A Review of the Beef Sector in Wales

Commissioned by

Hybu Cig Cymru – Meat Promotion Wales (HCC)

A report to help identify the strategic options available to inform the future of the Welsh beef industry

This report has been prepared exclusively for the use of Hybu Cig Cymru – Meat Promotion Wales (HCC) and the Welsh beef industry.

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EXECUTIVE SUMMARY

1. Hybu Cig Cymru – Meat Promotion Wales (HCC) has commissioned SAC Consulting to review the strategic options for delivering a competitive, growing Welsh beef industry. The report combines a desktop literature review, a competitiveness analysis and an informal survey of industry stakeholders, developed through an internal survey of SAC beef specialists and discussions with HCC.

2. With few exceptions, beef production has been in decline across the globe despite better cattle prices. The main reasons for the decline in suckler cow numbers is low profitability or through higher profit potential from alternative land use. To suppress this fall in beef numbers, some nations have intervened through direct subsidy support. This has been largely ineffective in reversing the decline, under set budget constraints.

3. The current size and structure of the Welsh beef industry was reviewed to give a snapshot of the current situation. It showed the characteristics of the industry’s production base and the contributions from both the suckler and dairy herds. It also showed the limited capacity to finish cattle and, as a result, the high proportion of cattle processed in England.

4. A five forces competitiveness was used to analyse the environment in which the beef industry in Wales currently competes within. This analysis suggests that the Welsh beef industry is being undermined by problems at the production level primarily. Many Welsh farmers are reducing suckler herds and beef production following the decoupling of the suckler cow premia and reducing their beef production as a direct result of the bovine TB risk and low margins that are being recovered from beef enterprises relative to sheep, dairy and dairy support enterprises.

5. Within the British Isles, the English production base is probably the most resilient owing to its large dairy herd and competitive finishing sector, although these have still faced lower margins over the last year. These finishers have traditionally been keen buyers of Welsh store-cattle. As for the Irish beef industry, it too is losing land to dairying but will remain a key competitor for the foreseeable future.

6. The power of suppliers and buyers depends on which level the industry is viewed from. There is little evidence of supplier power in the Welsh beef industry at any level. A lack of supply is more the issue for Welsh processors, with the largest processor strategically located to draw from across the Welsh border. As for buyer power, the industry suffers from a lack of trust within the supply chain. However, this is no different to most other countries. The low number of cattle finished in Wales is partly explained by the strong demand from English cattle finishers who have access to lower cost feed and increased economies of scale.
7. New entrants are not considered to be a threat (particularly at production level), on the contrary, the industry wants to attract farmers into producing beef cattle.

8. The recent expansion of discount supermarkets has created a new dynamic at the retail level, yet the biggest threat to beef is the competitiveness of poultry meat on the supermarket shelf. Poultry meat is a cheaper protein that challenges beef in its consistency, versatility and price. Again, this is a force not specific to Welsh beef alone.

9. The sweep of options for lifting the competitiveness of the Welsh beef industry are presented under five headings.

   • The actions that are necessary at the farm level to boost the profitability of both suckler and dairy beef systems.

   • The importance of efficiencies at the processing (and logistics) level.

   • How much better supply chain collaboration between farmers, processors and retailers are critical to future success.

   • The opportunities that CAP and structural funds offer the Welsh Government for lifting the economic and environmental performance of the industry, and lessons from government policy in other countries were reviewed.

   • The central role that HCC as the statutory body for red meat in Wales could play in bringing the industry and government together to agree a strategy, and then implementing it is considered.

10. The final section draws the report together by presenting a summary of recommendations and three possible strategies for moving forward;

    a. With strategy 1 – the laissez-faire approach – the Welsh beef industry is left largely to itself to compete against dairying and sheep in Wales and the beef industries of other countries.

    b. Strategy 2 – the regulated approach – briefly explains how a heavily regulated, subsidised, beef industry would be unlikely to work even if it could be afforded.

    c. The final strategy – the hybrid approach – sets out the case for a market orientated beef industry, but with measured government involvement and a strategic and co-ordinated, sector-specific approach, to make it work more effectively.

11. Of these three strategies, it is suggested that the last has the greatest chance of success. However, it will take a centralised, focussed and coordinated team effort from all in the Welsh beef industry to make it work.
SUMMARY OF RECOMMENDATIONS

The following recommendations are based on the experiences gained in other countries of the UK and abroad. They are centred around initiatives that will:

- Prioritise a market led approach
- Improve health and welfare as well as genetics
- Enhance supply chain co-ordination
- Deliver environmental benefits of suckler beef production.

TARGET PRODUCTION – supply is a key issue and efforts must be focussed on improving the productivity of suckler and dairy beef systems across Wales. These efforts must address low calving percentages, extended calving patterns, low calf growth rates off pasture and the genetic make up of the Welsh suckler herd. Investment in research and development (R&D) will play an important role in developing solutions to address such problems and these must be accompanied by knowledge exchange which delivers practical on-farm solutions. Machinery, contracting and energy costs can also be reduced by minimising silage making and lowering feeding out costs.

GENETICS AND BREEDING – there are already some excellent examples of initiatives to improve the genetic quality of beef cattle. A national scheme similar to that introduced in the Irish Republic (see 5.4) and initiatives to widen the take up of technologies (like sexed semen) are needed if all Welsh cattle farmers are to benefit from better genetics and fertility. Welsh farmers responded positively to the Welsh Beef Quality Improvement Project and similar models could be built upon in future. The establishment of a central genetic improvement resource could be a key component of any such initiative. New technologies mean that a higher share of the calf crop can carry the best beef genetics.

HEALTH – there are a number of major health problems that reduce the productivity and profitability of Welsh beef enterprises. In addition to the existing measures to eradicate bovine TB, the introduction of national schemes to reduce the incidence of the key diseases, like Johne’s, BVD (bovine viral diarrhoea) and IBR (infectious bovine rhinotracheitis), should be considered. Early adoption of voluntary health schemes to support the quality of production could be incentivised to create momentum and critical mass.

DELIVERING ENVIRONMENTAL BENEFITS - current agri-environment scheme rules could be adapted to encourage farmers to keep suckler cows on Welsh hills, to arrest the decline in suckler cow numbers in the uplands and to avoid destocking which could have a negative impact on the upland landscape. Agri-environment schemes present an ideal vehicle by which to redress this balance and to reward the contribution that cattle grazing plays in improving biodiversity, access and landscape management. This would not only enhance the
green credentials of the Welsh beef industry but provide added benefits to the productivity of sheep flocks. Building upon the HCC Welsh Red Meat Roadmap: A Sustainable Future, support for a common approach to carbon footprinting that highlights the sustainability of the Welsh beef industry and gives consumers added confidence in Welsh Beef must be considered.

**CENTRALISED INFORMATION** – in order to compete with sheep, dairying and dairy support enterprises, beef margins must be lifted to that achieved by the best Welsh farmers. Establishing a central information system for Wales that captures key performance indicators that can be used for benchmarking in a cost effective manner is paramount. Trialling and disseminating best practice for dairy beef as well as suckler beef is an imperative. This would go hand in hand with the introduction of a national health scheme and collation of information on genetic improvement. A single database that meets all of these (and future) requirements must therefore be a priority. Incentivisation is proven to be the most effective way to increase the take up of technologies and to reduce the cost of change. This must however be linked to strategic priorities and individual production goals. Subsidised access to a range of technologies, diagnostic tools, equipment and training in return for data that will enable sector progress to be monitored and rewarded should be considered.

**MARKET REQUIREMENTS** – a market led approach is a priority. There is a demand for high quality Welsh Beef from a range of consumers at home and abroad and these are serviced through national supply chains as well as through niche supply chains. These domestic and global markets need to be fully exploited using the Protected Geographical Indication (PGI) Welsh Beef brand and to enable resources to be made available to achieve this. Efforts must be made to overcome the problems with the current levy distribution system which is not fit for purpose and which does not reflect the number of cattle born and reared in Wales.

**SUPPLY CHAIN VALUE AND CO-ORDINATION** – the Welsh beef sector would benefit from increased co-ordination and collaboration in the supply chain. Working better together is crucial to create and share value fairly between each partner in a wide range of competing chains and should be encouraged and supported. Lots of competing, value creating chains can drive better performance from all involved and there are some excellent examples of collaborations in Wales (Celtic Pride and Waitrose Welsh Black Beef) that have resulted in benefits for all parts of the supply chain. Livestock auctioneers can continue to play an important role in the movement of stock through such chains. EID (electronic identification) technology offers the opportunity to ensure transparency and communicate feedback to the producer. This technology can also help improve the efficiency of the breeding of the Welsh suckler herd and help it to become more market led.
SLAUGHTERING AND PROCESSING CAPACITY – endeavours could be made to enable the slaughtering and processing of more cattle in Wales to ensure more jobs, activity and value is captured for the Welsh economy.

CARCASE GRADING - whilst it is an issue that is not particular to Wales, a review of the current EUROP grading system is also required so that a system can be developed that is fair and fit for purpose. Automated carcase grading and meat yield prediction technology offers alternative approaches that should be considered.

INDUSTRY ENGAGEMENT - success in arresting the decline of the Welsh beef industry and creating a platform for future growth will only be achieved with commitment from the whole industry and participation throughout the supply chain. The decline is an industry problem and the approach to implementing measures must be strategic, highly focussed and co-ordinated to drive change. The Welsh Government and HCC (as the statutory red meat levy body) have key roles to play in ensuring that efforts are targeted, effective and monitored.
1. **AIM AND APPROACH**

1. Hybu Cig Cymru – Meat Promotion Wales (HCC) has commissioned SAC Consulting to review the strategic options for delivering a competitive, growing beef industry in Wales against a backdrop of recent decline that could be accelerated by CAP reform, low profitability and health issues like TB and BVD (bovine viral diarrhoea).

2. This report combines a desktop literature review, a five forces competitiveness analysis and an informal survey of industry stakeholders conducted mainly at the Royal Welsh Agricultural Show in July 2014. The content of this survey was developed through an internal survey of SAC Consulting beef specialists and discussions with HCC.

3. This report is structured as follows:
   
a. Section 2 outlines the challenges facing beef industries across much of the world, including the rest of the British isles.

   b. Section 3 summarises the current state of the Welsh beef industry, thereby providing a baseline to measure strategic options for improvement and how well, in future, the chosen options are being implemented.

   c. Section 4 assesses the competitiveness of the Welsh beef industry using a five forces analysis. This assessment draws on the feedback from stakeholders interviewed.

   d. Section 5 presents the suite of actions available with which to form a strategy that will lift the competitiveness of the Welsh beef industry and explains HCC’s key role in arriving at an agreed strategy and implementing it.

   e. Section 6 draws the report to a conclusion by providing a list of recommendations and suggesting the strategic options available to the Welsh beef industry.
2. GLOBAL BEEF CONTEXT

4. World beef production is expected to have increased by nearly 1.5% in 20 years to 2015. However, developing nations growth is forecast to have increased by nearer 2%, with larger increases in Northern Africa and Southern Asia, principally India. By contrast, growth in the developed world is likely to be very modest\(^1\).

5. Similar to the situation across the northern hemisphere, there is a paradox between production and price in Europe. Beef production has fallen by 6% in the EU-28 despite the average price increasing by 23% over the last five years, see below chart 2.1. However during this time the average cost of production has also increased significantly.

![Figure 2.1: EU finished heifer price (€/100kg dw)](image)

6. The main “powerhouses” of EU beef production (France, Germany, Italy and the UK) have all seen decline. In some instances, this is despite government interventions to support farmers and production. It is difficult to assess the success of such measures but considering there has been continued reductions in production despite such mechanisms suggests they have only helped to slow the decline.

7. Beef cow numbers across the UK have been in decline, falling 7% since decoupling of headage payments in 2005. It is only in the last two years that dairying has seen a mini renaissance. It will take time to reflect in the beef market but dairy bred beef is likely to increase as a proportion of output.

8. There is one notable exception in the EU. Beef production in the Republic of Ireland has actually increased by 1% between 2009-2013. This is a small lift but tentatively suggests ambitious plans being implemented to increase agricultural output are bearing fruit.

However, this uplift is not from suckler beef, which has declined 3% over this period, but from the dairy sector\textsuperscript{2}.

9. A switch in farm enterprise mainly happens due to pressure on profit. Low levels of profitability\textsuperscript{3} in the suckler bred beef sector is sited as the main reason behind the general decline. Certainly, the UK has, on average, a high cost of production\textsuperscript{4} and is under pressure from countries with a lower cost base. The beef sector has also faced increased pressure from highly competitive alternative protein sources, particularly chicken. This has occurred as poultry enterprises have the ability to monitor costs accurately and efficiently whilst making genetic progress at a far quicker rate than beef enterprises.

10. Competition for land will increasingly impact suckler beef as producers strive to increase output to improve farm viability. Dairying is an obvious example in New Zealand, and momentum has also swung in this direction in the UK and Ireland. Brazil’s large beef herd has already been affected, being increasingly pushed into the less accessible parts of the country as cropping expands, which has environmental and sustainability implications. The USA beef herd is at a 60 year low, partly as a consequence of severe drought but the cost of finishing cattle has also been undermined by the high cost of crop by-products and competing markets such as bio-ethanol.

11. There are signs that climate change will also move the distribution of cattle, as the US is currently finding. Similarly, Australia is the world’s third largest exporter but is highly vulnerable to drought conditions and world commodity demand.

12. What is added-value? The UK beef industry is rightly proud of its production standards and image. However, there is no room for complacency. Commodity producers such as Brazil and Australia\textsuperscript{5} continue to develop their own health, welfare, pastoral image and environmental credentials. Brazil was particularly hit when FMD (foot and mouth disease) resulted in a ban and then by high import tariffs into the high value EU market. This highlights vulnerabilities to natural events but also the importance of robust assurance schemes.

13. CAP reform 2014-2020 is unlikely to promote a reversal of the beef sectors fortunes due to other policy priorities. The downward trend is therefore likely to continue in Wales and across the EU unless some innovative thinking is used. There is an opportunity to use Pillar 2 funding to support pre-competitive investments. As outlined above, the

\textsuperscript{2} Ireland Central Statistics Office \url{http://www.cso.ie/en/releasesandpublications/agricultureandfishing/}
\textsuperscript{3} See Farm Business Survey: \url{http://www.farmbusinesssurvey.co.uk/index.html}
\textsuperscript{5} Meat and Lamb Australia. Target 100. \url{http://www.australian-beef.com/Beef/About_Us/Environment_and_Sustainability/}
traditional style of government interventions used to protect the status-quo are simply not enough within set budget constraints.

14. Reviews of national beef sectors across the globe consistently find that their beef sectors will increasingly need to help themselves overcome challenges if they are to remain attractive for future investment. The reviews have also highlighted the need for monitoring performance indicators so that finances for possible interventions can be used effectively and efficiently.
3. THE WELSH BEEF INDUSTRY: BASELINE POSITION

This section provides a baseline for the Welsh beef industry.

3.1 PRIMARY PRODUCTION

15. Welsh beef production is significant, contributing the second highest value to Welsh agricultural output. The Welsh Government estimate that finished cattle contributed £248 million in sales and 19% of total agricultural output (2012), excluding store livestock sales\(^6\), which are themselves estimated to be worth £82 million.

16. Wales is known more for rearing rather than finishing cattle owing mainly to land quality. Figure 3.1 shows that much of Wales is improved grassland, most of which is defined as upland. It has much less rough, hill grazing than Scotland and also less high quality arable land like England and to a lesser extent Scotland.

![Figure 3.1: Land quality/usage by UK country](image)

17. Beef cows are in decline despite the finished cattle price increasing in Southern England and Wales by 18% in 5.5 years to July 2014, see Figure 3.2. This improvement has also been reflected in the store cattle market.

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Figure 3.2 – Southern England and Wales finished cattle SPOT price

Figure 3.3 shows that the Welsh suckler herd now sits at 220,000 cows, down 15% since CAP reform and subsidy decoupling in 2005. The Welsh dairy herd is experiencing a mini renaissance, but the overall trend also remains downward with the herd down 7% to 273,000 dairy cows (2+ years with/without calf).

Figure 3.3 – Welsh beef and dairy females available for breeding

There are currently no accurate figures to assess the makeup of production. Modelling work from BCMS (British Cattle Movement Service) calf registration data, summarised in Table 3.1, suggests that around 60% of calves born in Wales producing prime beef come from the suckler herd. This means dairy bred beef also has a significant part to play.
### Table 3.1 – Calves born in Wales available for prime beef production (est.)

<table>
<thead>
<tr>
<th></th>
<th>Calves bred from the beef herd</th>
<th>Calves bred from the dairy herd</th>
<th>Total female/males</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Females for meat</strong></td>
<td>23%</td>
<td>5%</td>
<td>28%</td>
</tr>
<tr>
<td><strong>Males for meat</strong></td>
<td>37%</td>
<td>35%</td>
<td>72%</td>
</tr>
<tr>
<td><strong>Total (head of livestock)</strong></td>
<td>&lt;60%</td>
<td>&gt;40%</td>
<td></td>
</tr>
<tr>
<td><strong>Total (proportion of kilos deadweight)</strong></td>
<td>&lt;65%</td>
<td>&gt;35%</td>
<td></td>
</tr>
</tbody>
</table>

Source: BCMS

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20. The suckler cow herd in particular has declined due to low profitability. The Farm Business Survey in Wales\(^7\) results do show that the average profit of Welsh beef and sheep farms over the last three years (2011, 2012 and 2013) has been positive, see Figure 3.4. Admittedly, this includes the particularly good trading year of 2011/12. However, excluding Single Payment Scheme payments results in, at best, a modest level of profit and marginal viability.

**Figure 3.4 – Average profitability of beef & sheep farms in Wales (2011-13)**

![Figure 3.4](image_url)

<table>
<thead>
<tr>
<th></th>
<th>Hill Cattle &amp; Sheep</th>
<th>Upland Cattle &amp; Sheep</th>
<th>Lowland Cattle &amp; Sheep</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Payment Scheme</td>
<td>£33,141</td>
<td>£26,848</td>
<td>£21,470</td>
</tr>
<tr>
<td>Indirect subsidy</td>
<td>£8,617</td>
<td>£4,843</td>
<td>£2,295</td>
</tr>
<tr>
<td>Other income</td>
<td>£7,994</td>
<td>£11,618</td>
<td>£16,985</td>
</tr>
<tr>
<td>Sheep output</td>
<td>£43,064</td>
<td>£40,194</td>
<td>£32,417</td>
</tr>
<tr>
<td>Beef output</td>
<td>£38,046</td>
<td>£38,056</td>
<td>£32,943</td>
</tr>
<tr>
<td>Total costs incl. rent &amp; finance</td>
<td>£99,591</td>
<td>£92,206</td>
<td>£78,090</td>
</tr>
</tbody>
</table>

Source: Farm Business Survey in Wales

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\(^7\) Wales Farm Income Booklet 2012/13 Results. (Nov 2013). Aberystwyth University.
21. While the suckler cow may not be fully responsible for low profits on upland beef and sheep farms in recent times, a high proportion of fixed costs are required to house cows. Furthermore, Welsh suckler herds are small, with a national average of 24 cows (2013). This could mean farms also lack economies of size. Admittedly there is a large difference between bottom, average and top (high profit) performing farms.

22. There is however a wide range in beef herd size in Wales but 60% of holdings have less than 20 beef cows. In contrast, the average Welsh dairy herd has grown by over a quarter to average 87 head in nine years.

23. The average size of a beef herd in Wales has remained largely unchanged since 2004 but the number of holdings with beef cows has declined. This suggests cow numbers are declining due to full herd dispersal rather than a reduction in farm herd size.

24. Many suckler cow herds are also small relative to the importance of sheep as captured in Table 3.2. Whilst there may be no direct relationship, a factor which could influence commitment to the beef industry will be the perceived contribution of cattle on individual farms.

<table>
<thead>
<tr>
<th>Dairy to beef cow ratio: 1</th>
<th>England</th>
<th>Northern Ireland</th>
<th>Scotland</th>
<th>Wales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.5</td>
<td>1.1</td>
<td>0.4</td>
<td>1.3</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ewe to beef cow ratio : 1</th>
<th>England</th>
<th>Northern Ireland</th>
<th>Scotland</th>
<th>Wales</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>3</td>
<td>7</td>
<td>25</td>
<td></td>
</tr>
</tbody>
</table>

25. Beef holdings provide part or full-time employment for the farmer, spouse and/or salaried staff. However, there are no employment multipliers available to determine the number of jobs indirectly attributed to the Welsh beef sector. In many areas, land type, infrastructure or location limits farm businesses to beef and sheep production. Therefore, beef production will be very important to rural and remote rural communities in socio-economic terms – to retain community networks, schools and rural provisions.
26. The average age of Welsh farmers is now almost 60 years of age\textsuperscript{8}. Over 65% of farmers are over 55 years of age but only 3% are 35 years old or less. There will inevitably be a number of farmer successors (primarily farmers sons and daughters) but the general trend is ageing. Overall, this will impact attitudes to change, responsiveness to change and likelihood of future investment in the sector.

27. Similar to the rest of the UK, the Welsh beef herd breeding strategy includes multiple objectives and results in a wide variance in cow type and efficiency. Nearly 60% of female genetics within the national beef herd have Limousin or Belgian/British Blue origin (pure or crossbred), see Figure 3.5. A large proportion of this is expected to originate from the dairy herd. While this can hold advantages it does complicate selection of desirable traits for sucklers.

Figure 3.5 – Non-dairy females in Wales (aged >36 months)

28. There is no clear stratified system (pyramid breeding) or any significant use of breeder units within the beef sector in Wales. This coupled with a slower biological cycle than other protein sources means genetic progress is slow. Furthermore, the majority of beef cows are mated naturally. Across the UK as little as 10% beef semen is used, with only a fraction of this on the beef herd itself.

29. Over 50% of beef and dairy cows calve between March and June. Different management systems and rates of growth help to more evenly spread availability of finished cattle than the calving pattern immediately suggests. But another large factor is the fluid movement of cattle between England and Wales.

\textsuperscript{8} Welsh Government
30. Irrespective of the source of cattle, Figure 3.6 reveals that there is a large throughput of cattle immediately prior to 30-months of age. Slower grown grassland based systems or a large proportion of pure dairy steer beef may partly explain this distribution but, based on the genetic makeup of the national beef herd, it is unlikely to be the full answer. Some of this could be attributed to traditional management and marketing practices.

Figure 3.6 – Age distribution of cattle slaughtered in Wales

31. There are 6,400 Welsh beef members in the Farm Assured Welsh Livestock (FAWL) Beef and Lamb Scheme and circa 90% of beef cows are assured under FAWL. Effectively all Welsh dairy farms are assured.

32. Farm assurance aims to instil a level of trust in production methods, health, welfare and compliance to the customer and consumer. However, over and above such standards there are currently no national programmes aimed to support improving health status (eg, BVD eradication). This means progression is limited to private schemes initiated by enthusiasts and pedigree breeders. There is consequently no competitive advantage at a national level associated with health standards.

33. Bovine TB has had a devastating effect on farm performance and morale of those directly impacted, but also the confidence of the wider sector\(^9\). This is another factor in

the decline in suckler cows over recent years. Statistics on bovine TB are available on the Welsh Government website\textsuperscript{10}.

34. The live auction system provides an important service within rural communities. It allows cattle and customers to be pooled together. Producers are considered to be small and weak sellers. Therefore the auction system is a trusted mechanism to sell in a transparent free market where there is otherwise little bargaining power. Such a system also helps minimise procurement costs for buyers, with a centralised point to visually assess and source cattle.

35. There are 35 auction markets operating in Wales and English border counties. Half of these markets handle cattle. Whilst market throughput of cull cows and bulls across the UK is 40%, only 17% of prime cattle are sold via the auction system in the UK. This is thought to be slightly higher in Wales. It is estimated that over 20% of all prime cattle born in Wales run through the live auction system. The Welsh auction system is even more important to the weaned calf and store cattle trade, where the majority of calves are sold via this method.

3.2 PROCESSING

36. The vast majority of cattle are sold on the spot market i.e. there are very few cattle sold on contract, and even fewer contracted with a known end price.

37. Figure 3.7 shows the Welsh beef slaughtering capacity is small relative to its national calf crop.

38. Its cattle processing sector is also heavily reliant on only a few processors. Over 90% of Welsh abattoir throughput is undertaken by only four abattoirs, the largest of which is St Merryn Meats Ltd., Merthyr Tydfil. St Merryn was acquired by a new entrant to cattle processing, 2 Sisters Food Group, in March 2013 from Vion as part of the latter company’s strategic programme of rationalisation.

39. There are 13 provincial abattoirs slaughtering less than 3,000 cattle per annum at March 2014 (all eligible to handle Protected Geographical Indication [PGI] Welsh Beef). These are small by today’s processing standard but are significant to rural Wales, for employment and welfare (reduced travel distances). They also provide a key function in production of beef grown from farm to fork within Wales.

40. In addition, there are 15 stand-alone beef cutting and processing plants in Wales approved to process PGI Welsh Beef. Two large Irish companies, Dawn and Dunbia, also operate packing plants in Wales. Dunbia recently invested nearly £8 million in a new processing plant in Felinfach, mid-Wales, supported by £1.8 million of Welsh Government grant funding.

3.3 MARKETS

41. Different markets require different carcase specifications. The below table provides a general indication of these types:
### Table 3.3: Typical market types and carcase specification

<table>
<thead>
<tr>
<th>Main Market</th>
<th>Target Age (months)</th>
<th>Gender</th>
<th>Carcase Weight (kg)</th>
<th>Classification (conformation &amp; fat class)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Butcher</td>
<td>16 to 24</td>
<td>Heifer, Steer</td>
<td>240-320</td>
<td>R (or better) 4L (possibly 4H)</td>
</tr>
<tr>
<td>Supermarket</td>
<td>16 to 30</td>
<td>Heifer, Steer</td>
<td>270-400</td>
<td>O+ (or better) 3 or 4L</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>12 to 30</td>
<td>Bull*, Heifer, Steer</td>
<td>260+</td>
<td>O- (or better) 3 or leaner</td>
</tr>
</tbody>
</table>

* Specific age limits apply

42. The average carcase weight across the UK has been gradually increasing. The average carcase weight of steer, heifer and young bulls was 340kg in 2013. By contrast, this was 35kg lighter only 15 years ago.

43. By conformation grade, 64% of carcases in GB were R-grade or better in 2013. By fat class, 87% of carcases in GB were between fat class 2 and 4L in 2013.

44. Welsh Beef was granted PGI status by the European Commission in November 2002. This status was granted as Welsh Beef demonstrated unique qualities. HCC has responsibility as custodians of the brand to maintain the credibility of this status, support its profile and increase access to markets.

45. Producer stipulations to be eligible to promote and sell PGI Welsh Beef include, that cattle are born and reared in Wales, must not have bred and are slaughtered and processed in PGI approved abattoirs/ cutting plants. Records must be kept at all stages of the production process to ensure traceability of the product.

46. Seven retail multiples represent 84% of all domestic beef sales (Wales & West) by volume. The leading four supermarkets account for over 70% of this volume.

47. Domestic beef and veal consumption has been reducing - 17.3kg per capita, down 0.8kg per capita on the year and down 1.2kg in 13 years. Short-term reductions will partially be a result of the recession but the longer-term trend cannot be argued.

48. The trend seen in consumer spending across GB has been for reduced consumer purchases but increased expenditure. The effect has been a net increase in consumer

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spend on beef. This trend is less apparent in Wales and West where there has been a larger drop in beef purchases and expenditure has increased by less\textsuperscript{12}.

49. There is an increasing trend towards minced beef as a value and convenient product. Beef mince sales accounts for 48\% of retail beef cuts sold in Wales and West by volume. This refers to total retail sales of fresh and frozen beef. It does not include beef burgers and processed beef for convenience foods or ready-meals eaten in the home. Furthermore consumption outside the home will also include a large percentage of burgers and other minced products. It is, therefore, likely that a higher proportion of the carcase is eaten as mince.

50. Changing consumer preferences for certain beef cuts means it is not consumed in proportion or as “whole cattle”. This can devalue the whole carcase and result in carcase balance problems for processors.

3.4 TRADE

51. The UK produced 848,000 tonnes of beef in 2013. Imports were 240,000 tonnes, whilst exports were 105,000 tonnes (12\% of production). The UK was therefore 86\% self sufficient in beef.

![Figure 3.8 – UK beef and veal trade](image)

52. UK beef imports did not decline in 2013 despite the horsemeat debacle and the resulting ‘renationalisation’ in the beef sourcing policy of major supermarket chains. This demonstrates unfulfilled demand within the whole domestic market.

\textsuperscript{12}Little Book of Meat Facts, Fig 2.5. (2014). HCC.
The Irish Republic (RoI) accounts for between 65-70% of total imports. Imports from the rest of the EU amount to 20%, whilst just over 10% is from countries outwith the EU. Despite their potential, Brazil accounted for just 2% of UK total beef imports in 2013 – deterred by large EU import tariffs and expanding markets elsewhere that have less onerous administration.

Total UK beef exports have proved very important and shown strong growth, post BSE (bovine spongiform encephalopathy) and FMD, rising to a peak of 174,000 tonnes in 2011. The increasing price of UK beef and some strengthening in the exchange rate has seen volume exports reduce to 105,000 tonnes in 2013.
4. **THE COMPETITIVENESS OF THE WELSH BEEF INDUSTRY**

55. Beef industries globally are generally struggling. If the Welsh beef industry is to halt the current decline and grow in such a difficult market place then establishing the competitiveness of the Welsh beef industry is necessary before considering the strategic options available to stimulate and achieve profitable growth.

56. Porter’s five forces analysis defines an industry’s structure, revealing how an industry “works” and creates and shares value. It explains an industry’s competitiveness and profitability. Figure 4.1 shows how the five forces interact.

**Figure 4.1 – The five forces**

![Diagram of the five forces]

4.1 **RIVALRY AMONG COMPETITORS**

57. Rivalry is generally the strongest of the five competitive forces and is especially strong in industries producing commodities (undifferentiated products) where price is everything. Rivalry is also an issue where only a limited number of firms (e.g. supermarkets) exist and the pecking order is disturbed by a new entrant (e.g. Aldi, Lidl) and situations where the market is not growing, where fixed costs are high (e.g. processors), switching costs low and the costs of exit are high.

58. Most of the competition in the Welsh beef industry exists at the producer level. Farmers often have the ability to run multiple enterprises and need to decide which should be prioritised. That is, “what to produce” is a fundamental question of production economics that constantly challenges farmers.

a. Sheep is the most common alternate enterprise to sucklers, but dairying and dairy support enterprises are increasingly important in more productive grassland areas.
b. Competition to sucklers also comes from trading beef systems. That is, where calves or stores are purchased rather than bred. Such beef systems do not tie capital up in cows and have far lower feed requirements. A suckler cow is unbeatable at converting rough pasture into meat, but is a poor converter of dry matter into meat where working with improved grassland, therefore is particularly effective in some upland and hill areas. However, trading beef enterprises can be more risky (e.g. biosecurity, prices, TB risk).

c. Agri-environment schemes (including forestry) and renewables are also competitive land uses.

59. Suckler cow premia were decoupled in 2005. This break between support and the suckler cow significantly lowered suckler cow margins. Many Welsh farmers have therefore acted rationally in reducing sucklers on their farms.

60. Despite having a strong generic brand, an absence of bovine TB, relatively high cattle prices, a relatively large number of processors and a coupled calf payment, the Scottish suckler herd has still declined by 7% since 2004. The problem is a high cost suckler system with a traditional supply chain. Finishers, buffered with large single farm payments thanks to an historic based single farm payment, have probably reflected some of this benefit in their bidding. Also, the finishing sector is quite concentrated with an increasing number of finishers aligned with processors, with prices reflecting this close relationship.

61. The Northern Irish beef industry is also under increased pressure. Their cattle prices tend to be the worst in the UK despite the good quality of much of their suckler bred beef. A major report completed by the Red Meat Industry Task Force in 2007, set out an action plan for turning around the Northern Irish beef industry. Unfortunately, despite this the suckler herd and production has continued to decline since.

62. The English probably have the most competitive beef industry in the UK. Their suckler herd has remained relatively stable despite moving to an area based single payment, plus they have a large dairy herd to draw cattle from. Finishers with access to low cost feed is also an advantage. Of course, these finishers have traditionally been keen buyers of Welsh store-cattle.

63. Around nine out of every ten cattle from the RoI are exported, with the UK accounting for around half of Irish beef exports. Given the primary importance of the UK market, Anglo-Irish processors are well established in Britain. In Wales, Dunbia (Northern Irish) and Dawn (RoI) have packing plants, with ABP (RoI) having two big abattoirs just across the Welsh border in Shropshire.
64. Beef and dairying are the key agri-food sectors in the RoI. A major review of agri-food industry\textsuperscript{13}, completed in the wake of the 2008 financial crisis, targeted a 20% growth in output value by 2020 for the beef sector, and a 50% lift in milk production by 2020. The baseline is an average of 2007/09 in both cases. The beef target has since been revised up to 40%. Progress is being made toward the dairy target despite national milk quotas still operating until March 2015, with 27% more dairy heifer calves born in 2012/13 than five year’s earlier.

65. If, as anticipated, more land moves either directly into dairy production or dairy support, dairy beef will underpin much of the future growth in Irish beef production. Recent Irish research efforts have therefore focussed on how to exploit this source and a major sexed semen trial has recently ended to help guide future advice. Not that the suckler beef sector is being complacent.

66. Finally, the 2020 review highlights the importance of working green as well as smart to drive growth. Bord Bia (the Irish Food Board) was tasked with establishing \textit{Origin Green}, a national sustainability programme, to emphasise the green credentials of Irish agriculture. To date they have completed 57,000 carbon footprints and this will be used to monitor possible improvements within the sector.

67. Beyond the EU, South America remains the most likely source of competition. However, the Hilton quota has again been under subscribed in the most recent quota year suggesting a limited threat. But with a potential trade agreement with the Mercosur countries, Brazil, Argentina and Uruguay could fill the growing preference for processing grade beef.

\textbf{4.2 BARGAINING POWER OF SUPPLIERS}

68. Given the chain involved in putting beef on the plate, the power of suppliers must be viewed at several levels;

a. Suckled calf producer either supplying yearling calf to finisher, or finishing the animal themself.

b. Dairy farmer supplying black-and-white or dairy cross calf to a rearer who, in turn, supplies to a finisher.

c. Finisher supplying finished beast to processor.

d. Processor supplying shelf ready (packed and priced) meat cuts to supermarket.

\textsuperscript{13} Food Harvest 2020. DAFF. Republic of Ireland; 2010. \url{http://www.agriculture.gov.ie/agri-foodindustry/foodharvest2020/}
e. Processor supplying carcase cuts to food service sector (restaurants, fast food, pubs, NHS, schools).

f. Processor supplying carcases to secondary processors (and craft butchers) for further maturing (typically supplying top end restaurants and gastro-pubs).

g. Processor supplying butchers for retail.

69. Welsh beef production systems are varied and range from low input suckled calf rearing off largely unimproved hill grazing to intensive finishing of housed dairy bulls. The most common system is suckled calf rearing on upland farms where most, if not all of the land, is often but not always defined as improved rather than rough, with calves sold to low ground farms for finishing. Both hill and upland suckled calf rearing are largely insensitive to supplier power. A jump in purchased feed and straw costs reflect harvest conditions not supplier power. No supplier has a monopoly on genetics, with natural service by bulls (bought from other farmers) prevalent. Of course, this practice has implications for the speed of genetic progress in the industry.

70. Low availability, rather than the cost, of replacement sucklers is also a problem for many Welsh suckler farmers given the “Holsteinification” of the dairy industry. Traditionally, Hereford cross Friesian heifers were widely available.

71. Calves from the dairy herd are a by product so genetics, again, are generally poor even for the cross breds where the main goal of the sweep bull is simply to get cows back in calf to then produce milk for sale. The modern Holstein black-and-white bull calf has limited value for beef production because of its poor growth and meat yield performance. Dairy calves often also suffer from a lack of colostrum at birth, as calf attention can be seen as a low priority for the dairy farmer.

72. Intensive beef finishing systems are more exposed to feed and forage (mainly fertiliser) costs, so their margins are more sensitive to spikes in feed and fertiliser costs. However, there is little evidence to suggest that feed and fertiliser suppliers are exploiting their power. On the plus side, some specialist finishers have access to cheap by products from the food industry, which explains why many English (and Scottish) finishers have a competitive advantage over Welsh finishers.

73. Store cattle is the key cost for beef finishers. Store cattle prices are set by traditional open market system (i.e. spot pricing), with the relationship with the finished price often out of sync. A minority of finishers are involved in integrated supply chains and may source stock priced on a formula price (e.g. cost plus basis) and be obliged to buy inputs from specific suppliers or adopt certain protocols that incur costs.
The availability of clean pasture can be a problem in TB affected areas in Wales (and England) because some production protocols demand grazing (e.g. grazing of dairy bred cattle for Waitrose).

Cattle availability has become an issue for the processing sector since subsidies were decoupled from production in Wales. Because of the high fixed cost structure of processing and tight margins, throughputs must be high to make a profit. Securing a supply hinterland is therefore important for any processor. St Merryn Meats Ltd., the largest Welsh processor, is located sufficiently close to the border and M4 to extend its catchment area beyond Wales and thereby reduce its supply risk.

Domestic cattle availability is also an issue for retailers and food service companies, though probably more so on a GB rather than Welsh level. An over-reliance on beef imports exposes their supply chains to risks from disease (e.g. FMD in Brazil), trade, exchange rate and other regulatory disputes. The recent horsemeat scandal has highlighted the importance of traceability to retailers and food service firms.

4.3 BARGAINING POWER OF BUYERS

Like “supplier power”, the power of buyers depends where in the chain you ask the question. In many instances, buyer power is simply the flipside of supplier power. The general feeling in Wales, as elsewhere in Britain, is that the big supermarkets have most power in the beef chain and this influence feeds through to the farm level via the relatively small number of largely Irish owned processors. Unfortunately, the relationship between producers, processors and retailers is generally considered adversarial in nature, though there are some notable exceptions where good working relationships based on trust between parties have been established. Wales is not alone in the largely adversarial nature of its beef industry. It is a global issue.

Do recent Welsh finished cattle prices suggest Welsh beef finishers face more powerful buyers than elsewhere in Britain and Ireland? Probably not. Figure 4.2 shows how the average steer price has changed over the past two years for three of the four pricing regions in Britain. The southern Britain red line will include Wales’ major processor St Merryn Meats Ltd. The chart suggests that apart from earlier this year, the price of good quality (-U4L) finished steers has been very similar to that in northern England. Apart from a short period in early 2013, the Scottish price has been markedly higher thanks largely to the strength of its generic brand. Though a technicality in how the price is measured does account for part of the advantage. Whilst not included, prices in both Northern Ireland and the Irish Republic are normally lower than southern England and Wales.
79. Welsh beef finishers are also at a cost disadvantage given competition from English finishers for Welsh calves, yearling suckled calves and stores. This obviously means the loss of potential PGI Welsh Beef cattle as many are finished in England. However, limiting this competition to benefit Welsh finishers would be unpopular with Welsh rearers, even if it were practically possible. Importantly, English finishers could become even more competitive as most Welsh finishers will lose Single Farm Payment as calculation moves from historical to area basis.

80. So, other things being equal (e.g. feed costs), for more suckler bred cattle to stay in Wales for finishing, Welsh cattle finishers need a premium price to outcompete non-Welsh buyers at the store sales.

4.4 REDUCING THREAT OF NEW ENTRANTS

81. The threat of new entrant is not seen to be an issue at the farm level. On the contrary, the industry wants to attract farmers into producing beef cattle.

82. Similarly, the producers fear at the Welsh beef processing level is a loss of capacity. Attracting a new entrant processor (or persuading a current firm to diversify) to kill and process cull cows would probably add value to the Welsh beef industry.

83. At the retail supermarket level, the impact of the deep discounters, Aldi and Lidl, may already be a factor affecting beef and cattle prices.

4.5 REDUCING THREAT OF SUBSTITUTES

84. Poultry meat (chicken breast) is the major competitor for beef (mince) because of its cost, consistency and versatility in modern diets. Figure 4.3 shows how the average Britain now eats almost twice as much poultry meat as beef. Table 4.1 captures some of the factors that make poultry meat so competitive.
Figure 4.3 – UK beef and poultry meat consumption

Table 4.1 – Why poultry is so competitive

<table>
<thead>
<tr>
<th></th>
<th>Poultry</th>
<th>Beef</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Meat Yield</strong></td>
<td>38% (22% breast)</td>
<td>41%</td>
</tr>
<tr>
<td><strong>Eating Quality</strong></td>
<td>Bland but consistent</td>
<td>Highly variable</td>
</tr>
<tr>
<td><strong>Production Cycle</strong></td>
<td>35 to 42 days</td>
<td>365 to 730 days</td>
</tr>
<tr>
<td><strong>Feed Conversion Ratio (FCR) (grain)</strong></td>
<td>1kg lwt to 1.6 kg grain</td>
<td>1kg lwt to 6kg grain</td>
</tr>
<tr>
<td><strong>Exploitation of genetics</strong></td>
<td>Exceptional</td>
<td>Limited</td>
</tr>
<tr>
<td><strong>Cost of Production</strong></td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td><strong>Sensitivity to grain price</strong></td>
<td>High</td>
<td>High given availability of grass and forage</td>
</tr>
<tr>
<td><strong>Supply chain efficiency</strong></td>
<td>Highly Integrated</td>
<td>Poor</td>
</tr>
<tr>
<td><strong>Carbon Footprint</strong></td>
<td>2CO₂/ t</td>
<td>20CO₂/ t</td>
</tr>
</tbody>
</table>
85. Poultry meat and pigmeat are also finding favour in the new meat based manufactured meal solutions because of cost and versatility. The horsemeat scandal continues to undermine the budget end of the burger market, whereas demand for premium burgers is good.

86. High quality steak and, to a lesser extent, prime roasting joints are less exposed. However, these cuts comprise only a small proportion of a carcase. Furthermore, consistency of eating quality remains very variable, a barrier to encouraging consumers to pay premium prices.

87. Fish and meat substitute (e.g. Quorn) products are also ready substitutes. High beef prices provide a real incentive to develop “artificial mince”.
5. IMPROVING WELSH COMPETITIVENESS

88. The Welsh beef industry competes in a tough marketplace. Not just with the beef industries of neighbouring countries, but as importantly, with other industries within Wales that use land, labour and capital. Analysis in the previous section identifies reasons for the recent decline in the Welsh beef industry. If it is to arrest, let alone reverse this decline, the Welsh beef industry must become more competitive.

89. This section explains the actions that can be taken at farm level to improve competitiveness. It considers why much better supply chain collaboration between farmers, processors and retailers is critical to future success; how the Welsh Government through its policy levers can play a central role in lifting the competitiveness of the industry; and how the Welsh beef industry must take a strategic and highly focussed approach and work together across the supply chain to make it work.

5.1 RAISING FARM LEVEL PRODUCTIVITY

90. The Welsh beef industry is largely built on Welsh cattle production, with most cattle coming from the suckler herd. Yet as explained in 4.1, suckler production is generally less profitable than alternative farm enterprises. Unless suckler production is sufficiently attractive financially either as a stand alone enterprise, or as a complementary enterprise with sheep, the Welsh suckler herd will continue to decline. What drives suckler profitability?

91. Table 5.1 summarises the performance for Scottish suckler herds selling yearling calves while Table 5.2 summarises Welsh suckler calf production costs for 2012/13 as stated in the Wales Farm Income Booklet.
Table 5.1 – Scottish uplands herds selling yearlings (2013)

<table>
<thead>
<tr>
<th></th>
<th>Bottom Third</th>
<th>Average</th>
<th>Top Third</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost of production</strong> (£ per 100 cows)</td>
<td>£92,700</td>
<td>£85,200</td>
<td>£72,000</td>
</tr>
<tr>
<td><strong>Calf weight produced</strong> (kg LWT per 100 cows)</td>
<td>30,500 kg</td>
<td>32,400 kg</td>
<td>33,200 kg</td>
</tr>
<tr>
<td><strong>Cost of production</strong> (p/ kg produced)</td>
<td>304 p</td>
<td>263 p</td>
<td>217 p</td>
</tr>
<tr>
<td><strong>Calf output</strong> (p/kg produced)</td>
<td>214 p</td>
<td>217 p</td>
<td>226 p</td>
</tr>
<tr>
<td><strong>Net margin 2013</strong> (p/ kg produced)</td>
<td>-90 p</td>
<td>-46 p</td>
<td>+9 p</td>
</tr>
<tr>
<td><strong>Net margin 2012</strong> (p/kg produced)</td>
<td>-72 p</td>
<td>-18 p</td>
<td>+16 p</td>
</tr>
</tbody>
</table>

Source: QMS

Table 5.2 - 2012/13 Welsh beef production costs – Suckled calf to weaning

<table>
<thead>
<tr>
<th></th>
<th>Bottom Third</th>
<th>Average</th>
<th>Top Third</th>
</tr>
</thead>
<tbody>
<tr>
<td>p per kg liveweight</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total variable costs</strong></td>
<td>138.42</td>
<td>98.32</td>
<td>67.60</td>
</tr>
<tr>
<td><strong>Herd replacement</strong></td>
<td>5.58</td>
<td>4.34</td>
<td>1.17</td>
</tr>
<tr>
<td><strong>Total overheads costs</strong></td>
<td>212.11</td>
<td>160.52</td>
<td>106.84</td>
</tr>
<tr>
<td><strong>Total costs</strong></td>
<td>356.11</td>
<td>263.18</td>
<td>175.61</td>
</tr>
<tr>
<td><strong>Net margin</strong></td>
<td>-211.26</td>
<td>-108.42</td>
<td>-20.01</td>
</tr>
<tr>
<td><strong>Weight of weaned calf produced per 100 cows (kg)</strong></td>
<td>24,820</td>
<td>26,550</td>
<td>28,430</td>
</tr>
</tbody>
</table>

Source: Wales Farm Income Booklet 2012/13, Farm Business Survey in Wales
92. Only the top third of Scottish upland herds selling yearlings made a positive margin in both 2012 and 2013. Calf output reflects the general market price which, by implication, can vary only to a limited extent between producers. Therefore, it is cost of production that has the overwhelming effect on suckler cow margins. This is highlighted with the Welsh production cost figures. The following factors drive cost of production:

a. Cow efficiency measures the ratio between the weight of calves to cows at weaning time. The best Welsh suckler herds are achieving 60% (for example, 430kg x 90% weaned divided by 640kg). Yet the national average is estimated to lie in the low 40%'s. Poor cow efficiency results from a combination of;

i. Low calving percentage.

ii. An extended calving pattern.

iii. Low calf growth rates off pasture caused by poor grazing management and inferior genetics.

iv. Big cows.

b. Concentrate feed costs are high where large amounts of purchased (or home grown grain) are fed. Farms that minimise concentrate usage tend to;

i. Grow high levels of pasture through attention to soil fertility and retention of productive pastures.

ii. Utilise a high proportion of pasture grown through use of controlled grazing management techniques and making quality silage.

iii. Use a cow with the capacity to flesh easily.

c. Minimise cow maintenance and bedding costs through a combination of;

i. Reducing the tonnage of silage harvested.

ii. Spring calving (to minimise winter feed requirements).

iii. Use of forages crops and/or deferred grazing.

iv. Strategic use of rough grazing.

v. Running a smaller, hardier cow that can add condition through late lactation with which to buffer winter feed requirements.

d. Keeping machinery, contracting and energy costs low through minimising silage making and feeding out costs.
93. It is important to stress that there is no single ideal suckler system. Nonetheless, the most successful producers tend to achieve above average levels of production (tonnage of liveweight produced) with cost structures that are not only lower per se, but are less exposed to volatile grain, fertiliser and straw prices.

94. Historically, most Welsh beef would have come from the Welsh dairy herd. The tethered multiple suckler system buying week old cross-bred calves was very popular and productive with a cow typically rearing three to five calves annually including her own. This system was superseded by bucket rearing, which in principle was even better given no land was tied up in capital stock (i.e. cows). However, the popularity of this system was undermined by the inconsistent availability of suitably bred healthy calves, fluctuating calf price, cost of milk powder and good management especially in the early stages. Generous support for the suckler cow also tipped the balance in favour of suckler production.

95. The argument for dairy beef is even stronger today given the removal of coupled suckler payments. On many Welsh marginal lowland and upland farms, often ex-dairy, production per hectare is a critical driver of profitability. The trick is coming up with dairy beef systems that provide this productivity, but are less risky. Integrated dairy beef models, like Blade Farming\textsuperscript{14} (see 5.3), aim to combine profitability with a lower capital requirement and less risk. The 2007 Northern Ireland Red Meat Industry Task Force also produced an excellent guide\textsuperscript{15} for two alternative dairy beef systems finishing dairy crosses and purebreds (plus a dairy beef calf rearing guide), which are very applicable to the Welsh situation.

96. A substantial number of cattle are already finished in Wales. But given the number sold to non-Welsh finishers as calves, suckled calves and stores, there is opportunity to finish far more in Wales hence lifting the tonnage of PGI Welsh Beef produced. A recent guide to beef finishing was published by HCC\textsuperscript{16} and details the management needed to profitably finish cattle from all origins.

97. Two important drivers of profitable beef farming cross-cut all beef production systems and must be highlighted.

a. Genetics and breeding – the long term productivity of any livestock industry is underpinned by genetics as best demonstrated by poultry production. There are

\textsuperscript{14} Blade Farming website; http://www.blade-farming.com/

\textsuperscript{15} Finishing dairy-origin beef blueprint can be found via the following link, http://www.afbini.gov.uk/index/publications/featured-publications/featured-pub-finishing-dairy-origin-beef-blueprint.htm

\textsuperscript{16} Beef finishing systems: options for beef farms in Wales. HCC (2014).
already some excellent examples of initiatives to improve the genetic quality of beef cattle (e.g. Dovecote Park provision of superior beef genetics to Waitrose dairy farmers, the Stabilizer net feed efficiency trial, Asda/ABP BeefLink farmers getting access of Stabilizer sexed semen at reduced costs). But all Welsh cattle farmers need the benefits of better genetics and fertility which probably requires a national scheme similar to that introduced in the Irish Republic (see 5.4) and wider take up of technologies like sexed semen in the national dairy herd.

b. Health – bovine TB remains a major threat to the future of the Welsh industry and its eradication remains the top cattle health priority. However, there are also other major health problems that reduce the productivity and profitability of Welsh beef enterprises. Developing national schemes to reduce the incidence of the key diseases, like Johne’s, BVD and IBR (infectious bovine rhinotracheitis), would therefore be sensible.

5.2 IMPROVING PROCESSING AND LOGISTICS EFFICIENCIES

98. It was beyond the scope of this project to review efficiencies in the processing, haulage and logistics part of the supply chain. However, good practice in this part of the Welsh beef supply chain is obviously critical.

5.3 TURNING SUPPLY CHAINS INTO VALUE CHAINS

99. Even if the performance of Welsh beef producers improves markedly and, assuming Welsh processing efficiency is equally good, that is still unlikely to result in a successful, growing Welsh beef industry. As important, is how the supply chain of producers, processors and retailers work together, to deliver a product that the customer values and trusts. The latter is especially important in the wake of last year’s horsemeat scandal. McDonald’s was the only company that could prove the integrity of its meat supply chain thanks to its detailed traceability programme.

100. It would suggest that processors and retailers need to be part of the solution. The Welsh beef industry, like most elsewhere in the world, is based on adversarial supply chains where there is generally little trust between farmers, processors and retailers. However, Wales has some excellent examples of where collaboration between willing parties has resulted in all parts of the chain benefiting in terms of pricing, traceability, consistency of supply and quality.

a. **Waitrose Welsh Black beef** – a group of 50 Welsh Black farmers coordinate their combined production base to supply cattle throughout the year to Waitrose with the cattle killed locally at Randall Parker Foods, Llanidloes and further processed at
Dovecote Park. Farmer, Rob Powell, liaises weekly with Dovecote Park to discuss cattle availability, price, quality and provenance issues. There is also an annual review to agree longer term goals.

b. Celtic Pride – in the past decade, this Welsh company has developed a cattle supply base in Wales to meet its markets that include; local authorities, the NHS, the Welsh Government, a major pub chain and top end restaurants. Cattle are only sourced from Welsh farms that are members of the Welsh Meat Cooperative and meet a defined production system that includes feeding a finishing concentrate formulated to improve meat eating quality. The cattle are killed in local abattoirs and meat matured at Castell Howell Foods Ltd, Cross Hands.

c. Blade Farming – this business is now part of ABP and is perhaps the best known example of a collaborative beef value chain. Cattle are effectively produced to order with hindquarters to retail (including Tesco), fillets to restaurants and forequarters to McDonald’s. To get consistent meat quality, Blade controls the genetics and production systems used, working with farmers on a contractual basis. Most of its cattle are sourced from the dairy herd and Blade operates across the UK.

d. Morrisons / Stabilizer Beef improvement Group (BIG) – Morrisons and BIG formed a strategic alliance to improve the consistency of eating quality of British beef. In addition, BIG is currently running a trial to identify the most feed efficient bloodlines to lower the cost of sucker produced beef. While like Blade it operates across Britain, quite a number of Welsh producers are involved.

101. What attributes do these schemes and initiatives often share?

a. They are customer focussed. Beef cannot compete with poultry meat on cost, but it can on eating quality. However, its consistency can be very variable. These schemes focus on providing consistent quality at a cost that leaves margins for all in the chain.

b. Communication is a high priority. Not only do producers have a clear “line-of-sight” with the end market, processors and retailers know what’s in the production line and how it is being produced. That is, information flows both ways.

c. The parties trust each other. Contracts are rarely written, but based on relationships built on trust. So participants need the right attitude. This is especially important at the producer level given that there are normally many farmers involved. Being a team player with a capacity to see the bigger picture is essential.

d. Always looking to improve. Retailers often encourage good practice not only to ensure production of a consistent quality, but to develop loyalty. Exchange programmes are often supported to discuss and disseminate best practice.
e. Seek to take out transaction costs. Generally this means configuring the chain to remove wasted time and effort; for instance, the cost of negotiating prices each week individually with producers, checking quality or taking delivery of half full loads. Producers are generally encouraged to know their own costs of production so that they can benchmark against others to look for opportunities to lower their own cost of production. It also allows the producers representative to negotiate better with the rest of the chain. Reducing transaction costs is far easier in collaborative.

f. Pricing often moves beyond the normal spot trading arrangement. For instance, some chains buffered producers from the full extent of the recent collapse in finished cattle price. Blade offers farmers a range of pricing options. Farmers are encouraged to know their own cost of production as a basis for negotiating prices and benchmarking to drive improvement.

102. Yet most Welsh cattle will continue to pass through the traditional supply chain for the foreseeable future. With many of these cattle finished, slaughtered and processed outside Wales and labelled as British beef. What broad measures can be developed with his supply chain to add value to the Welsh beef industry?

a. Clearer communication of target markets to producers. There are a range of end markets. However, it was apparent from interviewing stakeholders that “quality” is very much in the eye of the beholder and there remains a poor line-of-sight with the end market for many using the traditional supply chain that sell through the live ring. Processors generally want smaller carcases with less extreme backends. Given the long production cycle of beef, market requirements must be clear and consistent to prevent the creation of bad feeling between farmers and processors. It is questionable as to whether the current EUROP grading system is fit for purpose, though obviously this is an issue that extends beyond Wales.

b. Genetic progress has been the cornerstone of the poultry industries success in the past 50 years. While there are downsides to how genetics have been developed in the poultry industry, the Welsh beef industry should agree and introduce a strategy that exploits the exciting genomic technologies now available. Both the Welsh Government and HCC have important roles to play in this progress.

c. Similarly, the long term success of the Welsh beef industry can be enhanced by targeting the major health problems affecting cattle. Bovine TB, of course, is a massive problem and it is hoped that the recent good news is the start of a welcome trend and not a blip. Yet there are other diseases – notably Johne’s, BVD and IBR – that continue in the Welsh herd at levels well above those possible with a coordinated national effort.
Much good work to improve the quality of Welsh cattle has occurred in the past. The Brecon & Radnor suckled calf sales, which were established to present English and Scottish finishers with cattle they could buy with confidence, is an excellent example of previous efforts of coordinated industry action. Building upon and further developing these past initiatives must be a priority.

5.4 WELSH GOVERNMENT ACTION

Value creation should dictate where the Welsh Government targets its efforts and funding. The recently published Action Plan for the Food and Drink Industry in Wales 2014-2020 has an overall target of growing the industry by 30% to £7 billion by 2020. The Welsh beef industry will therefore need to demonstrate the long term return to the Welsh economy if it is to gain the government’s support. Furthermore, government action should only be targeted where there is outright market failure (e.g. the provision of public goods), or the market needs help to work better. Various initiatives are being used in other countries to support their beef industries and their experiences are drawn on below.

Direct support, via a coupled calf payment as in Scotland, was suggested by some stakeholders as the only way to underpin the suckler herd in Wales. The inference being that the farmers need a payment to make suckler margins competitive with alternative enterprises. However, this would be expensive and, because it is a Pillar 1 scheme, means taking money from other farm sectors. Several stakeholders pointed this out and were therefore against coupled payments. When the then farm minister, Alun Davies, announced the Welsh Government’s position on direct payments in January 2014, there was a clear statement that “there will be no coupled support scheme in Wales”.

Scotland does plan to use Pillar 1 to support a much higher two level suckled calf payment (€160 per calf on the Scottish islands and €100 elsewhere), the argument being that the suckler herd and dependent processing sector is too important to fail. Yet based on recent costings even at these levels many Scottish suckler herds will not break even. Hence, perhaps why the Scottish Government is also allocating £45 million between 2014-2020 to the beef sector. Though still unclear exactly how this funding will be spent, a significant sum will be used to incentivise farmers to submit breeding information to a centralised database. The balance being used for knowledge transfer projects. Though the Scottish Government has underpinned a successful BVD eradication scheme over the past few years, this funding appears to be tailing off.

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By comparison, the Irish government are not offering a coupled payment but are attempting to address the underlying competitiveness of its beef industry through using Pillar 2 money via three schemes:

a. The Beef Genomics Scheme aims to improve the genetics and help eradicate BVD in the national suckler herd through paying farmers to genotype selected animals.

b. The Beef Data Programme also targets genetic improvement of the national suckler herd by paying farmers to submit breeding and production information.

c. The Beef Technology Adoption Programme effectively promotes farmer discussion groups formed to improve beef sector performance and insists on the collection of key production data.

These Irish schemes and their forerunners provide Teagasc (the Irish advisory service) and Bord Bia (the food promotion body) with data that can be used to help estimate key economic and environmental performance indicators for the Irish beef industry and target future efforts. Table 5.3 shows a recent report.

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### Table 5.3 – Irish Republic beef calving statistics

<table>
<thead>
<tr>
<th>Key Performance Indicators</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average Calving Interval (days)</strong></td>
<td>406</td>
<td>407</td>
<td>396</td>
<td>395</td>
<td>412</td>
</tr>
<tr>
<td><strong>Dead at Birth (%)</strong></td>
<td>4.8</td>
<td>4.95</td>
<td>5</td>
<td>4.7</td>
<td>4.5</td>
</tr>
<tr>
<td><strong>Dead at 28 days (%)</strong></td>
<td>6</td>
<td>5.83</td>
<td>6.12</td>
<td>6.1</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>Calves per Cow per Year</strong></td>
<td>0.78</td>
<td>0.79</td>
<td>0.85</td>
<td>0.83</td>
<td>0.79</td>
</tr>
<tr>
<td><strong>Heifers calved 22-26 months of age (%)</strong></td>
<td>N/A</td>
<td>12</td>
<td>16</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td><strong>Females not calved in period (%)</strong></td>
<td>14.2</td>
<td>13</td>
<td>8</td>
<td>10</td>
<td>13</td>
</tr>
<tr>
<td><strong>Cows Culled (%)</strong></td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>21</td>
</tr>
<tr>
<td><strong>Recycled Cows (%)</strong></td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>26</td>
</tr>
<tr>
<td><strong>Avg. No. Calvings per Cow</strong></td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>Births with Known Sire (%)</strong></td>
<td>75</td>
<td>75</td>
<td>72</td>
<td>61</td>
<td>63</td>
</tr>
<tr>
<td><strong>Births with Calving Survey Data (%)</strong></td>
<td>79</td>
<td>77</td>
<td>75</td>
<td>61</td>
<td>64</td>
</tr>
<tr>
<td><strong>Births with a Difficult Calving (%)</strong></td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>3.9</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>AI Bred Calves (%)</strong></td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>23</td>
</tr>
</tbody>
</table>

*Source: Teagasc. N/A = Stats not generated for these years*

109. The Irish do not have all the answers. Their cattle prices are among the worst in the EU largely because they are heavily export orientated. Nevertheless, their coordinated and forward thinking approach to improving competitiveness has much merit. For instance, aware that the removal of milk quotas in 2015 would probably result in a large increase in the national dairy herd, a large scale sexed semen trial was organised to help improve the usefulness of the resultant dairy crossbred calves for the Irish beef industry.

110. While the above Irish schemes require submission of data or samples to draw down funding, the more traditional approach is to incentivise take up of technologies and better ways of working by reducing the cost (i.e. grant assistance). Table 5.4 summarises what could be supported.
Grant funding in the form of significant capital investment in previous programmes has previously been made available in other countries within the UK but not in Wales. There is an opportunity under the Rural Development Plan for Wales 2014 – 2020 for this to be corrected with intervention to introduce incentives as well as knowledge exchange which supports the sustainable development of the Welsh beef sector.

**Table 5.4 – Grant funding options**

<table>
<thead>
<tr>
<th>Category</th>
<th>Measure (list not exhaustive)</th>
<th>Cost per unit</th>
</tr>
</thead>
</table>
| Diagnostics             | Soil test  
Plant and forage analysis  
Post mortems  
Blood tests (e.g. BVD)  
Genomic and DNA testing  
Animal health plans  
Dung tests (e.g. for worms, fluke) | Low           |
| Skills Training         | For example:  
Feed budgeting  
Body Condition Scoring  
Grazing management  
Health planning  
IT | Low/ medium      |
| Smart Technology        | EID tag readers  
Data recorders  
Rising plate meters  
Energy meters  
Sector software including apps | Medium        |
| Equipment               | Cruses  
Electronic weigh scales  
Calf catchers (for outdoor tagging) | Medium        |
| Supply Chain Coordination | Support for coordination, cooperation and collaboration between producers, processors and retailers | Medium to high |

To get good take up, the grant scheme must be accessible and administratively robust. Most measures should not need prior application, simply proof of purchase through a receipt when claiming. However, big grant measures aimed at improving collaboration...
and supply chain initiatives will need a rigorous application, approval, monitoring and evaluation process. The New Zealanders Primary Growth Partnership scheme is a useful model and can be found at [http://www.mpi.govt.nz/agriculture/funding-programmes/primary-growth-partnership.aspx](http://www.mpi.govt.nz/agriculture/funding-programmes/primary-growth-partnership.aspx). But the scheme is not without criticism in terms of evaluation.

113. Finally, it is debatable whether Pillar 2 grant schemes should be targeted at beef cattle, specifically suckler bred animals. There is a strong argument for making such schemes broad to encourage the best use of resources within the beef sector and Welsh agriculture in general.

114. Glastir is the Welsh Government’s land management scheme through which most Pillar 2 funding will be accessed by Welsh farmers. As in England, this scheme now includes funding previously targeted directly at supporting suckled beef (and sheep) production via the Tir Mynydd scheme. By comparison, Scotland and Ireland still indirectly support their suckler beef producers through the Less Favoured Area Support scheme.

115. In order that Glastir can successfully encourage farmers to keep suckler cows on Welsh hills and uplands to improve biodiversity, access and landscape management, urgent action is necessary to review the requirements and simplify the scheme rules.

116. Mixed grazing regimes play a key role in maintaining the uplands and provide a production base from land that would not otherwise yield returns. The role that cattle play in the landscape management and in production of clean pasture through the reduction of parasite burdens must not be underestimated.

117. Though not directly targeted at supporting Irish suckler beef production, *Origin Green*[^19] has recently been introduced by the Irish government to promote the sustainability of its agri-food industries. By asking Irish farmers to submit details of their farm business, a carbon footprint is produced to help promote the sustainability of its production. The New Zealanders are also encouraging use of carbon footprinting tools to improve on-farm practices and promote sales, though this is a private sector initiative. Alliance, a farmer owned processor, which sells lamb through M&S and Sainsbury uses *Hoofprint*[^20].

118. A final option that may be available to the Welsh Government to help the beef industry can be found in the new single common market operation (CMO) regulation. Primarily aimed at simplifying how intervention and emergency help operates, it also allows the establishment of producer groups and enforcement of supply chain contracts. Primarily


targeted at giving farmers a stronger bargaining position over prices. However, forcing farmer co-ops and contracts onto the beef industry seems more likely to reduce rather than build trust.

119. Welsh Government funding for Welsh agriculture is limited. It is therefore important that it is consistent with other farm, environmental and wider economic policies. The change in Pillar 1 to broad area payments over the next five years is consistent with allowing Welsh farming to respond to market signals and supporting knowledge transfer. The substantial contribution that the red meat sector makes to Welsh agricultural output means that there is a strong case for targeting help at specific sectors whilst maintaining generic support for other sectors.

120. Structural funding to help economic development in West Wales and the South Wales valleys, is also available to the Welsh Government. This funding has and is being used to help the Welsh meat industry beyond the farm gate. While much of this is targeted at capital funding (e.g. Castell Howell’s new processing plant in Cross Hands), exploring how this could be used to improve processing efficiencies, new product development, develop the skills base and better supply chain integration within the Welsh beef industry would be worthwhile. Of course, industry should be expected to at least match this funding. It is perhaps telling that in Denmark, with one of the most productive and profitable agri-food industries in the world, research and development (R&D) and technology transfer is largely self-funded.

5.5 THE ROLE OF THE WELSH BEEF INDUSTRY

121. The success of any interventions that can influence the future of the beef industry in Wales will require a highly focussed and co-ordinated approach right across the beef industry. As the statutory body HCC is responsible for the marketing and promotion of red meat from Wales and to support the development of the industry. In fulfilling this remit, HCC works with the entire Welsh beef industry from primary producers and processors through to exporters, retailers and food service providers. This offers the industry an established platform upon which to build an action plan for the Welsh beef sector. In calling for this independent review of the Welsh beef sector, HCC has already demonstrated its leadership in this area.

122. However, the funds available for helping the beef industry from Welsh Red Meat Levy are limited, with only around £725,000 in 2013/14 raised from beef levies owing to most Welsh cattle being killed in England. This means that efforts must be carefully targeted, giving the industry the support to create value. HCC and the Welsh Government must consider ways to address the levy inequity on beef, but notwithstanding that, additional complementary funding would need to be secured in order to establish mechanisms that can support the changes needed to sustain a viable beef sector in Wales. The following priorities are suggested.
Market research – the Welsh beef industry needs a clearer picture on what its markets are and how successfully these are currently being penetrated. Too much emphasis on the premium end of the market can result in wasted opportunities elsewhere in the marketplace.

a. Rabobank\textsuperscript{21} recently analysed the changing way Americans eat their beef. Not only are they eating much less beef but they have switched to lower priced beef cuts. Rabobank estimates that minced beef now accounts for 62\% of beef consumption. Given this change in demand, it was suggested that the US beef industry adapts to better meet this demand. The move to eating more beef in processed forms like beef burgers is almost certainly mirrored in the UK.

Therefore, opportunities for encouraging the retention of Welsh cull cows and dairy beef calves in Wales for converting into value added beef products manufactured in Wales should by examined. It is regrettable how Britain exports a significant tonnage of “low quality” cull cow beef to the Netherlands and Ireland, which is subsequently imported back as added value products.

It should be stressed that the eating quality of beef from the dairy herd is not necessarily low quality. Meat from Holsteins naturally marbles. Crossed with the likes of Angus, eating quality can be excellent. Bovine TB rules also mean that, in some respects, housed dairy beef are currently less risky to farm than grazed animals. However, perhaps only when grain is cheap and the chain with finishers and processors robust.

b. The value added by PGI status was questioned by some stakeholders. To be blunt, the suggestion is that generically branded Welsh beef has no premium outside of Wales that can feedback through the supply chain to Welsh producers. If that is the current situation, what needs to change?

But there is a premium for Welsh beef sold within Wales as demonstrated by Waitrose’s Welsh Black beef. Is this home market of 3.1 million being fully met? If not, how much might it be worth to the Welsh beef industry?

c. Cross border live sales account for 72\% of prime Welsh born cattle as either baby (dairy) calves, suckled calves or forward stores. What are the benefits to Welsh producers and livestock markets of raising the genetics, health status and provenance of these animals?

\textsuperscript{21} Ground beef nation: the effect of changing consumer tastes and preferences on the US cattle industry. Rabobank AgFocus (2014).
d. The value of the fifth quarter (organs, hides, blood, etc.) has grown sharply in recent years, as their use in high value products like health treatments has risen. FoodPlus\textsuperscript{22} is a seven year publicly supported New Zealand project to generate more value from the fifth quarter of the beef animal. It would seem apparent that the same opportunity is there for the Welsh beef industry.

124. Measurement and evaluation – making sure that the Welsh beef industry remains on track to meet its long term strategy is key. Measurement systems must be well designed to provide accurate, quick feedback at an affordable cost. Where should this effort be focussed?

a. The current grading system is not fit for purpose but it is, just about, a common system across Britain. Though maybe not for much longer given ABP’s recent announcement to introduce VIA scanners at all its GB plants. It is understood that the technology is not without its faults in measuring meat yield (fatness the problem) and does nothing to reward eating quality. HCC, as the industry body representing producers and processors in Wales, must play a key role (probably in association with the other levy boards) in evaluating the merits of new grading systems to ensure that they incentivise chain improvement, not hinder it.

b. As suggested above, success depends on knowing your markets. It is appreciated that given the two way flow of cattle and beef across the Welsh border, monitoring the marketplace is difficult. Section 3 of this report could only yield a general picture. More work is needed to better quantify this trans-border stock movement.

c. The direct link between farm level productivity and profitability was highlighted earlier in the report. While it is estimated that there remains plenty of scope to lift productivity, this assessment needs confirmation. Producing farm enterprise costings is expensive and though there may be scope to develop the Farm Business Survey in Wales\textsuperscript{23} toward this end, incentivising cattle farmers to generate their own benchmarks (e.g. cow efficiency) may be more prudent. The problem of farmers not

\textsuperscript{22} Ministry of Primary Industries, New Zealand.


\textsuperscript{23} The Australian’s calculate changes in the Total Factor Productivity from their equivalent of the Farm Business Survey. The following link is to latest report on their beef farms.

knowing their costs of production is not specific to Wales. But that is not an excuse for keeping it that way.

d. An alternative way to collecting national production level KPIs (key performance indicators) is to take the Irish approach and to compensate farmers for supplying information via Pillar 2. Table 5.3 shows the invaluable fertility benchmarks the Irish beef industry have available. The establishment of a central national database collating health, breeding, production and environmental data should be considered. The role that this can also play in supporting the marketing, traceability and quality of PGI Welsh Beef should also be considered.

e. The BCMS database is also a resource that could be better used. The benefits across Britain for traceability, genetic improvement and predicting market supply would be considerable, especially if EID is incorporated. As a GB level resource, the UK levy boards should champion this on behalf of the beef industry.

f. Finally, regulatory creep is a major issue at all levels of the industry. Given last year’s horsemeat scandal, it should not be a surprise that convincing governments to adopt a light touch, risk based approach, is currently difficult. That is, unless the industry can implement evaluation systems that produce suitable evidence.

R&D and technology transfer – support for R&D and the dissemination of technology transfer and best practice is crucial.

125 a. Farming Connect is Wales’ mechanism for providing knowledge transfer across Welsh farming. As the red meat levy body, HCC supports R&D programmes and provides specialist sector specific support not only to beef producers but to businesses throughout the supply chain. As the Irish have demonstrated over the past six years despite austerity, coordinating sector specific efforts is the best way to spread new technologies and ways of working. There should therefore be a sector specific element of knowledge transfer and R&D programmes dedicated to ensuring the beef sector in Wales continues and develops its ability to produce what the market requires.

b. Helping drive efficiency gains at the supply chain level is more problematic because of commercial sensitivities. However, there is good reason to encourage efficiencies at the chain level to create joined up “value chains”. This is especially so for smaller, regional businesses. Cardiff Business School explored this a decade ago through the Red Meat Industry Forum24 in promoting the likes of lean thinking to drive value chains.

24 RMIF work can be found via below link.

http://www.foodchaincentre.com/subtype.asp?type=1&subtype=6
6. PUTTING IT ALL TOGETHER

According to Porter\textsuperscript{25}, “strategy means deliberately choosing a different set of activities to deliver a unique mix of value”. For a beef industry, being utterly unique is impossible. However, it should be possible to develop and grow markets based on playing to your strengths and addressing your weaknesses. The Welsh beef industry is no doubt badly handicapped by endemic bovine TB. Nevertheless, there is plenty that could be done to get the industry moving forward again.

The previous chapter set out a broad suite of actions that could result in a stronger beef industry. It is up to HCC, in consultation with all of the other key stakeholders in the industry, to fit these actions together to form a winning strategy that everybody in the Welsh beef industry can get behind. Below, two broad strategies unlikely to succeed are outlined before suggesting one that holds more promise.

**STRATEGY 1 (THE LAISSEZ-FAIRE APPROACH)**

Against the backdrop of most Welsh farmers single farm payments declining over the next five years thanks to the switch to area based payments, the likelihood is a continued contraction in the Welsh beef industry. The current mix of a largely adversary based beef supply chain with no direct government support for beef means only the most productive and cost efficient beef farmers will maintain beef numbers. Farmer decision making would be largely market driven and likely favour sheep, dairying and dairy support enterprises.

That said, almost certainly need would drive some expansion in the number of cattle moving through more collaborative supply chains. Lower cattle numbers will put pressure on the processing sector and ultimately could force further rationalisation. As for the environment, the positive benefits, like biodiversity, from cow grazing, would be further eroded.

Would the overall performance and output of Welsh agriculture decline? Not necessarily, though given the likely volatility in the milk market post the end of quotas and sensitivity of lamb price to relatively small changes in production, reducing Welsh beef output would leave the Welsh agricultural industry a two rather than three legged stool and much riskier as a result.

**STRATEGY 2 (THE REGULATED APPROACH)**

The early 1990’s was heavily regulated in favour of the beef industry across the EU. Oddly, because the European beef industry had major overproduction problems, it was allocated exceptional rates of support through three coupled premia plus direct support

via the Hill Compensatory Livestock Allowances. Beef farming became more attractive (as did bigger cows), processors enjoyed an abundance of supply with no need to cultivate their relationship with farmers. Meanwhile, the customer remained at the end rather than start of the chain. The unsustainability of this regime resulted in decoupling of support in 2005, farm systems shaped more by market forces plus more support for the agri-environment.

132. Of course, a return to the heavy regulation of the 1990’s is extremely unlikely owing to cost and, as implied above, unlikely to result in a competitive Welsh beef industry. Yet regulation will play a role as explained in the final strategy.

**STRATEGY 3 (THE HYBRID APPROACH)**

133. The final strategy aims to produce a Welsh beef industry that is very market orientated, competitive and adding value to the Welsh economy and environment. Yet accepting that to achieve such a state will require targeted intervention and plenty of collaboration. What would this beef industry look like?

a. At the heart of the industry would be a productive national suckler herd. Producing beef cost effectively, of high eating quality with a great back story that means PGI Welsh Beef has more impact in markets beyond Wales. In addition, the herd would produce suckled calves, stores and breeding stock that farmers outwith Wales can buy with confidence and at a premium.

b. A much greater contribution from dairy herd. As in most countries, this source of beef is generally overlooked and under exploited. New technologies mean that a higher share of the calf crop can carry the best beef genetics. Given the relatively small size of Welsh drystock farms, dairy beef is a far more efficient way of converting pasture dry matter into beef. Moreover, concerns with the quality of beef from even pure breds are overstated, especially as much of it is minced.

c. Slaughtering more cattle in Wales to ensure more jobs, activity and value is captured for the Welsh economy. Killing more cull cows domestically would be a start.

d. Far more coordination and collaboration in the supply chain. Not a single supply chain, but lots of competing value creating chains that drive better performance from all involved. Livestock auctioneers can continue to play an important role in the movement of stock through such chains.

e. An environment that captures and benefits from the “organic topper” qualities that only a suckler cow can provide. Not only will this supply important public goods like biodiversity, appearance and access to the Welsh countryside, but also enhance the green credentials of the Welsh beef industry. The productivity of sheep flocks will also benefit from having suckler cows on the hills.
To achieve this preferred state, market forces will need targeted intervention. Where?

a. A clear market strategy – demand pulls production, not the other way round. The Welsh beef industry needs a far better understanding of the Welsh and British markets. By appreciating the cuts of beef required, the industry can better organise how to produce and supply that beef.

b. Improving beef margins – to compete with sheep, dairying and dairy support enterprises, beef margins must be lifted to that achieved by the best Welsh farmers. That means establishing an information system that cost effectively captures key performance indicators that can be used for benchmarking. Trialling and disseminating best practice for dairy beef as well as suckler beef. Introducing a national health scheme and genetic improvement database.

c. Encouraging collaborative supply chains – which create and share value fairly between each partner in a wide range of competing chains. Grading, pricing and traceability systems are likely to become more diverse, with EID technology at the heart of them to ensure transparency. This technology can also help improve the price of Welsh breeding and store cattle by producing an animal that better meets end market requirements.

d. Delivering environmental benefits – a simplified Glastir that better rewards suckler cows for their environmental contribution. Plus support for a common approach to carbon footprinting that highlights the sustainability of the Welsh beef industry and gives consumers added confidence in Welsh Beef.

Finally, whichever strategy is chosen, a robust evaluation system is essential, to measure progress and provide a basis for planning further improvement. Such a system must assess at the farm, chain and environmental levels.