt		2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	change 2019–20 vs five-year average	
								%	in tonnes swt
<b>Total</b>		<b>57,629</b>		<b>54,417</b>		<b>52,352</b>		<b>10</b>	<b>5,276</b>
Storage	Chilled	3,986	7	4,502	8	3,743	7	6	243
	Frozen	53,643	93	49,915	92	48,609	93	10	5,034
Meat type	Grassfed	56,693	98	53,324	98	51,357	98	10	5,337
	Grainfed	936	2	1,093	2	996	2	-6	-60
Storage/meat type	Chilled grassfed	3,457	6	4,042	7	3,209	6	8	248
	Chilled grainfed	529	1	460	1	534	1	-1	-5
	Frozen grassfed	53,236	92	49,282	91	48,148	92	11	5,089
	Frozen grainfed	407	1	633	1	462	1	-12	-55

Source: DAWE

Value – in A\$ 000								%	in A\$ 000
<b>Total</b>		<b>416,057</b>		<b>322,373</b>		<b>300,296</b>		<b>39</b>	<b>115,761</b>
Storage	Chilled	49,448	12	48,459	15	42,757	14	16	6,691
	Frozen	366,609	88	273,915	85	257,539	86	42	109,070

Source: ABS/IHS Markit

Volume – by major cut (in tonnes swt)								%	in tonnes swt
Manufacturing		17,364	30	13,674	25	22,898	44	-24	-5,533
Thick flank/knuckle		7,187	12	7,536	14	5,018	10	43	2,169
Brisket		6,741	12	7,678	14	4,312	8	56	2,430
Other		26,336	46	25,529	47	20,125	38	31	6,211
<b>Total</b>		<b>57,629</b>		<b>54,417</b>		<b>52,352</b>		<b>10</b>	<b>5,276</b>

Source: DAWE

Australian beef offal exports to Indonesia (in tonnes swt)								%	in tonnes swt
Manufacturing		13,320	36	11,286	33	6,893	32	93	6,427
Heart		6,169	16	5,461	16	3,572	17	73	2,598
Lungs		4,903	13	3,508	10	1,964	9	150	2,940
Other		13,121	35	13,945	41	8,838	42	48	4,283
<b>Total</b>		<b>37,513</b>		<b>34,201</b>		<b>21,266</b>		<b>76</b>	<b>16,248</b>

Source: DAWE

Value of Australian beef offal– in A\$ 000								%	in A\$ 000
<b>Total</b>		<b>120,779</b>		<b>102,365</b>		<b>56,119</b>		<b>115</b>	<b>64,660</b>

Source: ABS/IHS Markit

### Australian live cattle exports to Indonesia

Volume – in head	632,188		663,363		602,943		5	29,245
Value – in A\$ 000	650,427		687,856		614,005		6	36,422

Source: DAWE, ABS



## Market access overview – SEA\*

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
ASEAN-Australia-New Zealand Free Trade Agreement ( <b>AANZFTA</b> ) Malaysia-Australia FTA ( <b>MAFTA</b> ) Thailand-Australia FTA ( <b>TAFTA</b> ) Singapore-Australia FTA ( <b>SAFTA</b> )	<b>Singapore, Malaysia, the Philippines, Vietnam and Thailand:</b> Zero	<b>India</b> (buffalo meat) India-ASEAN FTA: 0% tariff into <b>Malaysia</b> ; 6% to the <b>Philippines</b> 12% to <b>Vietnam</b> ; (15% for frozen carcasses), eliminated by 2022 <b>Brazil:</b> No FTA	<b>Singapore, Malaysia, the Philippines, Vietnam and Thailand:</b> Zero	<b>Singapore, the Philippines, Vietnam and Thailand:</b> No major hurdles  <b>Malaysia:</b> Maintains import regulations in accordance with Halal

Best access Major challenges

Source: Trade agreements, DFAT, MLA. \* excluding Indonesia

## Australian beef exports to SEA\* – summary table



Volume – in tonnes swt		2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	change 2019–20 vs five-year average	
								%	in tonnes swt
<b>Total</b>		<b>65,995</b>		<b>67,384</b>		<b>62,530</b>		<b>6</b>	<b>3,465</b>
Storage	Chilled	11,874	18	10,811	16	9,391	15	26	2,482
	Frozen	54,121	82	56,573	84	53,139	85	2	983
Meat type	Grassfed	54,673	83	54,826	81	51,114	82	7	3,559
	Grainfed	11,322	17	12,558	19	11,416	18	-1	-94
Storage/meat type	Chilled grassfed	7,750	12	7,187	11	6,516	10	19	1,234
	Chilled grainfed	4,123	6	3,624	5	2,875	5	43	1,248
	Frozen grassfed	46,923	71	47,639	71	44,598	71	5	2,325
	Frozen grainfed	7,199	11	8,934	13	8,541	14	-16	-1,342

Source: DAWE. \*SEA includes Brunei Darussalam, Cambodia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam

Value – in A\$ 000								%	in A\$ 000
<b>Total</b>		<b>620,023</b>		<b>509,619</b>		<b>432,191</b>		<b>43</b>	<b>187,831</b>
Storage	Chilled	189,057	30	168,094	33	139,926	32	35	49,131
	Frozen	430,966	70	341,525	67	292,266	68	47	138,700

Source: ABS/IHS Markit

Australian beef exports to Singapore – volume (in tonnes swt)								%	in tonnes swt
<b>Total</b>		<b>6,156</b>		<b>6,336</b>		<b>6,366</b>		<b>-3</b>	<b>-210</b>
Storage	Chilled	2,205	36	4,317	68	3,547	56	-38	-1,342
	Frozen	3,951	64	2,019	32	2,819	44	40	1,132
<b>Value – in A\$ 000</b>		<b>118,754</b>		<b>91,011</b>		<b>82,381</b>		<b>44</b>	<b>36,373</b>

Source: DAWE, ABS/IHS Markit

Australian beef exports to Malaysia – volume (in tonnes swt)								%	in tonnes swt
<b>Total</b>		<b>4,246</b>		<b>9,986</b>		<b>10,062</b>		<b>-58</b>	<b>-5,816</b>
Storage	Chilled	1,129	27	2,294	23	1,936	19	-42	-807
	Frozen	3,117	73	7,692	77	8,126	81	-62	-5,009
<b>Value – in A\$ 000</b>		<b>89,006</b>		<b>81,950</b>		<b>78,370</b>		<b>14</b>	<b>10,635</b>

Source: DAWE, ABS/IHS Markit

Australian beef exports to Philippines – volume (in tonnes swt)								%	in tonnes swt
<b>Total</b>		<b>11,149</b>		<b>25,844</b>		<b>28,401</b>		<b>-61</b>	<b>-17,252</b>
Storage	Chilled	462	4	886	3	761	3	-39	-298
	Frozen	10,687	96	24,958	97	27,641	97	-61	-16,954
<b>Value – in A\$ 000</b>		<b>194,493</b>		<b>164,487</b>		<b>151,036</b>		<b>29</b>	<b>43,456</b>

Source: DAWE, ABS/IHS Markit

Australian beef exports to Vietnam – volume (in tonnes swt)								%	in tonnes swt
<b>Total</b>		<b>5,327</b>		<b>13,925</b>		<b>6,683</b>		<b>-20</b>	<b>-1,356</b>
Storage	Chilled	625	12	1,478	11	849	13	-26	-224
	Frozen	4,703	88	12,447	89	5,834	87	-19	-1,132
<b>Value – in A\$ 000</b>		<b>122,592</b>		<b>89,969</b>		<b>49,907</b>		<b>146</b>	<b>72,685</b>

Source: DAWE, ABS/IHS Markit



# Sheepmeat

## CONSUMERS



- Sheepmeat is a niche protein in the SEA diet. Per capita sheepmeat consumption is relatively low compared to other meat proteins and varies between SEA markets. While it is a less popular meat in the Thai and Vietnamese diet, sheepmeat is widely featured in Malaysian and Indonesian cuisine.
- Sheepmeat is often used as a special treat for oneself or for family and guests. It is also used more in special family and religious celebrations in Muslim-majority markets in SEA such as Malaysia, Indonesia and Brunei. Therefore, demand for sheepmeat typically spikes during the Islamic festive seasons, particularly around the months of *Ramadan* and *Idul Fitri*.
- Consumers' lack of familiarity and cooking knowledge remain major barriers to growing sheepmeat consumption in SEA. However, many young aspirational and affluent SEA consumers

show a strong interest in learning how to cook exciting dishes with sheepmeat at home or trying it at restaurants when they dine out.

- Although SEA consumers are not familiar with lamb, they see it as a superior meat and are willing to pay a little more for it. Lamb tends to be more popular among Malaysian consumers. Malaysia has more consumers who perceive lamb to be healthy, nutritious and versatile compared to other markets.

### What would convince consumers to buy lamb?

Indonesia	Malaysia	Thailand
Trying it at a restaurant	Recipe ideas	Trying a free sample
Trying a free sample	Trying it at a restaurant	Trying it at a restaurant
Tips on preparation	Tips on preparation	Recipe ideas

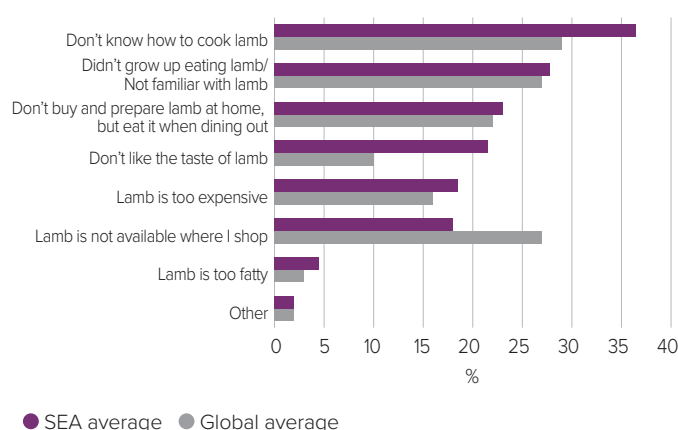
Source: MLA Global Consumer Tracker Indonesia, Malaysia and Thailand, 2018

## FOODSERVICE



- Foodservice continues to be a strategic channel for sheepmeat in SEA as the majority of consumers lack confidence in cooking lamb at home, finding it more beneficial to enjoy the meat in foodservice venues (Source: MLA ASEAN Attractive Cities Study).
- Sheepmeat is served in a wide variety of restaurants, ranging from low to high-end and from local to international. However, Australian sheepmeat is mostly utilised in high-end restaurants, while local products cater more to the lower end.
- Increasing disposable incomes and evolving needs and aspirations of a rising generation of consumers in SEA, the so-called Millennials and Gen Z, as well as the continued development of the SEA foodservice sector, are expected to continue to drive demand for high quality sheepmeat products.

### Reasons SEA consumers don't buy lamb



● SEA average ● Global average

Source: MLA Global Consumer Tracker (Singapore, Malaysia, Indonesia, Thailand)

## RETAIL



- Australian sheepmeat has strong penetration across modern retail chains in the region, with New Zealand a key competitor.
- Growing consumer awareness and confidence in sheepmeat cooking is key to boosting sales.
- Providing SEA consumers with a combination of offerings including exciting, easy-to-make options and recipe recommendations – especially for special occasions or special treats – preparation tips and information about the nutritional benefits of sheepmeat in retail stores, remain a priority for industry players.

### Top five attributes SEA consumers look for on pack when making lamb purchases

Singapore	Malaysia	Indonesia	Thailand
Natural	Halal	Halal	Safety
Safety	Safety	Freshness	Natural
Freshness	Natural	Natural	Environmental
Value	Freshness	Safety	Freshness
Nutritional	Value	Value	Origin

Source: MLA Global Consumer Tracker (Singapore, Malaysia, Indonesia, Thailand)

## COMPETITIVE LANDSCAPE



- Australia has long been the leading supplier of sheepmeat in SEA. It maintains a market share of about 70%, followed by New Zealand, whose shipments have declined recently due to supply constraints and strong demand from China.





# Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA)	<b>0%</b> except the following markets: <b>Indonesia: 2.5%</b> for frozen (excluding frozen lamb), removed by 2023 <b>Cambodia: 10%</b> , removed by 2021 (except a <b>35%</b> tariff on frozen boneless)	<b>NZ:</b> 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

## Australian sheepmeat exports to SEA\* – summary table



Volume – in tonnes swt		2019–20	% out of total	2018–19	% out of total	five-year average (2014–15 to 2018–19)	% out of total	change 2019–20 vs five-year average	
								%	in tonnes swt
<b>Total</b>		<b>39,266</b>		<b>43,515</b>		<b>41,430</b>		<b>-5</b>	<b>-2,164</b>
Storage	Chilled	1,709	4	1,772	4	1,635	4	5	74
	Frozen	37,557	96	41,742	96	39,795	96	-6	-2,238
Meat type	Lamb	12,833	33	14,155	33	14,599	35	-12	-1,766
	Mutton	26,433	67	29,360	67	26,831	65	-1	-398
Storage/ meat type	Chilled lamb	1,367	3	1,392	3	1,264	3	8	104
	Chilled mutton	342	1	380	1	371	1	-8	-30
	Frozen lamb	11,465	29	12,762	29	13,335	32	-14	-1,870
	Frozen mutton	26,091	66	28,980	67	26,459	64	-1	-368

Source: DAWE. \*Includes ASEAN-10: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

### Value – in A\$ 000

								%	in A\$ 000
<b>Total</b>		<b>336,334</b>		<b>332,555</b>		<b>267,319</b>		<b>26</b>	<b>69,015</b>
Meat type	Lamb	129,213	38	132,049	40	113,276	42	14	15,937
	Mutton	207,121	62	200,506	60	154,043	58	34	53,078

Source: ABS/IHS Markit

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

								%	in tonnes swt
Lamb	Leg	1,253	38	749	33	755	34	66	498
	Carcase	495	15	523	23	404	18	22	90
	Shoulder	481	15	284	12	275	12	75	206
	Other	1,028	32	740	32	797	36	29	232
<b>Total</b>		<b>3,257</b>		<b>2,297</b>		<b>2,231</b>		<b>46</b>	<b>1,026</b>
Mutton	Carcase	4,126	49	4,964	54	4,782	52	-14	-657
	Leg	2,736	33	2,751	30	2,790	31	-2	-54
	Manufacturing	828	10	802	9	1,074	12	-23	-246
	Other	647	8	669	7	501	5	29	146
<b>Total</b>		<b>8,336</b>		<b>9,186</b>		<b>9,147</b>		<b>-9</b>	<b>-812</b>

Source: DAWE

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

								%	in tonnes swt
Lamb	Shoulder	4,430	66	5,434	68	6,065	70	-27	-1,636
	Leg	636	10	765	10	633	7	0	3
	Shank	509	8	375	5	428	5	19	82
	Other	1,101	16	1,437	18	1,514	18	-27	-413
<b>Total</b>		<b>6,675</b>		<b>8,011</b>		<b>8,640</b>		<b>-23</b>	<b>-1,964</b>
Mutton	Carcase	8,371	50	10,123	57	8,750	56	-4	-379
	Shoulder	3,478	21	3,152	18	2,672	17	30	806
	Leg	2,092	12	2,318	13	1,579	10	32	513
	Other	2,952	17	2,241	13	2,644	17	12	309
<b>Total</b>		<b>16,893</b>		<b>17,834</b>		<b>15,645</b>		<b>8</b>	<b>1,248</b>

Source: DAWE

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## MARKET SNAPSHOT | BEEF & SHEEPMET

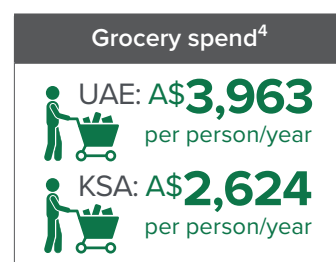
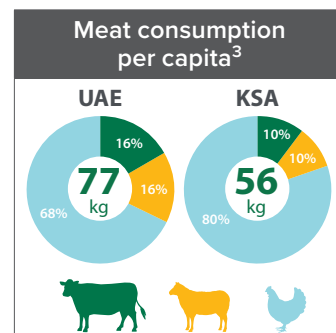
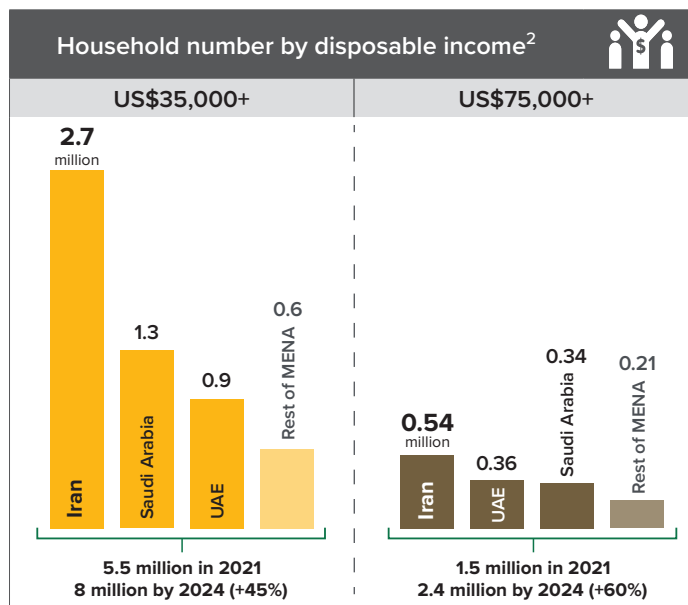
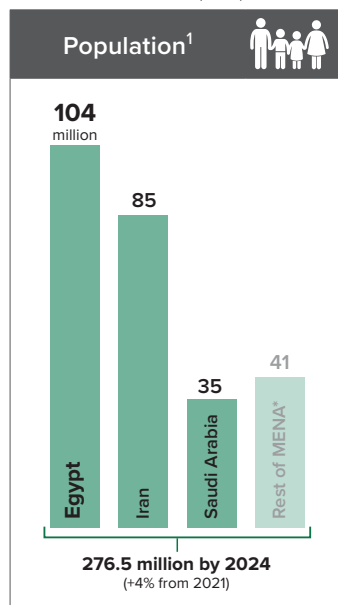


# MENA

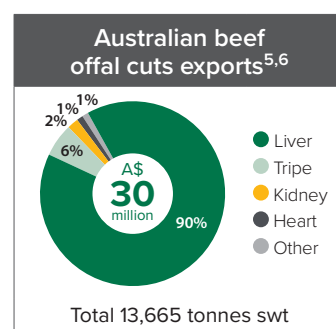
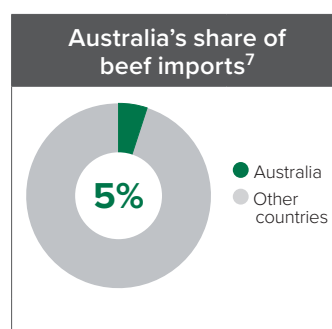
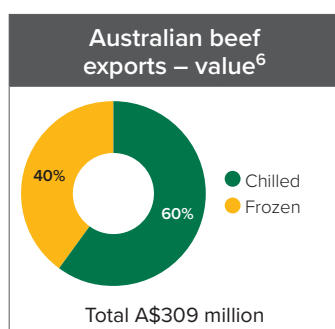
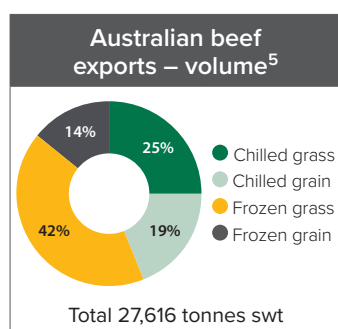
(Middle East & North Africa)

MENA\* is a large, complex region with many varied consumer markets. Red meat demand is heavily impacted by factors such as oil price, political instability and conflict. However, some positive socio-economic trends – including a strong increase in the number of affluent households and young, urbanised populations – provide numerous opportunities for premium imported red meat.

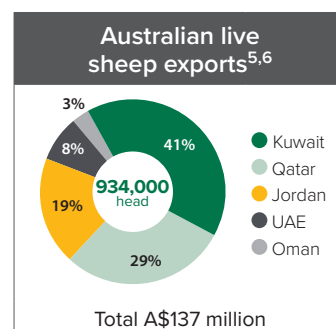
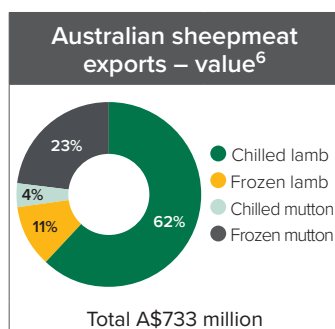
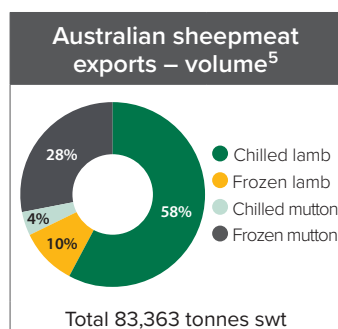
\* Unless otherwise stated in this snapshot, MENA includes 10 countries: Bahrain, Egypt, Iran, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia (KSA) and the United Arab Emirates (UAE).



MENA's importance for Australian beef exports has been growing, but volumes to the markets fluctuate by year. Saudi Arabia (KSA) and the United Arab Emirates (UAE) are the major customers within the region.



MENA has been a critically important market for Australian sheepmeat – accounting for almost a fifth of exports in 2019–20. The UAE is Australia's fourth largest sheepmeat destination.



Data source for charts: <sup>1</sup>Fitch Solutions 2021, (Rest of MENA = Egypt, Bahrain, Iran, Jordan, Kuwait, Qatar, KSA, UAE), <sup>2</sup>Fitch Solutions 2021 (Disposable income = earnings after taxes and social security charges), (Rest of MENA = Egypt, Bahrain, Iran, Jordan, Kuwait, Qatar, KSA, UAE), <sup>3</sup>Fitch Solutions, Gira (per person per year in cwt excluding fish/seafood) 2020 and 2021, <sup>4</sup>IGD 2021 (It is defined as the total annual grocery retail market turnover in a given year, divided by the population for the same year. Grocery retail market data excludes VAT/sales tax), <sup>5</sup>DAWE (FY 2019–20), <sup>6</sup>ABS/IHS Markit (FY 2019–20), <sup>7</sup>IHS Markit (most recent 12 months due to data availability), supplier reported totals.

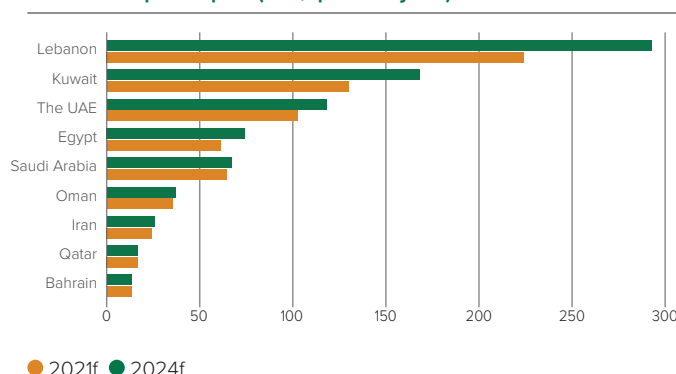


## CONSUMERS



- In most MENA diets, beef is generally a secondary protein after chicken and fish. Consumers are able to choose from lower grade beef sources like local dairy by-product, to locally-slaughtered product from live imports, as well as boxed meat supplied by a diverse range of countries.
- MENA consumers have traditionally preferred leaner meat. However, consumption and spending on beef is forecast to increase across almost all MENA markets in the next several years as more affluent consumers come to appreciate the benefits of premium quality beef.
- Growing demand is driven by several factors, including increasing disposable incomes, ongoing urbanisation and westernisation, sizable wealthy expat populations and growth in the number of international tourist visitors. The region also has a comparatively young population – all MENA-10 countries except Kuwait have over half of their population aged under 35 years.
- After domestic beef, Australian beef generally has among the highest consumer awareness compared to other suppliers. While domestic product tends to rate highest on important attributes such as freshness, Halal-certified and safety, Australian beef is seen as offering advantages in other areas such as consistency of high quality standards, good taste, a variety of cuts to suit different cooking styles and high animal welfare standards.
- Across the region, beef is used for stewing and slow cooking, as well as grilling of cubes in the form of kebabs. Mince is used in burgers, kofta/meatballs and as a filling for pastries.
- Grilling of prime cuts is gaining popularity as western influences have started to appear in the meal repertoires of wealthier consumers, both at-home and out-of-home.

### Beef sales per capita (US\$/person/year)



Source: Fitch Solutions. Based on annual household spending on beef for domestic consumption, all channels. (Data last reviewed July 2020)



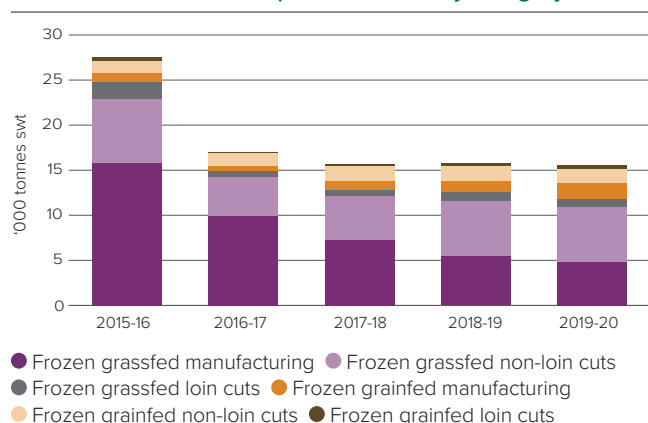
Grilled beef kebabs, a popular regional beef dish

## FOODSERVICE



- Dining out is an important part of social and business life in the region, where other leisure options can be more limited.
- A significant proportion of Australian beef exports to MENA are in the form of frozen manufacturing products such as trimmings, hamburger patties and ground beef, which are used in the fast food and casual dining sector. Higher value cuts are used in full-service restaurants, still often purchased in frozen format.
- A 'premiumisation' trend in exported frozen beef to the region is evident in the growing proportion of grainfed product and loin cuts. As the western-style foodservice sector grows and matures, quick service restaurants are being complemented by more casual-style restaurants and an expanding fine dining sector, increasing the demand for higher quality beef.

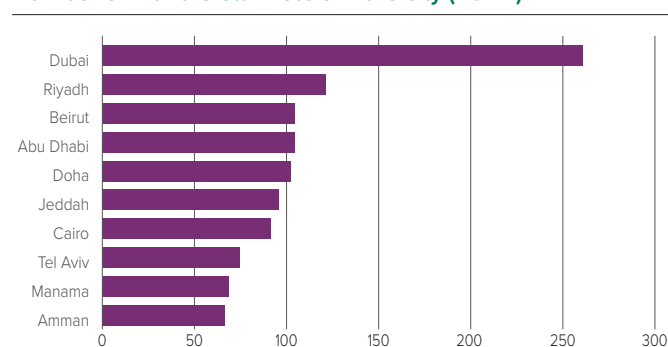
### Australian frozen beef exports to MENA by category



Source: DAWE

- Affluent locals enjoy an increasing variety of cuisines when eating out, from local and other Middle Eastern cuisines, to Japanese, Chinese and western-style such as European and North American.

### Number of 4 and 5-star hotels in the city (2021f)



Source: MLA MENA Attractive Cities Study, 2018. Projection pre-dates COVID-19.

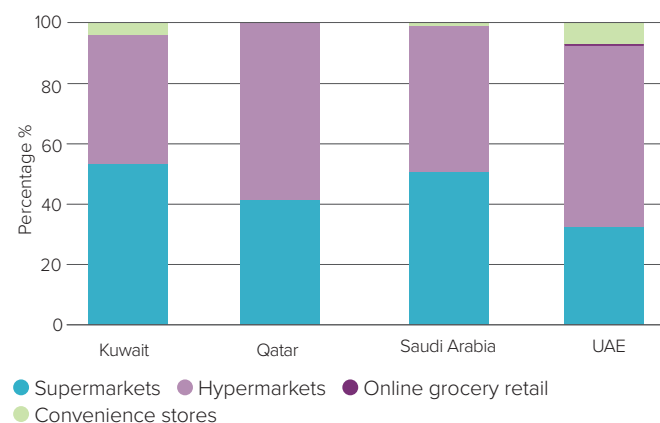
- Growth in home delivery food services has been accelerated by COVID-19, driven by younger and affluent urban populations with high mobile broadband connected smartphone penetration rates. Already in 2018, just over a third of consumers in Dubai and Kuwait City ordered meals for home delivery at least weekly, with around a quarter in Riyadh and Doha doing so (Source: MLA MENA Attractive Cities Study, 2018).

## RETAIL



- The level of development of the retail sector varies significantly across the region and is generally higher in the wealthier, more urbanised Gulf markets.
- Retail modernisation is typically accompanied by growth in the chilled market for red meat. Along with a preference for chilled product in retail, MENA markets present growing opportunities for premium Australian packaged and branded products.

### Grocery retail sales by channel



Source: IGD 2020

- Among key retailers in the region where consumers purchase Australian beef are Carrefour and Lulu (across the region), Spinneys and Choithrams (the UAE) and Panda and Danube (Saudi Arabia).

- While country of origin labelling is generally not mandatory in the region, most beef products at modern retail are labelled, as many consumers wish to know where their meat comes from. With comparatively few market access restrictions, consumers are usually presented with product from a large number of countries on retail shelves.
- The majority of beef used in home-cooking in the region is still commodity product. While beef steak remains mostly a 'special occasion' rather than an 'everyday' product for most consumers, many are learning about the benefits of premium beef. Consumers who have tried premium Australian beef are particularly appreciative of its good taste, healthiness and high quality (Source: MLA MENA Attractive Cities Study, 2018).

### Strongest associations with Australian premium beef

	The UAE	Saudi Arabia	Qatar
1	Nicely marbled	Well-cared for animals	Cheaper
2	Most superior beef	Consistent quality	Easy to buy
3	Usually tender	Guaranteed safe	Guaranteed safe
4	Well-cared for animals	More nutritious	Trusted Halal
5	Fresh	Offers suitable cuts	My family favourite

Source: MLA Global Tracker, the UAE, Saudi Arabia and Qatar, 2019

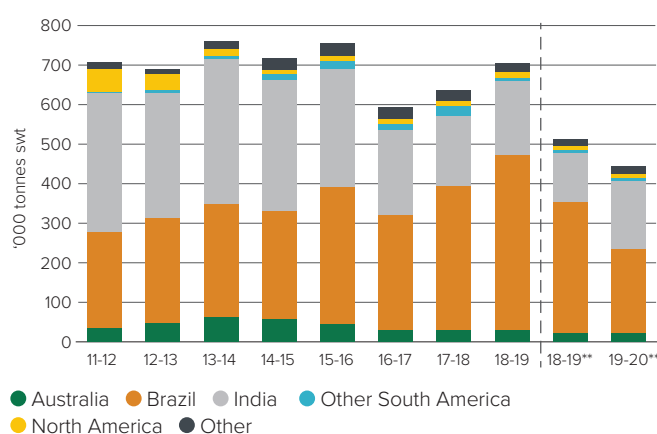
## COMPETITIVE LANDSCAPE



- Beef import demand across the MENA region varies significantly depending on domestic production and consumption habits. Overall, the main boxed beef importers by volume are Egypt, the UAE, Saudi Arabia and Iran (Source: IHS Markit).
- In some Gulf countries like the UAE, Kuwait, Oman, Qatar and Bahrain, almost all beef consumed is imported. In Saudi Arabia, Jordan, Egypt, Israel and Iran, generally over half of beef consumed is imported, with the rest coming from both live imports and local production, primarily from the domestic dairy industry (Source: GIRA).
- The bulk of the region's beef imports come from Brazil and India, comprising mostly frozen bone-out and lean cuts of beef/buffalo meat.
- Australia is a key secondary source of beef by volume and a key supplier in the premium segment. Australia is also a key supplier of frozen veal carcase to Saudi Arabia. South American countries, including Paraguay and Uruguay, have benefited from devalued currencies and grown exports, particularly to Kuwait and Lebanon.

- Smaller volumes are supplied to the region by South Africa, New Zealand and the European Union.

### Beef/veal exports to MENA\* by supplier



Source: IHS Markit. Excludes offal. \*MENA-10 countries \*\*FYTD Jul-Mar

## LIVESTOCK EXPORTS



- Israel has been Australia's key live feeder cattle export destination in the region, taking just over 55,000 head in the 12 months to June 2020. Qatar and the UAE took a smaller number of mostly slaughter cattle, with a combined total of 5,308 head (Source: DAWE).

- Australia's key competitors in the MENA live cattle market are Brazil and Uruguay, particularly in significant importing countries such as Turkey, Israel, Lebanon and Jordan (Source: GIRA, MLA).



# Market access overview

GCC member countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
No agreement, however, Australia is negotiating a GCC-Australia Free Trade Agreement (FTA)	<b>2020 and 2021:</b> 0% for chilled meat and carcasses 5% for frozen meat and carcasses, chilled and frozen bovine offal	<b>India and Brazil:</b> Same as Australia <b>NZ:</b> FTA negotiation was concluded but yet to be ratified.	Zero	Numerous barriers by country including shelf life, product labelling, coding, document legalisation, phytosanitary standards and quality inspections

Non-GCC countries:

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
No agreement	Australia to: <b>Morocco:</b> 200% duty on beef <b>Turkey:</b> 225% duty on beef <b>Iran:</b> tariff rates vary depending on demand/supply situation <b>Israel:</b> 50% tariff on chilled offal <b>Jordan:</b> 10% tariff on boneless meat	<b>India, Brazil and NZ:</b> Same access as Australia		Numerous barriers by country including shelf life, product labelling, coding, document legalisation, phytosanitary standards and quality inspections

Best access Major challenges

Source: DFAT, MLA.



## Australian beef exports to MENA\* – summary table

Volume – in tonnes swt		2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	change 2019–20 vs five-year average	
								%	in tonnes swt
<b>Total</b>		<b>27,616</b>		<b>28,716</b>		<b>36,390</b>		<b>-24</b>	<b>-8,775</b>
Storage	Chilled	12,155	44	12,957	45	14,133	39	-14	-1,978
	Frozen	15,461	56	15,758	55	22,257	61	-31	-6,797
Meat type	Grassfed	18,683	68	19,949	69	28,373	78	-34	-9,691
	Grainfed	8,933	32	8,767	31	8,017	22	11	916
Storage/meat type	Chilled grassfed	7,042	25	7,407	26	8,895	24	-21	-1,853
	Chilled grainfed	5,113	19	5,550	19	5,238	14	-2	-125
	Frozen grassfed	11,641	42	12,542	44	19,478	54	-40	-7,837
	Frozen grainfed	3,820	14	3,216	11	2,779	8	37	1,041

Source: DAWE. \*Includes Bahrain, Egypt, Iran, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

Value – in A\$ 000								%	in A\$ 000
<b>Total</b>		<b>308,868</b>		<b>301,749</b>		<b>315,454</b>		<b>-2</b>	<b>-6,586</b>
Storage	Chilled	186,633	60	182,757	61	175,194	56	7	11,439
	Frozen	122,235	40	118,992	39	140,260	44	-13	-18,026

Source: ABS/IHS Markit

### Australian beef exports to Saudi Arabia – by major cut (in tonnes swt)

								%	in tonnes swt
Carcase		2,705	24	2,435	22	1,086	7	149	1,619
Manufacturing		1,770	16	1,646	15	4,427	28	-60	-2,656
Brisket		970	9	1,054	10	635	4	53	335
Topside/inside		671	6	491	4	1,909	12	-65	-1,237
Other		5,051	45	5,349	49	7,680	49	-34	-2,628
<b>Total</b>		<b>11,168</b>		<b>10,975</b>		<b>15,736</b>		<b>-29</b>	<b>-4,568</b>

Source: DAWE

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

								%	in tonnes swt
Manufacturing		1,905	23	2,080	24	2,169	24	-12	-263
Topside/inside		1,319	16	1,430	17	1,683	19	-22	-364
Carcase		846	10	690	8	700	8	21	146
Other		4,207	51	4,322	51	4,422	49	-5	-214
<b>Total</b>		<b>8,277</b>		<b>8,522</b>		<b>8,973</b>		<b>-8</b>	<b>-696</b>

Source: DAWE



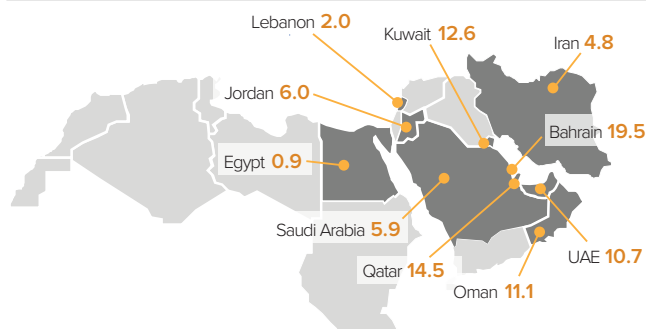
# Sheepmeat

## CONSUMERS



- Sheepmeat is an important protein in the MENA region, associated with religious occasions and family celebrations. While per capita consumption of sheepmeat is generally low compared to chicken and fish, consumption varies depending on domestic production and affordability.

### MENA countries, per capita sheepmeat consumption\*



Source: GIRA. 2020 forecast figures. MENA = MENA-10 countries. \*kg cwe/head/year.

- There are significant markets in MENA for both mutton and lamb. While mutton has a lower price point than lamb, it is favoured in some sectors of some markets due to taste preference and cooking styles, for example in Oman, Saudi Arabia and Kuwait. Frozen mutton also goes into the lower-tier catering sector in countries with significant numbers of migrant workers.
- While the majority of the sheepmeat market in MENA is commodity product in carcase form, premium lamb consumption and import demand are forecast to continue increasing in a number of markets, particularly Gulf countries, driven by increasing disposable incomes, ongoing urbanisation and westernisation, young populations and large groups of wealthy expats.

- Compared to other proteins, lamb is considered a superior protein that is tender, delicious and nutritious. Its comparative high cost and perceived fattiness, however, are barriers to more frequent consumption.



Grilled lamb kofta is a popular dish to order at restaurants

Australia has been a key sheepmeat supplier to MENA markets for over 50 years, building a strong, positive reputation; hence it is well-placed to meet the growing demand for higher value product. Consumers who have tried premium Australian lamb particularly appreciate its consistently high quality, good taste and healthiness.

## FOODSERVICE



- Over half of Australian sheepmeat exports to the MENA region are utilised in the foodservice sector. Dining out is an important part of social and business life in the region, where other entertainment and leisure activity options can be more limited. Along with some of the world's highest disposable income-earning consumers, affluent locals, particularly in the Gulf countries, frequently enjoy premium dining experiences.

### Affluent\* local consumers' premium dining

% Agree	Dubai	Doha	Riyadh	Kuwait City
"I enjoy indulging in more expensive food when I dine out"	81%	64%	73%	71%
"I dine out at least weekly at top-tier** restaurants"	31%	42%	38%	49%

Source: MLA MENA Attractive Cities Study, 2018

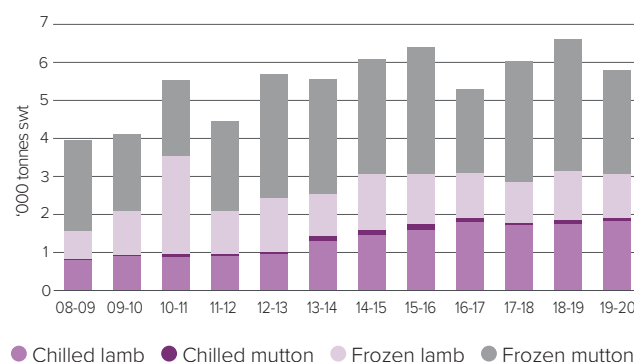
\* Affluent: living in households earning annual incomes over: Dubai (A\$114,000), Riyadh (A\$78,000), Doha (A\$138,000), Kuwait City (A\$138,000).

\*\*A\$110/head equivalent.

- While lamb is among the proteins of choice when dining at top-tier restaurants, there are opportunities to further develop premium lamb offers in these establishments.

- In some markets, particularly those with fast-growing tourism sectors such as Dubai, Saudi Arabia and Qatar, demand for Australian high-value chilled lamb loin cuts in the high-end foodservice sector has been growing.

### Growth in loin cuts for foodservice\*



Legend: Chilled lamb (purple), Chilled mutton (dark purple), Frozen lamb (light purple), Frozen mutton (grey)

Source: DAWE. \*Australian exports to MENA-10 countries, Loin cuts include: Backstrap, bone-in loin, boneless loin, loin, rack, shortloin.

- The bulk of Australian frozen mutton exports particularly carcase, leg and manufacturing are mostly used in the lower-tier catering sector. This sector has grown along with infrastructure development in some Gulf countries but is seeing some contraction due to reduced migrant labour demand as well as strong competition for product from China.







- The modern retail sector is seeing significant development across the region, presenting growing opportunities for Australian premium, packaged and branded lamb products.
- In most MENA countries, the majority of Australian packaged lamb is purchased from hypermarkets and supermarkets, while a significant proportion of unpackaged product, typically in the form of chilled carcase, is sold through butchers. Fresh grocery e-retail has seen accelerated growth in 2020 as a result of COVID-19 lockdowns, with a number of operators specialising in meat.

## Strongest associations with Australian premium lamb

The UAE	Saudi Arabia	Jordan
Consistent quality	More nutritious	Guaranteed safe
Well-cared for animals	Consistent quality	Well-cared for animals
Sustainable	Trusted Halal	Offers suitable cuts
Offers suitable cuts	Guaranteed safe	Consistent quality
Cheaper	Usually tender	Sustainable

Source: MLA Global Tracker, UAE, Saudi Arabia and Kuwait, 2019

- Key retailers in the region where consumers purchase Australian sheepmeat include Carrefour and Lulu (across the region), Spinneys and Choithrams (UAE), Al Meera (Qatar), Sultan Center (Kuwait), Panda, Al Othaim and Danube (Saudi Arabia).
- Regional home cooking of sheepmeat dishes tends to involve slow-cook methods (roasting or stewing), followed by grilling or broiling. Pan-frying is less common but growing in popularity as a cooking method for prime cuts, particularly in the Gulf countries.



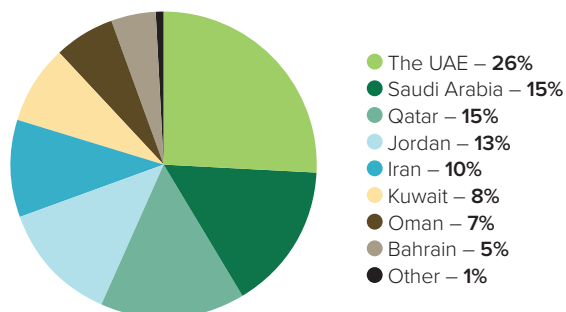
Lamb shoulder is often boiled with aromatic spices, then roasted and served on rice

# COMPETITIVE LANDSCAPE



- In 2019, the region's combined volume of boxed sheepmeat imports going through customs was over 153,000 tonnes shipped weight (swt).

## MENA\* boxed sheepmeat importers by volume share, 2019

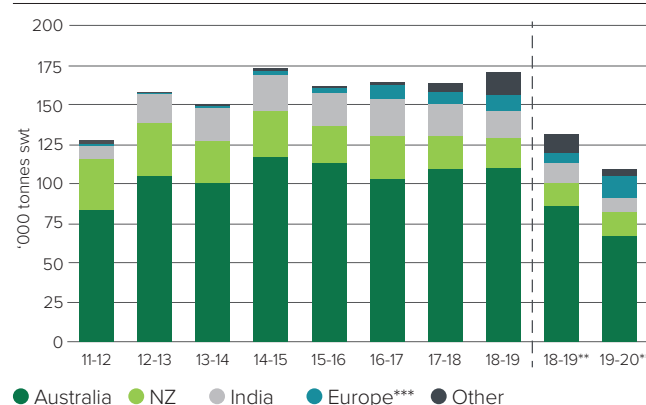


Source: IHS Markit \*MENA = includes MENA-10 countries

- Total sheepmeat imports into the region were 16% lower in 2019 on 2018, mainly driven by mutton due to competition from China and weaker demand from the lower-end catering sector. Regional sheepmeat import demand is forecast to remain flat for the next two years but improve thereafter, driven by population, income and tourism sector growth (Source: GIRA).
- Australia is the region's leading supplier, representing around 63% of imports in 2019, 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 carcase to Oman.
- India supplies chilled and frozen mutton carcase and forequarter mostly to the UAE and smaller volumes to Kuwait, Qatar and Saudi Arabia. In recent years, some European countries such as Romania, Georgia and Spain have become more significant suppliers to the region, particularly to Jordan and Oman.

## Sheepmeat exports to MENA\* by supplier



Source: Source: IHS Markit.

\*MENA-10 Countries \*\*FYTD Jul-Mar \*\*\*Europe includes EU-27 and UK

# LIVESTOCK EXPORTS



- In the MENA region, total live sheep imports from all exporting countries are larger in volume than boxed sheepmeat imports (Source: GIRA). In the 12 months to June 2020, the MENA region continued to be Australia's top destination for live sheep exports, with just under one million head exported and valued at over A\$137 million (Source: ABS). Key export destinations are Kuwait, Qatar and Jordan, followed by the UAE, Oman and Israel.

- As a result of recent regulatory reforms, live sheep exports are prohibited from departing Australia between early May to late September, with specific dates depending on the port of arrival.
- As importers diversify their livestock sources, Australia is facing increased competition from South Africa and Romania. Live sheep are also supplied by a number of other countries, including Somalia, Sudan and India, and European countries such as Georgia, Spain, Hungary, France and Portugal (Source: IHS Markit).



# Market access overview

Gulf Cooperation Council (GCC) member countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
No agreement. Australia is negotiating an FTA with GCC.	<b>2020 and 2021:</b> 0% for chilled meat and carcasses, 5% for frozen 2.5% for chilled ovine offal, 5% for frozen	<b>NZ* and India:</b> Same access 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
No agreement	Australia to: <b>Morocco and Turkey:</b> 30% <b>Iran:</b> variable depending on demand/supply situation <b>Jordan:</b> boneless chilled/frozen 12.5%	<b>NZ* and India:</b> Same access as Australia		Numerous barriers by country including shelf life, product labelling, coding, document legalisation, quality inspections and phytosanitary standards

Best access Major challenges

Source: DFAT/MLA, \* NZ-GCC FTA negotiation was concluded but yet to be ratified.

## Australian sheepmeat exports to MENA\* – summary table



Volume – in tonnes swt

		2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	change 2019–20 vs five-year average	
								%	in tonnes swt
<b>Total</b>		<b>83,363</b>		<b>111,539</b>		<b>112,187</b>		<b>-26</b>	<b>-28,824</b>
Storage	Chilled	51,982	62	70,606	63	62,144	56	-16	-10,162
	Frozen	31,381	38	40,932	37	50,043	45	-37	-18,662
Meat type	Lamb	56,634	68	71,830	64	67,129	60	-16	-10,494
	Mutton	26,729	32	39,709	36	45,059	40	-41	-18,330
Storage/meat type	Chilled lamb	48,261	58	62,953	56	56,607	50	-15	-8,346
	Chilled mutton	3,721	4	7,653	7	5,537	5	-33	-1,816
	Frozen lamb	8,373	10	8,877	8	10,522	9	-20	-2,149
	Frozen mutton	23,008	28	32,056	29	39,522	35	-42	-16,514

Source: DAWE. \*Includes Bahrain, Egypt, Iran, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

Value – in A\$ 000

								%	in A\$ 000
<b>Total</b>		<b>733,057</b>		<b>855,473</b>		<b>730,039</b>		<b>0</b>	<b>3,018</b>
Meat type	Lamb	533,483	73	618,723	72	495,546	68	8	37,936
	Mutton	199,574	27	236,750	28	234,493	32	-15	-34,919

Source: ABS/IHS Markit

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

								%	in tonnes swt
Carcase		11,911	64	13,614	67	12,762	64	-7	-851
Leg		3,230	17	3,271	16	3,423	17	-6	-194
Other		3,483	19	3,517	17	3,888	19	-10	-405
<b>Total</b>		<b>18,624</b>		<b>20,402</b>		<b>20,073</b>		<b>-7</b>	<b>-1,450</b>

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

								%	in tonnes swt
Carcase		18,950	98	20,369	97	15,578	96	22	3,373
Leg		175	1	170	1	241	1	-28	-67
Other		264	1	468	2	396	2	-33	-132
<b>Total</b>		<b>19,389</b>		<b>21,008</b>		<b>16,215</b>		<b>20</b>	<b>3,173</b>

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

								%	in tonnes swt
Carcase		4,674	54	5,782	67	8,242	68	-43	-3,568
Shoulder		2,434	28	2,106	24	1,988	16	22	446
Other		1,489	17	749	9	1,963	16	-24	-474
<b>Total</b>		<b>8,597</b>		<b>8,637</b>		<b>12,193</b>		<b>-29</b>	<b>-3,596</b>

Source: DAWE

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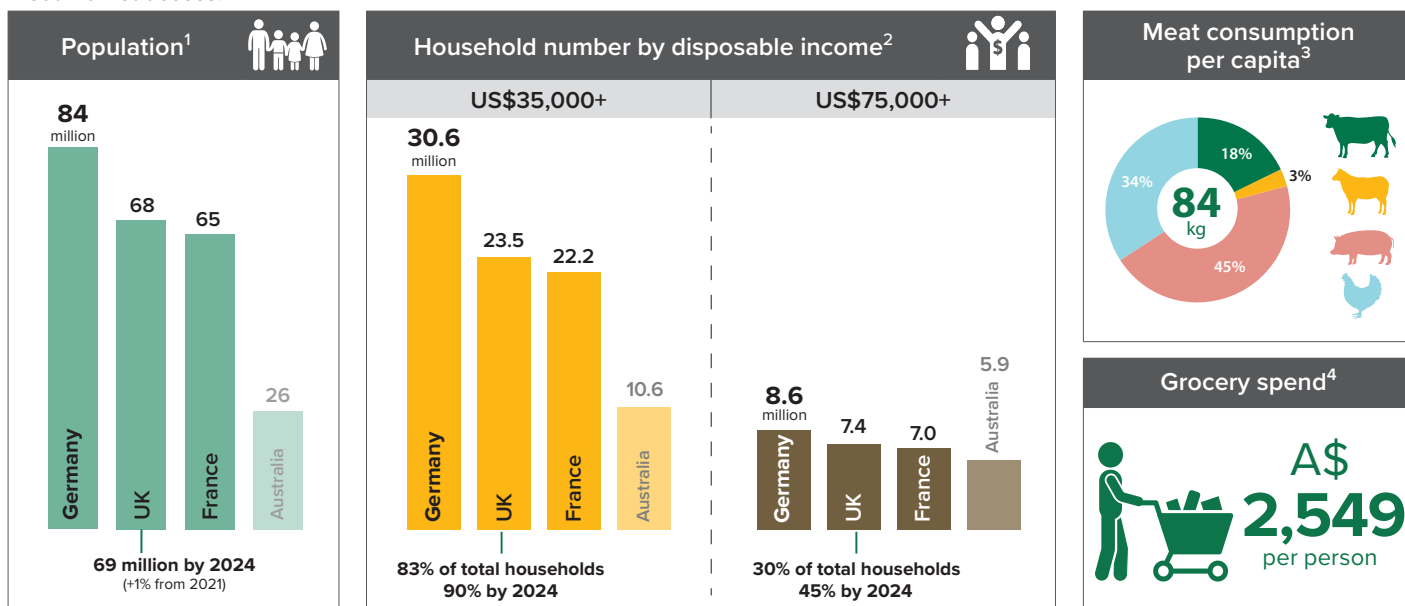
# MARKET SNAPSHOT | BEEF & SHEEPMEAT



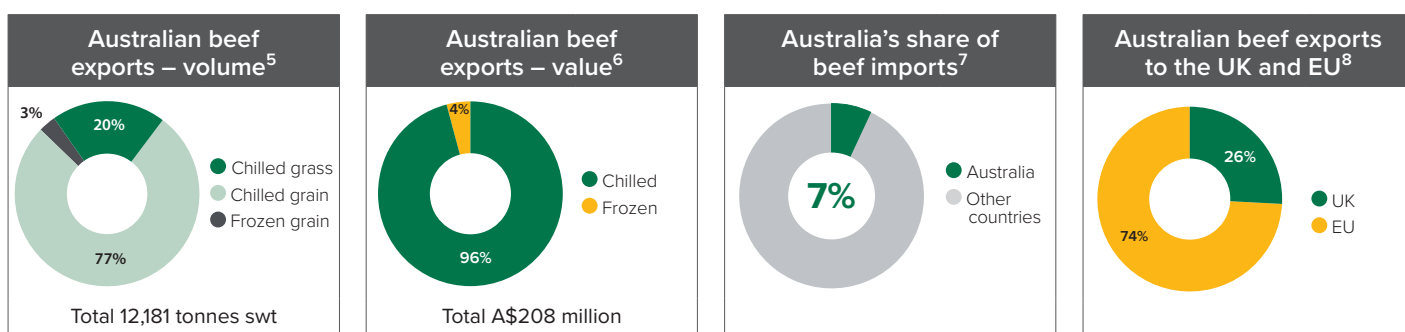
## European Union

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, yet its stance towards agricultural imports has restricted Australia's ability to grow trade with the region. While existing EU quotas will be split between the EU and UK as a consequence of

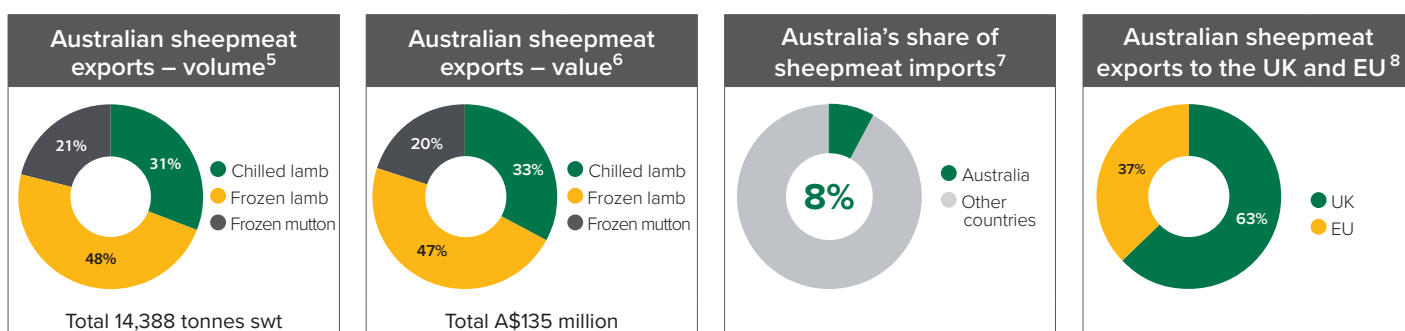
Brexit, the negotiation of free trade agreements with the EU, and separately the UK, provide opportunities to modernise the existing trading regime. Australian trade negotiations with the EU commenced in June 2018, while negotiations with the UK began more recently in June 2020. These negotiations represent the first opportunity in over forty years to significantly reshape Australian's red meat market access.



The EU is a small but high value market for Australian beef, especially grainfed exports. The Australian industry is seeking improved market access via bilateral trade negotiations, which are currently underway.



The UK accounted for 66% of Australian sheepmeat exports to the EU in 2019–20, the largest European destination for Australian lamb and mutton.



Data source for charts: <sup>1</sup>Fitch Solutions 2021, <sup>2</sup>Fitch Solutions 2021 (disposable income = earnings after taxes and social security charges), <sup>3</sup>Fitch Solutions, GIRA (per person per year in cwt excluding fish/seafood) 2020 and 2021, <sup>4</sup>IGD 2021 (defined as the total annual grocery retail market turnover in a given year, divided by the population for the same year. Grocery retail market data excludes VAT/sales tax), <sup>5</sup>DAWE (FY 2019–20), <sup>6</sup>ABS/IHS Markit (FY 2019–20), <sup>7</sup>IHS Markit (most recent 12 months due to data availability), <sup>8</sup>DAWE 2019.

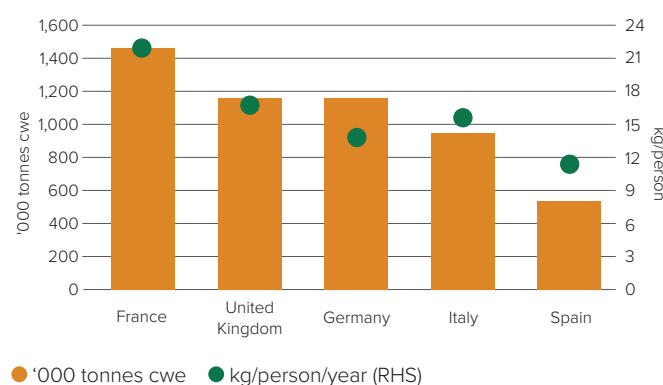
## CONSUMERS



- The 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, Greece, the UK and Italy are the region's largest consumers.
- EU beef consumption has been in long-term decline – the result of reduced local production, restricted imports, an ageing population, changing lifestyles and consumer concerns regarding animal welfare and sustainability. Societal concerns are also leading an increased demand for organic products, as consumers become increasingly aware of food safety, taste and origin.
- 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.
- Prior to Brexit, the UK was Australia's largest market in the region, however overall consumption in the UK remains predominantly made up of 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 2019 estimate

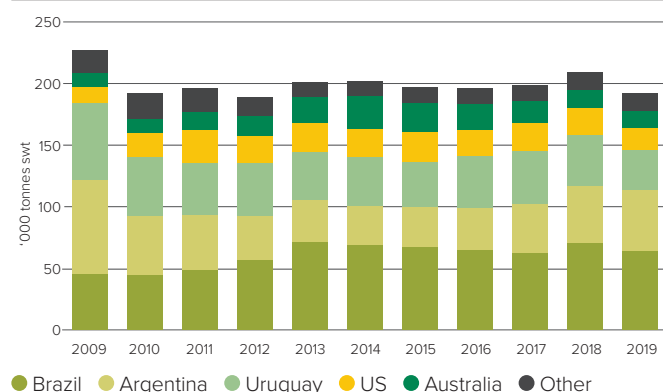
## COMPETITIVE LANDSCAPE



- After an increase from 2013–2019 due to a restructuring of the dairy sector, EU beef production is expected to continue its long-term decline out to 2030. In 2018, domestic beef production was estimated to account for 96% of total EU beef consumption, with imported beef filling the remainder.
- The EU requires all imported beef to be strictly hormone growth promotant 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. However, in the last couple of years, strong demand from China has captured the focus of South American exporters.
- South American trade bloc *Mercosur* – made up of Argentina, Brazil, Uruguay and Paraguay – concluded free trade agreement 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, with the distribution mechanism and transition timeline yet to be determined. Political hurdles remain on both sides of the deal that may delay ratification.
- After the conclusion of the EU-Canada Comprehensive Economic and Trade Agreement, Canada has attained access for 50,000 tonnes cwe of beef – a significant improvement on previous access via the existing Hilton quota – but little trade has since materialised.

- The outcome of EU-UK negotiations will have significant implications to red meat trade flows between the UK, EU and third-party countries from 1 January 2021, with the potential for significant disruption. For instance, the UK was Ireland's largest beef market, importing 188,000 tonnes swt in 2019. In the case of a no-deal Brexit, Ireland would be competing on an even playing field with other exporters via the UK's new import regime.

### EU beef imports by supplier



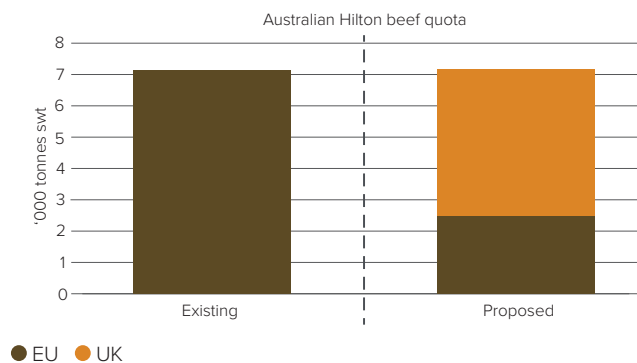
Source: IHS Markit



# MARKET ACCESS

- As of 31 January this year, the United Kingdom left the EU and commenced an 11-month 'transition period', during which the UK remains inside the EU's single market and customs union.
- During the transition period, free movement of goods is permitted and existing trade will be unimpeded. However, following this, a new trading arrangement will apply to trade between the EU-27 and UK (currently under negotiation) and existing trade quotas will be split between the two regions.
- Upon the conclusion of the transition period at the end of 2020, 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 High Quality Beef (HQB) Hilton beef quota split 65% and 35% between the UK and remaining EU-27, respectively.

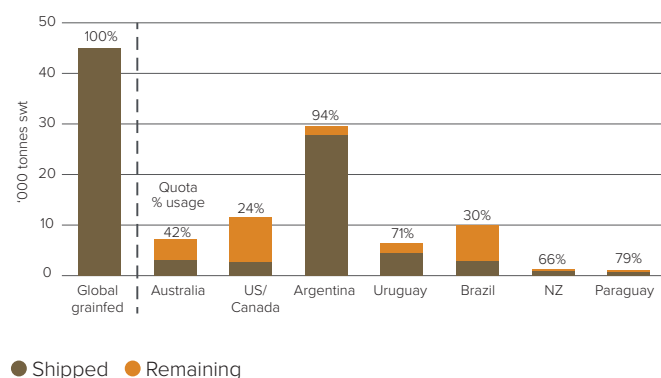
## Australian quota splits upon the UK leaving the EU



Source: DAWF

- Free trade negotiations between the UK and Australian governments were launched in June 2020. Prior to joining the EU in 1973, the UK was a strong Australian red meat export market. The opportunity to negotiate a more trade liberal regime with the UK post-Brexit is compelling, given it is home to a large pool of wealthy consumers already familiar with red meat products.
- 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 punitive EU market access (low volume import quotas and high out of quota import tariffs) will be a necessary component of ongoing Australia-EU free trade agreement negotiations.

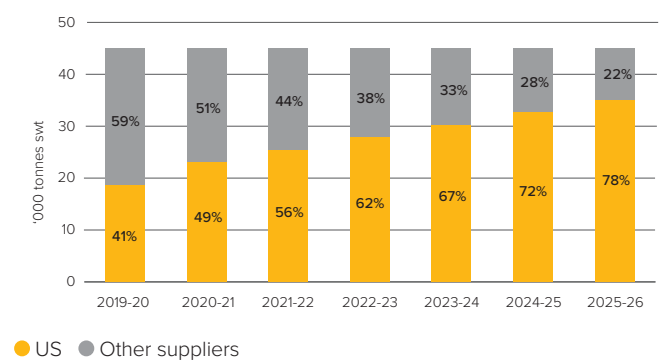
## EU beef quota usage – 2019–20



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

- Australia has predominantly exported beef to the EU under two quotas:
  - HQB 'Hilton' country specific quota: 7,150 tonnes with 20% in-quota tariff
  - Global HQB grainfed quota: in 2020, a 26,500 tonne quota allocated on a first-come, first-served basis, shared between Uruguay, New Zealand, Argentina and Australia.
- While Australia has historically been a strong contributor to the HQB global grainfed quota (utilising an estimated 25% of the shared quota in 2018–19), changes to the administration of the quota have limited access for Australian grainfed beef. An agreement between the US and EU that entered into force in January 2020 provides the US exclusive access to 18,500 tonnes shipped weight (swt) of the quota (increasing incrementally to 35,000 tonnes swt over a seven-year phase-in period).

## EU global High Quality Beef grainfed quota allocations



Source: EUR-Lex

- Within the EU, the majority of Australian beef is typically exported to the Netherlands and the UK; however, this does not always indicate the point of consumption, as these locations often serve as central distribution points for the beef to be transported to neighbouring countries.





# Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
<p>Australia-EU Free Trade Agreement negotiations commenced in June 2018</p> <p>Australia-United Kingdom Free Trade Agreement negotiations commenced in June 2020</p>	<p><b>2020</b></p> <p>7,150 tonnes country specific HQB quota: 20% in-quota tariff; above quota tariff 12.8% + €3/kg</p> <p>Access to 26,500 tonnes* grainfed quota shared with Argentina, Canada, New Zealand and Uruguay: 0% in-quota tariff; above quota tariff 12.8% + €3/kg</p>	<p>Argentina, Brazil and US/Canada have larger allocations than Australia under the Hilton quota</p> <p>Ongoing pressure on reduced shared grainfed quota – with quarterly allocation being filled within weeks</p>	<p><b>2020</b></p> <p>7,150 tonnes under country-specific High Quality Beef quota</p> <p>Shared access to 26,500 tonnes* global grainfed quota</p> <p>Access (via EU importer held licences) to shared frozen beef quota and frozen beef for processing quota, which at times source Australian product</p>	<p>All beef supplied to market must be European Union Cattle Accreditation Scheme (EUCAS) accredited</p> <p>All beef exported to the EU must be hormone growth promotant free, managed through EUCAS, adding significant costs to doing business with the EU</p>

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 45,000 tonne 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.

## Australian beef exports to EU\* – summary table



Volume – in tonnes swt		2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	change 2019–20 vs five-year average	
								%	in tonnes swt
Total		11,471		14,601		19,551		-41	-8,080
Storage	Chilled	11,108	97	13,743	94	18,797	96	-41	-7,689
	Frozen	363	3	858	6	754	4	-52	-392
Meat type	Grassfed	1,822	16	3,160	22	5,137	26	-65	-3,315
	Grainfed	9,649	84	11,441	78	14,414	74	-33	-4,765
Storage/meat type	Chilled grassfed	1,810	16	3,112	21	4,941	25	-63	-3,131
	Chilled grainfed	9,298	81	10,631	73	13,856	71	-33	-4,558
	Frozen grassfed	12	0	48	0	196	1	-94	-184
	Frozen grainfed	350	3	810	6	558	3	-37	-208

Source: DAWE

### Value – in A\$ 000

		2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	%	in A\$ 000
Total		208,126		229,163		264,309		-21	-56,183
Storage	Chilled	199,390	96	220,547	96	256,392	97	-22	-57,002
	Frozen	8,736	4	8,617	4	7,917	3	10	819

Source: ABS/IHS Markit

### Volume – by major cut (in tonnes swt)

	2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	%	in tonnes swt
Topside/inside	1,624	14	2,052	14	2,894	15	-44	-1,270
Striploin	1,485	13	1,926	13	2,783	14	-47	-1,299
Rump	1,433	12	1,784	12	2,488	13	-42	-1,055
Cube roll/ribeye roll	1,126	10	1,284	9	1,686	9	-33	-560
Silverside/outside	994	9	1,536	11	2,204	11	-55	-1,211
Chuck roll	871	8	963	7	1,464	7	-41	-593
Blade	849	7	1,023	7	1,474	8	-42	-625
Thick flank/knuckle	695	6	840	6	1,268	6	-45	-573
Tenderloin	637	6	798	5	1,027	5	-38	-390
Brisket	423	4	489	3	401	2	5	22
Other	1,334	12	1,905	13	1,862	10	-28	-527
Total	11,471		14,601		19,551		-41	-8,080

Source: DAWE

\* EU28 – Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and United Kingdom



# Sheepmeat

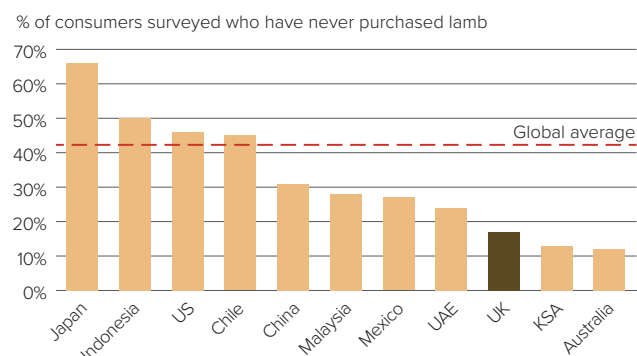
## CONSUMERS



- 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. Sheepmeat consumption is expected to lift 6% to 1.8kg per capita by 2030. However, 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



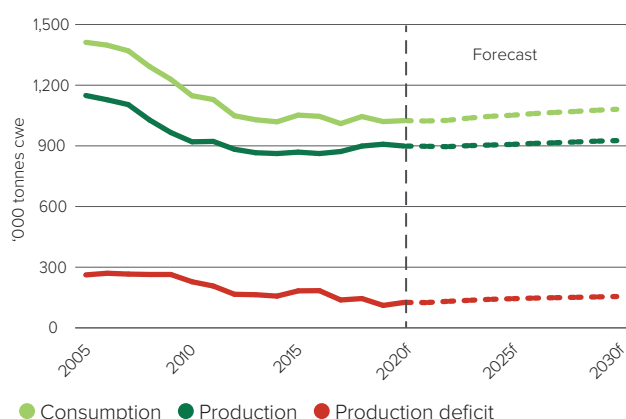
Source: MLA Global Consumer Tracker, 2018

## COMPETITIVE LANDSCAPE



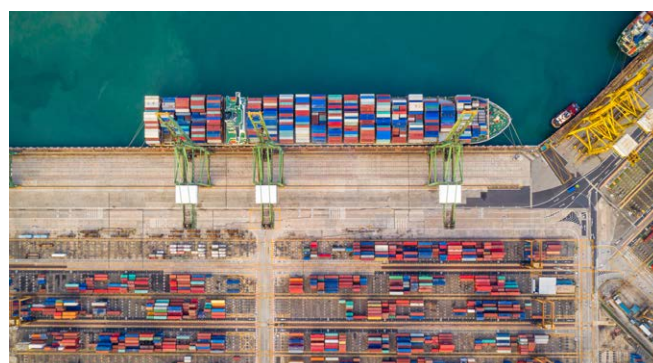
- After declining 25% over the 10 years to 2014, EU sheepmeat production has since stabilised and is forecast to increase only modestly, if at all, over the next decade.
- UK sheepmeat production accounts for a third of lamb and mutton consumption within the EU, followed by Spain and France. EU markets accounted for 94% of all UK sheepmeat exports in 2019, highlighting the importance of the trade relationship between the two regions.

### EU sheepmeat production and consumption



Source: EU agricultural outlook for markets and income, 2019–30 (figures include goatmeat)

- 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 market access with the EU has allowed it to capture the majority of import market share. New Zealand also produces a lighter carcass 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 Asian markets emerging as major buyers of imported New Zealand sheepmeat.





# MARKET ACCESS

- Australia has a 19,186 tonne cwe (combined sheepmeat/ goatmeat) country-specific import quota into the EU, with 0% in-quota duty. Out-of-quota imports from Australia incur prohibitive import duties of 12.8%, plus up to an additional €3.10/kg.
- Australian sheepmeat access is currently disadvantaged compared to New Zealand, which has a 228,389 tonne quota – more than 11 times larger than Australia's. New Zealand's quota has not been fully utilised in recent years, reaching just 41% of the allotted volume in 2019, while Australia's utilisation has been slightly better, last year reaching 65%.

## EU sheepmeat quotas and imports

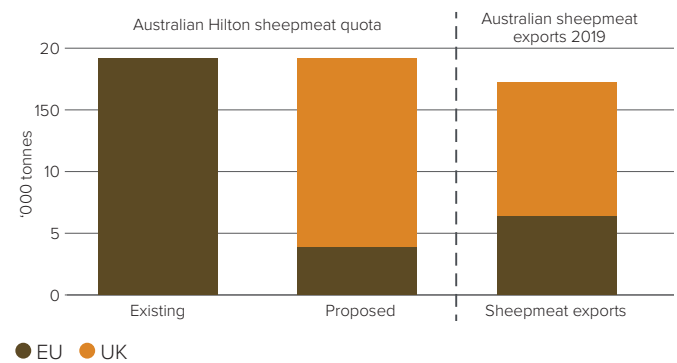


Source: EU Commission, IHS Markit

- Transformation of the EU's restrictive import quotas will be a necessary component of ongoing Australia-EU Free Trade Agreement negotiations.

- In 2019, the UK exported 90,000 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). Depending on the EU-UK trading relationship from 1 January 2021, if that two-way trade is hindered, a greater amount of sheepmeat may remain in the UK or be diverted to non-EU markets, disrupting typical flow.
- The UK and EU have proposed splitting the country-specific tariff rate quota between the two markets based on prior trade data, which would see Australia's sheepmeat quota split 80% and 20% in January 2021 (between the UK and EU, accordingly).

## Australian quota splits upon the UK leaving the EU



Source: DAWE





## Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Australia-EU Free Trade Agreement negotiations commenced in June 2018 Australia-United Kingdom Free Trade Agreement negotiations commenced in June 2020	<b>2020</b> In quota – 0% Above quota – 12.8% + 90.2~311.8 euro/100kg	<b>NZ</b> Has a quota of 228,389 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		2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	change 2019–20 vs five-year average	
								%	in tonnes swt
<b>Total</b>		<b>12,790</b>		<b>13,469</b>		<b>15,678</b>		<b>-18</b>	<b>-2,888</b>
Storage	Chilled	3,540	28	3,736	28	4,900	31	-28	-1,360
	Frozen	9,250	72	9,734	72	10,778	69	-14	-1,528
Meat type	Lamb	10,083	79	9,072	67	10,809	69	-7	-726
	Mutton	2,707	21	4,398	33	4,870	31	-44	-2,162
Storage/meat type	Chilled lamb	3,540	28	3,734	28	4,900	31	-28	-1,360
	Chilled mutton	-	0	1	0	-	0	-	0
	Frozen lamb	6,543	51	5,338	40	5,909	38	11	634
	Frozen mutton	2,707	21	4,396	33	4,869	31	-44	-2,162

Source: DAWE

Value – in A\$ 000								%	in A\$ 000
<b>Total</b>		<b>134,728</b>		<b>132,350</b>		<b>143,019</b>		<b>-6</b>	<b>-8,291</b>
Meat type	Lamb	107,398	80	93,774	71	103,754	73	4	3,644
	Mutton	27,330	20	38,577	29	39,265	27	-30	-11,935

Source: ABS/IHS Markit

Australian lamb exports to EU – by major cut (in tonnes swt)								%	in tonnes swt
Leg		5,683	56	4,245	47	6,018	56	-6	-335
Shank		2,270	23	1,938	21	2,134	20	6	136
Boneless loin		571	6	821	9	492	5	16	79
Manufacturing		553	5	1,241	14	976	9	-43	-423
Chump		512	5	430	5	701	6	-27	-189
Other		495	5	398	4	488	5	1	7
<b>Total</b>		<b>10,083</b>		<b>9,072</b>		<b>10,809</b>		<b>-7</b>	<b>-726</b>

Source: DAWE

\* EU28 – Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and United Kingdom