



**Isle of Man
Government**

Reillys Ellan Vannin



Industry briefing

Future options for the Meat Plant

Date 9th February 2017¹

Meeting outline

- ❑ Chair - Hon. Geoffrey Boot MHK
- ❑ Presentation – Tim Baker MHK & Peter McEvoy
- ❑ Statements from FMA Directors & Manx NFU
- ❑ Submitted questions
- ❑ Questions from floor
- ❑ Meeting to finish at 9.30 sharp



Outcomes

- Efficient Meat Plant
- Market focussed
- Financially sustainable
- Supports a sustainable agriculture sector

Options to address the Meat Plant?

Headage

- Has to be linked to the Meat Plant (risk of legal challenge)
- Won't improve local sales
- Would increase throughput, but would it improve return to farmers?

Ban live export

- Legal challenge
- Valid business model for some farms e.g. high value breeding stock
- Would increase throughput, but would it improve selling price and return to farmers?

Derogation

- Currently not legal
- Two way implication? Impact on food and export businesses?
- Consumers want quality and choice. Derogation does not encourage competition

Context of project

- ❑ This process was about the operation of the Meat Plant as a business
- ❑ Not about agricultural policy
- ❑ Loss of derogation, cheaper imports, collapse of local sales and increased live exports have been a problem
- ❑ Returns to farmers no better despite subvention increasing from **£350k** in 2008 to over **£1.3M** in 2016

Trends

- ❑ Livestock numbers
- ❑ Farmgate prices
- ❑ IOM Meat's sales

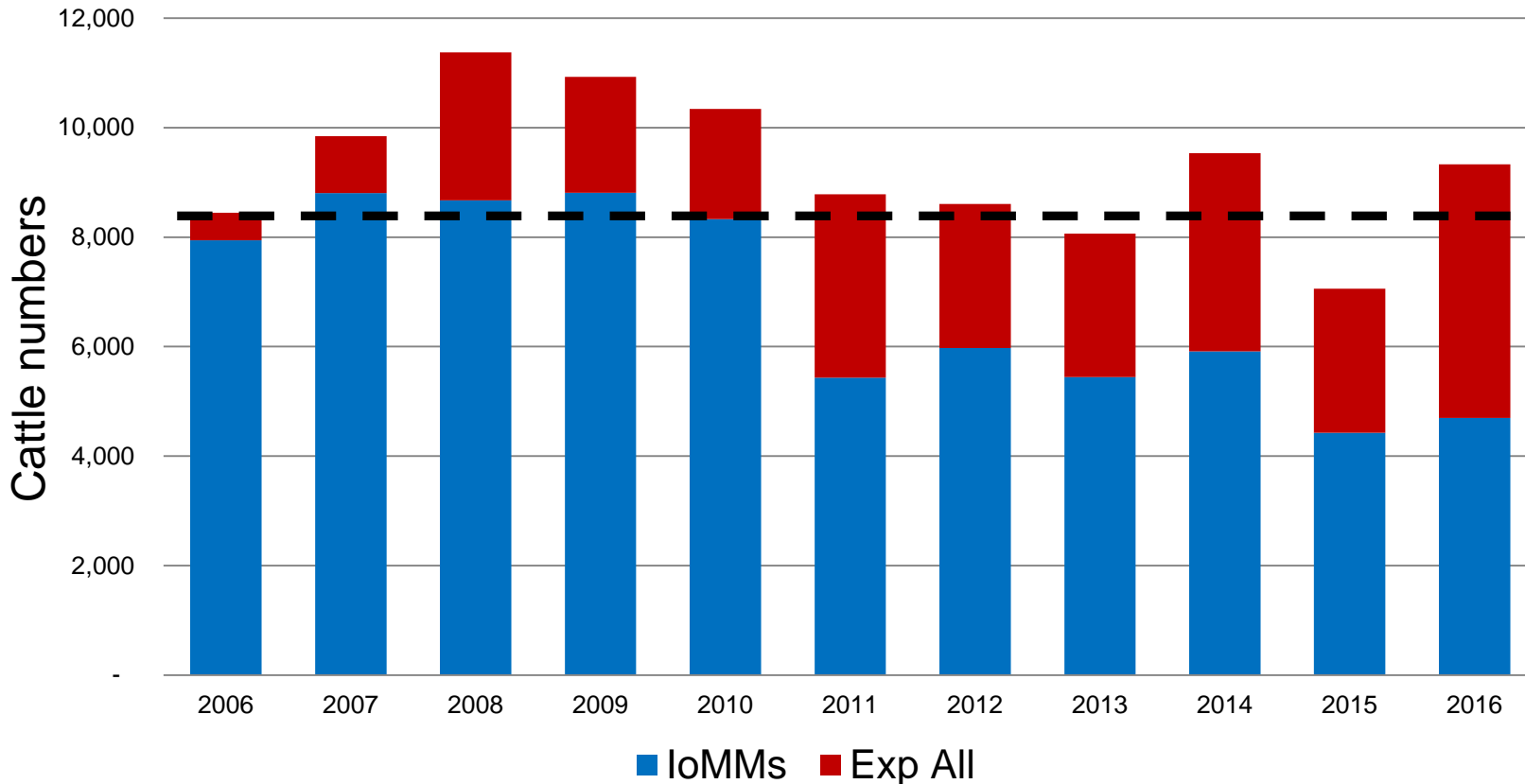


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Cattle livestock production and destination

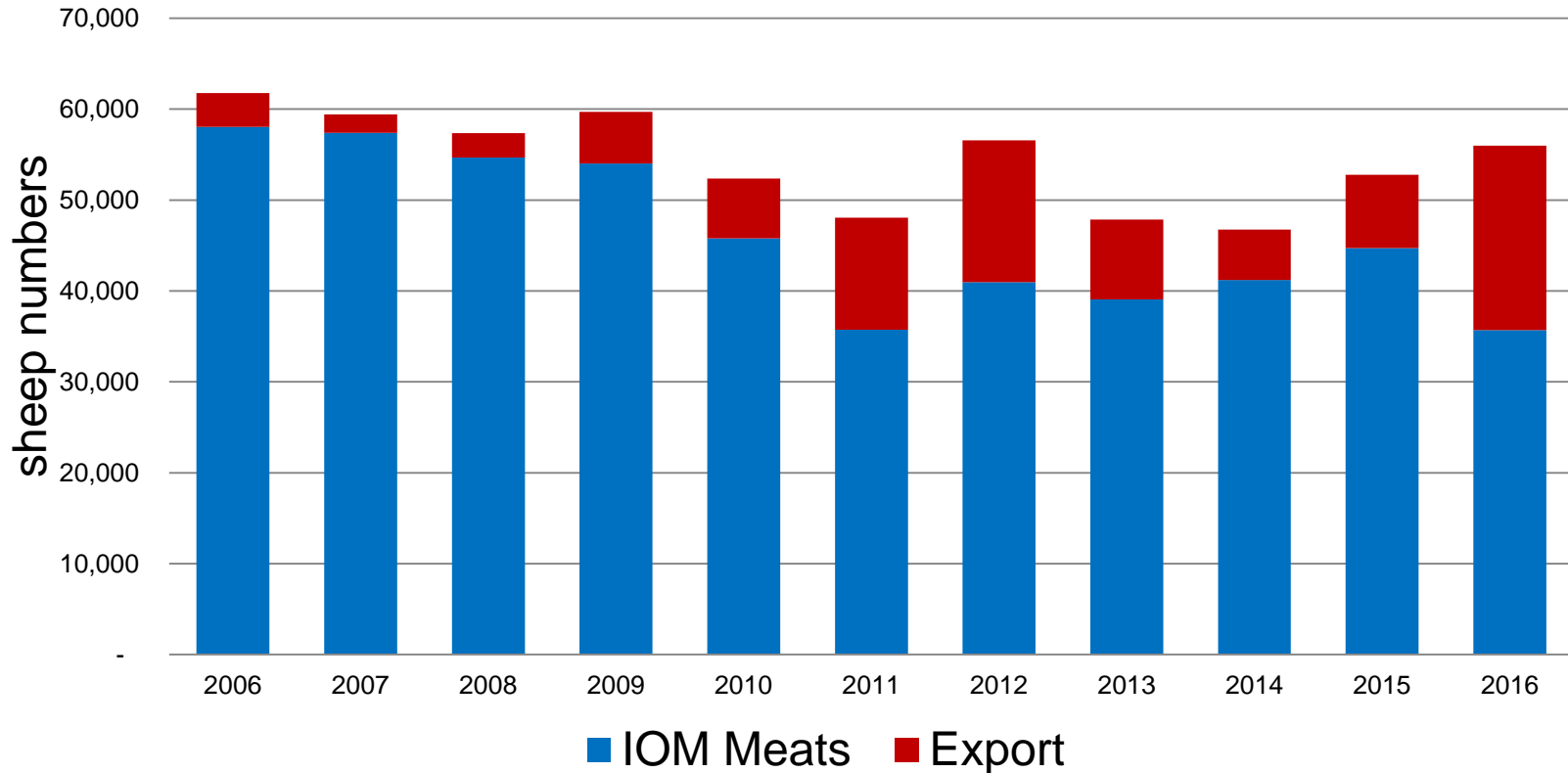
IOM Meats utilisation and exports of all cattle types



- ❑ Cattle numbers at the same level as they were 10 years ago
- ❑ What's different? Live exports increasing significantly

Livestock utilisation (sheep)

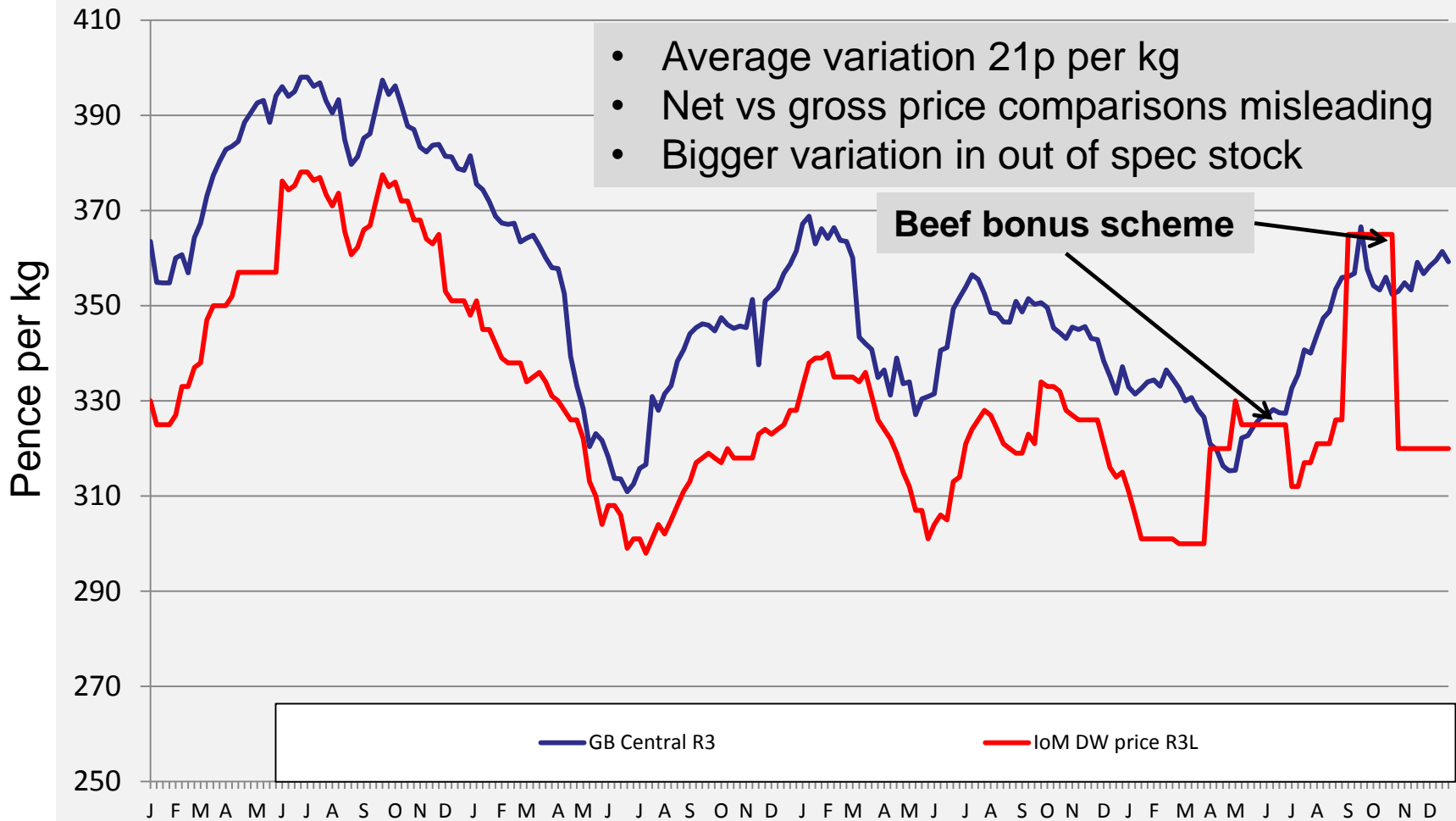
IOM Meats utilisation of sheep



- Production going back up
- Increased exports some years
- Highest levels this year (no direct EU exports of sheepmeat 15 or 16)

Beef price

IoM R3 Beef Price vs AHDB Central R3 (2013-16)



- Average variation 21p per kg
- Net vs gross price comparisons misleading
- Bigger variation in out of spec stock

Beef bonus scheme

2013

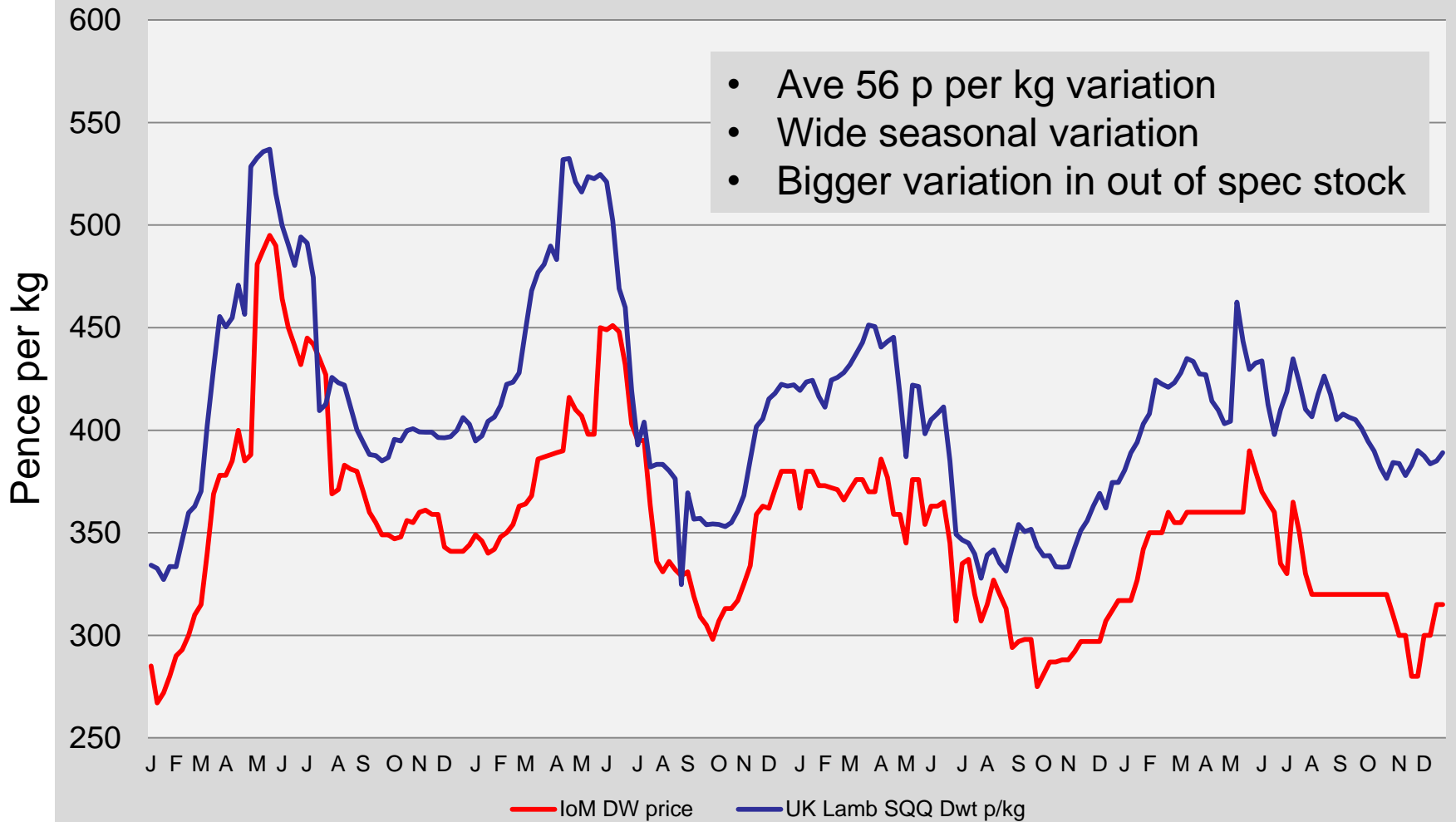
2014

2015

2016

Lamb price

Lamb IoM to GB SQQ dwt 2013-16



2013

2014

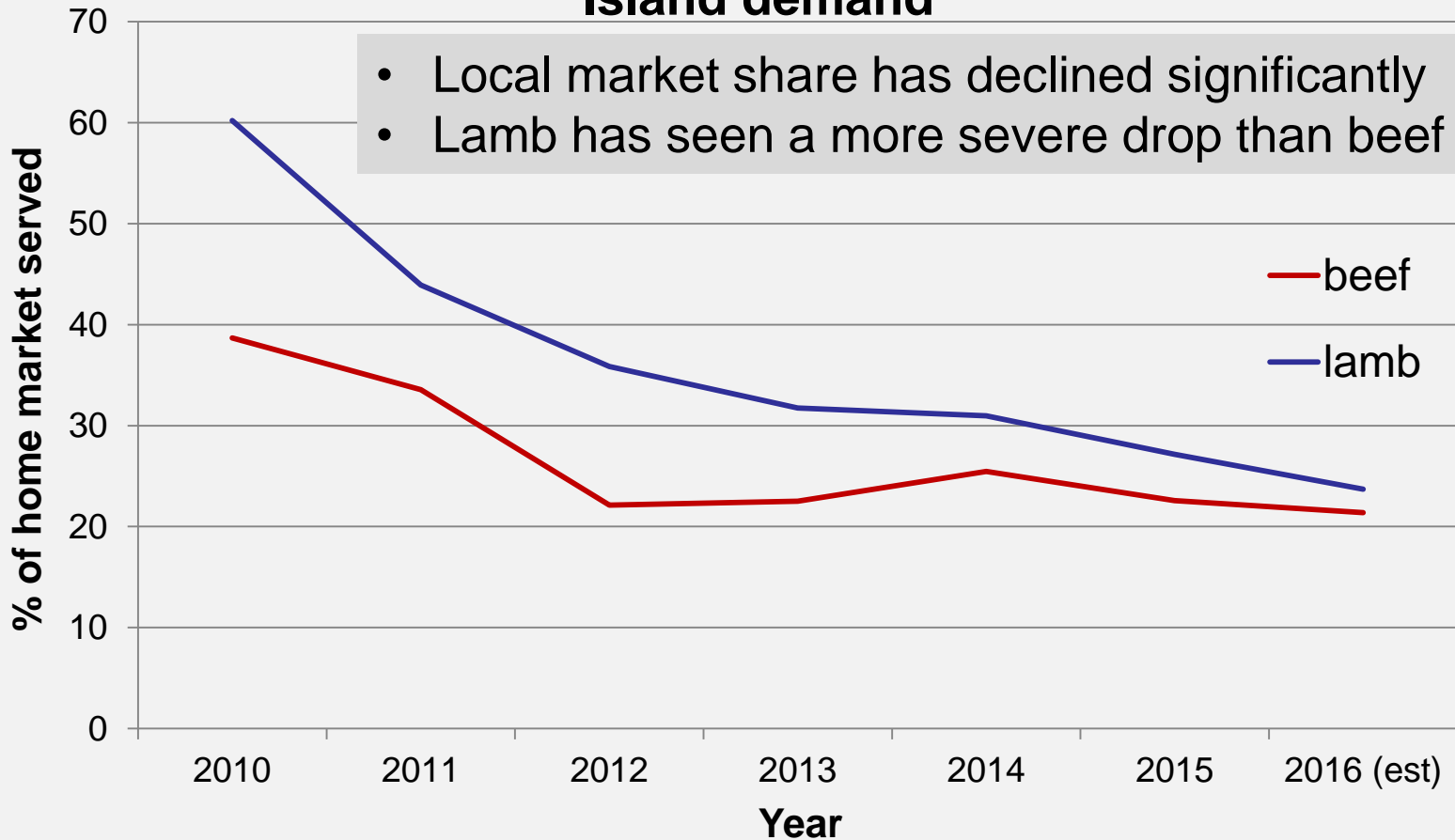
2015

2016

0

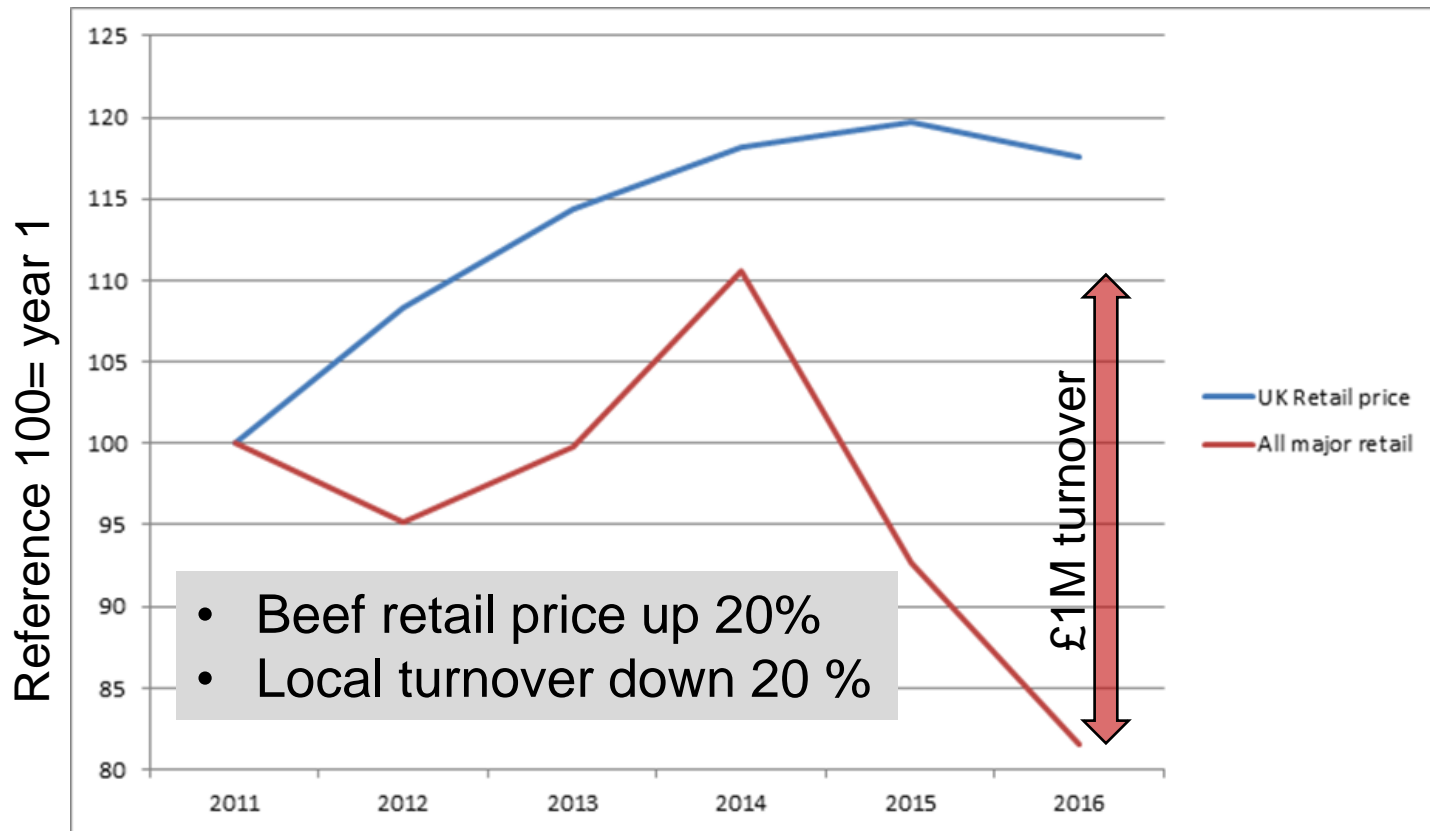
Erosion of local market

IOMM beef and lamb sales on IOM vs estimated Island demand



IOMM's local sales value

- Blue – RPI meat (beef)
- Red – local sales value from IOMM



The Project

Peter McEvoy

- Process

- The shortlist of options
 - Financial estimates
 - Assumptions
 - Risks

How did we get here?

- ❑ **Nov 15** Peel Golf Club meeting
- ❑ **Mar 16** IOM Meats draft business plan rejected
- ❑ **May 16** Mike Owen resigns
- ❑ **May 16** Treasury approval for Meat Plant options project
- ❑ **Jun 16** Miles Macpherson appointed
- ❑ **Jun 16** Project team formed & Scott Baker appointed
- ❑ **Aug 16** FMA Board decide business model not fit for purpose
- ❑ **Oct 16** FMA Directors resign
- ❑ **Nov 16** New FMA Directors appointed
- ❑ **Nov 16** Treasury confirm subvention & stock underwriting
- ❑ **Jan 17** Steering meetings concluded with shortlist of options
- ❑ **Feb 17** Industry meeting to clarify options



7 meetings

Qu – who were the working party?

- ❑ DEFA – Richard Lole (ex-Chair), Tim Baker
MHK (current chair), Peter McEvoy, John
Harrison, Andrew Lees, Steph Halsall (Minutes)
- ❑ IOM Meats – Directors plus Miles Macpherson
(as required)
- ❑ Manx NFU – President, General Secretary and
Meat & Livestock Chair
- ❑ Agricultural Marketing Society – Chair and rep.
- ❑ Consultant – Scott Baker ci 65

Options identified initially

1. Sale of business
2. Third party partnership
3. **Contract 3rd party operation, e.g. of slaughter line or entire operations**
4. **Creating a separate marketing and trading business**
5. Closedown the business
6. Supply local market only, with lowest cost route to export balance
7. Local market integration, e.g. with butchers, wholesalers, or retailers
8. Shared service model for overheads
9. A slaughter-only facility
10. Export everything live and return product to island
11. The closing the current plant, purchasing, and operating a prefabricated facility
12. **Mixed Model of shipping live and using a prefabricated facility**
13. The purchase and operation of a mobile slaughtering facility for all 3 species
14. **Improving the current business model**

Short-listed options

The shortlist of options arrived at by the Tripartite Working Group and summarised were;

1. Improving the current business model
2. Improving the current business model plus retail / wholesale
3. Employing a prefabricated slaughter facility for sheep and pigs for local market with live export of all cattle and return of local meat requirement
4. Seeking expressions of interest and going out to tender



Option 1 - Improving the current business model

- ❑ Is based on improving the current business model
- ❑ This option explores improvements in efficiency, proposes cost reductions and develops governance
- ❑ This option estimates that the operating profit deficit could be reduced to approx. **-£800k** improving the financial position by around £400k.



Option 1 - assumptions

- Based on 2016 trading performance of FMA
- Restructure of management roles reducing salary (introducing performance related bonus)
- New Board structure with Non Exec Directors.
- Working hours reduced
- Improved IT usage to increase efficiency
- More commercial approach re rewards and penalties to producers
- Increased marketing focus
- Increased maintenance costs
- Capital IT costs



Option 1 - risks

- ❑ Large-scale change of the business has not happened previously.
 - Commercial Board
 - Changes/removal of rulebook etc
- ❑ Long-term strong leadership and vision required to deliver – interim appointments not the answer
- ❑ Staff turnover – losing experience
- ❑ Members do not buy-in to commercial approach
- ❑ Significant funding still required
- ❑ Delivery of savings slow through the transition



Option 2 - Improving the current business model plus retail

- ❑ This builds on option 1 and adds local retail market
- ❑ It separates the business into the current operation and a separate retail/wholesale business to avoid conflict with subvention
- ❑ A conservative estimate for this option is to reduce the deficit to **-£500k**, but room for more improvement.
- ❑ In addition, a setup cost of around £50k plus £26k operating capital would be required.
- ❑ The improvement in financial performance compared to option 1 is derived from the added value generated from the retail and wholesale business.

Option 2 - assumptions

As per option 1 plus:

- Current business and new retail business are separate
- No subvention to retail business
- Retail outlet uses Agriculture House (if not, add another **£10-20k**)
- Working capital of 3 month running costs required **IRO £25k**
- Market share is achieved quickly (inc. tendering Govt. contracts)
- A quality service to other retail butchers is provided
- Profit from retail business to be passed to FMA.



Option 2 – risks

- ❑ Business change as per Option 1 still required
- ❑ Market penetration not guaranteed
- ❑ Planning constraints
- ❑ Market disruption/competition with current customers
- ❑ Imbalance - create demand for surplus product
- ❑ Imports required (esp. poultry) – need properly labelled

Option 3 - A prefab slaughter facility

- ❑ This option proposes that the current Meat Plant is closed
- ❑ A prefabricated slaughter unit is purchased to process sheep and pigs with cattle being shipped live, slaughtered in the UK, processed and then returned – the sales would be ONLY for the home market
- ❑ This option estimates a best case operating profit of £400-500k per annum.
- ❑ This would be offset by any live export losses (seasonal)
- ❑ An initial setup cost of over £380k
- ❑ Closure costs of the current abattoir IRO £1M
- ❑ Figures based on processing for on island consumption only (30 cattle, 55 pigs and 80 sheep per week) plus contract kill
- ❑ Producers would have to find their own markets for add. stock

Option 3 - assumptions

- ❑ FMA operation
- ❑ Equitable profit/loss arrangement between producers
- ❑ Privately funded (via capital or loan)
- ❑ Land available for facility and cold storage
- ❑ Local market demand remains consistent
 - 30 cattle, 55 pigs and 80 sheep per week
- ❑ Facility can only slaughter sheep and pigs (and goats)
- ❑ Export and re-import of beef is feasible & profitable
- ❑ Export of beef based on 30 beasts/wagon and returned as primals
- ❑ All additional stock are live exported by the producers (30,000+ exports more than 2016)
- ❑ No more than 6 staff required

Option 3 - risks

- ❑ Figures are reliant on maintaining current local market sales. Further loss of local sales impact on the profit.
 - Although it would take more than a 75% reduction in local market to make a loss
 - Profit derived from re-import of beef
- ❑ Facility can't accommodate local market growth
- ❑ Significantly restricts ability to grow off-Island meat brand
- ❑ Live export dependent on weather
- ❑ Live export prices have wide seasonal variation
- ❑ Public perception of live export could damage local sales

Option 4 – Government tender of plant

- ❑ Obviously the costs will be determined by what the market will tender
- ❑ A tendering exercise should be conducted to identify alternative operators and business models.
- ❑ Government would need to place appropriate conditions in the tender to ensure that would be operators met Government strategic aims and provided a sustainable option for the livestock sector.
- ❑ Government's current preferred option.



Option 4 - assumptions

- ❑ There are other interested parties apart from the FMA
- ❑ The FMA continues to operate and improve its service through a period of uncertainty
- ❑ Conditions would be put on the operator to ensure the Plant delivered Government objectives and benefitted the industry (a 'User Agreement' of sorts) e.g.
 - Must supply local market
 - Must contract slaughter (at a fixed price)
- ❑ Would expect business case, good governance and marketing plan from tenderers
- ❑ A fixed level of subvention may be available

Option 4 - risks

- ❑ No interest in tendering due to user agreement or other aspects of the contract deterring commercial operators
- ❑ Uncertainty undermines the operation of the FMA
- ❑ Transition to any new operator needs careful management to ensure continuity of service



Summary of options

- ❑ **Option 1** – not radical and relies on the FMA to restructure and grow local sales – not happened in the past.
- ❑ **Option 2** – relies firstly option 1 and then growing a second successful business.
- ❑ **Option 3** – theoretically lowest cost option, but introduces risk, reduces size of the industry and places increased reliance on our sea services and live export as the only route to market for beef and main route for sheep.
- ❑ **Option 4** – tests the market and clarify alternative operating models. FMA model assessed against the competition, if tendering.

Department position

□ Tim Baker MHK

What is DEFA's preferred option?

- ❑ **Option 4 – Government is minded to tender to seek a private operator**
- ❑ A Prior Information Notice (PIN) followed by a tendering exercise would be conducted to identify alternative operators and their proposed business models.
 - Government would place appropriate conditions in the tender to ensure that would be operators meet Government strategic aims and provide a viable option for the livestock sector.
 - Good governance
 - Sound business & marketing plan
 - Due diligence
 - The ability to manage the change



Working group updates

Chairman

- Manx National Farmers' Union
- Fatstock Marketing Association



Manx National Farmers' Union

- Statement on the tripartite process and outcomes



Fatstock Marketing Association

- Directors will support and co-operate with DEFA
- Tender not our preferred option, but Directors fully understand rationale for this decision
- Directors and management are committed in continuing to operate the Meat Plant
- Improve efficiency and work in interests of suppliers, customers and employees



Prepared Q&A

- ❑ FAQ & questions already received
- ❑ Additional questions from the audience to follow



Questions received

- Please provide up to date financial information on IOM Meats?
- Does DED have a role to play (inc financial) in the process?
- If the FMA is to be wound up, who would pay?
- Wouldn't a reintroduction of headage solve all the problems?
- When will the full report be published?
- Amount of meat purchased in Gov. procurement?
 - Where is it procured?
- Whose role is it to market Manx meat?
- Position on live export?

Further Questions?



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