Northern Ireland Red Meat Processing and Marketing

The Northern Ireland Meat Exporters Association (NIMEA) represents the major meat processing companies in Northern Ireland. Members have debated your recent letter to individual companies seeking members' assistance in understanding the business model used for processing and how this model fluctuates in relation to rising costs and market prices. It was decided that NIMEA should respond on behalf of all of the members you contacted individually, and the purpose of this submission is to attempt to explain the nature of the Northern Ireland meat processing industry with particular reference to its position in relation to Great Britain and the Republic of Ireland as referred to in your letter.

At the outset it is important that we recognise the difficulties of farmers caused by an unimaginably difficult summer, scarcity of winter feed and rising meal costs. There is also an expectation that the market should be paying more for Northern Ireland beef and lamb, with the current higher prices available in GB cited as the reason for this. This is based on the assumption that because Northern Ireland is part of the UK and all cattle born, farmed and processed here are entitled to be designated British and carry the Red Tractor logo on packaging. This argument would be valid if Red Tractor eligibility was the only criteria in determining the price of our beef. However it is just one of several, some of which this submission will explore by way of example.

1. **Average Prices Reported**
   The UK is divided up into five Geographical regions for Price Reporting purposes. These are: Northern Ireland (NI), Scotland, Northern England, English Midlands & Wales and Southern England.

   Reporting average prices oversimplifies the complexities of the beef and lamb market place. For example as reported in the LMC Bulletin on 5 May 2012, (appendix 1) the five UK regions ranged between £3.20 in Southern England to £3.55 in Scotland with the others in between. Average prices reported fail to tell the complete story; otherwise if access to use of Red Tractor which designates UK beef determined the farm gate value of carcasses, then we might expect all UK regions to have broadly similar prices.

2. **Examples of Factors that Determine the Value of NI Beef**
   Type of Cattle – The type of cattle produced in a region will have a huge influence in determining the average prices reported for that area. For example Scotland has a predominately suckler beef cow herd as does Northern England (two thirds) while Southern England is predominately a dairy. Northern Ireland is half and half dairy and beef cow herds.

   The effect of this is that Northern Ireland factories with sister plants in the North of England report that while **less than one third** of the cattle they process in Northern Ireland meet the ideal beef specification **two thirds** of cattle in their English factories meet the ideal specification.

   Influence of Niche Breeds – This is a follow on from type of cattle. We believe that prices in some regions particularly Scotland and Northern England are influenced by a large number of speciality breeds such as Aberdeen Angus, Hereford etc that are price reported from this area.

   Markets Supplied – Northern Ireland is a huge exporter of beef with up to 80% of our production being sold outside the region. GB is a net importer of beef; hence it is our main and most valuable market. Since the end of the EU export ban in 2006 we have been slowly rebuilding export markets. These now account for about one third of our total sales, a long way from the levels in excess of 50% before the export ban in 1996 but significant none the less. What is also significant is that with the euro weakening against sterling over the past year, the revenue from these export sales is now less to NI factories than previously. It could be argued that factories could get greater returns if they sold everything in GB but strategically given our dependence on selling outside NI a portfolio of customers is essential even if it is not a benefit in the short term.

Processing Costs – The seven largest Northern Ireland factories process on average just over 50 000 cattle per annum. Some of these have sister factories in GB processing over 100 000 cattle. It is reasonable to conclude that there are considerable economies of scale with larger factories. Northern Ireland factories also have higher energy costs with more expensive electricity and no access to cheaper gas as an alternative.

It is widely recognised that there is considerable over capacity in the Northern Ireland processing sector for all but the peak processing season which occurs at the end of the summer grazing season and typically lasts between 8 and 12 weeks.

These are just some examples that we have elaborated on a little. There are many others including premium of Scotch beef, how truly reflective of actual trade is price reporting, limited movement of live cattle out to higher value UK regions, lack of profitability (as reported by Plimsoll Publishing) of GB meat processing industry.

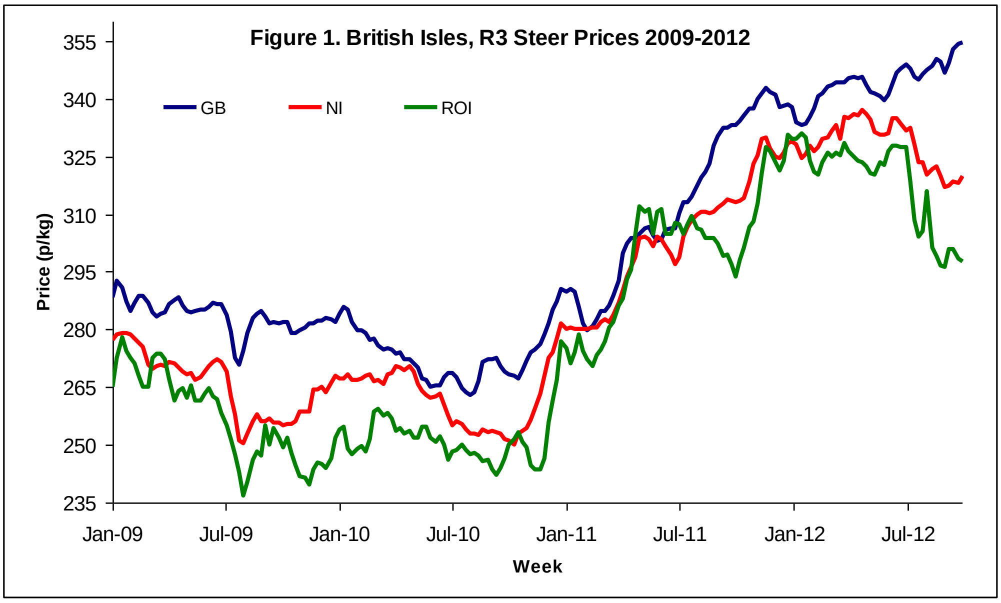
3. Use of Red Tractor and ROI influence

There is a perception that because Northern Ireland is a region of the UK and can market its beef as British under the Red Tractor label that that we should average UK price. We have already highlighted that within the average there is a huge range of prices reported, determined by other factors.

Notwithstanding these there is also an issue with the value of the Red Tractor itself to the Northern Ireland beef industry. We have already referred to the fact that up to one third our sales are outside the UK in mainland Europe and beyond. Within the UK itself, we estimate that our processors only have the benefit of using the Red Tractor on approximately half the GB sales. Outside the large retailer and some of the food service sector, there is little interest in the premium Red Tractor product. By way of example, Mac Donald's advertising recently highlights that their beef is sourced from British and Irish Farms. Outside of sales by NI factories under the Red Tractor label, we are in direct competition with the Republic of Ireland (ROI) industry in the market place.

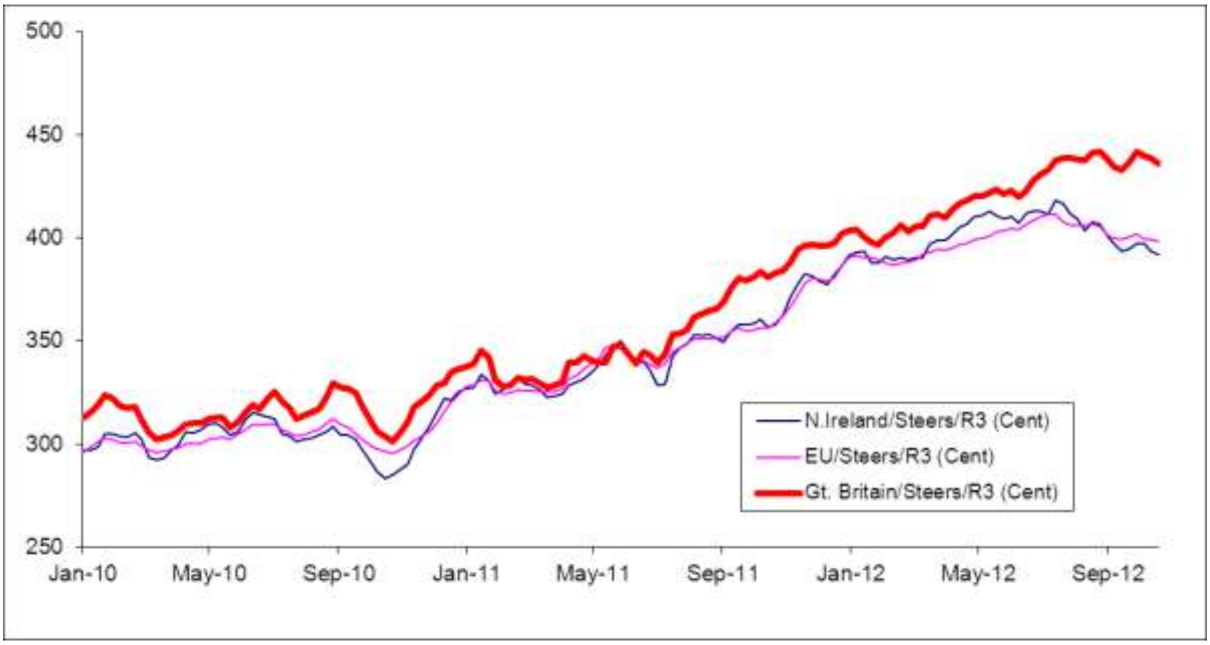
ROI, like us are dependent on export markets for 80% of their sales. Given the familiarity between us and the fact that many of our businesses have sister companies there as well as in GB it is inevitable that we shadow each other in markets throughout the UK, Europe and the part of the wider world that we have access to. ROI, unlike us didn't have a beef export ban and can access many global markets still closed to us. Furthermore they have the might of Board Bia, the food industry promotional board with an annual €25m Marketing and Promotional Expenditure (*source Bord Bia Annual Report 2011*). So as well as assessing the benefit of our access to the Red Tractor label and ability to market our beef as British, we also need to consider how we compete against our closest neighbour with a beef industry with a similar profile to ourselves.

The following table reflects the relative farm gate positions of our industry over the past three years in NI, GB and ROI:



We can see that despite the investment in marketing and promotion plus all the investment in farming and processing in ROI we consistently outperform them in farm gate prices, and have been for the past 20 years including during the beef export ban between 1996 -2006 when they had access to the entire world and we were confined to the UK market. This is the value to NI of being able to use the Red Tractor on a significant part of our sales.

The above graph also reflects a further feature, namely that our farm gate prices trend line follows the ROI trend line, albeit at a higher level over the past three years and also that we are headed in the opposite direction of GB farm gate prices in recent weeks. Looking at farm gate prices in an EU context below:



We can see from this graph that NI farm gate prices are on or around the EU average over the past three years. We can also of course see that the GB price has been out of kilter with the EU trend line over the past few months to such an extent that it could be said there is a price bubble currently in the GB market.

4. Price Differential & Supermarkets

Nothing has generated debate and negative comment about our beef industry as much as the price differential between NI and GB. Despite the prevalence of factors referred to earlier, there is a belief among some that NI beef is undervalued because of the actions of Supermarkets in collusion with meat processors. NIMEA cannot comment on Supermarkets beyond highlighting that they are among the very best customers our industry has at present anywhere in Europe. We might argue that they should pay more but if we consider the Kantar consumption data, we had a fall in the amount of beef consumed from retail sources of about 5% in the year to September 2012. We should also note that farm gate prices have increased from around £2.00 per kilo in October 2007 to well over £3.00 today. Looking at the past two years specifically, farm gate prices have increased by 24% (source LMC) since October 2010 while retail prices have increased by 11% (sourceKantar)in the same period. There is a fine balance between getting better farm gate prices which is necessary and not losing our consumers in the prices.

Turning to the widening of the price differential in recent weeks there are two important considerations. Firstly there has been an unprecedented surge in GB prices that is out of sync with the rest of the EU. This has been driven by particular scarcity this year. The other unique feature that makes the NI industry different form the rest of GB is the seasonality of beef cattle coming on to the market. In GB factory weekly kills remain fairly consistent each week of the year whereas in Ireland, north and south, we have a peak slaughter season between August and October. This is an annual feature with some variation from year to year. In 2012, for the first six months to the end of June our kill lagged behind the previous year by 6% but since then numbers coming into factories have jumped and in July the cattle kill was a massive 26% up on July 2011 followed by smaller increases of 5% in August and 1% in September on the corresponding month in 2011. (Source LMC) No doubt the particularly wet summer has had an influence on this and the figures on cow culls reported in the 2 November edition of the Irish Farmers Journal highlight this. Between the end of August and the last week of October cow kills in NI factories were up 28% on the same period in 2011 and a massive 52% on the same period in 2010.

When factories are booked out a couple of weeks in advance and pushing more than their usual amount of beef out on to their various markets over a short period it is inevitable that they will be weaker sellers than when they are scarce of supplies. Access to the buoyant and undersupplied GB Red Tractor market has continued to give the NI industry an edge over our counterparts in ROI. However seasonal peak supplies mean that even more that than usual is sold outside the Red Tractor market.

Northern Ireland prices have for a prolonged period been positioned roughly half way between the GB and ROI average. Red Tractor gives us an edge over ROI but being a huge net exporter with a small domestic market it is inaccurate to say that we should automatically get GB prices just because we are part of the UK.

Conclusion

NIMEA welcomes the opportunity to contribute to this debate from a red meat perspective and have attempted to explain to why we differ from the other regions of the UK that price report and the Republic of Ireland. LMC are currently commissioning a piece of work to assist industry understanding of this differential and NIMEA have agreed to assist in whatever way we can.

As stated at the outset we recognise that the recent particularly difficult period for farmers has coincided with the highest factory throughput of the year and the consequent weakening of prices. We are happy to engage with all stakeholders in any forum to debate what if anything we could do to develop a better understanding of the supply chain and would be happy to organise a visit for the committee to a factory to experience the complexities of the processing industry.