

# Welsh Beef Prices

October 2014

## Introduction

British farm-gate beef prices have declined significantly throughout 2014. Hybu Cig Cymru (HCC) and the farming unions have suggested a range of reasons for the decline, including an increase in the UK's supply of prime cattle, an increase in imports and subdued customer demand.

HCC is reviewing the future of the beef industry in Wales in response to the falling beef prices and associated concerns within the farming community.

This Research Note gives an overview of the changes in beef prices, the suggested causes of the decline and the proposed mitigation strategies.

## The red meat sector in Wales

In Wales the red meat sector as a whole (including beef, lamb and pork products) contributes approximately 40% to agricultural output.<sup>1</sup> Its value to the Welsh economy is estimated at around £1bn annually (including the farming, processing and retail sectors).<sup>2</sup> Exports of Welsh red meat are worth approximately £200m per year.<sup>3</sup>

<sup>1</sup>HCC, *Little Book of Meat Facts, Compendium of Welsh Red Meat and Livestock Industry Statistics*, 2014 [accessed 8 September 2014]

<sup>2</sup>HCC, *A Sustainable Future The Welsh Red Meat Roadmap*, July 2011 [accessed 22 August 2014]

<sup>3</sup>HCC, *HCC takes Welsh Lamb and Welsh Beef to the world*, 3 May 2013 [accessed 3 September 2014]

In 2012 the total price for finished cattle in Wales was £248m which was accountable for 19% of Welsh agricultural output for that year.<sup>4</sup>

## Falling beef prices - statistics

During 2014, across Great Britain, the average deadweight steer price has declined significantly (Figure 1). The price was lowest in June (week ending 30 June) at 326.9p/kg which was 75p/kg lower than the corresponding week in 2013. Although prices have increased from July they are still significantly lower than in 2013 at 346.5p/kg (week ending 7 September); 48p lower than the equivalent month in 2013.<sup>5</sup>

Decreasing farm-gate prices in 2014 in Wales have been reported to equate to a loss of up to £300 per animal compared to 2013.<sup>6</sup>

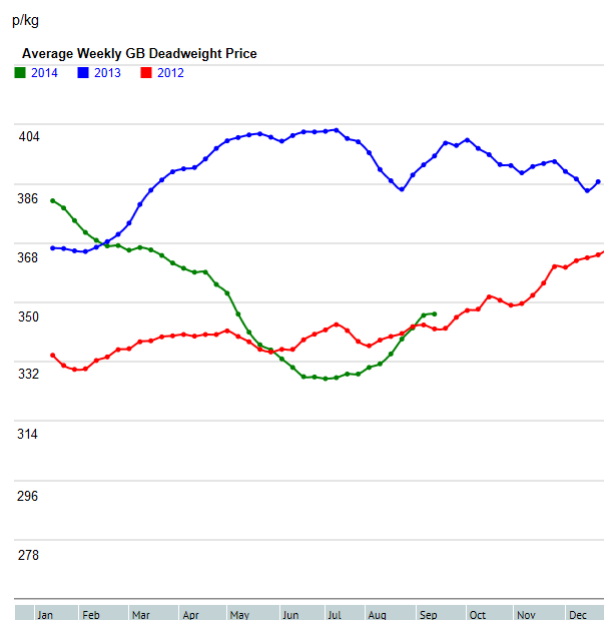


Figure 1. Average weekly GB market price for steers. Source: HCC.<sup>7</sup>

<sup>4</sup>HCC, *Little Book of Meat Facts, Compendium of Welsh Red Meat and Livestock Industry Statistics*, 2014 [accessed 8 September 2014]

<sup>5</sup>HCC website, GB Weekly Deadweight Cattle Prices [accessed 22 August 2014]

<sup>6</sup>HCC, *Chance to have your say about the state of the beef industry*, 15 July 2014 [accessed 27 August 2014]

<sup>7</sup>HCC website, GB Weekly Deadweight Cattle Prices [accessed 22 August 2014]



Farmers' Union of Wales (FUW) expressed concern in response to these declines that farmers are losing confidence in the industry and stated that 'without confidence the reinvestment needed to ensure the long-term viability of the industry will fall away'.<sup>8</sup>

## Hybu Cig Cymru review

On 12 May 2014 Hybu Cig Cymru (Meat Promotion Wales) (HCC), the industry-led organisation responsible for developing, promoting and marketing Welsh red meat, announced a review of the future of the beef industry in Wales in response to the declining beef prices.

Gwyn Howells, Chief Executive of HCC, stated that the review is looking at all options to ensure that 'the Welsh beef herd has a viable and sustainable long term future'.<sup>9</sup> The review is expected to be published in the autumn of 2014.<sup>10</sup>

## Suggested causes of decline in beef prices

HCC has attributed the decline in beef prices to an increase in the UK's supply of prime cattle, an increase in imports, and subdued customer demand.<sup>11</sup>

### Increase in the UK's supply of cattle

During the first quarter of 2014 the number of prime cattle passing through UK abattoirs increased by 1% (or 6,000 head) compared to 2013.<sup>12</sup> There has been a particular increase in bulls and steers.<sup>13</sup> Eblex suggested that because prices were in decline

<sup>8</sup> FUW, *FUW welcomes HCC beef sector review*, 13 May 2014 [accessed 22 August 2014]

<sup>9</sup> HCC, *HCC to review beef sector as prices continue to fall*, 12 May 2014 [accessed 22 August 2014]

<sup>10</sup> HCC, *Beef review interim findings to spark debate at Royal Welsh Show*, 21 July 2014 [accessed 3 September 2014]

<sup>11</sup> HCC, *High supply and dip in demand hit beef prices*, 24 April 2014 [accessed 22 August 2014]

<sup>12</sup> HCC, *High supply and dip in demand hit beef prices*, 24 April 2014 (accessed 22 August 2014)

<sup>13</sup> NFU *National Farmers' Union of England and Wales: Beef price update*, 29 May 2014 [accessed 22 August 2014]

before Christmas of 2013 producers may have kept animals back into 2014 which subsequently flooded the market.<sup>14</sup>

A decline in the supply of prime cattle is projected by Eblex as The British Cattle Movement Service (BCMS) recorded fewer younger cattle on the ground and a declining breeding population.<sup>15</sup>

### Increased import of beef

HCC figures show that the volume of beef imported into the UK, particularly from Ireland and the Netherlands, has increased from 2013-2014.<sup>16</sup> In the first two months of 2014, an additional 2,500 tonnes of beef were exported from Ireland to the UK compared to the same period in 2013.<sup>17</sup>

HCC's Chairman Dai Davies said:

Throughput at Irish export abattoirs is up by 13.6 per cent so far in 2014 [May] compared with the same period in 2013, meaning that more than 50,000 additional prime cattle have entered the food chain... At the same time Irish producers are receiving the equivalent of around 310p per kg for their cattle... This has led to an increase in imports of Irish beef into the UK, undercutting the price paid to farmers in Britain.<sup>18</sup>

The National Farmers Union (NFU) stated that the horsemeat scandal of 2013 resulted in retailers, processors and manufacturers sourcing beef more locally and import volumes from Ireland, the Netherlands, Germany and Poland decreased

<sup>14</sup> Eblex, *The outlook for the UK beef market*, July 2014 [accessed 8 September 2014]

<sup>15</sup> Eblex, *Cattle and Sheep Weekly*, 12 May 2014 [accessed 8 September 2014]

<sup>16</sup> HCC, *High supply and dip in demand hit beef prices*, 24 April 2014 [accessed 22 August 2014]

<sup>17</sup> HCC, *HCC to review beef sector as prices continue to fall*, 12 May 2014 (accessed 22 August 2014)

<sup>18</sup> FUW, *FUW welcomes HCC beef sector review*, 13 May 2014 [accessed 22 August 2014]



between March 2012 and March 2013.<sup>19</sup> Therefore although Irish beef production has increased, and supplies from other countries have also increased from 2013, this is from an artificially low base.<sup>20</sup> To put the increased imports in perspective, in March 2014, shipments from all major importers, with the exception of Ireland, were lower than 2012 levels.<sup>21</sup>

Eblex has projected that the increased supply of beef from Ireland is likely to fall in longer term forecasts due to lower production with supplies in 2015 forecast to be lower than in 2014.<sup>22</sup>

### Suppressed demand

HCC has shown that British retail data from Kantar Worldpanel reveals that beef purchases decreased during the first quarter of 2014. The total volume sold was 7% lower than the equivalent time period of 2013.<sup>23</sup> There has generally been a slight decrease in beef and veal consumption in recent years in the UK with volumes sold falling from 1,239,000t in 2008 to 1,144,000t in 2012.<sup>24</sup>

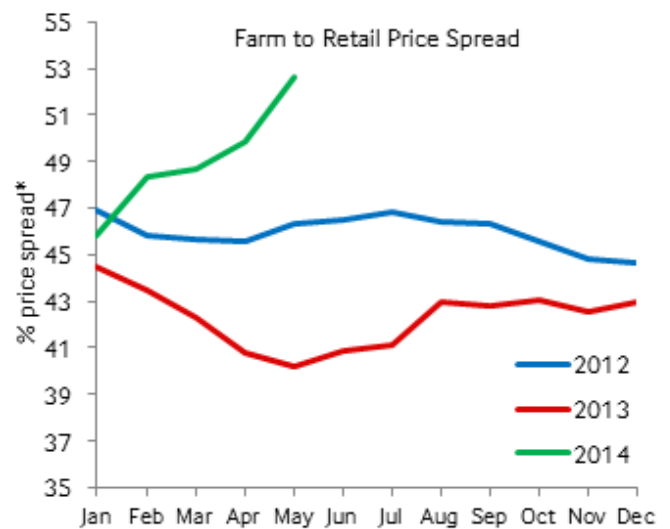
Tesco has stated that consumer habits have changed as a result of the price of beef approximately doubling in the past four years leading consumers to shift to cheaper protein sources.<sup>25</sup>

## Farm-gate vs retail prices

HCC states that the average retail price of beef increased in 2014 when compared to the same period in 2013 despite the decrease in farm-gate prices.<sup>26</sup>

In May 2014, across Great Britain, the sectors of the beef supply chain other than the producer i.e. the retailer, wholesaler, transport company and processor obtained approximately 53% of the final retail price. In May 2013 the figure stood at 40% (Figure 2).<sup>27</sup>

**Figure 2. The farm to retail price spread.**



\*percentage price spread shows the percentage of the retail price obtained by the supply chain other than the producer i.e. the retailer, wholesaler, transport company and processor.  
Source: HCC data

<sup>19</sup> NFU, *National Farmers' Union of England and Wales: Beef price update*, 29 May 2014 [accessed 22 August 2014]

<sup>20</sup> NFU, *National Farmers' Union of England and Wales: Beef price update*, 29 May 2014 [accessed 22 August 2014]

<sup>21</sup> NFU, *National Farmers' Union of England and Wales: Beef price update*, 29 May 2014 (accessed 22 August 2014)

<sup>22</sup> Eblex, *The outlook for the UK beef market*, July 2014 [accessed 8 September 2014]

<sup>23</sup> HCC, *High supply and dip in demand hit beef prices*, 24 April 2014 [accessed 22 August 2014]

<sup>24</sup> Eblex, *UK Yearbook 2013 – Cattle*, 2013 [accessed 8 September 2014]

<sup>25</sup> Farmers Guardian, *Retailers and processors accused of beef 'profiteering'*, 16 May 2014 [accessed 4 September 2014]

<sup>26</sup> HCC, *High supply and dip in demand hit beef prices*, 24 April 2014 [accessed 22 August 2014]

<sup>27</sup> Data from HCC

## Suggested mitigation strategies

A number of suggestions have been put forward to resolve the problem of falling farm-gate beef prices.

### HCC

Preliminary findings of the HCC review are as follows<sup>28</sup>:

- Increase intervention to improve fairness between various parts of the industry – farmers, processors and retailers;
- Explore the possibility of using future Rural Development Funds to provide targeted support to help maintain suckler cow numbers;
- Develop contracted, co-ordinated action between producers, processors and retailers to satisfy customer demands;
- Ensure healthy competition between complete supply chains, rather than between various stages of the same supply chain;
- Achieve premiums for higher provenance, suckler bred beef with better take-up of systems that significantly lower the cost of production;
- Develop co-ordinated market oriented beef supply chains.

### Welsh Government

In response to oral questions on 4 June about what role the Welsh Government could play in the short term to improve the situation of reduced farm-gate prices the then Minister for Natural Resources and Food, Alun Davies AM, said:

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<sup>28</sup> HCC, *Beef review interim findings to spark debate at Royal Welsh Show*, 21 July 2014 [accessed 3 September 2014]

... the way forward for beef—as for other sectors—is to invest in efficiency of production, and then to invest in the marketing. I am confident in the work that Hybu Cig Cymru is doing, and has embarked upon in the last few weeks. (...) I would very much like to continue the conversation about how we can use the rural development plan to invest in the sector as a whole, and invest in the whole of the supply chain.<sup>29</sup>

The then Minister highlighted the longevity of the issue of falling beef prices:

We have seen a decline over the last decade in the beef sector, therefore, although the issue of current prices is the catalyst for the discussions that we are having at the moment, we are making a mistake if we think that this is a temporary problem, and the problem can be resolved during the next few months.<sup>30</sup>

The then Minister had previously proposed to invest an additional £1.2 million over the next three years in HCC with an aim to further develop exports of Welsh red meat. In a written statement the Minister stated that:

Enhancement of HCC's current export programme has the potential to increase Welsh red meat exports by a further £37.5 million over a three year period. Increasing demand from overseas leads to improved prices for farmers and processors in Wales (...) HCC is in negotiations to open up new markets for Welsh Lamb and Welsh Beef products in China, Russia and the United States and I

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<sup>29</sup> National Assembly for Wales, *OAQ(4)0164(NRF)* Russell George to Alun Davies (Minister for Natural Resources and Food), RoP, 4 June 2014 [accessed 22 August 2014]

<sup>30</sup> National Assembly for Wales, *OAQ(4)0164(NRF)* Russell George to Alun Davies (Minister for Natural Resources and Food), RoP, 4 June 2014 [accessed 22 August 2014]



am confident that this additional funding will help them achieve this.<sup>31</sup>

## NFU

The NFU has highlighted priority areas for action in the beef industry to counter falling beef prices:

- Retailers must actively promote British beef on shelves;
- Processors must work to outline longer term prices to allow producers to plan;
- Any future changes in specification or the level of deductions for out-of-spec cattle must be justified and introduced with lead in periods for producers and with better communication;
- Retailers and processors should work with the NFU to develop risk management options for beef farmers;
- The whole industry must come together to work to ensure that the consumer can continue to enjoy a sustainable supply of British beef and that all parts of the chain can receive a sustainable reward from the market.<sup>32</sup>

In May 2014 NFU officials met in Brussels with the European Commission to highlight the impact declines in beef prices is having on confidence in the UK beef sector.

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<sup>31</sup> Welsh Government, Alun Davies, - *To Invest Funds in Hybu Cig Cymru – Meat Promotion Wales (HCC) to enhance their export programme*, Cabinet Written Statement, 23 May 2014 [accessed 26 August 2014]

<sup>32</sup> NFU, *National Farmers' Union of England and Wales : Beef price update*, 29 May 2014 [accessed 22 August 2014]

In June 2014 farming union leaders<sup>33</sup> from Northern Ireland, Ireland, Scotland and Wales met with the NFU in response to farmers' increasing anger over decreasing farm-gate prices. Meurig Raymond, NFU President, said:

In a well-functioning market there should be sufficient margin in beef for everyone – the farmer, the processor and the retailer. For now we need to promote our product more widely, be it through the levy bodies working on export opportunities, or through retailers for what should be one of their headline products.<sup>34</sup>

## NFU Cymru

NFU Cymru has highlighted the role that the next Rural Development Plan (RDP) can have in supporting investment in equipment, facilities and technologies on Welsh livestock farms. Lyndon Edwards, Livestock Board Chairman said:

It is crucial that the new Wales RDP... has a budget for investment measures that is sufficient to provide the investment needed on farm to help secure the production base going forward.<sup>35</sup>

## FUW

Emyr Jones, FUW president, has appealed to supermarkets to commit to Welsh and British beef with loyalty and sustainable prices. FUW is also campaigning to ensure prices paid by suppliers or through direct contracts are such that confidence in the beef industry is revived.<sup>36</sup>

In June FUW raised concerns over the damage low beef cattle prices are causing to farm incomes and

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<sup>33</sup> From the Irish Farmers' Association, Ulster Farmers' Union, NFU Scotland, NFU Cymru.

<sup>34</sup> Meat info.co.uk, *NFU urges industry to 'take responsibility' on beef*, 12 June 2014 [accessed 26 August 2014]

<sup>35</sup> NFU Cymru, *Restore Confidence and Stability to Beef Prices*, 23 May 2014 [accessed 22 August 2014]

<sup>36</sup> FUW, *FUW president warns supermarkets of need to support Welsh and British beef*, 18 May 2014 [accessed 1 September 2014]

the confidence of the industry with Welsh MPs in Westminster.

### Beef crisis summit

In July Defra held a beef crisis summit where farmers, meat processors and supermarkets were invited to discuss how to build a long-term, sustainable beef sector. Farmers and meat processors agreed to draw up a voluntary code of conduct for the beef industry. The code, which is still being developed, would cover how trading terms, abattoir specifications and penalties are communicated to beef producers. During the summit the farming unions challenged the retailers to consider price-cutting promotions to boost consumer demand for British meat.

Following the summit Livestock Board Chairman Lyndon Edwards, NFU Cymru, stated:

We must increase demand for our product and we've said to retailers that they need to actively promote PGI status Welsh Beef as well as Red Tractor-assured British beef. I'm pleased that at the Summit, retailers acknowledged the importance of clearly, unambiguously and accurately promoting British beef.<sup>37</sup>

### Retailers' actions

In July 2014 Waitrose increased the minimum price it will pay for British beef cattle to £3.45/kg (an increase of £0.05/kg) guaranteeing the price until 1 October. Heather Jenkins, Waitrose Director of Agriculture, stated:

The farmers who supply us are the lynchpin of our fresh food business and we believe it's vital to have long term relationships with them founded on fairness and trust... We recognise that the beef industry is facing challenging times in the current market and we want to send positive messages to our

<sup>37</sup> NFU Cymru, *Beef Summit Highlights Industry Challenges*, 2 July 2014 [accessed 8 September 2014]

producers.<sup>38</sup>

Following the beef price summit in July 2014 Tesco took out adverts in national newspapers<sup>39</sup> announcing it was dropping the retail price of rump to £8.50/kg and sirloin to £10/kg for selected British and Irish beef. A Tesco spokesperson said:

... we must work together to grow both production and demand, so that we can provide an affordable offer for customers while also ensuring a sustainable future for the industry. When we get it right, we see great results; for example our Finest range, which is 100 per cent British, has seen a significant growth in volume since this time last year.<sup>40</sup>

In response to the summit Sainsbury's said it would continue its commitment to British beef by working with the 600 farmers in its beef development group<sup>41</sup> to double British food sales by 2020 and are increasingly working with British growers, farmers and suppliers to achieve this aim.<sup>42</sup>

Morrison's agricultural manager, Andrew Loftus, said the supermarket was taking a hit on its margins by buying British beef over Irish beef.<sup>43</sup>

<sup>38</sup> Farmers Weekly, *Waitrose sets minimum farmgate beef price until October*, 4 July 2014 [accessed 4 September 2014]

<sup>39</sup> For example the Daily Express (4 July 2014)

<sup>40</sup> The Yorkshire Post, *Supermarkets urged to make it easier for us to buy British beef*, 21 May 2014 [accessed 10 September 2014]

<sup>41</sup> J Sainsbury plc, *Sainsbury's help farmers go green at the Bath and West Agricultural Show*, 1 June 2011 [accessed 24 September 2014]

<sup>42</sup> J Sainsbury plc, *20x20 Sustainability Plan- 2013* [accessed 10 September 2014]

<sup>43</sup> Farmers' Weekly, *Three of big four supermarkets refuse to stock more British beef*, 22 May 2014 [accessed 10 September 2014]



## Further information

For further information about **Welsh Beef Prices**, please contact **Katy Orford** ([Katy.Orford@Wales.gov.uk](mailto:Katy.Orford@Wales.gov.uk)), Research Service.

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