Global sheepmeat industry and trade report

MEAT & LIVESTOCK AUSTRALIA

This report offers a comprehensive overview of the global sheepmeat industry and Australia's trade relationship with the world.

Summary

The long-term outlook for global sheepmeat consumption is strong, as economic development, growing populations and household income growth provide the momentum for meat consumption. Australia produces 5% of the world's sheepmeat, but accounts for 36% of exports and is the largest supplier in the global market.

Global opportunities for Australian sheepmeat

- Protein demand in East Asian markets continues to grow rapidly, as an emerging middle class is driving increases in consumption.
- Sheepmeat demand in the United States of America (USA) remains strong, and Australian lamb continues to be sold as a high-quality, high-value product.
- Growing consumer interest and awareness in sustainability, animal welfare, food safety and traceability give Australian producers an opportunity to effectively differentiate their product.
- Reform of foodservice producers, distributors, and packaged-goods companies to adapt to the 'new normal' environment will offset ongoing disruption and spur supplier-induced demand in the medium-term.
- The Australia-United Kingdom Free Trade Agreement and the Australia-India Comprehensive Economic Cooperation Agreement open new markets for Australian sheepmeat, that together are worth 7% of global Gross Domestic Product (GDP).

Global challenges for Australian sheepmeat

- Australian sheepmeat is increasingly dependent on overseas markets, which adds market access risk and exposes industry to currency fluctuations.
- Labour shortages, rising prices for energy and raw materials, and shipping congestion continue to increase input costs for producers.
- Overall meat consumption growth is slowing down, making future competition in existing markets more intense than in the past decade.
- The relatively higher price of sheepmeat compared to pork and poultry will impinge on consumption growth.
- With technology improvements, the cost of alternative proteins (plant-based and cultivated meats) are reducing and consumer interest towards them is growing.

Global population

7.870 billion in 2021

8.180 billion in 2025

Source: Fitch Solutions, 2021 estimate, 2025 forecast

Households earning* >US$35k/year

353.8 million in 2021

433.2 million in 2025

Source: Fitch Solutions, 2021 estimate, 2025 forecast

*In nominal USD/person.

Australia's share of global exports

- Australia – **48%**
- NZ – **37%**
- UK – **8%**
- Other – **7%**

Source: IHS Markit, FY2021–22

Australian sheepmeat exports – volume

- Chilled lamb – **21%**
- Frozen lamb – **43%**
- Chilled mutton – **1%**
- Frozen mutton – **35%**

Total 413,448 tonnes swt

Source: DAFF, FY2021–22 tonnes swt

Australian sheepmeat exports – value

- Frozen – **68%**
- Chilled – **32%**

Total 11.26 billion FOB

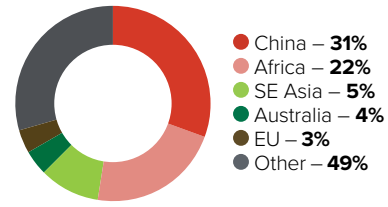
Source: IHS Markit, 2021

Australian sheepmeat exports – cuts

- Carcase – **25%**
- Breast/flap – **17%**
- Leg – **17%**
- Shoulder – **13%**
- Manufacturing – **10%**
- Rack – **5%**
- Shank – **4%**
- Other – **8%**

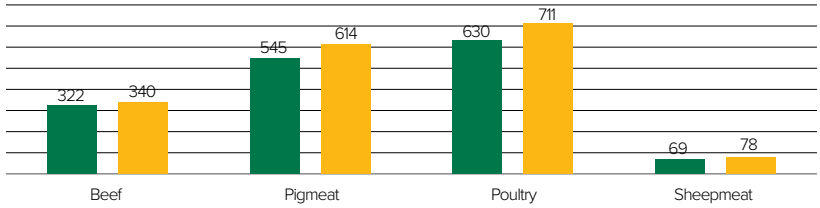
Source: DAWE 2019–20

Share of global sheepmeat production**



Source: OECD-FAO 2021 Agricultural Outlook

Global meat consumption – million tonnes



Source: OECD-FAO 2021 Agricultural Outlook, 2021 estimate, 2026 projection

KEY ISSUES

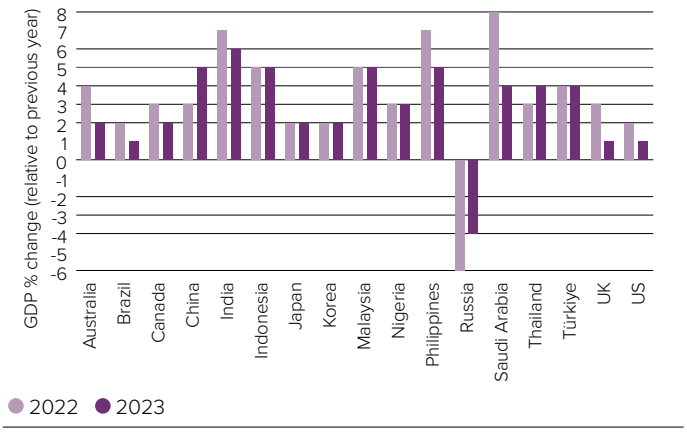
2021 saw positive trends in many emerging countries but saw a slowdown in protein consumption growth overall. China remains the largest sheepmeat importer globally, while the USA has emerged as a major importer of high quality, high value lamb. Additionally, some growth destinations are primarily driven by cultural preferences – especially in the Middle East and North Africa region (MENA).

Firm global demand, labour shortages, logistics disruption and input price increases have driven the global sheep producer price to its highest ever level in 2022, which is expected to be sustained in 2023 (OECD-FAO 2022). At the same time, inflationary pressures alongside interest rate rises are expected to moderate consumption in the medium-term. Shifting consumer preferences represent both a challenge to the sheepmeat sector in some established markets and an opportunity in emerging markets.

Global economic outlook

2021 saw a strong rebound after huge shocks in 2020. The world economy is estimated to have grown by 5.9% in 2021, and emerging markets continued to lead the growth. 2022 has been more challenging, as major supply shocks have led to high inflation around the world and led central banks to raise interest rates.

Global economic growth projections



Source: IMF, World Economic Outlook Update, July 2022

Commodity prices

The post-covid economic outlook has been defined by supply constraints and large fiscal stimulus during the pandemic, which together have created an inflationary environment across the world.

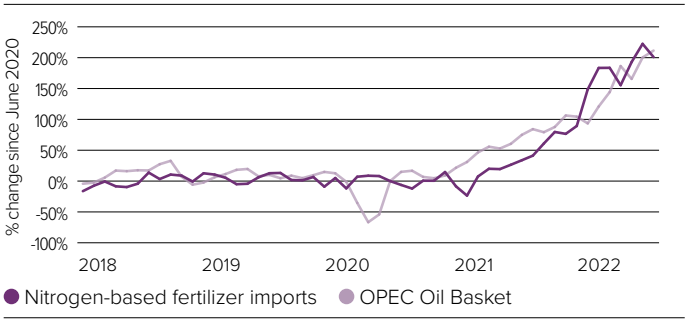
Key to this has been the ongoing invasion of Ukraine by Russia, beginning in February 2022. Beyond the direct costs of the conflict, estimated at A$137 billion in June 2022, the conflict has had implications globally. This is due to Ukraine being largely unable to participate in global trade and Russian trade being severely curtailed by a combination of international sanctions and 'economic warfare'; slowing supplies of energy exports to nations seen as unfriendly by the Russian Government.

Additionally, during the pandemic, there was a degree of 'capacity destruction' where employers created incentives for early retirement and some manufacturing processes were halted in the face of low demand.

These factors have affected key inputs to agriculture and the economy more generally, substantially raising prices and decreasing supply reliability. In the first half of 2022, oil prices in the OPEC basket were 50% above year-ago levels, and 55% above the five-year average. This is partly due to sanctions on Russian energy, but has also been caused by lower productive capacity in Saudi Arabia's oilfields compared to pre-pandemic levels, making raising production difficult.

In the first half of 2022, the value of global mineral fertilizer exports rose 52% year-on-year, while volumes fell 36%. Russia supplied 18% of internationally traded mineral fertilizers in 2021 and was a major exporter of precursor chemicals to produce fertilizers. Sanctions have thus removed a large portion of supply from global circulation, and lowered production capacity in countries that rely on imported precursor chemicals.

Commodity price changes: June 2020–22



Source: OPEC, ABS

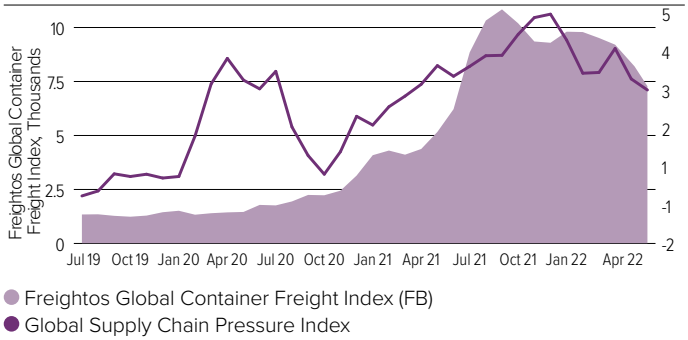
Additionally, the International Grains Council wheat index was 60% above year-ago levels for the first half of 2022, and 75% above the five-year average, due to a combination of lower harvests, higher input costs and removal of Ukrainian supply from global markets. Ukraine is responsible for 3% of total wheat production, and 11% of wheat traded on international markets, which was removed from global markets and led to a considerable price spike.

Trade and logistics

A key issue will be consistent access to reliable shipping lines and efficient processing through the supply chain. Between February 2020–22, the price of containerised shipping rose 467%, and the price of Australian containerised airfreight rose 91%.

Prices remained high in Q1 2022, but began falling in Q2 2022, as US demand fell and shipping capacity improved. Despite this, delays at ports remain endemic and port reliability remains at historic lows.

Container shipping and stability: July 2019–22



Source: Freightos Baltic Index (FBX), Federal Reserve Bank of New York, Global Supply Chain Pressure Index

In addition to increased prices, supply chain disruption and increasing costs have made international shipping difficult for many exporters. This is especially difficult in Australia, which is relatively remote to begin with, meaning that the number of vessels docking in Australian ports fell over 2020 and 2021, reducing the consistency of export opportunity and increasing risk to exporters.

This poses a particular risk for chilled shipments. 2021 saw multiple instances of chilled shipments being severely devalued or rejected entirely as cargo ships were forced to wait to dock for weeks past their initial due date.

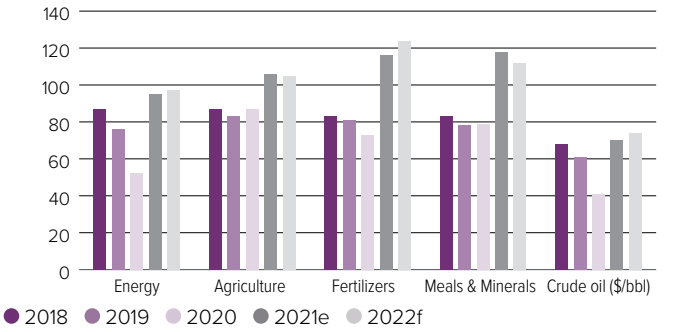
Many of these issues were the result of shifts in consumer behaviour due to COVID-19 and the undersupply of dockworkers affected by COVID-19-related isolation rules. If pandemic-related disruption abates, it is expected that shipping companies will be better able to maintain consistency in routes and keep to timetables. The recent rise in oil prices and disruption to supply chains brought on by the ongoing war in Ukraine, however, is likely to continue to foster supply chain volatility in 2022, keeping prices high compared to the historically low rates seen in 2008–19.

Inflation

The upshot of these supply constraints is an increase in costs. Combined with large increases in the money supply to prevent an economic collapse during 2020–21, prices began to rise in mid-2021, being reflected in inflation statistics shortly thereafter and reaching concerning levels in the first half of 2022.

In 2021, year-end inflation in Australia sat at 4.1%, slightly above the Reserve Bank of Australia's (RBA) target. At the end of Q2 2022, inflation was 7.3% year-on-year, well above the RBA's target and necessitating interest rate increases to constrain demand and reduce prices.

Nominal price indexes



Source: Worldbank. Note: price indexes (2010=100). Crude oil is the average of Brent, Dubai and WTI

In September 2022 the RBA raised interest rates to 2.35% and provided forward guidance that rates would continue rising to constrain inflation. This will have effects on domestic consumer spending and economic activity but will assist in constraining input cost rises.

COVID-19

The effects of COVID-19 on global markets was considerable and enduring, even once vaccines were developed and widely available. Lockdowns drastically curtailed foodservice demand, and the internet became far more important as a location for consumer expenditure. Although in most countries the acute effects of COVID-19 have receded, some of the shifts that occurred over 2020–22 have become permanent or have continued to influence consumer and corporate behaviour today.

Foodservice

The foodservice sector was heavily impacted by COVID-19, with wide-scale shutdowns and operating restrictions across most markets. Operators in the foodservice sector that pivoted to takeaway or delivery models were able to weather the COVID-19 storm more successfully. The reduction in international travel has also contributed to the slowdown of the foodservice industry, particularly in markets with large tourism sectors such as Vietnam and Japan.

Retail

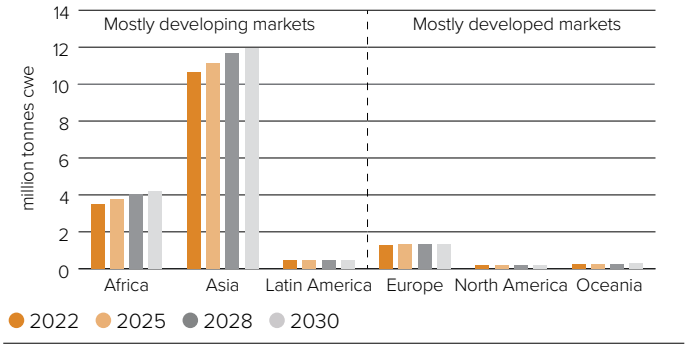
Retail meat sales performed well off the back of the decline in foodservice activity, with consumers spending more time cooking at home. There was increased interest in country of origin, driven by a preference for food that promotes good nutrition, immunity, and overall health.

GLOBAL CONSUMPTION

Consumption forecasts

Between 2011–21, global sheepmeat consumption rose 21% to 15.9m tonnes cwe and is expected to grow a further 14% in the next decade to 18.1m tonnes cwe in 2031 (OECD-FAO, 2022). This is expected to match production growth globally, but consumption growth in developing markets is projected to outstrip production. Sheepmeat as a percentage of protein consumption is expected to stay constant, at 3.1% over the decade.

Sheepmeat consumption forecasts



Source: OECD-FAO 2022 Agricultural Outlook.
Note: Middle East and North Africa (MENA) split across Africa and Asia

Although sheepmeat is a niche protein overall, consumption is higher in developing countries (3.7%) than developed countries (1.7%). This means that the majority of sheepmeat consumption growth will occur in developing countries, as economic growth allows consumers in those markets to purchase premium proteins such as sheepmeat more often. Although sheepmeat is generally a high-priced, premium, niche product in consumer diets, Australians are some of the largest sheepmeat consumers globally.

Consumption in developed markets is less constrained by economic factors. Instead, nutrition-driven preferences and demographic shifts, environment and animal health concerns and competition from plant-based proteins have had an impact on overall demand and on the structure of the protein landscape. Spending more on quality products signals a 'premiumisation' trend in meat consumption. In the lamb segment of the market, developed countries are opting for higher-quality lamb that drives up the value spend on lamb products.

For the latest outlook on Australian export markets, visit: mla.com.au/prices-markets/overseas-markets/

Global consumer trends

The position of sheepmeat in consumer diets around the world varies greatly due to a range of cultural, economic, social, and geographical factors. It is considered the preferred meat in many countries – especially those with predominantly Muslim populations and a history of sheepmeat or goatmeat production – but plays a niche role in many developed markets. Besides this, sheepmeat encompasses a range of products – prime lamb, mutton (often interchangeable with goatmeat), high quality loin cuts and lower value secondary cuts for manufacturing products or hot pots – each of which hold a unique position depending on the market and consumer segment.

Developing markets, such as the Middle East, tend to have a stronger affinity with sheepmeat through cultural or religious customs, but price remains a major barrier for many consumers. Lamb and mutton have reputations as superior meats within many of these developing markets, which presents a substantial opportunity to build on these perceptions. These regions are forecast to record the highest growth in population, urbanisation and household incomes.

Developed markets, such as the US, Japan and South Korea, see lamb as a niche product, not readily available or commonly consumed (except in certain demographic segments). Due to many consumers lacking familiarity, skills, or resources to cook sheepmeat products at home, Australian lamb and mutton is often suited to foodservice channels in markets where consumers are looking for new or novel eating experiences. Thus, developed markets still represent strong potential growth opportunities for imported Australian sheepmeat, particularly in foodservice.

With a history of lamb consumption, Australia has a strong awareness of and preference for lamb. A key challenge in Australia is keeping lamb relevant in homes and restaurants as demographics and consumer preferences evolve. Considering the product diversity of Australian sheepmeat, understanding the consumer in each market and what drives their purchasing decisions, is essential to targeted growth. MLA conducts a global consumer survey annually across major export markets to do just this.

Perceptions of sheepmeat and other proteins vary significantly around the world, but there is consistency regarding consumers seeking products that are fresh, safe and able to be enjoyed by the whole family. The development stage of the country does affect the importance of attributes, with developing countries typically focusing more on safety and freshness, while developed nations tend to emphasise quality and differentiation.

Broad consumer trends evident around the world in foodservice and retail channels which affect sheepmeat consumption, include shifts towards:

- fresher and less processed offerings
- customised meals
- messaging relating to provenance and health e.g., 'grassfed', 'free from'
- e-commerce and different delivery methods
- convenient, on-the-go offerings
- smaller but higher quality premium portions
- animal welfare and sustainability.

The popularity of meat alternatives is growing, and research indicates that as protein demand evolves in the future, traditional growth drivers may become more contemporary, such as dietary shifts for health and ethical reasons, government regulations, environmental constraints, and technological advances.

Meat alternatives, such as plant-based meat substitutes, have been growing in popularity over the past five years, although from a very low base. There are significant challenges associated with scaling production to produce significant volumes, and meat alternatives are expected to retain a significant premium over animal proteins for the foreseeable future. Upper limit projections for production suggest that plant-based proteins could account for 6% of total protein consumption in 2030, but this requires scale and cost input improvements that have not yet been seen.

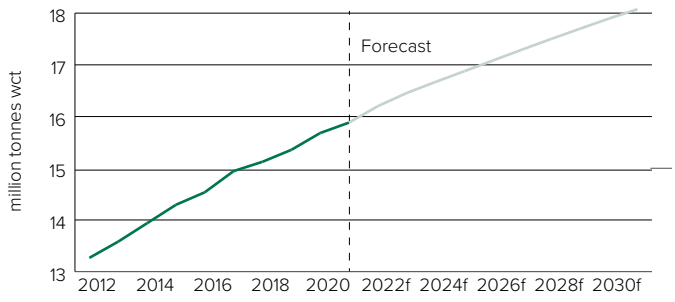
While traditional meat will dominate the protein mix for decades ahead, a growing proportion of the global protein shortfall is expected to be offset by emerging plant-based alternatives, lab grown proteins and expanding aquaculture production.

GLOBAL PRODUCTION AND SUPPLY

Global sheepmeat production increased by 20% between 2011 and 2021, and is expected to grow another 14% by 2031, to 18m tonnes cwe (OECD-FAO, 2022).

For a detailed update on the Australian supply outlook, visit: mla.com.au/sheepprojections

Global production forecast: 2012–31

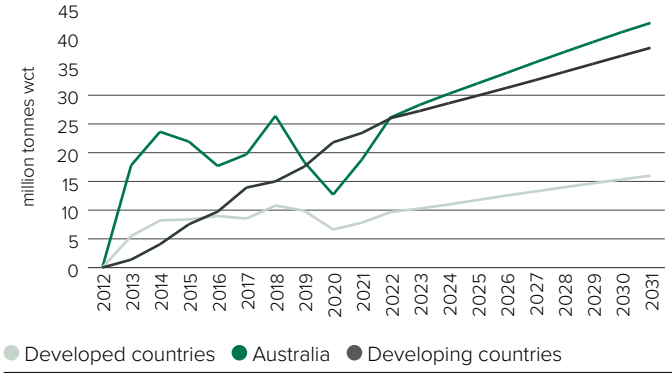


Source: OECD-FAO 2022 Agricultural Outlook

Major areas of growth include China, India, and Pakistan – currently the three largest producers globally, who are expected to grow production by 12%, 13% and 26% respectively, accounting for 40% of total production growth.

Additionally, production in African countries is expected to grow over the decade, although from a low base. Sheepmeat production in Nigeria is expected to grow by 23% over the decade to 497,000 tonnes cwe, while production in Ethiopia is expected to grow by 25% to 352,000 tonnes cwe over the next decade.

Sheepmeat production changes: 2012–22



Source: OECD-FAO Agricultural Outlook

Australian production growth is expected to average 1.6% annually and 16% over the decade, while production in New Zealand and the United Kingdom is expected to remain flat or fall slightly over the next decade.

In the long-term, constrained by urbanisation, desertification and availability of feed, flock expansion is forecast to slow down. Compared to other proteins, sheepmeat production growth is projected to be slower than other proteins (OECD-FAO 2022). Significant expansion is projected in Africa, particularly in the least developed countries. Strong growth in meat production however, will lead to growth in meat-related greenhouse gas emissions, which creates risk of additional production costs arising from policies and regulations aimed at emissions abatement and reduction.

Australia

The Australian sheep sector is in a rebuilding phase, and on-farm herd retention has led to increases in flock size rather than large increases in production. In June 2021 the flock size was estimated at 70.6 million head, 10% higher than 2020. In June 2022 the flock size was estimated at 76 million head, a further 8% increase.

At the same time, production growth has been muted, with 2021–22 sheepmeat production estimated at 677,640 tonnes cwe, a 3.2% increase from 2020–21 and still below production in 2019–20.

Lamb production is concentrated in Victoria and NSW, where the flock is traditionally based, accounting for 49% and 26% of total lamb production volume respectively. Mutton production is more evenly distributed, with Victoria having 39%, NSW accounting for 36% and WA following with 20%.

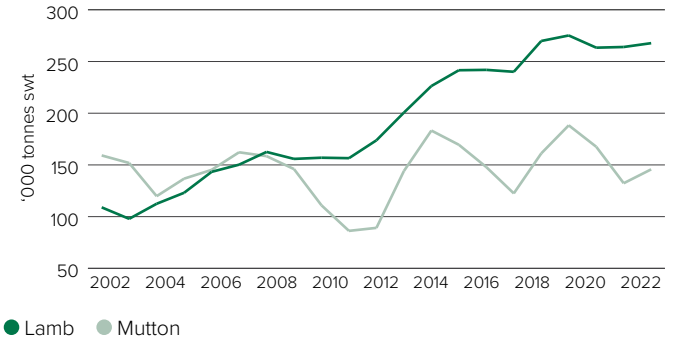
Average carcase weights have risen, reflecting favourable pasture conditions. High prices have spurred producers to maximise returns per head, leading to heavier lambs and sheep reaching processing plants. Average carcase weights are estimated to be 25.1kg for sheep and 24.9kg for lambs, down slightly from 2021 but above weights seen in 2019, during the last major drought.

Australian exports

Australia exports sheepmeat to 90 countries. Benefiting from a diverse and expanding array of markets and a growing affluent consumer base, 2021–22 saw revenues of A$4.5 billion for boxed sheepmeat exports. This represented a 27% increase from 2020–21 and was driven by high price growth internationally and a modest increase in supply.

In 2021–22, exports by volume grew by 4% overall to 413,448 tonnes swt. Exports of lamb grew by 1% over the period to 267,740 tonnes swt, while mutton exports grew 10% to 145,708 tonnes.

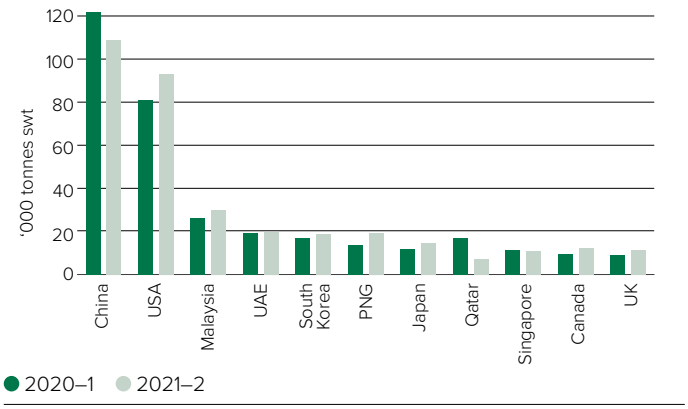
Australian sheepmeat exports: 2002–22



Source: DAFF, MLA

Increased export volume to the United States, Malaysia, Papua New Guinea, South Korea, and Japan offset declines in export volume to China, Qatar and Singapore. The US has been the fastest growing major importer since 2019–20, and chilled lamb has emerged as a large, high value category for Australian exporters into the US market. Exports to China peaked in 2019–20 but imported volumes have remained at high levels.

Major sheepmeat markets



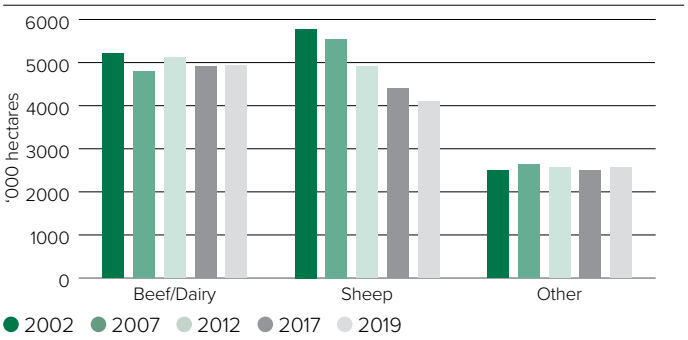
Source: DAFF, MLA

New Zealand

New Zealand is the second largest sheepmeat exporter after Australia, and has seen consistent sheepmeat supply in global markets, even as the sector contracted overall.

In 2021–22 sheep slaughter fell by 5.4%, following a 1.9% decline in 2020–21, leaving slaughter at its lowest level on record. This is part of a broader trend in land use in New Zealand towards dairying, alongside suburban expansion around Auckland and Wellington. Between 2002 and 2019, land used by sheep-focused enterprises fell by 29% to slightly over 4 million hectares, while the amount in use by dairying enterprises rose by 81%, to a still modest 2.2 million hectares.

New Zealand agriculture land use changes



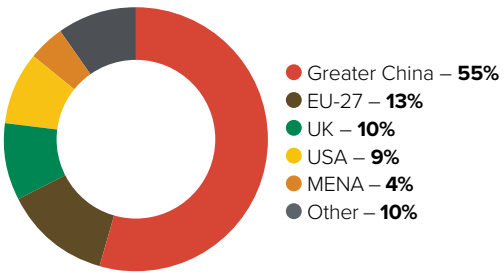
Source: Stats NZ

This trend has not abated since the drought concluded; breeding ewe numbers have not recovered following the drought, and lamb slaughter numbers have continued sliding down. However, sheep slaughter increased slightly in the 2021 financial year due to strong mutton prices, difficult spring conditions in the South Island, and drought-induced tight feed conditions along eastern areas of the country that led to more livestock sales.

Despite a contraction in supply, New Zealand contributed 32% of global exported sheepmeat in 2021–22, closely following the 35% of Australian market share. The export-oriented strategy has resulted in a rapid decline of domestic consumption, which has shrunk from 18% of production in the early 2000s to 4-6% in 2021–22.

As the major competitor of Australian sheepmeat, New Zealand has a stronger presence in China and European countries, while Australia has a greater presence in the US and the Middle East. In 2021–22, sheepmeat exports fell by 10% to 364,000 tonnes, the lowest level since 2012–13. Frozen sheepmeat cuts made up the majority of NZ exports, while chilled products represented around 14% of total exports. Over 90% of breast and flap items, 75% of forequarters and 90% of carcases are exported to China.

New Zealand exports by market: 2021–22



Source: IHS Markit

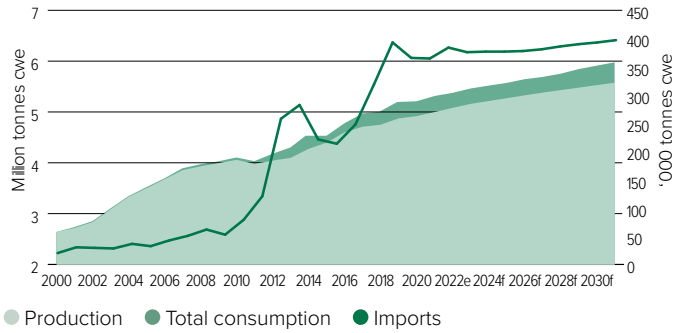
Due to a prime lamb geared production base and smaller domestic market, New Zealand exports a greater proportion of sheepmeat as lamb, compared to Australia. Due to its market-mix and more favourable freight linkages, however, Australia is able to export a greater volume of sheepmeat in chilled form compared to New Zealand.

China

China has the world's largest sheep flock, and accounts for one third of global sheepmeat production – yet sheepmeat pales in comparison to the size of the nation's domestic pork, poultry and beef sectors. Chinese sheep production is cyclical in nature, with opportunistic small-scale producers entering and exiting the market quickly, depending on price. While dominated by traditional production methods, modern sheepmeat producers using imported genetics and intensive feeding, have gained a footing in north-eastern provinces.

Chinese sheepmeat production grew by 26% between 2011 and 2021 and is projected to grow a further 12% from 2021 to 2031. At the same time, sheepmeat consumption grew by 32% between 2011 and 2021, opening a large gap that was filled by imports. Consumption is expected to grow at roughly the same pace as production for the next decade, leading to a persistent gap that will be filled by imports.

Production, consumption and import growth in China



Source: OECD-FAO 2022

Given 95% of China's sheepmeat is domestically produced, small shifts in local supply can lead to major swings in import demand. Pre-empting the cycle is difficult due to a range of interconnecting factors – from Chinese government policy on food security and rural development, to ongoing drought and resource constraints in key production areas.

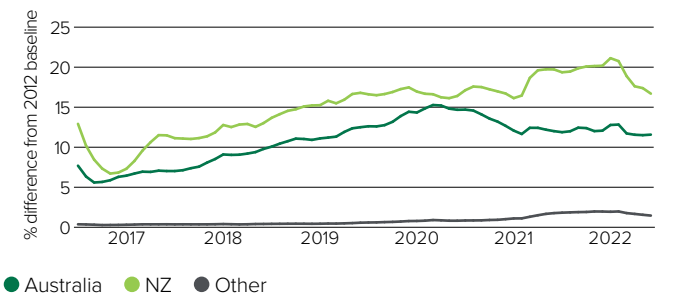
GLOBAL TRADE

Overall, the world trade in sheepmeat is expected to exceed 1.3 million tonnes in 2022, a 2.2% increase from 2021, and around 8% of total production.

World sheepmeat trade is dominated by two major suppliers – Australia and New Zealand, and four major importing markets – China, the European Union (EU), the Middle East and North Africa (MENA) region, and the United States. Between them, these importers purchased over 65% of internationally traded sheepmeat in 2021–22, and China alone purchased 35% of the total.

In 2021–22, overall export volume grew, after low levels of growth in 2020–21. China continues to be the major import destination as rapid consumption growth has outstripped production. Imports of sheepmeat into MENA were heavily impacted by Covid-19, with decreased demand from the food service and tourism sectors. Besides demand-driven factors, historically high producer prices further challenged 2021–22 volume into MENA. In 2022–23, recovery of MENA demand is expected to drive sheepmeat exports, as well as growth into China.

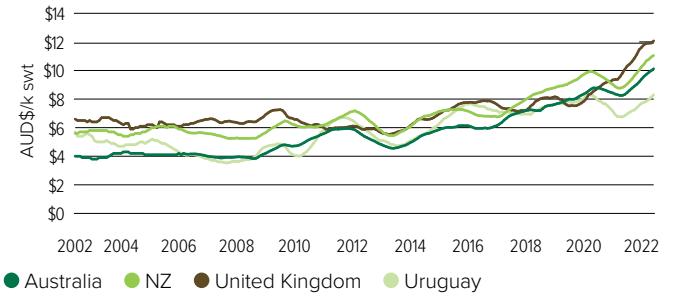
Total sheepmeat exports by country



Source: IHS Markit

In 2021–22, global export volume fell slightly due to drops in volume from New Zealand. At the same time, export prices averaged A$10.56 over the year, 18% above the previous year and the highest average global price on record.

Global sheepmeat export prices



Source: IHS Markitt, MLA Calculations

Major market themes

China

Consumer trends

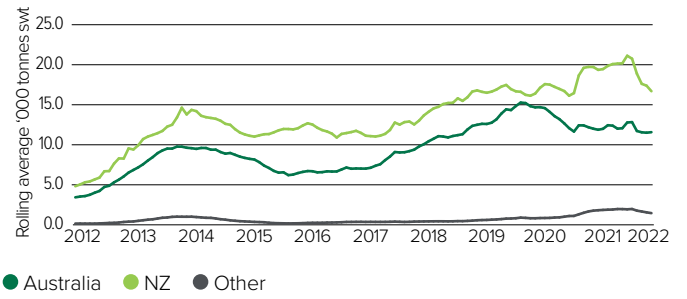
Sheepmeat currently accounts for a small proportion of dietary protein in China but has grown gradually over the past decade with rising incomes and urbanisation. Affluent urban consumers appreciate Australian lamb, which offers several advantages considered worth paying more for, such as safety and consistent high quality. Increasingly health-conscious, these affluent consumers are less willing to sacrifice quality and nutrition for convenience. This dynamic is expected to contribute to further growth in demand for higher quality meat, including imported lamb.

Imports

As the world's largest importer of sheepmeat, China was the destination for over 35% of exports in 2021–22. Chinese imports fell 11% over the financial year to 356,711 tonnes, while the average price per kilo rose 26%, to A$8.61/kg. This meant that total Chinese imports were valued at A$3.1 billion.

China's largest sheepmeat supplier is New Zealand, which exported 200,000 tonnes of sheepmeat into China in 2021–22. This made up 56% of Chinese imports but was a 15% fall from 2020–21 supplies. In addition, the total value of New Zealand exports to China increased 4% to A$1.8 billion, as the New Zealand unit price rose 26% to A$9.08.

China imports by market: 2012–22



Source: IHS Markit

Australia is China's second largest sheepmeat supplier. In 2021–22 China imported 139,000 tonnes of sheepmeat from Australia, a 4% decline from 2020–21 and 38% of total Chinese imports. The average price per kilogram was A$8.02, up 24% compared to 2020–21. Overall, Chinese imports of Australian sheepmeat were worth A$1.1 billion in 2021–22, a 23% improvement on 2020–21.

Together, New Zealand and Australia make up 95% of Chinese exports. The remainder is mostly supplied by Uruguay, which supplied 4% of Chinese imports, and small export volumes from Chile and Argentina.

At present, breast and flaps have been Australia's most sought-after lamb cut in China due to its high cooking versatility and their suitability for use in popular cooking methods such as hot pot and slow cooking. The attractiveness of Australian and New Zealand sheepmeat arises from perceptions of safety and quality assurance in branded products.

MENA

Consumer trends

The Middle East is regarded as a significant market for sheepmeat, with an established carcase trade to the region seeing further growth due to increased flights through the Gulf. Australia has been a key sheepmeat supplier to MENA markets for over 50 years, building a strong, positive reputation; hence it is well-placed to meet the growing demand for higher value product.

Consumers who have tried premium Australian lamb particularly appreciate its consistently high quality, good taste and healthiness. While the majority of the sheepmeat market in MENA is commodity product in carcase form, premium lamb consumption and import demand are forecast to continue increasing in a number of markets, particularly in Gulf countries.

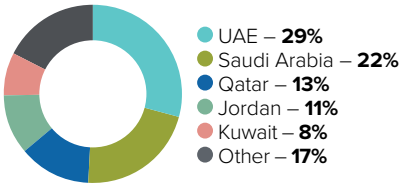
This is driven by increasingly disposable incomes, ongoing urbanisation and westernisation, young populations and large groups of wealthy expats.

Imports

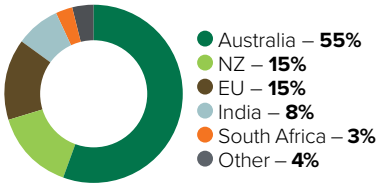
In 2021–22 the MENA region imported 104,755 tonnes of sheepmeat, a 7% increase year-on-year. Average export values rose by 17%, supporting overall revenue growth of 25% to A$1.04 billion. Australia was the largest source of sheepmeat, exporting 58,206 tonnes through the year and supplying 56% of exports over the financial year. This was a slight 1.5% decline from 2020–21, though strong unit values meant that total revenue rose by 12% to A$598 million.

MENA by importer and exporter

Importers in MENA



Exporters to MENA



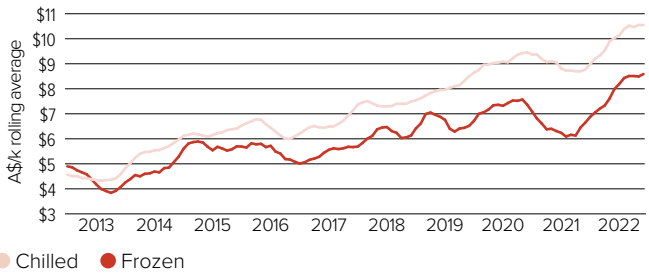
Source: IHS Markit. Proportion of shipped weight tonnes, 2021–22

In Australia's case, much of the decline in exported volume can be explained by the cessation of subsidies for chilled sheepmeat in Qatar at the end of 2020, which caused a 53% decline in Australian exports to Qatar over the financial year. This meant that the United Arab Emirates emerged as the largest market for Australian sheepmeat, as imports grew 3% over 2021–22 to 19,810 tonnes. At the same time, Australian exports to Saudi Arabia grew by 47% to 13,276 tonnes over the financial year, establishing Saudi Arabia as the second biggest market for sheepmeat in the region.

After Australia, there are several smaller suppliers in the market. New Zealand is the second largest supplier to the market, with a market share of 15% in 2021–22. New Zealand exports are growing in the region, with a 43% increase in 2021–22.

The other major supplier in the region is the European Union (EU), which has been a steady supplier of sheepmeat since 2019. In 2021–22, the EU exported 15,000 tonnes of sheepmeat into the region, a 5% drop from 2020–21. Exports from the EU tend to be slightly cheaper than Australian and New Zealand exports, with an average unit price in 2021 of A$8.00, A$1.91 below the average.

MENA sheepmeat exports: prices by storage mode



Source: IHS Markit, MLA Calculations

Australia, New Zealand and the EU together, supply roughly 85% of imported sheepmeat to the region. The balance is mostly made up by India, with smaller volumes from South Africa, Uruguay, the UK and occasionally other suppliers.

Overall, Australia's dominant position in MENA's chilled export market enables high volumes alongside high prices, especially in growing retail sectors in the Gulf Cooperative Council (GCC) states.

North America

Consumer trends

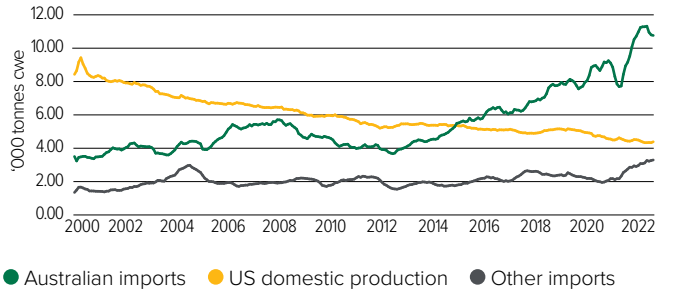
Lamb remains a niche and unfamiliar protein to around 40% of US consumers, due to taste concerns and limited knowledge about how to prepare it. US consumers, however, are progressively becoming more willing to try lamb, particularly the millennial generation.

Lamb has been regarded as a seasonal food for specific holidays and is often eaten out-of-home. The penetration of lamb into US restaurant menus has grown steadily over the last decade, underpinned by growth in casual, fine dining and quick service restaurants.

Imports

In 2021–22, the US imported 154,000 tonnes of sheepmeat, a 32% increase from 2020-21. Of this, Australia and New Zealand accounted for over 98% of supply. The United States imported 118,018 tonnes from Australia, 77% of the total, while New Zealand supplied 32,983 tonnes, 21% of the total. Small volumes from Uruguay, Chile, Mexico and Canada account for the remaining volume.

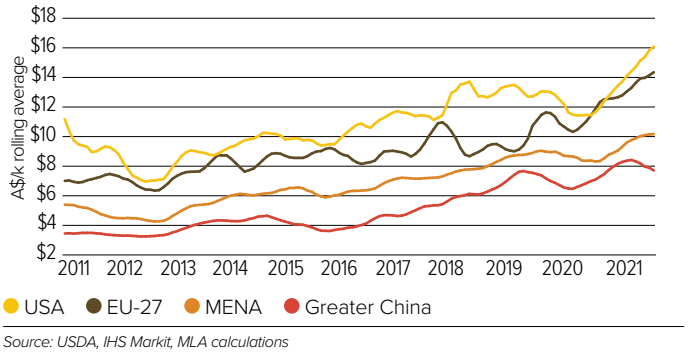
US sheepmeat supply



Source: USDA, IHS Markit, MLA calculations

As a niche protein in a high-value market, imported sheepmeat prices in the USA are typically higher than average. Imports from Australia were valued at $12.31/kg on average, while New Zealand had a slightly higher average value of $16.93/kg. The difference in price is largely due to differences in product mix; lower Australian prices were largely due to much higher quantities of frozen mutton carcase exports, which made up 24% of Australian sheepmeat exports but only 3% of those from New Zealand. Much of this product from New Zealand is shipped to China, where it attracts similar prices.

US import prices against other major markets



Source: USDA, IHS Markit, MLA calculations

Additionally, the United States has a relatively small commercial sheepmeat production industry. In 2021–22 the United States produced 58,962 tonnes cwt of sheepmeat and supplied roughly 30% of domestic consumption. US domestic production tends to be price competitive with Australian and New Zealand exports, with low price variance between imported and domestic production.

MARKET ACCESS

With growth in the Australian domestic market limited, open trade is central to the ongoing viability of the sheepmeat industry, and pursuing unrestrained entry to global customers remains critical. Australia's access to export markets has generally improved over the past three decades, led initially by multilateral negotiations through the World Trade Organization (WTO), and more recently through a series of bilateral and regional free trade agreements (FTAs). While these agreements have resulted in tariffs and quotas becoming less restrictive or non-existent, non-tariff barriers still impede Australian sheepmeat exports.

Australian sheepmeat has some of the best market access globally, with most product facing less than a 5% tariff when entering export markets. Australia, however, has a modest tariff disadvantage to New Zealand in China and is held back by disproportionately smaller quotas in the EU. Australia commenced FTA negotiations with the EU in June 2018, with one aim being to level the playing field with New Zealand sheepmeat.

Recent political shifts have made multilateral trade liberalisation via the WTO increasingly challenging, and while the WTO remains critical for the basis of global trade rules, it is likely that further market access gains for Australian sheepmeat will occur via bilateral and regional FTAs.

Australia's access to global markets is underpinned by strong animal health and food safety credentials, having never had a case of foot -and -mouth disease and being host to world-leading traceability systems. Subsequently, Australia has successfully negotiated technical access to a diversified array of export markets.

While access for Australian sheepmeat has improved over recent decades, non-tariff barriers increasingly restrict exports. Non-tariff barriers include a wide array of measures such as establishment listings, packaging and labelling requirements, unnecessary inspection and testing, and excessive shelf-life requirements. Often such measures are enforced universally and don't reflect Australia's strong track record for food safety and animal health or the quality of product. In some instances, the onset of COVID-19 has compounded the impact of existing non-tariff barriers or ushered in new measures altogether. As such, substantial gains can be unlocked for Australian exporters and overseas consumers by amending rules to reflect science and a risk-based approach to managing trade. One area over the last two years where such reform has been evident is the revision to chilled and frozen shelf requirements for imported Australian sheepmeat into key Middle Eastern markets. Extending the shelf life on imported sheepmeat has unlocked new marketing channels, reduced food waste and supported a shift from air to sea-freight.

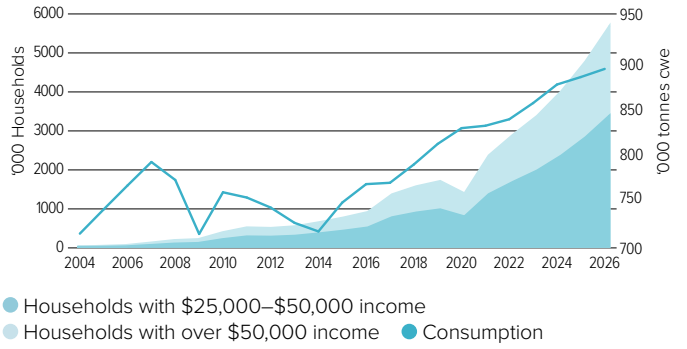
Australia-India Economic and Trade Agreement

On April 2, 2022, The Australian and Indian governments signed the Australia–India Economic Cooperation and Trade Agreement (AI-ECTA). This is the first trade agreement the Indian Government has signed in ten years and grants Australian exporters significant access to a rapidly growing market.

The agreement allows quota-free sheepmeat exports to the Indian market for the first time, eliminating the existing 30% tariff when the agreement comes into force.

India is currently a very small market for Australian sheepmeat, as high tariff barriers and a robust domestic production system make the market difficult for exporters. The removal of barriers, however, opens up opportunities for exporters, especially in higher-end foodservice channels where Australian comparative advantages can be leveraged. India's rapid economic growth over the last decade coupled with this agreement has fuelled expectations of a 13% increase in sheepmeat consumption to 940,000 tonnes by 2031. Australian exporters will continue to have access to a rapidly growing market with an affinity for sheepmeat.

Indian economic growth and sheepmeat consumption



Source: OECD-FAO, Fitch Solutions

Australia-United Kingdom Free Trade Agreement

In 2021, Australia and the United Kingdom signed the Australia–United Kingdom Free Trade Agreement (A-UKFTA). This substantially reduces tariffs into the United Kingdom and opens a high value market for Australian exporters that has largely been closed since the UK's entry to the European common market in 1973.

The agreement creates a duty-free quota for sheepmeat imports that will gradually rise to 75,000 tonnes by 2031 and 125,000 tonnes by 2036. Up to 2031, out-of-quota exports will attract a tariff of 12.5%, in line with Most Favoured Nation (MFN) status, which will transition to a 20% 'safeguard' duty after 2031.

The quotas included in the deal allow for larger volumes to a high-value market that has a cultural affinity for and understanding of sheepmeat. In 2021–22 the average price of Australian sheepmeat exported to the UK was $11.35/k, 10% over the average for Australian exports and comparable to the United States, Australia's highest value sheepmeat market.

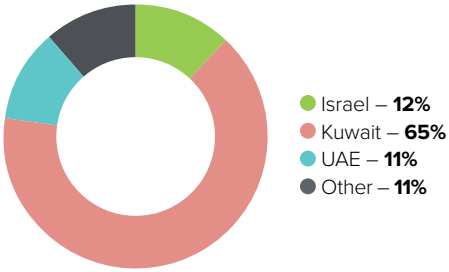
The new quotas ultimately mean that all, or the vast majority of sheepmeat exports would be duty free. For context, for Australian exporters to trigger the safeguard duty in 2036, exports to the UK would need to exceed 125,000 tonnes, which on 2021–22 figures would make the UK Australia's largest export market by far, exceeding combined exports to South-East Asia and the MENA region.

LIVE EXPORTS

With growth in the Australian domestic market limited, open Australian live sheep export volumes in 2021–22 amounted to 478,781 head, a 21% decrease from 2020–21.

Exports to Israel rose, exports to Kuwait fell slightly, but exports to all other markets fell considerably. In particular, exports to Qatar ceased entirely, after importing 270,000 head in 2019–20. Imports to Jordan fell to 7,150 head, previously running at 180,000 head in 2019–20.

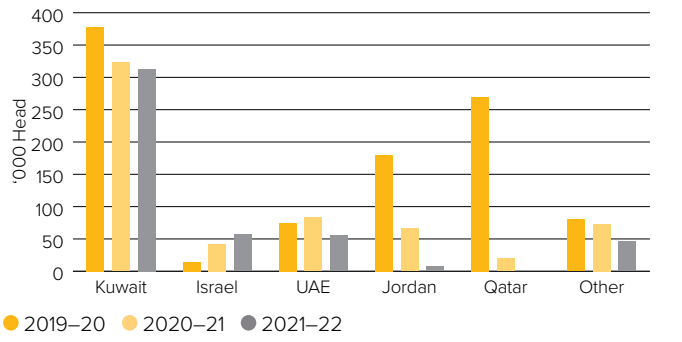
Live export by market



Source: DAFF. Number of head over 2021–22

This decrease in live export has been largely explained by the summer export prohibition on the trade, and high Australian sheep prices. The absence of Australian sheep exports to MENA markets for three months each year has forced importers to seek alternative suppliers. This has resulted in increased supplies of live sheep into the region from various countries including Spain and Romania, as well as countries in the Horn of Africa, none of which have Exporter Supply Chain Assurance System requirements. The Qatar subsidy removal on Australian sheepmeat saw no live sheep exported to the country in 2021, compared to the 270,000 head exported in 2019–20.

Change in live exports: 2019–22



Source: DAFF

Economic factors also contributed to the contraction of Australian live sheep exports. Low supply following years of destocking in WA, including internal movements to eastern Australia, have put upward pressure on WA sheep prices – the state that typically supplies the bulk of Australia's live sheep for export.

The increasing supply in 2023 will help begin to revive demand. The recovery of foodservice and tourism, in conjunction with notable major events including the FIFA World Cup and the Dubai Expo, are expected to boost volumes. It would be hard to return to levels seen in 2019, however, as the impact of Covid-19 will remain present in some markets and continue to affect consumer confidence.

DATA TABLE – SHEEPMEAT

	Australia	NZ	EU-27‡	UK	China	India	Pakistan	US
Sheep flock (million head)*	70.6	26	75	33	307	218	109	7
Sheepmeat production ('000 tonnes cwt)**	662	442	515	277	5083	856	779	74
Lamb production ('000 tonnes cwt)**	508	365	420	244	-	-	-	-
Mutton production ('000 tonnes cwt)**	154	76	94	33	-	-	-	-
Average carcase weight (kg/head)***	25.6	22	16	19	-	-	-	-
Sheep and lamb exports ('000 head)†	575	2	2,752	140	-	237	-	47
Total domestic consumption ('000 tonnes cwt)††	168	18	659	307	5,466	837	774	207
Per capita domestic consumption (kg/person cwt)††	6.4	3.18	1.3	3.94	3.32	.52	2.97	.54
Total exports ('000 swt)†	413	384	34	77	1.5	8.9	2.7	2.8
Chilled % share of exports†	21%	12%	28%	93%	0.2%	88%	99%	25%
Average export price ($US/kg)†	7.34	8.00	7.40	8.75	12.34	6.97	6.84	5.78
Top-3 export markets†	China, US, Malaysia	China, UK, US	UK, Oman, Switzerland	France, Germany, Ireland	Kuwait, UAE, Qatar	UAE, Qatar, Kuwait	UAE, Qatar, Oman	Mexico, Cayman Islands, Dominican Republic

*Source: *FAO, MLA; **OECD-FAO (includes goatmeat), Eurostat, MLA, NZ Meat Board, DEFRE; ***MLA (Australian lamb), B+L NZ, Eurostat EU, DEFRE (UK); †UN Comtrade, IHS Markit, DAFF; ††OECD-FAO (includes goatmeat), MLA (Australia).*