Medium and long-term prospects for UK sheep meat

Based on a study “World Sheep Meat Market to 2025” commissioned by EBLEX for the IMS. Undertaken with the support of AHDB Market Intelligence

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Background to study

• Changing global environment for sheep meat
  – Emergence of China as new key driver
  – Can UK develop opportunities outside of EU?
  – Ongoing competitive threat of New Zealand/Australia

• Lack of global long term forecasts:
  – Only FAO/OECD but some doubts about their objectivity

Data note

• Many analyses of global market include goat meat
• Study more focused on lamb- main interest to UK
• Lack of good up to date FAO data on global situation
China emerged as largest global importer...

*grey trade means it is even more important*

**Chinese imports of sheep meat by country of origin, 2008-14**

Includes Hong Kong

- Other
- Uruguay
- Australia
- New Zealand

Source: GTIS, China Customs, HK Census and Statistics Dept.
UK is the third largest exporter.

Major sheep meat exporters, 2013

- Australia: 34%
- New Zealand: 34%
- United Kingdom: 14%
- Ireland: 9%
- Spain: 4%
- Uruguay: 3%
- Others: 2%

Source: FAO, AHDB Market Intelligence
Australia pushing hard to raise lamb exports with switch from mutton/wool into meat breeds.

Lamb and mutton exports from Australia, 2003-14

Source: MLA
New Zealand lamb though not so successful...

switch into dairying/forestry

New Zealand lamb production and exports, 2003-14

Source: BLNZ

000 tonnes

Production cwe
Exports prod. wt.
(year ended September)

Source: BLNZ
Global sheep meat price moved upwards: 
*constrained supply (NZ) and demand increase*

Source: Based on FAO, AHDB MI
UK also third largest importer.. although global share in decline

Major sheep meat importers, 2013

- China: 25%
- France: 10%
- United Kingdom: 9%
- United States: 6%
- United Arab Em. (2011): 5%
- Saudi Arabia: 4%
- Germany: 3%
- Netherlands: 3%
- Other MENA (est): 8%
- Others: 27%

Source: FAO, AHDB Market Intelligence
China largest consumer..
And global share increasing

Major sheep meat consuming countries, 2013

- China: 30%
- MENA: 27%
- EU: 19%
- Sudan: 12%
- Australia: 4%
- India: 3%
- Nigeria: 3%
- Other: 2%

Source: FAO
Chinese market profile - positives

• Massive potential
  • 1.4 billion consumers including growing middle class
  • Per capita sheep meat consumption only 1.5 kg
  • Adopting western diets, growth of foreign tourism
  • More sophisticated consumers (including shift from mutton to lamb)
  • Future real income growth over 6% per annum

• Key global import market for lower value lamb cuts
  • Front end (flank, breast and ribs)
  • Lamb accounts for 55% of imports

• Small markets for premium lamb emerging
  – Up-market HR/modern retailers (including multi nationals)

• Investment in cold chain
Chinese hot pot
Chinese market profile - negatives

• Limited import demand for premium lamb
  – Including chilled, only 10,000 tonnes supplied by Australia
  – Growth has to be long term objective/marketing effort
  – Even “middle classes” not necessarily with high spending power

• Lamb most expensive meat with sharp price rises

• Recent surge import demand ended for the moment

• Government policy change to more protectionism?
  – Force NZ/Australia to revert to more traditional markets

• Negatives for UK as FTAs signed with NZ/Australia:
  – From 2016 no import tariffs for NZ
  – Australian tariffs to be reduced over eight year transition period
  – Full import tariff for lamb is 15%, mutton 23%
UK steady progress in export diversification..

UK sheep meat exports by major market, 2003-14

Source: GTIS, HMRC
Main assumptions-Most likely scenario

Annual changes: 2014 to 2025
- Global consumption + 1% (led by China, MENA)
- Global trade + 2% (mainly Australia)
- Sheep export price (in real terms) further small rise
- Global lamb/dairy price ratio between 2014 and 2025
  Further movement in favour of dairy
- Supply response between 2014 and 2025
  Highest for Australian lamb
- NZ production constrained by dairy/lamb ratio, environmental issues
- EU profitability under pressure
- Resource constraints for MENA
Main assumptions-High Scenario

Annual changes between 2014 and 2025
- Global consumption: +2% (especially China)
- Global trade: >3% (but still export supply constraints)
- Sheep export price (in real terms): steady rise
- Global lamb/dairy price ratio between 2014 and 2025: No change

Supply response between 2014 and 2025
- Strong positive response in Australia
- Limited upturn in New Zealand
- Eventual small rise in EU
- Modest rise in MENA
Main assumptions-Low Scenario

Annual changes between 2014 and 2025
- Global consumption: <1% (little growth China)
- Global Trade: small fall including China
- Steady decline in real sheep export price
- Stronger increase in dairy/lamb price ratio (2014 – 2025)

Supply response (2014 – 2025)
- No increase for Australia
- Bigger decline in New Zealand

Demand response (2014 – 2025)
- Stricter import policy in China
- Steady decline in EU import demand
## Future trade developments?

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<th>Change between 2014 and 2025</th>
<th>Scenario</th>
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<td>Most likely</td>
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Implications for future UK trade

• Still global supply constraints especially “high scenario”
• Ongoing UK high dependence upon EU
  – Especially premium cuts, including emerging EU markets
  – Non-EU markets (China) though for cheaper cuts/offals
• Reduced threat from Ireland (strong focus on dairying)
• EU moved slowly with FTA’s unlike NZ/Australia
  • So UK competitive disadvantage (China)
  • Also NZ/Australian companies joint ventures
• Although other than NZ/Australia competition limited
  – But they remain strong threat
  – Although seasonality of UK production different
Uncertainties for UK

- UK production outlook (latest CAP reforms, prices)
  - Exchange rates
- Developments in China as key driver of global market
  - Will Chinese import demand continue to increases strongly
  - Can UK get slice of action?
  - But how reliable is China as a long term buyer
    - Note its disinvestment in Australian iron ore industry
- Future demand for lamb on EU market
  - Shelf space to continue to decline?
  - But less competition from Ireland, NZ?
- Can UK compete with Australia /NZ for cheaper cuts
Strategic conclusions for the UK

• Focus on further development of EU markets
  – Identifying opportunities for maximizing returns on different cuts
  – Reduce industry vulnerability to £/€ movements
• But push for development of global markets
  – Maximize opportunities for lower value cuts/offals
    • China and other Asian markets
  – And niche markets such as the US, Gulf States
• Support EU FTA negotiations
  • China, United States (TTIP), Canada (CETA), ASEAN
    – To include sheep meat as well as other meats
• Improve industry competitiveness
  – To compete with NZ/Australia
So good luck with export development. The opportunities are there but it will still be a challenge.