



Red Meat Market Report

Middle East and North Africa (MENA)



Sheepmeat and beef 2010 update

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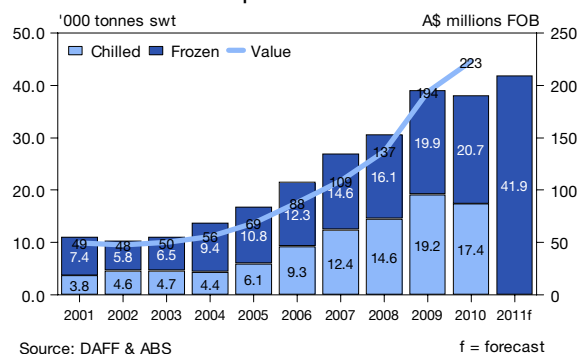
Overview

- The Middle East established itself as Australia's largest lamb export destination in 2010, with shipments increasing 2% on the previous year, to a record 36,670 tonnes swt¹ (shipped weight).
- Mutton exports to the Middle East, however, fell by 17% to 42,870 tonnes, due mainly to tight supply.
- Beef exports to the Middle East increased 54%, to 24,327 tonnes, with growth of 105% in grainfed to 3,899 tonnes, while chilled beef rose to 6,993 tonnes, representing a 17% rise on 2009.
- Food security dominates government priorities and economic planning, with GCC food imports expected to double by 2020.
- Significant 'modern' retail development programs are underway, with food purchases forecast to grow by 191% in UAE alone by 2014. Per capita food consumption is expected to increase by 21% over the same period (Business Monitor International, BMI).

Economy

- While difficult to generalise across such a diverse region, the GCC (Gulf Cooperative Council: Saudi Arabia, Qatar, Bahrain, Oman, UAE, Kuwait), in particular, remained buoyant in 2010. Furthermore, GDP across the MENA region is forecast to grow by 32% from 2010 to 2015, driven by increased revenues from fossil fuels.
- Food security dominates government priorities and economic planning, with food imports to the GCC predicted to double to US\$49b by 2020.
- Real per capita incomes across the MENA region are expected to grow by 17% to 2015 according to the IMF (International Monetary Fund).
- BMI forecasts 67% growth in the number of foodservice outlets in the UAE by 2013, with 216% growth in sales. Foodservice lamb sales are forecast to grow 290% in the UAE by 2014, while beef is estimated to rise by 152% – with significant tourism and hotel developments across the region aiming to alleviate long term reliance on fossil fuel revenues.
- Retail turnover is forecast to increase from US\$4.9B in 2010 to US\$6.9B in 2014, with hypermarkets and supermarkets maintaining strong growth, while the souk (local wet market) trade is estimated at 25% of volume and declining.
- Per capita food consumption is forecast to increase 21% by 2014 (BMI).

Figure 1
Australian lamb exports to MENA



Australian Lamb Exports

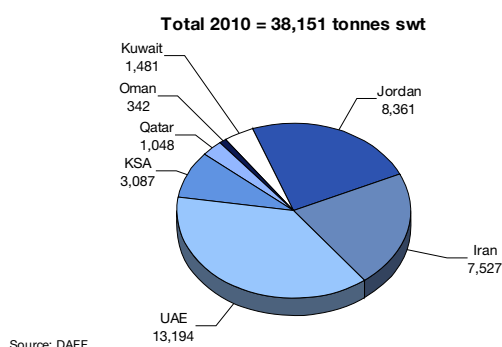
- The Middle East established itself as Australia's largest lamb export destination in 2010², with shipments increasing 2% on the previous year, to a record 36,681 tonnes swt.
- When coupled with North Africa, the Middle East and North Africa (MENA) region received 38,151 tonnes swt of Australian lamb in 2010, and accounted for 24.5% of total 2010 Australian exports. Robust consumer demand and strong economic growth assisted the rise in shipments to the Middle East, while the increased price for lamb and higher A\$ impacted on exports to the more price sensitive North African market.

¹ swt: all volumes are in shipped weight terms

² Lamb exports to the Middle East collectively (36.7kt) exceeded the US market (34.1kt) for the first time in 2010. However, North America remained the largest region, with 39.6kt, slightly higher than MENA, with 38.2kt.

- Tight sheepmeat supplies were accentuated by shortages of live sheep from Australia, with many importers shipping significant quantities of chilled lamb (and mutton) carcasses by air (despite the average additional cost of US\$2/kilogram for air freight).
- Overall, shortages in mutton supplies, coupled with the A\$ appreciation, forced many importers to seek alternative meats to fulfil protein demand, resulting in a number of markets increasing lamb imports.

Figure 2
Australian lamb exports to MENA



■ The top three destinations for Australian lamb within MENA during 2010 were the UAE (13,194 tonnes swt), Jordan (8,361 tonnes swt) and Iran, which rocketed from no Australian product in 2009, to 7,527 tonnes swt.

■ The main increases in lamb shipments to the region were Iran, Saudi Arabia (up 32% year-on-year to 3,087 tonnes swt) and Qatar (up 98% to 1,048 tonnes swt), while the UAE held relatively steady (down 7% to 13,194).

■ Jordan claimed the main decrease in volume, down 35%, followed by Kuwait down 61% year on year, to 1,481 tonnes swt.

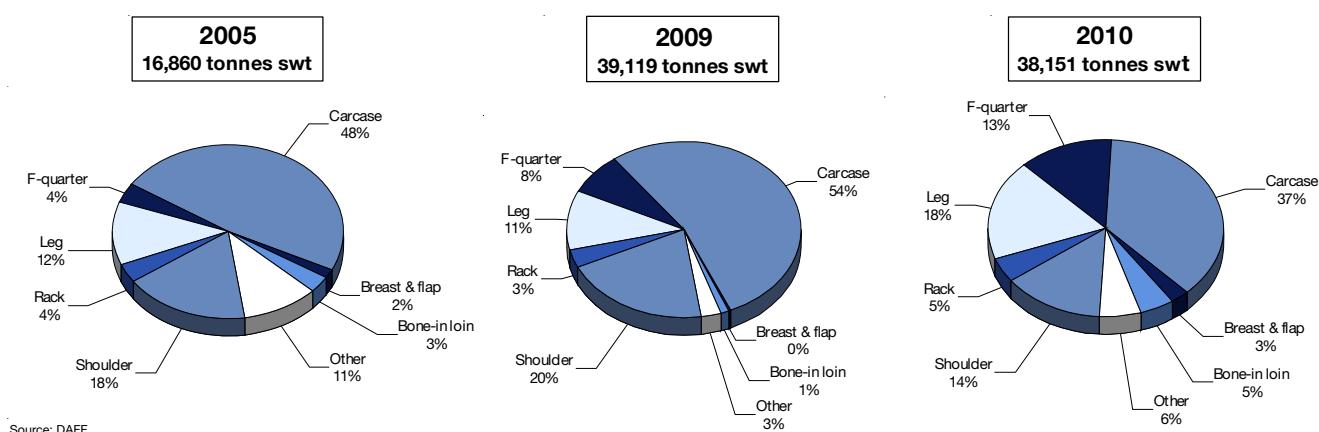
■ The cuts composition was dominated by carcasses (37%), legs (18%) and shoulders (14%). Leg shipments, up 66% to 6,912 tonnes swt, are mainly used for grilling, roasting, casseroles while traditional slow cooked lamb is served as a whole carcass eaten by hand with rice or noodles.

■ Although carcass exports remained the biggest item shipped to the region, at 13,232 tonnes, trade in this product fell 27% when compared to 2009, mainly due to a large fall in exports to Saudi Arabia.

■ Forequarter exports was the second cuts grouping in volume increase (up 63%, to 4,948 tonnes swt), with products often diced or minced for casseroles, while bone-in loin (up 343%, to 1,799 tonnes swt) was the third largest cuts group shipped to the region. Bone-in loin is mainly purchased by upper-end consumers and restaurants for grilling.

■ Iran's demand was dominated by leg at 2,313 tonnes swt, forequarter at 1,184 tonnes swt and bone-in loin at 1,322 tonnes (all frozen product). The only chilled product exported to this market was carcass (676 tonnes swt out of the total 721 tonnes swt exported was chilled).

Figure 3
Australian lamb exports to MENA by cut

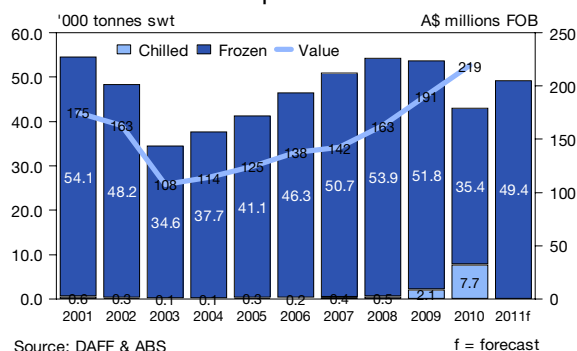


Australian Mutton Exports

- Given the very tight sheep supply throughout 2010, Australian mutton exports to the MENA region declined 20% year-on-year, to 43,129 tonnes swt.
- The three largest markets within MENA for mutton were Saudi Arabia (despite being down 45%, to 11,900 tonnes swt), Bahrain (up from 1,046 tonnes swt in 2009, to 5,889 tonnes swt) and Qatar (down 26%, to 3,965 tonnes swt).

Figure 4

Australian mutton exports to MENA



■ Mutton cuts to the Middle East were dominated by full carcasses, representing 60% of total volumes, with 82% of mutton exports in 2010 being frozen. Legs were next at 20%, and manufacturing at 7%.

■ Bahrain increased its mutton carcass shipments by 463%, to 5,889 tonnes – through the combination of multi-million dollar government subsidies that lock sheepmeat prices in at the equivalent of A\$3.50/kg and a lack of live sheep availability. This was destined for the local souks (wet markets) and supermarkets.

■ Mutton exports to Iran rose from zero in 2009, to 1,099 tonnes swt in 2010.

■ Egypt's demand for mutton remained bullish (up 38% to 3,774 tonnes), with a rise in leg shipments (up 156% to 763 tonnes swt). Legs are often destined for large catering companies, where the product is prepared in pressure cookers to fulfil the protein demand of the many labour camps across the region.

■ Mutton forequarter exports to Egypt were also on the rise, up 172% to 708 tonnes. These products are mainly used for wet cooking and mincing, while bone-in loin (up 225% to 450 tonnes) are usually sold as chops for grilling, targeted at the lower end consumer and cafes.

Figure 5

Australian mutton exports to MENA

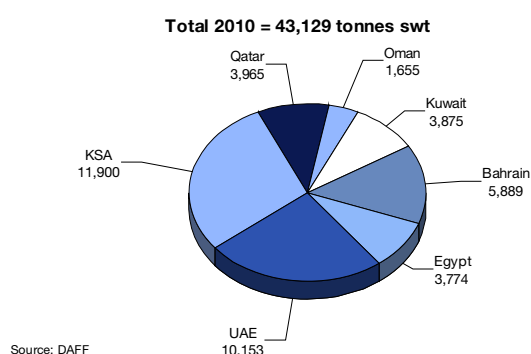


Figure 6

Australian mutton exports to MENA by cut

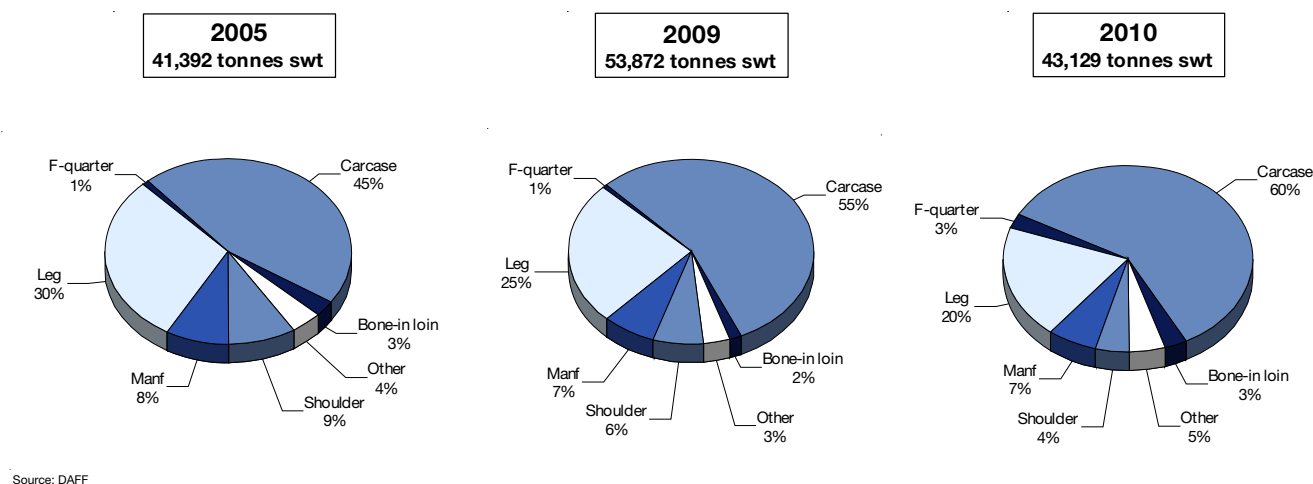


Figure 7
Australian beef exports to MENA

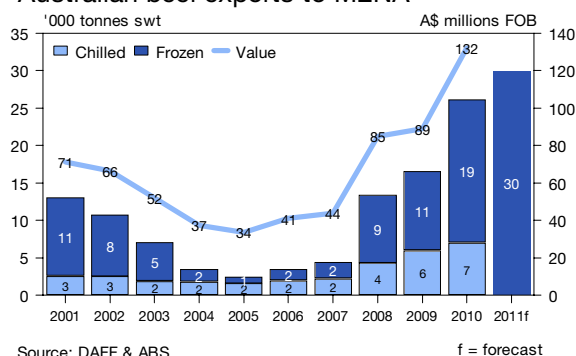


Figure 8
Australian beef exports to MENA

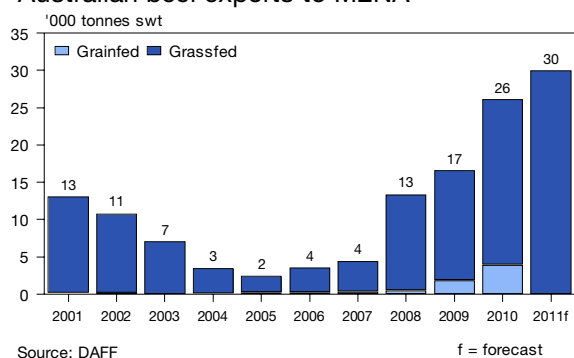


Figure 9
Australian beef exports to MENA

Total 2010 = 26,125 tonnes swt

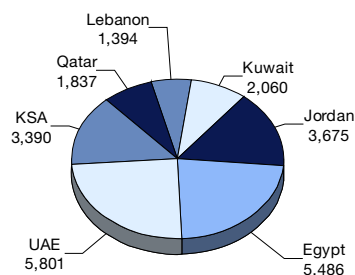
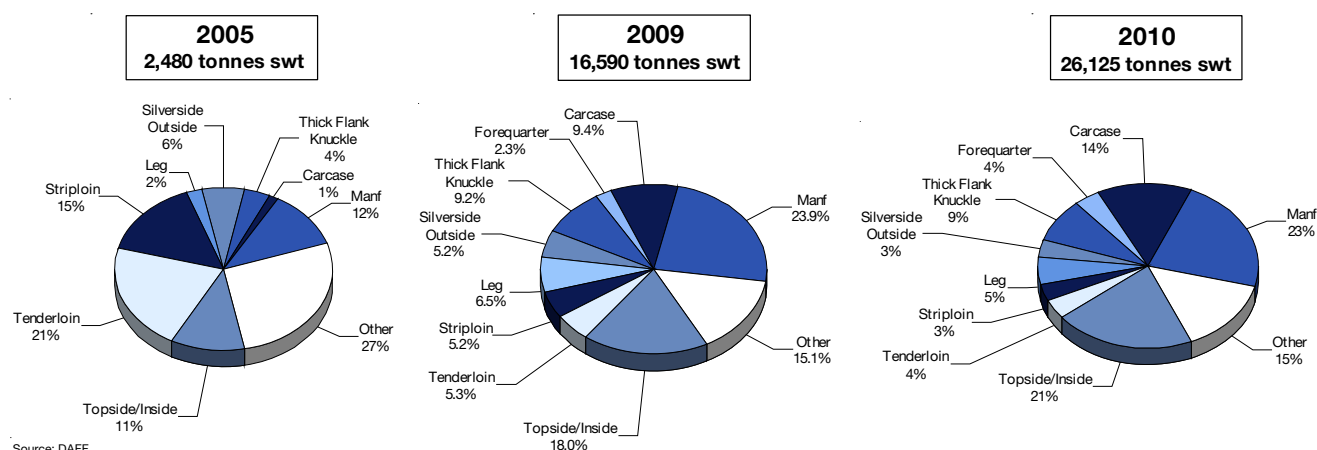


Figure 10
Australian beef exports to MENA by cut



Australian Beef Exports

■ Calendar 2010 beef exports to the Middle East increased 54% to 24,327 tonnes, while exports to the MENA region grew 57% to 26,125 tonnes.

■ Strong demand from Egypt continued, with Australian exports rising 362% to 5,486 tonnes, and likewise Jordan, up 31% to 3,675 tonnes. Manufacturing makes up 23% of the total export volume to MENA, and is predominantly for use in hamburger and kofta style traditional dishes.

■ Significant increases in exports to Egypt, Jordan, Saudi Arabia, Lebanon, Kuwait and the UAE, along with growth in chilled grainfed beef cuts to the region, has assisted in positioning Australia as a viable high quality supplier.

■ A significant proportion of the growth in Australian beef exports to the region is due to higher prices from traditional South American suppliers and locally produced beef. A substantial amount of the growth has come from cheaper cuts utilised at retail in traditional meals, such as kofta, and an increase in sales of mince beef as a result of consumers rejecting the higher prices on primal cuts or diced cuts. Mince or ground product now account for nearly 50% of store sales in major centres.

■ The key increases in cuts across the region were topside/inside, up 83% to 5,276 tonnes swt, carcass up 120% to 3,285 tonnes swt and manufacturing beef, 46% higher at 3,285 tonnes swt. Of note, 62% of the carcass trade to the region was veal, mainly light veal carcass.

■ Egypt was the key destination for the 2010 beef carcass trade, taking 67% of the total, principally sold at retail, with the main usage for these products being grilling and wet dishes.

- Two key reasons behind the increase in Egypt's demand continued to be the lower consumer confidence in Indian 'beef', due to animal health issues in June, and higher Brazilian beef prices on certain cuts, for instance topside.
- Another driver behind Egypt's surge in imported beef is the reduction of its cattle herd, which has decreased from about eight million head in 2007 to an estimated five million.
- The main increase in topside/inside exports to the region in 2010 was to Jordan (up 49% to 1,358 tonnes swt), with a percentage of this product allegedly often re-exported to Syria. The UAE followed, taking 1,260 tonnes swt of this cut, predominantly used in fast food hamburger outlets.
- Saudi Arabia's large number of hamburger outlets maintained this market as the main destination for manufacturing product in the region, although shipments were down 7% on 2009 to 1,760 tonnes.
- Jordan and the UAE (Dubai in particular) accounted for noticeable rises in manufacturing beef, increasing 107% to 1,406 tonnes and 95% to 1,015 tonnes, respectively. Manufacturing product exported to these countries consisted predominantly of trimmings, which are often used as diced meat, and forequarter 10-rib, commonly used for kofta-style dishes at foodservice.

Competition

Sheepmeat

- In 2010, 4,228 tonnes of Chinese sheepmeat was exported to the Middle East (according to official Chinese Government statistics), and in 2009 (latest Indian Government calendar year available) almost 1,400 tonnes of Indian lamb went to the region. In addition, total Pakistani sheepmeat exports reached about 4,000 tonnes in 2009, with a significant portion probably destined for the Middle East.
- Ten out of the top 20 countries that China exports to are in the MENA region, while seven out of the top 10 countries that India exports to are in the region.
- In 2010, New Zealand exported 29,010 tonnes of sheepmeat to the region compared to Australia's 81,280 tonnes (38,151 tonnes being lamb). This represented an 8% fall on 2009 volume. Generally New Zealand lamb is quite highly regarded in the region and its lower carcase weights suit the Middle East market.
- Live sheep exports to the Middle East were under supply pressure, which in turn placed added pressure on chilled and frozen imports of sheepmeat.
- Due to the ethnicity of many of the consumers in the region, there is a preference to buy product from 'home' countries which has an obvious impact on demand.
- Reduced competition in the region from New Zealand, China and locally slaughtered product assisted growth in demand for Australian sheepmeat, with exports from these countries expected to remain constrained. New competition from Uruguay and Romania (chilled carcasses) did not impact directly on Australian volumes – however, these countries have a price advantage, due to competitive exchange rates and lower freight costs.

Beef

- The main competition in the region came from frozen Brazilian beef, which reached 454,625 tonnes in 2010 (up 30% year-on-year) into the mid level retail and foodservice markets.

- Indian 'bovine' (buffalo) meat continued to be the lowest cost volume bovine supplier into the region, aimed at the manufacturing sector – reaching 164,000 tonnes in 2009 (latest data available), down 15% on 2008. The largest Middle East markets for Indian bovine meat in 2009 were Egypt (28,000 tonnes), Kuwait (28,000 tonnes), Saudi Arabia (24,000 tonnes) and the UAE (16,500 tonnes).
- India is expected to dominate the price competitive manufacturing sector for the foreseeable future, and to make significant sales into low end retail.
- Competition also came from US beef in the upper market segments, with 45,903 tonnes shipped in 2010, double the total in 2009.
- Chicken competes with beef in both the retail and foodservice sectors. In March 2010 a trade agreement was struck on behalf of the US poultry industry and ratified in late August 2010. Following this agreement, American poultry is able to enter Egypt tariff free, potentially opening the way for more US poultry into the North African region.

Regional Forecasts

- Margins for retailers in the region were squeezed during 2010, with increased sheepmeat prices impacting on profitability. Prices from India, Somalia and other North African nations trended up accordingly.
- There are significant 'modern' retail development programs underway across the region, with food purchases forecast to grow by 191% in UAE alone by 2014, and average per capita food consumption to increase by 21% over the same period (BMI).
- Foodservice lamb sales in the UAE are forecast to grow by 290% from 2010 to 2014, with significant tourism and hotel developments across the region aimed at lessening long term reliance on fossil fuel revenues (BMI).

First use of seasonal point of sale material for Australian beef and lamb

To remain competitive in the Middle Eastern market, MLA has been working closely with supermarkets to market and merchandise the credentials of Australian beef and lamb.

For the first time in the Middle East, seasonal point of sale (POS) material has been used to package Australian product more prominently and uniquely, in order to capture customers' attention when they walk past the meat cabinet.

Two major retailers in the UAE, LuLu hypermarket and Choithram, are now using POS, including ticket-toppers, wobblers and cabinet stickers. The branding draws attention to Australian beef and lamb's reputation for quality, consistency, safe eating and Halal certification and gives consumers a reason to purchase Australian products over cheaper offerings.

The next stage of MLA's POS and branding initiative will include seasonal meal promotions, recipe ideas and other materials, to further satisfy consumer expectations as prices increase.

The strength and importance of POS and branding was demonstrated in MLA's Ramadan promotion, which helped to offset a decrease in demand for beef and lamb – retailers who participated in the promotion reported stable beef and lamb sales, while those who didn't recorded decreased sales.

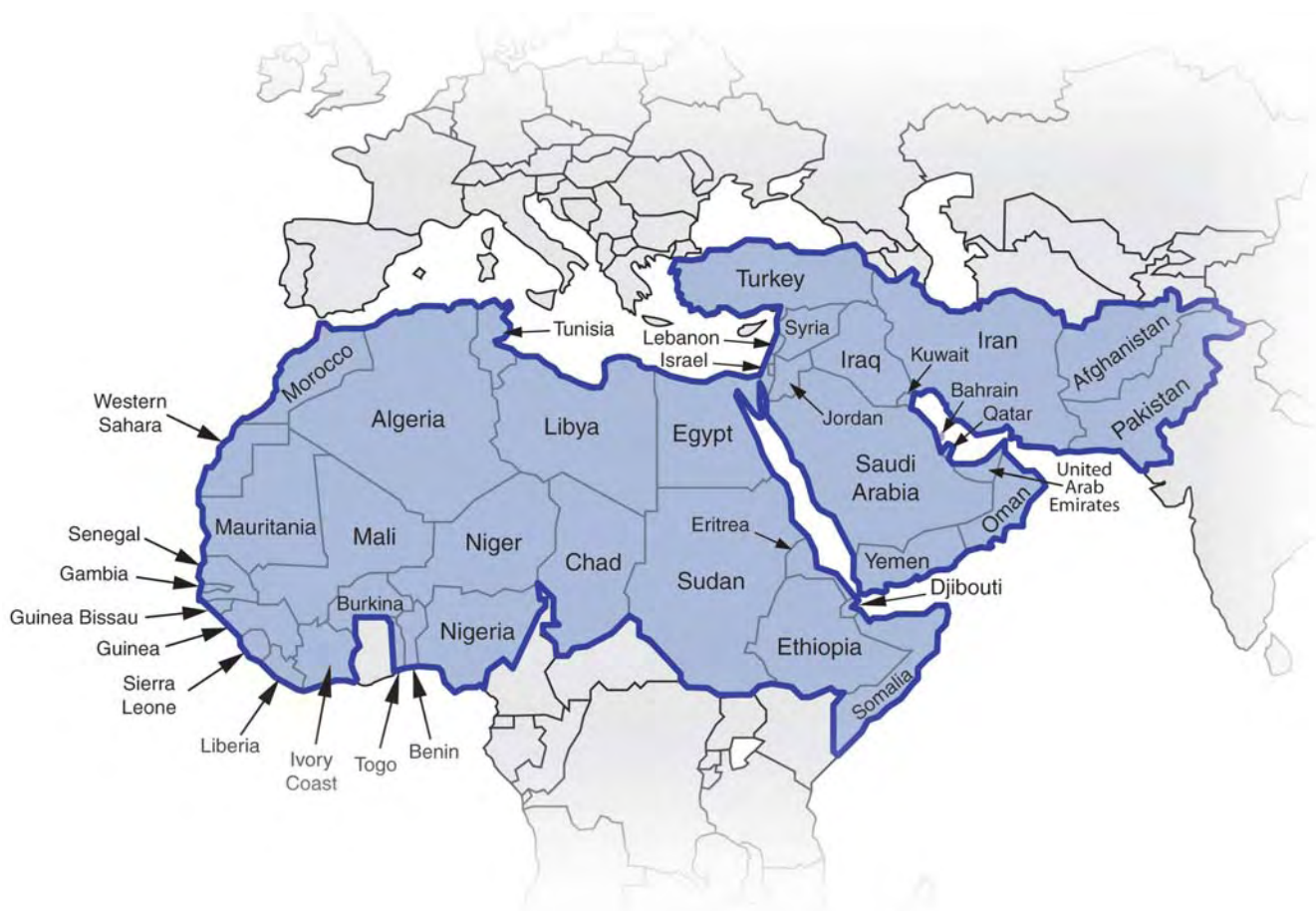


- There has been a 67% growth in number of foodservice outlets in the UAE, with 216% growth in sales forecast by 2013 (BMI).
- Importers may need to be convinced to raise acceptable carcase weights and explore alternate cuts, given the expected tight global supply (and higher price) of lamb and continued shift in Australian supply towards heavier first and second cross lambs.
- The GCC population is set to rise 13%, from 38.4m in 2010 to 43.4m by 2015, with some analysts predicting that by 2020 "...24% of the GCC population will be under the age of 15" (BMI).
- Import protocols with Turkey, Syria or Iran would greatly lift import demand in the region, as would lowering the current tariff of 307% for sheepmeat, and 254% for beef into Morocco.
- Political instability continues, with issues during 2010 including UN sanctions on Iran, damage to infrastructure in Iraq, challenges to governments in Egypt, Lebanon, Bahrain, Yemen and even Saudi Arabia. Adding to this is the political and social impact of Afghanistan and Pakistan on the region. As widely covered in world media, 2011 has seen an unprecedented upheaval across the region, with many potential outcomes possible.
- Application of in-market country entry requirements presents ongoing challenges for trade to some countries within the MENA region. Some competitor nations are experiencing great difficulty in adhering to some requirements, and governments are therefore tightening requirements and increasing inspection frequency on all shipments from all countries. The impact for Australia is an ongoing issue, given that it is often penalised due to the inferior standards of some competing countries.
- The continuing regional reliance on food imports has governments looking to secure supply arrangements with countries able to export clean, safe Halal sheepmeat to ensure long term food security.
- Exchange rates continue to affect price competitiveness. More specifically, the recent rise in the A\$ and fluctuation in daily rates during shipping frustrates importers and retailers alike, resulting in Australia being less competitive on price against lesser quality, high volume competitors in sheepmeat.
- Given Australia's reputation for quality and safety, questions over India's ability to supply increasing quantities, and constraints on US competition, Australian beef exports to the region are forecast to expand by 108%, or 31,000 tonnes, between 2010 and 2015, to around 60,000 tonnes swt – the second largest forecast regional rise over the period, behind North America.
- Further, live cattle exports are forecast to expand from 150,000 to 210,000 head, or 39% (9,400 tonnes boneless weight equivalent). This also reflects an expected shift towards higher quality beef into the retail and foodservice segments.
- Growth in the grainfed beef category is gaining momentum and is marketed by retailers and foodservice operators as a key point of difference. This, in turn, allows retailers and chefs to enter at the higher value category with cheaper secondary cuts, whilst marketing the grainfed beef attributes on shelves and menus.
- Australian lamb supply is forecast to increase 15% over the next five years with mutton supplies remaining steady (at recent much reduced levels).
- Local supplies of sheepmeat are expected to grow only slowly (if at all), meaning imports are forecast to rise by 50,000 tonnes swt, or 14%, accounting for approximately half the forecast consumption growth.

- Australia's share of this growth in imports is forecast to be 40% (compared with 32% currently) – assisted by slower supply growth in competing countries and a falling A\$. This would give growth in lamb exports of 20,000 tonnes, or 22%, to 113,000 tonnes swt. If 15,000 tonnes of this growth is in lamb (as mutton supplies remain limited), this would lift lamb exports by 38%, to 54,000 tonnes.
- Most of this rise would likely be in chilled form, mainly carcase, for the retail trade. There is also likely to be growth in shoulders and breast & flap. Increased trade in racks and legs (mainly chilled) is also likely to continue, aimed at the foodservice sector.

Figure 11

The region covered by the MLA MENA team



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Free to MLA members

For further information

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