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HOW WOULD A LIVE EXPORT BAN AFFECT NI?

THE UK Environment Secretary Michael Gove is considering a ban on the live export of animals for slaughter after Brexit to help the UK become a world leader in animal welfare.

The environment secretary has asked industry experts and campaigners to submit evidence on the process to a consultation recently released by DEFRA, with "all options" being considered. As well as a ban on exports for direct slaughter the UK Government wishes to consider more broadly what improvements could be made to the way animals are transported.

The UK Government hopes to improve the welfare of animals during transport by reviewing the standards of welfare that currently apply. In doing so it will take into account the most up-to-date veterinary and scientific knowledge on issues such as stricter journey times. Following this review the UK Government intends to propose a series of improvements and reforms in due course.

The UK Government has also highlighted that it will work closely with the Devolved Administrations in Scotland, Wales and Northern Ireland to try to ensure that any improvements are introduced consistently across the regions as far as possible and without disadvantaging agriculture in any part of the UK.

As NI is separated from GB by a body of water there is the potential for this proposed export ban to cause greater disruption to the beef and sheep industries in NI than any other region of the UK. It is worth noting that travel times between NI and GB are short in comparison to trade from GB to the EU. NI is also in the unique position of being the only part of the UK to have a land border with another EU member state which facilitates much shorter transport times.

During 2017 3,463 cattle were exported out of NI for direct slaughter in GB. This figure has gradually been declining in recent years as the differential in deadweight prices has narrowed between the regions however the live trade of cattle from NI to GB for direct slaughter remains an important outlet for NI beef producers. In 2013, when the price differential made it more financially viable to export cattle from NI to GB for direct slaughter, 15,172 cattle were exported.

In December 2013 LMC published a report into regional disparities in deadweight cattle prices: Understanding the NI/GB price differential. One of the key recommendations of this report to help address the differential was reducing barriers to the live export trade with GB, particularly at times of strong supplies in NI and when the price differential exceeded transport costs.

Cattle are also exported from NI to ROI for direct slaughter and this has provided another important outlet for NI beef producers. During 2017 8,915 cattle were exported from NI to ROI for direct slaughter. As with the trade between NI and GB the volume of this cattle trade is driven by a price differential. Any ban or disruption to the live export of cattle out of NI will act as a barrier to trade and be detrimental for NI beef producers.

Any changes to current legislation could also negatively influence NI beef processors as it could impact their ability to import cattle for direct slaughter from both GB and ROI. During 2017 6,654 cattle were imported from GB for direct slaughter in local plants with a further 11,188 cattle imported from ROI.

As with the live export trade the level of the live import trade is dictated by supply and demand situations and exchange rates and can therefore vary considerably from year to year. It does however provide a valuable source of cattle for local processors.

Any changes to animal welfare legislation that impacts the import or export of live cattle for direct slaughter could also potentially impact the import and export of cattle for further breeding and production. During 2017 33,162 cattle were exported out of NI for further breeding and production. Approximately a third of these animals were destined for GB or ROI with the remaining balance, primarily dairy origin calves, destined for the continent. In addition to this NI imported 19,342 cattle for further production on local farms during 2017.

The potential for changes to export legislation also has the potential to seriously impact the NI sheep sector as approximately half of NI lambs/hoggets produced in the region are exported to ROI for direct slaughter. During 2017 402,917 sheep went from NI to ROI for direct slaughter with a further 77,615 sheep exported from NI to ROI for further breeding and production.

GB also acts as an important outlet for the NI sheep sector with 54,781 sheep transported across the Irish Sea during 2017 for further breeding and production. This is an important outlet for cull ewes in particular for which there is limited demand in local plants.

While it is important that the UK remains a world leader in the welfare of animals during transport it is vital that any changes to current legislation are designed and implemented in a way which does not disrupt or inhibit trade between NI and GB or the current trade between NI and ROI. Any changes to current levels of trade could negatively impact beef and lamb producers and processors to a much greater degree than their counterparts in mainland UK.

Image 1: A live export ban and a review of animal welfare standards has been proposed by the UK Government following the UK's exit from the EU.

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SUCKLER TO BEEF COSTS DECLINE IN 2016/17

Department of Agriculture, Environment and Rural Affairs

www.daera-ni.gov.uk

INFORMATION from the Farm Business Survey for the 2016/17 financial year has just been released by DAERA and indicates an average cost of suckler beef production of £3.97 per kg. This was a decline of 15p/kg from the 2015/16 financial year when the average cost of suckler to beef production was £4.12/kg. The 2016/17 time period was the third consecutive year in which the cost of production in NI has recorded a decline.

Variable costs

In the 2016/17 accounting year the variable costs associated with suckler to beef production in NI were £1.82/kg according to the latest survey results from DAERA. This was a decline of 7p/kg from the 2015/16 accounting year and was the third consecutive year in which it has recorded a decline as indicated in Table 1.

Variable costs accounted for 46 per cent of the total cost of suckler beef production in NI during the 2016/17 financial year. While this proportion was unchanged from year earlier levels it is back from 50 per cent of the total cost of production recorded in 2012/13 and 2013/14.

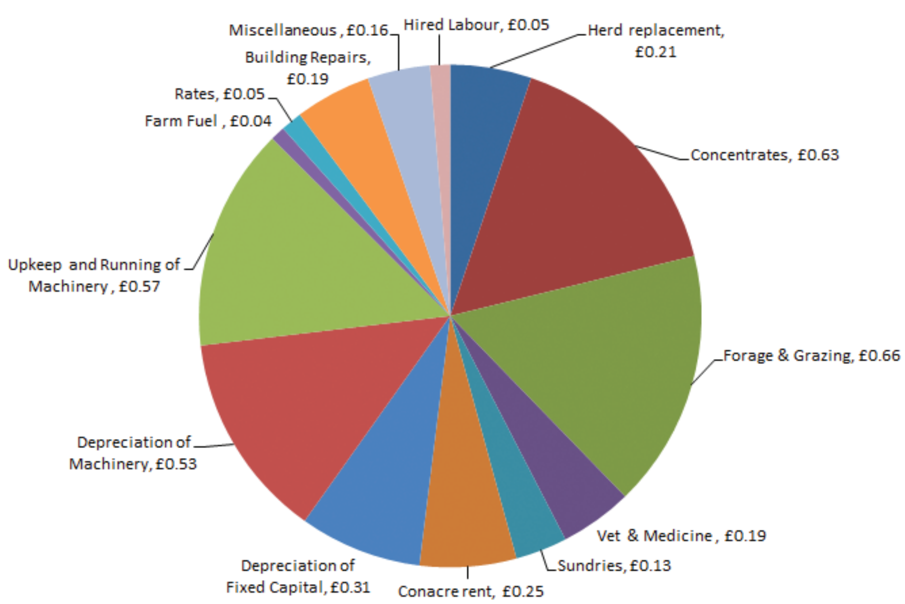
The decline in total variable costs on NI suckler to beef farms in 2016/17 can be attributed primarily to a decline in the cost of forage/grazing and concentrates year on year. Forage and grazing accounts for the biggest proportion of variable costs on NI suckler to beef farms. The Farm Business Survey for 2016/17 put the cost of forage/grazing for suckler to beef systems at 66p/kg which was back 6p/kg from the previous year when the average cost was 72p/kg.

This decline has been attributed to a reduction in fertiliser costs year on year. The relatively good summer of 2016 resulted in good grass growing conditions on many NI farms which helped improve cattle performance at grass and will have been a key factor behind reduced levels of concentrate feeding recorded. The dry autumn that followed extended the grazing season well into October and this will have helped further reduce forage costs on NI suckler to beef farms in the second half of 2016/17.

Concentrates are the second biggest variable production cost on suckler to beef farms in NI and contributed 63p/kg to the total variable cost during the 2016/17 time period. This was back 3p/kg from the 66p/kg recorded during the previous financial year. As discussed above the relatively good summer and good grass growing conditions in 2016 contributed to lower concentrate feeding levels on NI farms.

While declines were recorded in the cost of forage/grazing and concentrates during the 2016/17 financial year the cost of other variable inputs on suckler to beef farms remained very similar to the previous year. Herd replacement costs accounted for 21p/kg of the total variable costs of production, veterinary costs for 19p/kg and a further 13p/kg for miscellaneous costs.

Figure 1: Suckler to Beef Production Breakdown by Cost Centre - 2016/17 Financial Year



Fixed costs

Fixed costs associated with suckler to beef production in NI during 2016/17 were £2.15/kg according to the DAERA Farm Business Survey. This was back by 8p/kg from the previous accounting year when fixed costs were calculated at £2.23/kg. This was the second consecutive year in which fixed costs of production have recorded a decline. The most notable fixed cost decline recorded was in the Depreciation of Fixed capital which was 31p/kg in the 2016/17 financial year compared to 36p/kg during the previous year.

Depreciation of machinery and the upkeep of machinery continue to be the biggest fixed costs on suckler to beef farms in NI and added 53p/kg and 57p/kg respectively to total fixed

WHAT COSTS ARE INCLUDED?

The figures used to calculate the cost of suckler beef production in NI are from farm enterprises that rear and/or finish suckler calves. These costs are for a combination of steer, heifer and young bull production including suckler cow maintenance costs.

These costs include:
- Costs of purchased inputs
- Depreciation costs
- Bank interest and rent
- Herd replacement costs

These costs exclude:
- Unwaged family labour
- Opportunity cost of own land
- Opportunity cost of Working Capital

Opportunity/Notional Costs

With no provision for opportunity/notional costs in these figures, producers need to consider that the enterprise must also cover the cost of their own labour, land and working capital.

Depreciation

Depreciation, which is associated with current and historical investment in capital, contributes significantly to overall farm costs. It is important to note however, that this type of capital investment is not entirely funded by the suckler enterprise with other revenue streams such as the Single Farm Payment, LFACA, Farm Nutrient Management Scheme and Farm Modernisation Scheme important factors in driving investment. Care should therefore be taken when interpreting these figures given that these grants and subsidies are important factors in the investment decision.

Mixed Farms

On any farm business there may be a number of different enterprises. For example, a suckler producer may also be involved in lamb production alongside a broiler breeder operation. Care is taken in the Farm Business Survey to ensure that costs for each enterprise are allocated correctly and proportionately.

SUCKLER TO BEEF COSTS DECLINE IN 2016/17

production costs in the 2016/17 period. These were almost unchanged from year earlier levels.

Depreciation continues to account for around 20 per cent of overall suckler-to-beef costs. These costs stem from current or historical investment in fixed assets or machinery. The cost of the initial investment is accounted for in the form of depreciation in the farm accounts for the following 10 years.

Carcase weights

The average carcase weight of suckler origin cattle remained relatively steady during 2016/17 when compared to previous years and this therefore has not contributed to the decline in the overall cost of production. This has meant that total production costs (fixed and variable) have been spread over a similar volume of beef produced.

Comparison with prices

Figure 2 shows a comparison between suckler beef production costs and farmgate prices paid for suckler origin cattle. The green line shows the average farmgate price paid for prime suckler-origin beef from the 2012/13 accounting year until the 2016/17 accounting year. (*Source: DW Price Reporting*). The blue bar on the chart shows costs, excluding depreciation, while the red bar shows depreciation costs. These costs do not include a return on farmers' own land, labour and working capital.

The figures show that the average suckler beef price in 2016/2017 was £3.36/kg which was 23p/kg above the cost of production when we exclude depreciation. However when depreciation costs are included the average suckler beef price was 61p/kg below the cost of production.

It is important to consider that these figures are average costs calculated from the accounts of a wide range of suckler to beef farms participating in the Farm Business Survey. Some of these farms will be more efficient, with lower costs of production, while other farms will be less efficient with higher costs of production.

This may mean that some beef farms are not even covering their cash costs. On the other hand, some suckler beef enterprises will be covering all of their costs and taking a margin from their enterprise.

A large number of beef finishers in NI buy in cattle as weanlings and while strong prices for store cattle have improved returns for suckler calf producers it will have impacted the profitability of beef finishing enterprises. The individual margins of production for store producers and beef finishers are not reflected in this analysis.

The CAFRE benchmarking programme is an excellent source of support for producers who want to improve their efficiency by comparing their farm against similar enterprises and allow them to identify improvement measures. Contact CAFRE on 0800 028 7291.

Figure 2: Suckler Beef Production 2012/13 until 2016/17: Average Costs v Average Farmgate Price Paid for Suckler Origin Beef

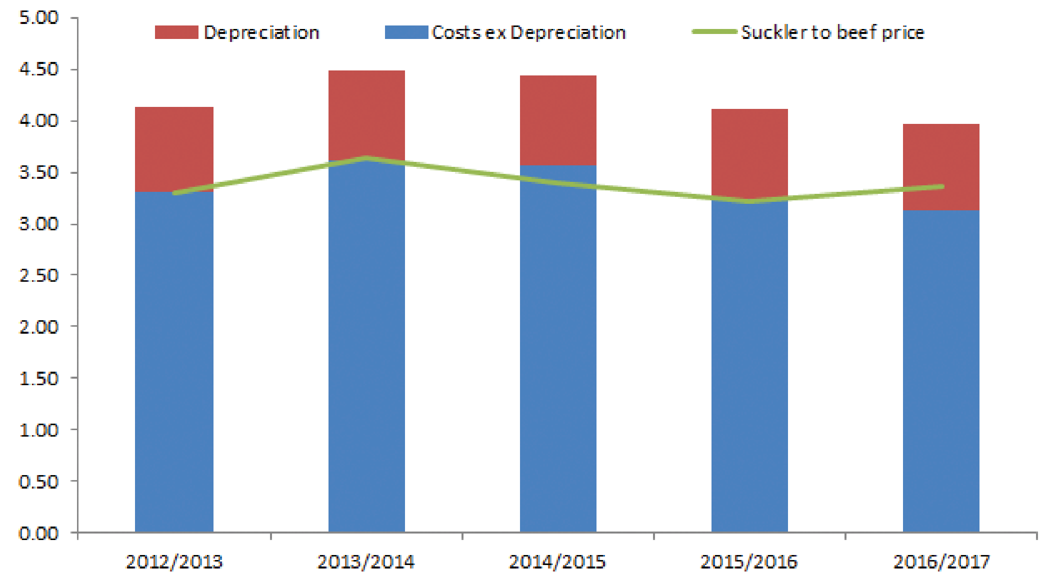


Table 1. Fixed and Variable Costs for Suckler Beef Producers from 2012/13 until 2016/17 Excludes Land, Labour and Working Capital (£/KG DW).

Costs/Year	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
Variable	£2.05	£2.25	£2.10	£1.89	£1.82
Fixed (ex Depreciation)	£1.26	£1.37	£1.46	£1.35	£1.31
Sub-Total	£3.31	£3.62	£3.56	£3.24	£3.13
Depreciation	£0.83	£0.87	£0.88	£0.87	£0.84
Total	£4.14	£4.49	£4.44	£4.12	£3.97

LMC MARKET INFORMATION PUBLICATIONS UPDATE

LMC'S Market Information Services are designed to support, examine and inform the NI red meat industry. The service aspires to support producers and processors with their decision making by producing accurate and timely information that creates a better understanding of the trade.

LMC is committed to creating an environment where our stakeholders are well-informed whether this is through our Market Information publications, the provision of basic statistics, further analysis of this data or the delivery of information through public events.

LMC encourages all of its stakeholders to utilise the Market Information section of the LMC website which provides a valuable source of statistics relating to beef and sheep meat production.

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CHINA DRIVING GLOBAL RED MEAT DEMAND

WITH a population of 1.4 billion people and an ever growing appetite for imported meat China has become a key driver behind global meat demand. Urbanisation and a rapidly expanding middle class in China are major drivers behind growing demand for meat and increasing levels of imports. It can be very difficult to determine the level of imports by China as there are direct imports as well as in-direct imports that come through Hong Kong, Thailand and Vietnam. This secondary route is known as the grey channel.

The Chinese Government announced an ambitious plan to improve farm income and conditions earlier this year. It calls for significant progress in rural rejuvenation by 2020, complete agricultural modernisation by 2035 and full realisation of farmer's wealth by 2050.

Changes in agricultural policy have also reduced emphasis on grain security with China becoming more integrated with international grain markets. This will help boost efficiency, reduce costs and encourage the development of bigger farms. However despite these developments China has admitted it will need massive meat imports for the foreseeable future.

Beef

Demand for beef is particularly buoyant in China according to the most recent trade reports from GIRA with the outlook for beef imports remaining very strong. This is driven by growing demand for beef from the middle classes which cannot be met by increases in domestic production. Beef consumption per capita in China is 7kg per head and is forecast to increase and is expected to increase by 1.5 per cent during 2018.

While there has been some growth recorded in retail beef sales almost two thirds of beef in China is sold through the booming restaurant and food service sector. Developments in the cold chain however have started to make chilled beef more available in retail outlets outside the major cities which has encouraged more Chinese consumers to cook beef at home.

Beef production in China continued to grow slowly in 2017 with some larger feedlot and processing plants coming into operation. The number of smaller beef producers in China continued its downward trend which offset some of the gains made by the consolidation of farms and an increase in larger feedlots.

Beef producer prices in China were back slightly in 2017 however they remain strong by historical standards and this continues to attract new producers into the industry. In the longer term this will boost domestic supplies however the lack of pasture for cattle and space for feedlots remains a limiting factor.

Chinese beef imports during 2017 hit record levels thanks to a surge in imports in the final quarter of the year. With domestic beef production growing slowly and demand for beef increasing GIRA have forecast a 3.9 per cent increase in beef imports in 2018. A strengthening Chinese Yen against the US dollar and the Euro has made imports to the region more competitive. This continues to make China a key player in the global meat market

Frozen boneless cuts make up the vast majority of beef imports into China with most imports being cheaper cuts such as shin-shank and brisket. Cheap Indian buffalo meat is the single largest category with high end cuts enjoying a small but profitable share of the import market. This niche market is predominantly serviced by Australia.

New Zealand has a distinct advantage in servicing the Chinese market due to its long term FTA which has reduced tariffs on meat to zero while Australia's newly signed FTA is beginning to reduce tariffs. Both countries have a good image and reputation in China for safety and quality which are becoming increasingly important to Chinese consumers.

Beef offal imports have also continued to show steady growth with almost 70 per cent of offal imports coming into China via the grey channel. This however is a decline from 93 per cent of offal imports in 2007. Counting all channels the largest offal exporter to China is Brazil, followed by the EU, Australia and Argentina.

Sheepmeat

Sheepmeat imports recorded an 11 per cent increase in 2017 after recording declines in 2015 and 2016 as domestic supplies displaced imported product. However lower producer prices and market saturation combined with drought conditions resulted in producers culling flocks in 2016 and early in 2017.

This decline in domestic supplies combined with stable consumer demand led to the increased demand for sheepmeat imports in China in 2017. New Zealand and Australia dominate sheepmeat imports into China and accounted for 59 per cent and 37 per cent of the market respectively in 2017.

Sheepmeat imports are expected to increase by a further 6.9 per cent in 2018 with the strong Chinese Yen making imports very competitive. Strong domestic prices are expected to encourage some growth in domestic production with continued restructuring of the sector expected over the next few years. However despite this improvement imports are expected to grow by 1.4 per cent per year until 2022.

The number of larger operations is expected to increase at the expense of smaller farms with improvements in the breeding performance and genetics of the sheep flock expected to improve efficiency and increase average carcase weights.

Sheep offal imports recorded some recovery in 2017 following strong declines in 2015 and 2016. Lower prices have made imported offal products more attractive to budget conscious consumers.

Figure 3: Chinese beef imports by origin 2006-2018(f)

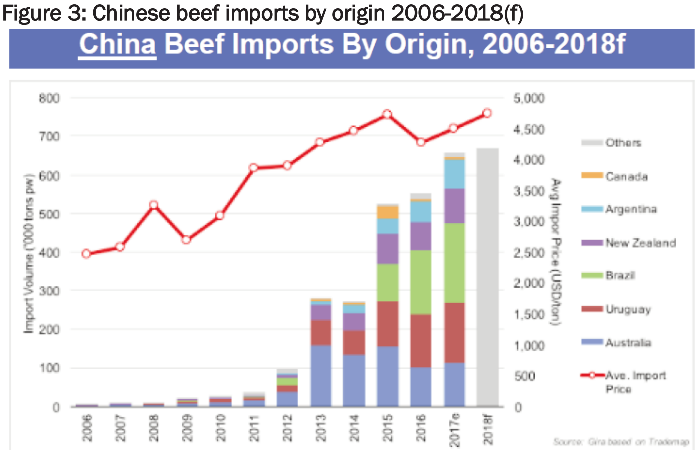
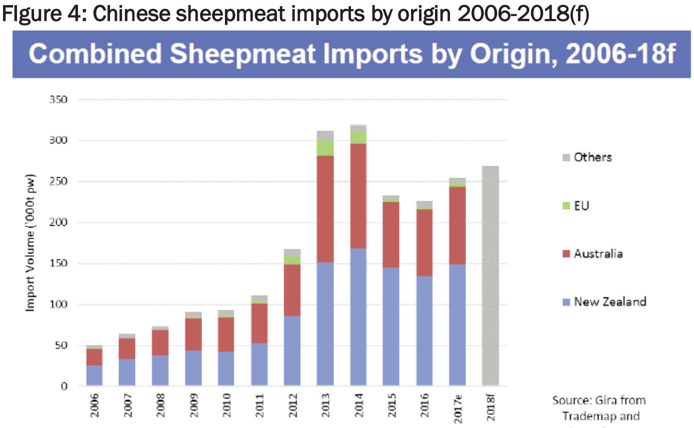


Figure 4: Chinese sheepmeat imports by origin 2006-2018(f)



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