



On The Trade War

By Holly Baker, Analyst, AuctionsPlus Market Insights

We're only five months into the calendar year but "unprecedented" is already the odds-on favourite for 2020's most overused word. However, it seems to be the best and only adjective to describe the concurrence of current economic and global events.

The term is not exclusive to news reporters and politicians, it also appears daily to describe the events unfolding within the Australian agricultural industry. This year has seen a change in circumstances that were difficult to imagine at the back end of last year. Restocking demand after above average rainfall, low herd numbers driving prices skywards and of course COVID-19 are all contributing elements to this rollercoaster start of a year.

"Unprecedented" has also been used to describe China's announcement on May 12, seeing the suspension of four Australian abattoirs that export red meat to the country. This action is perhaps one instance where the adjective is not applicable to describe the issue and I, as a 22 year old from Gunnedah working in the agricultural industry as part of the AuctionsPlus Market Insights team, will discuss the reasons why.

The statement has attracted rivers of news coverage in recent weeks with speculation that the suspension is over Australia's probing comments about the politically sensitive issue regarding the origins and outbreak of COVID-19. This is despite the Chinese Ministry for Foreign Affairs spokesperson, Zhao Lijian, emphasising that the suspensions are not politically linked to the virus investigation. Instead, it was Chinese State Customs that discovered some products from Australian abattoirs had not adhered to labelling and consignment guidelines between March 2019 to February 2020.

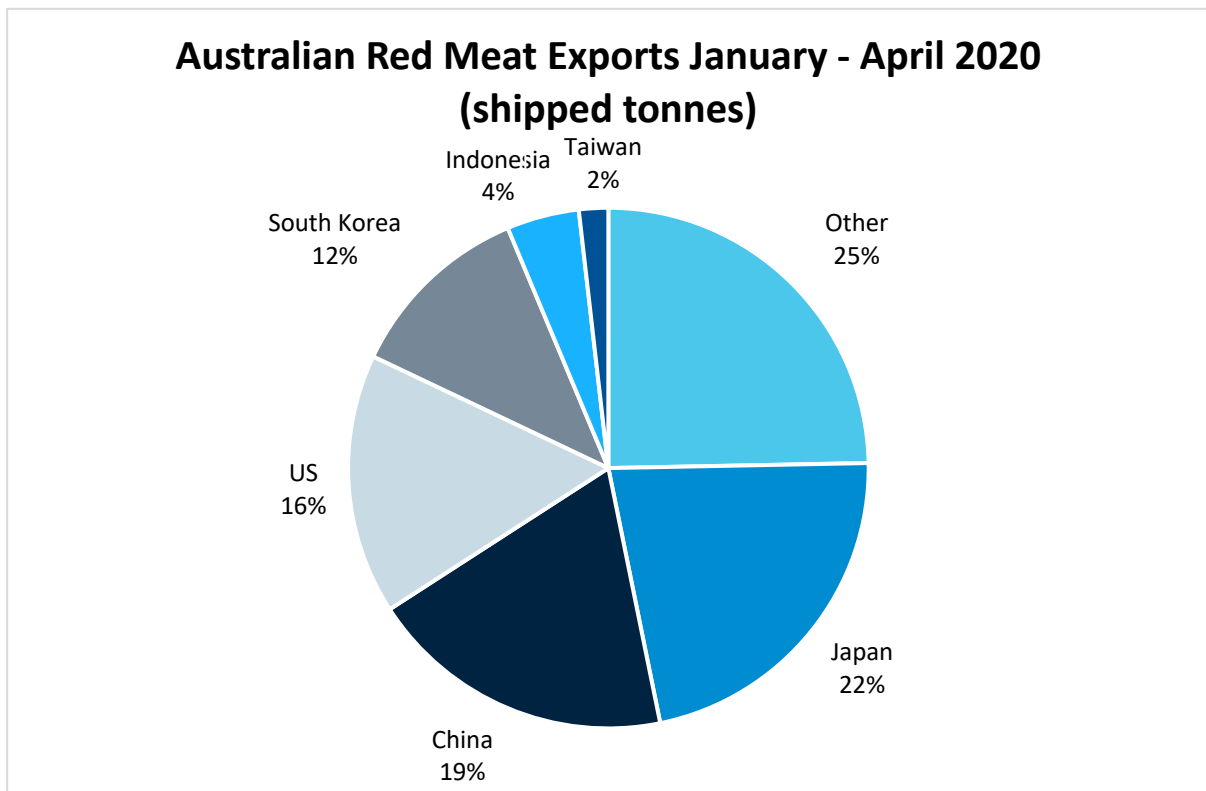
An article by Su-Lin Tan in the South China Morning Post on the May 19 2020, conceded that an unnamed Hong Kong importer said "food imports into China were subject to very tough regulations and it was common for some goods to fail to comply." It is not the first the first time Australian red meat imports have not complied with Chinese export protocols. In July 2017, six abattoirs were banned from exporting over similar mislabeling issues. The suspension was resolved through diplomatic negotiations after three months.

The current suspension has sent shivers down the entire red meat supply chain. Figures have been released, exacerbating these fears - indicating the suspension will impact approximately \$1 billion worth of beef exports, with the four banned abattoirs alone accounting for one fifth of all Australian beef exports to China. As Chief Executive of the Australian Meat Industry Council (AMIC), Pat Hutchison, has previously outlined, with China being such a big player in the red meat export market and willingness to pay more than other markets, it is understandable that the industry is pleading for the government to resolve the dispute swiftly.





Despite these daunting figures, there are several grounding factors that are extremely important when considering the potential impact this will have on the beef industry. The first is, Australia does not have total reliance on the Chinese market because of our diversification efforts. Figure 1 below, demonstrates that there is not a single market that has held more than a 25% market share of Australian red meat exports in 2020 (NB: 'Other' accounts for 61 countries). Scott Walker, MLA's Regional General Manager for Japan & Korea, announced that in April, Japan was the highest volume beef market, overtaking China. He argued that Japan's reclaiming of the top position reveals "how critical the Japan market is to Australia."



Source: Department of Agriculture and Water Resources

Secondly, China is reliant on many Australian commodities including our high-quality beef. The African Swine Flu has influenced the increased Chinese demand for Australian products despite the latest disruption. Managing director of MLX Pty Ltd, Simon Quilty, argued that China is experiencing a severe protein shortage with a 21-22% deficiency in meat. With 523 million hogs infected across 13 countries in Asia, beef is becoming a filler for the gap pork products have left in the market. MLA's 2019 figures reveal beef exports reached \$2.87 billion in 2019, a significant increase from 2018's \$1.37 billion. Regardless of the current suspension, China still wants and needs high quality protein





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and will struggle to find it at competitive rates elsewhere because of COVID-19 associated closures and higher shipping costs.

Lastly, many of Australia's export markets that have been negatively impacted by the closure of the food service industry because of COVID-19, are slowly re-opening. General Manager of International Markets for MLA, Andrew Cox, reported domestic travel in China is back up and running and restaurants are beginning to welcome diners again which will ultimately stimulate demand for quality Australian red meat.

China has always been a tricky and sensitive market, there is no room for complacency and this suspension is a reminder of that. With the plethora of market opportunities China has to offer, Australia must endeavor to provide the best quality meat in accordance with export protocols.

In the meantime, while diplomatic talks between China and Australia continue, we need to remember there are other export markets such as Japan, the US and Korea that will continue to buy Australian beef. And during this period when there is intense local competition between processors and restockers at the saleyards and online, cattle prices will continue to hold with the demand well outweighing supply. We are lucky that the agricultural industry is one that has the capability to weather the "unprecedented" events that 2020 has produced so far.



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