



Irish Beef Sector

Delivering Growth

Meat Industry Ireland
June 2016

Executive Summary

This policy document outlines the key areas which the Meat Industry Ireland (MII) Beef Committee believes should be addressed to deliver on the growth of the beef sector as part of Food Wise 2025.

It draws on our earlier submission to the Food Wise 2025 High Level Implementation Group (HLIG). We include a series of proposed action points necessary to achieve the level of ambition that we believe is possible.

MII calls on the government to establish a meat sub-group to drive the implementation of the key meat sector recommendations of Food Wise 2025 to secure a shared ambition for growth in the beef sector.

Contents

Executive Summary	Page 2
Growth Potential	Page 4
SWOT Analysis	Page 5
MII policy recommendations	
Producer Efficiency & Viability	Page 6
Sustainability & Climate Change	Page 7
Competitiveness	Page 7
Market Access	Page 9
Trade Negotiations	Page 10
Conclusion	Page 11

National Economic Impact of the Beef Sector

The beef sector in Ireland, from farm through to processing and export, remains one of the most important industries in the national economy. It supports in excess of 70,000 beef farmers and generates an ex-farm output value of €2.5bn. Exports in 2015 were valued in excess of €2.4bn. Approximately 10,000 jobs exist across processing, distribution and transport as a direct result of this important sector.

The beef sector not only accounts for 80,000 jobs and incomes at farm and processing level but the spending on associated farm inputs and livestock trading is almost entirely focused on the Irish economy. Irish economy spend by beef farmers and the processing sector amounts to almost €3.1bn when account is taken of EU and national government direct payments in the sector.

This level of domestic spend has a huge multiplier effect in the overall economy and this is a key part of the sector's importance to regional development which is where the contribution of the sector is at its most visible.

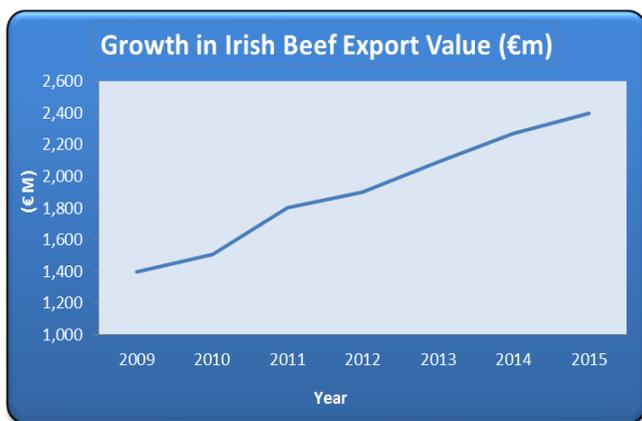


Contribution to the Rural Economy

The beef sector has a huge and unique impact on regional economy spend and rural economic activity. In many of the rural areas where processing facilities have been established, the meat processing plant is often the largest local employer. The average meat plant in rural towns such as Bunclody, Clones or Rathdowney, spends over €100 million in the local economy.

These towns and regions rarely benefit significantly from Foreign Direct Investment and therefore are hugely dependent on meat processing facilities and the employment, farm incomes and services generated by them. There are approx. 35 beef processing facilities situated the length and breadth of the country in areas that are critically dependent on these facilities for employment, income, economic activity and wider societal contributions.

Figure 1: Growth in Irish Beef Exports



Source: Bord Bia

Growth and Transformation

The beef industry has shown enormous resilience over many years and has demonstrated a determination and capability to respond to changing market conditions to build value for the entire sector

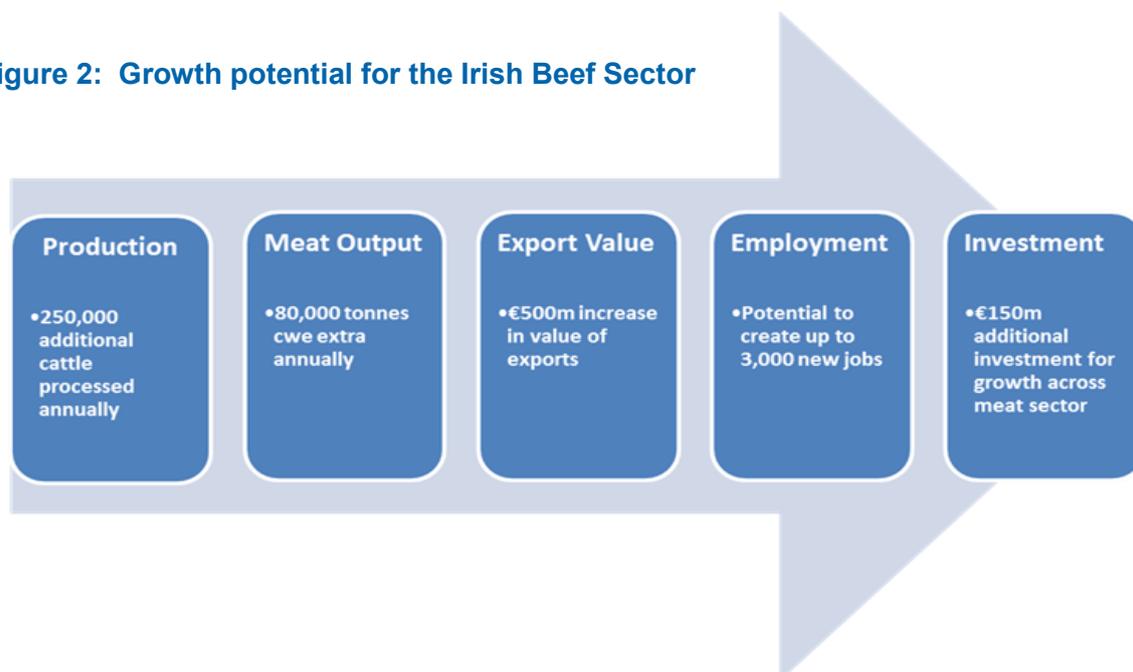
and to the Irish economy. The potential exists to further scale up output in the industry and to generate new revenues and jobs, through further growth and value-added processing.

The beef industry has made significant progress towards achieving the Food Harvest 2020 goals with exports increasing by over 50% in value in 2015 compared to the 2010 baseline. A key element of success has been the transformation of the Irish beef processing industry from a frozen commodity business in the early 2000's to a key fresh food supplier to blue-chip retail and food service customers across the UK and Europe. This increased value-add has resulted in substantial increases in finished cattle prices over this period.

The industry can continue to consolidate its lead position in many European markets and capture new international market opportunities, most particularly in Asia and the US, once fully opened. New market opportunity will place Ireland in a stronger position to market the extra meat output that will result from the additional animals arising from post quota dairy herd expansion.

The processing industry has invested at least €100m over the last decade to ensure a modern, efficient processing infrastructure necessary to secure business with blue-chip retail and foodservice customers and to compete effectively with global competitors.

Figure 2: Growth potential for the Irish Beef Sector



Growth Potential - Our Ambition

Over the coming years, there is potential to increase beef output by 80,000 tonnes per annum. All of this extra production will be exported, increasing the value of beef exports by €500 million by 2025 or some 20% more than 2015 levels. Additional employment will be generated annually in line with the progressive expansion of the industry. Additional capital investment, for beef and other meats, to enable extra processing capacity and value add will amount to some €150 million and this will give rise to further economic activity in the rural areas in which this investment will be made.

The industry relishes the challenge ahead to grow the supply of beef products from Ireland while enhancing and growing market penetration for Irish beef in the UK, Continental Europe and elsewhere. If Ireland is to meet its dairy growth target of 50% increased milk supply by 2020, this would result in an increase in the dairy herd to 1.4m cows which will deliver additional beef output.



MII members believe there are significant prospects for real growth in beef exports internationally in the coming years. Food Wise 2025 identifies significant opportunities across all sub-sectors of the Irish agri-food industry. It projects exports to grow to €19 billion per annum by 2025, an increase of 85%. Beef expansion is one of the sub-sectors identified in the report as a main contributor to this export growth.

Delivering on its share of overall growth projections for the food sector will reinforce the pivotal role of the beef sector in terms of its contribution to the rural economy.

In AIB's Beef Outlook 2015 report, some 70% of beef farmers identified definite opportunities for themselves

and the industry over the next three years with the majority expressing their intention to invest in increasing herd size and in land improvement measures. Some 50% expressed an interest in investing in new technology and in farm infrastructure. This research shows the level of ambition that exists in the beef sector at producer level and clearly points towards the need for further capital investment supports through the Rural Development Programme.

The capacity for additional growth will result primarily from the expansion of the dairy herd in the post-quota environment. Projections from Bord Bia indicate that an additional 250,000 cattle will be available for processing once Ireland's dairy output growth matches the 50% target set in Food Harvest 2020. Already in 2016, some 70,000 extra cattle will come on stream for processing.

In the context of dairy expansion, the choice of terminal beef sire and use of sexed semen will be particularly important to maximise the beef characteristics of these dairy origin cattle. Processors have already engaged closely with producers and customers in terms of Angus and Hereford production and developing new markets for this growth in beef production.

Where will additional beef be sold:

Increased beef output volume can help to improve producer margin and processor efficiencies and can, for the reasons outlines below, be successfully marketed:

- ◆ Recovery in EU beef consumption as economies come out of austerity and recession. The EU beef market contracted by almost 800,000 tonnes during the period 2008 – 2015.
- ◆ European Commission forecasts expect longer term EU beef production to contract by approx. 300,000 tonnes.
- ◆ New international market opportunities are emerging, with increasing protein demand arising from population growth and affluence in emerging markets. Beef demand will rise as more people move into the middle-class and as diets in Asia become increasingly westernised.

Challenges & Opportunities

MII believes that the SWOT analysis of the Irish Beef Sector, carried out as part of Food Wise 2025 provides a fair assessment of the Sector's current position.

Strengths	Weaknesses
<ul style="list-style-type: none"> ◆ Grass reared, welfare friendly production system ◆ Specialist suckler beef production ◆ Cattle and beef traceability systems ◆ Credible and sustainable quality assurance scheme ◆ High penetration of high-end retail outlets across the EU ◆ Strong reputation in traditional markets ◆ Capacity and capability to meet demand 	<ul style="list-style-type: none"> ◆ Land transfer, mobility and structural issues ◆ Low profitability at farm level and dependence on direct payments ◆ Skill gaps at all levels of the supply chain ◆ National cost competitiveness, especially utilities and labour ◆ Lack of scale across the sector combined with demographic factors ◆ Dependency on the UK market while the reputation of Irish beef is less well known in new and developing markets
Opportunities	Threats
<ul style="list-style-type: none"> ◆ Global growth in protein demand ◆ Developing a brand image for Irish beef based on superior attributes to secure additional markets and price premiums ◆ Building Ireland's reputation for beef production in new markets (USA, Africa and Asian markets, particularly China) which can absorb any increased production ◆ Use of genomics, breeding indices and sexed semen to improve beef quality output from the dairy herd and technical efficiencies in the suckler herd ◆ Potential markets for niche high grade products ◆ Fifth quarter and meat by-products 	<ul style="list-style-type: none"> ◆ Impact of animal disease incident ◆ Food safety incident ◆ Health image of beef products ◆ Raw material supply changes linked to dairy expansion ◆ Failure to adopt carbon efficient practices ◆ Potential negative impacts of trade deals ◆ Future CAP reform

Source: Food Wise 2025

- ◆ Our strength is our grass-fed steer/heifer beef output with strong sustainability credentials, coupled with a dynamic processing sector with modern well-invested plant infrastructure and major capability in servicing markets.
- ◆ Government must invest further resources to address the issue of profitability at farm level through increasing efficiency and productivity. Support should be focussed on improving beef output through the use of genomics, breeding indices and sexed semen.
- ◆ This also holds in respect of the sustainability credentials of Irish beef and the sector at all levels, led at Government level must continue to support the adoption of carbon efficient practices and defend Ireland's interests in the context of climate change agreements and international trade negotiations.
- ◆ Increased resources to advisory services and knowledge transfer will help to drive productivity and improved margins.
- ◆ Increased level of resources will be necessary within the Department's market access unit focussed exclusively on securing new and enhanced international market access.
- ◆ The CAP must target support to the productive sector.

MII Policy Recommendations

Producer Efficiency & Viability

Producer profitability is critical in terms of the future growth potential within the beef sector. As we have seen in recent times, profitability at farm level is not solely determined by market prices. MII welcomes the strong commitment made in the programme for government to ensure sustained profitability in the beef sector through greater efficiencies. In meeting this commitment, it is essential that there should be a focus on the issues outlined below.

Income or more importantly margin is a factor of market price, enterprise productivity & efficiency and CAP direct supports (SFP and RD).

- ⇒ MII recommends that knowledge transfer in the beef sector should prioritise grass management including grass growth, measurement and utilisation, together with financial management and performance monitoring.
- ⇒ MII recommends the targeting of capital investment under TAMS to support investment in infrastructure as a means of delivering farm improvements and contributing to greater farm level efficiency. Policies to address structural / demographic aspects of the sector (average age, average farm size, fragmentation, etc.) and that incentives to encourage change are also key to improving profitability and efficiency.
- ⇒ MII is committed to supporting the establishment of producer organisations in the beef sector.
- ⇒ MII, as a main contributor to AHI, supports the proposal for a new model of funding for AHI as a key necessity in achieving its objectives and enabling Irish farmers and the agri-food industry to achieve and maintain an animal health status which optimises the profitability of farming and enhances the value and competitiveness of Irish food products.
- ⇒ MII calls for the refocusing of the Clean Livestock Policy (CLP).
- ⇒ MII calls for the rapid completion of QA roll-out across the national herd.

Key Factors to address:	
Suckler herd Productivity	Potential for significant improvements in calving interval, no. of calves per cow, age at first calving etc.
Dairy herd output	Maximise beef characteristics of this output e.g. terminal beef sire, sexed semen, etc.
Grass utilisation	Knowledge transfer is critical here to maximise the usage of our natural competitive advantage.
Market specifications	Producing animals that meet the prevailing market requirements (QA, clean cattle, age, weight) is crucial to the continued access to higher value markets.

MII Recommendations:

- ⇒ MII recommends the expansion of the Beef Data and Genomics Programme to new participants as a further means of delivering improved performance across the sector.
- ⇒ MII welcomes the inclusion in the RDP of a knowledge transfer module in the beef sector and strongly recommends increasing the participation level with the aim of increasing productivity and profitability at farm level.



Sustainability & Climate Change

There is a strong link between efficiency at farm level and minimising carbon footprint. Economic sustainability of beef farming is interlinked with reduced environmental impact. The production of lighter and younger animals, which meet market requirements will help to improve beef output and value per hectare, while at the same time reduce the unit carbon footprint. It is critically important that we complete the roll-out of the BLQAS, particularly with its new environmental sustainability elements.

At an overall policy level, while promoting sustainable beef production in the economic and environmental sense, we must also ensure that any national climate change commitments do not impact negatively on the potential expansion of this sector as long as Irish beef remains an internationally recognised low carbon emitter.

Irish beef has very strong sustainability credentials which must be promoted in our marketing and defended in the context of international climate change or trade negotiations.

MII Recommendations:

- ⇒ **MII fully supports efforts to improve the environmental sustainability of the beef sector and encourages higher levels of participation in the BLQAS to a target closer to 100% by 2018.**
- ⇒ **The government must ensure that the EU 2030 Climate and Energy Framework results in a fair effort sharing commitment for Ireland.**
- ⇒ **Climate change policies should recognise the sustainable grass-based production system in Ireland compared to less sustainable beef production regimes elsewhere in the world.**
- ⇒ **MII supports the government's intention to examine how to improve the environmental impact of agriculture through measures in the Rural Development Programme 2014-2020, improving the uptake of mitigation practices by farmers, increasing the level of forest**

cover and continuing to undertake relevant research.

- ⇒ **MII notes the Government's plan to publish the first National Mitigation Plan within six months and welcomes its commitment that in respect of agriculture, the plan will focus on balancing the need to control emissions with the economic and social objectives of promoting the sustainable development of the rural economy.**



- ⇒ **We need to particularly focus and intensify support for the green provisions of the CAP and Rural Development measures, most particularly the widening of eligibility under the GLAS scheme.**

Competitiveness

Investment

Ireland's beef processing sector competes on an international stage and it has invested significantly in modern processing facilities which operate to the highest international standards. The beef industry invested in excess of €100 million in recent years in upgrading and modernising its processing facilities. There is an on-going programme of investment required to constantly develop facilities and processing techniques to meet both customer expectations and cater for increased output and higher value-add generation.

MII Policy recommendations continued

In the review of EU state-aid rules, MII urges the government to recognise the uniqueness of the agri-food sector in order to increase levels of indigenous investment. Greater flexibility to allow access to capital for investment in the sector is a key requirement. The growth projections for the overall meat sector envisage additional investment of the order of €150 million in the coming years at processing level. Government support is critical to releasing investment funds for this purpose and the government should actively engage with industry in the current review of EU state aid rules.

MII Recommendations:

- ⇒ MII will engage with government with a view to encouraging a more supportive environment for investment in the beef processing sector.
- ⇒ Improved access to finance to support investments in technology, plant renewal and expansion, market development and innovation, is a key priority.

Business Costs

The National Competitiveness Council published its “Costs of Doing Business in Ireland 2016 report in April. The report confirmed what industry already knew, that across the key areas of finance, energy, legal, insurance, and labour costs, doing business in Ireland is more expensive than elsewhere in the EU. In particular the report highlighted the fact that the cost of credit continues to act as a drag on the enterprise sector, inhibiting investment and growth.

MII Recommendations:

- ⇒ Business costs in Ireland are substantially out of line with the vast majority of our competitors. The government needs to address this urgently, otherwise we put at risk the progress that has been made to consolidate and build new market opportunities.
- ⇒ Government action is needed to reduce industrial energy costs to the EU average and significantly reduce other utility and local authority charges.

- ⇒ The government should urgently review the process of assessing injury claims, including the book of quantum, in order to tackle the spiralling cost of liability insurance.
- ⇒ There should be a full impact assessment undertaken before any further legislative change impacting on labour costs is made.



Skills

Skills shortage poses a further risk to the capability of the sector to meet its overall growth projections. As the economy recovers and employment levels continue to grow, the beef sector will face a continuing challenge in accessing the necessary skills (e.g. skilled knifemen / de-boners). These skilled workers are key to processing efficiency, driving throughput, shaping the industry for future expansion and supporting the sustainable employment of existing unskilled staff. The industry must ensure that the skills base not only reflects current business demands but the challenges of future growth in existing and new markets.

MII member companies have developed a Skillnets programme aimed at sourcing and training unskilled workers to upskill to meet demand for knifemen and de-boners. There is a need for increased funding supports for such enterprise led training initiatives and industrial apprenticeships. In addition, through the official employment permit arrangements a certain requirement will continue for appropriately skilled personnel from abroad.

MII Recommendation:

- ⇒ **The government should increase funding supports for enterprise led training initiatives such as Skillnets.**

Innovation

MII has committed considerable investment funds, with support from Enterprise Ireland and in collaboration with Teagasc, into the establishment of a Meat Technology Centre. The purpose of this initiative is to establish an internationally leading centre of excellence for meat processing research and innovation. This centre will fuel growth in the Irish beef and sheep meat sector by supporting its competitiveness and by creating a pipeline of science and technology based innovations, leading to enhanced processes and product development, ultimately adding value to the primary meat product and delivering on business sustainability goals.

MII Recommendations:

- ⇒ **MII welcomes the support of Enterprise Ireland in the establishment of the Meat Technology Centre and recommends further support for technology adoption and innovation absorption capacity in the sector.**
- ⇒ **Funding through the FIRM programme must continue to facilitate on-going research and innovation in the sector.**



International Trade

Market Access

By 2050, the global population is expected to reach 9 billion. The planet will need to produce 70% more food, with less land and water available while also reducing greenhouse gas emissions.

With global competition for access to markets, Ireland must be well positioned to respond faster and be more proactive in securing a share of the projected growth. In this environment there will be an increased customer focus on sourcing sustainably produced meat, including verification of that sustainability. Ireland should be well-positioned to take advantage of this trend, given the strong sustainability credentials of Irish beef and the substantial work programme in place on mitigation measures.

First and foremost, increasing international market access is about providing additional market opportunities for Irish exporters so that returns from the market place can be optimised. It is also a protection against volatility.

In addition, the forecasted expansion of the dairy herd will drive additional production of 80,000 tonnes annually by 2025 and in the intervening years it will be crucial to access new markets for this additional production.

The most immediate and important new markets for Irish processors are the US and China. Of course having full access to a wide range of markets will help to ensure that Ireland is not overly reliant on any one target market or region.

In the case of China, negotiations are well advanced and already a preliminary systems inspection mission has been undertaken by the Chinese authorities, but the access process needs to be completed quickly.

There is a growing need to develop markets for fifth quarter products. This will require enhanced marketing capabilities and improved market access in both existing and new markets.

MII Recommendations:

- ⇒ **MII calls for the provision of extra resources to the Department of Agriculture, Food and the Marine to support an expanded Market Access Unit with a mandate to focus exclusively on advancing and securing new market access. Additional funding should be made available**

MII Policy recommendations continued

to Bord Bia to assist in the promotion of Irish meat internationally, as well as securing an increased share of the new EU promotions budget.

- ⇒ MII urges government to press for the approval of export facilities as the next step towards securing full market access to China. We must also complete access for manufacturing beef to the US market.
- ⇒ MII will continue to work closely with the Department of Agriculture, Food and the Marine and with Bord Bia to develop international trading opportunities for fifth quarter products.

Trade Agreements

Given Ireland's dependence on export markets, we are particularly exposed to market volatility and the current weakness in the European beef market highlights the need to have as many international market outlets available as possible. We also have wider defensive interests to protect in relation to EU trade negotiations.

Although the EU Commission has withheld making an offer on beef as part of the current trade negotiations with Mercosur, any offer that may be made in the future would cause uncertainty and instability in EU beef markets where consumption has declined by 800,000 tonnes over the past few years. MII strongly opposes any such offer being made until member states have been presented by the Commission with a cumulative impact assessment on the implications for the EU beef sector of the various bilateral trade negotiations currently under way.

In concluding any international negotiations, agreements must be balanced in securing additional market access in strategic growth markets while protecting the EU from unfair competition. Furthermore, imports must meet the same high European standards in terms of animal welfare, traceability and environmental criteria as apply to EU products. It is essential that the government must ensure that the interests of European and Irish

agriculture are not sacrificed by EU negotiators in pursuit of trade deals. MII will continue to engage with Irish negotiators in the evaluation of such proposals and in the pursuit of outcomes that ensure a fair and equitable outcome for Irish beef.

MII Recommendations:

- ⇒ MII calls on the government to work closely with the industry to protect the EU market from preferential access through international trade agreements, including Mercosur, in order to underpin the sustainability and performance of Irish beef in EU and international markets.
- ⇒ MII highlights the critical importance of minimising TRQ volume access and ensuring that new preferential access is on the basis of 'natural fall' of beef cuts.



Conclusion

In summary, the beef sector continues to make an enormous contribution to the national economy, to beef farms across rural Ireland and to thousands of farm and industry families and associated services that rely on these processing plants located across the country for their income and employment. It is a sector that has invested heavily in its future very heavily in recent years and that investment is paying off in terms of growth of some 50% in output value since 2010. The sector has further potential for growth with the expected increase in cattle numbers that will result from dairy expansion and increased specialist beef output by improving the performance in the national suckler herd. This will require careful management over the coming years to ensure that value is converted from the increasing levels of output expected to come on stream.

Working together with other stakeholders, particularly producers, DAFM and State Development Agencies, in order to win significant market share in existing and emerging international markets, MII members will be key drivers of beef sector expansion through a focus on better breeding programmes, improved research, technology and knowledge transfer, improved efficiencies at processing level, further value add and a focus on driving the marketing of beef products from Ireland across the globe.

MIl will remain active in the pursuit of further market access opportunities and will fully engage in the evaluation of both international climate change and trade agreements with a view to ensuring that Ireland's beef industry is not placed at a disadvantage as these agreements are being negotiated. Recognising the risk to the national herd from diseases, MII will place a key focus on animal disease control programmes in order to ensure that Ireland continues to be a producer of products that meet the most exacting of standards expected in international trade.

Irish beef has strong sustainability credentials, a natural grass-based production advantage and combined with a modern and dynamic processing sector is well positioned to take advantage of new opportunities in both EU and international markets.





Confederation House
84/86 Lower Baggot Street
Dublin 2
Tel: 01 – 6051640
Fax: 01 – 6381640