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Author:	Barnard, P.
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Meat—prospects and markets

P. Barnard

Meat and Livestock Australia, Sydney, NSW; email: pbarnard@mla.com.au

Abstract

The Australian lamb industry enjoyed considerable success during the past decade. Driven by improved livestock management, product innovation and successful marketing, the financial performance and profitability of the Australian lamb industry during this period compared favourably with that of other Australian agricultural industries. However, challenges continue to confront the lamb industry. As the impact of the current drought declines, lamb production will increase. If significant falls in price are to be avoided, the successful generation of demand that occurred over the past decade must be repeated during the next ten years. This article reviews the successful elements of industry performance since 1995 and identifies the best prospects for market development to 2015.

Introduction

Fifteen years ago, the Australian lamb industry was in decline. Since then, the Australian lamb industry has undergone a remarkable transformation. Between 1980 and 1990, the following signs of industry ill health were evident: the real gross value of Australian lamb production fell by 60%; real lamb livestock prices fell by more than 50%; profitability of lamb producers in real terms declined by 78%. This decline was driven by the following factors: an increasing number of Australian consumers were eating less lamb because it was perceived by as inconvenient, fatty and old fashioned; sales of lamb were essentially confined to the domestic market, which was dominated by two supermarket chains; exports represented about 15% of production and were regarded as little more than a convenient means of disposing of poor quality product unsuitable for the domestic market.

Since 1990, the lamb-meat industry has been one of the stellar performers in Australian agriculture: the value of lamb production increased by 330% whereas the value of Australian agricultural production increased by 70%. Lamb livestock prices and lamb producers' profitabilities have more than doubled since 1990. The purpose of this article is to analyse the drivers underlying the improvement in industry performance and examine future market prospects.

Major developments in the Australian lamb industry: 1990–2005

The improved economic performance of the Australian lamb industry over the past 15 years was driven largely by greatly increased product demand. Lamb production in Australia has increased by almost 20% since 1990 and by about 30% from its low point in 1993 (Fig. 1). That lamb prices have increased despite increased production indicates that demand for Australian lamb has increased.

It is important to emphasise that demand is not synonymous with per capita consumption. Product demand is a fundamental and precise measure of consumer preferences and incorporates both price and per capita consumption. Per capita consumption is always high when prices are relatively low, and vice versa. A demand curve illustrates the quantities that will be consumed at different price levels; when this curve moves outwards or inwards, it indicates a shift in willingness by consumers to pay more or less, respectively, for a given quantity.

From 1980 to the mid 1990s, the demand curve moved inwards (Fig. 2A), indicating that the domestic market for lamb was in decline. At a given price level, Australians consumed more lamb in

the early 1980s than in the early 1990s (compare points for 1985 and 1990 in Fig. 2A). However, demand for lamb increased from the mid 1990s (Fig. 2B).

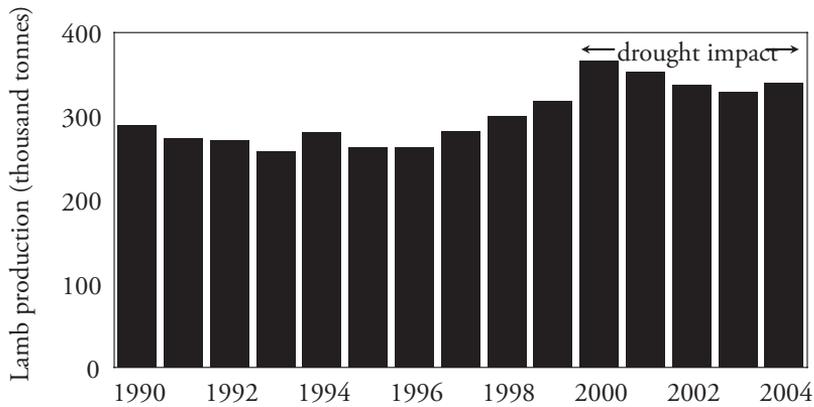


Fig. 1. Australian lamb production.

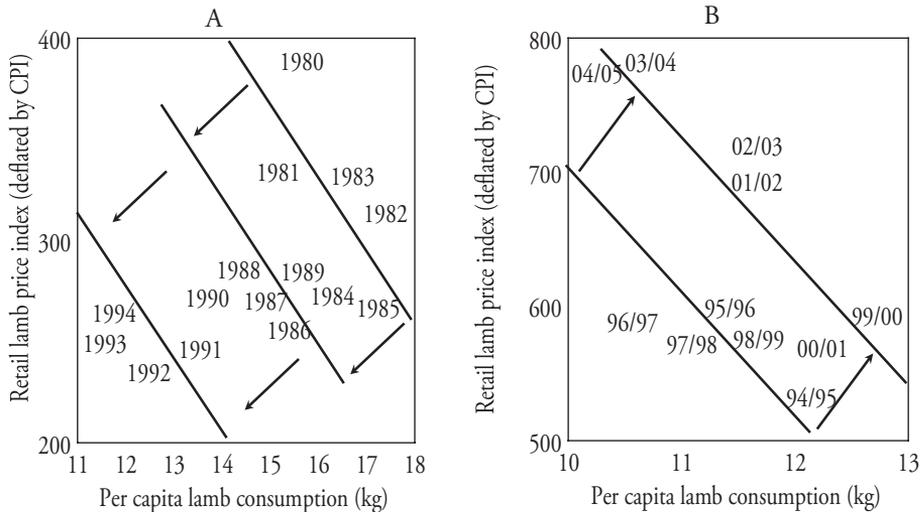


Fig. 2. Fall in consumer demand for lamb from 1980 to 1994 (A) and increase in demand from 1994 to 2005.

Real domestic consumer expenditure increased by over 50% between 1995 and 2005. Industry changes, of which two were especially important, contributed to the turnaround in demand. Firstly, from about 1990 onwards, management of lambs by producers improved, as they were seen as valuable products rather than byproducts of the wool industry. Consequently, more first- and second-cross lambs were produced, carcase weights increased and mating seasons were managed so that lambs were available throughout the year. Secondly, negative consumer perceptions that lamb was poor value because of fat and bone wastage, inconvenient and lacking in versatility were addressed. Young people, in particular, displayed preferences for lighter meals in which meat was combined with pasta or was a component of stir-fries, rather than the traditional roast or barbeque chop. Under the Trim Lamb and New Trim Lamb initiatives, the product was sold in boneless form, including cuts such as Easy Carve Legs and Shoulders, backstraps, lamb rumps and diced lamb meat, which is suitable for

a range of cooking methods and may be prepared quickly. At the same time as domestic lamb sales improved, export markets were developed. In 1987, research, which indicated that the US market had significant potential, resulted in the launch of the FARL brand, now called Fresh Australian Premium Lamb. From 1993, key accounts such as Safeways and Costco were secured, and sales began to increase. The US market is now worth about \$298 million per year in lamb export sales and shows no sign of slowing down.

Lamb is now exported to diverse markets, each with distinct product preferences. These range from traditional markets such as the European Union, the Middle East and Papua New Guinea to new markets in South Asia, China and Africa. Lamb exports are now valued at \$700 million per annum, which is five-fold greater than that in 1990 and accounts for 45% of Australian lamb production. This growth in exports has been important not only for increasing demand for Australian lamb, but also for decreasing price fluctuations caused by variations in supply. A wider set of opportunities for sales allows the industry greater scope to adjust the quantity of product produced for the market.

Future industry developments and market prospects

The high profitability of lamb production during the past few years will presumably result in increased lamb production. New entrants will be attracted from other agricultural enterprises and existing lamb producers will expand production further. As lamb production is forecast to increase by about 20% (70,000 tonnes) over the next five years, additional demand will be required if profitability is to be maintained.

With Australian lamb production forecast to increase, it is fortunate that the global production of lamb meat is not expected to increase significantly. Excluding intra-EU trade, 88% of the world trade in sheep meat (most global statistics do not distinguish between lamb meat and mutton) is sourced from Australia and New Zealand (of global trade, exports from China constitute 3% and those from India constitute 1%; live sheep are also traded between Eastern Europe, particularly Romania, and the EU and between the Middle East and North Africa). New Zealand supplies are expected to only increase gradually over the next five years. The only supplier likely to expand substantially is China, but there are few global markets in which Chinese products would compete directly with quality Australian lamb. Furthermore, growth of China's local demand is expected to continue and match production, leaving little surplus for export.

A global review of growth prospects for Australian lamb was recently commissioned by Meat and Livestock Australia (Hassall and Associates, 2005). To identify markets with the greatest prospects of growth, the following criteria were applied:

- Previous rate of import growth for lamb meat.
- Competition for Australian lamb meat.
- Ethnicity and taste preference for lamb.
- Income growth.
- Population growth.
- Internationalisation of cuisine.
- Modernisation of food distribution.
- Degree of success experienced in previous promotional activities for Australian lamb.

The US and China were identified as offering high potential growth for Australian lamb sales. The study concluded that the market for Australian lamb in the US could grow from its present level of about 40,000 tonnes to 60,000–80,000 tonnes by 2015. The US was the dominant growth market for Australian lamb over the past five years, accounting for 43% of total volume growth since 2001. This growth was largely driven by the decline in US lamb production and a constant level of lamb consumption (Fig. 3). Last year, sheep meat consumption in the US fell to 163,000 tonnes, which is

the lowest level since 2000 and was apparently caused by the high price of sheep meat.

Per capita consumption of sheep meat in the US is now 0.5 kg per annum, compared to 10.2 kg per annum in Australia. If sales of Australian lamb to this market are to continue to grow, consumption must increase rather than simply replace dwindling US domestic supplies. It should be possible to achieve such growth in per capita consumption by promotion of the product in parts of the country where people are aware of the qualities of lamb meat. Consumers in the eastern states have some experience of lamb, real GDP is expected to grow by about 40% to 2015, population is predicted to grow by 27 million (9%) and past promotion of Australian lamb in this market has been successful.

Expensive lamb meat components such as legs, racks and loins dominate the US trade. China is likely to provide the major sales growth for cheaper lamb cuts. In China, strong regional differences exist in the per capita consumption of sheep meat: the population south of Shanghai does not consume sheep meat in significant quantities and that to the north of Shanghai does. Income growth in China is strong (9% per annum) and the market is in the process of modernisation. Although China has the largest sheep flock in the world and can supply most of its needs for sheep meat internally, China is likely to become a significant importer and exporter in time. The study concluded that exports of 20,000 tonnes or more to this market could be achieved (13,000 tonnes are currently exported to China).

Apart from the US and China, a number of other markets are likely to offer growth prospects, but to a modest extent. Notable amongst these markets are Mexico (where the population is forecast to grow by 12 million (12%) and GDP is forecast to grow by 3.5% per annum to 2015), Japan and countries in the Gulf Cooperative Council. In addition, the EU and, to a lesser degree, India offer significant growth prospects if access difficulties can be resolved. The EU is the largest sheep-meat market in the world, yet access into this market is distorted towards New Zealand. New Zealand has a sheep-meat quota into the EU of 227,854 tonnes, while Australia's access is only 18,786 tonnes. This quota imbalance occurs despite the facts that Australia produces more sheep meat than New Zealand and the global volume of exports of both countries are similar. That this quota imbalance continues to exist is unacceptable in a free-trade world. Achieving more equitable access to the EU market should be a priority. Non-tariff trade barriers currently preclude lamb imports into India. Apart from these barriers, the prospect of profitable commercial trade of Australian lamb into India is favourable. If the sanitary standards applied to India were to ease, imports of 20,000 tonnes would be possible.

On the domestic market, after additional supplies become available, the challenge will be to regain lost consumers. As supplies decreased over the past five years and prices increased, per capita domestic consumption of lamb declined from 12.6 kg to 10.3 kg—a loss of almost 20%. With increased production predicted, stimulation of domestic consumption will be critical.

Conclusion

The Australian lamb industry has been highly profitable over the past decade, mainly because of improved product demand both domestically and in the US. In the absence of drought, additional lamb supplies should become available. The challenge for the industry is to sustain the generation of demand that has occurred during past decade for another ten years. This will involve improving domestic consumption, resolving access problems, developing the US market further and uncovering new export opportunities.

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