MARKET SNAPSHOT | SHEEPMEAT

European Union

The European Union covers 28 European countries with the population size of some far greater than others. Consumption of red meat is expected to increase on the back of slightly improved economic conditions and lower meat prices. Ireland, Greece, Spain, France, Romania and UK accounted for 72% of sheepmeat consumption in EU in 2016. The UK is the largest destination in the EU with sheepmeat exports accounting for approximately 75% of Australia's total exports.

The challenges and opportunities in the EU for Australian sheepmeat include:

- A growing population and an increase in private consumption are expected to continue. Consumer demand for lamb is expected to remain steady driven by lamb consumption within the Muslim community.
- Tightening supplies are expected to support Australian lamb prices this year with New Zealand sheep meat production also set to slightly decline.
- Social factors such as health concerns for an ageing European population, animal welfare and environmental issues will be challenges for the red meat industry.
- Market access restrictions will continue to hinder exports and therefore improving market access remains a priority.

This report covers EU28 unless otherwise stated. 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, United Kingdom.

Population

505.9 in 2016 | **508.2** in 2020

In millions

Source: BMI Research, 2016 estimate & 2020 projection includes EU-28 countries

Households earning US$15000+ p.a.

196.7 in 2016 | **218.9** in 2020

In million households

Source: BMI Research, 2016 estimate & 2020 projection includes EU-28 countries

Households earning US$35000+ p.a.

104.9 in 2016 | **129.0** in 2020

In million households

Source: BMI Research, 2016 estimate & 2020 projection includes EU-28 countries

Australian sheepmeat exports – volume

Total 16,471 tonnes swt

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

Australian sheepmeat exports – value

Total A$ 119.6 million

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

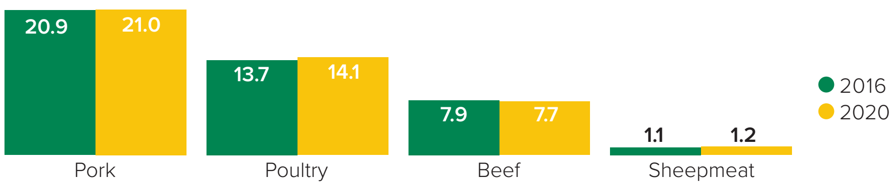
Proportion of key cuts

Source: DAWR, CY 2016

Australian sheepmeat exports by country

Source: DAWR, CY 2016

Meat consumption



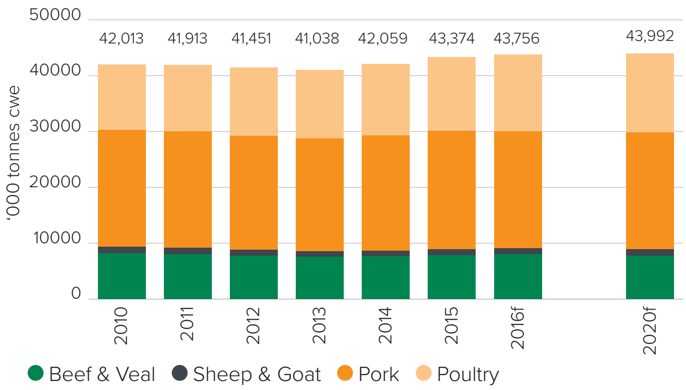
In million tonnes cwt

Source: European Commission, Prospects for EU agriculture markets and income 2016-2026, OECD-FAO

Consumers

- There is growing importance of social concerns and the source of origin of meat products among European consumers. Strong interest in lamb from ethical production systems which is raised with a high degree of animal welfare, sustainable carbon footprint and of reliable eating quality is a high priority amongst EU citizens.
- Sheepmeat consumption in countries such as UK, Ireland and Greece is traditionally linked to production cycle. In other EU countries, purchasing decisions are motivated by consumer demand at culturally significant times and food trends in emerging markets.
- Total EU meat consumption has shown a recovery since 2014 attributed to improved economic conditions and growth in population.

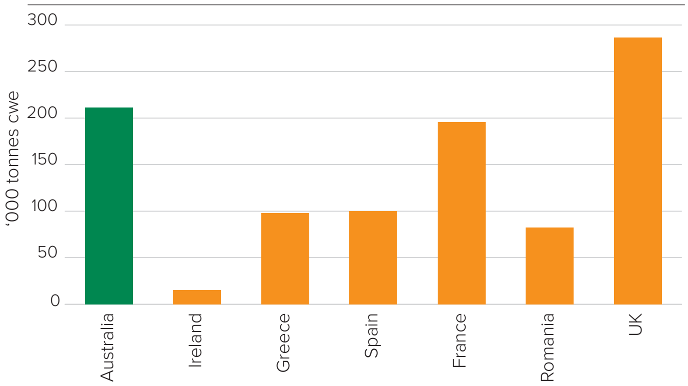
EU meat consumption by meat types



Source: European Commission

- Sheepmeat is the least consumed protein in the EU (in comparison to Beef, Pork & Poultry) with sheepmeat consumption in some countries greater than others. The protein accounts for only 3% of total meat consumption at 2.1kg per capita in 2016.
- EU sheepmeat consumption per capita has declined more rapidly than consumption of other meats, down 26% between 2005 and 2016, compared with -10% for beef, -5% for pigmeat and +16% for poultry due to decreased supply and affordability. Among important consumers of sheepmeat, only Romania registered a rise in consumption per capita. *(Source: GMC 2016)*.
- Ireland, Greece, Spain, France, Romania and UK accounted for 72% of sheepmeat consumption in EU in 2016 *(Source: GMC 2016)*. Overall sheepmeat consumption in EU is forecast to increase slightly over the next few years.

Sheepmeat Consumption 2016



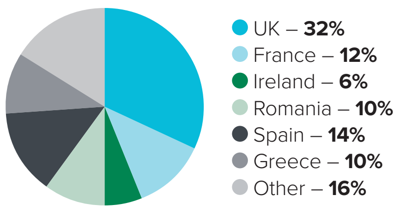
Source: Gira GMC16, FAO-OECD EU countries include goatmeat.

- United Kingdom is the biggest consumer of sheepmeat in the EU, consuming 26% of EU's total sheepmeat in 2016. The majority of Australian lamb exported to the United Kingdom primarily goes into foodservice.

Production

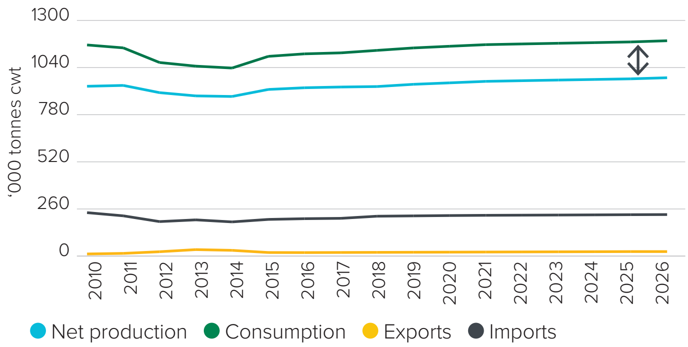
- The EU produced 929,000 tonnes of sheepmeat in 2016 *(Source: European Commission)*. The United Kingdom remains the largest sheepmeat producer in the region, accounting for over 30% of total EU sheep production in 2016.
- EU sheepmeat production registered a slight 1% increase in 2016 compared to 2015 *(Source: European Commission)*. Increased numbers were processed by France, Romania and Spain whereas poor seasonal conditions affected turnoff from the UK, Ireland and Greece. *(Source: GMC 2016)*.
- The EU is not self-sufficient in sheepmeat production as demand outstrips domestic production capabilities. By 2026 the EU will require an additional 229,000 tonnes from overseas markets to meet domestic requirements.
- In the next five years, the EU sheep flock and production rates are expected to rise marginally with a higher concentration in fewer countries. *(Source: GMC 2016)*.

EU Sheepmeat Production by country – 2016



Source: Gira GMC16, Incl. estimated unofficial production

EU Sheepmeat Production and Consumption



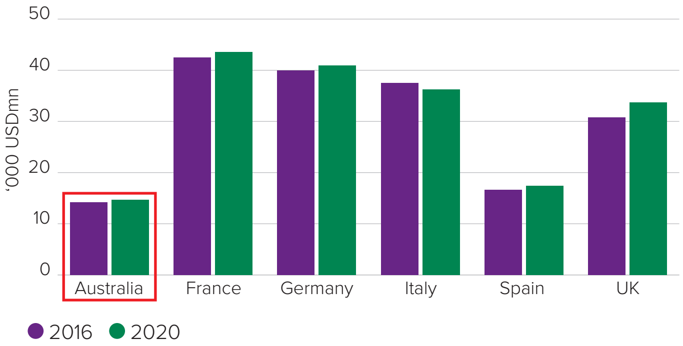
Source: European Commission Prospects for EU agriculture markets and income 2016-2026

Opportunities

- European consumer confidence is improving with private consumption* within the EU forecast to increase from USD8.8 billion in 2016 to USD9.6 billion in 2020, up 9% *(Source: BMI Research)*. Across key member states, economic growth and household spending on meat is expected to increase.

** Private consumption is the sum of all household spending on goods and services within the economy.*

Annual meat sales, USDmn



Source: BMI Research

Macroeconomic variables

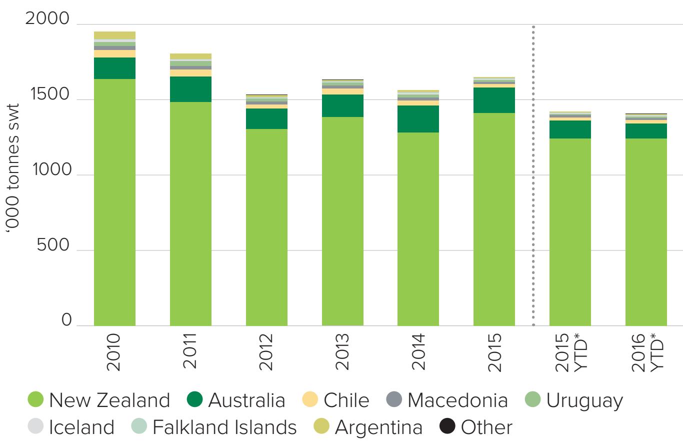
Country	GDP Per capita 2016	GDP Per capita 2020 % growth	Population (millions)	Population 2020 % growth
Germany	42,260	3%	80.7	0%
UK	40,192	12%	65.1	2%
France	37,747	1%	64.7	2%
Italy	30,043	-1%	59.8	0%
Spain	26,021	6%	46.1	0%

Source: BMI Research accessed January 2017, estimates

Other suppliers

- Australia's sheepmeat competitors have a distinct market access advantage in the EU.
- New Zealand has the largest share of EU sheepmeat imports under a 228,254 tonne quota.
- As a consequence of tighter New Zealand meat supplies expected in 2016/2017 and the weak pound against the New Zealand dollar, New Zealand sheepmeat exports are likely to be impacted in 2017.

Imports by major supplier

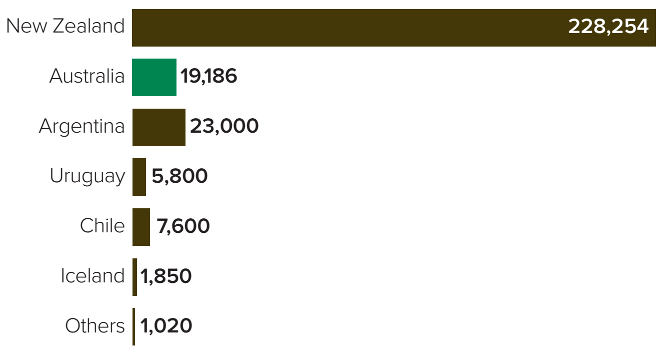


*Source: GTA * YTD Jan-Oct*

Market Access

- Australia's current red meat access is limited by the EU's highly restrictive import regime – involving low volume import quotas and high out of quota import tariffs. The EUs regime is in stark contrast to the majority of other Australian export markets.
- Current trading arrangements between Australia and the EU (including the UK) will remain unchanged for the next two years (until April 2019) while Brexit negotiations are carried out.
- It has been announced that Australia and the EU will begin procedures to secure a closer bilateral trade partnership – the precursor to launching formal free trade agreement (FTA) negotiations between the two parties.

Sheepmeat quota allocation by country



Source: European Commission

Market Access Overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
EU FTA currently being scoped.	In quota: 0%; above quota: 12.8% + 90.2-311.8 euro/ 100 kg	New Zealand has a quota of 228,254, far greater than Australia's quota.	Access remains limited to 19,186 tonne quota (carcase weight equivalent; calendar year).	Technical barriers to trade for the sheepmeat in Europe largely derive from Member States differing interpretation of EU legislation. These are not as prevalent barrier to trade as the economic barriers facing Australian sheepmeat exports to the EU.

Best access — Major challenges

Source: Trade agreements, DFAT, MLA

** European Commission also applies a 13% VAT on most items (muscle cuts, offal) and 17% on processed*

Australian sheepmeat exports to EU – 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	**16,471**	**100**	**16,195**	**100**	**16,800**	**100**	**-2**	**-328**
by storage	Chilled	5,145	31	5,910	36	5,848	35	-12	-704
	Frozen	11,327	69	10,285	64	10,951	65	3	376
by meat type	Lamb	11,512	70	10,656	66	12,301	73	-6	-789
	Mutton	4,959	30	5,539	34	4,499	27	10	460
by storage/ meat type	Chilled lamb	5,145	31	5,910	36	5,848	35	-12	-703
	Chilled mutton	-	0	0	0	1	0	-100	-1
	Frozen lamb	6,368	39	4,746	29	6,453	38	-1	-86
	Frozen mutton	4,959	30	5,539	34	4,498	27	10	461

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	**119,537***	**100**	**140,286**	**100**	**130,874**	**100**	**-9**	**-11,337**
by meat type	Lamb	88,315*	74	98,990	71	99,774	76	-11	-11,459
	Mutton	31,222*	26	41,296	29	31,101	24	0	121

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

Australian lamb exports to EU – 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
Leg	6,689	58	6,170	58	7,069	57	-5	-380
Manufacturing	1,676	15	1,182	11	1,223	10	37	453
Shank	1,673	15	1,829	17	2,372	19	-29	-699
Chump	749	7	882	8	811	7	-8	-62
Boneless Loin	211	2	148	1	242	2	-13	-31
other	513	4	445	4	584	5	-12	-71
Total	**11,512**	**100**	**10,656**	**100**	**12,301**	**100**	**-6**	**-789**

Source: DAWR