ICMSA Submission to the Oireachtas Joint Committee on Agriculture, Food and the Marine on the Future of Beef

March 2019

ICMSA has made an assessment below of the Irish beef industry using the SWOT analysis prescribed in the invitation to make a Submission. Included within each section are several recommendations which we ask the Committee to consider. We cannot underestimate the urgency that is required to restore confidence in the Irish beef sector at farm level. A pragmatic and cohesive approach must be devised and implemented to ensure its future.

Strengths of the Beef Sector.

Irish beef is derived from two streams, the suckler herd and the dairy herd. Each have their own merits but share an overarching theme in which the livestock reared are fed mainly grass or grass silage. This unique selling point is used to sell our beef worldwide. As consumers become more concerned about welfare and carbon efficiency, our grass-based system of beef farming in Ireland should give us a distinct advantage over other countries and one which we must develop and ensure higher returns to the primary producer. We need to strategically market our beef and demand a premium price for the ethical issues our beef addresses over conventional intensive indoor systems of our European neighbours.

Livestock systems are constantly questioned regarding GHG emissions and while yes there is always room for improvement, we must acknowledge our success thus far. We are placed fifth in terms of carbon footprint for beef production in the EU. If we stop producing beef, it will be produced elsewhere likely in places where it is more carbon intensive to do so raising global emissions. The concept of carbon leakage must be addressed. From an environmental point of view, we are one of the best places in the world to produce quality sustainable beef.

Reviewing the strengths outlined in Foodwise 2025, they remain broadly similar and applicable. However, we would dispute the following strength outlined "High penetration of high-end retail outlets across the EU" in the document. Proof of this must be demonstrated as most certainly the primary producer does not receive a dividend for selling beef in such "high-end retail outlets".

Weaknesses of the Beef Sector.

The biggest weakness of the beef sector in Ireland is the income of the primary producer. Teagasc issue a profit monitor summary for suckler calf to beef, suckler to weaning and beef rearing systems each year. The summary is not representative of all beef farmers as the data captured is from farmers that are most engaged with advisory services. In general, income figures tend to be better than those reported in the National Farm Survey each year. The statistics give us a useful insight into the financial performance of beef sector. From 2015 -2017 inclusive, suckler to beef, suckler to weaning and beef rearing made an average profit (after fixed and variable costs – excludes drawings and capital repayments) of €689/ha, €486ha and €673/ha, respectively. Premiums account for 70% and 72% of the profit figures for suckler to beef and beef rearing systems respectively. In the case of suckler to weanling, premiums accounted for 103% of the figure. This system is entirely dependent on premiums and would stand to make a loss each year without them.

So, the challenge is to improve the profit margin for beef systems. The CAP is fundamental to the survival of the beef sector. In relation to CAP Post 2020, ICMSA would like to make the following recommendations:

- The existing CAP budget must be at least maintained.
- The model of convergence adopted under the last CAP Reform has meant that many beef producers, both suckler and dairy beef, have seen their

payment decrease dramatically despite the fact that their overall payment may be relatively small. ICMSA believes that under CAP Post 2020, convergence should not apply where a farmers' overall payment is less than €30,000.

- The inspection regime causes considerable stress for farmers. To alleviate this, ICMSA recommend that the EU allow a yellow card system such that non-compliances identified at farm inspections can be rectified without incurring a penalty.

The provision of more direct payments to support the sector are unlikely to yield significant improvements. Instead, they allow meat processors to return a lower beef price and the sector enters a fast race to the bottom of downward pricing, which is what we have seen historically. The sector must be able to function in its own right where direct payments only make up a proportion of the farmers income. Farmers depend on Pillar II payments but we must realise that funding under this Pillar only reflects income foregone or costs incurred. It is not an additional funding scheme. In fact, much of the money is directed towards planning and consultancy fees.

- With this in mind, schemes in Pilar II must be kept simple and straight forward with the objective that more funding is retained by the farmer.

While farmers will always strive to make improvements in efficiency, the profit potential is limited. The Newford suckler farm, a demonstration farm based in Teagasc Athenry has shown that despite best practice, their system failed to return a profit in 2017. It was suggested at their open day that suckler beef would have to make €5/kg to make a decent return for the system. Such a return must come from the marketplace and not a redistribution of existing market returns.

Input costs have risen considerably in the last ten years and regulation and the taxation regime has played a role in this regard.

- The Government should carry out a review of regulations and their impact on farm input costs and implement measures to reduce the regulatory impact.
- The Government should lower VAT rates on farm inputs. Though a small token, it would demonstrate government support for the beef sector.

Developing new markets has been a priority for the Department of Agriculture, Food & Marine. However, it has yet to deliver tangible results on the ground. Our dependence on the UK was highlighted as a weakness before we had ever heard of Brexit yet we have done little to reduce our dependence on our nearest neighbour. We still send over fifty percent of our beef to the UK and this dependence has exposed the industry in recent months. We are exporting premium grass-fed beef to over 180 countries yet the price return to our farmers hovers consistently around the EU average price. This is not good enough. The Origin Green programme was built on the principle of Sustainability but quite clearly this programme has failed to recognise or support the failing economic sustainability of beef farming.

The investment by farmers and the national exchequer in Bord Bia and Orgin Green must deliver a premium price for premium beef. This has not been achieved to date and farmers are increasingly frustrated that their participation in SBLAS is not being rewarded in the marketplace. Given the significant and costly efforts farmers endure to meet SBLAS standards, it is only just that they see a return from the success of these campaigns.

- A cost-impact analysis must be carried out by Bord Bia to scrutinise the value of their campaigns to farmers.
- Bord Bia’s budget has increased substantially in recent years but yet the price paid to farmers for beef has not improved in those years. Quite clearly, the current Bord Bia strategy needs to be reviewed to establish who

in the supply chain is benefiting from these campaigns and what changes are required to ensure the primary producer is adequately rewarded for their efforts.

Improved beef prices must be returned by the marketplace. This requires transparency in beef pricing at processor and retailer level. Beef price is paid on a grade scale which is based on conformation class, fat score and meat yield. Yet when farmers get paid for beef, deductions are made based on breed, age, movements and weight. ICMSA has carried two analysis of the Quality Payment System (beef grid) which clearly shows that the losses suffered by farmers under the QPS far outweigh the gains of farmers with cattle that grade within the bonus grades set by the meat plants. A copy of this study is attached with this Submission. In short, the QPS is biased against farmers and must be revised. The Government must resume its place of authority and hold meat processers accountable in relation to the grading of beef, carcase trim and the reporting of prices. A robust animal traceability system has been developed by the Department of Agriculture, Food & Marine and implemented by farmers within the farm gate and now this level of traceability needs to be extended to the meat plants to insist that they must publish the basis for their bonuses and deductions, contract prices and base grade in a clear and accessible manner.

- The Department publishes the average price paid by meat plants for a specific grade every week but to ensure adequate transparency, they must follow this up with what payments were subsequently received and include the range of prices received by farmers within each grade.
- To improve transparency, meat plants and retailers should be required to submit sale prices for various cuts to the Department of Agriculture, Food & Marine and summary weekly reports should be subsequently published. This must include sale prices for the fifth quarter. This analysis is carried out in the UK by ADHB for various cuts at retail level and ICMSA

recommend that this is introduced in Ireland to provide greater transparency.

- Recommendations of this manner should also be made to the EU Meat Market Observatory who currently only report whole carcass value whereas values for each cut would provide insight for all Member States and primary producers. The detail available for the beef sector is sparse in comparison to the data available on dairy products.

ICMSA has identified nine specific actions which should be immediately applied to strengthen the farmers position in relation to the QPS.

- All animals from quality assured farms should receive the quality assurance bonus. This bonus should be paid independently of other "in spec" criteria.
- There needs to be an independent analysis of a new beef grid verifying the market basis for the grid.
- The beef grid must be simplified to include less grades so that farmers can better assess their own stock prior to slaughter. The grid must also reflect current market requirements.
- Penalties on fat score should not apply to cattle graded a 4+ or less
- Both sides of carcase should be graded and the best grade derived from the grading process must be used to determine price.
- Liveweight should be recorded prior to slaughter to determine accurate kill out rates and included in the farmers data sheet. This data would be valuable for breeding strategies going forward.
- It is essential that measures are in place to ensure that a carcase is stable for grading purposes to ensure an accurate grade is recorded.
- Farmers must be provided with the images of all cattle slaughtered. An independent appeals committee should be established to address cases where farmers are unhappy with the grade.

- There should be no penalties on price received based on the breed of the animal.

Processor owned and sub-contracted feedlots have become a significant source of cattle for meat plants. The volume of cattle finished on these farms is far greater than that of the average beef farmer. Thus, it has the ability to disrupt normal trends in beef supply and influence beef price. No formal assessment has been made on the number of these farms in existence or the volume of cattle these farms produce.

- An independent audit of feedlots is needed to determine their influence on supply and beef prices.

The Department of Agriculture, Food & Marine has focused a lot of effort into the promotion of beef producer groups yet to date not a single group has registered. ICMSA feels that the Department of Agriculture, Food & Marine has placed too much emphasis on their potential to influence price than that which could be realised.

<u>Opportunities facing the beef sector</u>

Given the almost nil profit margin from suckler beef production, it is inevitable that more beef will be produced from the dairy herd. With the growth in dairy herd, measures must be taken to ensure that beef from the dairy herd is suitable for the marketplace. The sector must encourage dairy farmers to produce a calf that is as suitable as possible for beef production.

- The timely introduction of the Dairy Beef Index will allow dairy farmers to pick bulls for breeding with positive beef characteristics that will not be detrimental to the cow’s survival (in terms of calving difficulty and gestation length). A financial incentive must be considered to promote its use.

The extremely low price being paid for calves this Spring increases the challenge and it is essential that a programme is in place to promote dairy beef production. The whole sector must support its use this coming breeding season and build upon the data the index will generate for future breeding seasons.

- A taskforce should be set up to promote and support dairy beef enterprises as an alternative to traditional beef rearing systems.

Though this may face some resistance, as we face into a period of increased scrutiny of our climate efficiencies, we will not only have to recognise but also promote the greater efficiencies of dairy beef over other systems.

- Schemes such as BEEP and BDGP prove beneficial in supporting farmers to improve efficiencies within the farm gate. The continuation and development of such schemes is vital.

The majority of actions outlined in the Food Harvest report are aimed at improving efficiencies within the farm gate and we feel that this is disproportionate. Going forward there must be more emphasis placed on the meat processors and state agencies to deliver a better return for beef farmers.

Since the publication of Food Harvest 2025, our live export trade has grown by 70%. This market must be supported as it is the only source of competition for meat plants. ICMSA believe that the following measures need to be taken:

- Live exporters need to establish a representative organisation and pool resources where appropriate.
- Dedicated sections for the live export sector must be established within the Department of Agriculture, Food & Marine and Bord Bia to deal with regulatory matters associated with live exports with a strong emphasis on improving market access for live cattle.

- Live exporters should be represented at the Beef Forum and in addition, a separate Advisory Committee should be established by the Department of Agriculture, Food & Marine to develop the live export trade.
- ICBF should be mandated to create guidelines in relation to breeding livestock for specific markets identified by live exporters.
- Any additional legislation not scientifically justified that restricts the movement of animals must not be accepted.
- The limited lairage facilities in Cherbourg need to be expanded.
- Grant aid similar to aid made available to meat processors should be available to live exporters to ensure facilities meet the highest standards globally and this should include lairage facilities at Cherbourg or other suitable ports.

<u>Threats facing the beef sector</u>

Brexit is a threat that has become a reality for beef farmers. Week on week prices are substantially lower than 2018 and are making beef production an unsustainable enterprise. The fear of the unknown makes it very difficult for beef farmers to plan forward and that can already be seen at the mart ring where the price of calves is at a very low level this spring.

- We need to restore confidence in the trade and given our reliance on the UK market this can only be achieved by maintaining frictionless trade between the two countries.
- ICMSA is very clear that a no deal Brexit must be avoided at all costs as the imposition of tariffs could do enormous damage to the Irish beef sector in particular.
- Already substantial losses have been incurred by farmers as a result of Brexit and the EU and our national Government must put in place measures to compensate farmers for their losses.

There has been much public comment regarding the pressures on the beef sector but yet trade deals such as Mercusor remain on the EU's agenda.

- ICMSA is very clear on this matter, a Mercusor deal should not be concluded that includes additional access to the EU market for beef and secondly, the issue of standards must be strictly enforced by the EU.

ICMSA believes that EU farmers have more and more regulations imposed on them in the areas of animal health and welfare, food safety, environment including climate change and it is simply not acceptable that we are expected to compete with industrial scale farming which does not have to meet such standards.

Currently what we are seeing on the ground is the demise of the beef sector. How can we encourage young people into a sector that makes no reasonable margin? The average age of beef farmers is 56 and >80% rely either on an off-farm job or the pension for income. Until a viable income came be derived from the sale of beef animals, this trend is unlikely to change. Irish farming including beef farmers underpin rural Ireland and keep many small businesses open across Ireland.

Sustainability is the new "buzz" word but policymakers appear intent on addressing environmental sustainability while ignoring the economic and social sustainability issues. ICMSA has outlined the measures above that we believe need to be taken to support the beef sector and the key issue is that beef prices are increased to a level that cover the cost of production and leave a reasonable margin for the farmer.