MLA Key Issues Brief COVID-19

Potential impact of Covid-19 outbreak

Issue

A new strain of Coronavirus (Covid-19) had an outbreak in Wuhan city, the provincial capital of Hubei, China and has rapidly spread further within China and internationally in the proceeding weeks and months. It has received widespread global media attention and action from governments around the world, impacting a wide range of industries and causing major disruptions. The outbreak of Covid-19 is an event the modern world has not previously experienced and as such as has created a new level of uncertainty and fear around the global marketplace.

Key points

Given the unpredictable nature of the Covid-19 outbreak and the fluid nature of its impact, it is very difficult to gauge the complete range and scale of impact it will have with Australian red meat. The impact of Covid-19 on each country's red meat market will be shaped by many factors. This includes underlying ones, such as the degree of dependence on imports and the prominence of red meat in consumer diets, and more immediate ones, such as how virus-spread control measures are implemented and ability of the healthcare system to deal with serious cases. Quite obviously, as the outbreak event continues to expand and scale the impact potential grows and the longer the time frame before 'normal' business environment resumes.

It is clear now that even though China appears to be emerging from Covid-19 shutdown, the crisis is escalating in the rest of the world and will continue to disrupt consumption of Australian red meat domestically and around the globe.

Some consistent impacts seen in markets with significant number of cases:

- Major disruptions to red meat supply and logistics (processing, sea freight and air freight, etc)
- Shifts in consumer red meat shopping and consumption
- Operational pivots in foodservice and retail red meat sales (Significant drop in foodservice sales (extent depends on restrictions) and an uptick in retail sales (particularly for the online channel)
- Over & under supply of certain products

What may come?

- As coronavirus continues to spread more internationally (and in to Australia) we will likely see broadly the impacts that occurred in China repeated in each affected market (labour force challenges, supply disruption, slowdown in all economic activity, plunge in foodservice sales, growth in retail/online sales).
- Softening global demand will diminish the fierce competition that existed late in 2019 for product, which led to some record prices. This will lead to heightened competition in many market as suppliers seek to redirect product that would have previously been sold into impacted markets (namely NZ, US and South America). Further increase in cases and consequent government restrictions in the large importers of red meat will further compound this impact in the short term.
- Global economic markets are also in a heightened state of uncertainty as economies and governments struggled to respond and understand the full range of consequences and actions needed in relation to

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this outbreak. One key impact of this on Australian red meat exports has been the rapid drop in the Australian dollar, which has got to 17 year lows at US59¢ at the close 26th March.

MLA action

- Continue to closely monitor the situation, particularly in relation to supply, export and price movements and communicate with key stakeholders.
- MLA staff have conducted a qualitative survey with trade partners and are briefing a consumer survey to get a gauge of impact on behaviours and attitudes.
- MLA staff travel suspended to all international destinations as well as all domestic travel suspended.

Background

Covid-19 posing logistic challenges on many fronts both domestically and in many international markets:

- Movement restrictions prevent truck drivers from delivering product
- Labour shortages and slow customs clearance in ports cause back-log of product
- Limited reefer plugs prevent new arrivals
- Reefers tied up in ports not being returned to global circulation
- Flight cancelations restricting air-freight capacity
- Supply and demand imbalances emerge

Air freight:

- Disruptions to air freight caused by airlines grounding their fleets will be particularly apparent for HK and Singapore for Beef, and Qatar and UAE for lamb.

Value of Air Freight	Beef	Cattle	Sheep	Sheepmeat
2016	$427,857,861	$10,637,054	$ 16,597,968	$431,500,382
2017	$448,807,869	$21,383,977	$8,567,725	$485,144,950
2018	$525,798,528	$19,780,418	$5,720,191	$602,562,118
2019	$600,742,096	$21,942,804	$8,569,576	$582,706,692

Air Freight % of Total Exports (Value)	Beef	Cattle	Sheep	Sheepmeat
2016	6%	1%	8%	18%
2017	6%	2%	3%	16%
2018	6%	1%	4%	17%
2019	6%	1%	6%	14%

Airfreight by region	Beef	Cattle	Sheep	Sheepmeat
EU	8%	0%	0%	6%
Greater China	13%	11%	10%	3%
Japan	2%	39%	0%	1%
MENA	19%	1%	0%	77%
North America	8%	0%	0%	4%
Other	13%	11%	5%	2%
South East Asia	30%	38%	86%	5%
South Korea	6%	0%	0%	2%

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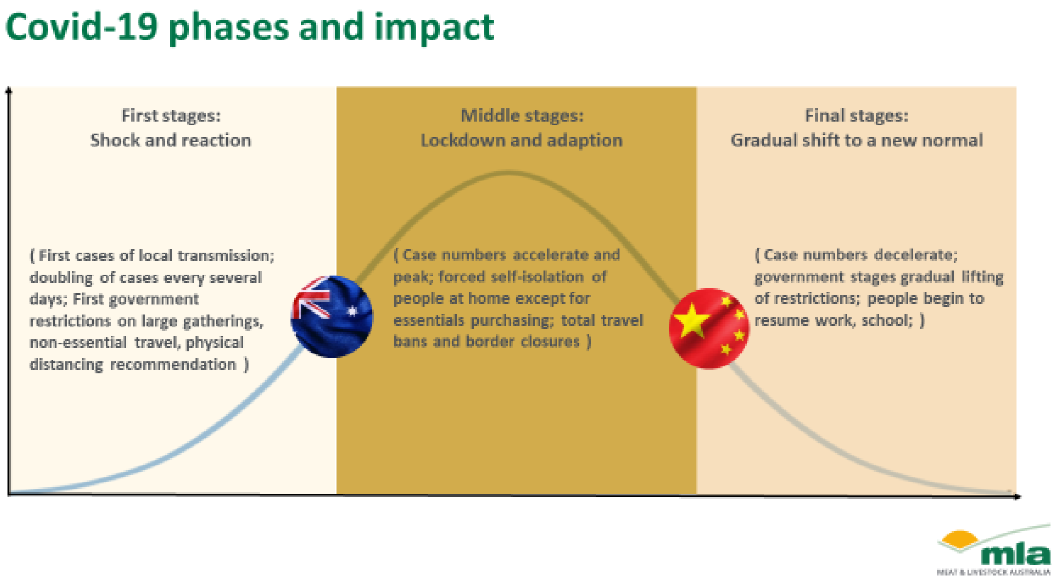
Potential impacts on live exports:

- Demand for livestock is increasing due to the reduction in air transit limiting access to chilled/frozen meat. DAWR has sought advice from importing countries on discharge requirements, and of those countries that have responded, all have confirmed that the discharge of livestock will not be restricted. However, this does not necessarily extend to vessel crew, stock people or Australian Accredited Veterinarians (AAV's) who may not be allowed to disembark. There is a challenge facing the live export industry with two-weeks of self-isolation for people on vessels returning from overseas locations and the ability to secure Australian Accredited Veterinarians (AAV) and accredited stock-people. Industry, through Australian Livestock Exporters' Council (ALEC), continues to work closely with the Department and exporters.

Key immediate impacts learnt from China:

The evolution of Covid-19, and the impact on logistics and consumer markets, can be considered in three primary phases: shock and reaction, lockdown and adaption, and a gradual shift to a new normal. These stages are discussed below but, given China and the rest of the world remain in uncharted territory, it is unclear how the landscape may continue to evolve, with second-wave infection posing added risk.



First stages: Shock and reaction

- Panic purchasing of all red meat segments (from hot loose, chilled & frozen packaged to canned and meat ready-meals) for stock-up, prioritising volume purchasing of familiar staple cuts for traditional day-to-day dishes, which in China tends to be more bone-in cuts for wet slow-cooking rather than steak cuts for pan frying.
- Sudden panic-buying disrupts meat retail inventories and supply. Many wet markets start to close with retailers focusing on boosting supply of staple cuts.
- Consumer purchasing focuses on availability with less price sensitivity.
- Consumers begin avoiding eating with large family and social groups and avoid eating out at restaurants, with some increase in take-away and delivery food services.
- Higher-end foodservice outlets mostly shut down, with some excess meat supply diverted to retail. Some mid- and lower-end outlets adjust operations to meet higher demand for drive-through, take-away and home delivery services.

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Middle stages: Lockdown and adaptation

Supply and logistics:

- Air-freight drops with travel bans and reduced passenger flights, causing supply disruption into some channels. Port activity slows and refrigerated containers build up, hindering supply of imports and re-circulation of refrigerated containers back into the global market. Travel bans and labour shortages disrupt product delivery to retail and foodservice channels.
- Expansion of non-contact distribution services (online, home delivery, click-&-collect) by some grocery retailers and foodservice operators challenged by labour shortage and transport bans.

Consumer changes:

- Consumers shift to mostly scratch-cooking of familiar dishes at home with fresh produce and meat, interspersed with occasional prepared foods, meal delivery and home-cooking experimentation for variety and enjoyment. Cooking and eating become a particularly important element of lock-down home life and spending on fresh grocery increases.
- Higher priority placed on hygiene and dietary nutrition for health and immunity and, hence, greater consumption of red meat for its perceived high nutritional value. Stronger demand for safe, high quality meat, benefiting premium suppliers like Australia.
- Greater use of contactless service offerings for fresh grocery delivery.
- Shift from purchasing hot, loose meat to chilled, packaged meat, particularly from local modern smaller-format grocery stores.

Retail and foodservice:

- Shift in offline grocery retail traffic as hours are amended, with some growth in local smaller-format grocery retail and most wet markets close. Greater emphasis on hygiene and packaging of popular staple cuts.
- Operational adjustments made to meet higher demand for hygienic front-gate delivery of packaged fresh produce and meat.
- As eating-out shuts down, consumers explore other options for variety and home-cooking relief, turning to 'contactless' online meal services for front door delivery, drive-through and take-away. Hotel food services mostly closed, with room service only where open.

Final Stages: Gradual return to a new normal (At this stage these are potential forecasts for the future)

Supply and logistics:

- Lack of travel and tourism still limiting air freight. Port back-logs begin to clear and lifting of domestic travel and work bans facilitate resumption of meat processing and distribution to retail and foodservice.
- Businesses review their strategies for supply chain digitisation, diversification and inventory management with greater focus on risk management.

Consumer changes:

- Consumer demand begins to return to normal and discretionary spending increases, as interest in novelty and variety re-emerges.
- Sustained prioritisation of safety, hygiene, trust and transparency, with higher demand for chilled, packaged meat products from modern retail stores.
- Resumption of some occasional eating out to satisfy pent-up demand.

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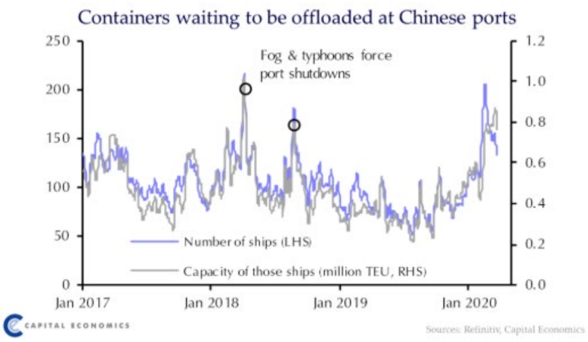
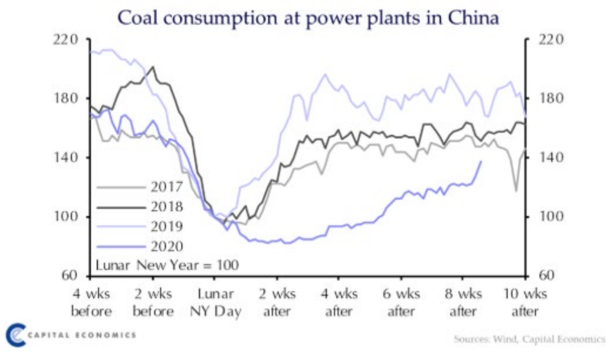
Retail and foodservice:

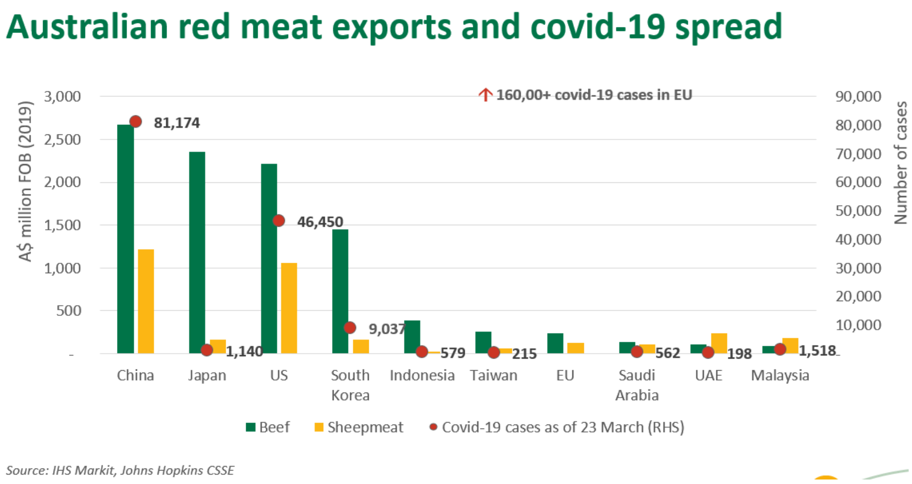
- Restaurants begin to open, mid- and lower-end more quickly than higher-end, with hotel foodservice slower to resume as people continue to avoid unnecessary travel.
- Retailers begin to provide a wider range of chilled packaged meat product assortment to meet higher consumer need for trust and higher quality semi-prepared product, as consumers maintain a higher commitment to home cooking and eating. Sustained expansion of contactless delivery services and further development of omni-channel merging of retail and foodservice offers initially driven by consumer demand during lockdown.

China business operations beginning to reopen, but things are still far from back to normal:





Australian red meat exports in 2020 and size by market:



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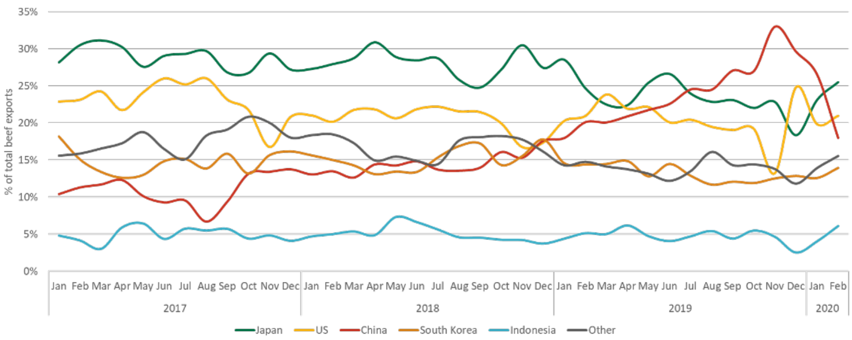
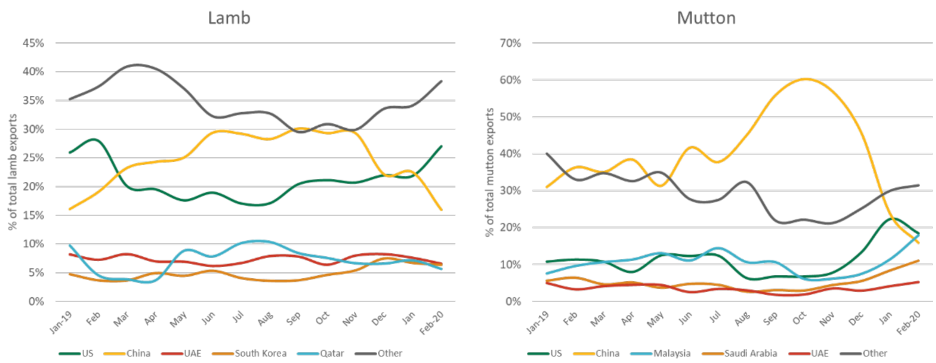
Percentage share of Australian beef exports



Source: DAWR

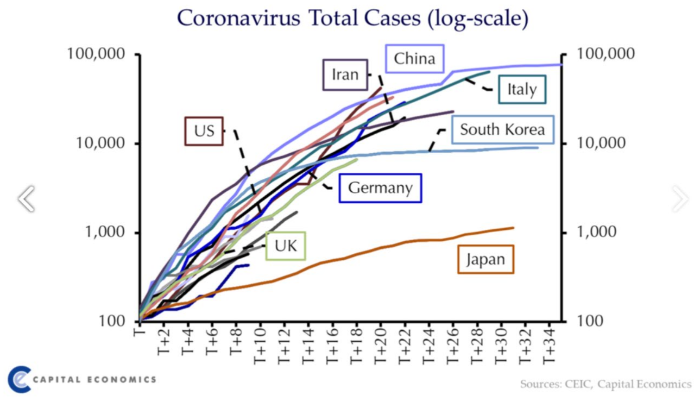
Percentage share of Australian sheepmeat exports



Source: DAWR

Growth of covid-19 outside of China:

- Since the start of March covid-19 has become a growing issue outside of China, with China cases plateauing recently. The EU and US have become the main growing epicentres of the outbreak with growing domestic cases and restrictions as well.



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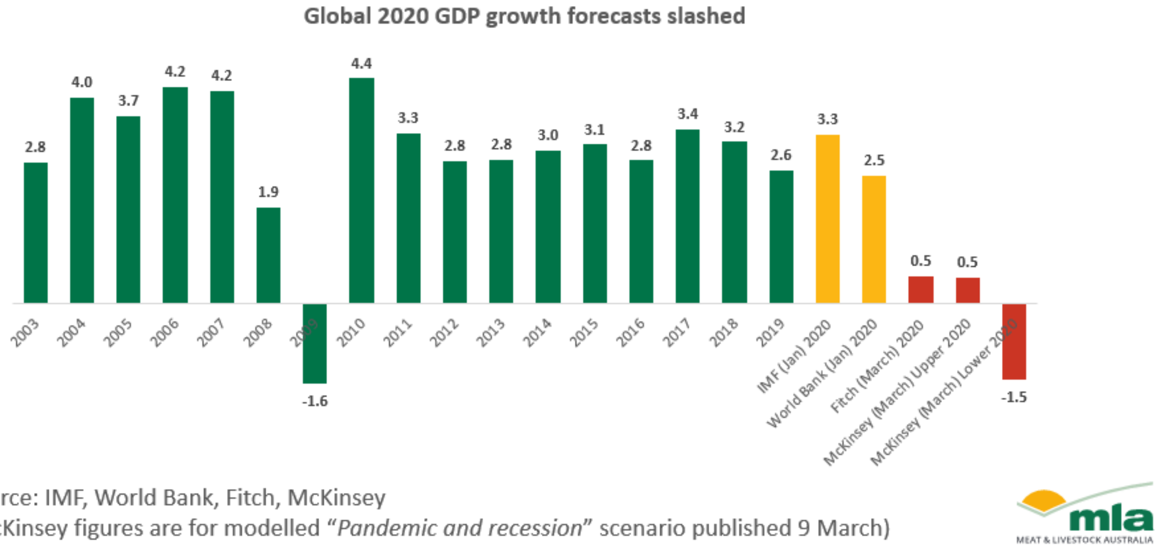
Global economy:

- The impact of covid-19 on the global economy will depend on when it gets under control, but much damage has already been done.
- Australia is quite exposed to the health of the global economy with 70-75% of our beef and lamb exported



Source: Economist Intelligence Unit

How is global foodservice adapting:

- **Focusing on delivery -** Big jumps reported within China with development of a non-contact delivery service, where uniforms, containers and employee practice are modified to remove potential exposure to the virus.
- **Changes to in-store service and environments –** for example ban on reusable cups, delivery and drive thru only, cashless only, staggered meal times. Exploration of 'virtual' get together's and shifting in-store experience to online
- **Supporting staff -** Funds to support impacted restaurants and drivers (i.e. Grubhub's 'Donate the Change', the program allows customers to round up the change from their orders and donate it)
- **Supporting frontline workers -** Free/discounted meals for healthcare staff
- **Supporting the community –** working with takeaway delivery companies to provide food and support to elderly and vulnerable people if they are forced to self-isolate over coronavirus
- **Reassuring customers –** communications around cleaning procedures
- **Boosting cashflow -** incentivising customers to buy 'vouchers' by adding an additional percentage to value. Uber Eats/Grubhub have announced some support i.e. waiving delivery fees for orders from independent restaurants and increasing marketing efforts. Also some are expanding items for delivery and have started including every staples (i.e. milk)
- **Temporary store closures –** particularly in "high-social gathering locations" like schools and shopping centres.

How is global retail adapting:

- **Meeting extraordinary demand -** Reducing trading hours, redeploying staff, limiting items per shopper, extended delivery hours, hiring additional staff and focusing on essentials
- **Supporting staff and suppliers -** Additional rewards, providing for infected or self-isolating staff, shielding staff in-stores, quicker supplier payments

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- **Community and collaboration -** Priority store access for vulnerable shoppers, free deliveries for older shoppers, uniting to reassure shoppers, acts of kindness, donations to support those in need and easy access information and resources
- **Utilising physical store assets -** On-site testing, high Street handwashing facilities
- **Implementing precautionary measures -** Reducing use of cash, limiting shoppers in-store and safe shopping
- **New ways to reach shoppers -** Connecting with customers via livestreaming and new online providers emerging

Longer term impact on the food industry?

- Most sectors in the food industry are necessities (such as meat), so the consumption demand for them will recover quickly and remain steady after the epidemic.
- Some consumption needs, which were restrained during the epidemic, are expected to rebound quickly after the epidemic.
- Some consumers shopping habits and attitudes will change and this may require a need to shift longer term strategy.
- For some brands/categories which left a positive impression on consumers during the epidemic, consumer are expected to remain higher loyalty to them.

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