

The Red Meat Sector Research Briefing

December 2018



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The Red Meat Sector

Research Briefing

December 2018

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Paper Overview:

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This Research Briefing provides an overview of the red meat sector in Wales for 2018. It comprises a summary of beef, lamb and pork prices in the UK as well as the UK's position in the global red meat trade. It also contains information on red meat producers and processors in Wales as well as discussing issues raised by Brexit.



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Introduction

This research briefing gives an overview of the current state of the UK red meat sector with particular reference to the Welsh red meat industry. The red meat industry in Wales comprises sales of meat from cattle, sheep and pigs.

Red meat is one of biggest agricultural sectors in the UK. It accounts for around **23% of UK agricultural production** by value; in Wales this figure is **twice as high at 46%**. Dairy is the biggest sector by value in Wales, followed by red meat. Cattle hold the biggest share of the red meat sector in Wales accounting for 26% of total Welsh agricultural production value, followed by sheep and pigs with 17% and 0.38% respectively. Given that pigs constitute a small proportion of Welsh red meat production, this briefing places an emphasis on cattle and sheep.

The value of output from sheep in Wales fell by 1% between 2016 and 2017, while the **value of output from cattle** rose by 8% for the same period. Forecasts for 2017 saw an increase in total agricultural output of £174 million (12%) and was only partially matched by an increase in consumption of £93 million (9%). Although this is a large increase it follows two years where total income from farming was **'particularly low'**.

British red meat prices

The **average deadweight cattle price for steers** in Great Britain (GB) in 2018 was above 2017 levels up until July where a dip was observed before increasing to 368.3p in October 2018, compared to 370p in October 2017. The **average GB deadweight lamb** price in 2018 matched the 2017 maximum price (509.4p) in March 2018 and continued to remain above this until the end of June 2018. In the period 17 March 2018 to 23 June 2018 the price averaged at 555.1p compared to 441.1p for the same period in 2017; the price also reached an **all-time high of 601.9p in mid-April 2018**.

Average livestock auction market prices have continued to increase since 2016. **For January to October 2018, the steer price** (189.7p per kg) rose 2.0% compared to the same period in 2017 (185.9p per kg) following an increase of 6.6% from this period in 2016 (174.5p per kg).

For the January to October period in 2018 the **Welsh auction market price of lambs** (206.5p per kg) rose 11% compared to 2017 (186.5p per kg); this followed a 3% increase compared to the same period in 2016 (181.2p per kg). The Welsh price rises mirror similar GB-wide trends.

Generally, the price of lambs is subject to considerable seasonal volatility compared to beef.



Figure 1: Average UK farm price in pence per Kg between January 2013 and September 2018.

Source: **Agriculture and Horticulture Development Board (AHDB) Beef and Lamb**

The global red meat trade

World **meat production is growing** with supply pressures growing in the global beef market due to a drought in the US and low Brazilian export prices. The **tariffs imposed** between the US and China are another cause for uncertainty in the global meat industry.

Beef

Global beef exports are comprised mostly of meat from Australia, Brazil and the United States. The EU has limited influence on the global beef trade, as the majority of EU beef is sold within the EU single market. Most beef exports from the EU tend to be lower value cuts for which there is little demand within the EU. **Japan, China and then the US** are the biggest importers of beef.

UK exports

In 2017, the **UK exported 11.7% of its total beef and veal production** (PDF, 1.5MB), with 87% of this going to EU countries. The total value of these exports in 2017 was £405.1 million. **This continued to rise** in the first half of 2018 with a 14% increase in exports in this period.

UK exports of beef and veal were expected to continue from 2016 in a positive manner due to the generally weaker currency. This was not the case and exports of cattle in 2017 fell by 2% compared to 2016, thought to be due to a limit on supply. **This has been followed by a 14% increase** for the first half of 2018 compared to the same period in 2017.

Beef exports to Hong Kong, which account for over half of UK beef exports, for 2017 were double that of 2016. This was followed in the first half of 2018 by a 13% increase compared to the first half of 2017. Exports to other non-EU countries showed a similar trend between 2016 and 2017, but have since seen a decrease of 14% in the first half of 2018 compared to the same period in 2017.

UK imports

The UK imported **275,400 tonnes of beef in 2017**; accounting for 23% of total UK beef consumption. Ireland is the UK's biggest supplier of imported beef, accounting for just over 70% of UK beef and veal imports in 2017.

Total beef imports increased by 3% in 2017 compared to 2016. This growth continued in 2018 with **imports of beef and veal 4.6% higher** up until June 2018 when compared to the same period in 2017. This increase was largely met by Ireland, although imports from some EU countries such as the Netherlands, Germany and Poland decreased.

Imports from non-EU countries showed a 35% increase in the first half of 2018 compared to the same period of 2017. Imports of beef from Brazil were up 105% in the first half of 2018.

Sheep meat

The global sheep meat trade is driven predominantly by exports from New Zealand (NZ) and Australia. Despite these nations dominating the world's sheep meat exports, China is now the world's largest sheep importer and producer, with **Asia's appetite for sheep meat** expected to continue growing.

Hybu Cig Cymru (HCC), the Welsh red meat promotion board, has allocated resources for **promoting Welsh red meat produce in Asian markets**. Recently **Saudi Arabia announced** it will lift the ban on Sheep imports from the UK, a deal which could be worth **£25 million to the UK market**.

UK exports

In 2017 the **UK exported 30% of its lamb and mutton production** (PDF, 1.3MB) with 94% of this going to EU countries in 2017. The volume of meat produced increased by 14% over 2017. The total value of these exports was £385 million, rising from £327 million in 2016. This has then been followed by a **decrease** (XLS, 2.4MB) of 12% for the first half of 2018 compared to the same period in 2017.

The biggest share of UK lamb goes to France, followed by Germany then Ireland, with recent **figures** (XLS, 2.4MB) showing increases to Germany (25%), Belgium (16%), Italy (13%) and Denmark (13%).

UK imports

In 2017, **the UK imported 80,200 tonnes of sheep meat**; accounting for 27% of total UK lamb consumption. This was the **lowest value of sheep imports for 20 years**, 11% lower than 2016. The majority of sheep meat imports come from outside the EU with NZ providing 65% of UK imports.

Even though NZ contributes most of the UK sheep meat imports, total UK imports from NZ declined due to a decrease in NZ production matched with increasing demand from markets such as China. **NZ has also recently signed a trade deal with China** to allow for the shipping of chilled lamb.

UK red meat supply

UK **production of beef** was 1% lower in 2017, following a strong 2016, with the fall ascribed to a 3% reduction in the number of slaughters with a slight increase in carcase weight. UK production of sheep meat showed an **increase of 3%** in 2017 compared to 2016. Overall, production increased for all meat types between 2012 and 2017 (Table 1).

in 000 tonnes	Beef and veal	Lamb and mutton	Pig meat	Offal	Total red meat
2012	885	275	825	139	1985
2013	847	289	833	138	1969
2014	877	298	863	143	2038
2015	883	302	898	145	2082
2016*	912	290	903	147	2121
2017	902	299	899	146	2100

Table 1: Total UK production in 000 tonnes. *DEFRA swapped to calendar years in February 2016.

Source: **AHDB Beef and Lamb UK Sheep Yearbook 2018**

In Wales, cattle slaughter numbers were down 3.1% for the period up until June 2018, relative to the same period in 2017 (Figure 2). This goes against **the wider UK trend of a 3% increase** in slaughtering and production of beef in the year up to August 2018 compared to the same period in 2017, driven by a continued demand for manufacturing beef.

Sheep slaughters in Wales decreased 3.2% for the period up until June 2018 relative to the same period in 2017 (Figure 2). This mirrors **the UK wide trend** of a 3% decrease in sheep slaughter in the year up to July 2018, compared to same period in 2017.

Total slaughtering of Welsh livestock

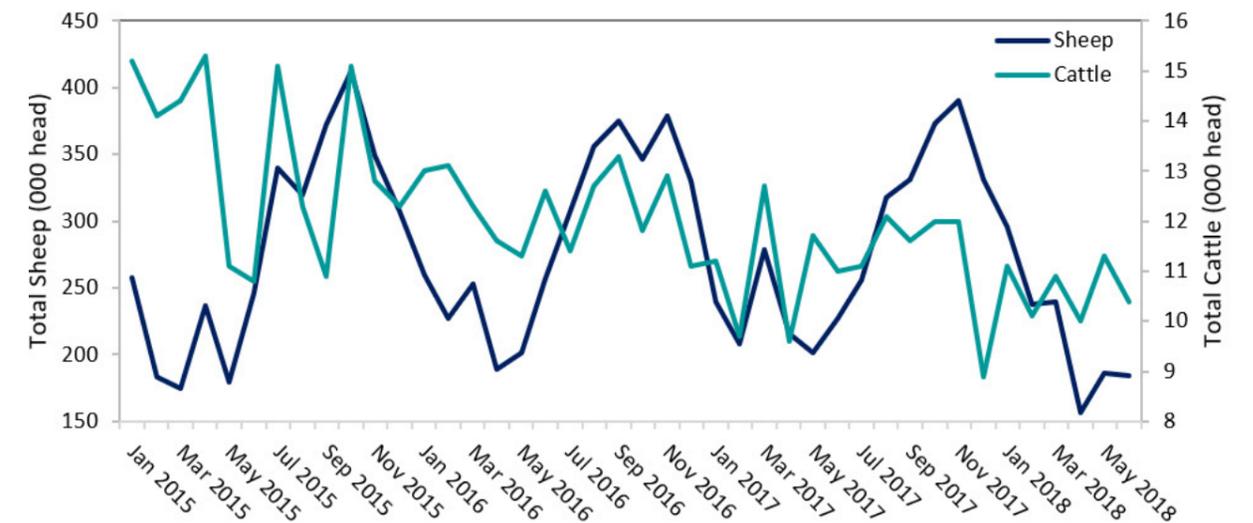


Figure 2: Total slaughtering of Welsh sheep and cattle between January 2015 and May 2018.

Source **HCC**.

The relationship between production (tonnes) and slaughter is dependent on the average carcase weight, which is in turn dependent on the maturity of the animal when slaughtered as well as the sex. Generally, carcase weights have increased for all UK livestock, with the exception of ewes and rams (Table 2).

in kg	Cattle				Sheep	
	Steers	Heifers	Young bulls	Prime cattle	Clean sheep	Ewes and rams
2012	367.1	320.3	346.4	347	19.1	26.4
2013	360.7	315.9	338.8	340.6	19	25.9
2014	367.5	324.6	344.8	348.7	19.4	27.3
2015	374.8	331.8	344.6	355.7	19.6	26.7
2016	372.4	327.9	327.1	350.9	19.2	25.9
2017	367.0	330.0	326.6	349.1	19.4	26.5

Table 2: Carcase weight of cattle and sheep in the UK 2012-2017.

Source **ADHB Sheep Yearbook (PDF 2MB) and Cattle Yearbook (PDF 1.9MB)**

Supply chain margins

The retail price spread is the difference between the amount paid to the farm and the amount paid to the retailer. **The price spread for pork has decreased 4%** in the year up to June 2018, reflecting a decrease in pork price combined with following an **'exceptionally high'** producer share in 2017. The producer share of **beef has stayed relatively stable**. The price spread for **lamb showed a 7% increase in producer share in May 2018** compared to May 2017; this is thought to be due to fewer new season lambs available due to the difficult weather conditions in spring.

Cattle production is **forecast to be marginally higher** in 2018, due to an increase in slaughter of prime animals, but fewer cows. **Sheep production is forecast to rise** in both 2018 and 2019 compared to the previous years.

The **Agriculture and Horticulture Development Board** (AHDB) expects the poor weather at the start 2018 to have a negative impact on domestic output in 2019 and beyond. Overall trade levels are expected to increase, although continued inflation may lead to a reduction in domestic demand.

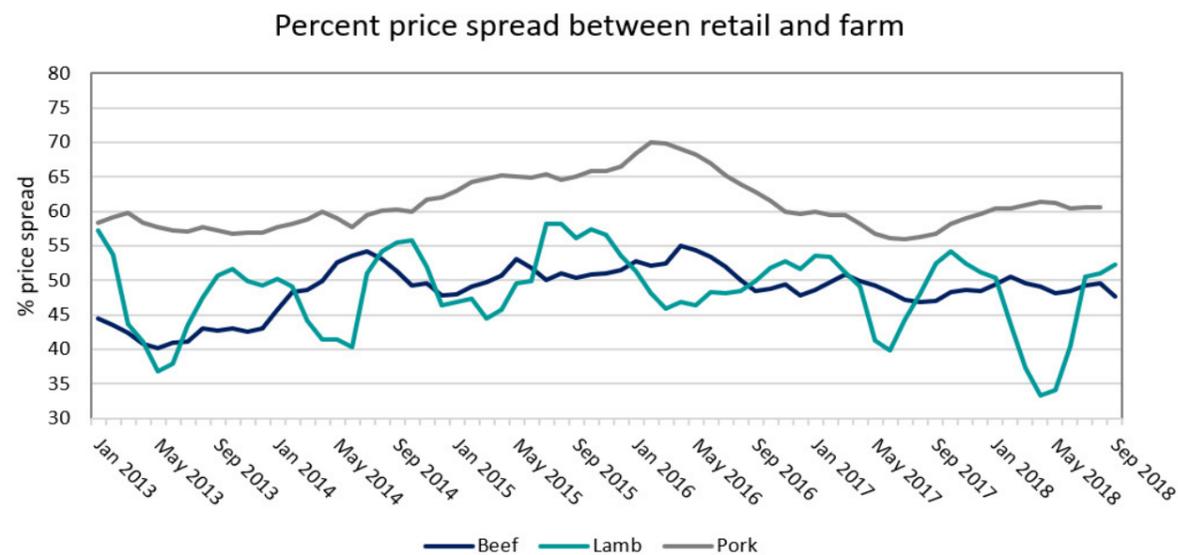


Figure 3: UK Price spreads for beef, lamb and pork from January 2013 - September 2018. Source **AHDB 'UK farm to retail price spreads'**.

Welsh producers

In **2017 there were 10 million sheep in Wales**, 227,000 more than in 2016; an increase of 2.3%. **The Welsh flock in December 2016 was the largest in a decade** for the time of year. This is attributed to favourable lambing conditions earlier in 2016 and a high carryover from the previous year. The UK as a whole showed an increase in sheep numbers with the **total UK flock** increasing by 2.6% between 2016 and 2017.

In 2017, **Welsh cattle numbers** stood at 1.11 million, an increase of 0.3% on the previous year. **Welsh pigs reached 25,000** in 2017, an increase of 8.7% since the previous year.

The average farm income in Wales from sheep and cattle farming has risen in 2016-17 compared to 2015-16. Farm income for less favoured areas (LFA) (**around 80% of Welsh land**) stands at £23,100 per farm, an increase of £1,200 from the previous year, the highest in five years. This is attributed to improved market prices combined with a weak pound resulting in exchange rate fluctuations that lead to an increase in **EU Basic Farm Payments** of approximately 17%.

Red meat processing in Wales

According to an HCC **list of abattoirs**, in October 2018 there were 19 abattoirs in Wales. All of these abattoirs slaughtered sheep, with 17 able to slaughter cattle and 12 able to slaughter pigs.

An HCC **assessment of capacity in the Welsh red meat slaughtering industry** in March 2016 indicated abattoir numbers were in decline, falling from 22 abattoirs in 2016 to 19 at present. A **report** published by The Sustainable Food trust highlighted the risks for the local sustainable supply of meat if this trend continues. Of the abattoirs in use in 2016, the HCC report found **none were operating to capacity** with cattle facilities operating 17% under their maximum capacity, sheep facilities 41-72% under capacity and pig slaughtering facilities 32% under capacity.

A review of the beef sector in Wales in 2014 found that 72% of Welsh cattle were slaughtered outside Wales. Of the slaughtering that occurred in Wales, 42% comprised cattle born outside Wales. Of British sheep, **31% were bred in Wales but only 24% were slaughtered in Wales**. 90% of the Welsh abattoir throughput was undertaken by only four abattoirs, the largest of which is St Merryn Meats Ltd. The 15 smaller abattoirs were considered vital to rural Wales for employment and reduced transportation distances for the animals.

Buyers and consumers

The vast majority of Welsh livestock is sold on the spot market, with a very limited proportion sold on contract, and even less at a known price. The market price varies by region across Wales, with HCC supplying up-to-date **market prices by region in Wales**.

Different buyers require different specifications. For example, butchers generally require the highest classifications, while manufacturers tend to have lower specifications. Specific **sheep carcass classifications** and **cattle carcass classifications** for different markets are provided by HCC.

As of **June 2018**, British beef accounted for 83% of British supermarket beef sales (PDF, 830KB), while British lamb accounted for 70% of supermarket lamb. In 2016 only **5% of sheep bred in Wales were consumed in Wales**, with 60% consumed in the UK and 30-35% exported.

The red meat levy

The red meat levy is a price paid by all producers or slaughterers at the point of slaughter (or live export). The levy is paid to the relevant levy board to be used for marketing and promotion of that country's meat products. The country of slaughter dictates which country's levy will be paid. In Wales the levy **is paid to HCC**, which in 2015/2016 was **70% funded by the levy**.

The levy has been **criticised in the past** as it does not take into account cattle produced in one country then slaughtered in another; the money is paid to the levy board in the country of slaughter regardless of origin. In **2015 there were proposals to change this**, but as of October 2018 no changes have been made. In May 2018, the UK Government's Minister for Agriculture, George Eustice, **recognised** the need to 'look at how the levy is collected and consider possible alternatives'.

Voluntary code of practice

In 2015, the British Meat Processors Association (BMPA) introduced a **voluntary code of practice for purchasing cattle (PDF 178KB)** between meat processors and livestock producers. The code aims to improve the transparency of processors' operations, while also encouraging processors to provide 12 weeks' notice of changes to trading conditions.

The then NFU Cymru President, Stephen James, said when the code was announced in 2015:

This is a welcome step in the right direction as we continue to seek more openness and transparency in the supply chain. What is critical to our members is the stability that this code should bring, which will allow producers to plan ahead and market their cattle without sudden or unexpected changes to conditions of sale. We hope this will help beef producers to manage the volatility we have seen in recent years and provide a clearer understanding of the terms and conditions that are on offer.

As of October 2018, **six processors had signed the code**: ABP, Dovecote Park, Kepak Group, Randall Parker Foods, 2 Sister Food Group and Morrisons subsidiary Woodheads. However Dunbia, which owns three Welsh processing plants has not.

The decision **drew criticism from the NFU**. In a statement in November 2015, the then NFU president Meurig Raymond said:

Dunbia is a processor that publicly claimed that a voluntary code was not in their best interest as their relationship with suppliers was fair and transparent. Yet they are giving their producers virtually no notice for significant changes in the specifications of cattle.

A spokeswoman for **Dunbia said in 2015 that the possibility of signing was under discussion**; Dunbia are yet to sign the agreement.

There is currently no similar scheme in place for sheep and pigs.

Red meat markets post-Brexit

The EU is the biggest market for Welsh red meat, other than the UK, with approximately 90% of Welsh beef and lamb exports destined for EU Member States in 2016. On 8 October 2018 the National Assembly's External Affairs and Additional Legislation (EAAL) Committee held an **evidence session** as part of its **inquiries into different sectors'** preparedness for Brexit, including the food sector. The Chief Executive of HCC, Gwynn Howells described the European market for **Welsh red meat as "extremely, extremely important"**. He also warned that the industry is currently seeing some EU supply chains looking for **alternatives to Welsh lamb, which he described as "unsettling"**.

Regarding UK sheep meat products, despite exporting most of its sheep meat products to the EU, the UK is **the biggest EU exporter** of sheep meat to non-EU countries. To improve access to non-EU markets for Welsh lamb, HCC has invested resources in exploring options, particularly in the **Middle East, Asia** and the US. Gwynn Howells said that HCC is planning to accelerate development of markets outside of Europe **"over the next few years in order to de-risk our portfolio of exports, which is largely in the European basket at the moment"**.

There is also concern over the red meat levy, which is used to promote and market Welsh red meat. HCC **believes that the current arrangement**, of the levy being paid in the country of slaughter, is limiting its funding and will limit its ability to promote Welsh red meat post-Brexit. On 12 September 2018, the Cabinet Secretary for Energy, Planning and Rural Affairs, Lesley Griffiths, **said that powers relating to the redistribution of the red meat levy** should be included in the **UK Agriculture Bill**, calling for UK Government "to correct this as soon as possible". An amendment to the Bill was agreed on 15 November 2018, with the **amended version of the Bill** now including **Part 8** which allows for the red meat levy collected in one country to be paid to the levy body of another country within Great Britain.

At the time of writing (December 2018), a Withdrawal Agreement has been agreed between the EU and UK Government, however it still needs to be approved by the UK Parliament.

Regarding the post-Brexit domestic market, **HCC warned the Assembly's External Affairs and Additional Legislation Committee** that there would need to be a:

Significant period where there would need to be adjustment, and to find supply chains that could take the excess lamb at certain months of the year onto either the retail market in the UK, or the food service market in the UK, or to public procurement supply chains.

The Welsh farming unions have commented regularly on Brexit and the effect it may have on farming in Wales.

On 20 November 2018, **all four NFU branches for the UK nations, published a joint statement on the proposed EU Withdrawal Agreement**. They believe that the Withdrawal Agreement is “not perfect, [but it will] will ensure that there are no hard barriers on the day we leave the European Union, and will allow trade in agricultural goods and UK food and drink to continue throughout the transition period largely as before”. They are continuing to “urge government to protect [the highest production and animal welfare standards standards] and maintain the high levels of trade in agricultural goods between the UK and the EU, our largest export market”.

On 27 November 2018, the **Farming Union of Wales (FUW) President, Glyn Roberts, asked for reassurance from the Prime Minister, Theresa May**, especially regarding the proposed 21 month ‘transition period’, he said:

An additional 21 months of stability would be welcome, but we also need a commitment that after that period we will not open the floodgates to lower quality imports and that maintaining access to the EU market where most of our exports go will be a priority. The FUW has been consistent in its view that the best way to minimise disruption and economic damage to agriculture and other industries is to remain within the Single Market and the Customs Union

Should the UK leave the EU with no trade deal in place, it has been suggested that trade between the two would take place on the basis of World Trade Organisation (WTO) rules. During the EAAL Committee evidence session, Gwyn Howells **said that tariffs on Lamb would be a minimum of 50% on lamb carcasses and up to 80% for cuts of lamb**. He added “there would be no exports to those countries in that scenario”. In the **joint statement from all four NFU branches** the NFU warned that “trading with the EU under WTO rules alone is unacceptable and would decimate our industry”.

There has also been concern over the **EU protected food name scheme** which gives legal protection against imitation of registered regional and traditional foods or drinks throughout the EU. There are currently **15 Welsh products registered with the geographical indications scheme**, including ‘Welsh lamb’, ‘Welsh beef’ and ‘traditionally reared pedigree Welsh pork’. The UK Government has **published a consultation in October 2018 seeking views on creating a UK equivalent** of the scheme after leaving the EU. The **Senedd Research Service also published a blog** before this consultation was published, looking at the post-Brexit scenario for geographical indicators. This blog adds that the UK Government believes **geographical indicators to be a reserved matter**.

HCC published **‘Exploring the implications of Brexit for agriculture and horticulture in Wales’** in July 2018, which explores the different possible Brexit scenarios and their consequences for Welsh agriculture. HCC Chief Executive, Gwyn Howells, **highlighted the need to focus on developing trade outside of the EU**, the possible shortage of labour and the need to keep food standards high. A recent **Welsh Government Brexit Report** also highlighted the possible issues regarding the labour requirement of processing plants. There was a particular reference to vets on the slaughter line in abattoirs, as 80% of the vets in Welsh abattoirs are from the EU.

On 8 October 2018, the Welsh Government announced a £2.15 million **‘Read Meat Benchmarking Initiative’** which is designed to:

Enable beef and sheep farmers to maintain their competitiveness in changing markets, maximise any emerging opportunities and ensure they are able to thrive in a post-Brexit world

In terms of farming support, the basic payment scheme has been **guaranteed, in its current form, until the end of 2019** with a transition period to new rules after 2019. The Common Agricultural Policy payments (CAP) will be **matched by the UK Government until 2022**. However, due to the uncertainty around the Brexit deal (as of November 2018) the details of how these schemes will work is still unknown. Any future reductions in **subsidies will affect Welsh agriculture more than the rest of the UK as farming support contributes a higher proportion of farm business income in Wales** (PDF, 2.8 MB).

The HCC report suggests that payment support systems will come under greater scrutiny in terms of public benefits for public money. This was mirrored in the recently **announced UK Agricultural Bill**, agreed with **Welsh Ministers**, which proposes a change to these subsidies with a focus on payments for ‘public goods’ such as carbon sequestration or improving air and water quality.

Key sources

- [AHDB Beef and Lamb](#)
- [Hybu Cig Cymru](#)
- [Farmers Union of Wales](#)
- [NFU Cymru](#)
- [Farmers Weekly](#)
- [Welsh Government Agricultural Statistics](#)
- [Review of Beef Sector 2014](#)
- [BREXIT and the Red Meat Industry](#)
- [HCC's most recent publications](#)
- [2018 Cattle Yearbook \(PDF 1.4MB\)](#)
- [2018 Sheep Yearbook \(PDF 1.3MB\)](#)

