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Sustainability of cattle supply in the UK

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It all starts with the consumer



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- We must start with the market
- Beef is a commodity, but also a luxury
- Key protein source for UK families
- More expensive than some alternatives
- Consumers buying on
 - Value/Price
 - Taste and quality
 - Consistency
 - Convenience

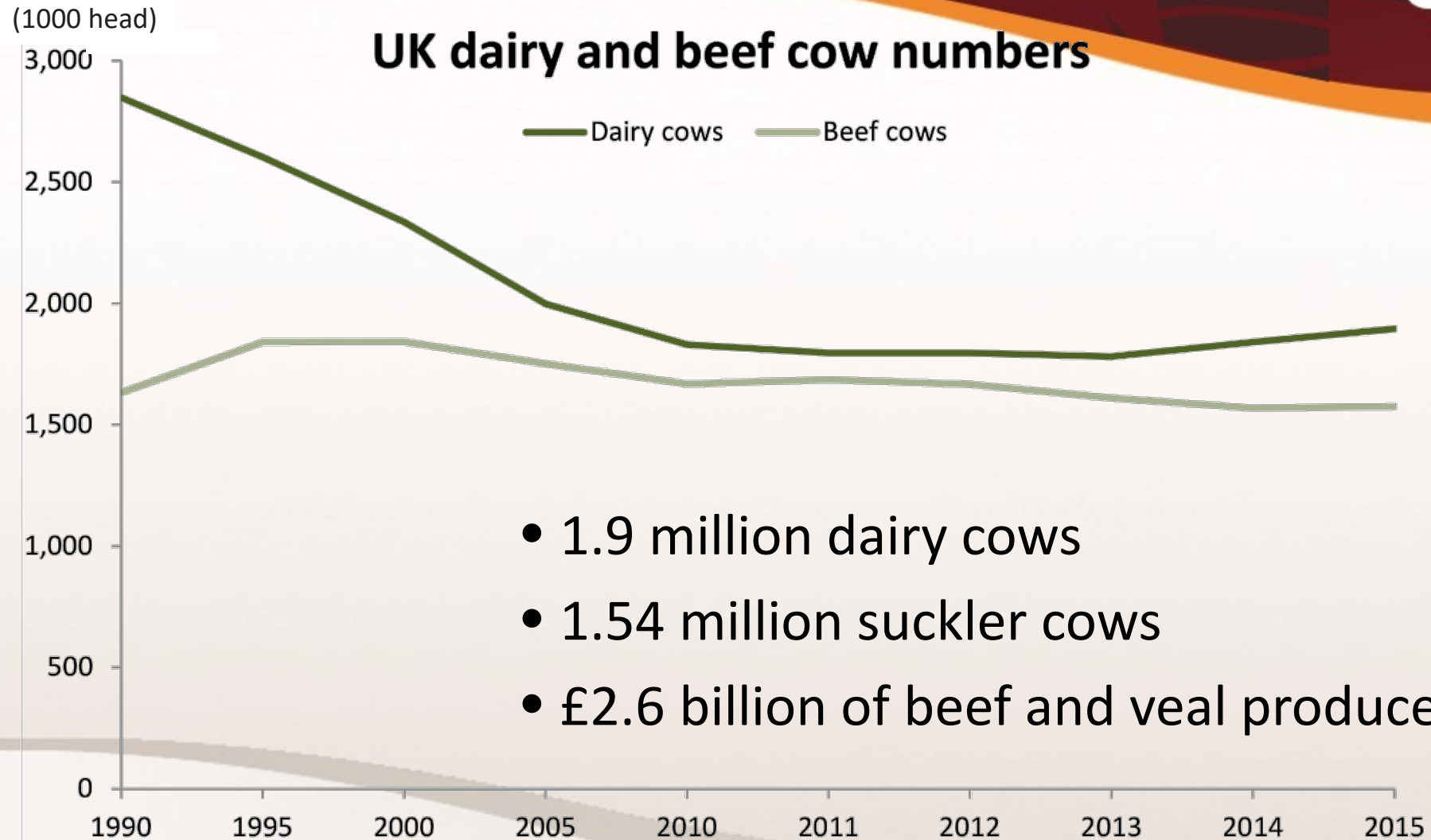


Cattle numbers



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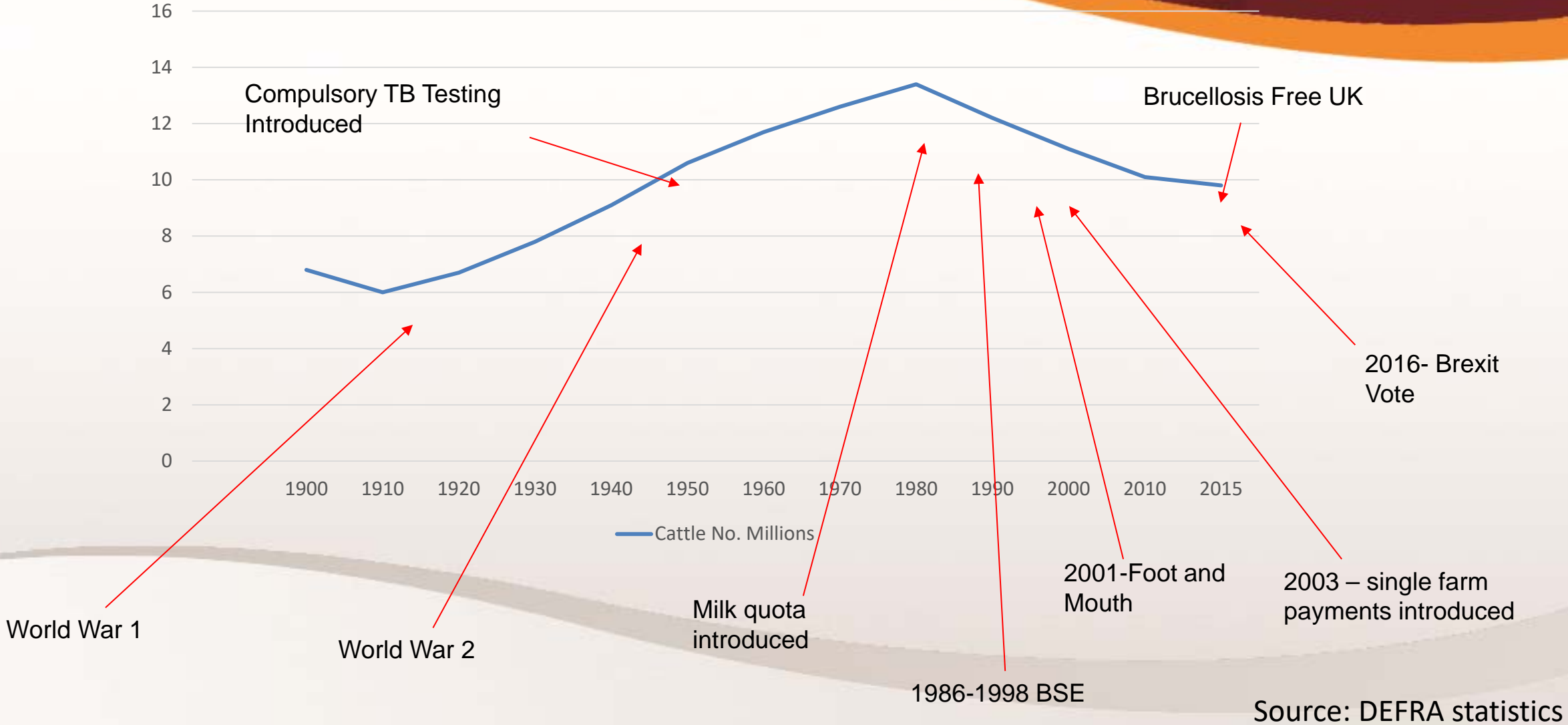
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- 1.9 million dairy cows
- 1.54 million suckler cows
- £2.6 billion of beef and veal produced

Source: Defra

UK cattle numbers since 1900



Causes of fluctuation



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- Livestock numbers have always fluctuated
 - Market conditions
 - Available imported beef
 - Land availability
 - Water availability
 - Comparative enterprise profitability
 - External support/CAP payments
 - Legislative framework
 - Currency



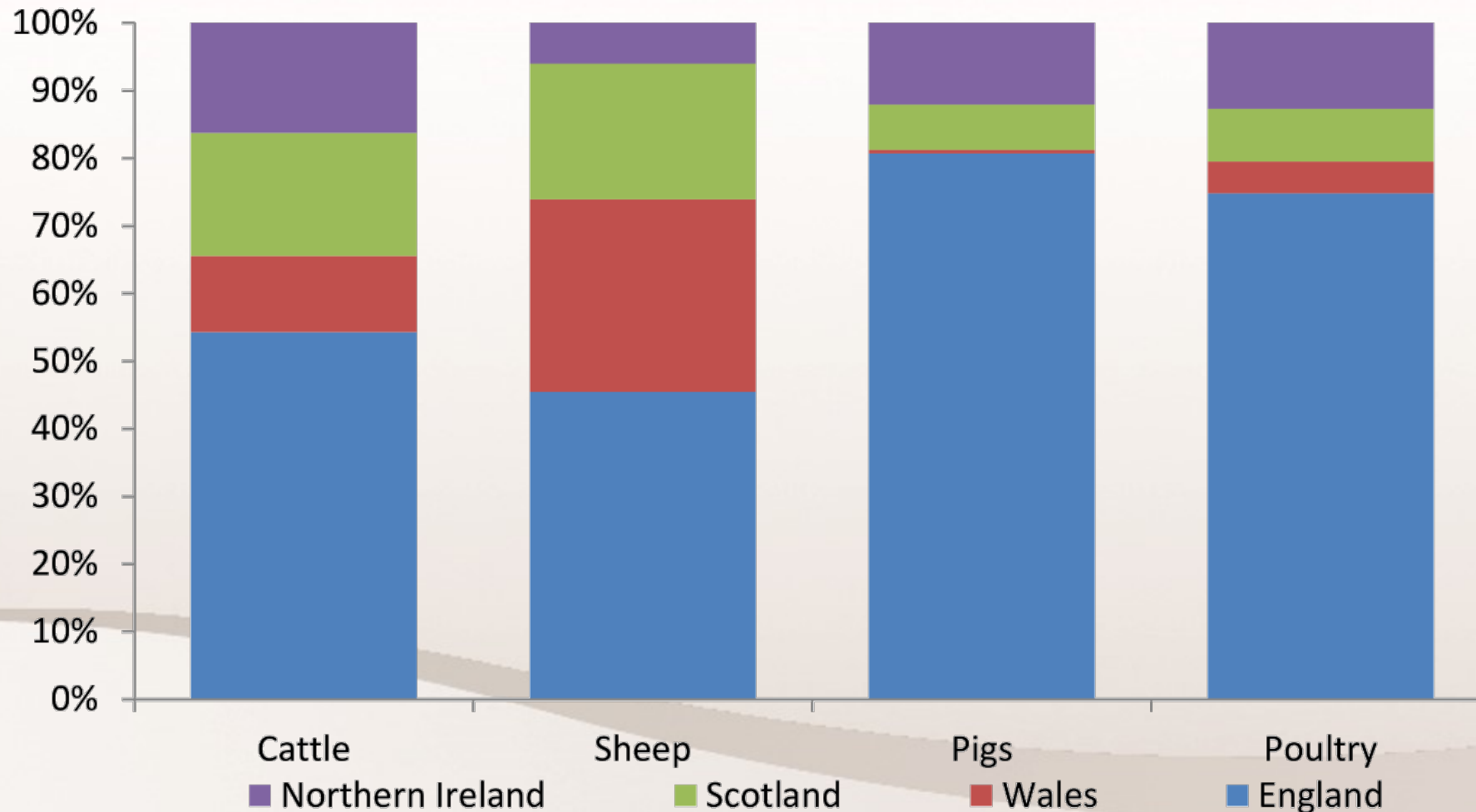
Livestock numbers by country



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UK livestock numbers by country, June 2015



Source: Defra, Welsh government, SEERAD, DAERA



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So what does our industry look like?

UK Beef production



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The negatives



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- Unprofitability (despite high beef prices)
- Almost total lack of performance recording
- Industry fragmentation
 - The separation of the breeder from the finisher & hence the market
 - Broken Feedback Loop
- Variable supply & Inconsistent Quality
 - The overwhelming importance of throughput & volume versus specification
- Average number of beef animals sold per farm – approximately 40
- The likely ongoing reduction of external support for beef farming, increasing future market exposure
- An uncertain legislative framework
- Lack of carcass balance into the most profitable markets

Negatives: Costs, Top, Middle, Bottom Third



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SDA Suckler Herd Costs

Non-cash fixed costs	227.72	243.07	250.39
Full economic fixed costs	424.62	474.10	509.32
Full economic cost of production	626.53	726.92	809.64
Full economic net margin	23.13	-124.79	-263.39

Net Margin **£23.13** **-£124.79** **-£263.39**

Beef Finishing Costs

Non-cash fixed costs	76.07	122.14	247.93
Full economic fixed costs	210.30	258.70	431.15
Full economic cost of production (inc purchase costs)	1038.47	1066.93	1142.73
Full economic net margin	-17.91	-127.50	-340.71

Net Margin **-£17.91** **-£127.50** **-£340.71**

Negatives: Variation



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- Oversized cattle reduce the saleable value of sirloin
- 25% of sirloin, 25% rump, >50% topside scored “unsatisfactory” in EU consumer trials!
- 49% of beef fails to meet ideal market specification (AHDB)

Negatives: Inconsistency



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- Wide range of
 - Breeds (25+)
 - Sizes
 - Production systems
 - Diets
- Subsequent variation
 - Appearance
 - Price
 - Eating quality



Negatives: Waste



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- High cost of over-finished cattle
- 4kg lean growth costs the same as 1kg of lean

UK Beef Production: The positives



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The positives



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- Market access
 - The market for UK beef is greater than our production
- New packaging techniques
 - Will permit higher sales in convenience stores
- Increasing population, bigger market
- Increasing affluence across the world



The world market



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- Rising population
- Increased demand against supply
- Rise of the middle classes in developing countries
- Satiated demand in developed countries
- Rising production (59.2 million tonnes vs 58.4, 2014 vs 2015)
- World produces enough beef for everyone to have 6kg/year

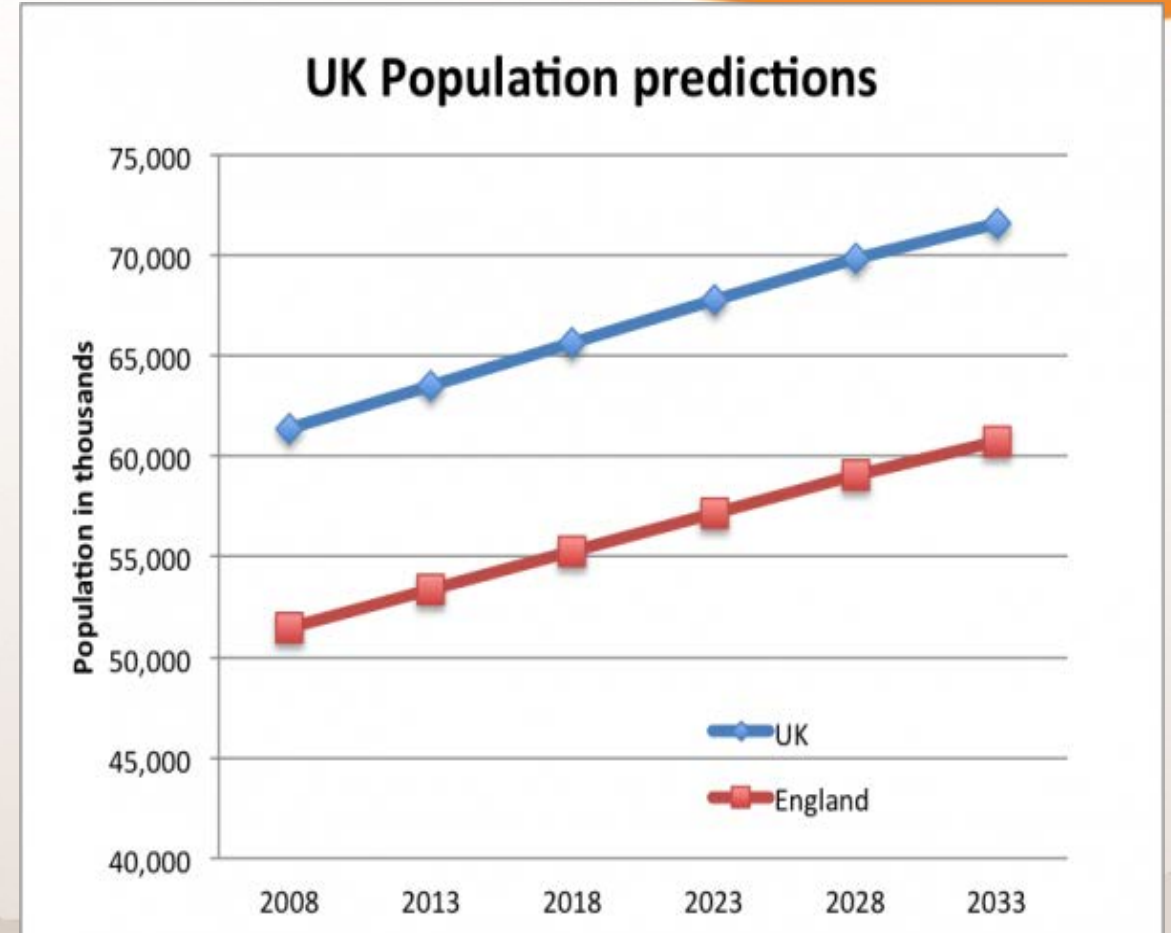
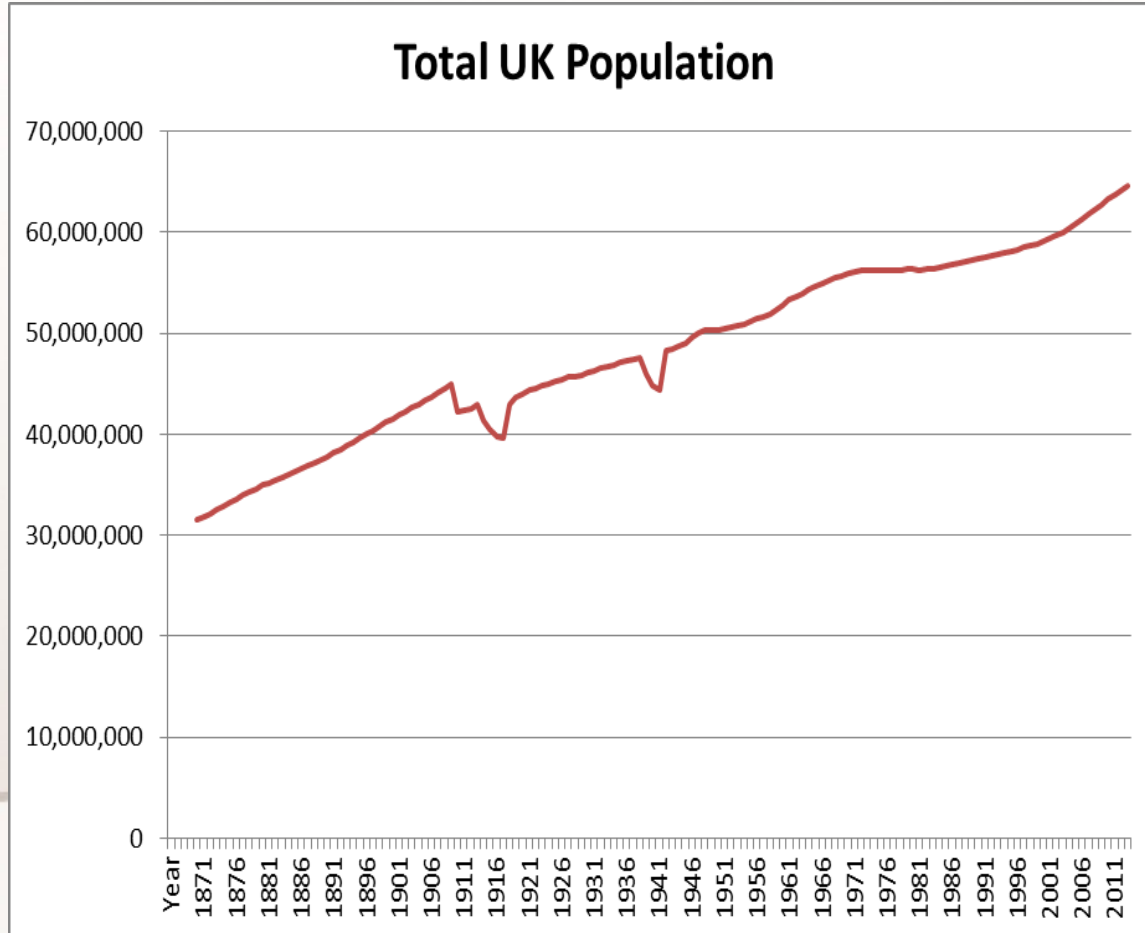


Population growth, market growth



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Growth of the middle class



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Source: Brookings Institution

UK Demand



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- UK home produced beef supply meets about 60% of market requirements
- Irish beef meets the majority of the remainder
- Opportunity to negotiate supply from other countries
 - South America
 - Australia
 - Southern Africa



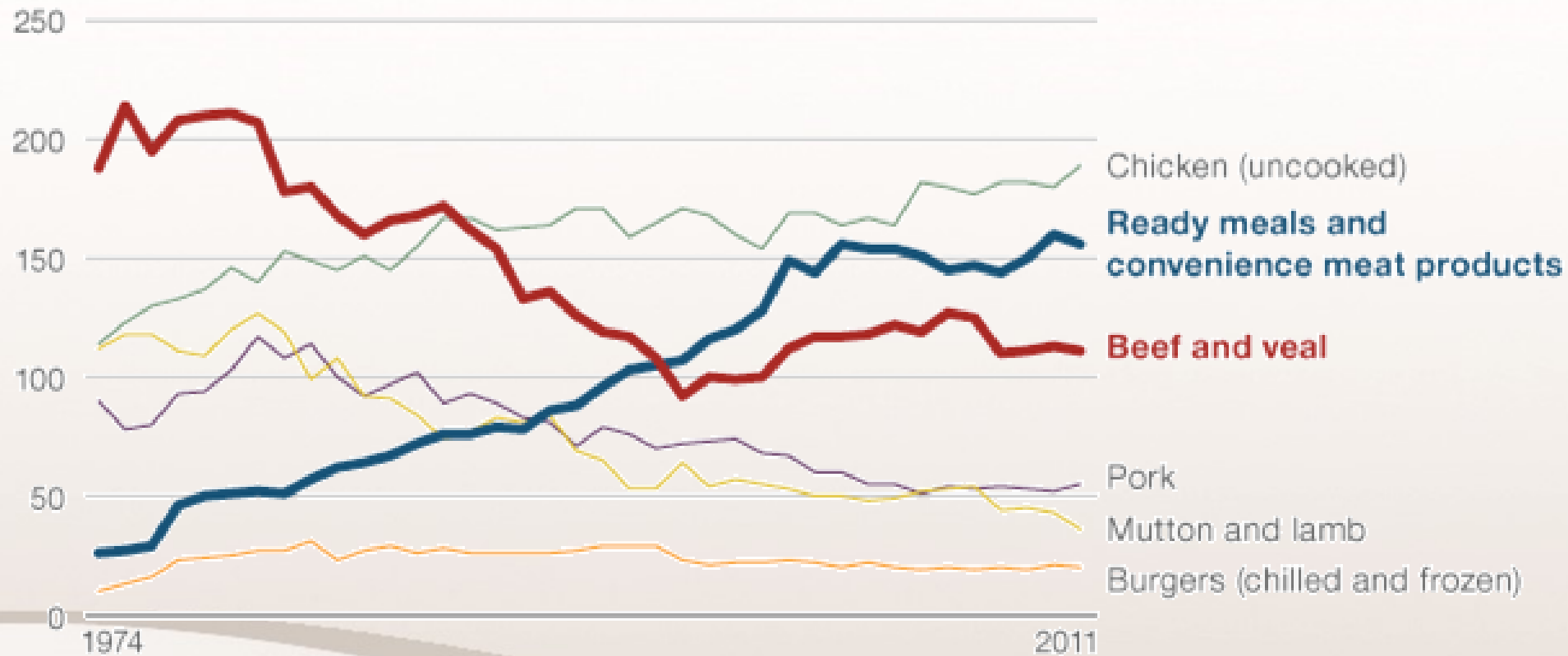
Meat purchased in the UK 1974-2011)



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Household food only



Source: DEFRA

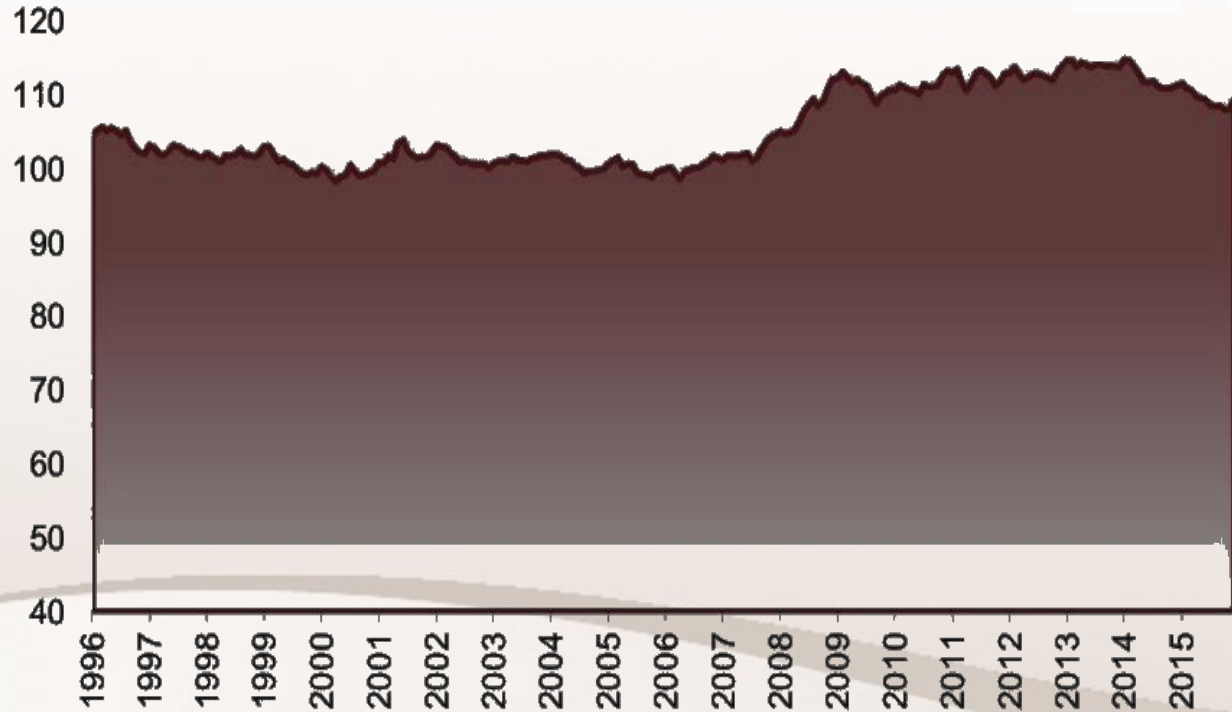
Trends



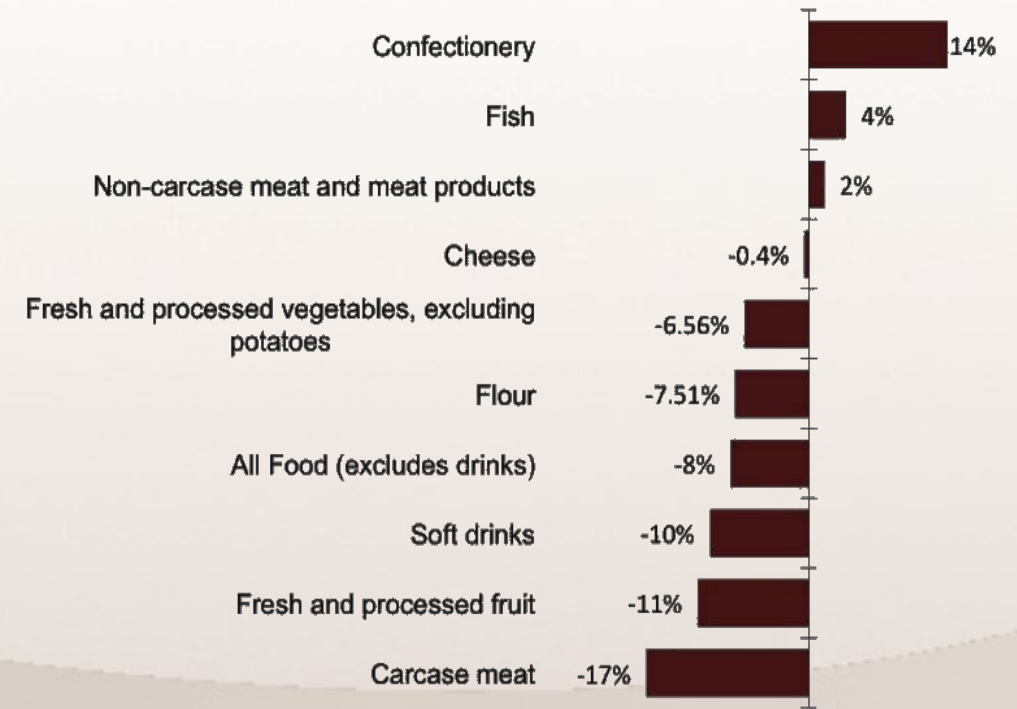
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UK trend in food prices in real terms, January 1996 to December 2015¹



Percentage change in food purchases 2007-2014, in low income households (UK)





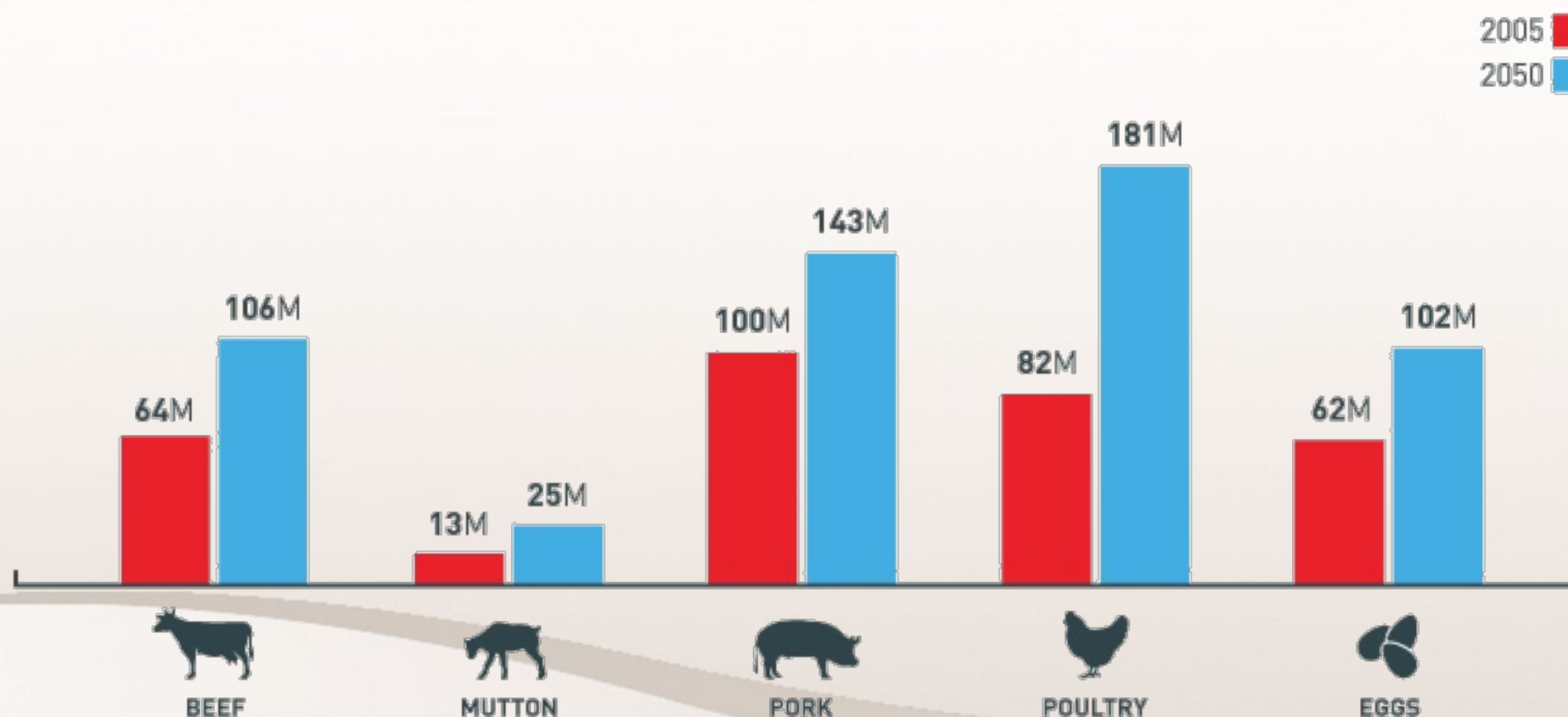
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GLOBAL DEMAND FOR MEAT

2005 vs. 2050

(in tonnes)



Source: FAO

Packaging improvement, better life



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Threats & Pressures



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Threats

- Food scares
- Disease outbreak
- UK food security policy (or otherwise)
- Reducing support
- Legislation
- Imports from third countries
- Climate



30% fewer consumers buying processed meat



700,000 cattle culled....



- Uncertainty: No-one really knows
- Could swing cattle production either way
- Open new markets = increase cattle numbers
- Could decrease value of British Beef
- Short term – weak £ resulted in high export value
- Numbers dependent on subsidies

.....Long term impact unknown!!!



So what does the future hold?.....



The Outlook



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- Beef farm costings suggest that the majority of farms are losing money
- It appears that external support will be in place for the foreseeable future, but it will reduce
- Increased market exposure will continue to reduce the number of farms with beef enterprises



The Market



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- Long term market signals are very positive
- Growth of demand
- Slower growth of supply
- Ongoing price rises
- But, price rises unlikely to fully compensate for reduction of external support



So the outlook depends on us.....



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- Requirement for increased efficiency
- Knowledge Transfer
- Data Recording, measurement and benchmarking
- Technology uptake
- Mentoring/external advice
- Applied research



We must do it all.....



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- Put less in per animal
- Get more out per animal
- Raise eating quality
- Develop additional medical & alternative applications for cattle products
- Use every market opportunity



Conclusion



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- There is considerable uncertainty – nothing new!
- Increased market exposure seems certain
- Not all farm businesses are equipped to cope
- The number of farms will reduce, but average farm size will rise
- The number of suckler cows will reduce, but the number of dairy cows will increase (in the longer term)
- Gradual downward trend in beef production (10-15%) before gradually levelling out and increasing again.





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Thank you