



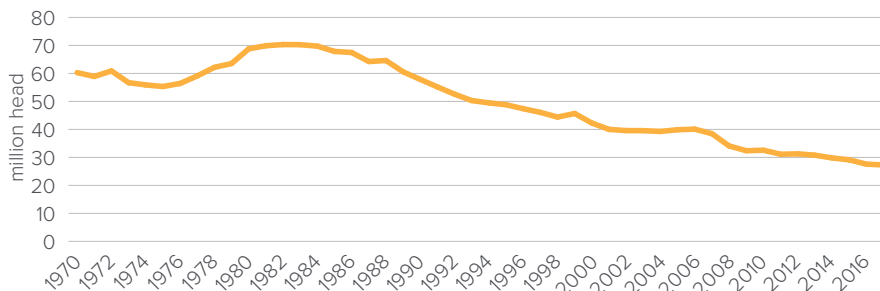
MARKET SUPPLIER SNAPSHOT | SHEEPMEAT

New Zealand

New Zealand (NZ) and Australia are the two leading global sheepmeat exporters, accounting for 71% of global trade, but are relatively minor in terms of global production, at just 8%. When it comes to high quality lamb, NZ is the principal competitor and only exporter who can match Australia on scale and cost.

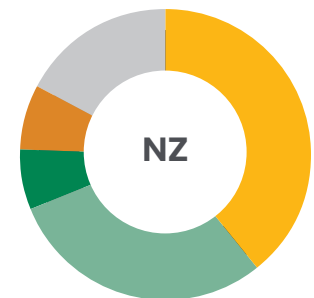
- NZ sheepmeat production declined from 2008 to 2011, due to expansion of the dairy sector, and has since tracked sideways, limited by a reduced sheep flock.
- In contrast, NZ exports grew significantly from 2011 to 2014 – at the expense of the domestic market – but are not expected to grow considerably from current levels.
- This export boom was led by demand growth from China, which overtook the European Union (EU) as NZ's top market. NZ sheepmeat is now heavily reliant on these two markets, with the EU and China accounting for almost 70% of exports in 2017.
- NZ has relatively unrestricted access to key export markets and commenced, concurrently with Australia, official free trade negotiations with the EU in July 2018, where it has an existing significant quota advantage over Australia.
- NZ, like Australia, will not be able to meet growing global demand for sheepmeat on its own and will continue to focus on premium markets. This has been encapsulated in Beef + Lamb NZ's recent launch of the *Taste Pure Nature* brand, which will be rolled out in coming years.

NZ sheep flock

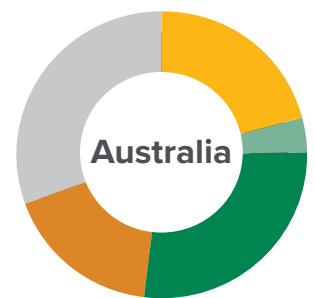


Source: FAO

NZ and Australian sheepmeat export markets



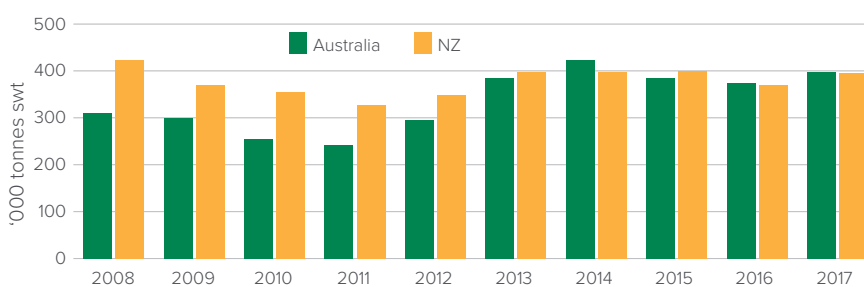
China – 39% EU – 30% MENA – 7%
US – 7% Other – 17%



China – 21% EU – 4% MENA – 27%
US – 17% Other – 31%

Source: Statistics NZ, DAWR, shares reflect export volume (2017)

NZ and Australia sheepmeat exports



Source: Statistics NZ, DAWR



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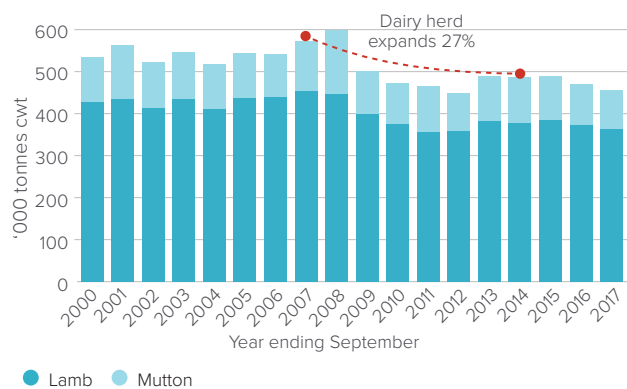


Flock and sheepmeat production



- The NZ flock, like its Australian counterpart, has undergone significant change over the past three decades. At 27.3 million head in 2017, the NZ sheep flock was half what it was in 1990. However, sheepmeat production has been less affected as the industry transitioned from wool to meat and on-farm productivity boosted output per ewe.
- The NZ sheep flock has come under pressure over the past decade, competing for limited acres with a growing dairy industry. Between 2007 and 2014, the dairy herd increased 27% while the sheep flock contracted 23%. In addition, the beef herd increased (2.8%) for the first time in over a decade in 2017, placing further pressure on the sheep flock, which contracted again (0.9%).
- New environmental regulation, designed to limit nitrogen leaching from the dairy sector, may also limit expansion of the beef and sheep industries. Meanwhile, NZ 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-emissions crops on more productive land.
- The sheep flock should find respite from dairy herd expansion, which has eased in recent years. However, on-farm productivity gains – notably improvements in lambing rates and higher carcase weights – will be the primary driver of any production increase.
- In the decade to 2010, annual NZ sheepmeat production hovered between 500,000 and 600,000 tonnes carcase weight (cwt), but since 2010 has failed to surpass 500,000 tonnes cwt. Even with productivity gains, it is unlikely sheepmeat production will be able to exceed 500,000 tonnes cwt per annum over the next five years due to the reduced breeding base. The exception to that would be if the flock goes into liquidation and there is a short-term supply lift.
- Due to the shift from wool to sheepmeat, the quality of output has also increased, with lamb's share of sheepmeat production increasing from 68% in 1990 to 79% in 2017.

NZ sheepmeat production



Source: Statistics NZ

What is a lamb?

- Current definition of Australian lamb:** meat derived from a female, castrated male or entire male ovine animal that shows no evidence of eruption of permanent incisor teeth.
- Proposed new definition for Australia and current one for New Zealand:** young sheep under 12-months of age or which do not have any permanent incisor teeth in wear.

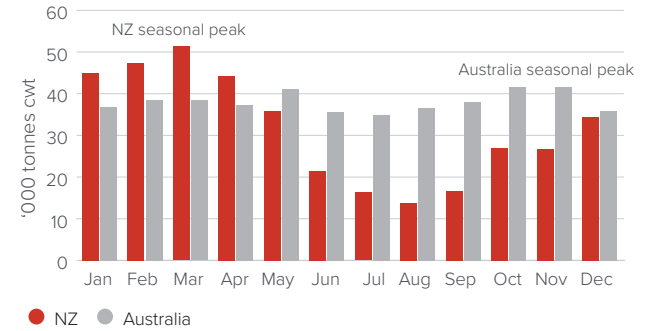
Varying industry definitions should be considered when comparing production and export figures between NZ and Australia or across time periods where definitions change.

On-farm comparison: Australia and NZ



- NZ lamb production is predominantly pasture based and the growing season is pronounced. In contrast, Australia has greater climatic and rainfall variation between regions and the industry is more disposed to supplementary feeding, due to greater grain production, as a means of drought mitigation and filling seasonal feed gaps. As a result, NZ has a distinct supply peak in the first quarter while Australia has a muted peak in late spring.

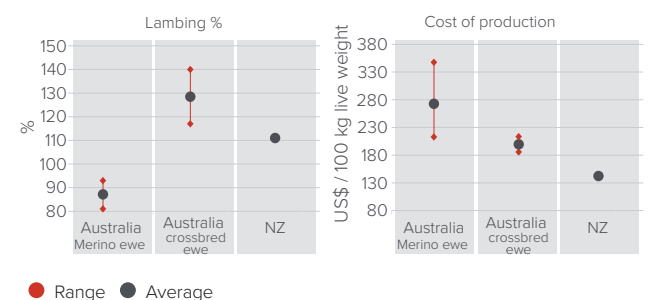
Australian and NZ monthly lamb production



Source: Statistics NZ, ABS, figures are 10-year monthly average

- Reflecting a shift in genetics and enterprise focus, NZ and Australian lamb carcase weights have increased significantly over the past three decades. Australian lambs, on average, have increased from 18kg to 23kg since 1990, while NZ lamb carcase weights have increased from 14kg to 19kg. The more pronounced feed supply window in NZ and limited out-of-season supplementary feeding has meant Australia has maintained a 4kg weight lead since 1990.
- The growth in carcase weights has boosted production even, at times, when slaughter has been in contraction. About one quarter of NZ and Australian lamb production can be attributed to carcase weight growth since 1990.
- There is a lower proportion of Merino genetics in the NZ flock compared to Australia, where producers have maintained a focus on wool production. Data from *agri benchmark* highlights regional and enterprise variation of lambing rates across Australian enterprise types and in contrast to NZ. Typical Australian Merino based flocks lag while crossbred flocks exceed NZ lambing rates.
- Both countries recorded strong improvements in lambing rates between 2000 and 2017. NZ lambing rates increased from 113% to a record 127%, while in Australia the national average increased from 82% to 92%. Higher lambing rates have mitigated the impact of a reduced sheep flock on the lamb crop.
- According to *agri benchmark* data, NZ typically has a cost of production advantage over Australia, underpinned by lower labour, feed, replacement animal and machinery costs. However, meat-focused Australian enterprises have a per kilo cost of production for sheepmeat that is in line with NZ.

Lambing and cost comparison



Source: *agri benchmark* data from typical farms in 2016

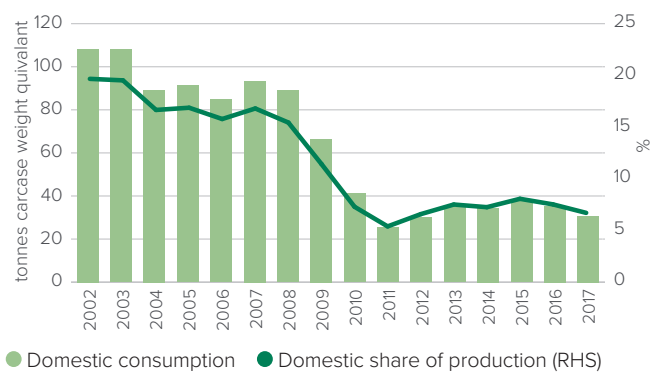


Export versus domestic



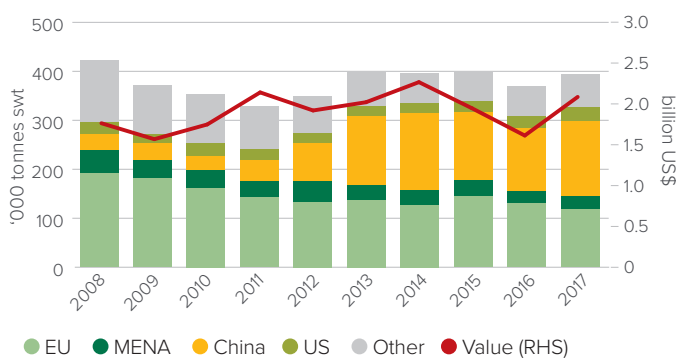
- While NZ is a leader in global lamb production, productivity gains have not been suffice to arrest the decline in the flock, and sheepmeat production has fallen over the past two decades. Increasing global demand for premium sheepmeat has meant NZ export volumes have been maintained, but at the expense of the domestic market.
- In 2000, annual per capita NZ sheepmeat consumption was 25.5kg, but this fell to 18.6kg in 2007 and 4.5kg in 2017 (OECD-FAO 2018 Outlook). In line with most developed consumer markets, red meat consumption has declined as diets have diversified across meat proteins. However, consumption has also declined in NZ because of strong demand from export markets, notably China. Nevertheless, per capita consumption remains almost three times the global average.
- The domestic consumption share of production has declined from 21% in 2000 to 5% in 2017. With production capacity limited and minimal domestic consumption to draw additional supply from, NZ sheepmeat export volumes are expected to remain steady at best.
- In contrast, Australian lamb production has continued to expand over the past decade and it still has a considerable domestic market, which has been resilient over the past five years.

NZ domestic sheepmeat consumption



Source: OECD-FAO Agricultural Outlook 2018, figures are three year rolling average

NZ sheepmeat exports



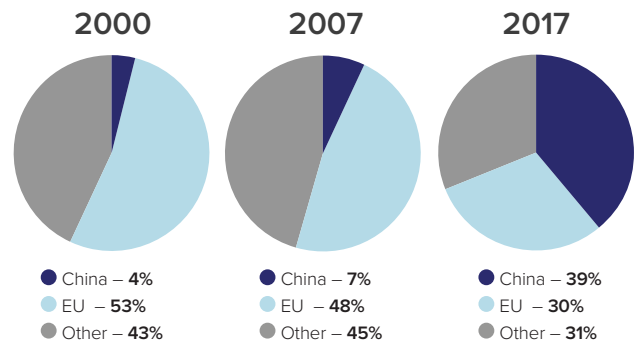
Source: Statistics NZ

Exports



- Australia and NZ sheepmeat exports accounted for 71% of global trade in 2017. Most remaining sheepmeat trade occurs between European nations. Particularly with respect to the prime lamb trade, no other supplier has stepped up or has the capacity to be a major competitor in the global market.
- In recent years, an easing NZ dollar (NZD) has supported sheepmeat exports and underpinned a shift away from domestic markets. Between 2010 and 2015 the NZD averaged 80US¢, but it has since (2015-2017) averaged 70US¢.
- The EU remains the largest recipient of NZ lamb exports, accounting for 35% of shipments in 2017. However, the export share of NZ sheepmeat has transitioned over the past two decades with the emergence of China and declining sheepmeat consumption in the UK.
- NZ has far greater market access to the EU, but also produces a lighter lamb carcass and can deliver smaller cuts, more in-line with consumer preferences and local product, compared to Australia. In the US, by contrast, carcass weights favour Australia's leading position, as consumers prefer larger-eyed loin cuts.
- NZ and Australia have emerged as the dominant suppliers of sheepmeat to China, with consumption growth underpinned by rising disposable incomes in China and an inability for domestic production to keep up with demand.
- With imported sheepmeat largely destined for hotpot and soup consumption, exports to China are mostly frozen non-prime cuts and skewed towards mutton. As China emerged, NZ export markets that previously took low value cuts diminished, notably Papua New Guinea, South Africa, Mexico and, to a lesser extent, some MENA markets. However, China has outgrown this pool of secondary cuts, also pulling premium cuts previously destined for the EU, notably leg.

NZ sheepmeat export transition to China



Source: Statistics NZ

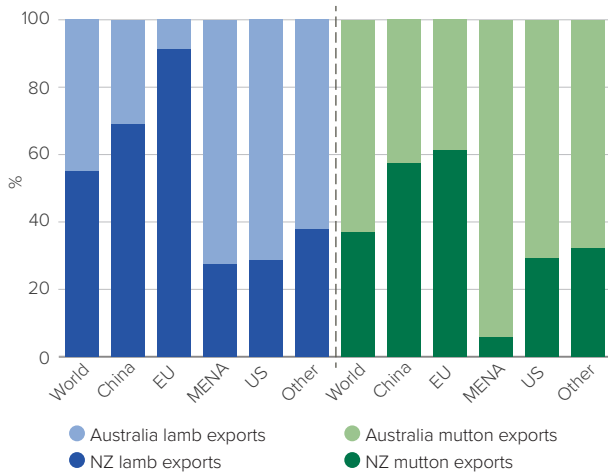
- Supported by growing import demand and favourable trading conditions, NZ exports to China in 2017 totalled 107,000 tonnes shipped weight (swt), while mutton exports reached 47,000 tonnes swt.
- NZ has a smaller market share in MENA compared to Australia, which benefits from a greater portion of product, as well-suited mutton, shorter sea freight routes (particularly from WA), and a greater number of direct passenger air routes underpin the chilled lamb carcass trade.
- Beef + Lamb NZ has forecast mutton exports to drop 7.3% in 2018^{*1}, following a decrease in production due to fewer ewe numbers, while lamb exports are expected to increase modestly (by 0.7%), with the record national average lambing percentage offsetting fewer breeding ewes.

^{*1}Beef and Lamb NZ forecast on the NZ production year (ending 30 September)



- Sheepmeat export value, however, is forecast to rise, supported by improved in-market prices, tighter international supply and strong global demand. In light of supply limitations, growing the value of sheepmeat exports will increasingly become a focus for the NZ sheep industry as a means of differentiating itself as a premium supplier.

NZ and Australia two-party sheepmeat share – 2017



Source: Statistics NZ, DAWR

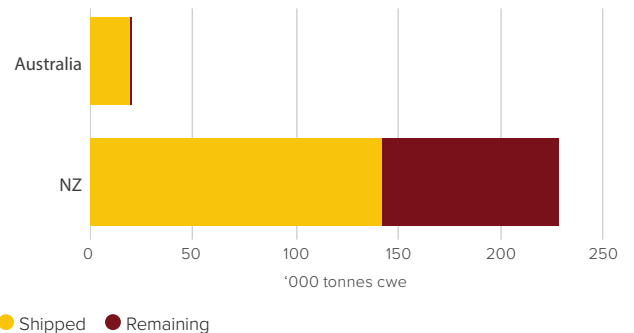
Market access



- Overall, NZ faces few economic (prohibitive tariffs and restrictive quotas) or technical (food safety and animal health related) barriers to exporting sheepmeat to major markets around the world, thanks largely to success in free trade negotiations and being free from any major animal disease.
- NZ holds a sizeable quota imbalance over Australia in exporting to the EU. NZ can export 228,254 tonnes of sheepmeat annually tariff-free. In contrast, the Australian quota for sheepmeat stands at 19,186 tonnes*².
- NZ, like Australia, is also looking to expand benefits, and in its case defend existing access, from Free Trade Agreement (FTA) negotiations with the EU, which officially launched in July 2018. A bilateral FTA with the UK will also be a priority post-Brexit, given the UK is the largest single European market for NZ sheepmeat.
- The NZ-China FTA entered into force in October 2008. NZ was the first developed country to sign a FTA with China and all sheepmeat products exported to China are now tariff free, giving it a modest, but declining, tariff advantage over Australia until 2023, when Australia's tariffs will have reduced to zero under ChATFA.
- NZ does not have a FTA with the US, but faces very limited barriers for sheepmeat access (tariff of 0.7US¢ per kg for lamb and 2.8US¢ per kg for mutton). NZ faces similar limited economic barriers to Australia across MENA but, equally, has to manage a wide array of technical access issues.

*² EU sheepmeat quotas are managed on a carcase weight equivalent basis.

EU sheepmeat import quota allocation and utilisation



Source: European Commission, 2017 figures

Branding and positioning



- Beef + Lamb NZ recently launched *Taste Pure Nature*, a new marketing campaign leveraging the image of idyllic pastures in NZ. The strategic focus of the brand is to drive the consumption of premium NZ red meat in international markets.
- In-market activation of the brand is expected to be available to NZ exporters by the end of 2018 and it will initially target major Chinese and US cities. A proposed levy increase in NZ is currently under consultation and, subject to approval, the increase will help accelerate the *Taste Pure Nature* brand.
- *Taste Pure Nature* aims to deliver a positive message to increasingly health-conscious consumers as to the origin of food production, leveraging the perceptions of the NZ landscape. Provenance continues to be an increasingly important purchasing driver for imported red meat in Asian markets
- Based on MLA's 2018 Global Consumer Tracker, Country of Origin continues to be a key purchase driver for consumers, particularly in Asian Markets. Beef + Lamb NZ's *Taste Pure Nature* brand will aim to promote New Zealand's provenance story in a similar fashion to Australia's country of origin brand; True Aussie.

True Aussie and Taste Pure Nature



Source: MLA, Beef + Lamb New Zealand



Projections and implications



- NZ, Australia's principal competitor in global sheepmeat markets, is not expected to increase production or its exportable surplus significantly, if at all. With the domestic market diminished, any lift in NZ exports will be underpinned by on-farm productivity gains, specifically through improved lambing rates and increased carcase weights.
- Australia has a more positive supply outlook but, neither country, despite being the most efficient and cost-effective producers in the world, will be able to meet growing global demand for sheepmeat.
- As such, the NZ industry has shifted emphasis to growing export value and providing consumers with a reason to pay, what have been, record lamb prices in recent years. This has led to NZ's development of the *Taste Pure Nature* brand, which will see NZ increasingly go head-to-head with Australia's own *True Aussie* branding in premium segments of export markets.
- NZ supply has been stretched in recent years with the emergence of China, and the position of the EU and the domestic markets have receded. With limited access to the EU, Australia would be in a position to fill part of the void left by NZ if the quota were to expand as a result of an EU FTA or, post-Brexit, UK FTA.
- The shifting reliance on China could leave NZ exposed to economic shocks or swings in China's domestic sheep flock. Given the price-sensitive nature of the Chinese market, a slowdown in economic growth could see demand subside. Conversely, a recovery in the Chinese sheep flock could also generate a similar outcome. Any such shocks would result in increased pressure on markets where Australia has greater market share, namely the US and Middle East, or result in a resurgence in NZ lamb entering the EU.



2017 exports by volume to major markets

Partner market	NZ			Australia		
	Lamb	Mutton	Total	Lamb	Mutton	Total
World	307,902	86,592	394,494	250,798	146,873	397,670
China	107,318	47,311	154,629	48,209	34,985	83,195
EU	109,170	8,205	117,375	10,281	5,174	15,454
MENA	24,418	2,704	27,122	64,050	44,935	108,985
US	22,275	5,514	27,789	55,158	13,411	68,569
Korea	908	14	992	12,777	1,458	14,235
PNG	829	45	874	10,470	1,887	12,356
Malaysia	5,121	8,344	13,465	8,246	14,102	22,348
Japan	7,586	1,014	8,600	8,345	4,475	12,820
Other	30,277	13,441	43,718	33,262	26,446	59,708

Source: Statistics NZ, DAWR. Unit – tonnes swt

2017 production comparison*



	NZ		Australia	
	Lamb	Mutton	Lamb	Mutton
Flock size ('000 head)	27,300		72,123	
National lambing %	127		92	
Production ('000 tonnes carcase weight)	362	94	509	188
Slaughterings ('000 head)	19,451	3,692	22,431	7,536
Average Carcase Weight (kg)	18.61	25.6	22.7	25

Source: Statistics NZ, ABARES. *NZ Slaughtering, Production & Average Carcase weights are based on annual figures for year-ending September. Lambing rates calculated from lambs marked over ewes mated.

