



market snapshot

population



1.39 billion
in 2015

beef imports

+1600%
from
2010-2015

consumption (beef)



4.9 kg
per capita
in 2015

export value

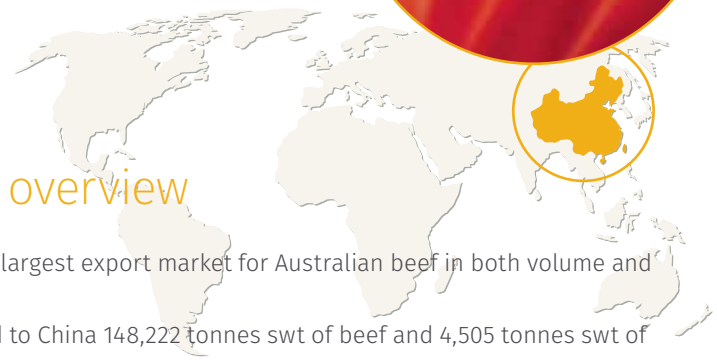
A\$1 billion*
in 2015
(+55% YOY)

*estimate

CHINA

BEEF

Australian trade overview



- ➔ In 2015, China was the 4th largest export market for Australian beef in both volume and value terms.
- ➔ In 2015, Australia exported to China 148,222 tonnes swt of beef and 4,505 tonnes swt of bovine offal.
- ➔ Of China's total official beef imports for 2015 (Jan-Nov), Australia contributed the largest share at 34%. Australia is also China's 2nd largest supplier of frozen bovine offal.
- ➔ Australian beef export volume to China increased 19% year-on-year in 2015 due to strong demand.
- ➔ China will continue to be a strategically important market for Australia's beef and cattle industry in years to come.
- ➔ In 2015, Australia was the only country with access to export chilled beef to China, which resumed for a number of establishments in mid-2014 after a nine-month suspension. Chilled shipments are recovering, totalling 6,998 tonnes swt in 2015 – whilst only half the volume sent in 2013, still well above 2012 levels.
- ➔ At the same time, Australia is facing more competition in the China market from Brazil, which regained access to China in mid-2015, Uruguay, New Zealand and Argentina.

Key insights

- ➔ The Chinese demand for food, and meat in particular, continues to rise both in quantity and quality, and with local beef supply constrained by land, feed, water, environmental and supply chain issues, China will continue to need to import a significant proportion of the beef it consumes.
- ➔ This growing demand for safe, quality food is driven by the growing numbers and wealth of middle class consumers, who place greater trust in imported food product.
- ➔ The foodservice sector continues to be the dominant user of Australian beef, as Chinese middle class consumers – less used to cooking beef compared to pork and with busy lifestyles – like to choose beef over other proteins when they eat out.
- ➔ Chinese consumers perceive Australian beef's competitive advantages to be particularly strong in the areas of quality, variety, taste, industry and product integrity, consistency and safety.
- ➔ In 2015, Australia was the only country with access to export chilled beef with access resuming in mid-2014.



Market trends

- China needs to feed 22% of the world's population with only 7% of its farmland and 6% of its water resources.
- China's long-term priority is to remain self-sufficient in its main food crops and the focus on food consumption is on "guaranteed security", which will be achieved by a mix of domestic agricultural modernisation and imports from "secure supply chains". Overall meat consumption in China has quadrupled over the past 30 years, driven by rising incomes, population growth and urbanisation.
- Pork is by far the most popular meat type in China followed by poultry, beef and mutton.
- Pork and poultry industries are the most industrialised and fastest growing of all China's animal protein sectors. Nonetheless, these industries face mounting challenges with animal disease outbreaks/animal health regulations and stricter environmental controls in recent years.
- Although a higher-priced protein, seafood offers advantages in taste and health, being comparatively low in fat and freshness.
- The medium- to long-term demand for beef in China is predicted to be strong. China's official beef imports have grown almost 20-fold in the past five years, from 23,702 tonnes in 2010 to an expected estimated 460,000 tonnes in 2015. The strength of imports reflects the growing imbalance between expanding consumption and production that cannot fully meet demand.
- China's total beef consumption is expected to reach around 7.25 million tonnes in 2015 and increase to around 8 million tonnes in 2020 (BMI).

- Although the number and proportion of middle class are currently highest in the four tier 1 cities of Beijing, Shanghai, Shenzhen and Guangzhou, the fastest growth is seen in a larger number of in-land, lower tier cities. The share of middle class is projected to shrink in tier 1 cities and to double in tier 3 from 2002 to 2022.
- Demand and prices for beef in China remained high in 2015, after reaching historical highs in early 2014. The average beef price quadrupled between 2000 and 2014. The wholesale beef price ended 2015 at 53.96 yuan per kilogram (Ministry of Agriculture, PRC, week 52).
- Estimates of average beef consumption per capita in 2015 ranges between 3.6kg (FAO-OECD) and 5.2kg (MLA, China Meat Association estimates), with overall higher utilisation rates seen in the northern regions.

Consumers

- By 2025, China's consumption of beef alone – which isn't as common as pork and chicken in Chinese cuisine – is expected to grow by around 10% per year. Chinese consumer demand for beef continues to grow faster than domestic supply alone can meet.
- It is the urban affluent sub-group of the middle class, those with annual disposable household incomes of at least 229,000 yuan (approximately A\$50,000), who can afford to buy imported Australian beef. And for many of these, it is consumed on special occasions rather than for everyday meals.
- Beef has traditionally been a comparatively small component of Chinese diets due to the lower cost and versatility of pork and chicken but this is changing as more consumers come to afford beef, and as consumers become more aware of the nutritional benefits of red meat and seek greater variety.



China's GDP

per capita is expected
to more than

double

over the next decade
from 2010 to 2020

Consumers continued..

- ➔ China's affluent urban middle class consumers have a strong demand for, and ability and willingness to pay more for safe and quality food, and meat in particular. This follows many years of food-related scandals, a number that have involved meat.
- ➔ Growing awareness of the extent of China's environmental problems has strengthened consumer demand for safe, clean food from overseas.
- ➔ In this context, the organic food segment has grown significantly in China, with many consumers equating organic with safety and quality. The organic food market has trebled in volume since 2007 and, although it still accounts for a small proportion of total food consumption, it is a high value segment, with consumers

typically being the urban middle and upper class with children. In a consumer study carried out on 204 Chinese organic consumers in Beijing and Shanghai, 71% were ready to pay a premium of 20-50% for organic products.

- ➔ According to MLA's Global Consumer Survey 2015, the Chinese middle class consider beef to be a superior form of protein due to its high nutritional profile and high price.
- ➔ The Chinese urban upper middle class consumers who can afford to buy imported meat frequently, highly value and desire Australian red meat, which they perceive offers significant advantages and superiority over local product on important dimensions such as guaranteed safe to eat, consistency of quality standards and good taste.

➔ As Australia's access to China for chilled beef continues to recover after a 9 month suspension ended in July 2014, Chinese consumer perceptions of the freshness of Australian beef continue to improve.

- ➔ China has diversified the types of beef cuts it imports from Australia over the last few years, in large part due to more plants being able to supply a wider range of cuts. The top cuts for frozen beef remain brisket, carcass and shin/shank and for chilled are brisket, blade and thick flank/knuckle.
- ➔ Australia also exports a comparatively small amount of frozen beef offal to China (mostly heart, tendon and kidney), although Australia is China's 2nd largest supplier of frozen bovine offal behind Uruguay.

Associations with beef by country of origin (2015)

Australian beef is strongly associated with important dimensions such as safety, quality and taste, which are also very important in this market.

Local Chinese beef is associated with freshness, low price and versatility.

- 🌟 = Top 3 most important attributes
- 🟡 = Highest endorsement
- 🟢 = Lowest endorsement

| | Local Chinese | Australian | New Zealand | Canadian | Japanese | Argentinian |
|--|---------------|------------|-------------|----------|----------|-------------|
| | % | % | % | % | % | % |
| 🌟 Tastes delicious | 35 | 49 | 43 | 27 | 38 | 26 |
| Consistent quality standards | 29 | 48 | 42 | 30 | 35 | 28 |
| I am willing to pay a bit more for this beef | 23 | 47 | 40 | 24 | 29 | 23 |
| Can be used in many different meals | 48 | 46 | 39 | 36 | 34 | 33 |
| 🌟 Guaranteed safe to eat | 29 | 46 | 42 | 29 | 33 | 23 |
| Is the most superior beef | 20 | 46 | 41 | 19 | 36 | 21 |
| Is becoming more popular | 27 | 45 | 40 | 27 | 29 | 24 |
| Is my favourite beef | 35 | 43 | 33 | 19 | 29 | 21 |
| Low in fat | 31 | 40 | 34 | 26 | 32 | 25 |
| 🌟 Freshness | 50 | 36 | 36 | 24 | 26 | 24 |
| The industry is environmentally sustainable | 26 | 34 | 35 | 25 | 23 | 20 |
| The animal is well-cared for | 20 | 34 | 30 | 23 | 23 | 20 |
| Cheaper | 63 | 14 | 12 | 13 | 13 | 15 |

Question: "Here are some things which people have said about beef. We would like to know which of the following statements apply to beef from different countries of origin. You may mention as many or as few countries of origin as you wish."

Sample size: 512

Source: MillwardBrown/MLA



China's beef industry

- ➔ China's cattle herd is the world's 3rd largest, after India and Brazil. The cattle herd declined steadily for five years through to 2012 as small farmers left the market, and began to slowly expand again in mid-2012, mostly from the dairy industry. Latest industry projections expect China's beef production growth from 2014-2019 to be subdued.
- ➔ China's beef production is not expected to keep up with local demand. The industry remains in its primary development stage, lagging significantly behind other major producers in many areas such as classification systems, quality standards, testing and monitoring systems.
- ➔ Consolidated dairy farms in China have begun to establish beef feedlots for Holstein bull calves which would normally be slaughtered at birth. This development could provide one platform for the finishing of imported Australian live cattle.
- ➔ Structural changes in the China cattle industry have not been coordinated, leading to both opportunities (for co-investment) and challenges. There are limits to the extent China can economically produce more red meat without compromising the environment and food safety, raising questions about how competitive the Chinese domestic system can become relative to other world suppliers.

Top cuts to China – Frozen

AUSTRALIAN BEEF EXPORTS TO CHINA 2015

| tonnes swt | | TOTAL FROZEN | GRASS FED | GRAIN FED |
|------------|---------------------|--------------|-----------|-----------|
| | CHINA TOTAL | 141,225 | 120,387 | 20,838 |
| 1 | Brisket | 31,587 | 25,956 | 5,631 |
| 2 | Shin/shank | 14,544 | 12,903 | 1,641 |
| 3 | Carcase | 14,429 | 14,367 | 61 |
| 4 | Silverside/outside | 13,436 | 11,904 | 1,532 |
| 5 | Manufacturing | 12,654 | 9,047 | 3,608 |
| 6 | Blade | 9,862 | 8,127 | 1,735 |
| 7 | Thick flank/knuckle | 7,092 | 6,522 | 570 |
| 8 | Striploin | 6,138 | 5,221 | 917 |
| 9 | Ribs | 5,001 | 3,981 | 1,020 |
| 10 | Chuck roll | 4,271 | 2,891 | 1,380 |
| | Other | 22,211 | 19,469 | 2,742 |

Source: DA

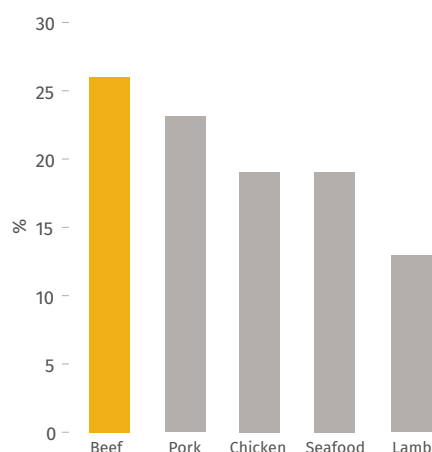
Top cuts to China – Chilled

AUSTRALIAN BEEF EXPORTS TO CHINA 2015

| tonnes swt | | TOTAL FROZEN | GRASS FED | GRAIN FED |
|------------|------------------------|--------------|-----------|-----------|
| | CHINA TOTAL | 6,998 | 6,205 | 792 |
| 1 | Blade | 855 | 757 | 98 |
| 2 | Shin/shank | 840 | 637 | 203 |
| 3 | Silverside/outside | 830 | 812 | 17 |
| 4 | Thick flank/knuckle | 813 | 791 | 21 |
| 5 | Brisket | 671 | 618 | 53 |
| 6 | Topside/inside | 454 | 447 | 7 |
| 7 | Striploin | 389 | 265 | 124 |
| 8 | Thin flank | 365 | 342 | 23 |
| 9 | Chuck roll | 228 | 210 | 19 |
| 10 | Cube roll/rib eye roll | 275 | 165 | 110 |
| | Other | 1,129 | 925 | 204 |

Source: DA

Choice of protein for meals eaten out by Chinese urban middle class



Source: MLA Global Consumer Survey 2015

Foodservice sector

➔ China foodservice is the major user of Australian beef. Whilst foodservice growth has been slowing in recent years, particularly in the fine-dining segment in part due to the impact of the government's anti-corruption campaign, it is still one of the fastest growing sectors in the context of global foodservice.

➔ Consumer preferences are changing as China evolves from being an emerging market with limited options into a more mature, higher-income market with sophisticated dining consumers. There is increasing competition from local brands that better understand their target consumer and the environment.

➔ According to MLA's Global Consumer Survey's China report, around 80% of tier 1 city middle class consumers eat out for lunch at least once a week (41% do so over 4 times per week) and almost two-thirds eat out for dinner once or twice per week.

➔ When they do eat meals out, for around a quarter (26%) of these meals they choose beef, the highest proportion of all the proteins.

➔ Although the meals eaten out that include beef are mostly Chinese local beef (51%), the next popular choice is Australian beef (18%).

➔ An interesting development is the recent entry of luxury brands Gucci and Louis Vuitton into the China foodservice sector, focusing on offering consumers multi-sensory brand experiences.

Retail landscape

➔ China's retail sector is highly fragmented, with the Top 10 retailers accounting for less than 5% of the market.

➔ In Tier 1 cities, modern retail segment has replaced many wet markets, though most beef continues to sell through wet markets in other areas. Rapid urbanisation in China will remain a major driving force behind the continued spread of modern retail in the country.

➔ In China, most (around 70%) of beef is sold fresh, while the frozen (around 25%) and chilled (around 5%) markets are smaller but growing, with chilled the fastest growing category.

➔ Modern grocery retail sales accounted for about 40% of overall grocery retail sales in 2015 and whilst retail sales are growing, the growth rate has been falling since 2009.

➔ The rise in popularity of the convenience format and development of online grocery shopping is significantly changing the dynamics of the grocery market in China.

➔ E-commerce (especially in grocery and food) continues to grow rapidly, accounting for around 16% of total retail sales in 2015 and is projected to continue to grow to around 30% in 2018. Since 2011, online retail sales have almost doubled each year. In 2015, around 40% of total online sales were imported goods.

➔ Around 46% of the total population are internet-connected, and around half of these bought groceries online in 2015.

➔ Investments by both government and the private sector in cold chain logistics will continue to improve delivery of meat to online customers and grow the importance of this channel.



China's e-commerce

sales, the world's highest, are expected to reach almost

A\$1.3trn

in 2016 accounting for

19%

of national retail sales

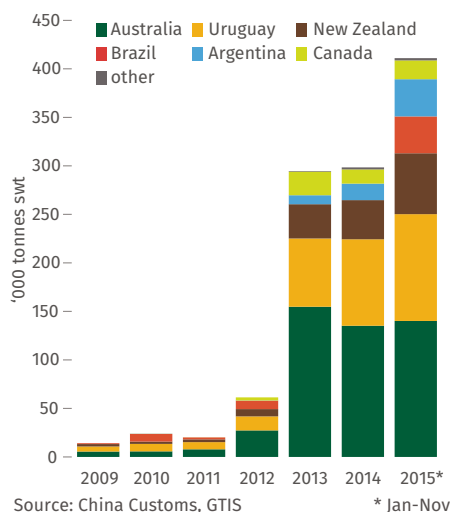




Australia's competitors

- ➔ In terms of competitor proteins, pork is the most popular protein form in China, with advantages in price and versatility. Seafood is a rival to beef due to its perceived high nutritional value, taste, freshness and being low in fat.
- ➔ Currently, it is estimated that around 75% of beef in China is from local supplies, and the herd continues to grow.
- ➔ In 2015 (Jan-Nov), China officially imported 410,559 tonnes swt of beef, mostly from Australia, Uruguay, NZ, Argentina and Canada.
- ➔ Imports of beef from other sources in 2015 were estimated at an additional 808,000 tonnes swt, making overall beef imports into China around 1.3 million tonnes swt (GIRA estimates) – the world's largest importer.
- ➔ Since early 2015, Chinese authorities have conducted several sustained crackdowns on the unofficial channels for meat imports, which has seen the total volume of official beef imports increase significantly (around 50% y-o-y) during 2015 (China Customs).
- ➔ Of China's total official imported beef in 2015 (Jan-Nov), Australia accounted for 34%, down from 45% in 2014 and 52% in 2013, due to increasing competition from lower cost suppliers such as Uruguay, Argentina and now Brazil.

Official China total beef imports by countries



- ➔ China began importing frozen beef from Brazil in August 2015, the first time since trade was suspended in late 2012.
- ➔ New Zealand has the advantage of a low preferential tariff on imports into China, and will be exporting at zero tariffs from January 2016.
- ➔ Uruguay's market share in China has grown over the past three years, and is expected to maintain a competitive position over the medium-term.
- ➔ With a number of competitors who can provide quality, natural and safe beef to China, Australia is working to further differentiate its product based on other dimensions of competitive advantage and focusing on expanding the high value segments of the market.

Market access

- ➔ General requirements to export beef to China: all beef must be HGP-free and may only be exported by China-approved establishments.
- ➔ ChAFTA came into force on December 20, 2015. Under the agreement, the tariffs currently levied on beef (12%) will be eliminated over nine years and tariffs on beef offal (12%) will be eliminated over 4-7 years. Whilst there are safeguards on beef, the trigger starts (year 1) at 170,000 tonnes swt, 10% above Australia's historic peak beef export levels to China and increase from the fifth year.
- ➔ In July 2014, Australia became the only country granted access to China for chilled beef, with an initial 10 plants approved to export.
- ➔ Access to China for integrated and non-integrated meat export establishments remain in place, although the Australian industry is committed to work with the Chinese government and industry to improve efficiency in the supply chain through more inspections for accreditation.
- ➔ Edible offal sourced from the head, feet and alimentary tract (such as tripe, intestines and respiratory tract) and processed meat products are not yet eligible for export to China.

China's economy

- China's economy is transitioning from a focus on export manufacturing to a more sustainable emphasis on domestic consumption and services, and has entered a period of economic easing, with the GDP growth rate forecast to gradually fall to around 5% in the 2017-2020 period.
- China's population is currently 1.39bn. With the proportion of people aged 50+ years forecast to rise from 28% of the total currently to 35% in 2025, China has relaxed its One Child Policy to allow couples to have two children in order to help achieve a more sustainable demographic balance.
- Despite slowing population growth, the growing size of the middle class (66% of the world's middle class is expected to live in China by 2030) and urbanisation (urban dwellers are predicted to number 1 billion by 2030) are now and will remain key drivers of strong and growing demand for imported red meat into the medium- and long-term.
- According to China's Thirteenth Five-Year Plan (2016-2020) on National Economic and Social Development, adopted in November 2015, China aims to double its GDP per capita from 2016 to 2020. Economists estimate that China's GDP per capita will rise from A\$12,700 in 2016 to A\$17,344 in 2020 (IMF, WEO 2015).

Chinese Government policy

A number of Chinese government policies have implications for Australian beef exports to China, some impacting on market access, consumer demand or market competition due to domestic industry reform and investment:

- **China's new Food Safety Law:**
 - ⇒ Came into effect on 1 October 2015, along with revisions to the Consumer Protection Law and Advertising Law, underscoring their increasing commitment to improved food safety.
 - ⇒ Expected to force Chinese meat producers to improve (labelling, traceability, safety and quality) and improve consumer confidence in local product, increasing competition for countries exporting meat to China in the long-term.
- **The Shanghai Free Trade Zone:**
 - ⇒ A pilot now a year old, has been expanded to seven new cities (Hangzhou, Tianjin, Ningbo, Zhengzhou, Chongqing, Guangzhou & Shenzhen). Meat is a target industry, with the creation of two inland meat import ports in Henan province, offering reduced tax rates and streamlined customs and quarantine procedures.
 - ⇒ These facilities are intended to encourage cross-border e-commerce into China's inland cities, giving consumers there improved access to imported meat and other perishable products.
- **China's "One Belt One Road" New Silk Road foreign policy and trade initiative:**
 - ⇒ Intended to build stronger transport and trade links between Asia and Europe, significantly reducing goods delivery times between China and Western Europe, possibly opening up a free trade corridor and, potentially, better access to China for European exporters.

