MEAT & LIVESTOCK AUSTRALIA

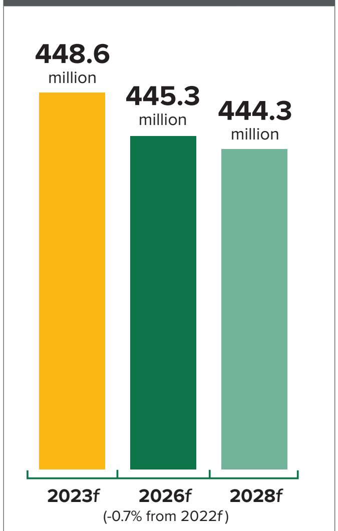
MARKET SNAPSHOT | BEEF & SHEEPMEAT

European Union

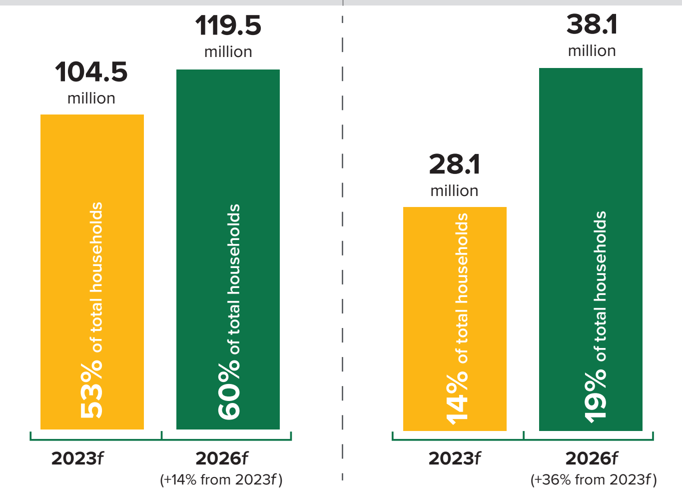
As a region of 27 countries, the European Union* (EU) contains the largest pool of households earning over US$35,000 per year in the world, making it an attractive market. However, its stance on agricultural imports has impeded Australia's ability to grow trade with the region and respond to market demand. Australia and the EU commenced negotiations on a free trade agreement in June 2018, the first opportunity in over forty years to significantly reshape Australia's red meat market access to the EU. The A-EU FTA negotiations aim to modernise the existing trading regime and will provide new trading opportunities in a high value market.

** EU27 – Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Repbulic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden*

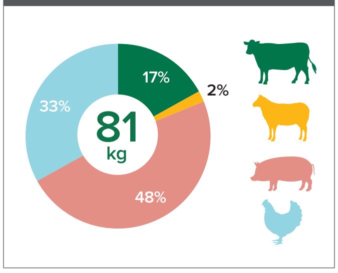
Population[1]



Household number by disposable income[2]



Meat consumption per capita[3]

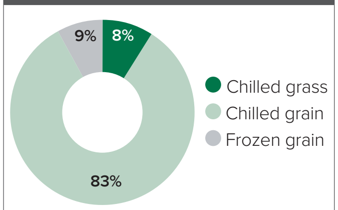


Annual grocery spend[4]

A$ 4,811 per person/year

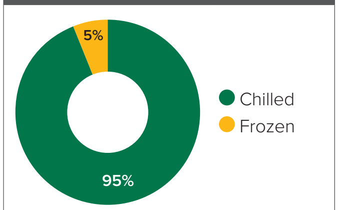
The EU is a small but high value market for Australian beef, especially grainfed exports. The Netherlands is the largest regional discharge port, followed by Germany and Italy, from where some product is re-distributed across the EU.

Australian beef exports – volume[5]



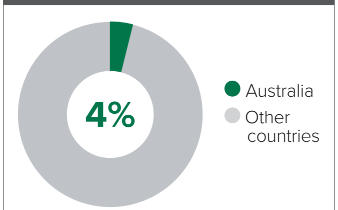
Total 6,541 tonnes swt

Australian beef exports – value[6]



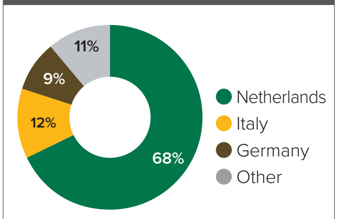
Total A$136.4 million

Australia's share of beef imports[7]



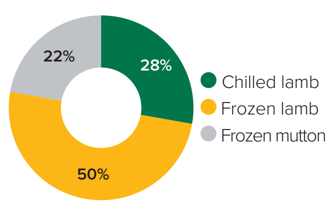
Total import value A$3.2 billion

Australian beef export discharge by value[7]



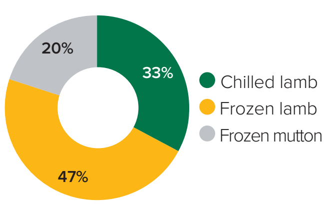
While around 60% of Australian sheepmeat exports to the EU were discharged in the Netherlands in 2021–22 followed by France at 18%, a proportion is re-distributed to other regional countries, where it is actually consumed.

Australian sheepmeat exports – volume[5]



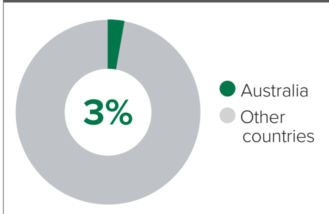
Total 4,179 tonnes swt

Australian sheepmeat exports – value[6]



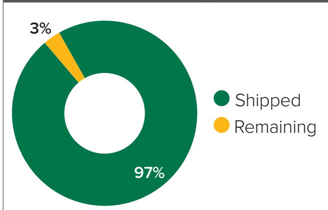
Total A$59.4 million

Australia's share of sheepmeat imports[8]



Total import value A$1.7 billion

Sheepmeat quota utilisation 2022 to July[9]



Total tariff free quota 5,851 tonnes swt

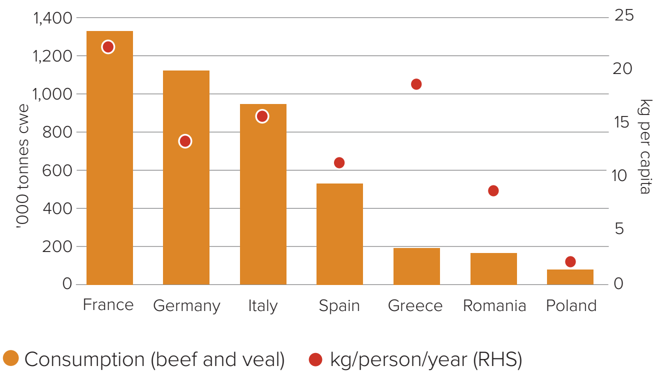
Data sources for charts: [1]Fitch Solutions, [2]Fitch Solutions (disposable income = earnings after taxes and social security charges), [3]GIRA 2023f, sheep and goat meat combined, [4]IGD 2023f (defined as the total annual grocery retail market turnover in a given year, divided by the population for the same year. Grocery retail market data excludes VAT/sales tax), [5]DAFF (2021–22), [6]ABS/IHS Markit (2021–22), [7]IHS Markit (2021–22), [8]IHS Markit (2021–22), [9]DAFF (swt)

Beef

CONSUMERS

- Beef consumption per capita is high by international standards in the European Union. Rates of consumption differ between member states; France and Germany are among the world's highest per-capita consumers, while Poland only consumes 2kg per person each year.

EU beef and veal consumption



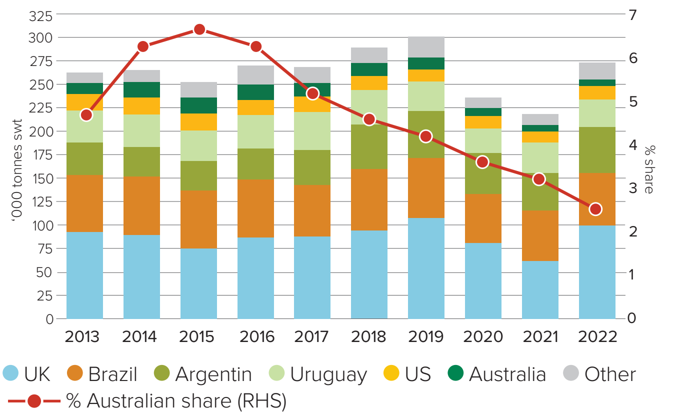
Source: Fitch Solutions 2023f

- Per capita consumption has been falling since 2018. Between 2018 and 2021, per-person consumption fell by an estimated 5% and is expected to fall another 5% by 2027. Population growth has softened this to-date, but a challenging economic outlook means overall consumption is projected to fall at a CAGR of 4.8% from 2022 to 2027 *(Source: GIRA)*.
- The relative affluence of EU citizens, alongside stringent import requirements, means that EU beef imports are considerably more valuable than the global average. Exports tend to consist of loin cuts, and chilled beef makes up a considerably larger percentage of imports than the global average.
- Consumers are increasingly paying more attention to the production process, with a greater emphasis on local, organic, and quality. Dietary adjustments, health considerations and convenience are key drivers that will influence the demand for meat moving forward.

COMPETITIVE LANDSCAPE

- The EU is a significant producer of beef, but most production is derived from dairy-based herds and consumed domestically. After an increase from 2013–2019 due to a restructuring of the dairy sector, EU beef production is expected to decline out to 2030. Nevertheless, in 2022 the EU is estimated to have produced 6.7 million tonnes cwe of beef *(Source: GIRA)* – more than three times that of Australia. In 2022 it is estimated that France accounted for 23% of EU production, followed by Germany and Italy with 6% and 11% production share respectively.
- In 2022, it is expected that domestic beef production will account for 96% of total EU beef consumption, with imported beef making up the remainder. Imported beef volumes are expected to slowly rise, a result of the gradual increase of import quotas and free trade agreements with various partners. As EU beef production declines, imported beef volumes will gradually account for a larger proportion of total consumption.
- The UK is an important supplier of beef to the EU, and in 2022 exported 105,000 tonnes swt, 33% of the total and the most of any supplier to the region. Under the EU-UK Trade and Cooperation Agreement product can be traded between the EU and the UK duty-free and quota-free.
- After the conclusion of the EU-Canada Comprehensive Economic and Trade Agreement (CETA), which entered into force provisionally in 2017, Canada has attained access for 50,000 tonnes cwe of beef to the EU *(Source: Government of Canada)*, but little trade has since yet materialised. Similarly, the United States gained access to a reserved portion of the HQB grainfed quota in 2020, reserving 18,500 tonnes for US exporters in that year (increasing to 35,000 tonnes over 7 years), but this has not yet led to a substantial increase in exports of US beef.
- As the EU requires all imported beef to be strictly hormone growth promotant-free, most US and Canadian beef is ineligible for export. In Australia, product bound for the EU must be European Union Cattle Accreditation Scheme (EUCAS) accredited, to ensure that Australian beef meets the EU's requirement for HGP-free beef.
- The South American trade bloc Mercosur – consisting of Argentina, Brazil, Uruguay and Paraguay – concluded free trade agreement negotiations with the EU in June 2019, with an outcome that substantially increases beef access for the bloc. However, the agreement has met strong criticism in the EU and is yet to be ratified. Political hurdles remain that may continue to delay ratification.
- New Zealand signed a free trade agreement with the EU in July 2022, which would lower the in-tariff quota on NZ beef from 20% to 7.5% and raises the quota to 10,000 tonnes cwe per annum seven years after entry into force. This agreement has yet to be ratified, and is not expected to come into force until 2024 at the earliest.

EU-27 total beef imports by supplier

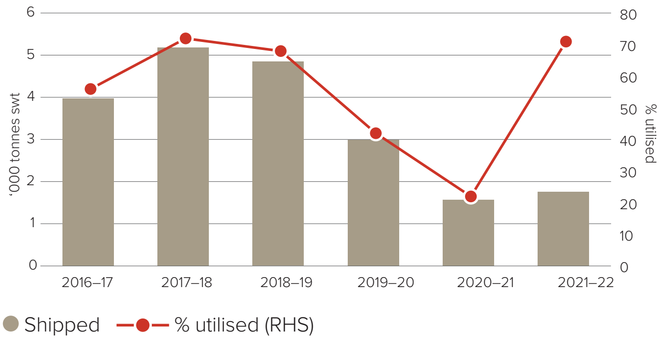


Source: IHS Markit

MARKET ACCESS

- Australia's current access to the EU beef market is in stark contrast to the majority of other export markets, which have largely liberalised trade. Transformation of punitive EU market access (low volume import quotas and high out of quota import tariffs) will be an important component of ongoing Australia-EU free trade agreement negotiations.
- Upon the conclusion of the Brexit transition period at the end of 2020, Australia's existing high-quality beef (HQB) Hilton beef quota was split between the EU-27 and UK. Of the existing 7,150 tonnes available within the quota, 3,761 tonnes were allocated to the UK and 3,389 tonnes to the EU-27, with the 20% in-quota tariff maintained for both markets.
- Australia has predominantly exported beef to the EU under two quotas:
  - High Quality Beef (HQB) 'Hilton' country specific quota: 3,389 tonnes with 20% in-quota tariff.
  - Global HQB grainfed quota: in 2023, a 17,200 tonne quota (4,900 per quarter) allocated on a first-come, first-served basis, shared between Uruguay, New Zealand, Canada, Argentina and Australia.
- An agreement reached between the United States and the EU to reserve a portion of the HQB grainfed quota will reduce the size of the global quota volume to 10,000 tonnes from 2026.
- Within the EU, the majority of Australian beef is typically discharged in the Netherlands. However, this does not necessarily denote the point of consumption, as importing countries often serve as central distribution points for the beef to be transported to neighbouring countries.

Australian EU beef High Quality Beef Hilton utilisation



Source: DAFF

Market access overview – beef

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Australia-EU Free Trade Agreement negotiations commenced in July 2018. The fifteenth round of negotiations are scheduled to be held in April 2023.	**2022–23:** 3,389 tonnes country specific HQB Hilton quota: 20% in-quota tariff; above quota tariff 12.8% + €3/kg Access to 4,900 tonnes per quarter grainfed quota shared with Argentina, Canada, New Zealand and Uruguay: 0% in-quota tariff; above quota tariff 12.8% + €3/kg	Argentina, Brazil and US/Canada have larger allocations than Australia under the Hilton quota The NZ-EU FTA was signed in July 2022 and may enter into force some time in 2024 Ongoing pressure on reduced shared grainfed quota – with quarterly allocation being filled within weeks	**2022–23:** 3,389 tonnes under country specific High Quality Beef quota Shared access to 4,900 tonnes per quarter global grainfed quota Access (via EU importer held licences) to shared frozen beef quota and frozen beef for processing quota	All beef supplied to market must be EUCAS accredited HGP free compliance adds costs to doing business with the EU

Best access — Major challenges

Source: Trade agreements, DFAT, MLA

Australian beef exports to EU – summary table

Volume – in tonnes swt

		2021–22	% out of total	2020–21	% out of total	five-year average (2016–17 to 2020–21)	% out of total	change 2021–22 vs five-year average %	change 2021–22 vs five-year average in tonnes swt
Total		**6,619**		**6,961**		**9,966**		**-34%**	**-3,348**
Storage	Chilled	6,010	91%	6,595	95%	9,467	95%	-37%	-3,457
	Frozen	609	9%	366	5%	485	5%	26%	124
Meat type	Grassfed	561	8%	335	5%	1,597	16%	-65%	-1,036
	Grainfed	6,058	92%	6,626	95%	8,369	84%	-28%	-2,312
Storage/meat type	Chilled grassfed	548	8%	322	5%	1,577	16%	-65%	-1,028
	Chilled grainfed	5,462	83%	6,273	90%	7,891	79%	-31%	-2,429
	Frozen grassfed	13	0%	13	0%	15	0%	-12%	-2
	Frozen grainfed	596	9%	353	5%	466	5%	28%	130

Source: DAFF, figures are rounded

Value – in A$ 000

		2021–22	% out of total	2020–21	% out of total	five-year average (2016–17 to 2020–21)	% out of total	%	in A$ 000
Total		**136,734**		**129,630**		**159,609**		**-14%**	**-22,875**
Storage	Chilled	130,032	95%	122,003	94%	154,015	96%	-16%	-23,983
	Frozen	6,702	5%	7,627	6%	5,594	4%	20%	1,108

Source: ABS/IHS Markit

Volume – by major cut (in tonnes swt)

	2021–22	% out of total	2020–21	% out of total	five-year average (2016–17 to 2020–21)	% out of total	%	in tonnes swt
Striploin	841	13%	878	13%	1,328	13%	-37%	-487
Rump	831	13%	894	13%	1,207	12%	-31%	-376
Cube roll/rib eye roll	699	11%	750	11%	915	9%	-24%	-216
Chuck roll	579	9%	530	8%	858	9%	-33%	-280
Manufacturing	535	8%	278	4%	378	4%	42%	157
Topside/inside	503	8%	792	11%	1,092	11%	-54%	-589
Blade	447	7%	454	7%	809	8%	-45%	-363
Thick flank/knuckle	375	6%	544	8%	648	7%	-42%	-274
Tenderloin	367	6%	408	6%	538	5%	-32%	-171
Other	1,442	22%	1,433	21%	2,193	22%	-34%	-750
Total	**6,619**		**6,961**		**9,966**		**-34%**	**-3,348**

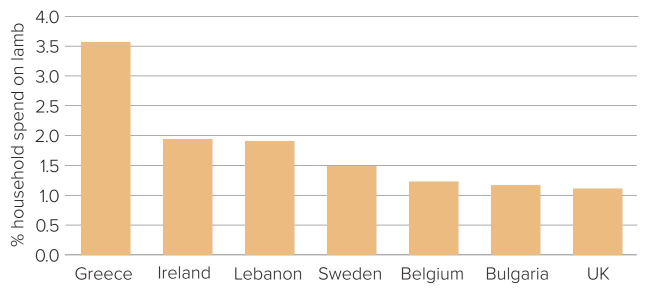
Source: DAFF

Sheepmeat

CONSUMERS

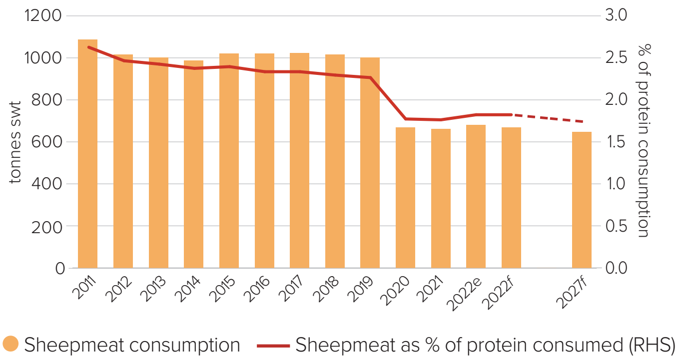
- The role and prevalence of sheepmeat consumption varies significantly between EU members. For instance, in Greece, consumption is traditionally linked to the seasonal production cycle, while in other countries demand is tied to culturally significant occasions such as Easter. There has been a slight decline in consumption since 2000, but sheepmeat demand in the EU is generally inelastic, with demand fluctuating in line with particular religious celebrations such as Easter. Sheepmeat consumption is forecast to be 1.4 kg per capita by 2027, down at a CAGR of -1.1% on 1.5 kg estimated in 2022 *(Source: GIRA)*.
- Sheepmeat plays a minor role in European consumer diets. Consumption is primarily concentrated in Western Europe, particularly France and Spain, but Romania and Greece are also significant producers and consumers. 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 more advantageous trade access.
- 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.

Lamb sales as a percentage of total food sales



Source: Fitch Solutions 2023f, based on household spend on lamb through all channels

EU sheepmeat consumption

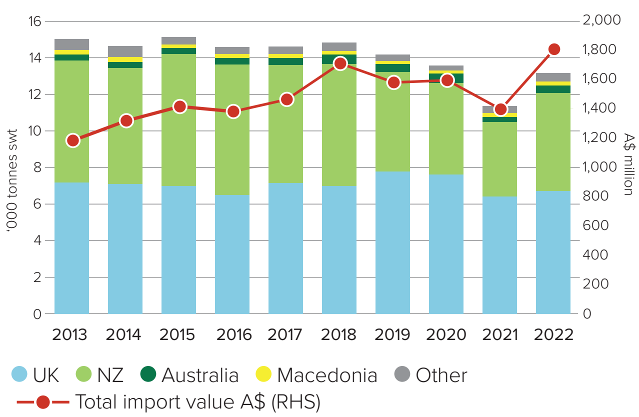


Source: GIRA

COMPETITIVE LANDSCAPE

- After declining 25% over the 10 years to 2014, EU sheepmeat production has since stabilised. Sheepmeat production is forecast to remain around 637,500 tonnes per year, with forecasts indicating that this level of production is expected to grow slightly over the decade to 661,500 tonnes in 2030. The EU sheep flock is largely concentrated in a few countries, with Spain, Romania and Greece accounting for over 50% in 2022 *(Source: Eurostat)*.
- UK sheepmeat exports accounts for over 56% of EU lamb and mutton imports into the EU, while EU markets accounted for 92% of all UK sheepmeat exports in 2021, highlighting the importance of the trade relationship between the two regions.

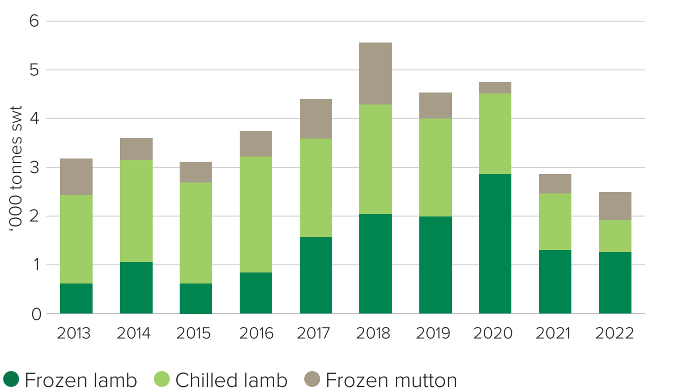
EU sheepmeat imports



Source: IHS Markit

- New Zealand's preferential market access with the EU has allowed it to capture the majority of remaining market share. However, imports from New Zealand over the last five years have fallen due to a combination of land increasingly reallocated to the dairy sector and Asian markets' continued emergence as major buyers of New Zealand sheepmeat.
- Australian sheepmeat exports to the EU are high value product, with the average unit price in 2022 of A$15.50 which was 52% higher than the average of Australia's global exports. While the unit price of EU imports from Australia was similar to New Zealand, UK product was 28% lower than Australia's.

Australian sheepmeat exports to the EU

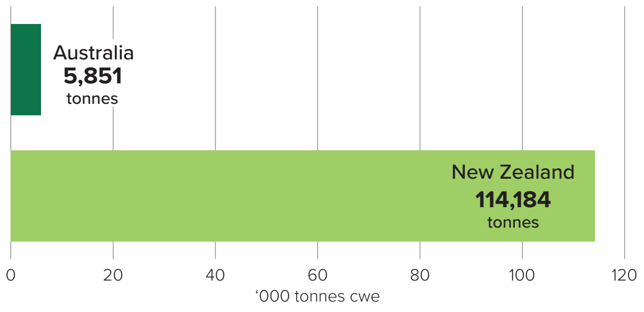


Source: DAFF

MARKET ACCESS

- Australia has a 5,851 tonne cwe (combined sheepmeat/ goatmeat) country-specific import quota into the EU. Out-of-quota imports from Australia incur prohibitive import duties of 12.8%, plus up to an additional €3.10/kg.
- There is also a 200 tonne *erga omnes* sheepmeat and goatmeat quota that is accessible to a number of countries.
- Australian sheepmeat access is currently disadvantaged compared to New Zealand, which has a 114,184 tonne tariff-free quota.
- Australia's original EU-28 sheepmeat quota was 19,186 tonnes. However, when the UK left the EU, the quota was split, with 80% of the volume directed to the UK. New Zealand split its original 228,389 tonne quota by directing 50% to the EU.
- Although New Zealand has not fully utilised its quota in recent years, reaching just 46% (across EU-28) of the allotted volume in 2020, their sheepmeat export volumes to the EU were 3 times larger than to Australia in 2022.
- New Zealand and the EU signed the New Zealand – European Union Free Trade Agreement on 1 July 2022, which will increase the NZ Sheepmeat import quota to 163,769 tonnes seven years after entry into force. The EU-NZ FTA is yet to be ratified, and is not expected to enter into force before 2024.

EU-27 sheepmeat annual quota volume: Australia compared to New Zealand



Source: DAFF, NZ Meat Board, per calendar year

Market access overview – sheepmeat

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Australia-EU Free Trade Agreement negotiations commenced in July 2018. The fifteenth round of negotiations are scheduled to be held in April 2023.	**2021:** In quota – 0% Above quota – 12.8% + 90.2~311.8 €/100kg	**NZ:** Has a quota of 114,184 tonnes (carcase weight equivalent, calendar year basis) **UK:** No quota or tariff applicable	Access is limited to 5,851 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

		2021–22	% out of total	2020–21	% out of total	five-year average (2016–17 to 2020–21)	% out of total	change 2021–22 vs five-year average %	change 2021–22 vs five-year average in tonnes swt
Total		**4,287**		**3,845**		**4,633**		**-7%**	**-346**
Storage	Chilled	1,190	28%	1,524	40%	2,020	44%	-41%	-830
	Frozen	3,097	72%	2,321	60%	2,613	56%	18%	483
Meat type	Lamb	3,373	79%	3,558	93%	3,991	86%	-15%	-618
	Mutton	914	21%	287	7%	642	14%	42%	272
Storage/meat type	Chilled lamb	1,190	27.8%	1,524	40%	2,020	44%	-41%	-830
	Chilled mutton	0	0%	0	0%	0	0%	-88%	0
	Frozen lamb	2,183	51%	2,034	53%	1,971	43%	11%	211
	Frozen mutton	914	21%	287	7%	642	14%	42%	272

Source: DAFF, figures are rounded

Value – in A$ 000

		2021–22	% out of total	2020–21	% out of total	five-year average	% out of total	%	in A$ 000
Total		**59,908**		**43,385**		**60,410**		**-1%**	**-502**
Meat type	Lamb	47,856	80%	40,626	94%	50,996	84%	-6%	-3,140
	Mutton	12,052	20%	2,759	6%	9,414	16%	28%	2,638

Source: ABS/IHS Markit

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

	2021–22	% out of total	2020–21	% out of total	five-year average	% out of total	%	in tonnes swt
Leg	1,878	56%	1,699	48%	2,179	55%	-14%	-301
Manufacturing	553	16%	315	9%	134	3%	314%	420
Boneless loin	425	13%	334	9%	590	15%	-28%	-165
Shank	293	9%	832	23%	580	15%	-50%	-288
Chump	78	2%	157	4%	174	4%	-55%	-96
Other	146	4%	222	6%	334	8%	-56%	-188
Total	**3,373**		**3,558**		**3,991**		**-15%**	**-618**

Source: DAFF