MARKET SNAPSHOT | SHEEPMEAT

China

China is a large, complex country with significant regional cultural variation, and a mixed demand outlook for imported sheepmeat. A sophisticated market segmentation approach to identifying and developing opportunities for Australian sheepmeat is required.

Challenges and opportunities in China for Australian sheepmeat:

- Despite slowing economic growth, consumer demand for premium imported meat generally is expected to continue to grow, driven by increasing urbanisation, disposable incomes, premiumisation and health awareness.
- Sheepmeat typically contributes around 3% of dietary protein and most consumers don't yet differentiate between lamb and mutton but consumption is forecast to continue to gradually increase.
- Sheepmeat is traditionally used in a variety of stew, soup and hot pot dishes, and is a popular street food in the form of spiced grilled kebabs.
- China sheepmeat import demand is strongly impacted by domestic production, particularly at the commodity end of the market.
- China's retail sector is the largest globally (based on retail sales) but is among the world's most fragmented.
- Whilst ChAFTA* is reducing tariffs on Australian sheepmeat, improving market access remains a priority, particularly for chilled lamb.

** China-Australia Free Trade Agreement*

Population

1,382 in 2016 — **1,403** in 2020

In million

Source: BMI Research, 2016 estimate & 2020 projection

Households earning US$15000+ p.a.

61.8 in 2016 — **102.9** in 2020

In million households

Source: BMI Research, 2016 estimate & 2020 projection

Households earning US$35000+ p.a.

7.9 in 2016 — **15.4** in 2020

In million households

Source: BMI Research, 2016 estimate & 2020 projection

Australian sheepmeat exports – volume

- Frozen lamb – **66%**
- Frozen mutton – **34%**

Total 59,449 tonnes swt

Source: Department of Agriculture and Water Resources (DAWR), CY 2016

Australian sheepmeat exports – value

- Lamb – **64%**
- Mutton – **36%**

Total A$ 233 million

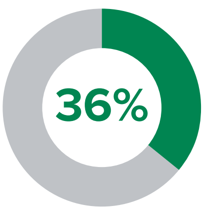
Source: GTA, MAT (Moving Annual Total) November 2015 to October 2016

Proportion of key cuts

- Breast & flap – **67%**
- Rack cap – **11%**
- Neck – **7%**
- other – **15%**

Source: DAWR, CY 2016

Australia's share of imports

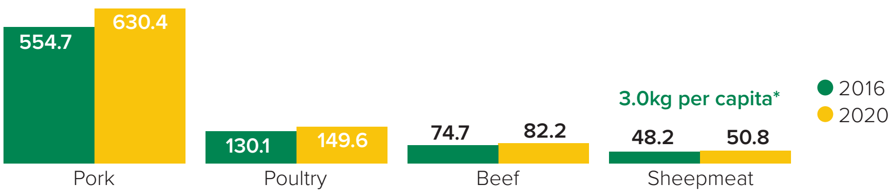


- Australia
- Other Countries

Source: GTA, MAT October 2015 to November 2016

Meat consumption

49.9kg per capita* total meat protein**



In million tonnes cwt

Source: BMI Research, GIRA, 2016 estimate and 2020 projection

** 2016e per person per year* *** excluding fish/seafood*
Source: FAO-OECD

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Consumers

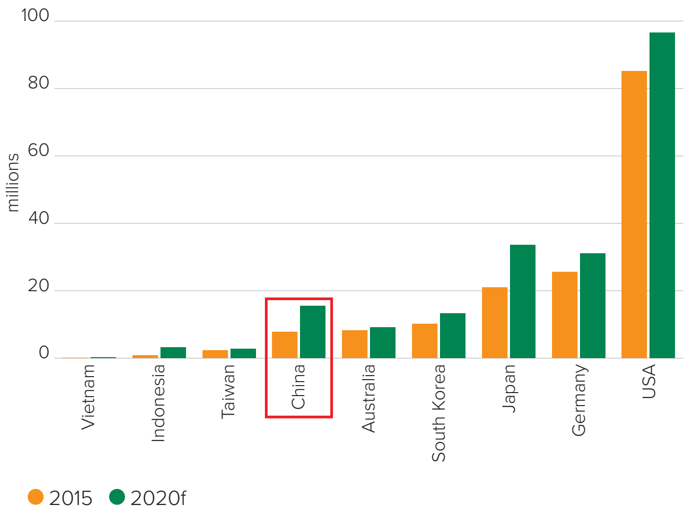
- China is a country of great regional cultural diversity and variation in consumption habits and preferences, particularly in the context of discretionary items. Considering cuisine alone, there are at least 8 official Chinese cuisines.
- Sheepmeat consumption is generally higher in the cooler northern areas of the country and traditionally has a strong seasonality, as it is considered to generate “internal heat”, with consumption increasing during the cooler months.

Consumed in the past year

Source: MLA/Canadean China Attractive Cities Study, 2016

- Despite being the most populous country in the world, the proportion of consumers that can afford to regularly buy imported sheepmeat is comparatively small, although their number will double over the next 5 years.

Number of households earning >U$35,000 p.a.



Source: BMI Research

- In 2016, 21% of consumers surveyed from the four tier 1 cities of Beijing, Shanghai, Guangzhou and Shenzhen said they had never bought lamb.
- Per capita consumption of sheepmeat in China is small compared to other proteins but is forecast to increase 23% over the next decade from 3.0kg in 2015 to 3.7kg in 2025 *(Source: FAO-OECD).*

- Whilst pork and chicken appeal for their low price, versatility and convenience, lamb is perceived to have strengths in being a superior protein of high nutritional value.

Perceptions of lamb vs average of all other proteins

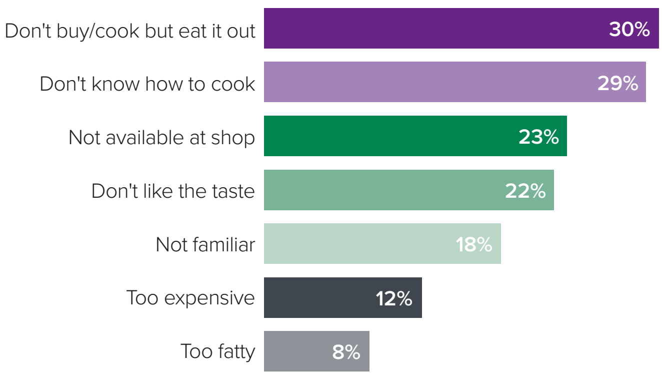
Source: MLA Global Consumer Tracker, 2016

- Sheepmeat and sheep offal has traditionally been used in stew, hot pot and soup recipes and is a popular street food in the form of grilled spiced kebabs.
- The bulk (over 80%) of Australian sheepmeat exports to China are breast and flap, carcase and manufacturing, with rack and loin cuts comprising less than 1%.

Foodservice

- As a less familiar protein, many Chinese consumers are more likely to eat sheepmeat out-of-home than cook it at home themselves.

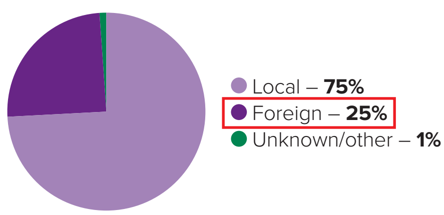
Reasons Chinese consumers don’t buy lamb



Source: MLA Global Consumer Tracker, 2016

- Imported Australian lamb can be found on menus in high-end western style restaurants and 5-star hotels. The bulk of Australian sheepmeat is further processed in-market and goes primarily into the hot pot restaurant sector. Some reputable high-end hot pot restaurant chains offer Australian sheepmeat, where it features for its quality.
- Eating lamb at restaurants is also seen as an opportunity to try different cuisines.

Cuisine of last lamb dinner meal eaten out

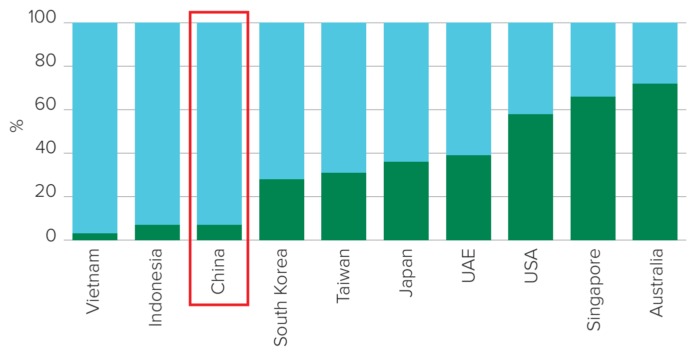


Source: MLA Global Consumer Tracker, 2016

Retail

- MLA estimates that currently a very small proportion of Australian sheepmeat is directly sold through retail channels.
- Whilst Australian lamb does have a presence in some specialist high-end supermarkets that service expatriates and affluent Chinese who have lived overseas, more of it is sold as packaged hot pot rolls, and not necessarily with country-of-origin labelling.
- Despite its size – ranking globally No. 1 in total retail sales (U$1,231.3bn in 2017f) – China's grocery retail sector is very fragmented *(Source: IGD)*.

Market share of total grocery retail – 2017f



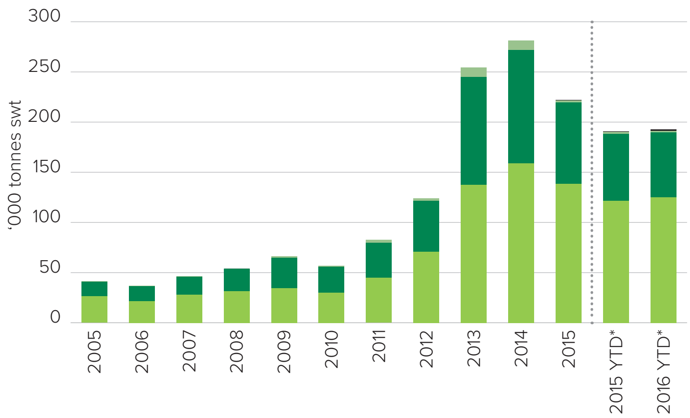
Source: IGD *f = forecast*

- E-commerce is a well-developed channel in China, particularly for apparel, personal care and electricals and through which a variety of frozen and manufacturing sheepmeat products are being sold. Challenges with cold chain management remain significant for fresh food, including higher-end lamb product.

Other suppliers

- China has the world's largest sheep flock, estimated at 315 million head in 2015. Domestic sheepmeat production is expected to grow, though moderate, in coming years *(Source: GIRA)*.
- China is a comparatively small exporter of sheepmeat now, as domestic demand has grown.
- Imports comprised only around 6% of the sheepmeat consumed in China in 2015.
- In 2016, Australia supplied around a third of China's total sheepmeat imports.
- Key competitors:
  – New Zealand has long been China's largest imported sheepmeat supplier, in 2016 supplying 110,443 tonnes swt from Jan-Oct.
  – Uruguay and Chile are smaller suppliers.

China sheepmeat imports



Source: GTA, China Customs
**YTD Jan-Oct*

Trade access

- Market access work is complex, time-consuming and challenging and is a high priority for Australia.
- Australia has made some significant market access gains in the China sheepmeat market since 2012.
- The key issues that remain a priority for Australia to resolve relate to the limited number of plants approved to export to China (particularly for chilled sheepmeat) and restrictions on offal exports.

Live exports

- China has been a significant market for Australian breeder sheep exports. Some 6,456 head were exported in 2016, a significant decline of 61% on 2015 *(Source: DAWR, ABS)*.

Market Access Overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
ChAFTA China-Australia Free Trade Agreement (entered into force 20 December, 2015)	**Under ChAFTA:** **2017:** • Chilled bone-in/ boneless meat: 10% • Chilled carcases/ half-carcases: 10-15.3% • Frozen bone-in/ boneless meat: 8-10% • Frozen lamb carcases/ half carcases: 10% • Frozen mutton carcases/ half carcases: 15.3% • Sheep offal 11.3-14% **2023:** Meat: Zero **2024:** Offal: Zero	**NZ import tariffs:** Zero from Jan 2016 **Uruguay, Chile & Mongolia import tariffs:** • Frozen bone-in/boneless meat: 12-15% • Frozen lamb carcases/ half carcases: 15% • Frozen mutton carcases/ half carcases: 23% • Frozen sheep offal: 18%	N/A	Restrictions on the number of approved plants, chilled plants and restrictions on edible offals.

Best access — Major challenges

Source: Trade agreements, DFAT, MLA
NB: China also applies a 13% VAT on most items (muscle cuts, offal) and 17% on processed

Australian sheepmeat exports to China – summary table

volume – in tonnes swt

		2016	% out of total	2015	% out of total	5 year average (2011-2015)	% out of total	change 2016 vs 5-yr av. %	change 2016 vs 5-yr av. in tonnes swt
	Total	**59,449**	**100**	**60,220**	**100**	**63,746**	**100**	**-7**	**-4,297**
by storage	Chilled	2	0	-	0	24	0	-91	-22
	Frozen	59,447	100	60,220	100	63,722	100	-7	-4,275
by meat type	Lamb	39,096	66	31,326	52	32,092	50	22	7,005
	Mutton	20,353	34	28,894	48	31,654	50	-36	-11,301
by storage/ meat type	Chilled lamb	2	0	-	0	15	0	-86	-13
	Chilled mutton	-	0	-	0	9	0	-100	-9
	Frozen lamb	39,094	66	31,326	52	32,077	50	22	7,017
	Frozen mutton	20,353	34	28,894	48	31,645	50	-36	-11,292

Source: DAWR

value – in A$ 000

		2016	% out of total	2015	% out of total	5 year average (2011-2015)	% out of total	%	in A$ 000
	Total	**232,987***	**100**	**248,943**	**100**	**264,488**	**100**	**-12**	**-31,500**
by meat type	Lamb	148,748*	64	141,242	57	142,787	54	4	5,961
	Mutton	84,239*	36	107,702	43	121,701	46	-31	-37,462

Source: ABS/GTA. 2016 = Moving Annual Total (MAT), November 2015 to October 2016.*

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

	2016	% out of total	2015	% out of total	5 year average (2011-2015)	% out of total	%	in tonnes swt
Breast & Flap	24,635	63	21,744	69	20,082	63	23	4,553
Manufacturing	7,486	19	5,289	17	5,721	18	31	1,765
Neck	3,914	10	3,293	11	2,429	8	61	1,484
other	3,061	8	999	3	3,858	12	-21	-797
Total	**39,096**	**100**	**31,326**	**100**	**32,092**	**100**	**22**	**7,005**

Source: DAWR

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

	2016	% out of total	2015	% out of total	5 year average (2011-2015)	% out of total	%	in tonnes swt
Breast & Flap	15,072	74	16,001	55	12,662	40	19	2,410
Carcase	2,091	10	6,976	24	11,129	35	-81	-9,038
Leg	1,393	7	3,467	12	3,196	10	-56	-1,803
other	1,797	9	2,451	8	4,667	15	-61	-2,870
Total	**20,353**	**100**	**28,894**	**100**	**31,654**	**100**	**-36**	**-11,301**

Source: DAWR