



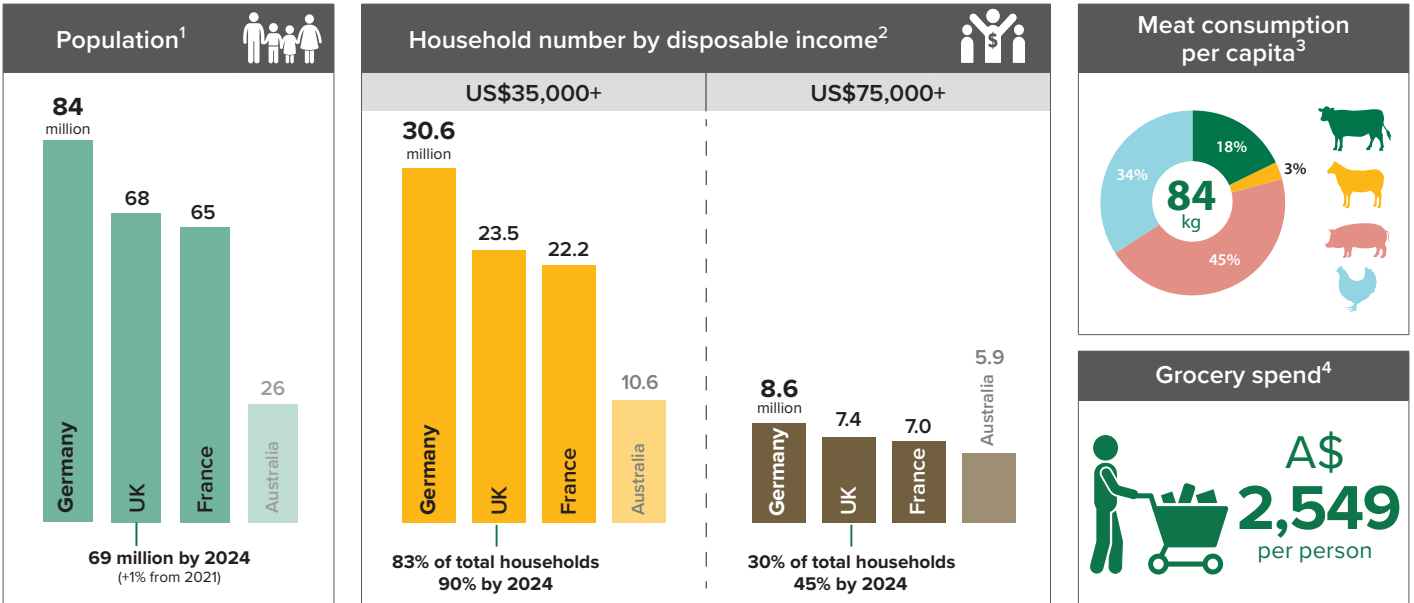
MARKET SNAPSHOT | BEEF & SHEEPMEAT



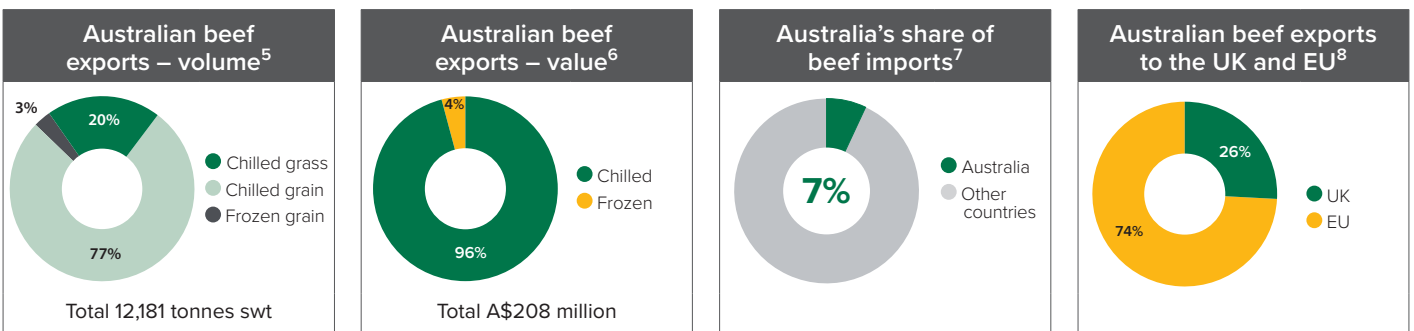
European Union

As a region of 28 countries, the European Union (EU) contains the largest pool of households earning over US\$35,000/year in the world, yet its stance towards agricultural imports has restricted Australia's ability to grow trade with the region. While existing EU quotas will be split between the EU and UK as a consequence of

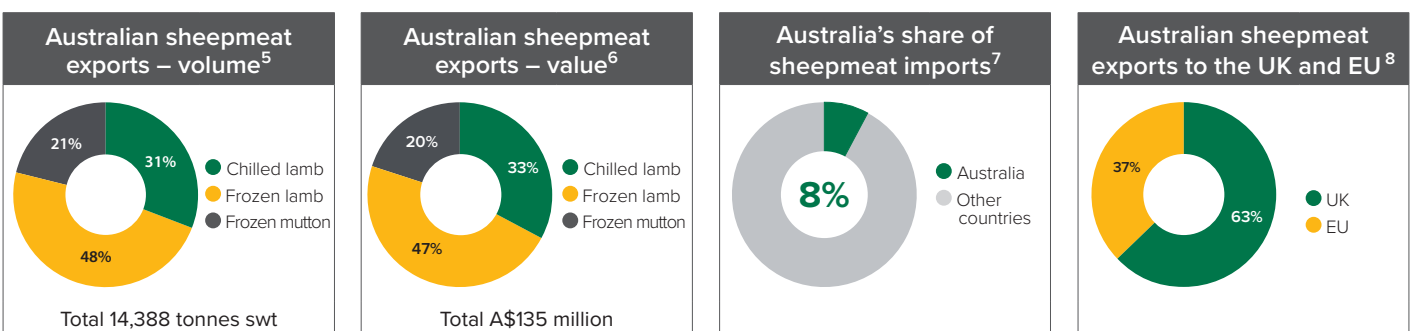
Brexit, the negotiation of free trade agreements with the EU, and separately the UK, provide opportunities to modernise the existing trading regime. Australian trade negotiations with the EU commenced in June 2018, while negotiations with the UK began more recently in June 2020. These negotiations represent the first opportunity in over forty years to significantly reshape Australian's red meat market access.



The EU is a small but high value market for Australian beef, especially grainfed exports. The Australian industry is seeking improved market access via bilateral trade negotiations, which are currently underway.



The UK accounted for 66% of Australian sheepmeat exports to the EU in 2019–20, the largest European destination for Australian lamb and mutton.



Data source for charts: ¹Fitch Solutions 2021, ²Fitch Solutions 2021 (disposable income = earnings after taxes and social security charges), ³Fitch Solutions, GIRA (per person per year in cwt excluding fish/seafood) 2020 and 2021, ⁴IGD 2021 (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), ⁵DAWE (FY 2019–20), ⁶ABS/IHS Markit (FY 2019–20), ⁷IHS Markit (most recent 12 months due to data availability), ⁸DAWE 2019.

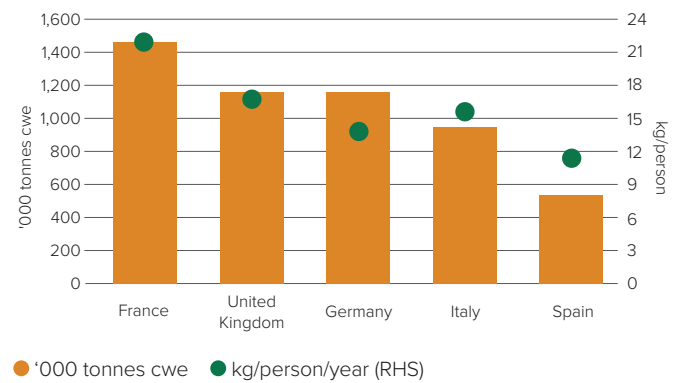
CONSUMERS



- The EU is a large per capita consumer of beef by global standards, but consumption levels range between countries, driven by varying degrees of economic development and beef's role within the traditional cuisine. France, Greece, the UK and Italy are the region's largest consumers.
- EU beef consumption has been in long-term decline – the result of reduced local production, restricted imports, an ageing population, changing lifestyles and consumer concerns regarding animal welfare and sustainability. Societal concerns are also leading an increased demand for organic products, as consumers become increasingly aware of food safety, taste and origin.
- Although limited in volume, Australia predominantly exports high-value loin and other primal cuts to the EU, typically destined for foodservice. However, with restrictive access and volume in the market, consumer awareness of Australian beef remains low.
- Prior to Brexit, the UK was Australia's largest market in the region, however overall consumption in the UK remains predominantly made up of British and Irish beef, which are perceived as fresher and more convenient to purchase. British beef also appeals to loyal UK consumers, with some supermarkets shifting to 100% local sourcing and branding, particularly following the 2013 horsemeat scandal.

- In the UK, beef is perceived as being superior, great tasting and a family favourite compared to other proteins, but falls behind chicken in terms of convenience and health perceptions.

EU beef consumption



Source: Fitch Connect 2019 estimate

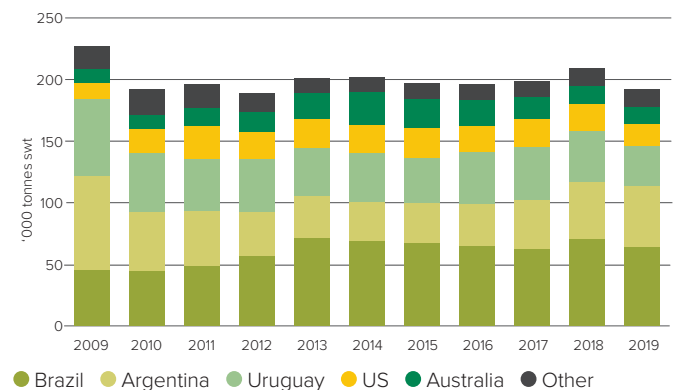
COMPETITIVE LANDSCAPE



- After an increase from 2013–2019 due to a restructuring of the dairy sector, EU beef production is expected to continue its long-term decline out to 2030. In 2018, domestic beef production was estimated to account for 96% of total EU beef consumption, with imported beef filling the remainder.
- The EU requires all imported beef to be strictly hormone growth promotant free, which restricts the majority of US and Canadian (and some Australian) product.
- Operating off a much lower cost base, South American suppliers can pay additional tariff duties and trade outside their restrictive country-specific Hilton quotas, allowing them to account for the bulk of imports. However, in the last couple of years, strong demand from China has captured the focus of South American exporters.
- South American trade bloc *Mercosur* – made up of Argentina, Brazil, Uruguay and Paraguay – concluded free trade agreement negotiations with the EU in June 2019, in which the bloc was granted 99,000 tonnes carcass weight equivalent (cwe) of beef access. However, the deal still needs to be ratified by both sides' parliaments, with the distribution mechanism and transition timeline yet to be determined. Political hurdles remain on both sides of the deal that may delay ratification.
- After the conclusion of the EU-Canada Comprehensive Economic and Trade Agreement, Canada has attained access for 50,000 tonnes cwe of beef – a significant improvement on previous access via the existing Hilton quota – but little trade has since materialised.

- The outcome of EU-UK negotiations will have significant implications to red meat trade flows between the UK, EU and third-party countries from 1 January 2021, with the potential for significant disruption. For instance, the UK was Ireland's largest beef market, importing 188,000 tonnes swt in 2019. In the case of a no-deal Brexit, Ireland would be competing on an even playing field with other exporters via the UK's new import regime.

EU beef imports by supplier



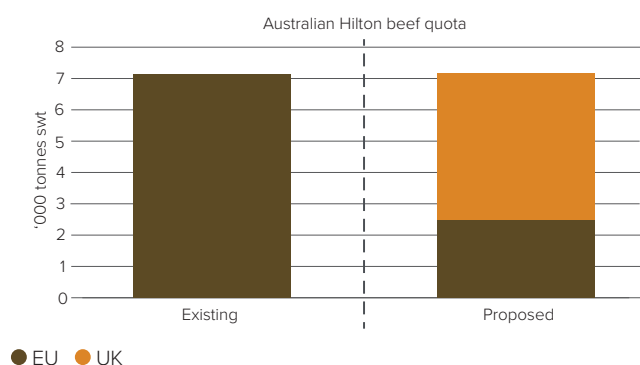
Source: IHS Markit



MARKET ACCESS

- As of 31 January this year, the United Kingdom left the EU and commenced an 11-month 'transition period', during which the UK remains inside the EU's single market and customs union.
- During the transition period, free movement of goods is permitted and existing trade will be unimpeded. However, following this, a new trading arrangement will apply to trade between the EU-27 and UK (currently under negotiation) and existing trade quotas will be split between the two regions.
- Upon the conclusion of the transition period at the end of 2020, the EU and UK have proposed splitting country-specific tariff rate quotas between the two markets based on prior trade data. This proposal would see Australia's High Quality Beef (HQB) Hilton beef quota split 65% and 35% between the UK and remaining EU-27, respectively.

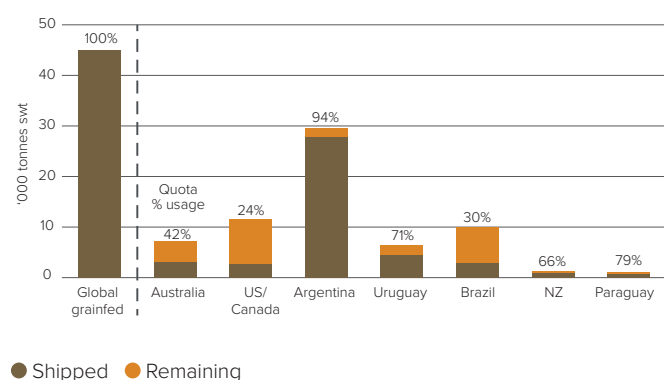
Australian quota splits upon the UK leaving the EU



Source: DAWE

- Free trade negotiations between the UK and Australian governments were launched in June 2020. Prior to joining the EU in 1973, the UK was a strong Australian red meat export market. The opportunity to negotiate a more trade liberal regime with the UK post-Brexit is compelling, given it is home to a large pool of wealthy consumers already familiar with red meat products.
- Australia's current beef access within the EU is in stark contrast to the majority of other export markets, which have progressed in liberalising trade. Transformation of punitive EU market access (low volume import quotas and high out of quota import tariffs) will be a necessary component of ongoing Australia-EU free trade agreement negotiations.

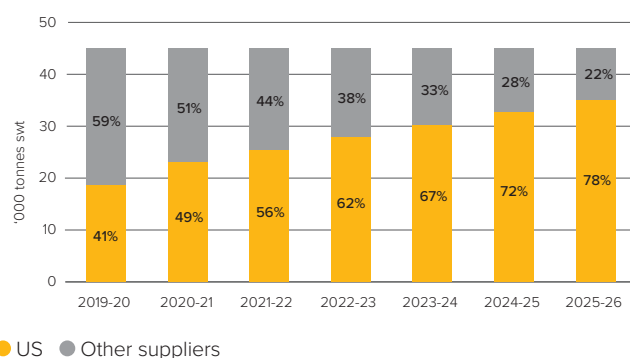
EU beef quota usage – 2019–20



Source: EU Commission. Global grainfed is a shared quota while others are country specific Hilton quotas.

- Australia has predominantly exported beef to the EU under two quotas:
 - HQB 'Hilton' country specific quota: 7,150 tonnes with 20% in-quota tariff
 - Global HQB grainfed quota: in 2020, a 26,500 tonne quota allocated on a first-come, first-served basis, shared between Uruguay, New Zealand, Argentina and Australia.
- While Australia has historically been a strong contributor to the HQB global grainfed quota (utilising an estimated 25% of the shared quota in 2018–19), changes to the administration of the quota have limited access for Australian grainfed beef. An agreement between the US and EU that entered into force in January 2020 provides the US exclusive access to 18,500 tonnes shipped weight (swt) of the quota (increasing incrementally to 35,000 tonnes swt over a seven-year phase-in period).

EU global High Quality Beef grainfed quota allocations



Source: EUR-Lex

- Within the EU, the majority of Australian beef is typically exported to the Netherlands and the UK; however, this does not always indicate the point of consumption, as these locations often serve as central distribution points for the beef to be transported to neighbouring countries.





Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
<p>Australia-EU Free Trade Agreement negotiations commenced in June 2018</p> <p>Australia-United Kingdom Free Trade Agreement negotiations commenced in June 2020</p>	<p>2020</p> <p>7,150 tonnes country specific HQB quota: 20% in-quota tariff; above quota tariff 12.8% + €3/kg</p> <p>Access to 26,500 tonnes* grainfed quota shared with Argentina, Canada, New Zealand and Uruguay: 0% in-quota tariff; above quota tariff 12.8% + €3/kg</p>	<p>Argentina, Brazil and US/Canada have larger allocations than Australia under the Hilton quota</p> <p>Ongoing pressure on reduced shared grainfed quota – with quarterly allocation being filled within weeks</p>	<p>2020</p> <p>7,150 tonnes under country-specific High Quality Beef quota</p> <p>Shared access to 26,500 tonnes* global grainfed quota</p> <p>Access (via EU importer held licences) to shared frozen beef quota and frozen beef for processing quota, which at times source Australian product</p>	<p>All beef supplied to market must be European Union Cattle Accreditation Scheme (EUCAS) accredited</p> <p>All beef exported to the EU must be hormone growth promotant free, managed through EUCAS, adding significant costs to doing business with the EU</p>

Best access Major challenges

Source: Trade agreements, DFAT, MLA

* The EU and US have recently come to an agreement, which subsequently received the accession of other substantial suppliers of the quota (Uruguay, Argentina and Australia), to 'ring-fence' a portion of the 45,000 tonne HQB global grainfed quota for exclusive access by the US. This will see the US receive an initial allocation of 18,500, increasing to 35,000 tonnes over seven years, with the remainder available to other suppliers.

Australian beef exports to EU* – summary table



Volume – in tonnes swt		2019–20		2018–19		five-year average (2014–15 to 2018–19)		change 2019–20 vs five-year average	
			% of total		% of total		% of total	%	in tonnes swt
Total		11,471		14,601		19,551		-41	-8,080
Storage	Chilled	11,108	97	13,743	94	18,797	96	-41	-7,689
	Frozen	363	3	858	6	754	4	-52	-392
Meat type	Grassfed	1,822	16	3,160	22	5,137	26	-65	-3,315
	Grainfed	9,649	84	11,441	78	14,414	74	-33	-4,765
Storage/meat type	Chilled grassfed	1,810	16	3,112	21	4,941	25	-63	-3,131
	Chilled grainfed	9,298	81	10,631	73	13,856	71	-33	-4,558
	Frozen grassfed	12	0	48	0	196	1	-94	-184
	Frozen grainfed	350	3	810	6	558	3	-37	-208

Source: DAWE

Value – in A\$ 000

Value – in A\$ 000		2019–20		2018–19		five-year average (2014–15 to 2018–19)		change 2019–20 vs five-year average	
			%		%		%	%	in A\$ 000
Total		208,126		229,163		264,309		-21	-56,183
Storage	Chilled	199,390	96	220,547	96	256,392	97	-22	-57,002
	Frozen	8,736	4	8,617	4	7,917	3	10	819

Source: ABS/IHS Markit

Volume – by major cut (in tonnes swt)

Major cut	2019–20		2018–19		five-year average (2014–15 to 2018–19)		change 2019–20 vs five-year average	
		%		%		%	%	in tonnes swt
Topside/inside	1,624	14	2,052	14	2,894	15	-44	-1,270
Striploin	1,485	13	1,926	13	2,783	14	-47	-1,299
Rump	1,433	12	1,784	12	2,488	13	-42	-1,055
Cube roll/ribeye roll	1,126	10	1,284	9	1,686	9	-33	-560
Silverside/outside	994	9	1,536	11	2,204	11	-55	-1,211
Chuck roll	871	8	963	7	1,464	7	-41	-593
Blade	849	7	1,023	7	1,474	8	-42	-625
Thick flank/knuckle	695	6	840	6	1,268	6	-45	-573
Tenderloin	637	6	798	5	1,027	5	-38	-390
Brisket	423	4	489	3	401	2	5	22
Other	1,334	12	1,905	13	1,862	10	-28	-527
Total	11,471		14,601		19,551		-41	-8,080

Source: DAWE

* 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 and United Kingdom

Sheepmeat

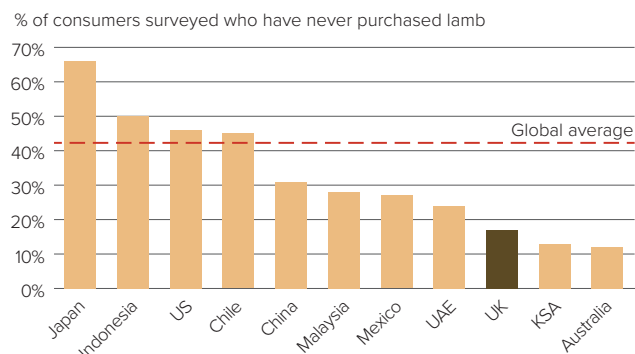
CONSUMERS



- The role and prevalence of sheepmeat consumption varies significantly between EU members. In the UK, Ireland and Greece, consumption is traditionally linked to the seasonal production cycle, while in other countries, demand is tied to culturally significant occasions such as Easter.
- Sheepmeat plays a minor role in consumer diets. Consumption is primarily concentrated in Western Europe, particularly the UK, France and Spain, but Romania and Greece are also significant producers and consumers. Sheepmeat consumption is expected to lift 6% to 1.8kg per capita by 2030. 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 greater preferential access.
- The UK is Australia's largest market in the EU, however, local and New Zealand lamb are the predominant suppliers, perceived as being more convenient to purchase and familiar among consumers. 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.

- Unlike other markets, the UK has a high penetration of consumers who have tried lamb due to its cultural and historical presence.

UK consumers have a high familiarity with lamb



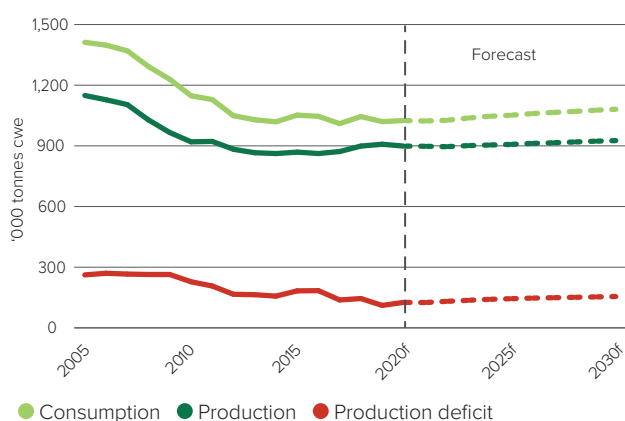
Source: MLA Global Consumer Tracker, 2018

COMPETITIVE LANDSCAPE



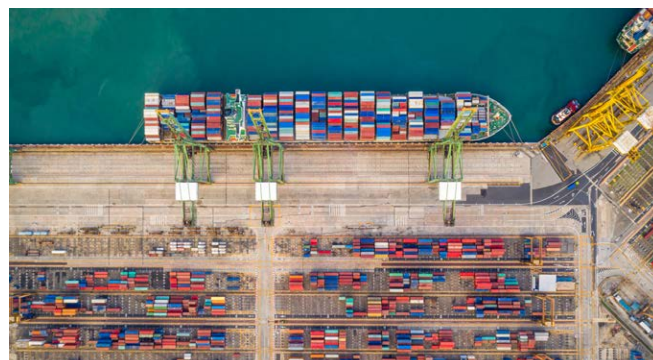
- After declining 25% over the 10 years to 2014, EU sheepmeat production has since stabilised and is forecast to increase only modestly, if at all, over the next decade.
- UK sheepmeat production accounts for a third of lamb and mutton consumption within the EU, followed by Spain and France. EU markets accounted for 94% of all UK sheepmeat exports in 2019, highlighting the importance of the trade relationship between the two regions.

EU sheepmeat production and consumption



Source: EU agricultural outlook for markets and income, 2019–30 (figures include goatmeat)

- Imports have accounted for 20% of EU sheepmeat consumption over the last decade, and Australia and New Zealand have remained the only significant external suppliers.
- New Zealand's preferential market access with the EU has allowed it to capture the majority of import market share. New Zealand also produces a lighter carcass than Australia, resulting in cut sizes more in line with local product, providing an advantage into the imported UK leg roast market.
- However, imports from New Zealand over the last five years have been stretched by supply constraints (New Zealand land is increasingly being reallocated to the dairy sector) and Asian markets emerging as major buyers of imported New Zealand sheepmeat.

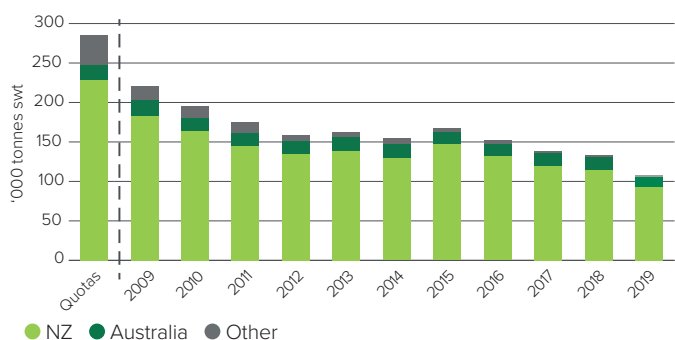




MARKET ACCESS

- Australia has a 19,186 tonne cwe (combined sheepmeat/goatmeat) country-specific import quota into the EU, with 0% in-quota duty. Out-of-quota imports from Australia incur prohibitive import duties of 12.8%, plus up to an additional €3.10/kg.
- Australian sheepmeat access is currently disadvantaged compared to New Zealand, which has a 228,389 tonne quota – more than 11 times larger than Australia's. New Zealand's quota has not been fully utilised in recent years, reaching just 41% of the allotted volume in 2019, while Australia's utilisation has been slightly better, last year reaching 65%.

EU sheepmeat quotas and imports

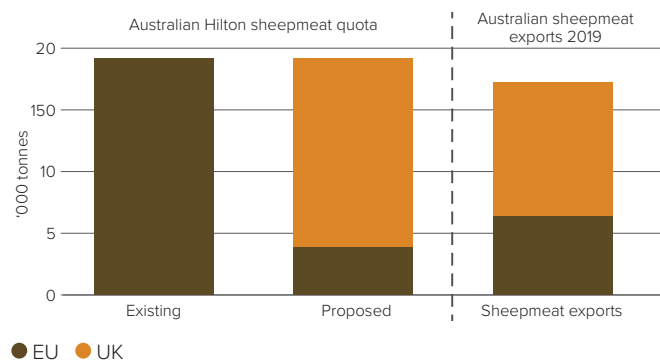


Source: EU Commission, IHS Markit

- Transformation of the EU's restrictive import quotas will be a necessary component of ongoing Australia-EU Free Trade Agreement negotiations.

- In 2019, the UK exported 90,000 tonnes swt of mostly shoulder and loin sheepmeat cuts to the rest of the EU (and imported 15,000 tonnes swt of mostly leg cuts). Depending on the EU-UK trading relationship from 1 January 2021, if that two-way trade is hindered, a greater amount of sheepmeat may remain in the UK or be diverted to non-EU markets, disrupting typical flow.
- The UK and EU have proposed splitting the country-specific tariff rate quota between the two markets based on prior trade data, which would see Australia's sheepmeat quota split 80% and 20% in January 2021 (between the UK and EU, accordingly).

Australian quota splits upon the UK leaving the EU



Source: DAWE





Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Australia-EU Free Trade Agreement negotiations commenced in June 2018 Australia-United Kingdom Free Trade Agreement negotiations commenced in June 2020	2020 In quota – 0% Above quota – 12.8% + 90.2~311.8 euro/100kg	NZ Has a quota of 228,389 tonnes	Access remains limited to 19,186 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		2019–20	% of total	2018–19	% of total	five-year average (2014–15 to 2018–19)	% of total	change 2019–20 vs five-year average	
								%	in tonnes swt
Total		12,790		13,469		15,678		-18	-2,888
Storage	Chilled	3,540	28	3,736	28	4,900	31	-28	-1,360
	Frozen	9,250	72	9,734	72	10,778	69	-14	-1,528
Meat type	Lamb	10,083	79	9,072	67	10,809	69	-7	-726
	Mutton	2,707	21	4,398	33	4,870	31	-44	-2,162
Storage/meat type	Chilled lamb	3,540	28	3,734	28	4,900	31	-28	-1,360
	Chilled mutton	-	0	1	0	-	0	-	0
	Frozen lamb	6,543	51	5,338	40	5,909	38	11	634
	Frozen mutton	2,707	21	4,396	33	4,869	31	-44	-2,162

Source: DAWE

Value – in A\$ 000

Value – in A\$ 000			%	in A\$ 000
Total		134,728		132,350
Meat type	Lamb	107,398	80	93,774
	Mutton	27,330	20	38,577

Source: ABS/IHS Markit

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

			%	in tonnes swt
Leg	5,683	56	-6	-335
Shank	2,270	23	6	136
Boneless loin	571	6	16	79
Manufacturing	553	5	-43	-423
Chump	512	5	-27	-189
Other	495	5	1	7
Total	10,083		-7	-726

Source: DAWE

* 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 and United Kingdom