



Isle of Man
Government

Reiltys Ellan Vannin

A Letter from the Minister

In Spring 2006, I established the 2010 Committee, to provide a long-term vision for a sustainable agricultural industry following the likely ending of red meat derogation after 2010. I have chaired and facilitated the team's great efforts to arrive at this report.

The Committee is working on the basis that no further extension of the derogation will occur after 2010. Whilst DAFF will continue to negotiate for a further extension, the prospects of a successful outcome are believed to be minimal.

The Committee will provide a formal report in September 2006. The purpose of this interim summary is to update all interested parties as to the areas and options the Committee is currently exploring, to encourage feedback and perspective.

It is clear that a comprehensive agricultural strategy must focus on all areas of Island production. However, this interim report dwells substantially on the Meat Plant and Fatstock Marketing Association ("the FMA") since they are clearly central issues to the Island's response to the loss of the red meat derogation. The FMA is making great progress and by continuing this, there is real scope for a successful future.

All other areas of Island production will be considered in close detail in due course, and in readiness for publication of the final report.

We will be arranging several open meetings during August to discuss the report. I and other members of the 2010 Committee welcome all feedback on the work we have undertaken to date.

With best wishes,

Hon. Phil Gawne, MHK, Minister of Agriculture, Fisheries and Forestry.

2010 Committee Interim report

Issues and opportunities facing the
Manx agricultural industry



**Isle of Man Agricultural Marketing
Society**
(Constituted under the Agricultural Marketing Act 1934)

Who's on the Committee?

DAFF Minister: Hon Phil Gawne, MHK

Manx National Farmers Union, President: Howard Quayle

Isle of Man Agricultural Marketing Society, Chairman: Robert Kennedy

Isle of Man Fatstock Marketing Association, Chairman: Ellwood Parsons

Isle of Man Milk Marketing Association, Chairman: Sam Alder

Manx NFU Livestock Committee, Chairman: Murray Cringle

DAFF Agricultural Policy Manager: Ed Clague

DAFF Director of Agricultural Services: Richard Lole

DAFF Chief Veterinary Officer: Eamon O'Donnell

A future vision for agriculture

For the industry:

In 10 years' time, the Committee envisages an environment in which agriculture has the freedom to flourish.

The industry will consistently produce competitive, premium quality products sold through robust and efficient marketing systems incorporating the use of co-operatives as a route to market.

Agriculture will have ongoing Government financial support that is compatible with European Union legislation and does not interfere with the marketplace. It will reward farmers for helping to maintain the Isle of Man's quality environment and exporting products to raise the awareness of the Isle of Man as a brand.

For the individual farmer:

In 10 years' time, the Committee envisages a thriving market-orientated farming community, where individual and co-operative entrepreneurialism is rewarded by the market.

The Committee anticipates farmers providing services to the Manx community through their top quality food supplies, high quality landscape management and the provision of amenity opportunities. Farmers will be supported by the Government for the provision of these outputs.

The impact of the loss of the derogation

Historically, the Island's red meat producers have been protected against the extremes of market conditions by the existence of derogation measures that have limited the amount of red meat imports to the Island.

This has created a measure of security for producers that will be brought into question when the derogation ceases at the end of 2010. Currently, the Island is very sheltered from the vagaries of supply and demand in a free market.

The loss of import restrictions will directly impact upon the price that Isle of Man producers are able to charge for their product. The impact of the loss of the red meat derogation will be felt right across agriculture, and particularly by those dependent on the red meat sector. If the industry is to adapt to this changing scenario, it is essential that changes are made to improve the competitiveness of Manx agriculture. This will involve producers, processors, transport providers, market and sales staff and Government support agencies.

With particular regard to the red meat sector, each body will have to review the manner in which they undertake their work in order to ensure that the entire chain of events, from the animal's birth to consumer, is working as efficiently and as effectively as is possible. In this manner, the Island's agricultural industry and supply chain can work together to mitigate the threats posed by the new market conditions.

The main changes likely as a result of the loss of derogation can be summarised as follows:

- the effect on farm gate prices will be significant with lamb prices most likely to suffer the greatest reduction. cattle and pig prices will also suffer, albeit to a lesser extent;
- the derogation loss will improve the consumers' position with regard to both improved choice on the Island and reduced meat prices;
- the high costs of the food chain will be borne by the farm producer and will no longer be shared with the local consumer;
- the price paid to the producer will be required to demonstrate a greater degree of correlation to the retail price of the product;

- the effectiveness and appropriateness of current marketing legislation will be brought into question, in the absence of a controlled pricing regime; and
- the role of the local supermarkets will become increasingly significant.

What are the future needs of a support regime?

Existing worldwide agreements to liberalise world markets and specifically to open the developed countries food markets to the developing world are causing agricultural product prices to fall throughout the developed world.

At the same time political pressure within the EU has meant that Europe is now leading the way towards ever-faster liberalisation within its own borders. This trend is set to continue accelerating in order that all nations and dependencies within the EU are able to trade freely with each other without facing trade-distorting barriers.

These changes directly affect prices in the Isle of Man, through our reliance on our ability to trade within the EU.

The following points are worthy of note:

- 64% of Manx agricultural products are exported in to the EU, so the Island's ability to trade with the EU is crucial to the shape of the industry;
- in real terms, Manx agricultural support has increased by 37% in 20 years, yet during this period, farm numbers reduced by 15% and 32% of medium sized farmers ceased trading;
- the significantly enhanced levels of support that would be required if the agricultural industry was unable to adapt to the post derogation situation are widely agreed to be unaffordable;
- issues of self sufficiency and an attractive landscape are crucial elements of ensuring the industry's on-going receipt of taxpayers' support;
- the current support structure is very focused on trying to directly control or influence the farmer's behaviour;

- these payments may hide or obscure the market needs, by distracting farmers' production priorities to meet the support criteria, rather than allowing them to focus on what the consumer wants;
- there is a need for a support regime which empowers a more flexible and dynamic approach from the industry;
- a transparent long-term solution is essential; and
- any formula for calculating agricultural support should acknowledge the benefits that flourishing agriculture provides, such as the provision of our current rural landscape, biodiversity and amenities.

Recommendations

1. The Committee believes that maintaining throughput at the Meat Plant is no longer a sensible policy objective, unless the throughput is of high quality, saleable products targeted at specific markets, which contribute to the benefit of the industry as a whole.
2. The new support regime should not seek to control production, but should seek to bring about a more flexible and dynamic approach from the industry whilst providing the financial incentives necessary to achieve the following support objectives:
 - a) the regime should provide long-term clarity to allow farmers to react and plan their business with confidence;
 - b) it should be compliant with EU State Aid rules to safeguard exports;
 - c) it should reward individual or co-operative entrepreneurial activity wherever possible;
 - d) short term support for specific initiatives or linked to achieving outcomes, will be more effective at facilitating change than longer term commitments;
 - e) it should provide direct funding to support initiatives which create added value and so improve the ongoing sector income;
 - f) cross compliance on environmental issues demonstrates and achieves value for money in the eyes of the taxpayer and should be utilised to maintain and enhance landscape amenity and countryside management;

- g) any solutions adopted must reflect the unique aspects of the Isle of Man market, but acknowledge the need for local products to compete directly in EU markets; and
 - h) it should maintain the Island's ability to farm.
3. The Committee is strongly of the belief that a shift to de-coupled support would dramatically increase the chances of improved market focus and entrepreneurial activity, thus improving Island farmers' ability to adjust positively to the loss of the red meat derogation, whilst meeting the objectives above. However any proposal will need to be sustainable and manage any transitional impacts.
 4. Further debate is required regarding dairy, pigs, cereals, and other sectors, in order to ensure a fully integrated agricultural strategy can be prepared to face up to the challenge the loss of the red meat derogation presents.

A marketing strategy for the red meat sector

The strategy is likely to be different for each sector, acknowledging that the Island is not self-sufficient in pork and beef so there will be a need to target and strengthen relationships with the highest value markets on the Island.

However, the majority of lamb is exported, so whilst the same actions will be required on the Island, there is also a need to identify and target a robust high-value lamb export market.

The FMA are starting to make real progress and the following issues and requirements are seen as being influential in developing any red meat marketing strategies:

- communications by the FMA and other bodies to producers are essential and must continue to improve;
- a cost effective meat plant is crucial to the Island's ability to market livestock at competitive prices;
- the producers must adhere to the requirements of the FMA in order to recognise and meet customer demands;
- local market sales of SYB have been practical only due to the current derogation and in the future, the main SYB market is likely to become the continent, so transport costs per kg will significantly increase post-derogation;

- following a period of increasing popularity post-BSE, sheep slaughter numbers have been declining since 2001, such decline commencing before the level of beef support was increased;
- branded lamb sales might allow more profitable lamb exports, but require reduced seasonality in supply in order to achieve a more consistent export sales volume;
- branded and niche sales of other meat products may increase profitability in other sectors; and
- the relationship between the attainment of target grades for all beef production and the consequential opportunity for increased sales income to the FMA requires further analysis.

Recommendations

1. Market focused initiatives are crucial to long term survival in a competitive world market, by supplying a unique and differentiated product to the highest value markets. However, such strategies will need to be accompanied by short-term initiatives to allow an effective and affordable route to market.
2. There are ongoing issues of quality, consistency of supply and farm assurance to be addressed before Manx produce can realistically be regularly sold into premium markets, without the support of the derogation. This requires the integrated support of the Department, the FMA and the producers.
3. A segmented approach to marketing will require products to be targeted at specific markets which have the potential size and value to be worth developing.
4. Market research is needed to identify features which are valued by customers and will allow the product to be sold at a premium price. The research must then inform the subsequent brand development.
5. The buying behaviour of the local supermarkets and the retention or expansion of on-Island market share will be crucial. It will be essential to ensure the supply chain is meeting their exact requirements in a manner which complies with the requirements of their ordering system and is competitively priced. This will be required significantly in advance of the loss of the derogation.

6. This must be accompanied by the development of ongoing marketing and PR work to promote local product to ensure consumers are demanding that local produce is available in Island supermarkets.

FMA farm gate pricing

Market value of livestock at the Manx farm gate may be justifiably different to UK or EU prices, according to whether sales are made on-Island, or off-Island.

For example, several of the costs provided within the FMA service would be costed and charged for separately in the UK, such as the livestock haulage from farm to meat plant.

Recommendations

1. Farm gate prices will need to vary to reflect that meat for export has a significantly lower value than that consumed on the Island.
2. Provided the variations within the FMA pricing matrix are consistent with the value of the subsequent product that the FMA can sell, then it is an effective tool to show the value of produce in that specific week.
3. The producers must become better informed with regard to future trends in markets, for example, through strategic pricing at the farm gate.

FMA structure and costs

The Meat Plant is currently operating with levels of throughput below that originally envisaged in its design brief. This raises the question as to the potential cost effectiveness of a smaller plant or plants.

The increasing seasonal variation in cattle supply is creating increasing variation in workload and creating the cost of maintaining surplus capacity to deal with extremes.

Throughput of the plant has been remarkably constant in total kilograms of intake over the last 10 years, with largest variations being due to changes in pig volumes.

The throughput in 2004 was the highest for 5 years, since 1999 when production was just 100 tonnes higher. Throughput for the first half of 2006 was up 22t on 2005, plus a further 22t of Over Thirty Month meat.

A comparison of trading costs has been undertaken and whilst great care is needed in placing too great an emphasis on the results, they do provide some clear indications of areas for further study.

Recommendations

1. The ongoing occupancy of the existing plant which currently has a 15 year design life remaining is expected to be the cheapest and most practical option. This position will not be finalised until any throughput changes become apparent in the light of de-coupling.
2. Formally splitting the trading operation of the slaughter hall from the processing and marketing operation may improve clarity and hence the profit-focus of the marketing arm. However, it would also introduce extra administration costs. This needs further consideration.
3. Measures to improve consistency of supply and quality of stock are likely to allow improved cost control at the plant, through reductions in the surplus capacity required to manage the extremes. These should be introduced at the earliest possible opportunity.
4. Given the scale of differences in cost structures indicated by very crude benchmarking, it is recommended that a detailed benchmarking exercise is undertaken, such as the UK Red Meat Industry Forum process, to help identify areas of opportunity for further cost reductions.
5. Improving staff productivity may mean staff reductions are considered. The possibility of contracting out some services, for example the transport fleet, charging the true costs for returns to producers and segregating farm to plant transport arrangements and costs are further items for consideration for the management of the FMA.

The impact on the FMA of de-coupling support

The impact of de-coupling on livestock production is impossible to accurately predict. However, it is prudent to assume production levels may reduce at least marginally, which will increase the slaughter cost per animal.

Therefore, the FMA will be placed in an invidious position, with imported meat reducing wholesale prices and increased costs arising from reduced throughput.

Recommendations

1. It is recommended that a period of transitional support be implemented until the long-term slaughter solution can be identified and it is envisaged that for a limited period this will reduce the effective slaughter cost to more competitive levels.
2. However, it is further recommended that this would be provided in a package of initiatives, ranging from an element of direct support combined with substantial support of specific initiatives associated with improving the marketing strategy and subsequent sale of the products.

The need for individual farmer action

Many of the structural issues of the Island are outside the control of individual farmers. However, there is a need for them take control of the challenges and opportunities they face inside their farm gate.

Recommendations

It will be necessary to create an atmosphere of acceptance and belief that farmers can change their business and subsequently become more successful. This can be achieved by:

1. An expansion of the role of the on-farm advisory service to explore the opportunities for individual farm businesses and identifying efficiencies, opportunities and solutions for the specific situations.
2. Introducing more flexibility in tenancy legislation to allow some farmers to retire earlier and receive income from renting out land, hence enabling rapid changes to business structure.
3. Reducing requirements to produce as the means to receive Government support. This would allow individuals to simplify their business and release management time for alternative activities without dramatically reducing their income or increasing their vulnerability.
4. The engagement of the DOLGE planning team to improve freedom to make alternative use of existing buildings or spare land, allowing sympathetic development whilst maintaining the rural fabric of the Island.

A Final Word

Thank you for taking the time to read through this interim summary report, which has been circulated in order to enable a consultation process to be undertaken.

It should be remembered that change has been a concept that farmers have recognised over countless generations. The need to evolve is a constant process, be it in agriculture or any other industry. There is every reason to believe that the current issues facing agriculture will be faced and overcome in the same manner as they have been successfully confronted in the past.

To do so successfully requires a consolidated action plan developed and implemented by all the parties who are represented on this Committee. Such a plan needs to be sufficiently bold to meet the challenge that the loss of derogation provides. At the same time, it needs to maintain the Manx culture of being sympathetic to the needs of the environment that is the envy of so many.

Above all, it needs to provide farmers with the freedom to flourish and to go forward with a greater level of certainty, in partnership with processors and supported by Government.

The food chain, like any other, is only as strong as its weakest link. Therefore, it is necessary for each element of the partnership to provide assistance to the others, to ensure the success of the industry as a whole.

The 2010 Committee is dedicated to providing the optimum solution to the challenges that lie ahead. However, it requires the input and views of as many interested parties as are possible.

If you have any views on the initial findings of the Committee, please make them known, in writing, to any Committee Member by 31st August 2006, after which the process of finalising the Report will commence.

With best wishes,

Hon. Phil Gawne, MHK, Minister of Agriculture, Fisheries and Forestry.