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# *Ireland: an example for competitive pasture beef production?*


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# Outline

- Irish agriculture overview – Facts and Figures!
- Irish beef production – some background
- Global and EU context
- Profitability of Irish Beef production
- Challenges/Issues & Future perspectives for Irish beef production

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# Irish Agriculture Overview – Facts and Figures

# Land use - Ireland

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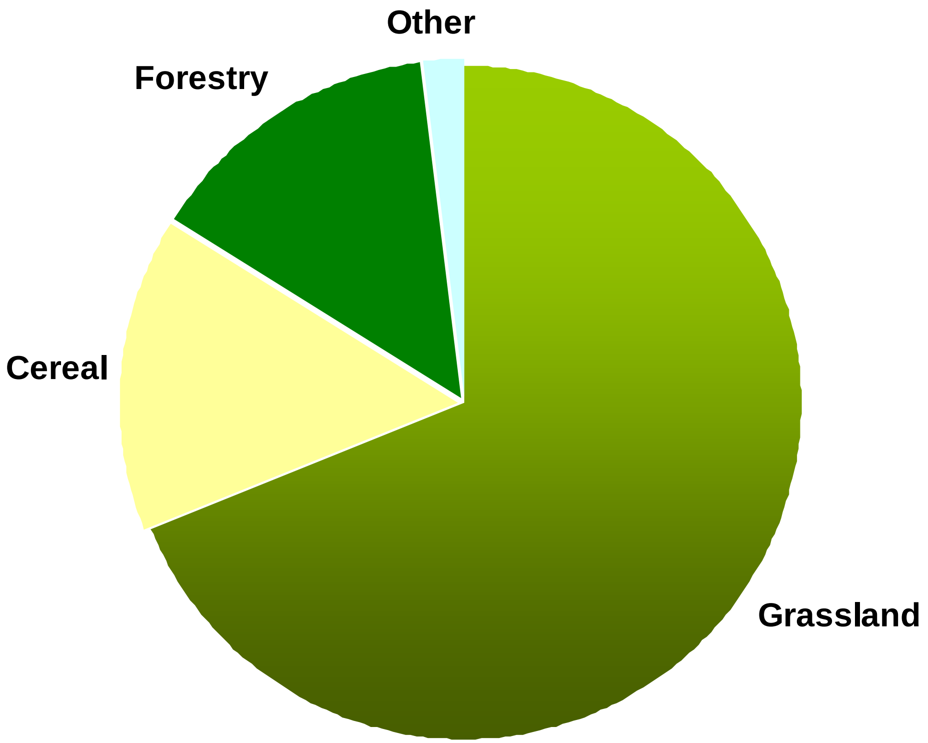
- Total land area  7 million hectares
- 4.6 m ha for agriculture and 0.75 m ha for forestry




*Source: Irish Department of Agriculture and Marine;  Central Statistics Office*

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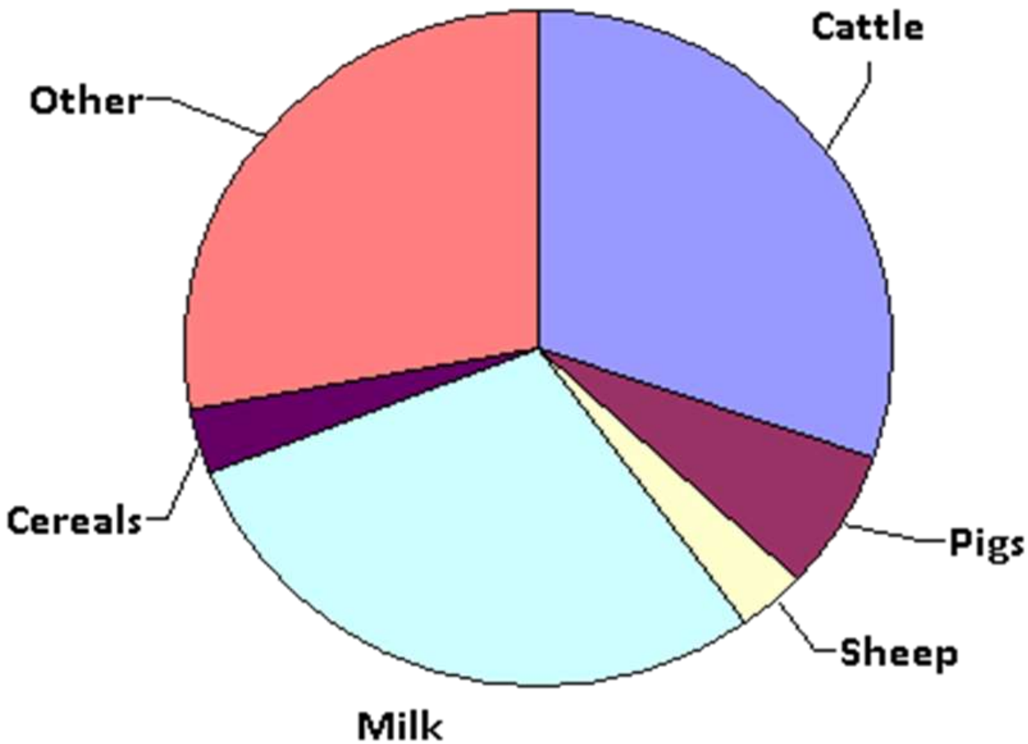
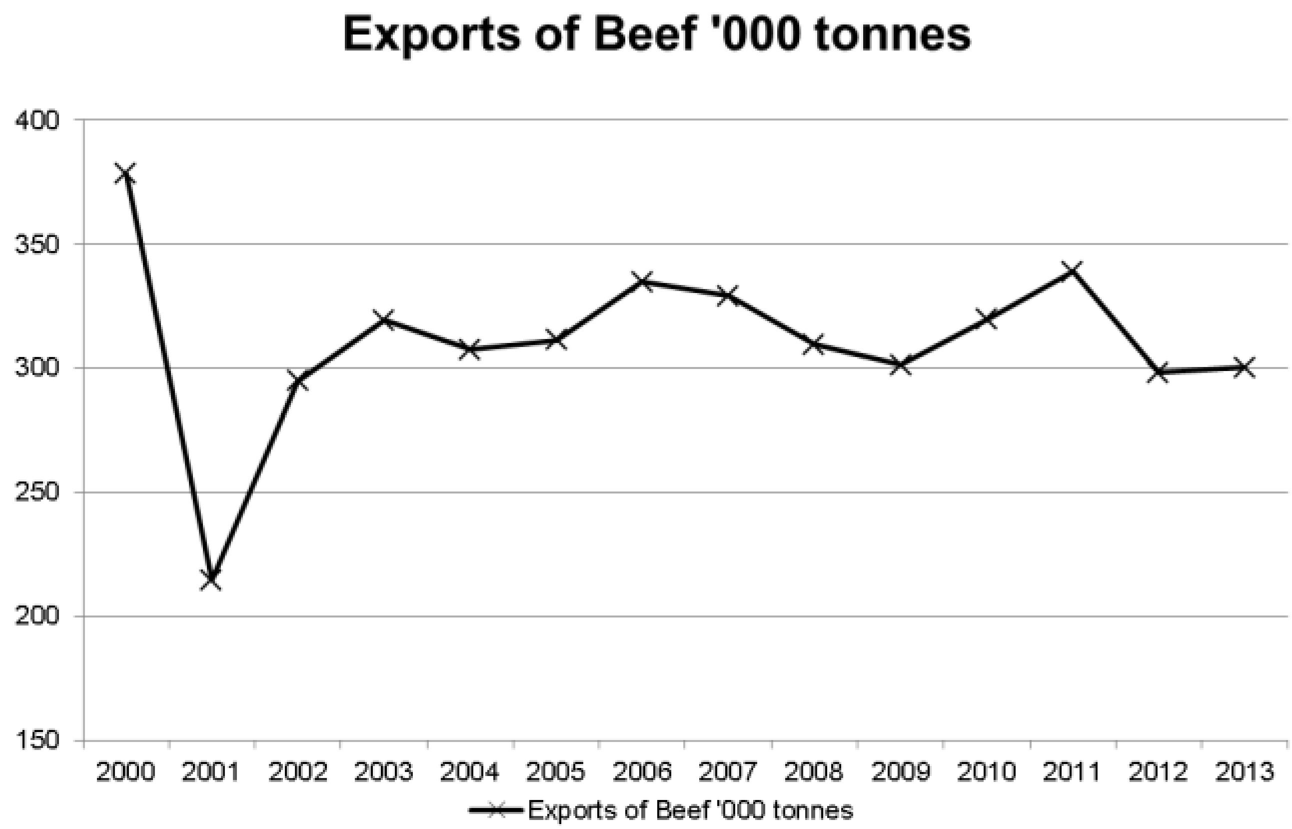
# Composition of Irish Agricultural Output Value (2013)



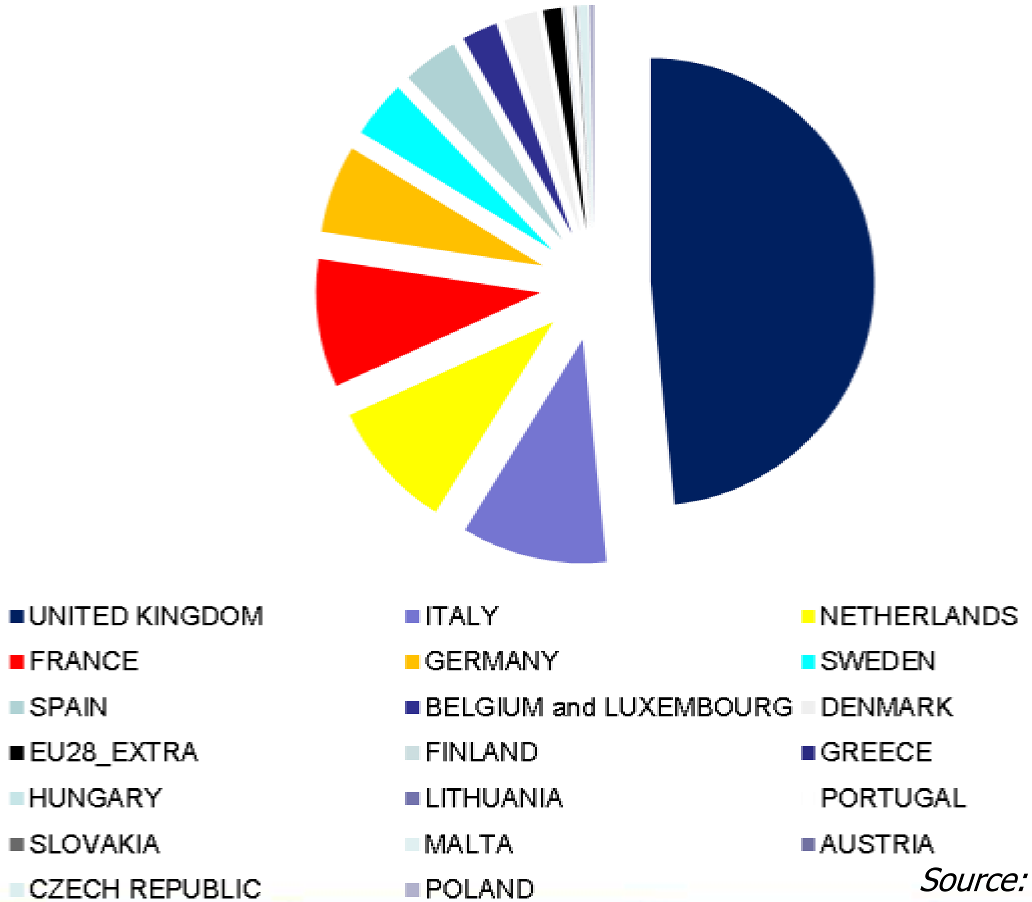

**Source:** CSO *Output, Input and Income in Agriculture*

# Exports of Beef - 2000 - 2013




***Source:*** *CSO*

# Total Exports to EU - Share (€ Value) - 2013




*Source: Eurostat COMEXT trade database*

# Total Exports to EU - Share (€ Value) - 2013

- Exports to non-EU markets are negligible
- UK - by far the dominant destination in terms of volume of product and value of total exports
- However the unit values of these exports are exceeded by exports to some continental markets – reflective fact that exports to the UK range from meat for hamburgers to very high value cuts while exports of Irish beef to some continental markets are focused more exclusively on higher value cuts
- Type of business destination is also important i.e. retail or food service

Source: Eurostat COMEXT trade database

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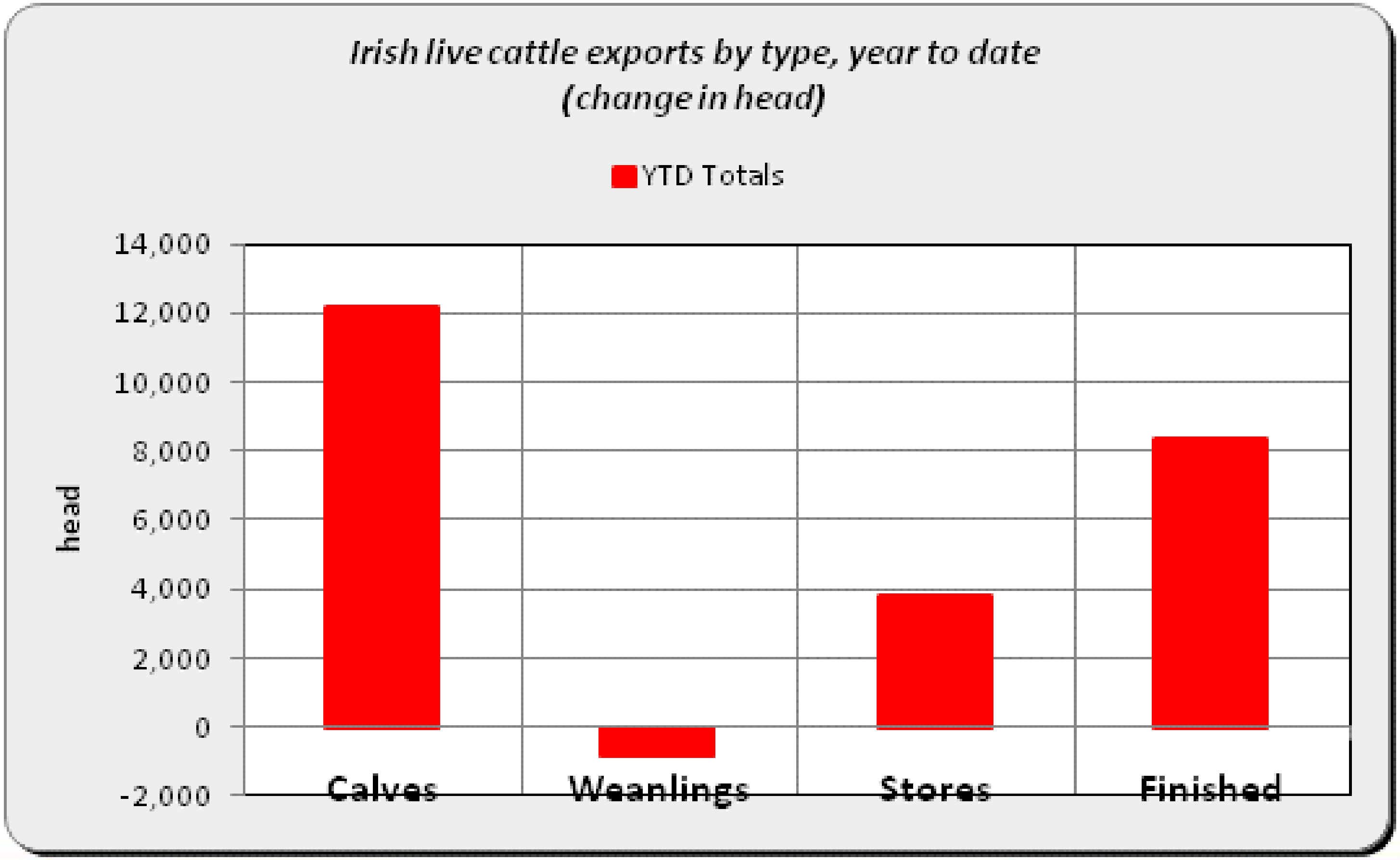
# Irish Live Cattle exports by Cattle type – per head change (Jan 2014 to end May)




**Source:** *BordBia*

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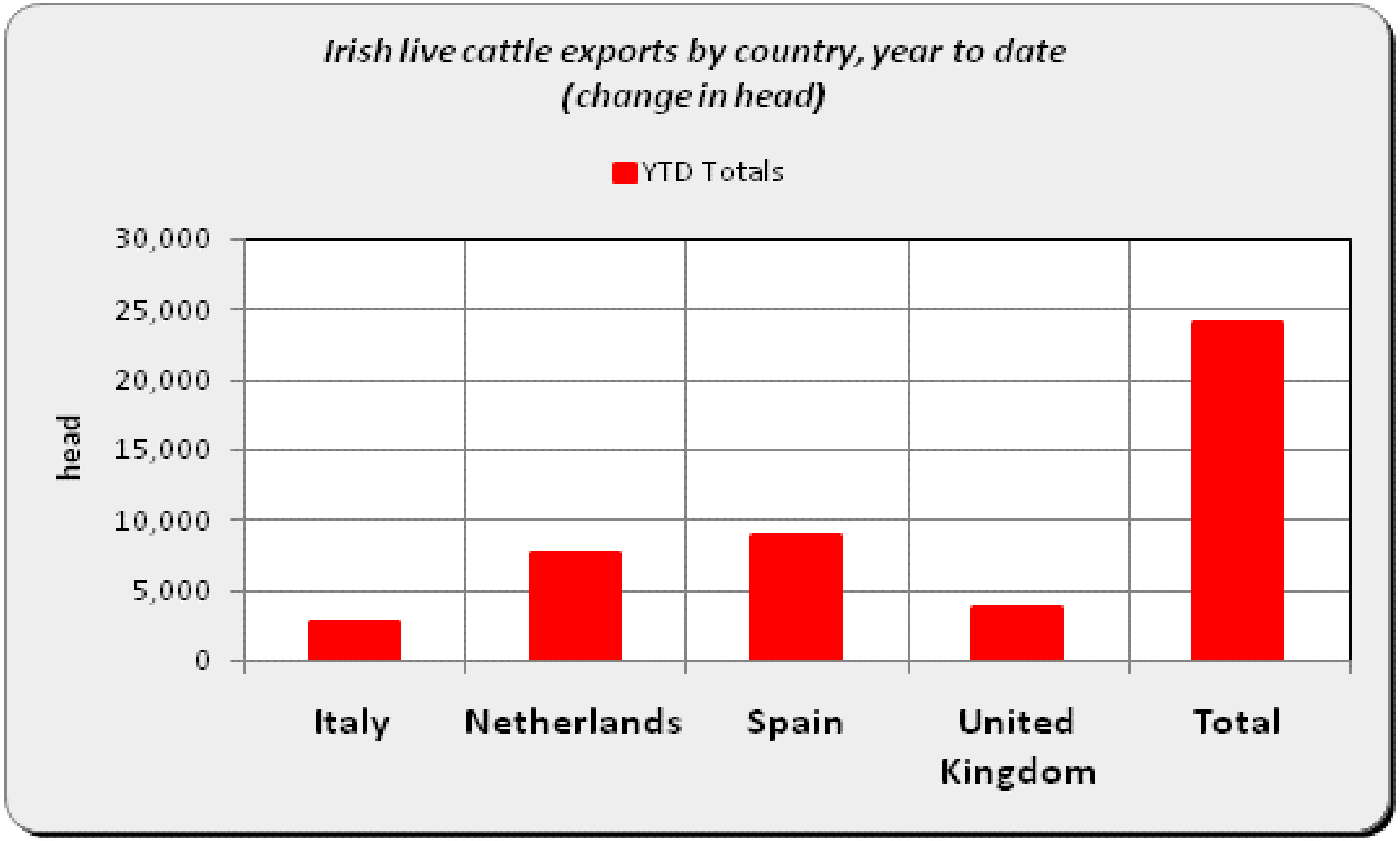
# Irish Live Cattle exports by Country – per head change (Jan 2014 to end May)




**Source:** *BordBia*

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# Background - Irish Beef Production

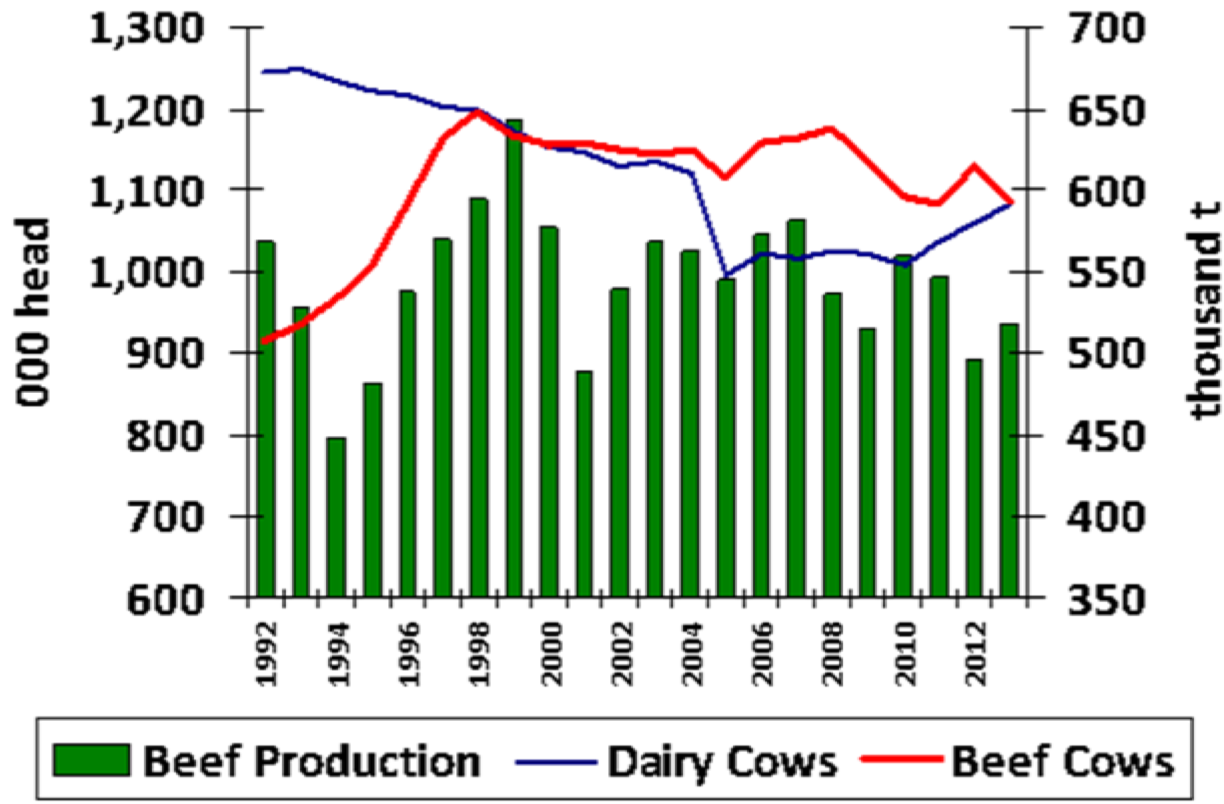
# Background – Irish Beef Production

- Beef production - Irish agriculture's most important activity in terms of output and farm employment & occurs on majority of farms
- 2010 Census of Agriculture - 56% (77,738) of Irish farms were classified as specialised in beef production
- This proportion varies regionally with over two thirds of all farms in the Midlands region classed as specialised in beef production
- Dependence of Irish beef production on the suckler herd is unusual in an EU context

# Background – Irish Beef Production

- Census of Industrial Production (2011) - Meat processing accounted for 7% of industrial employment.
- Volume of beef production -relatively stable since decoupling direct payments
- Over the period 2001-2013 -average share of beef output in total agricultural sector output value has been 28% (same share as milk production)

# Irish Suckler and Dairy Cow Inventories & Beef Production 1992-2013




***Source:*** *CSO and Eurostat*

# Irish Beef Production - in a Global & European Context

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- **<u>Global context</u>** - Irish beef production important <u>not</u> due to its absolute volume
- 2013 – Ireland was ranked **20th** of all global beef producers (USDA and Eurostat)
- Approximately **90%** of Irish beef production exported
- 2013 Irish net exports of beef (exports less imports) were the **5th** largest in the world (surpassed only by Brazil, India, Australia and New Zealand)
- Export earnings from beef production in 2013 were **€2.1 bn** (Bord Bia) with all Irish beef exports destined for high value UK and continental EU markets.

# Irish Beef Production
# - in a Global & European Context

- **EU context** - Irish beef sector unique in terms of its export dependence
- The importance of the suckler cow based beef production is also unusual
- Two thirds of cows in the EU28 are dairy cows whereas in Ireland one half of all cows are suckler cows
- Dependence of Irish beef production on offspring of the suckler cow herd is only matched in the EU context by France, the UK, Portugal and Spain

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# Beef Farms in Context
# Profitability of Irish Farms – 2013

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# Context – Irish Agriculture 2013

- For all Farms, average Family Farm Income (FFI) increased marginally in 2013 to **€25,639**
  - Average stability masks contrasting incomes across farm systems
  - Dairy and non-Dairy dichotomy
- On all grassland systems on-going effects of fodder crisis of 2012 and poor spring in 2013 led to increased production costs

***Source:*** *Teagasc National Farm Survey, Preliminary Results 2013*

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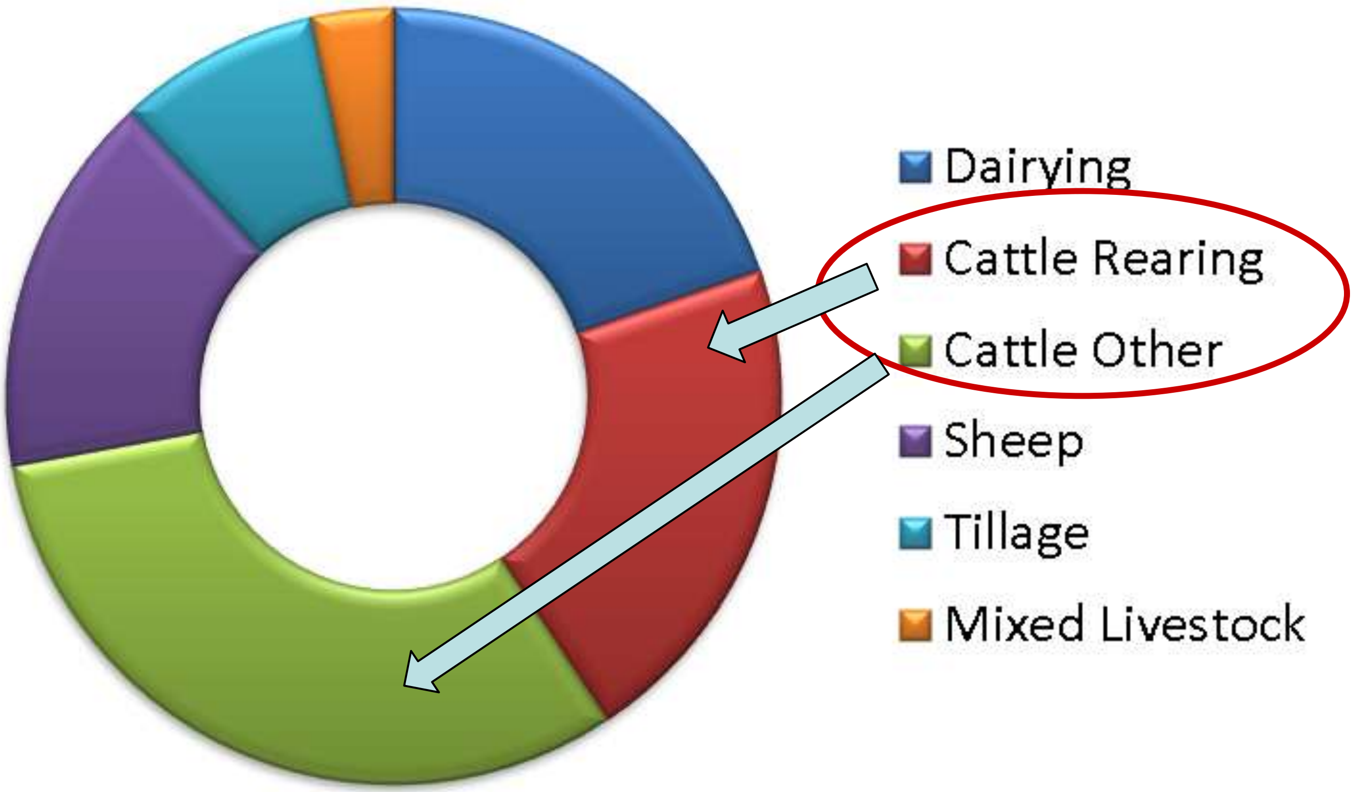
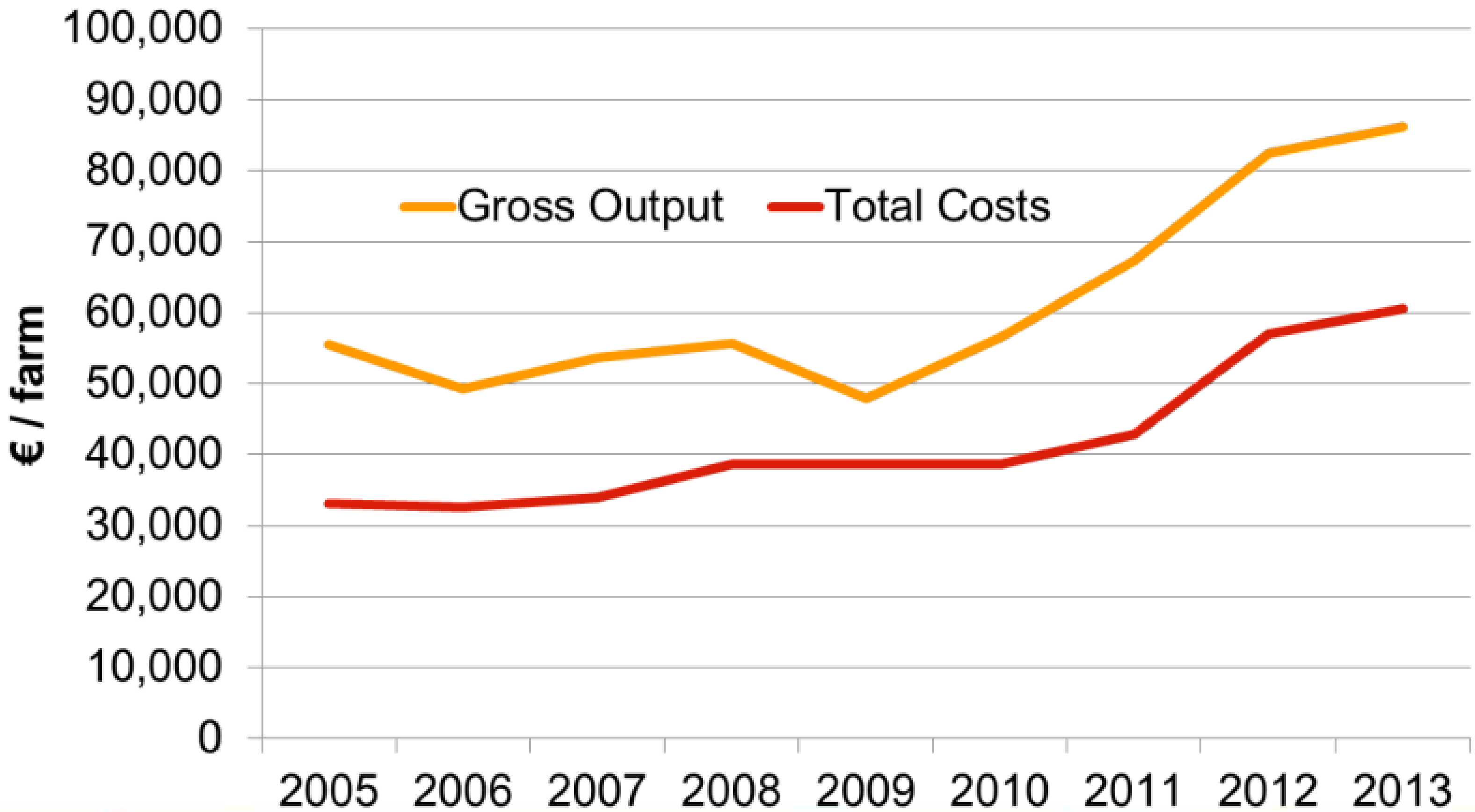
# Irish Farm Population



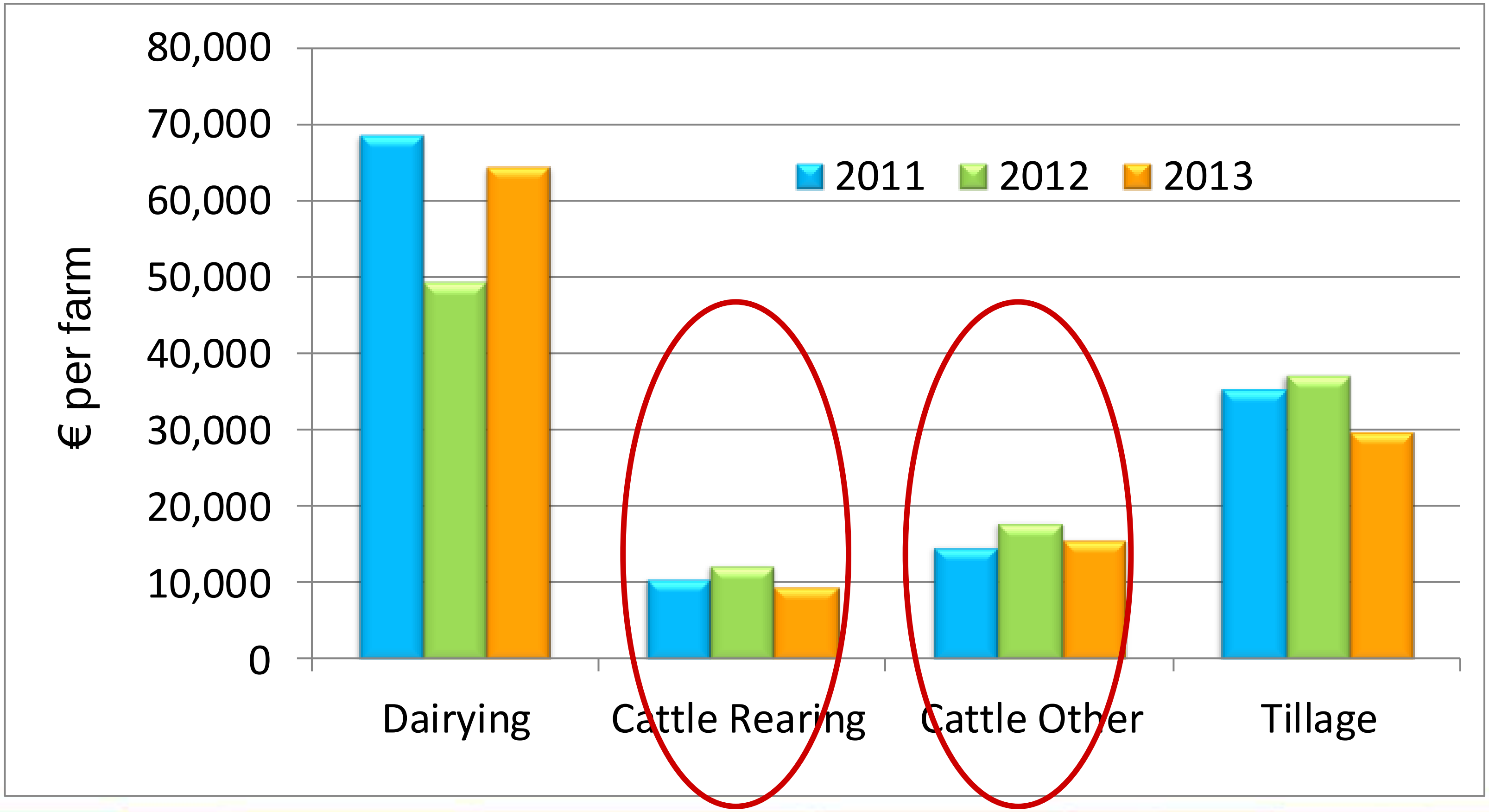

***Source:*** *Teagasc National Farm Survey, Preliminary Results 2013*

# Price-Cost Squeeze




***Source:*** *Teagasc National Farm Survey, Preliminary Results 2013*

# Family Farm Incomes 2011 to 2013




***Source:** Teagasc National Farm Survey, Preliminary Results 2013*

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# Profitability of Irish Beef Production

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# Profitability of Irish Beef Production

- There is a profitability problem in Irish beef production
- Performance of best cattle rearing and cattle finishers shows that returns to labour employed on the farm and capital invested can approach those earned on dairy farms

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# Beef Finishing Enterprise Analysis - 2013

| | Top | Middle | Bottom |
|---|---|---|---|
| Livestock Units per Ha | 1.77 | 1.56 | 1.25 |
| % of farms on best soils | 72 | 65 | 54 |
| Gross Output (€/hectare) | 1685 | 1006 | 639 |
| Concentrates (€/hectare) | 520 | 319 | 307 |
| Pasture and Forage (€/hectare) | 295 | 241 | 220 |
| Other Direct Costs (€/hectare) | 812 | 402 | 75 |
| Total Direct Costs (€/hectare) | 904 | 638 | 588 |
| GrossMargin (€/hectare) | 781 | 367 | 51 |

(Average €391)

**Source:** *Teagasc National Farm Survey, Preliminary Results 2013*

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(Average €391)

Over Twice the average, 15 times Bottom producers

**Source:** *Teagasc National Farm Survey, Preliminary Results 2013*

# Profitability of Irish Beef Production

- Teagasc National Farm Survey data - consistently highlights profitability problems associated with beef production on Irish farms
- Profitability problem in Irish beef production and the low to negative margins earned from beef production also characterises much of EU beef production (agribenchmark report)
- Compared to international competitors (such as countries in North and South America) costs of production in the EU are higher

# Profitability in Irish Beef Production

- Since the decoupling of direct payments (DP) from production (2005), the average Family Farm Income (FFI) on
  - *Cattle Rearing* &
  - *Cattle Finishing* farms

has been <u>less</u> than the average of total DP receipts

# Reliance on Direct Payments

# Direct Payments

- In 2013 reliance on direct payments remains high on average
- As a % of income:
  - Decreased on dairy farms due to strong income gains (+33%)
  - Increased on other farms for the opposite reason
- Single Farm Payment is by far the most important component
  - Comprising 55% of income, on average

# Income & Subsidies - 2013

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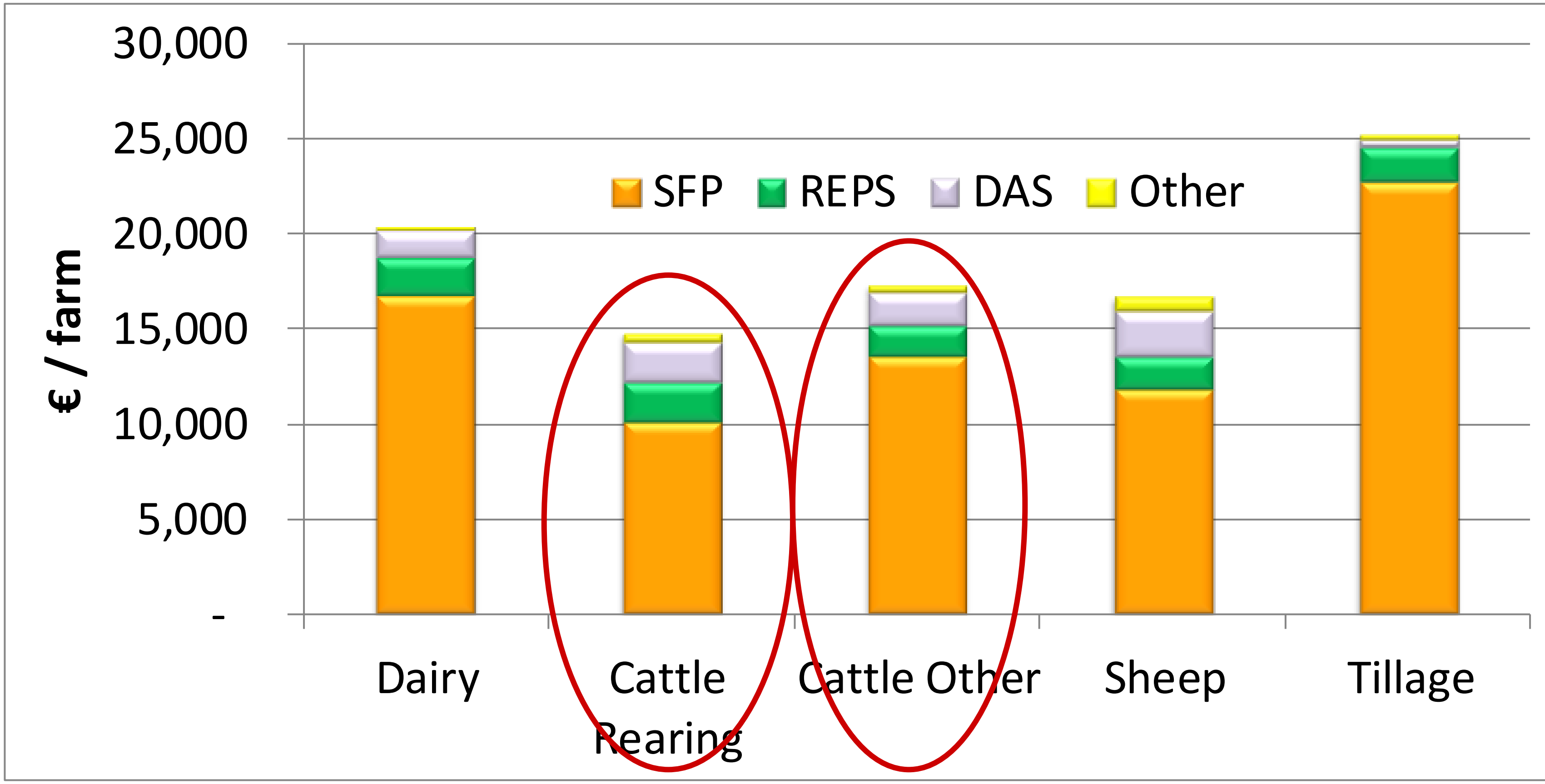
# Composition of Direct Payments – 2013



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# Competitiveness of Irish Beef Production

# Competitiveness of Irish Beef Production

- Beef production continues to be important to the Irish economy in terms of export earnings and employment
- Analysis of performance of the **top 10%** of Single Suckling & Cattle Finishing farms in the Teagasc National Farm Survey suggests that when FFI is adjusted for the volume of unpaid (i.e. family) labour used on the farm, incomes earned from beef production (inclusive of subsidies) can be competitive with other agricultural production activities
- The challenge for the industry is to **both** improve the average economic performance and to narrow the distance between best and average outcomes. (poses principal challenge in developing a sustainable Irish beef industry.

# Competitiveness of Irish Beef Production – Growth delusion?

- It's true that Irish agricultural <u>output</u> value has increased significantly in recent years
- But the impact on agricultural <u>income</u> has not been significant for two reasons: 1. Production costs has also increased dramatically

  2. Support payments (not changed significantly) make up a huge chunk of farm income in Ireland

# What to do about Irish Beef Production?

# What to do about Beef ?

- Beef production in Ireland is loss maker
  - Margins are on average well below that of other enterprises (almost totally reliant on subsidies)
- Calls for a silver bullet solution
  - One that will make beef profitable like milk production
- But beef is different to dairy for several reasons
  - Mainly located on small farms (scale issue)
  - Substitutes - pork, poultry (& beef from dairy herd)

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# The Future – Future perspectives for Irish Pasture Beef Production

# Export-led Agri-food sector

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- *Increase beef output value by 20%*
- *Increase milk production by 50%*
- *Increase sheepmeat output value by 20%*

*Source: Department of  Agr,iculture Fisheries and the Marine*

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## GROWTH

- Increase of 20% in value of output
- Enhanced viability across supply chain
- Premium product status
- Improved market returns
- Reduced GHG emissions

## SMART

- Market focussed product development
- Collaboration & consolidation in supply chain
- Enhanced knowledge transfer to drive farm efficiencies
- Focus on genetic advances to drive productivity & product quality
- Commercial research focus on product development

## GREEN

- Marketing strategy based on environmental credentials
- Environmental criteria as part of Quality Assurance Schemes
- Green initiatives at both producer & processing level

# Beef Sector

*Source: Food Harvest 2020 Report, Dept. of Agriculture, Fisheries and Food*

# Food Harvest 2020

- Agriculture playing increasingly important role in depressed Irish economy
- Industry targets (Food Harvest) significant increase in output – Smart, Green, Growth.
- Dairy industry projected to expand substantially with corresponding increases in dairy beef production.
- Sectoral targets have been set to improve productivity and profitability

# Future – Product Differentiation

- Increased product differentiation has the potential to build on the success of current marketing strategies and concepts
- Will provide enhanced returns to the producer and close the current price differential for beef in high-value EU markets
- On basis of available data, believe that a growth of 20% in the output value of the sector is achievable by 2020 (using the average of the years 2007 to 2009 as a baseline).

*Source: Food Harvest 2020 Report, Dept. of Agriculture, Fisheries and Food*

# Sectoral roadmap - Suckler Beef 2020

| | Sectoral Average | | Research Target |
|---|---|---|---|
| | 2011 | 2020 | |
| Calving interval | 400 | 390 | 367 |
| Calves/cow/year | 0.87 | 0.90 | 0.95 |
| Grass (% of total DM fed) | 51 | 54 | 65 |
| Herbage utilised (€ DM/ha) | 4.7 | 6.2 | 10.5 |
| Liveweight output (kg/ha) | 457 | 580 | 956 |
| Carcass output (kg/ha) | 250 | 317 | 530 |
| Costs per kg liveweight (€/kg) | 1.99 | 1.67 | 1.64 |
| Gross output (€/ha) | 829 | 1,017 | 2,166 |
| Gross margin (€/ha) | 360 | 492 | 1,084 |
| Net margin (€/ha) | -82 | 50 | 477 |

**Source:** *Teagasc , 2013*

# The Future – Policy measures

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# Future – Policy measures

- Policy measures - principal national policy measures relate to beef genomics scheme - designed to target traits that are important in terms of beef sector competitiveness
- The fh2020 targets particularly that for the dairy sector are important - since 50% of beef supply comes from dairy cows

# Future - Genomics

- Genomics has potential to play a role in identifying desirable product qualities that will add value in the marketplace
- Some of this technology already in place, further advances expected in short term
- Will provide opportunity for Ireland to take a lead position in this area
- An important spin-off of the significant growth expected in the Irish dairy sector will be an increased supply of calves for rearing and finishing
- Teagasc initiatives, such as the Better Farm Beef programme (in conjunction with the Farmer's Journal), highlight the significant growth potential when best practices are adopted at farm level

*Source: Food Harvest 2020 Report, Dept. of Agriculture, Fisheries and Food*

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# Future – Policy measures

- It is expected Beef fh2029 group currently in discussion - likely to recommend that farmers/processors work harder at coordinating along the supply chain

# Future – Ireland's sustainable food industry

- Bord Bia - new targeted marketing campaign (milk)
- Under the 'Origin Green' banner
- Promote Ireland – a source of world-class sustainably produced food and drink

# Present & Future – Media Headlines

# Irish Beef Production – Headlines

- "Bord Bia reports increase of 40% in export values since 2009"
  - Value of Irish food/drink exports -approached €10billion for the first time in 2013 (Bord Bia)
  - Represents an increase of 9% on previous year (revenues almost €3 billion higher than in 2009)
  - 40% increase in the last four years
- Strong performances for meat and livestock (€3.3billion) and prepared foods (€1.65 billion) all contributed to the positive outcome.

# Irish Beef Production – Headlines

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- **Minister for Agriculture**
- Export values of almost €10 billion – “demonstrate the clear opportunity and benefit of investing in a sector with proven resilience, a significant domestic economic footprint and strong ability to grow. With increasing demand from more affluent consumers in key world markets, there is little doubt that the €12 billion export target set out in the industry-led strategy for the agri sector Food Harvest 2020 is well in sight."

# Future – Agribusiness Survey 2014 Results

# Irish Future– Agribusiness survey 2014

**Key Growth Drivers:**

- 93% expect Agribusiness sector to grow in 2014
- 94% - agribusiness companies cite Innovation as the most important factor to drive growth
- 89% - see direct farm investment as an important factor to drive their businesses
- 45% – efforts to improve access to finance by Govt have been unsatisfactory
- 69% - believe Govt – very helpful to the sector

**Key Growth Challenges:**

- 1. Price volatility
- 2. Economic conditions
- 3. Overcoming power of large suppliers and retailers (3 supermarkets control 74% of Irish grocery market, 10 companies control almost all fertiliser supply worldwide)
    - )

***Source:*** *AGRIBUSINESS, Summer 2014, Irish Farmers Journal, KPMG*

# Irish Future– Agribusiness survey 2014

**Key Growth Challenges:**

**Some Comments:**

- **“incentivise land mobility, especially for young farmers”**
- **“minimum pricing of agri goods on supermarket shelves”**
- **“set up a dedicated farming bank to replace role of..” (previous bank)**
- **“protect quality”**
- **“encourage consolidation of (some) industries to improve our competitiveness”**

***Source:*** *AGRIBUSINESS, Summer 2014, Irish Farmers Journal, KPMG*

# Irish Beef Future – Competing on Global market

- Ireland will struggle to compete on the global market in terms of scale
- However, scale should not be seen as the panacea – should leverage our strengths to penetrate the global market
- Existing brand reputation – allowed Ireland secure a strong presence within premium markets "Premium brand allows access to premium markets"
- Sustainability of the production system – another key area when competing on Global market
  - Irish lead – in promotion and measurement of sustainable production and processing systems

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# Irish Beef Future – Competing on Global market

- Grass based production system – with some buffer against input volatility
- This production system – adds to brand reputation & sustainability package & also plays a critical role in ensuring production model remains cost competitive
- Inevitably, challenges to grass based system
- Ireland - fortunate to have retained an indepenedent research institution, largely state funded (Teagasc)*
- Through provision of independent and profit focused research - one of Key industry strengths – must be sure to leverage to ensure production model is financially viable

***Source:** *AGRIBUSINESS, Summer 2014, Irish Farmers Journal, KPMG*

# Irish Beef Future – Competing on Global market

- Innovation – one area where lack of scale has the potential to stifle development- simply due to lack of resources
- Ireland – when benchmarked a standards – level of product innovation in beef sector has been poor
- Ireland will struggle to compete on Global market in terms of Scale
- One of drivers behind scale – ability to influence the market – which is not a positive for Irish farmers
- Ireland – focus play on our strengths, at same time using strategies to drive competitiveness

# Irish Future – Competing on Global market

- Economies of scale – vital for processors to survive
- Ireland – 30 export approved meat processors – Series major acquisitions recent years - one processor ABP has 27% share (3 companies process almost 60%, another 4 companies account for 25%)
- In contrast to US (4 companies control 85% beef processing), Europe(Ireland) remains highly fragmented*
- Mergers - to help increase bargaining power/scale – farmers from co-operatives and producer groups
- Ireland slaughter 1.6m head cattle annually – industry has the capacity to slaughter 3.5m
- 1 in 5 beef burgers eaten in McDonalds across Europe – made from Irish beef

***Source:** *AGRIBUSINESS, Summer 2014, Irish Farmers Journal, KPMG*

# Irish Future – Competing on Global market

- We need to become

  "Lean and Mean"

- core of "lean" is to engage with people in structured way to drive productivity, effectiveness & efficiency in the business – i.e doing what you do for customers as effectively and efficiently as possible ("Toyoto" way)

"Quicker, Better, Cheaper…together"

(Prof. Richard Keegan, Enterprise Ireland)

# Irish Future – Competing on Global market

"Not about being the biggest, it is about being the best"

(Prof. Alan Renwick, University College Dublin)

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# *Go raibh maith agaibh*

# *Grazie mille*

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