

Livestock Pricing by Isle of Man Meats Equivalence?

Dr Steve Webster, 27th October 2015



Some background from the UK

Beef production: 877,000 tonnes

Beef consumption: 1,149,000 tonnes

Primary production worth: £2,795 million

Lamb production: 298,000 tonnes

Lamb consumption: 298,000 tonnes

Primary production worth: £1,137 million

Some background from England

75% or more of...

- ...cattle slaughtered in abattoirs of 20,000+ throughput;
- ...sheep slaughtered in in abattoirs of 100,000+ throughput;
- ...pigs slaughtered in abattoirs of 500,000+ throughput.

Some background from the FT

2 Sisters Food Group quarterly sales: £756 million, operating profit 2.9%

Danish Crown six-month revenue: 29,228 million DKK (approx. £2,835 million), operating profit 3.1%

Dunbia annual turnover: £769 million, ABP annual turnover: £551 million, Dawn Meats €1,000+ million

Our starting point

IoM Meats is small fish in a big pond.
A pond that is quite full of sharks.

We cannot influence commodity meat prices.
We cannot compete with economies of scale.
We do not hold the large scale contracts with the large scale retailers.

Everybody happy?

But...

Of the 203 licenced slaughterhouses in England, 107 are licenced to kill beef, sheep and pigs

80+% of abattoirs are smaller-scale

Whilst the position of the Isle of Man Meats abattoir is challenging, it is by no means unique

Where we are...

We have an unprofitable abattoir
for farming businesses that are
less profitable than we might desire

...and where we'd like to be

We would like a profitable abattoir
paying competitive prices for livestock,
increasing returns to producers and
contributing towards profitable farming businesses

Importance of the abattoir to government

- **Economic development** (e.g. Distinctive Food & Drink, Destination Isle of Man)
- **Underpinning livestock farming**
- **Food security**
- **Animal welfare**
- **Emergency planning**
- **Economic benefits** (employment, tax-take etc)

These objectives compete with other government objectives

Costs of the abattoir to the Government

Approximately

£1,073,693

In 2015

Costs of the abattoir to the Government

Department	Service	Estimated annual cost
DEFA	Official Veterinary services	£45,000
DEFA	Hygiene inspection	£80,000
DEFA	Carcase classification	£30,000
DoI	Rent discount	£120,000
DoI	Waste disposal	£218,600

Fat Stock Marketing Scheme 2007

- Focus on fat stock marketing and prices
- Made sense (to farmers) when the red meat derogation was in place
- In the absence of the red meat derogation:
 - any powers to regulate prices are undermined
 - the Fat Stock Marketing Scheme does not match with the way in which livestock are produced or marketed
- Focus should preferably be on adding value to carcasses/cuts of meat

Recommendation 1

Isle of Man Meats requires strategic stability and a clear focus on adding value. The constitution of the Board is not fit for this purpose and should be revised as a matter of urgency. Whilst the constitution of the Board might usefully recognise the interest in its success of the Isle of Man Government (e.g. by requiring Ministerial approval for key appointments) it is imperative that the Board takes full responsibility and ownership for Isle of Man Meats' strategy and success.

Recommendation 2

The revised Board should be tasked with setting out and implementing a long term vision for returning the meat plant to profitability, and of how they will work with all sectors in the food chain to achieve this.

Equivalence: Paragraph 33

“Farmers do not want to feel disadvantaged; and they are most likely to feel disadvantaged if they believe that they have only limited options for livestock production and marketing, and that within these they are being under-paid for their produce”

Price reporting in the UK

- Deadweight prices for beef from 28 abattoirs (compulsory)
- 90% of beef cattle purchased directly, 10% through livestock markets
- Accurate reporting but note that from larger scale abattoirs

- Deadweight prices for lamb (not compulsory)
- 50% of sheep purchased directly, 50% through livestock markets
- Less accurate reporting

Equivalence: Paragraph 37

“Providing 100% equivalence with UK average prices as reported by AHDB is notionally possible but would be dependent on either:

- Continued and potentially increasing support from the Isle of Man government, or;
- Improving throughput and increasing efficiencies, or;
- Significant improvements in the returns achieved from meat sales.”

Recommendation 3

There is no specific economic reason why Isle of Man livestock producers should now expect equivalence from the abattoir, nor is there any reason why they should be expected to supply livestock to the abattoir, **i.e. pricing, supply and demand should be market-driven.**

Recommendation 4

It is highly likely that there remains sufficient value not *currently* captured by Isle of Man Meats to allow for prices to be paid for Manx livestock that are equivalent to those paid in the UK. **The focus of Isle of Man Meats should be on capturing this value.**

Recommendation 5

Whilst in receipt of subvention the abattoir should aim to be overall price-equivalent with the UK, for livestock falling within the standard specifications (see paragraphs below) and allowing some variation (+/- 5%) to take into account the additional transport costs incurred by Manx producers and by the meat plant in exporting to the UK. However, it should be noted that this 'aim' would be for the single purpose of assuring the Manx Government that the abattoir was not exploiting its monopoly position as the sole abattoir on the Isle of Man, or operating to divert funding from subvention to farmer members.

Recommendation 6

Prices for beef cattle should be relayed to government and producers in a manner that makes comparisons of gross Isle of Man Meats' prices with gross UK prices far simpler to undertake i.e. using separate base prices and pricing tables for steers, heifers and young bulls. This is already done for OTM cows.

Recommendation 8

The abattoir should provide transparent, detailed information on gross prices and comparable deductions and these should be available to all Manx farmers. Farmers holding the relevant comparable information for a UK abattoir should be supported to make appropriate comparisons and independent calculations of the costs and/or benefits of supplying these as an alternative to Isle of Man Meats.

PIGS!

- Equivalence achieved through voluntary market restrictions but note...

...the costs of slaughter for pigs may in fact be higher than currently attributed by the abattoir, in particular because of the operating costs and potential damage caused by the scald tank...

Barriers and opportunities

Protocol 3

High GDP

Provenance

Manx Loaghtan

Recommendation 9

Isle of Man Meats, Manx producers and DEFA should fully **scope the potential volume of higher value products that could be retailed on the island using Manx provenance as a unique attribute**, the barriers to accessing these markets and the costs and timescales for implementing audit and traceability requirements.

Recommendation 10

Isle of Man Meats, Manx producers and DEFA should fully **scope the potential volume of Isle of Man Manx Loaghtan Lamb that could be produced on the island and retailed as a higher-value, speciality product** both in the Isle of Man and elsewhere.

Paragraph 84

...The challenge to the abattoir is... to balance supply and demand, optimising throughput and carcass specifications for premium markets.

They can choose to achieve this by limiting intake when the demand for premium meat is lower (i.e. placing a cap on the quantity of livestock they will accept), or by pricing (i.e. adjusting price to encourage or discourage supply).

Against this, the abattoir will benefit from higher throughputs where possible as a means to reduce the overhead charges on a per kg basis.

Recommendation 11

Manx livestock producers should work with Isle of Man Meats to reduce and avoid all unnecessary costs, adopting contract and payment schemes which very clearly reward efficiencies and penalise inefficiencies.

Recommendation 12

Isle of Man Meats should work with Manx livestock farmers to encourage a consistent supply of high quality livestock of the required specifications, using for example supply contracts that allow interim payments, as well as other market-based incentives.

Summary

- Re-structure role and operation of IoMM (1&2)
- Pricing, supply and demand to become market-driven (3)
- Refocus IoMM on adding value (4)
- Whilst in receipt of subvention, aim for 95-105% of 'equivalence' (5)
- Improve transparency of information (6,7,8)
- Scope potential returns from higher-value markets (9,10)
- IoMM and Manx farmers to work closely to avoid unnecessary costs and ensure correct products (11,12)