

Meat Plant Presentation Questions and Answers

9th February 2017

Question 1.

I wish to ask, if the option of using an alternative operator is progressed.

As over £1mill of reserves has been used as part of the subvention to the meat plant which has considerably reduced the reserves, what level of contribution will be required from producer members to provide sufficient funds to enable the FMA to be wound up, taking into account any redundancy payments that will be required.

Answer:

The turn round project calculated that the direct cost of closing the meat plant would be in the region of £1M. The FMA has very little liquidity that could be called reserves.

Question 2.

Answers interlined

I wonder if it's possible for you to send me the link to the actual report which came up with the various alternatives to be discussed?

The full report will not be published as it contains commercially sensitive data that might influence a tender process. An executive summary of the report and a copy of the presentation can be found at this link <https://www.gov.im/categories/business-and-industries/agriculture/fat-stock-producers-information/>

Could you also please send me the link to the accounts for the plant, and also the relevant excerpt from the Government accounts?

We cannot circulate the FMA accounts. These are available directly to you as a producer. The 2016 accounts have not been signed off and so cannot yet be shared by the FMA. Information regarding the approximate financial position of the business, including the level of subvention that has been put into the business in 2016 is available in the documents mentioned above.

Does the Government hold, or can it access data on the outcomes of export journeys?

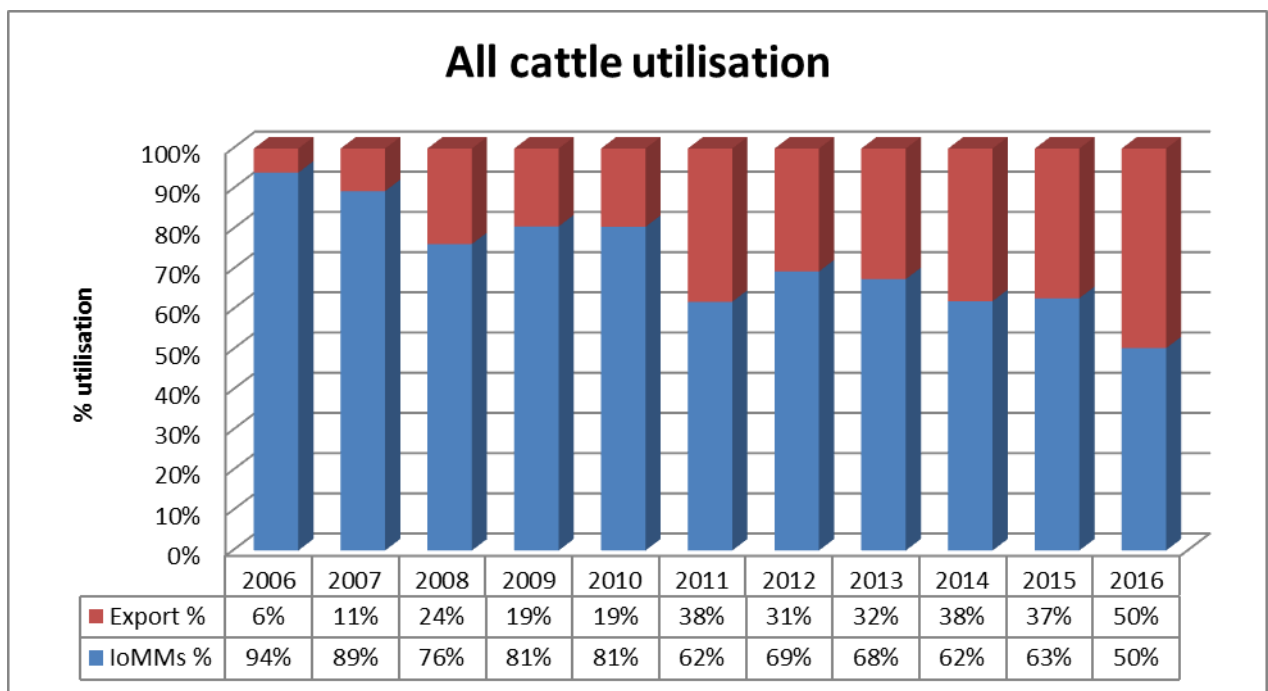
The Government hold licence application and approval data it does not hold any information on journey outcomes.

For example, is it possible to track exported animals and know how meat was graded, compared to grading at Manx Meats?

We do not hold this data, the only way to compare the grading of animals is to present the same carcass to the different graders. We know that the independent grader at IOM Meats is regularly assessed by UK accreditors and gain consistently good results.

Can you confirm that in the past 10 years the proportion of cattle exported has increased from 6% to 50%?

That is correct, see graph below.



Can you confirm if stock transported from the IOM complies with the UK guidance <https://www.gov.uk/guidance/farm-animal-welfare-during-transportation>

Yes stock transported from the IOM complies with this UK guidance.

Is stock currently, and would stock under the proposal, be transported in special livestock transport in pens (and thus receiving food and water)?

It would be transported in line with <https://www.gov.uk/guidance/farm-animal-welfare-during-transportation>

Can you confirm that journeys on the IOM have no special requirements as they would be under 50 miles?

There are no special requirements for the transport of animals for journeys of under 50 miles

Are there regulations on the IOM as to when cattle can be loaded (eg depending on the weather forecast for example)?

The Captain of the Steam Packet Co vessel concerned is responsible for the policy of accepting livestock wagons. Exporters liaise with the Steam Packet before loading animals for export.

If the abattoir were to close what are the proposals for "vulnerable livestock", these would include calves, pregnant heifers and cows, cows that have recently given birth and heavy bulls?

What are the proposals for those unfit to travel (downers etc)?

If the animal was not fit for slaughter or live export the current solution would be to use the fallen stock service to dispose of non-commercial animals. Were this option to be considered in more detail other practical solutions would be considered.

Please confirm that Manx Meats currently holds the Red Tractor and British Retail Consortiums (BRC) AA certification? Does it also hold Halal certification?

The IOM Meats currently holds the Red Tractor accreditation it is awaiting an audit to confirm its BRC AA certification.

What contractual arrangements are planned to ensure that the meat from cattle exported for slaughter in England will return to the IOM for the local market?

Whilst not currently proposed, this would be on a contract slaughter arrangement.

What claims can be made about "local" produce in terms of food miles or animal welfare for meat that has come from exported animals? What surveys have been carried out to see what effect this may have on consumers?

This is a risk that has been identified during the project. No specific surveys have been carried out to date but the Department has carried out consumer research on both consumer preferences for local food and the use of a provenance label.

What conflicts exist between departments regarding the "Food Matters strategy", ie which Departments buy Manx meat and which do not?

Government procurement is currently centralised and all meat is provided by two local suppliers, so all Departments will have a similar arrangement. The Department is not aware of any specific provenance specification agreed between procurement services and the suppliers.

Question 3.

Question a.

The Department / FMA have put forward 3 proposals for reorganisation of the Meat Plant.

Why have they not considered the obvious solution which would be a return to coupled / production support?

This would encourage throughput and cut down unit costs at the Meat Plant, discourage shipping and reward the most productive farmers.

Brexit is rapidly coming and there is already provision in EU regulations for production support.

Answer:

The Department reviewed the mechanism for calculating Agricultural support payment some 10 years ago and aligned new support mechanisms along the lines of those adopted by the EU (2005 CAP reform). The EU reviewed its Agriculture support payment systems in 2013 and introduced a mechanism which allowed countries to introduce limited coupled support (headage type payments) in sectors where it could be demonstrated that such support would address specific regional support requirements. The Department hasn't said that coupled support was against EU regulation, it has said that previous periods of headage payment have led to production for the sake of production; committing processors to produce commodities for which they hadn't a profitable market.

There are many issues surrounding the introduction of a system of coupled support for the livestock sector and how it helps Isle of Man Meats or any future meat processing facility on the Isle of Man the Department is actively looking at alternatives to the current delivery to ensure that public money is delivering value for money by maximising the production of public goods i.e. food, landscape, wildlife and a safe and healthy environment. On the specific point of coupled support, there are a number of variables to consider that do not automatically suggest that it is the best choice.

- Coupled support payments payable on slaughter at a designated meat processor may encourage throughput to the processor, however this will only benefit the processor if they have a profitable market for meat produced. This is clearly not currently the case at Isle of Man Meats.*
- It is probable that such a support Scheme would be the subject of a legal challenge on the grounds of unfair competition by those who are ineligible to receive support payments because they choose to export livestock.*
- It could be argued that the current subvention payments made to Isle of Man Meats are effectively coupled support payments as this is Government funding that is channelled through the Meatplant and only benefits those who use that facility.*

Additionally, the coupled support schemes currently in existence within the EU are unlike previous Manx headage schemes. They tend to be targeted at livestock of desirable genetic merit and require that claimants actively participate in management schemes as well as just producing livestock. The support payment is effectively a carrot to encourage producers to actively participate in adopt best

procedures which will make their businesses more profitable and are generally payable at the farm gate and not the processor.

Question b.

What percentage of the costs of the Meat Plant are fixed irrespective of throughput? And what are the costs per kilo of exporting meat in carcass form?

Answer:

It is a general principle that increasing throughput spreads fixed costs and therefore reduces the unit cost of production; however, this only pertinent if the cost of processing doesn't outweigh the savings gained per unit by spreading the fixed costs.

In terms of the costs of running Isle of Man Meats are concerned these 'fixed' can be broken down for last year as follows:

- *Direct expenses: consumables, freight etc* 17%
- *Total overheads* 83%
 - *The largest of these overheads are*
 - *Labour* 47%
 - *Fixed (Rent, insurance etc)* 21%
 - *Power and water* 9.5%

The large majority of Isle of Man Meats operating costs are not fixed; they are related to the costs associated with throughput and current processing practices.

The Department understands that current export cost of meat averaged across all types and destinations is around 12p/kg

Question 4.

- a. If Management Accounts to 31.12.16 will be issued in advance of the Peel meeting?
The Accounts of the FMA are currently with their auditors and will be released by the FMA to their registered producers as is usual practice at their next a.g.m.
- b. The Plant has been approved by the British Retail Consortium – have management taken steps to have it approved by Tesco? the major importer.
To trade with Tesco in meat products Isle of Man Meats must hold a current, valid BRC AA accreditation.
- c. Recognising that almost 50% carcass beef is minced for many dishes I have asked that the Board supply the burger and minced beef market: principally Government Food Service then McDonalds who demand the highest quality Worldwide but also, other burger sellers in food outlets and vans and TT races etc. (high quality hind quarters always sell readily IOM and elsewhere)
Noted
- d. Back in Summer 2016 I wrote to Mr Scott Baker asking if the business might find a buyer but received no reply (there never are replies from the Meat Plant). On 27th January I wrote to Mr Tim Baker MHK at DEFA anticipating the probability that commercial operators will be invited to tender. A difficulty is that all the negative headline figures are in the public domain in Isle of Man and Meat Trades Journal and the trade being so competitive and shipping costs high incentives will be required (Farmers Fresh with over 10,000 sheep per

week makes a profit of £1 per head) i.e. £35,697 in Isle of Man terms then pay for export and fifth quarter costs?. There is a £50m DED Development Fund 2016-2020 but this Plant would technically be ineligible being unable to forecast a profit. A very substantial 5 year support will be required to attract operators to this rare multi species plant.

It is hoped that the PIN and consequential Tender process will identify a commercially driven operator that is able to deliver a meat processing plant on the island with substantially less financial support to that currently required by Isle of Man Meats

For the good of livestock farming in the Isle of Man I wish our Politicians and our Board success in finding an on Island solution.

Question 5.

Re: IOM Meats as it is currently run

Please can you provide a breakdown of the retail price for lamb, starting with the actual price paid to the producer of a 22kg E3L lamb for the week commencing 30/1/17, complete with details of the additional charges incurred (waste, bellying, grading/ inspection and haulage).

The answer to this can be found in snip below has been created using the price comparator calculator which can be found on our web site

<https://www.gov.im/categories/business-and-industries/agriculture/fat-stock-producers-information/>

Price	IoMMs	AHDB Sheep	Abattoir
Gross plkg	360	398	401
Net Price (weight deducts)	360	398	401
Deductions pence/head	IoMMs Pence	UK Spec Pence	Abattoir pence
Marketing levy	0	60	60
Insurance	0	0	0
Grading & Inspection	68	93	93
Belly clipping etc	50	50	0
Waste disposal	56	85	85
Other	0	0	0
Tail & Kidney Knob			0
Total deductions	174	288	238
Deductions plkg	7.91	13.09	11.39
Abattoir deduction includes 5% reduction in carcass wt for Tail, Kidney			
Net price	3.52	3.67	3.90
Your Lamb value	£77.46	£80.70	£85.84
IoMMs % of UK		96%	90%
Delivery to abattoir	£1.40	£11.84	£11.84
Net return	£76.06	£68.86	£74.00
IoMMs % of UK		110%	103%
Export to UK Mart	IoMMs	Standard lamb export costs	
Number of Lambs		300	600
Net return	£76.06	£51.80	£57.07
IoMMs % of UK Mart		147%	133%

Please then show the slaughtering cost incurred by IOM Meats and their profit margin.

Unfortunately DEFA is not privy to this information

Finally the butcher/retailers breakdown of the carcase into retail cuts and values using both the traditional and alternative lamb cut methods, showing their retail value and gross margin (the link below is given by AHDB to assist in this process :

<http://beefandlamb.ahdb.org.uk/directselling/cutting-specifications-and-carcase-costings/costings-tools/>

This should enable us to see exactly where the consumers' money goes.

How does it compare here to the UK?..... see below

The Department does not readily have access to the charges made by Isle of Man Meats to its customers for individual cuts nor does it have access to average retail prices for lamb across a range of cuts

[Producer share of retail lamb price falls further - Farmers Weekly](#)

www.fwi.co.uk/business/producer-share-of-retail-lamb-price-falls-further.htm

1.

Jan 13, 2017 - The **share** of the **lamb retail price** going to **producers** fell to three ... **producer's retail share** of **lamb** increasing 1% on **November 2016** to 48%.

Who at IOM Meats sets the weekly price for lambs and how do they set the matrix?

The Weekly price is set by Miles he uses his vast wealth of knowledge of the meat trade and bases this price on the returns he is expecting for the meat he has to sell.

Please provide an example showing the origin of the price and how it is then transformed into a price matrix.

This is a question for Isle of Man Meats

Why does the matrix change regularly? I would expect the buyers to require the same specification each week and that the matrix should be centred around the base price with bonuses and penalties in the respective boxes, as appears to be the case at UK abattoirs.

Isle of Man Meats is constantly searching for the best price it can get for its producers recently these customers have been those who are prepared to pay more for higher spec animals hence the fluctuations in the matrix. The matrix published by Isle of Man Meats has for clarity the actual price to be paid not a price less an amount of pence which it believes is easier to understand.

Producers cannot change the spec of animals on a Monday morning at the click of a button as happens with the price matrix.

Recently the weekly matrix has not even been e-mailed to producers until after the lambs have left on the wagon or sometimes even been slaughtered and graded.

The issue of grade “2” lambs being out of spec in the IOM and penalised by 60p/ kg whilst being in spec in the UK, our main outlet for lambs, cannot continue. This is a drop of £13.20 per lamb on an E2 compared to an E3L, without taking into account the difference in price to the UK.

Isle of Man Meats pitches its prices to the market it faces, it is owned by its producer members and its aim is to deliver the best prices it can to its members

This week’s minor adjustments are far too little and far too late!

If the price is set to take into account a live shipping charge, this is not acceptable, because:

- a. IOM Meats do not ship live,
- b. Not all carcasses are shipped at all.

Eg. A top spec 22kg E3L carcass w/c 15th Aug 2016 UKSQQ price 444.5, IOMM price 330, a difference of 114.5p/kg equating to £25.19 difference per lamb.

Eg. A 22kg E2 carcass w/c 28th Nov 2016 UKSQQ price 410.4, IOMM price 265, a difference of 145.4p/kg equating to £31.99 difference per lamb.

Eg. On 28th Nov 2016, I believe that a UK abattoir was paying the same price for an R1 as we were receiving from IOMM for an E3L !!

A “fair Manx price”, referred to in the January Producer Update can only be the price at which the same product is sold in the UK, as with any other product. We already absorb additional expense in rearing the animals on the island.

Whilst reiterating that Isle of Man Meats has to tailor the price it pays against the returns it gets from the market place the Department acknowledges that the current situation is not sustainable hence the current moves to find a commercially focused meat processing facility

Government Support of Manx meat producers

- 1) Can you please advise how much MANX REARED meat is purchased for use in:
 - a) Hospitals
 - b) Schools
 - c) The prison
 - d) Any other Government catering premises.

A question was raised in Tynwald about this recently here is a link to the answer
- 2) Where is this meat purchased?
 - a) Local butcher’s shop
 - b) Local supermarkets

Via wholesale butchers in the Isle of Man

Do all of the butchers and supermarkets named in response to 2) buy SOLELY MANX REARED meat.

If not, what percentage of their annual sales is MANX Reared ? If unknown could you request that information

We do not have the figures to answer this question unknown and the butchers are extremely unlikely to release this commercially sensitive information to the Department

- 3) Would Government increase staffing and budgets, if required, in order to prepare and cook meals at the above using fresh Manx produce (meat, dairy, vegetables, eggs and bread etc.)? *This isn't a question for this Department to answer but a similar question has been raised in Tynwald recently.*

- 4) Sch.im website currently states that they have been running “a project along with IOM Meats and IOM Farmers to insure that all our meat will be totally traceable as Manx origin”, can you update us on progress of the project, as the page was last edited 30/3/16. I am assuming that ‘Manx origin’ means ‘Manx reared’.
https://www2.sch.im/groups/schoolmeals1/wiki/44a2d/Local_Suppliers.html

The Governments support would not just increase Manx meat sales locally, but also increase employment etc. in other areas, whilst providing high standard meals.

The Government cannot expect the public to support and ask for MANX if they are not prepared to do so themselves!

This is an ongoing co-operation between DEFA and DEC. The red meat is largely auditable as being of Manx origin and DEFA do not have any concerns re traceability, but will continue to monitor the provenance of Government purchases. However, the majority of meat purchases are poultry and non-Manx ham.

Marketing

In my opinion, there is a total lack of marketing of “Manx Reared Meat”, both on and off the Island.

- 1) How much is the current marketing budget and how is it spent?
As far as the Department is aware Isle of Man Meats does not have a specific marketing budget
- 2) At IOM Meats AGM in December 2016, Miles MacPherson stated that it is not their job to market Manx meat. Therefore, who does “market” Manx meat and where?
The retailers would be the current holders of this task; Shoprite and butchers. IOM Meats do have a role in marketing their produce.

Producers have been told at meetings for over 20 years that the product has to be marketed, niche markets, food provenance etc., there are now many features which could be used to promote our meat:

Great Taste 2 Star Awards for ‘Ellan Vannin Shoulder of Lamb and Ellan Vannin Beef’

Disease free status of the Island, eg. T B free status of the island

100% Red Tractor Farm Assured Stock

British Retail Consortium AA Certified

UNESCO's Biosphere Reserve Status, the Isle of Man is the only entire jurisdiction in the world to hold this

Short distance to Meat Plant

Traceability throughout food chain

Provenance has an important part to play in truly 'Manx Reared Meat', a brightly coloured clearly noticeable logo should be used to brand our product, but it must emphasise "Manx Reared" so that there is no longer any confusion to the consumer as to where their meat came from.

IOM Meats should also have their own accreditation for retailers who stock ONLY MANX REARED meat, which should be advertised by IOM Meats, so that the consumer is confident that they are buying 100% Manx Reared meat. (Importers of meat would not be eligible for this unique accreditation)

Regular contact between producers, processor and retailers on the Island should be pursued and any issues discussed.

Proposed Options:

1) Improved operation of the existing Meat Plant?

'Improvements' have been made over the last 20 years, what would be done now to make an immediate difference to enable the Plant to reduce subvention levels AND pay producers a proper price for their stock. It is currently unsustainable, businesses require profits to maintain and update their business, the same as in any other industry.

Agree

2) Retail and wholesale butchery

The previous Minister announced in February 2016 that the Meat Plant was not going to become a retailer, now it is one of the 4 potential options. Is there any restrictions on IOM Meats with regard to becoming a retailer? What happens if the Minister changes and the next Minister decides that IOM Meats shouldn't be a retailer?

IoMMs would have to act as a slaughter only facility receiving subvention to cover the extra costs of slaughtering stock here compared to across. Any retail activity would be carried out by a subsidiary company that was completely financially independent from IoMMs

How would you envisage retailing whilst competing against local butchers and supermarkets, without upsetting them and in effect reducing overall sales of Manx meat by them importing from elsewhere?

As per above

3) Closure of the Meat Plant and operation of a mobile slaughter facility for sheep and pigs.

Why only slaughter sheep and pigs in a mobile facility and export cattle?

Sheep and Pigs would be slaughtered on the island because of the shorter shelf life of their meat and more especially with pigs potential issues surrounding stress and the quality of meat. Beef has a longer carcass life so possible delays in the return of meat because of

weather related wouldn't be such an issue. Additionally the spec of the smaller facility would not accommodate the height required to process cattle.

- 4) If the Governments preferred option of tendering for an alternative operator for the Meat Plant is decided upon:
 - 1) What would be the envisaged timescale from commencing the tender process to the new operator taking full control?
It is hoped that a new processor would be in place during the fourth quarter of the year
 - 2) What type of agreement would be acceptable to Government in respect of the 'New' Meat Plant.
What restrictions would be imposed with regard to:
 - a) equality in pricing and acceptance from all producers
 - b) pricing level
 - c) contracts
 - d) purchase of all stock from all producers
 - e) purchase of all stock with live shipment of stock which is surplus to requirement, by the new operator.
 - f) Picking and choosing from all producers, leaving unwanted stock on farm for producers to then have to sell remaining stock to dealers for export
All these items would be addressed by the tender specification with a balance between allowing a competitive, commercial business to operate and providing a service to the local farming industry.
 - 3) Length of the lease?
Dependent on the outcome of the tender, but ideally a minimum of 10 years with suitable extension and break clause provisions.
 - 4) What level of subvention would be offered to the new operator?
This would be by negotiation and largely dependent on restrictions placed on an operator by Government.
 - 5) Would grading have to be by a MLC grader?
It doesn't have to be done that way now so needn't be done that way in the future
 - 6) Where would subvention come from?
This has yet to be agreed with Treasury
 - 7) What rental figure would be paid?
Depends on the outcome of the tender
 - 8) Could new operator refuse existing meat plant and set up their own new smaller, more efficient plant.
A new operator could set up its own plant and that provision has been considered in the PIN. However it could be argued that it isn't the size of the plant that is the issue more the current working practices that have expanded into the space and time allowed
 - 9) If the new operator decides 6 or 9 months on that it isn't working could they just pull out immediately leaving no option but live export, as no back up in place.
The contract and/or lease would prevent this from happening
 - 10) In the event of no 'new operators' tendering, what happens, will we be in the exact same situation as now, in a further 6 months time ?

Isle of Man Meats is currently working hard to secure the tender, to be successful it will have to be able to demonstrate that it has the governance structures in place to ensure it is capable of providing much better returns than it does currently

Could you please provide all attendees at the meeting (or at least all Guarantee members) with the up-to-date financial details of IOM Meats Ltd. To include all outstanding items and details of any loans.

The Department could not publish such information on this web site; this is a matter that falls to Isle of Man Meats to supply to its members.