MARKET SNAPSHOT | **BEEF**

European Union

The European Union (EU) contains one of the largest pools of wealthy consumers (households earning in excess of US$50,000/year) in the world. While a lucrative market, the EU's continued protectionist stance towards agricultural imports has restricted Australia's ability to grow exports to this market.

Challenges and opportunities in the EU for Australian beef include:

- Australia's primary barrier to growing beef exports to the EU remains the highly restrictive, low volume tariff rate quotas. The high tariffs applied on imports outside the two main quotas makes further trade commercially prohibitive.
- Australia and the EU have commenced the process of securing a closer bilateral trade partnership and formal Free Trade Agreement (FTA) negotiations are anticipated to begin in early 2018. The outcome of these negotiations will be the main determinant of Australia's future prospects in the region.
- The United Kingdom (UK) is Australia's largest market for beef within the 28-member union and its exit from the EU (expected to occur in March 2019) creates an attractive opportunity for Australia to improve its current market access.
- Australia's trade to the EU is made up of a large portion of high value chilled primal cuts, primarily targeting foodservice and catering which prefer Australian product for its size, quality and consistent supply. Continuing to capture niche, premium markets remains Australia's biggest opportunity outside of trade negotiations.

Population

508.6 in 2017 **511.0** in 2021

In million

Source: BMI Research, 2017 estimate & 2021 forecast includes EU 28 member states

Households earning* >US$35,000/year

110.2 in 2017 **122.2** in 2021

In million households

Source: BMI Research, 2017 estimate & 2021 forecast includes EU 28 member states
* Disposable income

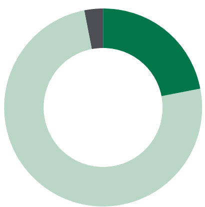
Households earning* >US$50,000/year

63.1 in 2017 **76.6** in 2021

In million households

Source: BMI Research, 2017 estimate & 2021 forecast includes EU 28 member states
* Disposable income

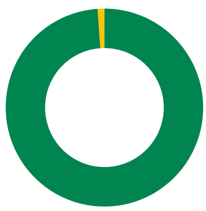
Australian beef exports – volume



Total 17,873 tonnes swt

Source: Department of Agriculture and Water Resources (DAWR), CY 2017

Australian beef exports – value



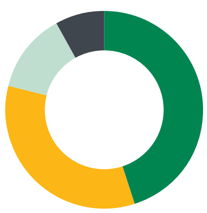
Total A$238.4 million

Source: A$ '000, MAT (Moving Annual Total) November 2016 to October 2017. EU excluding Croatia. Source: ABS/GTA

Proportion of key cuts

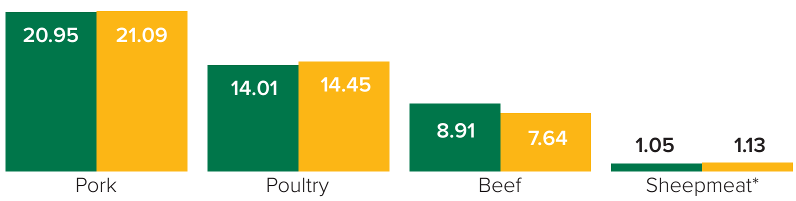
Source: DAWR, CY 2017

Australian beef exports by country



Source: DAWR, CY 2017

Meat consumption



In million tonnes cwt

Source: European Commission (2017 estimate, 2021 forecast)
* Sheepmeat includes goatmeat

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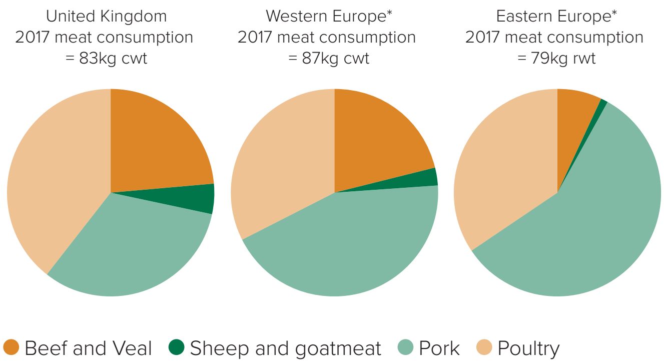
Consumers

- The EU is a large per capita consumer of beef by global standards. However, within the market, consumption levels range between countries, driven by varying degrees of economic development and beef's role within the traditional cuisine.

EU per capita meat consumption



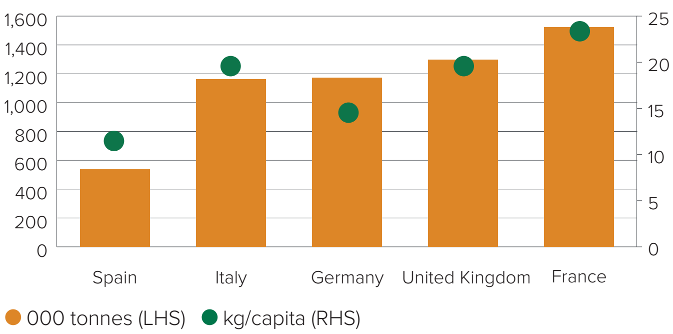
Source: European Commission, Prospects for EU agriculture markets and income 2017-2030, MLA rwt to cwt conversion

* Western Europe, includes (country codes) BE, DK, FR, DE, EL, IE, IT, LU, NL, PT, ES, UK, AT, FI and SE

* Eastern Europe, includes CY, CZ, EE, HU, LV, LT, MT, PL, SK SI, BG, RO and HR

- Primarily limited to Western Europe, the EU was one of the largest beef consumer markets in the world in 2017, at just under 8 million tonnes cwe – behind the US but comparable to that of China and Brazil.
- Within the EU, the UK accounts for about 16% of total consumption across the region and, at 19.3kg in 2016, is one of the largest per capita consumers in the market. France, Germany and Italy are the other major consumer markets in the region.
- Overall EU consumption growth in animal protein appears limited, with many countries close to economic maturity and host to an ageing population. Beef is also challenged by consumer concerns over animal welfare, the environment and emphasis on locally produced products.

Beef consumption across the EU



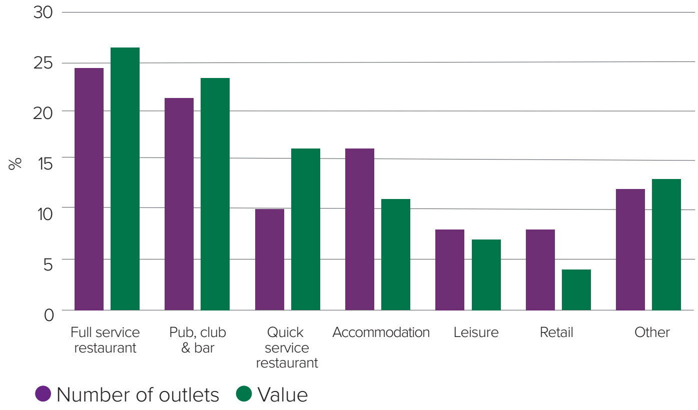
Source: BMI. Data are carcase weight equivalent 2016 estimates.

Source: bigstock

Foodservice

- Although limited in volume, the majority of Australian beef exported to the EU is destined for foodservice.
- The foodservice sector (inclusive of the UK, Spain, Germany, Italy, France and the Netherlands) is dominated by full service restaurants, pubs and clubs and quick service restaurants.

Outlet number and value by key foodservice channel

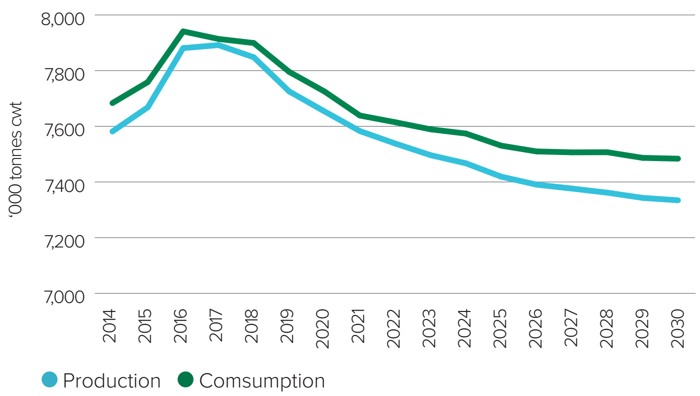


Source: GlobalData. Inclusive of the UK, Spain, Germany, Italy, France and the Netherlands.

Production

- The EU is a significant producer of beef, but most production is derived from a dairy-based herd. In 2017, beef production was an estimated 7.89 million tonnes cwt (almost four times that of Australia). The UK has maintained its position as a large beef producer within the region, accounting for 11% of EU production in 2016, but behind France (19%) and Germany (14%).
- While there was a short-term recovery in 2016 and 2017, due to a milk price induced liquidation of the dairy herd, beef production in the EU is expected to continue its gradual decline, in line with a falling herd and reduced local demand.
- Further ahead, EU beef production will also be influenced by a reduction in funding available through the Common Agriculture Policy.
- The EU is not self-sufficient in beef, with demand exceeding EU production capabilities. By 2030, the European Commission estimates that the EU will require 353,000 tonnes cwe of beef imports to cover the domestic shortfall.

EU beef production and consumption

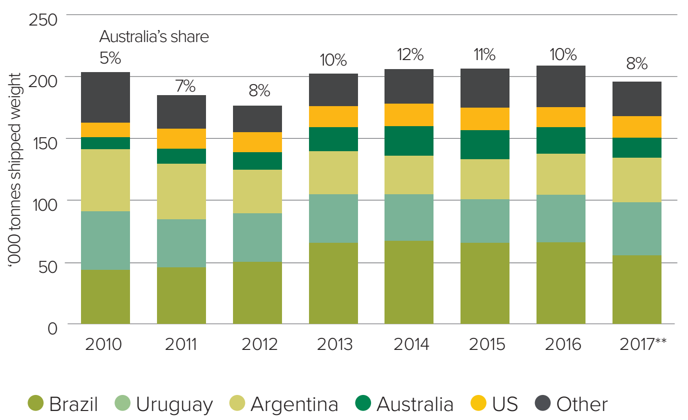


Source: European Commission, Prospects for EU agriculture markets and income 2017-2030

Other suppliers

- Imports outside the EU account for just 4% of EU beef consumption and the majority of imported product is sourced from South America, due to lower import prices and their ability to trade outside quota.
- Brazil, the imported beef market leader, supplies a lower cost, mostly frozen product into the EU (which declined 16% in the 12 months to September 2017 to 55,000 tonnes).
- Imports from Uruguay (which increased 12% to 43,000 tonnes swt), Argentina (which increased 8% to 36,000 tonnes) and the US are of higher quality and comprise mostly chilled product.

Beef imports by supplier*



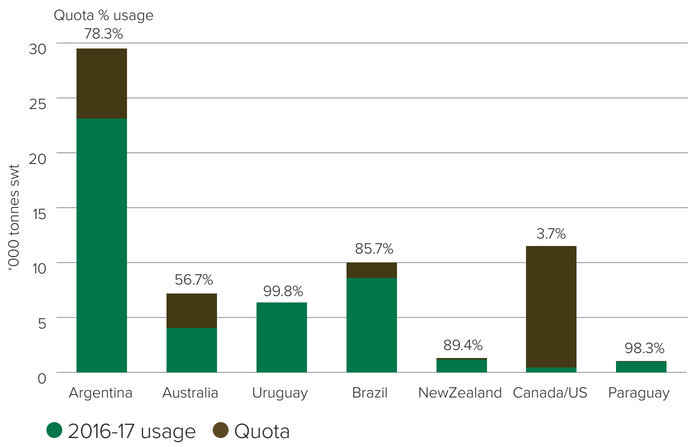
Source: Global Trade Atlas
* Excludes external trade. **MAT from Oct-2016 to Sep-2017

- Under the weight of increasing global supplies, EU import prices eased from most major external suppliers in 2017, particularly Argentina, Uruguay and the US.
- However, import prices from Australia edged higher due to high local cattle prices and tight supplies, compounded by a stronger Australian dollar. Beef import prices from Brazil also increased, as the Real recovered from where it bottomed out in 2016.

Market access

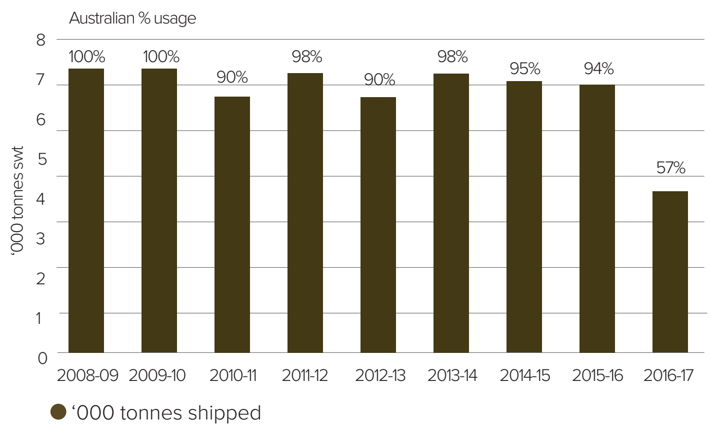
- Australia's current market access – involving low volume import quotas and high out of quota import tariffs – is the greatest limiting factor preventing an increase in exports to the EU.
- Australia predominantly exports beef under two quotas; the High Quality Beef (HQB) Hilton country specific quota (7,150 tonnes with 20% in-quota tariff) and the HQB global grainfed quota (45,000 tonnes with 0% in-quota tariff shared on first-come first-served basis with US, Uruguay, NZ, Argentina).
- Access above these quotas is prohibitive for most product, attracting import duties of 12.8% plus up to €3/kg (or about A$4.60/kg).
- Australia's current beef trading regime with the EU is in stark contrast to the majority of its other export markets – which are embracing either free trade or import regime reform. Transformation of these EU import arrangements will be a necessary component of any FTA negotiations.
- Since 1979, Australia has had access to a country specific Hilton quota and has consistently filled the majority of its annual allocation. An exception was in 2016–17, when tight grassfed cattle supplies and subsequent high prices in Australia hindered the trade.

Hilton quota usage



Source: EU Commission

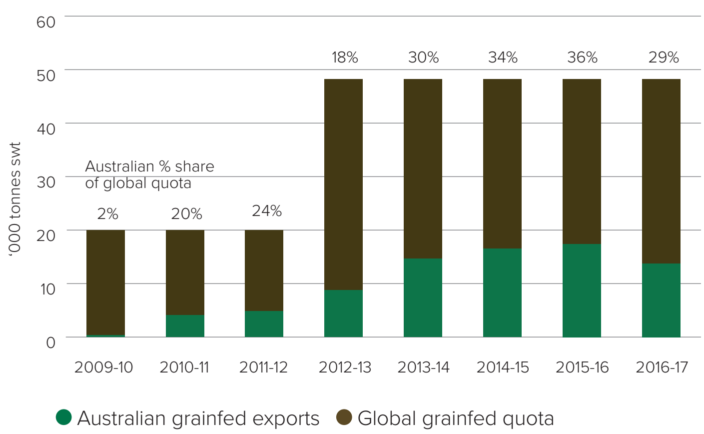
Australian Hilton quota usage



Source: EU Commission

- Australia has often been a high contributor to the HQB global grainfed quota, using 29% of this shared quota in 2016–17. Strong demand for high quality Australian beef has led to the EU now being Australia's fourth largest grainfed beef export market.

Australian global grainfed quota usage



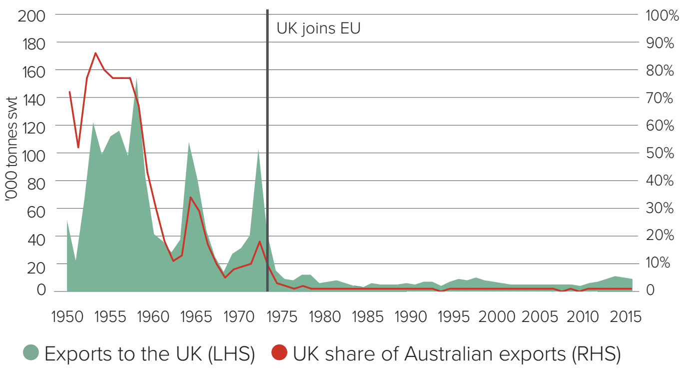
Source: DAWR

- The HQB global grainfed quota reduced from 48,200 tonnes to 45,000 tonnes following the provisional entering into force of the Canada–EU FTA in September 2017.

Brexit

- Prior to the UK's exit from the EU (expected in March 2019) it must negotiate the terms of departure and its future trade relationship with the single market.
- The UK will need to develop a new trading regime incorporating its own World Trade Organization (WTO) tariff schedule, as well as adjusting its bilateral relations accordingly. This has the potential to have a significant effect on Australia's red meat access.
- The UK is Australia's single largest red meat export market within the EU, and Australia has long had historical ties with the country. In the decade prior it joining the EU, the UK accounted for as much as 34% of Australian beef exports globally.

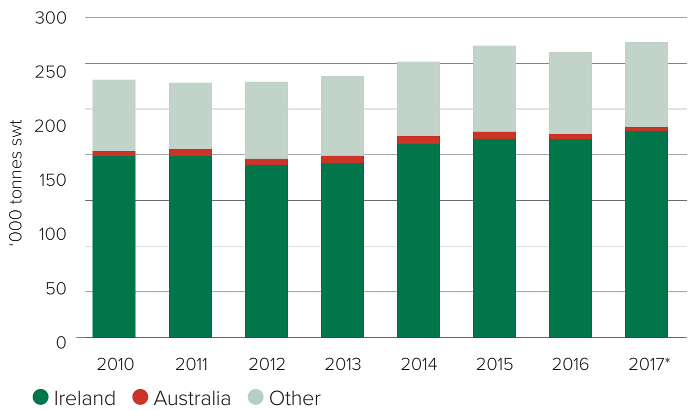
Australian beef exports to the UK



Source: AMB, AMLC, DAWR

- The UK hosts a large population of wealthy, beef eating consumers. While red meat consumption growth prospects remain limited, imports will likely remain considerable and Brexit provides Australia an opportunity to improve its access to a high value market.
- While a large producer of beef, the UK is still a net beef importer. Benefiting from unrestricted access, Ireland supplied 68% of UK imports in 2017 with an additional 23% coming from within the EU.

UK beef imports



Source: Global Trade Atlas
*MAT from Nov-2016 to Oct-2017

- If no trade relationship is agreed upon by March 2019, imports and exports between the UK and EU will default to World Trade Organisation (WTO) Most Favoured Nation rules.
- The UK government has indicated it would continue the level of Common Agriculture Policy support to local beef producers out to 2020, but longer term the level of farm subsidies and other support measures are uncertain. Agribenchmark data indicates 5–26% of typical UK beef finisher income in 2016 was derived from government payments.
- The EU is the UK's single largest trading partner, overall and in the case of red meat, and the future regime hinges on whether the exit is smooth (a free trade agreement is reached before March 2019) or disorderly (the relationship reverts to WTO trading rules).
- The UK must finish negotiating the terms of its exit from the EU, prior to engaging other countries in formal trade negotiations. The Australian government has expressed an appetite to pursue future trade opportunities with the UK through an eventual FTA.
- The UK economy has been resilient post-Brexit vote – in part supported by a significant devaluation of the currency – however, there is significant risk that a disorderly Brexit could result in an economic slowdown and inflated food prices, which could impact overall demand for meat.

UK figures

Population

505.9 in 2017 | **508.2** in 2020

In millions

Source: BMI Research, 2017 estimate & 2021 forecast includes EU-28 countries

Households earning*
>US$35,000/year

196.7 in 2017 | **218.9** in 2020

In million households

Source: BMI Research, 2017 estimate & 2021 forecast includes EU 28 member states
* Disposable income

Households earning*
>US$50,000/year

104.9 in 2017 | **129.0** in 2021

In million households

Source: BMI Research, 2017 estimate & 2021 forecast includes EU 28 member states
* Disposable income

Market access overview

Trade agreements	Import tariffs	Competitors	Volume restrictions	Technical access
Australia-EU Free Trade Agreement anticipated launch early 2018	**2017** 7,150 tonnes country specific HQB quota: 20% in-quota tariff; above quota tariff 12.8% + €3/kg Access to 45,000 tonnes* global grainfed quota: 0% in-quota tariff; above quota tariff 12.8% + €3/kg	Argentina, Brazil and US/Canada have larger allocations than Australia under the Hilton quota but are severely underutilised Ongoing pressure on global grainfed quota – with quarterly allocation being filled within weeks	**2017** 7,150 tonnes under country specific High Quality Beef quota Shared access to 45,000 tonnes* global grainfed quota Access (via EU importer held licences) shared frozen beef quota and frozen beef for processing quota, which at times source Australian product	No significant trade restrictive non-tariff barriers That said, no HGP compliance adds costs to doing business with the EU

Best access — Major challenges

Source: Trade agreements, DFAT, MLA

* The shared global grainfed beef quota shrank following the implementation of the EU-Canada Comprehensive Economic and Trade Agreement (CETA). The quota will reduce to 45,000 tonnes however, given the change occurs midway through the fiscal year, the 2017-18 quota will likely be between the existing pre- and post-CETA quota.

Australian beef exports to EU – summary table

Volume – in tonnes swt

		2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	change 2017 vs 5-yr av. %	change 2017 vs 5-yr av. in tonnes swt
	Total	**17,873**	**100**	**20,841**	**100**	**20,756**	**100**	**-14**	**-2,883**
Storage	Chilled	17,346	97	20,273	97	19,481	94	-11	-2,135
	Frozen	527	3	568	3	1,275	6	-59	-748
Meat type	Grassfed	3,977	22	4,862	23	7,485	36	-47	-3,508
	Grainfed	13,897	78	15,980	77	13,271	64	5	626
Storage/meat type	Chilled grassfed	3,965	22	4,727	23	6,738	32	-41	-2,773
	Chilled grainfed	13,382	75	15,546	75	12,743	61	5	638
	Frozen grassfed	12	0	134	1	747	4	-98	-735
	Frozen grainfed	515	3	433	2	528	3	-2	-13

Source: DAWR

Value – in A$ 000

		2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in A$ 000
	Total	**238,372***	**100**	**273,136**	**100**	**239,570**	**100**	**-1**	**-1,198**
Storage	Chilled	236,997*	99	268,597	98	226,312	94	5	10,685
	Frozen	1,375*	1	4,539	2	13,259	6	-90	-11,883

Source: ABS/GTA. 2017 = Moving Annual Total (MAT), November 2017 to October 2017.*

Volume – by major cut (in tonnes swt)

	2017	% out of total	2016	% out of total	5-year average (2012-2016)	% out of total	%	in tonnes swt
Striploin	2,543	14	2,957	14	3,016	15	-16	-473
Rump	2,327	13	2,590	12	2,637	13	-12	-310
Topside/inside	2,225	12	3,127	15	3,580	17	-38	-1,355
Silverside/outside	1,918	11	2,469	12	2,450	12	-22	-532
Cube roll/rib eye roll	1,629	9	1,771	8	1,652	8	-1	-23
Blade	1,411	8	1,643	8	1,460	7	-3	-49
Chuck roll	1,355	8	1,633	8	1,491	7	-9	-136
Thick flank/knuckle	1,098	6	1,453	7	1,461	7	-25	-363
Tenderloin	995	6	976	5	1,122	5	-11	-126
Brisket	596	3	399	2	172	1	245	423
Other	1,776	10	1,823	9	1,715	8	4	61
Total	**17,873**	**100**	**20,841**	**100**	**20,756**	**100**	**-14**	**-2,883**

Source: DAWR