

IRISH RURAL BUSINESS SOLUTIONS

***Food Strategy 2025
Questionnaire
Annex E***

***IRISH BEEF AND THE NEED
FOR A PARTING OF THE WAYS***

written by

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IRISH BEEF AND THE NEED FOR A PARTING OF THE WAYS

It was some 25 years ago that we at Wye College, University of London moved to develop the food industry management group to work alongside those of us working in agricultural and farm business management. It was a recognition of how important the business of vertical supply-chain management between the farmer and the rapidly developing food retailers had become. Sainsbury's provided sponsorship and the Professorial Chair was filled by Prof. David Hughes; still a World-leading commentator on the international food industries.

I mention the above because it illustrates how early we had recognized the importance of the linkages between farmers and the emerging modern food retailers. The retail sector was rapidly evolving and it was critical that all those within its complicated supply chains was aware of what was happening. It has been said that a supermarket has about 15,000 product lines [although that will have change with the format variants that now occur] but of those the most complicated to supply are short-shelf-life, perishable fresh produce. One of which is beef.

It was and still remains challenging to this day to supply fresh products to specifications [that relate not just to the physical characteristics of the product but also to the timing of delivery and the location of supply]. The retailers have become multi-outlet chains with, often, long supply-chains that operate through vast distribution centres. They are a fact of life in modern urban-orientated life and in most 'developed' countries. They are the retail outlets supplying, maybe, three-quarters of food supplies. For those wishing to sell quantities into the upper-priced segments of the food market, being a part of the supply-chain of a major retailer is often the only answer.

In addition to the operational wants of the supply chain, as most readers will well know, traceability is a further necessity that seems to only gain in importance. In the UK, it originated in the salmonella-in-eggs food scare of the Eighties and 'Mad Cow Disease'. The need for retailers to have traceability in place was then embedded into a legal requirement within the UK's Food Safety Act 1990. This made it a legal requirement to show 'due diligence' in ensuring the safety of food supplies. The proliferation of farm assurance schemes since has been the result.

The above relates to the UK but traceability has become a widespread necessity for supplying supermarkets. Even so, even with farm [or so-called quality] assurance schemes in place problems still arise. The far-reaching supply chains seeking cheap raw materials for processed products have shown the supply-chains to still be fallible. The most recent example has been the so-called 'horse-gate' scandal whereby meat of equine origin had been found to be have been passed off as beef. In an Irish beef context, horse-gate has been critical as it has stimulated a further drive by the UK retail sector to source and sell only beef that is born and reared in the United Kingdom.

One has been able to follow a number of specification tightening in the UK beef sector over recent months. The 'we only want British beef' has been evident at the retail level with only British being included at the premium level of all supermarkets; with the breed-specific Angus and Hereford schemes taking precedence [similar has happened with Irish beef in the Republic of Ireland]. It is only within Tesco, Asda and Sainsbury that Irish beef can now find a home, and then only as an alternative source in the retailers' budget and standard lines.

In the context of the above, it is surprising that Irish processors are still demanding UK supermarket specification from their Irish beef suppliers. One does, however, have to realize that similar specs are likely to be in place for the domestic Irish market. One should also be aware of the group ownership across many Irish and UK processing plants and it may be the case that pressure from the UK retailers to 'backstop' UK supplies with Irish farm-assured [quality-assured in Ireland] beef means that specs in Ireland are often in 'excess' of market requirements.

There is currently pressure being placed on Irish beef processors by the nation's farmers to lower specifications. It now appears to be apparent that only 1/6th of Irish beef exports are destined for three, major UK retailers and it is, therefore, logical to ask whether it is appropriate to demand high UK supermarket specifications when so little of Irish beef is finding itself onto UK supermarket shelves, let alone within the premium retail market segments.

At a time when the Irish beef farmers' representatives are asking for price parity with the UK [even though it is becoming evident that Irish beef is not sold within the premium segment], there may well be a relaxation of the specifications demanded in Ireland by processors. Will this, however, be a success for the farmers? Or will it be a de facto acceptance that Irish beef can no longer achieve premium status within its main export market. Will it be an acceptance that Irish beef is destined for food processing or for retailing as standard-at-best burgers, meat balls, mince, diced beef and stewing steak? Is it a signal that Irish beef has been relegated from the Premiership?

The Beef Industry Newsletter [www.rforster.com] has made several references recently about the tightening of buying specifications in the UK. It is not an Irish phenomena. It is likely that the ultimate demands have come from the retail sector but one can also ask whether this has not been supported by the processors? After all, are they also not saying that tighter specifications means improved processing efficiency and lower overall supply-chain costs. This, they say, means that higher prices can then be paid to farmers [see below]. There has also been a suggestion that UK-based processors [even those who operate as UK/Rol groups] would prefer UK retailers to focus on British beef so to increase the throughput of their UK-based processing plants [thus raising efficiency].

As a note; the question to ask is, how great can this gain be when placed in the context of improving the margins made by the farmer. Processing is a high-throughput, lower-margin activity whereas so much of Irish beef farming is a low-throughput operation that needs high margins. They have contrary objectives; a point that illustrates just how out of kilter so much of Ireland's consolidated-processing / fragmented- farmer beef industry actually is.

So just how does one go about supplying the most premium of markets? Outside of the top-end niche and direct-to-consumer sales routes, Waitrose is the premium retail outlet in the UK. It only has little more than 5% of the UK grocery market but it is at the top end of the market. Waitrose's beef supplies are nowadays entirely routed through a single processor, Dovecote Park. The following is a quotation from Dovecote Park's own website:

"Dovecote Park is the dedicated beef supplier to Waitrose... Waitrose has a long history of support for and involvement with ... British farmers, and only sells 100% British Beef in its stores... The supply chain ... starts with membership of the Waitrose / Dovecote Park Beef Producer Group, which comprises over 1000 farms [note: it is still more than a few] throughout the UK. All these beef producers are farm assured and commit to raising stock to the highest possible standards of animal welfare and husbandry, strictly monitored by Dovecote Park's own audit teams... The Producer Group can be seen as a club of members, with regular open days, fieldsmen visits, direct two way communication with the factories, and newsletters all reinforcing the importance of a genuine supply chain partnership between the farmer, the meat processor, and the retailer." [Dovecote Park, 2014].

One has to ask where is the equivalent supply-chain to a premium market originating from Irish beef farms? It is probably an unfair question because there is no access to a retailer like Waitrose for Irish beef farmers. The quote does, nonetheless, illustrate the kind of supply-chain relationship that is needed to develop and supply premium markets be they in the EU, China, the USA.... Realistically, the Waitrose model is probably unattainable when working on the development of export as opposed to the domestic markets but it does not mean that very close supply-chain partnerships are the foundations needed for accessing high-value, premium markets.

At present, is the Irish industry moving towards or away from having a well-coordinated supply-chain in place?

Being within the supply-chain of a Waitrose is not available to all. So what are the other alternatives? One is well known within Ireland and that is to be a part of the breed-specific Irish Angus and Irish Hereford producer groups that supply the premium end of the Irish retail market. They are also the basis of some new markets elsewhere. Are they, however, the solution for an Irish beef industry that is so continental-breed orientated?

Returning again to the Beef Industry Newsletter, it was interesting to read commentary about McIntosh Donald [who slaughter 18% of Scottish cattle] who are seeking to tighten up on specifications and to increase the price differentials between in and out of spec. cattle [again it is not an Irish phenomena]. They are focusing on Scotch label [an EU protected regional designation] as their retail customers are insisting that 99.5% of beef supplied has to qualify under the Scotch Beef scheme [a part of which says that the cattle now have to be both born and reared throughout their life on farms that are assured under the Scotch Beef scheme]. Also one should add by direct quotation from the Newsletter; "It also emphasised that if more of its cattle met spec the company would be able to operate more profitably and then be in a position to pay more for cattle meeting its requirements – which meant a win-win for processor and producer alike", (Beef Industry Newsletter, 7th November, 2014).

If one brings the points of the last paragraphs together, one could well suggest that accessing premium markets is about having strong supply-chain partnerships and products that have a designated, traceable origin that meet both the end retailers specifications and the consistency-for-processing-efficiency demands of the processor.

Does the above sound like today's Irish beef industry, one where the beef farmers are protesting outside the processors' gates? Is the blockade a sign of a strong farmer-processors relationship that is at the foundation of a supply-chain that enables Irish farmers to sell their beef to premium-paying, top-end, export markets?

Simply, is Ireland able to operate the kind of supply-chain that is attractive to the World's premier beef buyers? Is Ireland's consolidated processing structure and its mainly small-scale farmers just too disparate to succeed in today's markets. Is it a model that can deliver for its beef farming community or does something have to change?

On offer is the suggestion of processor groups; essentially aimed at altering the trading weight of the farmers and the processors. But is this an old-fashioned solution that is, essentially, antagonistic? Will it help develop the kind of close supply-chain partnerships that are needed to deliver premium beef products to retailers according to the specifications they need; be they volume, quality, assurance or timing related [or most likely all of them]? And do not assume that these are just demanded by UK supermarkets; they will be needed for all premium markets.

As with Waitrose's and other retailer-processor linked groups, producer groups need to be a fundamental part of a supply-chain that efficiently delivers products to the final consumer and, equally efficiently, returns a sustainable price to the primary producer. The author would suggest that producer groups should not be based upon trading, they should be based upon a specific supply-chain that delivers a particular food product to the final consumer.

Too often it appears that in the Irish beef farmer's mind the supply-chain ends at the factory gate or at the livestock mart. Many may indeed be delivering a superb animal to the market or to the processor, but is it in a way that the farmer's delivery is the first link in a dedicated supply-chain for a food product with a known destination?

More likely is that the trade is occurring in an environment where the farmer is solely focused on seeking the best price achievable. Market price information will be scoured and the beast dispatched to a mart, a processor or even

for live export to gain the best price? There is a belief that keeping multiple sales options open is the only way to keep the buyers 'honest'. Nevertheless is it an approach that enables the farmer to connect with the final beef consumer who is willing to pay the premium that a small-scale beef farmer needs to be financially sustainable?

Does the phrase 'keeps the buyers honest' an indication of how serious the crisis is in the Irish beef industry? An observer does not have to have the intelligence of Einstein to realize that the relationship between the farmer and the processor is at a low. One suspects that as the disparity in scale between the two has increased the level of trust and degree of communication has fallen. Just hearing the word 'negotiations' is never a good sign.

It is also interesting to note that the current crisis has come after a period of high 'farm-gate' prices and it is actually the disparity between the UK beef price and the Irish beef price that has been one trigger for the current conflict. So long as there was near price equivalence, one could have imagined that the Irish beef farmer would have tolerated the changes in specifications [driven from the UK market] and the demand for blanket 'quality' [farm] assurance. This has, however, occurred whilst Irish beef has been marginalized in the UK retail sector with a consequential fall in price. What is evidently dangerous for the future of Irish beef is that the farmers have not been kept well informed about the detail of market changes and have concluded that the differential in price reflects massive profiteering on the parts of Ireland's beef-processing oligopoly. Sadly, a lack of well researched and presented information across all parties [including government agencies] is then just fuelling the crisis.

One has to ask whether the Irish beef industry also has the right strategic approach. All too often it is about the consolidation of the processing industries; it is as if volume in processing is the panacea for all ills. Can Ireland even ever achieve a scale of processing that is going to have a sufficiently low cost-base to compete with the vast scale of other players on the global agri-food markets? Could even absolute consolidation achieve this? And even then will it mean just mean having a single processing unit? It is also so easy to forget that dis-economies of scale also occur; be they, for instance, in managerial proficiency or raw material transport costs. Also, was it a lack of dynamism within its leadership that eventually led to the demise of the World's command economies?

It is fascinating to research the operational structure of Ireland's agri-food industry. In this case, and without passing comment on the Irish Angus and Irish Hereford producer schemes, one does wonder how Ireland can access the World's premium markets with the beef industry as it stands. As illustrated earlier, supplying premium markets is about supply chain partnerships and very good communication between the primary producer, the processors, the distributors [if they are separate entities] and the retailer. Just where does this exist in Ireland?

The impression one has is that the processors are required to 'impose discipline' upon the primary producer. It is the processors who have to 'homogenise' a varied cattle supply into what becomes Irish beef. It is then the role of the marketer to convince the consumer that it is a premium product that they will buy time and again. Within this Teagasc offers it advise to farmers on how to produce the processors' raw material efficiently [cheaply]. One suspects that few of its discussion groups get into talking about the detail of the final consumer markets and how they are the primary link in a food supply chain [with the way the supply chain currently works, why should they]. One can then ask if the Beef Genomics Scheme is focused on lowering beef production costs or improving the characteristics of the beef with respect to what the final consumer reads on the label, sees and tastes?

To summarise, are the quality characteristics of generic Irish beef insufficient to occupy the top-end market place? It is too variable in quality from the very beginning of its production life? One does not question the fact that over the last decade or so the Irish beef industry has moved from selling frozen commodity beef to the rest of the World to selling fresh beef to the European Union. Is, nevertheless, the structure of the sector now the right one to place at

least some Irish beef at the top of the World's markets? And I say 'some' as, shown by the Angus and Hereford schemes, it is likely that breed-specific is likely to play a future differentiating role in the market; albeit that at the moment it appears that 50% breed-specific is sufficient for the supermarkets' 'premium' definition.

One would suggest that there needs to be clearer stratification within the industry. The mainstream already exists within Ireland and that is successfully handling the cattle from the vast array of cattle farmers in Ireland and from both the dedicated beef sector and the dairy sector. Its success is, however, apparently limited when one looks at it in the context of the processors ability to process and market beef and return a price to the farmer that meets the farmers expectations. The traditional Irish beef farmer clearly believes that they can breed and rear the best beef cattle in the World. If they can, they consequently need a route to market that rewards them for doing so.

There are, therefore, two issues that suggest that change is needed. On the one hand one has to ask whether the breakdown in relationship between processor and farmer has gone too far? Is the situation only resolvable by creating new routes-to-market that are farmer owned and that offer the farmers a chance to sell outside of the current oligopolistic structure? Is this needed to create the closely coordinated farmer-processor-distributor-seller relationship needed to access the real premium markets? Given the power of the current processing entities just how realistic is it to expect a new mainstream, route to market to occur? It is unlikely, so a fresh, better informed, non-antagonistic approach needs to be found for the current players to find an accepted-as-fair way forward.

On the other hand, do many of Ireland's small-scale, traditional beef farmers need a new route to market simply because they are not suited to producing cattle which are the raw material for large-scale processors who are focused on competing for, say, the 60-80% market segment? A question that should definitely be asked by those within the governance of the Irish agricultural industry is whether an over-consolidated processing sector actually offers the routes to market to reach the real premium 10-20% market segment? Further, given the need for a highly-cohesive supply-chain, is it possible for processing entities to supply across all market segments? Maybe it is a case that the Irish beef industry and especially its farmers needs to have the right horses for the right courses.

If one accepts the above situation, just how are some beef farmers going to create new routes to market. One would hope that the current processors do not see such a move as such a threat. Do they see Dovecote Park as a threat within the UK processing sector? A new route to market would be about finding solutions for the traditional Irish beef farmer to reach a premium market that is, in all probability, not of a size to justify the involvement of a major processing business. The real premium markets require products that have multiple characteristics that relate to the eating characteristics of the product, to how they are produced on farm, to the artisanal nature of their processing, to very high animal welfare standards and to the fair-trading nature of the supply chain [to name but a few possible criteria]. This is simply a different ball game and it is one that needs to be evolved.

This is first about realizing that so many of Ireland's farmers are not suited to mainstream, commodity production for the supermarkets and consolidation of the processing side has only made the situation worse. For some within the Irish beef industry, it is a time for a parting of the ways and for a new direction to be found. A change of tack is urgently required and a good starting point is with the traditional, small-scale Irish beef farmers who are, as things stand, heading for the departure gate. Some would say that is inevitable, but the author would certainly question whether that it should be allowed to happen without a serious attempt being made to find an alternative.

If the reader is now expecting a long discourse on establishing new routes to markets for the traditional Irish beef farmer, they will be sadly disappointed. That will happen in due course, but first a prerequisite is required and that is the acceptance of at least a part of the Irish beef industry that there is the need for change and that it is willing to

champion such an approach. Maybe it should come from government but in all likelihood it will [and needs to] come from within the Irish beef farming community itself as, to quote, Ann Fitzgerald's headline in the Farming Independent of the 19th August 2014, "Farmers need to drive beef industry changes".

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