

HD **NZ lamb goes to pot in China, giving fast-food chains plenty to chew over**

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* **Chinese** demand driving some cheaper lamb cuts to record prices

* Demand driven by popular hot pot restaurants

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* New Zealand's sheepmeat trade to **China** up fivefold to \$550 mln

* As NZ struggles to keep up, Australia could profit

By Naomi Tajitsu and Colin Packham

WELLINGTON/SYDNEY, Feb 7 (Reuters) - At a sprawling plant run by New Zealand's biggest meat processor, rows of lamb carcasses hang from meathooks on their way to a cutting room to be chopped, trimmed and shipped out in increasing quantities to **China**.

But instead of the French racks, legs and tenderloins prized by Western consumers, **China** is taking secondary cuts such as caps and flaps -- heavily fat-marbled and taken from around the belly of the lamb -- that were previously much cheaper or even destined for the pet food market.

When the cuts arrive in **China**, they are rolled, semi-frozen and sliced paper-thin, and **sold** to hot pot restaurants. The popularity of the traditional Asian shared dish, offering cost-conscious diners healthy, homegrown fare -- slivers of meat and vegetables served in a broth -- is giving McDonald's Corp, Yum Brands Inc and others a run for their money in **China's** \$174 **billion** fast food market.

The explosion in demand for these secondary cuts helped drive New Zealand's sheepmeat trade to **China** to \$550 **million** in 2013, up around fivefold from 2010, and a big boost for a farm sector that has seen sluggish demand from traditional markets in Europe.

MORE PROTEIN

China is the world's largest sheepmeat producer with a flock estimated at nearly 140 **million** in 2011, but output has been declining as farmable land shrinks due to urbanisation. Lamb has traditionally been consumed mainly in **China's** northeast, but a growing urban middle class in expanding cities wants more protein and has broader tastes.

A Mintel survey of 3,000 people in December found that almost two-thirds of respondents ate at least once a month at hot pot restaurants. Food safety scandals in **China** have also made meat imports from countries like New Zealand and Australia more attractive.

"If you look at the fundamentals for **China**, they have declining red meat supplies, and food safety concerns, so the key would be for Australian and New Zealand processors to be able to guarantee the supply chain," said Rabobank animal proteins analyst Matt Costello.

In 2012, **China** overtook France to become the world's largest sheepmeat importer.

"Once upon a time, nothing went to **China**, but now that's changed," said Phillip Hansen, plant manager at Alliance **Group**'s meat plant in Levin, 90 km (55 miles) northwest of Wellington. "They're a big customer and we have to try and adhere to what they want."

AUSTRALIA TO STEP IN

Blessed with lush pastures, New Zealand supplies around 60 percent of the global sheepmeat market, but even though its 31 **million** sheep population outnumbers humans nearly seven to one, it is struggling to keep up with **Chinese** demand.

Neighbouring Australia, which supplies 35 percent, is likely to meet the shortfall.

Before **China** started buying lamb flaps, they were mostly **sold** to South Pacific islands for around \$1 per kilogram, and were blamed for contributing to an obesity epidemic. **China** now pays \$5.60-\$5.80 per kg for lamb flaps, meat processors say.

New Zealand and Australia still supply only 3-5 percent of **China**'s sheep and goat meat consumption, industry experts say, with New Zealand reaching the limit of capacity.

"The challenge for the New Zealand industry is that our sheepmeat numbers are in decline, **China** is already absorbing our production, so where do we go from here?" said Murray Brown, marketing manager at Alliance **Group**, which processes around 30 percent of the country's lamb production and aims to market more prime lamb into **China**'s high-end hotels and food shops.

Just as demand has jumped, stocks of lamb and mutton in New Zealand have fallen by about a fifth between 2007 and 2012 as farmers converted land into more lucrative **dairy** farms.

New Zealand enjoys advantages from a free trade agreement with **China**, but Australian meat processors say they are ready to fill the gap. Australia has already profited from surging goat meat sales to **China**, often a substitute for lamb. Sales of goat meat to **China** soared 1,266 percent to 4,736 tonnes last year.

"We have one buyer in **China** who is struggling to get enough lamb from New Zealand, and he's saying to us, 'tell us how much you want to sell and we will take it'," said Paul Crane, export manager at V&V Walsh, an Australian meat processor.

With prices of these once cheap cuts now approaching those of some middle cuts, some see them having little more room to increase. "We all feel we're getting close to the ceiling," said Kate Eglinton, marketing executive at ANZCO Foods Ltd.

Some meat suppliers are concerned that **Chinese** buyers could suddenly balk at the record-high prices for secondary lamb cuts, as British importers did a few years ago after prime lamb prices soared.

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