

Livestock pricing by Isle of Man Meats. Equivalency?

Dr Steve Webster

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Delta-innovation Ltd,
45 Grange Lane,
Bromham,
Bedfordshire, MK43 8NS
www.delta-innovation.co.uk
steve.webster@delta-innovation.co.uk
Tel: 07968 158261

Contents

Acknowledgements.....	i
Executive summary.....	ii
The abattoir.....	1
Protocol 3.....	2
Fat Stock Marketing Scheme 2007	2
Relationships with Government	3
Meat plant efficiencies and economies of scale.....	5
The importance of maintaining abattoir supply	5
Why do UK buyers want Manx livestock and why do Manx farmers want to sell?.....	6
Equivalence	7
Price equivalence for farmers.....	7
Price reporting in the UK.....	9
Price equivalence and government subvention	10
Price equivalence for cattle	10
Price equivalence for sheep.....	13
Price equivalence for pigs	15
Consequences of ‘defined equivalent prices’	15
Transparency of information	16
Overarching equivalence?	16
Barriers and opportunities.....	18
Challenges to Isle of Man Meats: balancing supply and demand.....	19

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Executive summary

- i. This report is intended to provide an overview of livestock pricing by Isle of Man Meats and to examine 'equivalence' with UK prices and charges, the markets available to Manx livestock producers and to Isle of Man Meats, alternatives to government-supported equivalence, processing costs and export costs, and to provide recommendations on appropriate price referencing data and how the Government's and Isle of Man Meat's objectives might be achieved to the benefits of both parties and of Manx farmers.
- ii. Twelve recommendations are proposed within the report, covering six separate themes: the structure and the commercial operations of Isle of Man Meats, equivalence, the transparency of pricing information provided to livestock producers, accessing higher value markets, and how Isle of Man Meats and Manx farmers might work together. It is the intention that these are taken as a whole package rather than individually. The delivery and timing of these recommendations will require a degree of oversight and close liaison between Isle of Man Meats, Manx livestock producers and DEFA.
- iii. A number of issues were raised during the course of this study that were outside the technical brief but which may nevertheless merit further investigation. Primarily these issues related to the future support that might be provided to farming, the underlying profitability of the livestock sector and the opportunities for new entrants to farming on the Isle of Man. Whilst we acknowledge the importance of such issues there was not the capacity within the present study to provide additional analysis.
- iv. Regarding the structure of Isle of Man Meats there are two recommendations:

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.

- v. Regarding the commercial operations of Isle of Man Meats there are a further two recommendations:

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.

- vi. Regarding equivalence there is one recommendation, presented below in brief with further specific detail provided in the main text:

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 detail in the main text) 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.

To allow for some flexibility by the abattoir, whilst avoiding unhelpful price manipulations, prices should be reported separately, on a three monthly basis, as the average (mean) gross amount paid per kg or per head of livestock for each of the relevant specifications.

vii. Regarding the pricing information provided by Isle of Man Meats there are three recommendations:

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 7. Grade reporting should define whether cattle currently in fat class 4M should fall into either class 4L or class 4H. These grading decisions should continue to be made by the independent meat graders.

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.

viii. Regarding higher value markets there are two recommendations:

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.

ix. Regarding Isle of Man Meats and Manx livestock producers working together there are two recommendations:

Recommendation 11. Manx livestock producers should work with Isle of Man Meats to reduce and avoid all unnecessary costs that arise through a mismatch between supply and demand, 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.

The abattoir

1. Isle of Man Meats¹ is a private² company which operates the abattoir at Ballafletcher Farm Road in Tromode, Douglas. The company is entirely owned and directed by Manx farmers; it buys cattle, sheep and pigs directly from Manx farmers and provides slaughter and cutting services, marketing and distribution. The abattoir processes in the region of 64% of the Isle of Man's beef, 88% of Isle of Man sheep and 100% of the island's finished pigs, producing in the region of 2,500 tonnes of meat annually (Appendix 1). Approximately 43% of beef and 24% of lamb (by value) is sold to Manx butchers with the remainder being sold off-island, mostly to wholesalersⁱ. Almost all pig meat sales are within the Isle of Man. By-products including skins and hides are also sold, whilst waste products are collected by the Manx Government and processed in their rendering plant.
2. The abattoir has been operated by Isle of Man Meats since November 2007, and prior to that by the Isle of Man Fatstock Marketing Association. However, the abattoir facility has remained in the ownership of the government and there has been continued government support to enable services to continue. This can be justified on the basis that the abattoir delivers against a number of government objectives, including:

Economic development: The Isle of Man has committed to growing the value of the food industry from £75 million to £125 million by 2025ⁱⁱ. The strategic vision outlined in Food Matters is, 'Growing a sustainable, profitable and increasingly collaborative food supply chain, focused on meeting the needs of customers'. This is seen to be advantageous to primary producers, to food processors, and to retail and service businesses, including those in the tourism sector. The abattoir provides the facility for meat from Manx-raised livestock to be marketed on the Island and beyond as Manx, so capturing the value of provenance. It should be noted that food production is not the only route by which livestock businesses might choose to grow and develop. For example, the export of high herd health status livestock could provide a viable alternative or complementary strategy.

Underpinning livestock farming: The abattoir provides a 'guaranteed' outlet for Manx livestock farmers, so that they are not wholly reliant on exports to the UK, Eire, or elsewhere. Paradoxically perhaps, this also provides some market price leverage to farmers considering exports, since these export markets are not their sole trading option.

Food security: The abattoir could be regarded as integral infrastructure for food security on the Isle of Man. Approximately 25.6% of the Isle of Man is rough grazing, and a further 60.6% is given over to hay and grasslandⁱⁱⁱ. The climate and topography is particularly well suited to ruminant livestock production.

Animal welfare: As a local abattoir facility the maximum distance it is necessary for any animal to travel on the Isle of Man from farm to slaughter is approximately 30 miles. This is significantly less than the distances seen for livestock elsewhere in the UK. Moreover, livestock slaughtered within the Isle of Man is not subject to the additional transport-stress associated with being traded through an auction mart.

Emergency planning: The abattoir could also be regarded as essential infrastructure in the event of an export-ban, in which case on-island slaughter would be required for all livestock. The value of this was demonstrated during the 2001 outbreak of foot-and-mouth disease in the UK, when all Manx livestock was slaughtered at the abattoir and farming businesses were able to continue to operate. However, as far as we are aware the cost-benefit of this over other options for emergency planning have not been considered.

¹ Isle of Man Meats is the trading name of The Isle of Man Fatstock Marketing Association Ltd.

² The Articles of Association for The Isle of Man Fatstock Marketing Association Ltd restricts ownership to: The Isle of Man Agricultural Marketing Society Ltd, Guarantee Members (voting rights conferred; must be a registered producer) and Preference Members (no voting rights conferred, must be, or have been, a registered producer).

Economic benefits: A report^{iv} to the Treasury in 2012 examined the overall economic benefit/loss of the meat plant to the Isle of Man economy and concluded that based on the tax and national insurance contributions received, benefits that would be paid on closure, and savings that would be made on subvention, keeping the plant provided (at that time) positive economic benefits.

Protocol 3

3. Protocol 3 to the United Kingdom's Act of Accession^v establishes the context for trade between the Isle of Man and the UK and other EU Member States. Article 1 of the Protocol states in respect of, "agricultural products and products processed therefrom which are the subject of a special trade regime," that, "Such provisions of Community rules, in particular those of the Act of Accession, as are necessary to allow free movement and observance of normal conditions of competition in trade in these products shall also be applicable".
4. Manx farmers and Isle of Man Meats have the opportunities to trade with EU Member States, including the UK, which are equivalent to the opportunities presented to UK farmers and meat processors. Manx farmers are free to provide to the abattoir or to export livestock to the UK or elsewhere in the EU. Similarly, the abattoir is free to purchase livestock from other farmers or auction marts within the EU, to transport them live to the abattoir, to slaughter and process them. Meat processors from elsewhere in the EU are free to export to the Isle of Man and retailers on the Isle of Man are free to procure meat goods from elsewhere in the EU. In the absence of any derogations, Isle of Man Meats and Manx farmers operate in the free-market, with all of the opportunities and the many threats which that market presents.

Fat Stock Marketing Scheme 2007

5. The structure, purpose and focus of the Isle of Man Fat Stock Marketing Association and its general powers to regulate marketing are defined in the Fat Stock Marketing Scheme 2007. This sets out that:
 - The Association 'may determine from time to time and for such periods as may be fixed by the Association, the price at, below or above which, the terms on which, and the persons to or through the agency of whom, the regulated product may be sold by any Registered Producer';
 - That the Association 'may require the Registered Producer to sell the regulated product, or such quantity thereof, or any description thereof, as may from time to time be determined by the Association, only to or through the agency of the Association'.
6. Exempted from registration and the operation of this Scheme are, 'Producers who export or sell for export and who do not sell Fat Stock which are slaughtered in the Isle of Man and the carcasses of which are consumed in the Isle of Man'. That is, all farmers selling livestock for slaughter through an abattoir on the Isle of Man must operate as registered Producers within the Scheme and as such may be subject to the prices set by the Association, and may be required to sell that livestock through Isle of Man Meats.
7. During the period in which the red meat derogation (i.e. the exemption from rules governing the free trade in red meat products) was in place, the Scheme provided a mechanism that allowed farmers to set the price of the livestock they produced, and to prevent any one producer from offering lower prices than his or her peers. With the red meat derogation in place the Scheme was a means to set the markets in favour of farmers and to maintain artificially high prices for Manx produced livestock.
8. The red meat derogation ceased at the end of 2010. In its absence Isle of Man Meats is in direct competition with meat processors from elsewhere in the UK and the wider EU. This direct competition means that Isle of Man Meats and Manx producers are no longer 'price makers' but they are in fact 'price takers'. As a consequence Isle of Man Meats has shifted from a position of maintaining artificially high prices for livestock to one in which it will attempt to drive-down the prices it pays. Producers

selling livestock in the 'sweet spot' of the EUROP grid are now paid in the region of 92-95% of the UK reported average prices^{vi}.

9. This shift in position might be seen as rendering the constitution of the Scheme as no longer fit for purpose. Isle of Man Meats no longer operates in the controlled market in which it could sell commodity meats at artificially high prices, but must look instead to how it can add value to any livestock it purchases. To operate profitably it must move from selling commodity meats to selling higher-value meats. The focus should therefore be far less on livestock producers and far more on meat retail.
10. The Fat Stock Marketing Scheme 2007 sets out that five Registered Producers shall be elected to serve as Directors of the Association. A board constituted of farmers is likely, although not determinedly, to focus on livestock prices. If we assume that Isle of Man Meats can only pay the market-rate for livestock, and that the abattoir is operating as efficiently as it can be, then the only way in which Isle of Man Meats can generate better returns for those farmers supplying livestock will be by adding value to the carcasses and the cuts of meat that it sells. This is not the usual area of expertise for farmers, but is an area of specialisms: in butchery, in food retail, provenance, exports and so on. Isle of Man Meats would be better placed to generate a profit if the skills inherent in the board of directors reflected these specialisms.
11. The Board has struggled to attract members in recent years, which is unsurprising given the remit of market control in an uncontrolled market, and there have been perceptions of conflicts of interest e.g. in setting the prices paid for livestock. Alongside this, the CEO of Isle of Man Meats has changed every two to three years. As a consequence of both these factors the direction of Isle of Man Meats has not been stable and this has been demonstrated, for example, in sudden, marked changes to the pricing biases for beef on the EUROP grid.
12. If Isle of Man Meats is to add significant value to the carcasses and cuts of meat that it sells, it would be best placed to do this on the basis of a predictable volume of quality assured, higher-value livestock. This will only be achieved if producers are aware of and confident in the longer-term requirements of the meat plant.

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.

Relationships with Government

13. There is a historically close relationship between the Manx Government and Isle of Man Meats, which is summarised as follows:
 - The abattoir plant is owned by the Department of Infrastructure (DoI), to whom market rate rental is paid by Isle of Man Meats. A discount of 50% is applied for prompt payment.

- DEFA provide hygiene inspection, carcase classification and Official Veterinary services to the abattoir. Inspection and Official Veterinary services are designed to protect human health as well as animal welfare in lairage and at slaughter.
- Capital funding in the region of £2 million has been provided in 2014-2015 to renew and update the abattoir facilities, although it should be noted that these facilities remain the property of the DoI. These capital works are intended to extend the life of the current plant until at least 2029 and to provide reduced operating costs of at least £105,000 per year.
- The Treasury have provided assistance to Isle of Man Meats through the Agricultural Development Fund (now known as the Agriculture and Forestry Fund), which was intended to facilitate the transition away from production-related support. This funding (usually termed 'subvention') has been provided in the amounts of £900,000 (2013), £610,000 (2014), £480,000 (2015) and is projected to be £380,000 (2016). There is no guarantee that subvention will continue after 2016.
- Waste disposal services are provided by the DoI through the Isle of Man's Animal Waste Processing Plant. This plant takes abattoir waste along with fallen livestock and butchers' waste and renders it to produce tallow, blood and bone meal. The tallow is used in place of heating oil as an energy source for the plant, and the blood and bone meal produced is burned in the energy from waste plant. A small charge is made to the abattoir for waste disposal, which is provided below-cost.

Table 1. Government support for the abattoir, 2015

Department	Service	Estimated annual cost
DEFA ⁽¹⁾	Official Veterinary services	£45,000
DEFA ⁽¹⁾	Hygiene inspection	£80,000
DEFA ⁽¹⁾	Carcase classification	£30,000
DoI	Rent discount	£120,000
DoI	Waste disposal	£318,693
Treasury	Subvention	£480,000
Total		£1,073,693

Note: (1) Approval may be sought from Tynwald in the last quarter of 2015 to introduce charging for these services with the Meat Hygiene, Inspection and Grading (Fees) (No.2) Order 2015

14. Without government support in the period since the red meat derogation ceased it is unlikely that Isle of Man Meats would have continued to operate, as shown in Table 2. However, this does not mean that government should intervene at any price, nor does it mean that government should intervene in the longer term. Should government believe that it could achieve its strategic aims without funding the abattoir, or that the costs of achieving any strategic aims through funding of the abattoir exceed the benefits of those aims, then it would be obliged to consider whether to continue funding?

Table 2. Abattoir profit/loss and government subvention 2012-2014

	2012	2013	2014
Sales	£10,170,882	£9,630,668	£9,942,611
Purchases, inspection and certification	£8,417,682	£8,211,675	£8,500,942
Export freight and packing	£414,464	£356,434	£412,945
Overhead costs	£2,106,094	£2,006,670	£1,754,164
Profit (loss) before subvention	(£767,358)	(£944,111)	(£725,440)
Subvention	£680,754	£900,000	£610,000
Profit/loss after subvention	(£86,604)	(£44,111)	(£115,440)

Meat plant efficiencies and economies of scale

15. The challenges faced by Isle of Man Meats relate in part to economies of scale. This is illustrated in Table 3 by comparison to English abattoir data. Operating on the Isle of Man effectively prevents Isle of Man Meats from expanding to take in a greater volume of livestock, since the costs of transporting livestock from the UK to the island would either be too great or would carry the risk of becoming too great at short notice.

Table 3: Sizes of abattoirs operating in England in 2013 and in the Isle of Man

	Cattle	Sheep	Pigs
No. abattoirs	166	159	119
Slaughtering (1,000 head)	1,489	9,331	8,326
Average throughput (head)	8,969	58,684	69,965
Isle of Man Meats' throughput (2015 forecast)	4,949	45,187	3,135

Source: English data: AHDB, 2014. MeatStats 7; Isle of Man data, Mike Owen, pers. comm.

16. Isle of Man Meats' throughput is below average for cattle and sheep and markedly below average for pigs. Moreover, the average figures presented in Table 1 represent the arithmetic means and disguise the fact that most livestock in England is slaughtered in much larger abattoirs. For example, in England in 2013:
- Only 13.4% of cattle were slaughtered in abattoirs with throughputs of less than 10,000 head and 74.6% were slaughtered in abattoirs with throughputs of over 20,000 head^{vii};
 - Only 10.9% of sheep were slaughtered in abattoirs with throughputs of less than 50,000 head and 79.3% were slaughtered in abattoirs with throughputs of over 100,000 head^{viii}, and;
 - Only 2.6% of pigs were slaughtered in abattoirs with throughputs of less than 10,000 head and 75.4% were slaughtered in abattoirs with throughputs of over 500,000 head^{ix}.
17. Although the majority of livestock in England are killed in high throughput, specialist abattoirs, the majority (by number) of abattoirs, are none-specialist. Of the 203 licenced slaughterhouses in England^x 107 are licenced to kill beef, sheep and pigs. That is, whilst the position of the Isle of Man Meats abattoir is challenging, it is by no means unique.
18. Whilst the abattoir at Tromode will never achieve the same economies of scale as are seen in these very large slaughterhouses, a condition of the subvention provided since 2013 and allied to capital support is that the abattoir should improve its ongoing operating costs. Isle of Man Meats has been working closely with DEFA to monitor and improve on a set of key performance indicators of meat plant efficiency.

The importance of maintaining abattoir supply

19. Abattoirs typically operate with proportionally high fixed costs and for this reason there has been a trend for many years for increasing scale, with the most efficient plants processing hundreds of thousands of animals. For the abattoir at Tromode the maximum throughput as constrained by the abattoir design is considerably greater than the actual throughput based on livestock received. The abattoir is relatively small, and hence less efficient than some UK competitors; and it is run at below-capacity, reducing efficiencies still further.

20. The abattoir's fixed costs³ for 2014 were £1,754,164 and were spread across the production of 2,466 tonnes of meat. This is a cost of approximately 71 pence per kg.
21. Increasing throughput of cattle by 25%, and of sheep and pigs by 10% i.e. moving towards slaughter of all the island's current livestock production and increasing the number of pigs produced, would reduce the fixed costs per kilogram of meat produced by 12.8 pence, from 71.1 to 58.3 pence. This is equivalent to approximately £38.40 per head of beef, £2.30 per sheep and £10.24 per pig (Appendix 2). There would of course be some increase in staff costs if throughput was increased, but this would be relatively small and there would be no changes in administration, sales, cleaning or maintenance or management. Whilst this is only a very broad calculation, it nevertheless gives an indication of the value of increasing throughput.
22. If Isle of Man Meats were to capture some of the savings made by increased throughput, i.e. by passing some, but not all of the savings on to farmers, then the extra price paid to purchase livestock would be offset and both parties could benefit.
23. To provide some context to these figures it is worth setting them against the financial performance of beef, sheep and pig producers. Data compiled by Eblex^{xi} indicates that the average net margin for beef-finishing (up to 16 months of age) is -£23.58/head, with the top third of producers achieving net margins averaging £269.59. The net margin for beef-finishing (over 16 months of age) is -£131.69/head, with the top third of producers achieving net margins averaging £94.73. For store lamb finishing the average net margin is -£7.39/head, with the top third of producers achieving net margins averaging £5.38. Assuming that the savings would be passed on to Manx farmers, then optimising the throughput of the abattoir would therefore have a highly significant impact on their financial performance.
24. Reducing the throughput by just 10% i.e. slaughtering 591 fewer cattle, 4,119 fewer sheep and 300 fewer pigs, would increase the fixed costs per kilogram of meat produced by 9 pence, from 71.1 to 80.1 pence. This is equivalent to approximately £27.40 per head of beef, £1.62 per sheep and £7.20 per pig (Appendix 3).
25. If the abattoir receives fewer livestock then it will require, to make a profit or to break-even, either:
 - i. Decreased prices paid for livestock, or;
 - ii. Increased financial support from the Manx government, or;
 - iii. Increased prices charged for end product.

It is quite feasible that none of these alternatives would be tenable, and there is therefore a risk that the abattoir would spiral into decline; decreasing prices paid for livestock would lead to further reductions in supply and increasing prices for customers would reduce demand.
26. In the absence of the abattoir farmers will be completely dependent on exports. We are aware that the livestock sectors on other islands around the UK have been successfully maintained through auction and export to the mainland. The option for at least two separate markets is clearly of benefit to Manx farmers, not least because it provides the opportunity for market-price leverage, but the abattoir is not necessarily critical for their survival.

Why do UK buyers want Manx livestock and why do Manx farmers want to sell?

27. Cattle exports are primarily of store cattle, which are sold directly to finishers in the UK or sold through livestock markets, usually in the north west of England. Selling store cattle provides a faster return on investment for producers than does finishing them on the Isle of Man, whilst keeping some beasts back for finishing can allow for farm resource use (grass, cereals etc) to be optimised. Depending on import /

³ Including salaries and wages, rent, rates, water and power, but excluding 'other' non-defined costs

export costs, for farmers reliant on imported feeds, selling off-island as stores may be perceived to be the most efficient option.

28. Cattle finished on the Isle of Man are most usually slaughtered on the Isle of Man. However, this is not always the case, and cull cows for example may be slaughtered in the UK.
29. For finished prime cattle, UK buyers might on occasion need to supplement the livestock they can buy directly from UK farms or their regular auctions with livestock from elsewhere. The Isle of Man is relatively close, and the prices paid for livestock on the Isle of Man are not reflected in the average figures for individual markets in the UK. As such, these 'one off purchases' can be made with no corresponding impact on the reported prices paid in England or Wales and so no impact on buyers' further purchases.
30. There is a relatively simple equation that farmers can apply when making decisions on where to send their finished cattle to slaughter: shipping to the UK will cost at least £101 per beast if a full lorry load (of 36 animals) can be sourced⁴, and reducing by just 1 beast raises this to over £104. Provided the UK net slaughter price (i.e. taking into account any deductions made by abattoirs as well as the per-kilogram price paid) is £102 higher than the Isle of Man price then UK slaughter is worth considering. More critically, if a full lorry load of beasts cannot be sourced then the costs per head of haulage increase sharply. For traders to intervene and organise the collection and haulage of cattle requires a greater price differential still, as they will need to see a return on their own time, effort and expenditure.

Equivalence

31. 'Equivalence' with the UK has been suggested as a pre-requisite for the survival of the Manx food chain and in a written answer to the House of Keys, the Minister for Environment, Food and Agriculture stated^{xii}, "I made it clear that if we were to retain a meat plant, dairy and mill, equivalent processing costs and returns for produce would have to be delivered."
32. The question itself asked, "Whether the Manx farming community was promised price equivalency with the UK for animal processing and, if so, why has this not been delivered?" This question, and to some extent the answer that was given, are predicated on the assumption that 'equivalent' figures that farmers would be able to use as a comparison might exist. However, the UK does not have a single pricing figure or processing cost. Whilst *average* figures are reported by AHDB, these differ by region and they reflect the prices paid by the highest-volume slaughterhouses and not the prices paid by smaller, non-specialised abattoirs. Moreover, recent work by Eblex^{xiii} with the NFU has highlighted that even within the UK there is very little transparency and broad variation as regards processing charges.
33. Nevertheless, the spirit of the question is easily understood. 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 equivalence for farmers

34. It is worth reiterating that Isle of Man Meats is a farmer-owned and managed company. Any profit made on operations can be passed back to Guarantee Members and Preference Shareholders. In this sense Isle of Man Meats is akin to a farmers' cooperative. If Isle of Man Meats pays too much for livestock, or charges too little for its services and makes a loss, then there is no profit to be shared amongst members. If on the other hand it pays too little, or charges too much for its services, or in any

⁴ Export costs for *finished* cattle include ferry charges (circa £2,800 return for a double-decked livestock trailer), plus £650 for trailer and driver hire to within 30-40 miles of port, plus an additional £200/100 miles thereafter. Assuming slaughter in the north west of England, approximately £3,650 total export costs which, divided by a full vehicle of 36 cattle equates to £101 / head.

- other way makes a profit, then the company can quite rightly distribute this amongst its members. It would be possible for Isle of Man Meats to provide notional equivalence to the UK, whilst making a significant loss. This would not benefit Manx farmers. For farmers the prices paid and charges made by Isle of Man Meats are not meaningful on their own, but only in the context of any dividend distribution they subsequently receive from the company.
35. Isle of Man Government net revenue has fallen sharply since 2007-08 and budgets since then have been aimed at rebalancing public finances. Budget deficits were estimated to be £55 million in 2012-13, £17 million in 2013-14 and £12 million in 2014-15. Future budgets are likely to continue this rebalancing in order to protect the Isle of Man's reserves.
 36. There is no *a-priori* reason why farmers should be paid for their livestock at prices equivalent to those reported by the AHDB for UK slaughter plants. All abattoirs in the UK operate in the same market place, and whilst there is some small scale support for some of the smaller plants (e.g. those on Scottish islands, or very small scale abattoirs operating to add value to bespoke farming set-ups), this is generally in the form of one-off capital grants. The challenges of location faced by Isle of Man farmers and Isle of Man Meats, for whom shipping off-island is a major cost, are countered by the same challenges to importers and the relative affluence of Manx consumers.
 37. Providing 100% equivalence with UK average prices as reported by AHDB is notionally possible but would be dependent on either:
 - a. Continued and potentially increasing support from the Isle of Man government, or;
 - b. Improving throughput and increasing efficiencies, or;
 - c. Significant improvements in the returns achieved from meat sales.
 38. The first of these would provide for a short-term political solution but is somewhat unsatisfactory, in particular because it runs against the overall EU trend vis-à-vis farming support. The second and third would provide for a longer-term and more acceptable solution. Given that the majority of Isle of Man Meats' output is sold wholesale, with limited value-added, there is clearly potential for further improvement.
 39. Carcasses which are exported by Isle of Man Meats will incur an additional cost of approximately 12p/kg (based on a full load in refrigerated transport)^{xiv}. This is a similar scenario to that in Northern Ireland, where price reports typically demonstrate a 5-15pence/kg reduction on those achieved in the UK, reflecting the subsequent export costs that will be incurred.
 40. Approximately half the retail value of beef and lamb is added post-farm-gate. Isle of Man Meats is selling a large volume of its product to UK wholesalers and is capturing very little, if any of that value. Sales on the Isle of Man are generally through Manx butchers and wholesalers and here again there is little opportunity and no market-push to capture the value in provenance.
 41. If further processing, better marketing and exploitation of provenance can increase the value of that meat which is currently sold to UK wholesalers by just 5% this equates to an increase in sales value of £154,000. Applied to Manx sales too this figure is more than doubled, to £351,000. Reducing the volumes of meat exported and increasing the volumes sold within the Isle of Man, either through public procurement or through the major retailers or through direct sales to the service sector will have a similar monetary impact by the reduction of freight costs.

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.

Price reporting in the UK

42. Price reporting by UK abattoirs to the AHDB is published online (e.g. through the AHDB and HGC websites) and in journals such as the Farmer's Weekly and Farmer's Guardian, and allows for comparisons to be made with the prices offered by Isle of Man Meats.
 - Deadweight prices for beef are reported from 28 abattoirs (20 English, 1 Welsh and 7 Scottish). This is the cold weight, with classification grade, carcass presentation, bovine category and the price per kg before any deductions are made. All of the 28 abattoirs dress carcasses to the UK specification i.e. with the mammary udder, topside-fat, flank-fat, brisket-fat and thin skirt off.
 - Deadweight prices for sheep are collated by Eblex. The data includes the cold weight, conformation, fat grading, the category of the animals and the price per kg. Sheep carcass classification is not compulsory in the UK and a review in 2013 questioned the reliability of the reporting system and of the sample size. It also noted that lambs are purchased by some abattoirs at a fixed price per head (cf. per kg deadweight) and that just over half of all finished lambs are purchased by abattoirs through livestock markets.
 - Deadweight prices for pigs are available in two forms. The Standard Pig Price (SPP) is based on pigs which are 'standard' i.e. they are not sold with a premium based on production system, feeding regime or breed. The Average Pig Price (APP) is based on data from pig marketing groups and includes both standard and non-standard pigs.
43. There are three reasons why caution is required if these prices are to be used in real-time to demonstrate equivalence to Manx farmers.
 - For lambs in particular: the range of dressing and carcass weight specifications, and the penalties for falling outside these specifications, is significant so that they do not compare 'like with like'.
 - These prices are averages and do not give any indication of the variation around the mean. This variation can be significant, and is influenced by factors including the supply contracts held by the processor, the specific breed and husbandry systems used and assurance scheme compliance.
 - The average prices do not take into account the charges levied by processors, which will be deducted from the carcass price.
44. As such, whilst these figures might be used by DEFA when reviewing abattoir performance, to judge whether or not Isle of Man Meats has paid farmers something as close as is reasonable to expect to a price equivalent to the average UK price, they do not give a direct like-for-like comparison. However, they are sufficient in most cases for producers to be able to make a broad judgement as to whether they should sell livestock to Isle of Man Meats or to export.
45. Transport charges are not included for the UK. Deductions made by Isle of Man Meats are currently in the region of £12.76 (excluding VAT) for transport of cattle, £1.40 (excluding VAT) for transport of lambs and £3.10 (excluding VAT) for transport of pigs. Waste disposal is charged at £8.50 for cattle, £0.89 for sheep and £2.60 for pigs. There is no statutory levy and inspection and classification charges are currently borne by the Isle of Man government.

Table 4. Deductions made by abattoirs, per head.

	Beef (Under 30 Month)	Lambs	Pigs
Statutory levy	£4.05	£0.60	£0.85
Inspection	£2.83	£0.62	-
Classification	£1.77	£0.36	-
Waste disposal	£4.60	£0.34	-
Insurance / other	£2.40	-	£1.50
Average UK charges	£15.65	£1.92	£2.35
Isle of Man Meats' charges	£8.50	£0.89	£2.60

Figures for the UK are averages and are taken from the Eblex/NFU report on the transparency of pricing by UK abattoirs

Price equivalence and government subvention

46. The Isle of Man government has provided significant levels of support to Isle of Man Meats, and continues to do so. Isle of Man Meats is wholly owned by Manx farmers, it buys livestock from Manx farmers and provides slaughter and cutting services, marketing and distribution. On the one hand, it would be quite possible for Isle of Man Meats to use the funding received through subvention to over-pay its suppliers. On the other, it would be quite possible for the company to under-pay its suppliers whilst using the funding to mask (rather than address) any operational inefficiencies. Neither of these are in the public interest.
47. Whilst the government is providing financial support to Isle of Man Meats it is prudent to demand that, as well as sharing their full management accounts, they should also target the prices paid to farmers (including dividends etc) for livestock to be within a range (e.g. +/- 5%) of equivalence. Short term fluctuations outside this range might well be necessary for Isle of Man Meats' commercial purposes, and so a longer-term (i.e. annual) timescale for review would be appropriate. Setting this as a target will serve to assure the government that Isle of Man Meats are not using government funds to over-pay their producers, but that they are nevertheless offering producers a fair price.

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.

To allow for some flexibility by the abattoir, whilst avoiding unhelpful price manipulations, prices should be reported separately, on a three monthly basis, as the average (mean) gross amount paid per kg or per head of livestock for each of the relevant specifications.

Price equivalence for cattle

48. Estimates of equivalence for beef animals are currently based on a comparison with AHDB Central Region figures. It is a minor point, but the AHDB Northern Region figures would be more sensible

comparison for the Isle of Man. AHDB figures are based on carcasses dressed to the UK specification (udder, topside fat, flank fat, brisket fat and thin skirt off), which is the same specification as used by Isle of Man Meats, and so the two are comparable.

49. The relationship to UK prices is not consistent across the EUROP price grid (see Table 5). Whilst this is perhaps necessary to encourage farmers to produce and supply livestock with the most appropriate confirmation for the Isle of Man, it should be made clear by Isle of Man Meats to which elements of the EUROP grid their comparisons refer.
50. Table 6 provides a comparison of the Isle of Man prices to the AHDB Northern Region. Prices in the Northern Region are generally, although not always, marginally higher than in the Central or Southern Regions. However, this is also the region into which cattle would most probably be exported if they left the Isle of Man. It should be noted that the average (all cattle) prices reported in the regions is negatively skewed in the South and Central regions by higher numbers of cull cows being processed as a proportion of the total, and it is necessary to look at the prices for steers, heifers and young bulls separately, rather than looking at the overall averages.
51. Table 7 provides a comparison of the Isle of Man prices to Northern Ireland prices. Prices in Northern Ireland are generally lower than those in the UK, and a report^{xv} in 2013 concluded that this difference, which averaged for the study period (2009-12) at 14.2 p/kg for R3 steers, was mostly due to three major factors; transport, the availability of cheaper beef from the Republic of Ireland and the seasonality of supply.

Table 5. Comparison of bovine prices⁽¹⁾, Isle of Man Meats (gross) week commencing 20th July as a percentage of UK Central Region (gross), week ending 18th July 2015, for steers, heifers and young bulls separately.

	Steers ⁽²⁾		Heifers ⁽²⁾		Young bulls ⁽³⁾	
	3	4L	3	4L	3	4L
U-	88.7	89.4	88.7	88.7	84.7	86.9
R	91.4	90.8	91.1	90.9	88.4	89.4
O+	91.7	91.8	92.8	92.0	90.9	91.2
O-	89.5	89.8	96.4	93.1	86.9	88.2

Notes: (1) UK and Manx prices are shown before deductions, which are shown separately in Table 4; (2) Whilst Isle of Man Meats stated that they paid 95% for steers and heifers in this week, it is unclear from their pricing grid as to which classes this would relate; (3) An additional 15 p/kg deduction was made from the listed Isle of Man Meats grid price for this comparison.

Table 6. Comparison of bovine prices⁽²⁾, Isle of Man Meats (gross) week commencing 20th July as a percentage of UK Northern Region (gross), week ending 18th July 2015, for steers, heifers and young bulls separately.

	Steers ⁽²⁾		Heifers ⁽²⁾		Young bulls ⁽³⁾	
	3	4L	3	4L	3	4L
U-	89.4	89.1	89.0	88.1	86.6	89.2
R	90.6	89.4	91.1	90.2	90.3	91.3
O+	89.8	87.6	91.5	88.4	95.9	95.6
O-	91.2	89.0	94.0	88.9	96.4	94.6

Notes: (2) The same notes and caveats apply as for Table 5.

Table 7. Comparison of bovine prices⁽³⁾, Isle of Man Meats (gross) week commencing 20th July as a percentage of Northern Ireland (gross), week ending 18th July 2015, for steers, heifers and young bulls separately.

	Steers ⁽²⁾		Heifers ⁽²⁾		Young bulls ⁽³⁾	
	3	4L	3	4L	3	4L
U-	93.4	95.0	92.8	93.0	88.8	90.1
R	94.4	94.9	93.7	94.0	91.3	91.7
O+	92.8	94.3	93.5	92.5	89.7	89.5
O-	90.3	90.8	90.0	89.1	88.0	87.5

Notes: (3) The same notes and caveats apply as for Table 5.

52. The impact of deductions is demonstrated in Table 8, which compares the Isle of Man Meats prices net of deductions against the UK Central Region prices net of average deductions. The lesser deductions charged by Isle of Man Meats results in an uplift in the region of 0.5% on the prices paid.

Table 8. Comparison of bovine prices⁽⁴⁾, Isle of Man Meats prices (net of deductions) week commencing 20th July as a percentage of UK Central Region (net of deductions), week ending 18th July 2015, for steers, heifers and young bulls separately.

	Steers ⁽²⁾		Heifers ⁽²⁾		Young bulls ⁽³⁾	
	3	4L	3	4L	3	4L
U-	89.2	89.9	89.2	89.2	85.2	87.4
R	92.0	91.3	91.6	91.5	88.9	90.0
O+	92.3	92.3	93.4	92.6	91.5	91.8
O-	90.1	90.4	97.1	93.8	87.5	88.7

Notes: (4) The same notes and caveats apply as for Table 5. Additionally, an adjustment has been made to the price paid per kg by reducing that for Isle of Man Meats by 2.83 pence (£8.50 deductions/300kg carcass weight) and that for the UK by 5.22 pence (£15.65 deductions/300kg carcass weight)

53. For the purpose of monitoring, and in the absence of long-term agreements or contracts with farmers providing any sense of the direction of travel for future demands, we suggest that carcasses falling in the conformation classes R and O+, with fat class of 3 and 4L (and young bulls in class 2), should be targeted at 95 - 105% of the UK price, before deductions. Cattle falling into adjacent conformation classifications (-U, -O) should be targeted at a minimum of 92% of the UK price. Assuming a notional UK price of 360p/kg deadweight, and a 350kg carcass, a reduction of 5% works out at £63, which is significantly less than the cost of transport for off-island sale would be; a reduction of 8% works out at £100.80, which is still less than the cost of transport, although the difference here is marginal.
54. Based on Isle of Man Meats' intake data for 2014, approximately 53% of cattle (steers, heifers and special young bulls) submitted for slaughter fall within the conformation classes R and O+, with fat class of 3 and 4L. If we assume that those cattle presented in classes R and O+, with fat class 2 are special young bulls then this accounts for a further 9% of animals submitted. That is, 62% of cattle would be paid, under this regime, at a minimum of 95% of the UK Northern region price. A further 18% of cattle submitted for slaughter in 2014 were of conformation class -U or -O and fat class 3 or 4 L and would be paid, under this regime, at a minimum of 92% of the UK Northern region price.

55. The Isle of Man Meats pricing grid specifies fat classes 4L and 4H, whilst grading takes into account an intermediate fat class of 4M, into which 6% of cattle fall. Depending on how cattle in this intermediate grade are assigned they might be paid at 95% of the UK Northern region price, or they might be paid at a price that is not determined by this targeting and monitoring regime. It would be beneficial, if not already done, if meat graders (i.e. not Isle of Man Meats and not farmers) made the decision as to whether these intermediate beasts fell into class 4L or 4H.
56. The current comparison uses a 'UK base price' which appears to approximate to the average for steers and heifers, and pays for steers and heifers of certain carcass confirmations and weights at 95% of this, and for young bulls at 92%^{xvi}. A further deduction in the region of 5% (i.e. 15 p/kg) is made by Isle of Man Meats for young bulls under 16 months of age, with those over 16 months being paid at realisation. A deduction of over 8% is made for carcasses falling between 230 and 250 kg.
57. The reasons for these deductions, and their justification in terms of the costs (or lost profits) incurred by the meat plant is not made explicit to producers. Moreover, as highlighted with the double-deduction for young bulls (pay at 92% of a 'base price', and then deduct around 5%), there are unnecessary complications in the manner in which prices are relayed to government and to producers. In fact, the prices published by Isle of Man Meats for the week commencing 20th July would not be paid for any stock, since more would be paid for heifers and steers and less would be paid for young bulls!

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 7

Grade reporting should define whether cattle currently in fat class 4M should fall into either class 4L or class 4H. These grading decisions should continue to be made by the independent meat graders.

Price equivalence for sheep

58. Estimates of equivalence for sheep can be made against AHDB data, which is provided as a national average. AHDB figures are based on carcasses dressed to the MLC specification, which is the same specification as used by Isle of Man Meats, and so the two are comparable. Comparisons with other meat processors should be made with care as the same dressing specifications might not be applied. AHDB guidance indicates that tail removal leads to a carcass weight reduction in the region of 0.2 kg, and that removal of the kidney knob and channel fat will reduce carcass weight by a further 0.5 kg. That is, meat plants that dress to the MLC specification with the additional 'tail removed and excluding kidney knob and channel fat' effectively reduce carcass weights (and prices paid) by 0.7 kg, or 3.5%.
59. As with beef pricing, the relationship of sheep prices in the Isle of Man to UK prices is not consistent across the EUROP grid, as shown in Table 9. Whilst again this may be necessary to encourage farmers to produce and supply livestock with the most appropriate confirmation, it should be made clear by Isle of Man Meats to which elements of the EUROP grid their "92% of UK price" comparison refers.

Table 9. Comparison of prices for new season lamb, Isle of Man Meats (gross) week commencing 20th July as a percentage of UK (gross), week ending 18th July 2015.

	1	2	3L	3H	4L	4H	5
E	70.5	84.9	85.4	86.3	81.0	75.0	-
U	70.3	86.6	87.4	86.9	80.4	73.2	71.4
R	72.0	85.9	86.5	88.4	79.3	73.2	73.5
O	65.7	83.4	83.2	80.1	78.4	72.3	72.1

Table 10. Comparison of prices for new season lamb, Isle of Man Meats (net of deductions) week commencing 20th July as a percentage of UK (net of deductions), week ending 18th July 2015.

	1	2	3L	3H	4L	4H	5
E	71.4	86.1	86.6	87.6	82.3	76.1	-
U	71.1	87.9	88.7	88.2	81.6	74.2	72.4
R	72.9	87.2	87.8	89.8	80.4	74.2	74.7
O	66.4	84.6	84.4	81.3	79.5	73.3	73.2

60. Sheep prices are currently determined as 92% of an average of prices from between two and four large-scale, UK based, retail-packing sheep slaughter plants and the Eblex average price for the preceding week^{xvii}. The rationale for using the additional UK price sources is that sheep prices are highly volatile and these provide a real-time indication of where prices sit. The Eblex price is already averaged over a number of slaughter plants but provides data which is always one week out of date, and prices will regularly fall or rise by as much as 10% in this time. If these data are to continue to be used for price determination then we suggest that it would be more accurate to use the weekly changes in sheep deadweight prices from the two UK abattoirs to estimate the changes that should be made to the preceding week's Eblex average data, and not to use the data from the two UK abattoirs to determine an average price paid.
61. A more accurate means to determine the impact of national price changes on the price to be offered by Isle of Man Meats would be to use the previous week's reported deadweight prices for the UK, adjusted by the percentage change in prices seen in livestock sales for the current week. This is shown in Table 11.

Table 11. Comparison of prices for new season lamb, Isle of Man Meats (gross) week commencing 20th July as a percentage of UK (gross), week ending 18th July 2015 adjusted by the average change in lamb prices at auction week ending 18th July 2015.

	1	2	3L	3H	4L	4H	5
E	71.9	86.4	87.0	88.0	82.7	76.7	-
U	71.7	88.2	89.0	88.5	82.0	74.8	73.1
R	73.5	87.6	88.1	90.1	80.9	74.8	75.4
O	67.1	85.0	84.8	81.7	80.0	73.9	73.9

62. A significant proportion of sheep are purchased by abattoirs through livestock auctions and liveweight figures are also in the public domain. Whilst for cattle the deadweight price provides the most realistic comparison, for sheep both liveweight and deadweight comparisons are of use. However, for consistency in price monitoring between beef, sheep and pigs we suggest using AHDB reported deadweight prices.
63. For the purpose of monitoring we suggest that carcasses falling in the conformation classes E, U, R or O with fat class of 2, 3L and 3H should be targeted at 92% - 105% of the UK price. Assuming a notional UK price of 400p/kg deadweight and a 18kg carcasse, a reduction of 8% works out at £5.76, which remains less than the cost of transport for off-island sale would be.
64. Based on Isle of Man Meats' intake data for 2014, approximately 92% of sheep (lambs and hoggets) submitted for slaughter fall within the conformation classes E, U, R and O with fat class of 2, 3L and 3H. These would be paid, under this regime, at a minimum of 92% of the UK price.

Price equivalence for pigs

65. Since a review in 2011 support for pig production has been restricted and a number of pig farmers have been supported to leave the sector. This restraint on support has effectively limited production and has allowed Isle of Man Meats to focus more than 95% of pork and bacon output on local, Manx sales and to achieve better prices on average than most UK abattoirs. These above-average prices are passed on, in part at least, to Isle of Man pig producers.
66. Whilst the restraint on production allows for higher prices to be achieved, it also limits the overall output of two of the three remaining producers. It is highly unlikely that the abattoir would be able to achieve such good prices for any pork and bacon products it exports. The size and scale of pig production units in the UK and elsewhere in the EU will not be matched on the Isle of Man and there is little scope to reduce input costs through large scale home-production of cereals.
67. It should be assumed that pigs sold into the UK market will only achieve the standard pig price (SPP). In fairness to Isle of Man Meats, the costs of carcasse export should be deducted from this, so that 'equivalence' for pigs produced over-and-above those that can be sold for consumption on the Isle of Man would be SPP – 12p/kg.

Consequences of 'defined equivalent prices'

68. Price 'equivalence' can be taken to mean that the prices paid by Isle of Man Meats are the same as, or in a fixed proportion to a reported UK price (or prices) at abattoir, for particular specifications. We can examine the consequences of setting prices in this manner. It is worth noting first of all that the reported prices will always be one week behind the actual prices achieved in the UK, as real-time price equivalence is not currently available using abattoir reporting data.
69. Since farmers in this scenario can gauge in advance the price to be paid by Isle of Man Meats and use this as a benchmark, they are in a better position to negotiate prices with the UK. Counter to this, buyers from the UK can very simply add a small amount to the known UK price and offer this to Manx farmers in order to capture their trade. There is an information asymmetry, with Isle of Man Meats disadvantaged against UK buyers. Additionally, basing prices on a specific UK average price will mask the lower prices paid by some processors and the higher prices paid by others as they balance their own supply and demand, but it will restrict Isle of Man Meats from operating with similar flexibility.
70. UK buyers can also under-price purchases from Isle of Man producers, particularly when prices are rising as the reported UK prices (being a week behind) will be lower than the real-time prices. Similarly, as prices in the UK decrease, UK buyers will not be contractually obliged to buy from Manx farmers and so will not necessarily pass the reciprocal advantage to Isle of Man producers.
71. Using the UK average is a useful means to check that overall Isle of Man producers are not disadvantaged. However, this check itself should be retrospective. Isle of Man Meats may wish to use the UK price as a guide, and operating in the free-market they no doubt will do so. However, using

price-equivalence as a hard-and-fast rule will potentially place Isle of Man Meats and Manx farmers at a disadvantage in comparison to UK buyers.

72. Whilst publishing real-time pricing data might possibly disadvantage both Isle of Man Meats and ultimately those farmers supplying it with livestock, the abattoir is justified in providing a pricing schedule after livestock has been consigned for slaughter. This is in fact a similar *modus operandi* to that observed in most UK abattoirs, and is not unique to Isle of Man Meats. However, it is the responsibility of Isle of Man Meats to provide a pricing schedule as soon as is feasible after consignment i.e. at close of play on the same day, or at the commencement of 'normal' office hours on the following day.

Transparency of information

73. If producers believe that they will achieve a better return by selling their livestock to the UK, they will do so. Note that it is not important whether or not producers will actually achieve a better return, only that they believe this to be the case. Whilst the abattoir can address the depth and timeliness of the information it provides to farmers so that they can see whether the price they receive is fair, it cannot address the information provided by competing buyers, who may mask charges, transport costs and so on. In providing clear information to producers, the abattoir (and indeed DEFA or the MNFU, as independent parties in these transactions) may wish to provide assistance to farmers in appraising the equivalence of any offers from the UK.

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.

Overarching equivalence?

74. Apart from price there are other areas of 'equivalence' that should be explored if we are to take a rounded view of whether Manx farmers are treated fairly in comparison to their UK counterparts.
75. **Costs of production:** Farming on the Isle of Man is believed by many to be more expensive than most other parts of the United Kingdom. The main impact is that of shipping costs, which for palletted goods are estimated to be in the region of £40 - £50 per tonne. Similar situations exist in other Crown Dependencies, although shipping costs to and from the Channel Islands are considerably higher. In Scotland, where farming remains integral to the economy of many islands, shipping has been subsidised through the introduction of 'road equivalent tariffs'. Nevertheless, transport costs remain significantly higher than for their counterparts in more accessible parts of the country.
76. **Pillar 1 payment rates:** Support is provided to Manx farmers by the Isle of Man Government in a similar manner to the support that is provided to English, Welsh and Scottish farmers by their respective governments under the auspices of the Common Agricultural Policy. Analysis of support payments made under Pillar 1 (Table 12) indicates that Pillar 1 provision on the Isle of Man is more generous than in England, Wales or Scotland. Assuming 1.5 acres/cow for a suckler herd, the difference in support between the Isle of Man and England is in the region of £26 per head of beef. If Pillar 2 payments are taken into account then provision in England is marginally higher than on the Isle of Man.
77. **Taxation:** Differences in the tax regimes between the Isle of Man and the UK will place some (higher-earning) Manx farmers at an advantage over their UK counterparts, as shown in Table 13. On earnings above £42,386 per year the rate of income tax in the UK is double, or more than double, that applied in the Isle of Man.

Table 12. Pillar 1 payments (lowland) in the Isle of Man, England, Scotland and Wales

	Isle of Man	England	Scotland ⁽¹⁾	Wales ⁽¹⁾
€ per hectare	-	€244.00	€220.00	€240.00 ⁽²⁾
£ per hectare ⁽³⁾	-	£170.80	£154.00	£168.00
£ per acre	£78.20 ⁽⁴⁾	£69.12	£62.32	£67.99
Pillar 2 value ⁽⁵⁾	- ⁽⁶⁾	£9.43	£6.54	£12.00
TOTAL	£78.20	£78.55	£68.86 ⁽⁷⁾	£79.99

Notes: (1) Scotland and Wales will transition from the current mix of historic and area based payments to an area-based only scheme by 2019. The average estimated payment per hectare following transition is shown; (2) Figures for Wales are based on the redistributive payments applied to the first 54 hectares of any claim; (3) Exchange rate at 5th August, €1 = £0.70; (4) Front-loading (redistributive payments) is being introduced in the Isle of Man over four years and will result in a £90 per acre payment for the first 120 acres of any claim; (5) Modulation (pillar transfer) set at 12% (England), 9.5% (Scotland) and 15% (Wales); (6) A direct comparison of Pillar 2 equivalent payments to Manx farmers has not been made; (7) 10% of the budget for Pillar 1 in Scotland is allocated to coupled support, which could be shown as an addition £6.92 per acre of eligible lowland, bringing the total support in Scotland to £75.78.

78. **Labour availability:** Within the EU there is free movement of labour, and within the UK (as elsewhere) minimum wages have been established as a means to avoid exploitation. The Isle of Man is not committed by Protocol 3 to follow the UK legislation on minimum wages and the rules on free movement of workers do not apply. The Isle of Man does however impose its own minimum wage legislation and it is of note that the Manx minimum wage is generally higher than that applied in the UK, as shown in Table 14. Moreover, the Isle of Man maintains an Agricultural Wages Board (AWB) for all agricultural workers whereas the AWB in England is only applied to workers contracted prior to 01 Oct 2013. The Isle of Man also requires that non-Manx farm workers should obtain a work-permit to allow them to take paid employment on the island.

Table 13. Taxation of farmers in the Isle of Man and in the UK

	Isle of Man	England
Corporation tax	General: 0%; finance & retail: 10%; land and property: 20%	General: 20%
Income tax	Up to £9,500: 0% From £9,500-£20,000: 10% Above £20,000: 20% Tax-take capping at £125,000	Up to £10,600: 0% From £10,600-£42,386: 20% Above £42,386: 40% Above £150,000: 45%
National insurance	Employee: 11% on earnings £120-£784/wk; 1% on earnings above this. Employer: 12.8% on earnings > £117/wk	Employee: 12% on earnings £155-£815/wk; 2% on earnings above this. Employer: 13.8% on earnings > £156/wk
Capital gains tax	Nil	Tax free allowance of £11,000 and then 18% if within basic rate tax band, otherwise 28%
Inheritance tax	Nil	40% on any inheritance over £325,000; (mostly negated by APR for farming businesses)

Table 14. Minimum wages and AWB bands in the Isle of Man and in the UK

Isle of Man		England	
Minimum wages (hourly)			
Age 21+:	£6.65	Age 21+:	£6.50
Age 18-20:	£6.40	Age 18-20:	£5.13
Age 17:	£5.24	Age 17:	£3.79
Age 16:	£4.67	Age 16:	£3.79
Agricultural minimum wages (37 hrs/wk Isle of Man; 39 hrs/wk (minus breaks) UK)			
Basic Grade:	£249.56	Grade 1:	£242.19
Ordinary Grade:	£277.01	Grade 2:	£271.44
Special Grade:	£326.87	Grade 4:	£320.19

Barriers and opportunities

79. To a great extent, the opportunities offered to Manx farmers are equivalent to those for UK farmers as a result of the implementation of Protocol 3. However, there are additional opportunities that present to Manx farmers that may not be as available to their UK counterparts. In particular, the Isle of Man has a relatively wealthy population with a gross domestic product (GDP) per head of £44,600 (almost double that of the UK) and with average expenditure on foods that is approximately 20% higher than the UK. For Manx provenance beef, lamb and pork products there is no competition. Hence, whilst the Manx market is not huge, it nevertheless presents significant opportunity for added-value.
80. Consultation with producers and with Isle of Man Meats has revealed some frustration that the term 'Manx sourced' is used on meat products which have not been produced, slaughtered or processed on the Isle of Man, but which have presumably been sourced by somebody on the Isle of Man! Similarly, there was some concern that insufficient action was seen to be taken by government to ensure that claims made for the provenance of the meat sourced by government were true. We were informed by DEFA that these frustrations and concerns have been noted and that isotope testing of meat products to ensure Manx provenance is due to start in 2015, once a full year of reference data has been collected.
81. Isle of Man Meats and Manx producers are in a strong position to establish their own branded products, which could be auditable and traceable back to the source farm. These products need not be high-volume, and might seek to capture in the first instance some of the higher-value restaurant trade.
82. Since 2008 there has been a PDO in place for Isle of Man Manx Loaghtan Lamb, defined as follows, "Isle of Man Manx Loaghtan Lamb is the name given to meat from pure bred Manx Loaghtan sheep, registered with the Breed Society, which have been born, raised and slaughtered on the Isle of Man. The meat is fine grained, less fatty and darker than meat from more commercial breeds. It has a distinct, gamey flavour. Dressed carcass weights range from 13 kg at 6 months to 18 kg at 15 months." The PDO appears to be under-exploited, although confirmation would require further investigation with the breed society. The abattoir is currently the only organisation that can guarantee supply.

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.

Challenges to Isle of Man Meats: balancing supply and demand

83. It is the nature of the market for Isle of Man Meats' produce that some will be sold at a premium, or to a guaranteed market, to buyers who value amongst other things its Manx provenance. Moreover, it is the 'role' of Isle of Man Meats to drive up the proportion of meat sold as premium, to provide better returns / guarantee markets and to pass some of these benefits to farmers. Meat which is not sold at a premium will be sold on a commodity basis, and that sold to the UK will incur additional transport costs. Meat which is bound to the UK and to continental Europe will be shipped in a temperature controlled vehicle and planning is necessary to avoid part-loads, for which the transport cost is spread over far fewer carcasses.
84. Sales of premium meat on the Isle of Man will vary not only by the 'usual' seasonal demands, but also by the tourist trade. Sales of Manx provenance meat at a premium outside the Isle of Man may be more limited, but are nevertheless worthwhile. The challenge to the abattoir is therefore to balance supply and demand, optimising throughput and carcase 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.
85. Coordinating supply and demand has benefits for farmers as well as for meat processors. For example, it would help avoid the need to stagger intakes which result from wide fluctuations in supply over short periods. In aiming for an optimal supply of livestock, to make the most of the premium markets for Manx meats, Isle of Man Meats has worked to inform farmers of what livestock will generally be required and when; it is recruiting a full time procurement officer, and it has set in place contracts for the supply of cattle to offset troughs and for lambs due for export. If farmers are going to achieve equivalent pricing to their UK counterparts, they will need to work with the abattoir operation to reduce unnecessary and avoidable costs.

Recommendation 11

Manx livestock producers should work with Isle of Man Meats to reduce and avoid all unnecessary costs that arise through a mismatch between supply and demand, 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.

Appendix 1. Calculation of slaughter volumes

2014 Cattle exports

(<https://www.gov.im/about-the-government/departments/environment-food-and-agriculture/agriculture-directorate/export-data-sheep-and-cattle/#accordion>)

Dairy > 30 months	605
Dairy 18 - 30 months	321
Dairy 6 - 18 months	79
Dairy < 6 months	0

** Assume that all dairy young stock (i.e. dairy < 30 months) are destined for breeding / milk production and are not relevant to abattoir throughput.**

Beef > 30 months	669
Beef 18 - 30 months	1,479
Beef 6 - 18 months	436
Beef < 6 months	93

Total head of cattle exported that would otherwise be finished for slaughter at the Isle of Man Meats abattoir = 605 OTM dairy cows + 2677 beef cattle = 3,282

2014 Abattoir intake (data from Isle of Man Meats)

Beef cattle	5,363
Cows > 30 months	551

Total head of cattle slaughtered at the Isle of Man Meats abattoir = 5,362 + 551 = 5,914

Proportion of Isle of Man beef processed by Isle of Man Meats = $5,914 / (5,914 + 3,282) = 64.3\%$

2014 Sheep exports

(<https://www.gov.im/about-the-government/departments/environment-food-and-agriculture/agriculture-directorate/export-data-sheep-and-cattle/#accordion>)

Sheep > 12 months	2,782
Sheep 6-12 months	3,047
Sheep < 6 months	3
Sheep MV >12 months	63
Sheep MV < 6 months	6

** Assume that MV accredited sheep are destined for breeding and are not relevant to abattoir throughput**

Total head of sheep exported that would otherwise be finished for slaughter at the Isle of Man Meats abattoir = 5,832

2014 Abattoir intake (data from Isle of Man Meats)

Sheep	41,196
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Proportion of Isle of Man sheep processed by Isle of Man Meats = $41,196 / (41,196 + 5,832) = 87.6\%$

Appendix 2. Calculation of impacts of increased/decreased slaughter volumes

2014 Abattoir statistics (data from Isle of Man Meats)

Meat production: 2,466 tonnes
 Average carcass weights: Cattle 300 kg, sheep 18 kg, pigs 80 kg
 Operating costs: £1,754,164
Operating costs/kg: £1,754,164/2,466,000 = £0.711

Increasing cattle by 25%: $5,914 \times 25\% = 1478.5$ (rounded to 1,478)
 Average carcass weight = 300 kg
 Increase in production = $1,478 \times 300 = 443,400$ kg

Increasing sheep by 10%: $41,196 \times 10\% = 4,119.6$ (rounded to 4,119)
 Average carcass weight = 18 kg
 Increase in production = $4,119 \times 18 = 74,142$

Increasing pig by 10%: $3,000 \times 10\% = 300$
 Average carcass weight = 80 kg
 Increase in production = $300 \times 80 = 24,000$
 TOTAL INCREASE IN PRODUCTION = 541,542 kg
TOTAL PRODUCTION INCLUDING INCREASE = 3,007,542 kg

Assume NO INCREASE IN OPERATING COSTS

Operating costs / kg (increased throughput) = $£1,754,164/3,007,542 = £0.583$
 Reduction in operating costs / kg = $£0.711 - £0.583 = £0.128$
 Reduction per beef carcass = $300 \times £0.128 = £38.40$
 Reduction per sheep carcass = $18 \times £0.128 = £2.30$
 Reduction per pig carcass = $80 \times £0.128 = £10.24$

Note: Operating costs exclude export freight, packing and livestock purchases. It should be noted that wages and salaries may increase with increased throughput. However, this increase will be marginal with many aspects of meat plant operation (maintenance, administration, management and cleaning for example) unaffected. Similarly, a decrease in throughput of 10% is unlikely to affect wages and salaries to any great extent.

Appendix 3. Calculation of impacts of increased/decreased slaughter volumes

2014 Abattoir statistics (data from Isle of Man Meats)

Meat production: 2,466 tonnes
 Average carcass weights: Cattle 300 kg, sheep 18 kg, pigs 80 kg
 Operating costs: £1,754,164
Operating costs/kg: £1,754,164/2,466,000 = £0.711

Decreasing cattle by 10%: $5,914 \times 10\% = 591.4$ (rounded to 591)
 Average carcass weight = 300 kg
 Decrease in production = $591 \times 300 = 177,300$ kg

Decreasing sheep by 10%: $41,196 \times 10\% = 4,119.6$ (rounded to 4,119)
 Average carcass weight = 18 kg
 Decrease in production = $4,119 \times 18 = 74,142$

Decreasing pig by 10%: $3,000 \times 10\% = 300$
 Average carcass weight = 80 kg
 Decrease in production = $300 \times 80 = 24,000$
 TOTAL DECREASE IN PRODUCTION = 275,442 kg
TOTAL PRODUCTION INCLUDING DECREASE = 2,190,558 kg

Assume NO DECREASE IN OPERATING COSTS

Operating costs / kg (decreased throughput) = $£1,754,164/2,190,558 = £0.801$
 Increase in operating costs / kg = $£0.801 - £0.711 = £0.09$
 Increase per beef carcass = $300 \times £0.09 = £27.40$
 Increase per sheep carcass = $18 \times £0.09 = £1.62$
 Increase per pig carcass = $80 \times £0.09 = £7.20$

Note: Operating costs exclude export freight, packing and livestock purchases. It should be noted that wages and salaries may increase with increased throughput. However, this increase will be marginal with many aspects of meat plant operation (maintenance, administration, management and cleaning for example) unaffected. Similarly, a decrease in throughput of 10% is unlikely to affect wages and salaries to any great extent.

Appendix 4. Data used in calculation of percentages, Tables 5-8

Isle of Man gross price week commencing July 20th 2015

	Steers		Heifers		Young bulls	
	3	4L	3	4L	2	3
-U	326	326	326	326	301	311
R	326	326	326	326	301	311
O+	316	316	316	316	291	301
-O	290	290	290	290	265	275

Isle of Man prices are shown as presented in their pricing grid, with a further deduction of 15p/kg for young bulls

Central Region gross price week ending July 18th 2015

	Steers		Heifers		Young bulls	
	3	4L	3	4L	2	3
-U	367.6	364.6	367.7	367.4	355.3	358.0
R	356.5	359.2	357.9	358.6	340.6	347.8
O+	344.6	344.4	340.4	343.5	320.0	330.2
-O	324.1	323	300.9	311.5	305.0	311.9

<http://beefandlamb.ahdb.org.uk/markets/deadweight-price-reports/deadweight-cattle-prices/>

Northern Region gross price week ending July 18th 2015

	Steers		Heifers		Young bulls	
	3	4L	3	4L	2	3
-U	364.8	366.0	366.4	370.0	347.5	348.7
R	359.8	364.6	357.8	361.3	333.5	340.5
O+	352.0	360.7	345.4	357.4	303.4	315.0
-O	318.0	325.8	308.6	326.1	274.8	290.8

<http://beefandlamb.ahdb.org.uk/markets/deadweight-price-reports/deadweight-cattle-prices/>

Northern Ireland gross price week ending July 18th 2015

	Steers		Heifers		Young bulls	
	3	4L	3	4L	2	3
-U	348.97	343.10	351.42	350.57	339.14	345.32
R	345.36	343.49	347.81	346.64	329.62	338.97
O+	340.56	334.94	338.01	341.78	324.45	336.29
-O	321.23	319.53	322.13	325.51	301.21	314.43

<https://www.lmcni.com/market-information/statistics/check-prices/>

- i 2014 data provided by Isle of Man Meats
- ii Food Matters. A development strategy to grow the economic contribution of Isle of Man Food and Drink from 2015 to 2025. DEFA, 2014.
- iii <https://www.gov.im/about-the-government/departments/environment-food-and-agriculture/agriculture-directorate/export-data-sheep-and-cattle/#accordion>
- iv Miah, Z. 2012. An Initial Economic Assessment of the Meat Plant. *Internal Report for the IoM Treasury*
- v https://www.gov.im/media/80578/protocol_3.pdf
- vi Isle of Man Meats, *pers. comm.*
- vii UK Yearbook 2014 Cattle. Eblex, 2014
- viii UK Yearbook 2014 Sheep. Eblex, 2014
- ix <http://pork.ahdb.org.uk/prices-stats/industry-structure/england-abattoir-numbers/>
- x <https://www.food.gov.uk/enforcement/sectorrules/meatplantsprems/meatpremlcence>
- xi Stocktake Report. Eblex, October 2014.
- xii House of Keys Written Answers, 30 April 2013, taken from the submission to the Environment and Infrastructure Policy Review Committee
- xiii Eblex and the NFU, *pers. comm.*
- xiv Isle of Man Meats, *pers. comm.*
- xv Mitchell, A. *et al*, 2013. Regional Price Disparities in Deadweight Cattle: Understanding the NI / GB Price Differential. Oxford Economics.
- xvi Isle of Man Meats, *pers. comm.*
- xvii Isle of Man Meats, *pers. comm.*