



GLOBAL SNAPSHOT | SHEEPMEAT



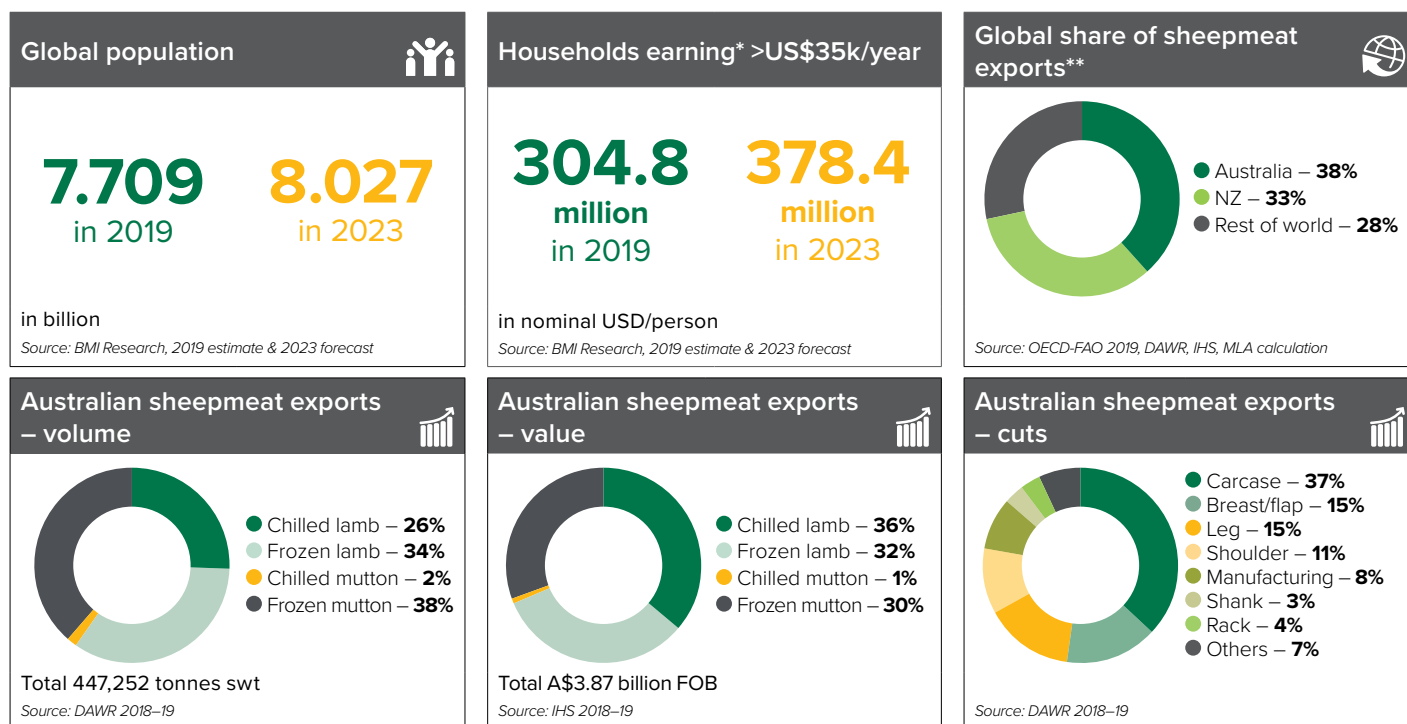
This report offers a comprehensive overview of the global sheepmeat industry and Australia's trade relationship with the world.

The outlook for global sheepmeat consumption is largely positive, driven by growth in population and household wealth in emerging countries and constrained domestic supply in established markets. Australia produces a small portion of the world's sheepmeat supply but accounts for 38% of exports, and is the largest supplier to the global market.

In most markets, lamb and mutton remain niche components of consumer diets compared to beef, poultry and pork. While sheepmeat is experiencing some challenges, particularly around affordability and familiarity, there are many opportunities for targeted growth.

Key points

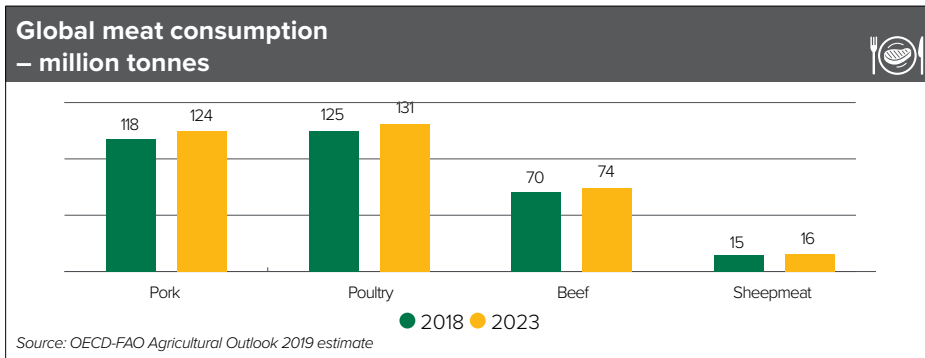
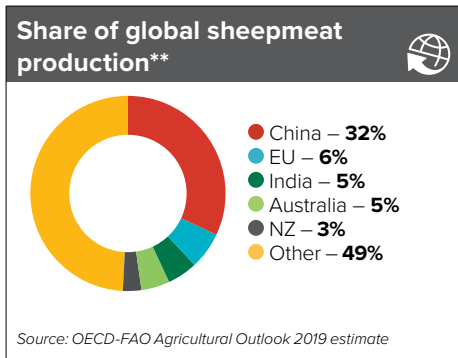
- Australian sheepmeat production is expected to decline in 2020 due to a diminished flock, following elevated drought-induced turnoff through 2018 and 2019.
- Global sheepmeat consumption will benefit from expected population and economic growth, with seven of Australia's top 10 sheepmeat markets expecting gross domestic product growth over 2% this year (IMF).
- Consumption growth is highest in Asia, the Middle East and Africa, where sheepmeat is more widely consumed and a greater number of consumers are shifting into the middle-upper income bracket and seeking higher quality meat.
- African Swine Fever has had a dynamic and rapid influence upon the global traded meat market, with Chinese import demand driving price inflation across all major proteins in 2019, including sheepmeat.
- In most developed markets, sheepmeat remains a niche protein with low per capita consumption, which can be considered both a challenge and an opportunity, especially in wealthier markets like the US.
- Sheepmeat's high price, in comparison to competitor proteins such as chicken and pork, will continue to challenge growth and keep demand susceptible to economic shocks.
- Messaging around provenance, sustainability, animal welfare, food integrity and transparency are opportunities for Australian brands to consider in targeted consumer communication.
- Australia has only one major export competitor, New Zealand, whose export volumes are forecast to align with 2019 levels due to constricted lamb supply.
- China, the world's largest producer and consumer of sheepmeat, has emerged to become the leading importer over the last decade and has underpinned the recent rise in global prices. China's domestic sheepmeat production is expected to take a cyclical upturn in coming years as producers seek to cash in on high prices, possibly cooling import demand in the medium term.



*includes: EU, Egypt, Bahrain, Iran, Jordan, Kuwait, Qatar, Saudi Arabia, UAE, US, Canada, Mexico, Japan, Korea, China, Australia, ASEAN, Taiwan and Hong Kong

**includes goatmeat



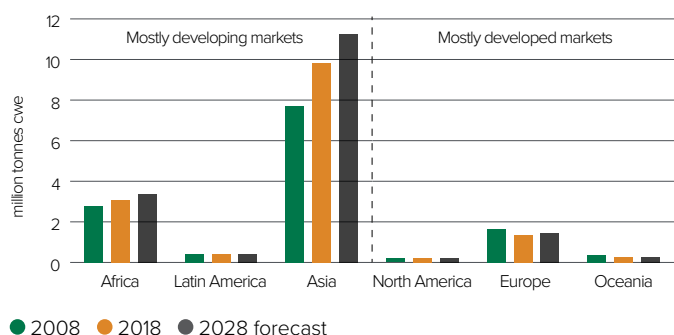


GLOBAL CONSUMPTION

Global sheepmeat consumption is forecast to grow an average rate of 1.5% a year out to 2023 (OECD-FAO 2019), supported by population and economic growth. Relative to 2019, global consumption of sheepmeat is expected to grow by 910,000 tonnes by 2023, while the sheepmeat share of global meat consumption is forecast to hold steady at 4.6% over the next five years.

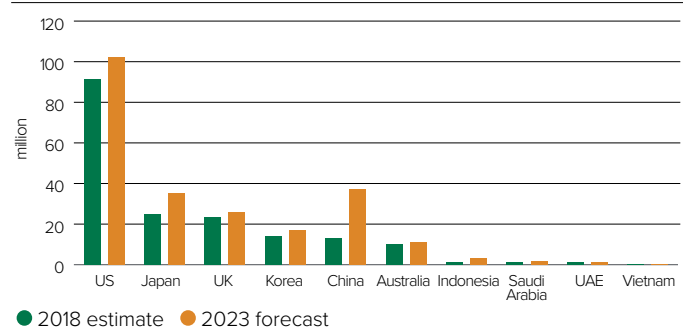
Developing markets, led by Asia, are the driving force behind the sheepmeat consumption expansion, accounting for 76% of forecast growth over the next decade. In developed countries, sheepmeat consumption is less affected by purchasing power but rather consumer perceptions, availability and familiarity. Developed markets, such as the US, UK and Australia, have a preference for high quality product, specifically lamb in many cases.

Sheepmeat consumption



Consumption growth is increasingly limited by supply availability and price rises outpacing other major meat proteins. For Australia, targeting export markets that have the ability to purchase high quality sheepmeat is key, with households earning more than US\$35,000 one measure of the potential market size.

Number of households earning over US\$35,000



World sheepmeat prices have been growing at a faster rate than beef, pork and poultry, and are anticipated to remain at a premium over the next decade. Between 2000 and 2018, global sheepmeat prices doubled while pork and poultry only appreciated 70% and 30% respectively. Despite this historical rise in price, sheepmeat consumption has continued to edge higher.

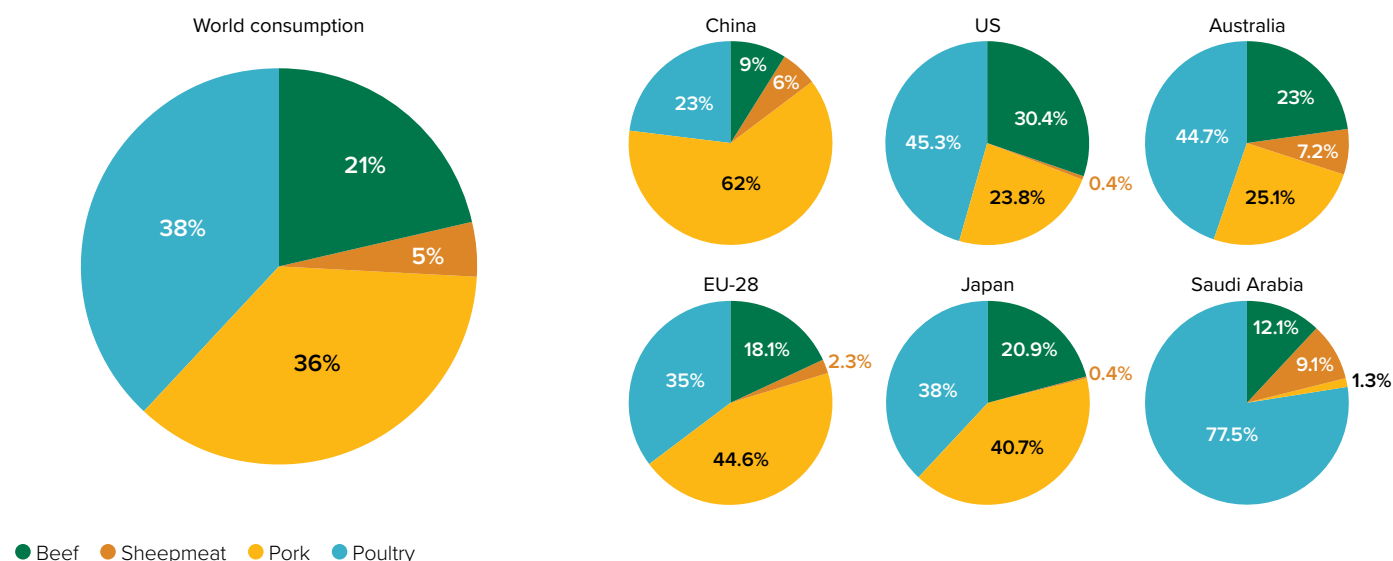
Source: OECD-FAO 2019 Agricultural Outlook
Middle East and North Africa (MENA) split across Africa and Asia



CONSUMER LANDSCAPE

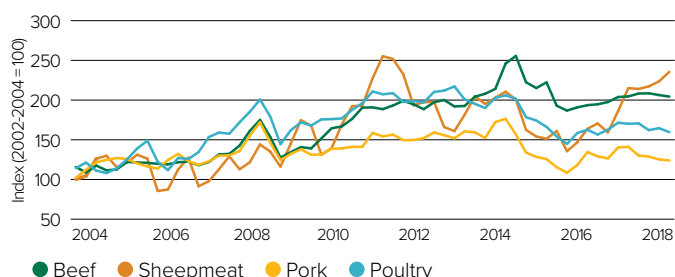
Sheepmeat's position in consumer diets around the world varies greatly and is subject to a range of cultural, economic, social and geographical factors. It's considered the preferred meat in many countries – especially those with predominantly Muslim populations and a history of sheepmeat or goatmeat production and consumption – but plays a niche role in many developed market diets.

Sheepmeat a niche in many markets



Source: OECD-FAO 2019 Outlook

World meat price indices



Source: FAO

For a detailed overview of Australia's primary sheepmeat markets, visit:

mla.com.au/market-snapshots



In European countries such as the UK, France and Spain, sheepmeat is heavily consumed over the Easter period. However, in the Muslim communities, consumption peaks during the religious festivals of *Eid Al-Fitr* and *Eid Al-Adha*.

Sheepmeat encompasses a range of products – prime lamb, mutton (often interchangeable with goatmeat), high quality loin cuts and lower value secondary cuts for manufacturing products or hot pots – each of which hold a unique position depending on the market and consumer segment.

Developing markets, such as China and the Middle East, tend to have a stronger affinity with sheepmeat through cultural or religious customs, but price remains a major barrier for many consumers. These regions are forecast to record the highest growth in population, urbanisation and household incomes.

In many developed countries such as the US, Japan and Korea, lamb is a niche product, not readily available or commonly consumed (except in certain demographic segments). Many consumers are unfamiliar with how to prepare and cook the product. However, due to the size and wealth of their populations, they still represent strong potential growth opportunities for imported Australian sheepmeat, particularly in foodservice.

With strong awareness and preference arising from a history of consumption, lamb's position in Australia differs from most developed countries. A key challenge in Australia is keeping lamb relevant in homes and restaurants as demographics and consumer preferences evolve. Considering the product diversity of Australian sheepmeat, understanding the consumer in each market and what drives their purchasing decisions is essential to targeted growth. MLA conducts a global consumer survey annually across major export markets to do just this.

Key motivators to purchase sheepmeat

Australia	Freshness	Value	Natural	Safety
China	Safety	Natural	Origin	Nutritional
UAE	Halal	Safety	Environment	Natural
Malaysia	Halal	Safety	Natural	Freshness
Qatar	Halal	Safety	Freshness	Value
Japan	Safety	Freshness	Value	Natural
US	Freshness	Safety	Natural	Value

Source: MLA Global consumer tracker

Perceptions of sheepmeat and other proteins vary significantly around the world but there is consistency regarding consumers seeking products that are fresh, safe and enjoyed by the whole family. The development stage of the country does affect the importance of attributes, with developing countries typically focusing more on safety and freshness, and developed nations emphasising quality and points of difference.



Broad consumer trends, evident around the world in foodservice and retail channels, include shifts towards:

- fresher and less processed offerings
- customised meals
- messaging relating to provenance and health e.g. ‘grassfed’, ‘free from’, ‘natural’
- more international cuisines

- e-commerce and different delivery methods
- convenient, on-the-go offerings
- smaller but higher quality premium portions.

Due to many consumers lacking familiarity and skills or kitchens to cook sheepmeat products, Australian lamb and mutton is often suited to foodservice channels in markets where consumers are looking for a new or novel eating experiences.

GLOBAL SUPPLY

Sheep feature in traditional production systems across Asia, the Middle East, Africa and Europe. Farms often remain small-scale, with nomadic foraging still present in some cases – a stark contrast to industrialised pork, poultry and, to a lesser extent, beef production. Sheep are regularly grazed on marginal country and can be integrated with wool and dairy production, with meat sometimes a by-product.

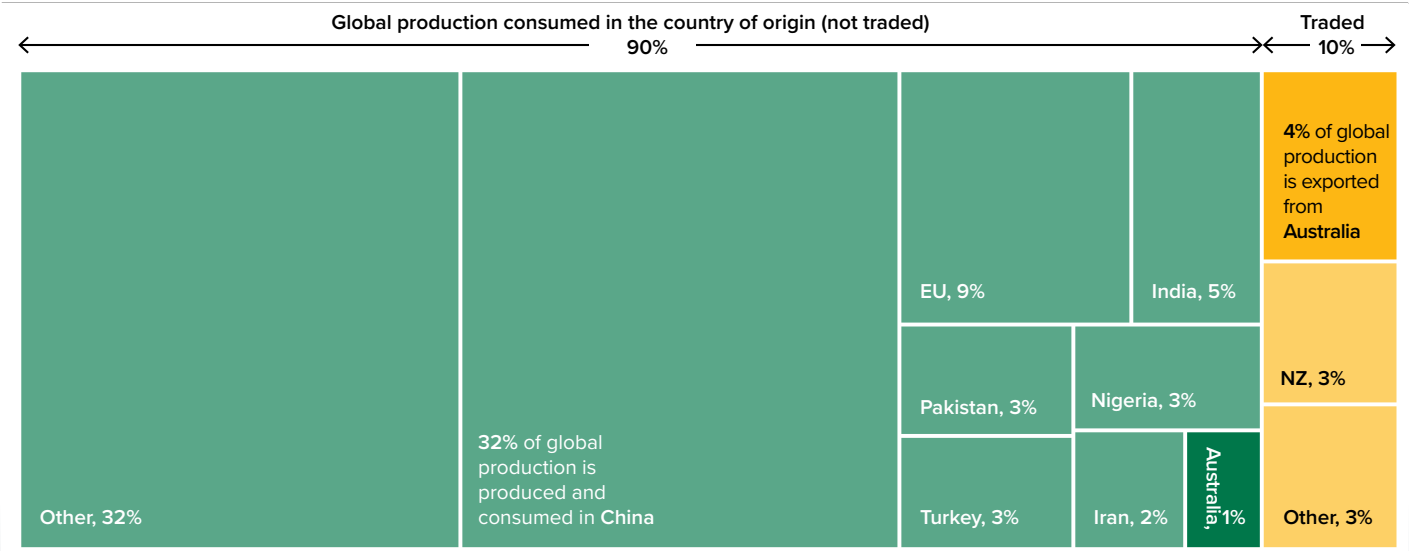
Sheepmeat often plays a minor part in the agricultural mix and a niche role in consumer diets. As such, most production is largely consumed in the country of origin and few countries have an exportable surplus – just 10% of production is traded and Australia and New Zealand account for more than 70% of global exports. Predominantly raised on pasture or supplemented with grain, in contrast to other meat proteins, sheepmeat production is less dependent upon the global feed grain market and more so influenced by climate variability. In many countries, cropping

and intensive animal production have competed with and squeezed out extensive sheep systems – as has been the case with broadacre cropping in Australia and dairy in New Zealand.

Global sheepmeat production has been rising, albeit at a slower rate than pork and poultry. According to OECD-FAO, over the decade to 2019, global sheepmeat production grew at a compound annual growth rate of 1.3% – below the 2.9% of poultry, yet ahead of the 0.8% of beef. While global sheepmeat production is forecast to continue expanding, it will remain a minor protein and make up less than 5% of the global meat supply over the coming decade.

Sheepmeat supply in three countries has been key to global markets in recent years: China, the world’s largest producer, consumer and importer of sheepmeat; and Australia and New Zealand, the two leading global exporters.

Global production breakdown: sheepmeat consumed domestically versus exported, by country of origin



Source: OECD-FAO 2019 Outlook, DAWR, IHS, MLA calculation
Country labels reflect origin of sheepmeat production. Box area and % labels reflect size of production volume split across sheepmeat consumed domestically in country of production or exported.



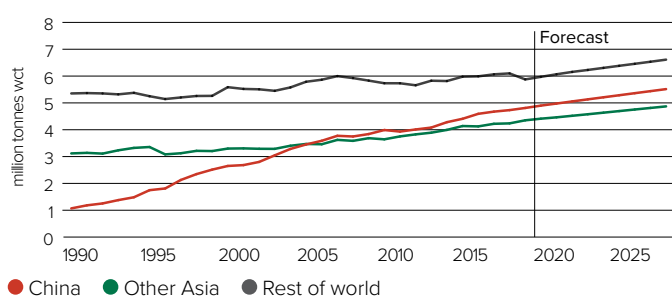
China

China has been unable to achieve sufficient productivity gains, hampered by land degradation and resource constraints, to match growing sheepmeat demand over the last decade. The emergence of China as a major importer has completely transformed the global sheepmeat market and pressured prices to record levels in recent years.

China has the world's largest sheep flock and accounts for one-third of global sheepmeat production – yet sheepmeat pales in comparison to the nation's domestic pork, poultry and beef sectors. The Chinese sheep industry is cyclical in nature, with opportunistic small-scale producers in poor provinces entering and exiting depending on the market. While dominated by traditional production, modern sheepmeat producers, using imported genetics and intensive feeding, have gained a footing in north-eastern provinces.

Given 95% of consumption is domestically produced, small shifts in local supplies can lead to major swings in import demand. Pre-empting the cycle is difficult due to a broad range of interconnecting factors – from Chinese government policy on food security and rural development, to ongoing drought and resource constraints in Inner Mongolia and Xinjiang. However, given widespread price rises – fuelled by African Swine Fever – across all proteins in China, producers will likely be incentivised to increase production (especially those in northern regions who previously raised pigs but now deem the enterprise too risky).

Global sheepmeat production growth led by China



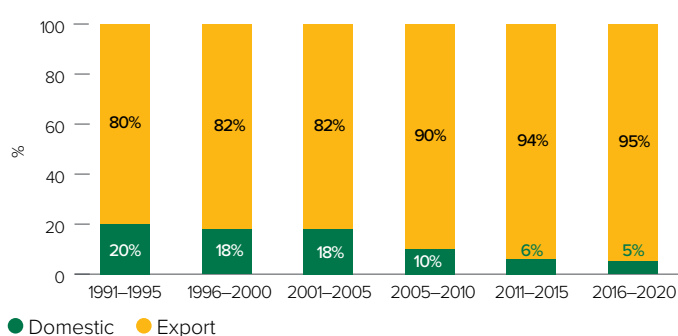
Source: FAO-OECD 2019 Outlook

New Zealand

New Zealand is Australia's main competitor on the global export market, particularly when it comes to high quality lamb, exporting 395,000 tonnes shipped weight (swt) of sheepmeat in 2018–19 (Australia shipped 464,000 tonnes swt). New Zealand, however, has been unable to lift productivity sufficiently over the last decade to arrest the impact of a decline in the national flock. Squeezed out by an expansion in the dairy herd, the sheep flock contracted 23% between 2007 and 2014 and has continued to decline, albeit at a slower rate.

Despite a contraction in supply, exports were maintained at the expense of the domestic market over the last decade – the domestic share of production declined from 20% in the early 1990s to now just 6%.

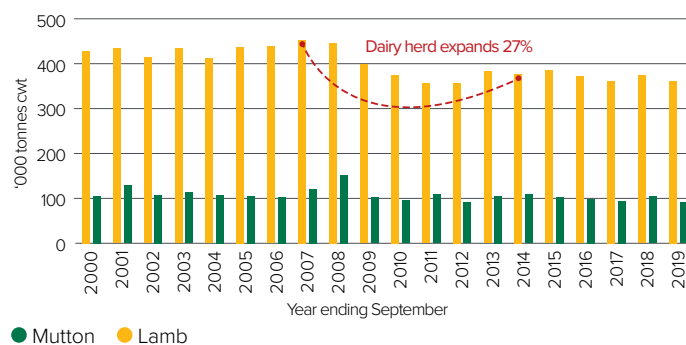
NZ sheepmeat market mix



Source: OECD-FAO 2019 Outlook

Encroaching environmental regulation in New Zealand, designed to limit nitrogen leaching from the dairy sector, may also limit expansion of the beef and sheep industries. Meanwhile, the New Zealand government's ambitious target for the country to be carbon neutral by 2050 may see marginal sheep country converted to forestry and some shift to horticulture and low-emission crops on more productive land.

NZ sheepmeat production



Source: Statistics NZ

Australia

Australia's supply outlook over the coming years is tight. Following two years of drought-induced destocking, the sheep flock was estimated at 66 million head in 2019, down 6.5% year-on-year. Slaughter levels were elevated through 2018 and 2019, and the majority of Australian producers are still managing heavily depleted breeding flocks, heightened feed costs and water shortages as the drought continues.

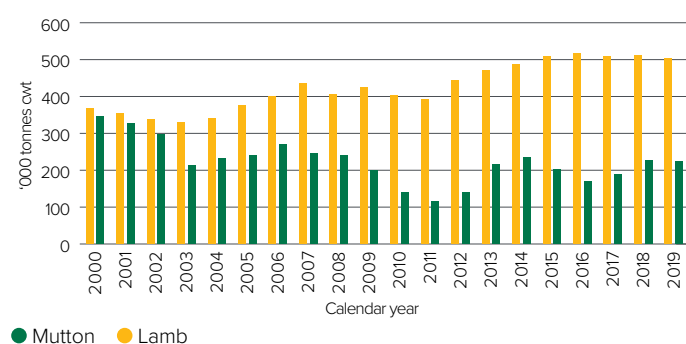
Volatile seasonal conditions aside, production in the long run is expected to expand. Growth in lamb production over the last three decades has been underpinned by an industry shift from predominantly wool to an increased emphasis on meat production, and corresponding improvements in lambing rates and carcase weights. However, mutton production has generally declined since 1990, following trends in the national flock and mirroring short-term variation in seasonal conditions.

For a detailed update on the Australian supply outlook, visit:

mla.com.au/sheepprojections



Australian sheepmeat production

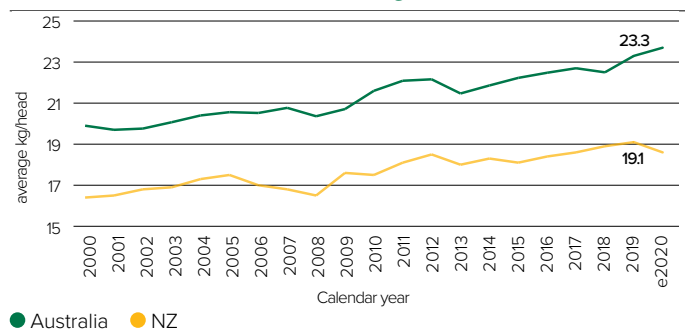


Source: ABS, MLA forecast

Despite being two of the most efficient and cost-competitive producers in the world, neither Australia nor New Zealand is in a position to capture the entirety of the growing lamb market. Both suppliers will continue to focus on premium segments of global export markets.

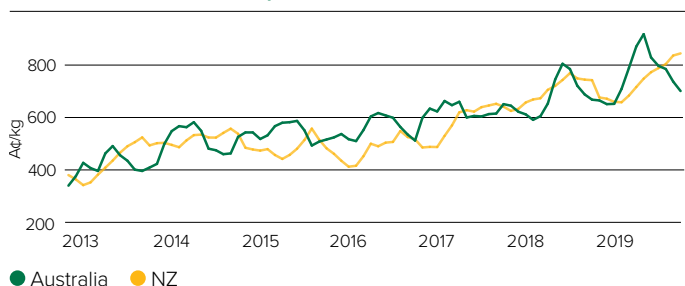


Australian and NZ lamb carcase weights



Source: MLA calculations, Beef and Lamb NZ

Australian and NZ lamb prices

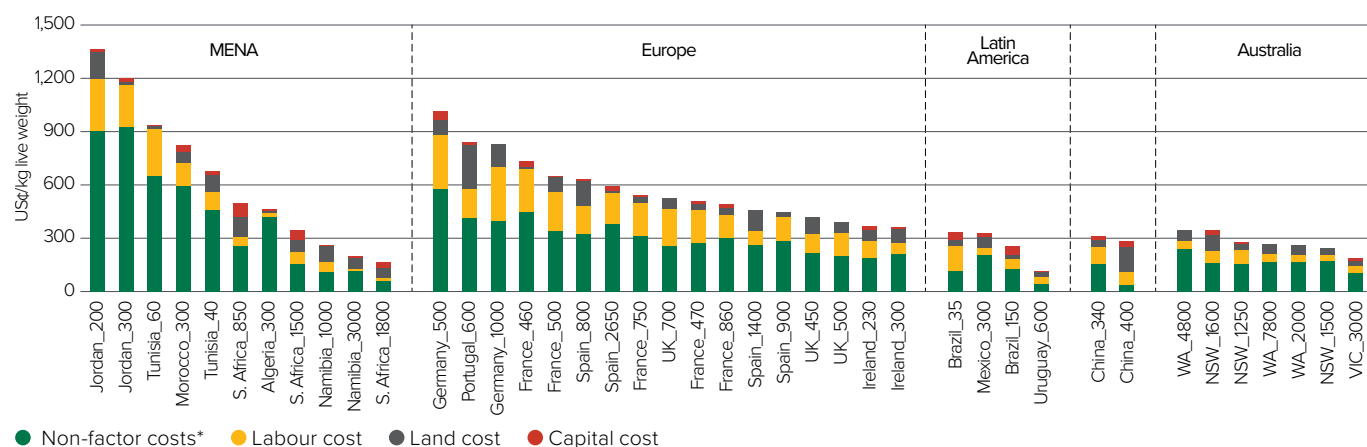


Source: MLA, Agri HQ

Record lamb prices and cost of production

With supply growth of sheepmeat out of Australia and New Zealand unable to keep pace with growing global demand, led by China, prices have continued to break records in recent

Costs of sheepmeat production



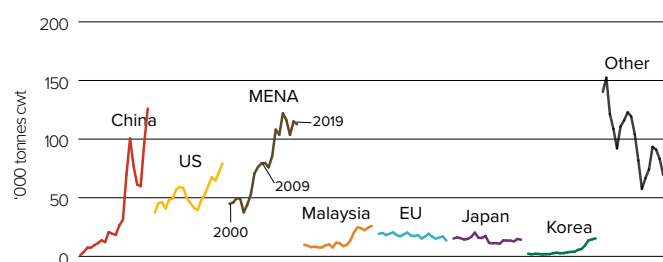
Source: agri benchmark 2018 data. Data are for typical farms across a range of sheep producing countries. Country identification indicates number of ewes per farm.

*Non-factor costs largely represent variable costs directly associated with the sheep enterprise, such as feed, machinery, feed, shearing, marking and replacement sheep purchases.

TRADE

Asia and the Middle East have underpinned global import demand growth over the last decade and will remain key markets for Australian sheepmeat. These regions are diverse and cater to a broad array of cuts and products – from chilled airfreight carcasses into Qatar, to frozen breast and flap into China. In addition, high value targeted opportunities exist in developed markets, such as the US, the EU and Korea, where lamb plays a niche role in diets.

Australian sheepmeat exports (2000–2019)



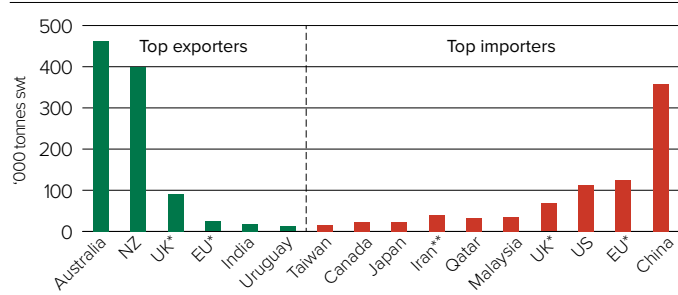
Source: DAWR

Data shown is for the financial year 2000-2001 through to 2018-2019

Other is largely comprised of South Africa, Russia, Singapore, Mexico and PNG

A diverse and expanding array of markets and a considerable rise in the price of sheepmeat prompted the value of Australian sheepmeat exports to double over the last decade to reach A\$3.9 billion in 2018–19.

Top sheepmeat exporters and importers



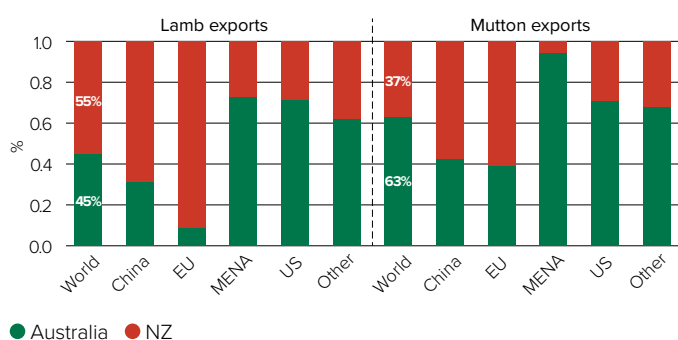
Source: IHS, DAWR (Australia) 2018–19.

*EU only includes external trade but UK includes trade within and outside the EU.

**Due to data availability import data to Iran is for the FY ending April.

In most markets, New Zealand product is the main competitor (other than domestic supply) to Australian sheepmeat. However, Australia has a stronger presence in the US and Middle East while New Zealand has greater share in China and the EU. Due to a prime lamb-gearred production base and smaller domestic market, New Zealand exports a greater portion of sheepmeat as lamb in comparison to Australia. However, due to its market mix and favourable freight linkages, Australia is able to export a greater volume of sheepmeat in chilled form in comparison to New Zealand.

Australia and NZ sheepmeat market shares*



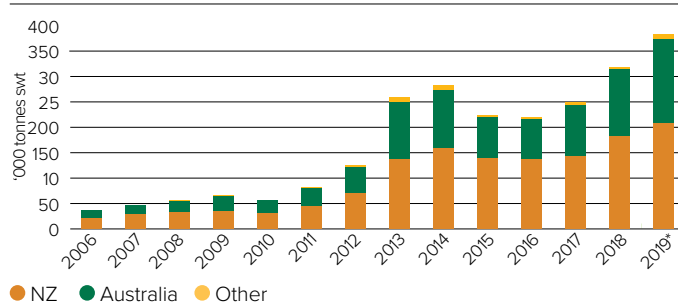
Source: Statistics NZ, DAWR, 2018–19

*Shares are solely between Australia and NZ and ignore domestic product and other exporters

China rapidly expanded as a major buyer of sheepmeat in 2013 and New Zealand has since continued to expand its presence in the market. China now accounts for a greater amount of New Zealand exports than the EU.

While Australia has also increased exports to China, it has affected other major markets to a lesser degree, with shipments to the US and South-East Asia performing well regardless of the spike in volume heading to China. Mutton exports to some price-sensitive markets in the Middle East, however, were more affected by strong buying power from China and limited supply in 2019.

China sheepmeat imports



Source: IHS.

*2019 is for the 12-months ending November

Market access

With growth in the Australian domestic market limited, trade is central to the ongoing viability of the sheepmeat industry, and pursuing unrestrained entry to global customers remains critical. Australia's access to export markets has generally improved over the past three decades, led initially by multilateral negotiations through the World Trade Organization, and more recently, through a series of bilateral and regional free trade agreements. Reductions in non-tariff barriers have also been advantageous; however, many remain and have a noticeable impact on the cost of doing business.

Australia has some of the best market access globally but trails New Zealand on access to China, with a modest tariff disadvantage due to New Zealand signing a bilateral free trade agreement with China in 2008. Australia also trails New Zealand in regards to EU access, with a disproportionately smaller quota.

Fortunately, free trade agreement negotiations with the EU began in July 2018 and the Australian government has signalled a desire to engage the UK when it is in a position to do so following Brexit. However, the UK departure from the EU also poses interim risks to Australia's access to the region, with existing country specific tariff rate quotas due to be split between the UK and remaining EU upon separation, reducing Australia's flexibility to target consumers and market opportunities.

Recent political shifts have meant trade liberalisation, and securing additional benefits for Australian sheepmeat, has become increasingly challenging. The increase in protectionism led by the US approach to trade does pose some risk but Australian sheepmeat exports have largely avoided any ramifications from the US-China trade war. Australia's access to global markets is underpinned by strong animal health credentials, having never had a case of foot and mouth disease and being a host to a world-leading animal traceability system.

Live export

Australia is a leading global exporter of live sheep, with the ability to supply lines of disease-free, healthy sheep year-round that perform well in destination feedlots. However, an evolving regulatory environment and shifting political and community perceptions pose risks to the long-term viability of the sheep export industry.

The majority (94% in 2018–19) of Australian live sheep exports are destined for the Middle East. While some markets have evolved and now receive sheepmeat in carcase form, demand for fresh meat and the role of sheep during religious festivals will ensure that live sheep continue to be drawn into the region.

Australian sheep play a key role in the sheepmeat supply mix in some Middle Eastern markets, particularly Kuwait and Jordan, but sheep and goats across the region are also sourced from Sudan, Somalia, India, Iran, Romania and Georgia. Australia enforces strict regulatory animal welfare, control and traceability standards on exported livestock through to point of slaughter.



SUMMARY TABLE

	Australia	NZ	UK†	EU‡	China	US	Uruguay	Argentina	India
Sheep flock (million head)*	66.0	27.4	33.8	85.5	161.4	5.2	6.6	14.8	63.0
Sheepmeat production ('000 tonnes cwt)**	696	453	288	969	4811	76	14	51	759
Lamb production ('000 tonnes cwt)**	495	355	247	-	-	-	-	-	-
Mutton production ('000 tonnes cwt)**	201	98	41	-	-	-	-	-	-
Average carcass weight (kg/head)***	22.9	18.9	19.3	15.0	-	17.5	-	-	-
Sheep and lamb exports ('000 head)†	1,009	-	-	2,419	-	-	-	-	33
Total domestic consumption ('000 tonnes cwt)††	177	25	293	1020	5127	168	-	49	719
Production surplus (deficit) ('000 tonnes cwt)†††	519	428	-5	-51	-316	-92	-	2	40
Per capita domestic consumption (kg/person cwt)††	7.2	4.6	4.1	1.7	3.2	0.4	-	1.0	0.5
Sheepmeat exports ('000 tonnes swt)††	463.5	395.0	91.8	26.3	2.8	3.5	12.0	0.2	17.5
Lamb % share of exports††	59%	78%	-	-	-	12%	-	-	-
Chilled % share of exports††	26%	15%	91%	31%	0%	28%	0%	0%	90%
Average export price (\$US/kg)†††	5.65	6.41	5.39	5.66	10.34	5.27	5.50	4.64	6.26
Top-3 export markets††	China US UAE	China UK US	France Germany Ireland	Hong Kong Jordan Switzerland	Hong Kong Cambodia UAE	Mexico UAE Bahamas	Brazil China Canada	Spain Brazil	UAE Qatar Kuwait

Source: *FAO (excludes goats), EU Commission, B+L NZ, ADHB, MLA (Australia); **OECD-FAO (includes goatmeat) FAO, EU Commission, MLA (Australia), B+L NZ, ADHB 2019 estimate; ***MLA (Australian lamb), B+L NZ (NZ lamb), ADHB (UK Lamb), EU Commission 2018 estimate, USDA; †UN Comtrade, OECD-FAO, ADHB, B+L NZ (2018-19 estimate), DAWR (Aust.) 2018-19 actual; ††OECD-FAO (includes goatmeat), MLA (Australia), ADHB 2018 estimate; †††calculation; †UK exports include trade to the EU, while EU exports include only external EU trade; ††IHS, DAWR (Aust.) 2018-19 actual; †††IHS 2018-19 actual. Pakistan export data is not available so OECD-FAO carcass weight equivalent estimate included.

