Senedd Cymru
Pwyllgor yr Economi, Masnach a Materion Gwledig
Ymchwiliad: Prosesu Bwyd
Cyf: FP03
Ymateb gan: Hybu Cig Cymru

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Welsh Parliament
Economy, Trade, and Rural Affairs Committee
Inquiry: Food Processing
Ref: FP03
Evidence from: Meat Promotion Wales

Hybu Cig Cymru: Written evidence to the Economy, Trade and Rural Affairs Committee inquiry into Food Processing

1. Hybu Cig Cymru (HCC) welcomes the opportunity to provide evidence to the Economy, Trade, and Rural Affairs Committee on its inquiry into Food Processing in Wales.

2. HCC is an industry-led organisation, Welsh Government owned arms-length body, responsible for the development, promotion and marketing of Welsh red meat, currently solely funded by levy-payers funds.

3. A successful added value food strategy will undoubtedly require access to competitive raw material, differentiation (i.e. branded as Welsh), access to people and skills, access to capital, and scale from a processing and consumer point of view.

4. Due to HCC's remit we would like to focus our evidence on the key issues related to red meat, i.e. access to competitive raw material, its differentiation, and scale from a processing and consumer point of view. Although HCC also supports the pig sector, for practical and scale reasons we have focused our written evidence on the sheep and cattle sectors in Wales.

Background

5. **Size of the Red Meat sector in Wales:** The total value of aggregate agricultural output rose by approximately £20 million to around £2.21 billion in 2024. The value of output from cattle remained high at £549 million, whilst the value of output from sheep showed a modest decrease to approximately £319 million. Gross output from cattle and sheep is estimated to be 39% of the value of agricultural output in Wales.

6. **Employment:** The red meat supply chain in Wales directly employs around 50,000 of which circ. 5,000 are employed by the red meat processing sector.

7. **Societal importance:** The red meat industry in Wales directly supports in excess of circ. 13,000 sheep holdings and circ. 6,500 cattle holdings (albeit with some overlap) in Wales. Primarily located in the 80% of Welsh landmass which is particularly well suited for the production of sheep and cattle in an environmentally friendly and efficient way. Land that is in large parts unsuitable for other forms of farming (e.g. horticulture). Importantly a significant proportion of these areas would have little alternative economical use to sustain rural communities as well as Welsh culture and language.

8. **Welsh Lamb as the 'Halo' brand for Wales:** PGI Welsh Lamb and PGI Welsh Beef are extensively recognised across the UK and internationally and underpin the widely recognised character of Wales as a producer of high-quality food products. This is

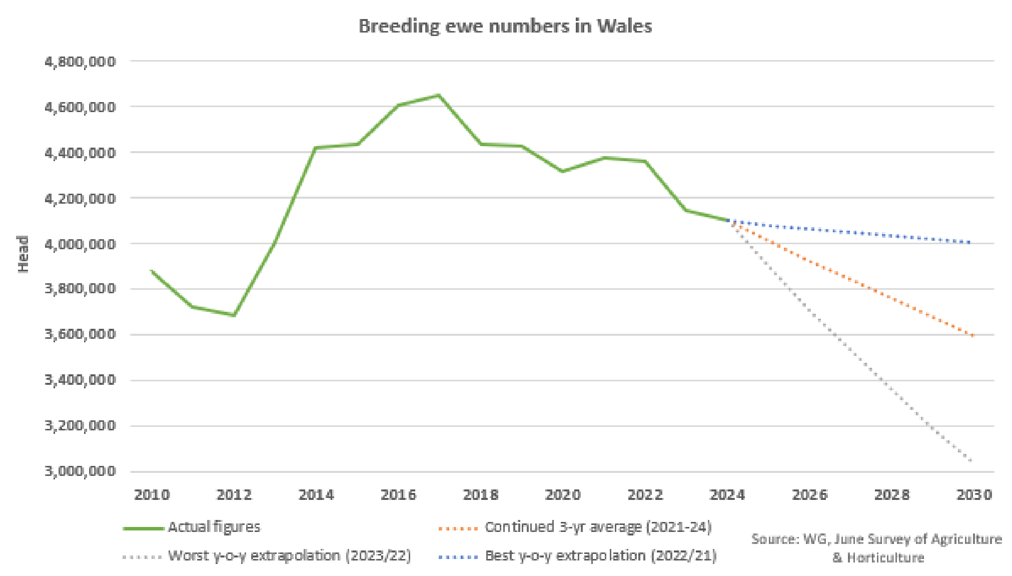
substantiated by strong brand recognition indicators (e.g. 72% main brand awareness for PGI Welsh Lamb in England and Wales). Evidence from a number of international trade shows highlight that Welsh red meat is seen as a key ‘halo’ product for the wider food and drink industry in Wales.

9. **Basis for further added value**: The well recognised PGI Welsh Lamb and PGI Welsh Beef provides opportunity for lateral brand expansion into other red meat-based categories and/or products. This is challenged by the difficulty in successfully adding value to an already high value raw material combined with continued consumer cost of living challenges.

10. **The importance of critical mass:** ‘Critical mass’, in the red meat context, is defined as the minimum number of livestock required by an industry to be economically viable in the medium to long-term. Without adequate livestock numbers to create a workable margin, supply chain businesses such as abattoirs, veterinary practices, marts, feed suppliers and manufacturers, may close or relocate. The closure of such crucial services would create a negative feedback loop potentially leading to increased inefficiencies and eventual failure in the supply chain.

11. **The importance of consumer scale**: In addition to the above for a product to be successful in the medium to long-term it requires scale in the marketplace because if it doesn’t, production and distribution costs make it uncompetitive with respect to the alternatives. Most products start with a low-scale and hence require significant consumer facing investment to increase the scale and make them viable.

12. Livestock numbers:



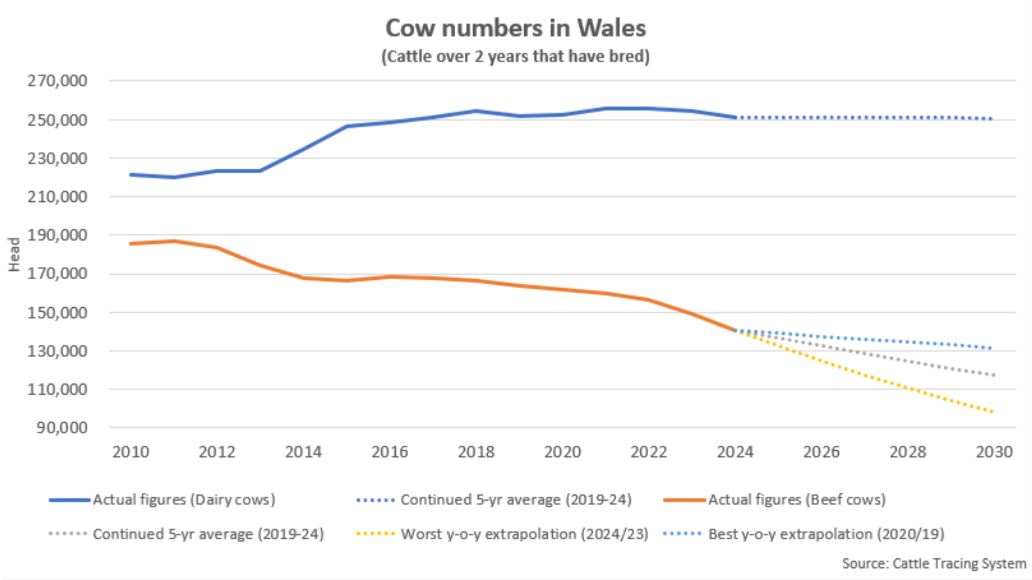
13. **Sheep:** Traditionally the key factors influencing livestock numbers are price, government support (i.e. subsidy), input costs, and farmer confidence in the future. Deadweight prices are strong when compared to historical averages, with the current average for new season lambs across GB sitting some 80p higher than the 5-year average at £7.48/kg.

14. Input costs have increased, future subsides are unknown until the Welsh Government Sustainable Farming Scheme is published, and farmer confidence is low due, amongst others, on mixed messages with respect to policy priorities between food production and net zero.

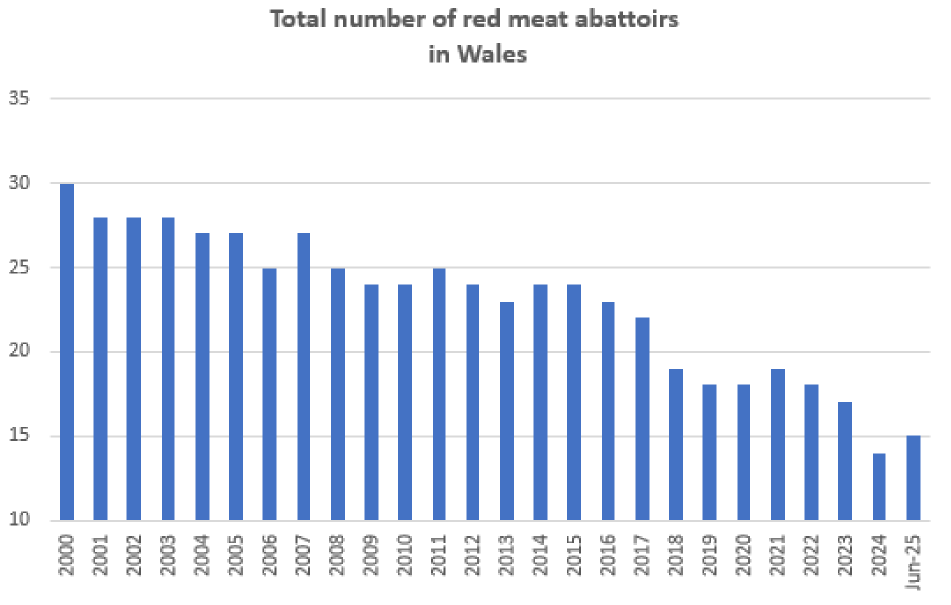
15. Our most recent farmer intention survey indicates that 49% of lamb producers intended to maintain their current sheep numbers, with 29% indicating their intention to grow their flock.

16. Although forecasting future numbers is difficult our best estimates indicate a further reduction of sheep numbers in the coming years with its corresponding challenges from a food security, competitiveness, critical mass, and consumer scale.

17. **Cattle**: Current projection indicate that dairy production remains stable driven by stable milk demand and relatively healthy returns for dairy farmers. The forecast for beef cattle is concerning as it shows a continued decreasing trend based on the last fifteen years. This is primarily driven by poor returns, animal health challenges, an aging workforce and potentially a lack of investment in infrastructure.



18. Primary processing facilities:



19. The number of red meat processing facilities in Wales has been on a steady decline over the last three decades.

20. Today there are fifteen red meat primary processing facilities with four of them processing circ. 80% of the volume in Wales.

21. There is an increasing risk that some of these facilities could be operating at under capacity which is economically unsustainable in the long-term and could result in further plant closures.

22. There is a strong correlation between the number of facilities and livestock production as the processing sector tends to consolidate around economies of scale to reduce processing costs and increase competitiveness.

23. The single most important reason for these facilities to exist is access to livestock in sufficient numbers to remain cost competitive.

24. There is a current danger of the red meat industry in Wales reaching a tipping point and transforming itself from a significant UK player to a small industry with little scale.

Factors impacting the decline

25. **Competitivity/productivity**: Despite significant and numerous efforts by the different bodies involved in red meat development in Wales the dispersed nature of the supply base (leading to a low number of livestock per holding and hence high fixed costs per livestock unit) combined with its climatic conditions has resulted in Wales' livestock production cost being consistently higher than our key global competitors (e.g. New Zealand in lamb).

26. **Perceived health challenges**: Over recent years there has been a negative impact on red meat demand driven by the various and mixed reports on the perceived negative health impact of high red meat consumption. This still remains a challenge, despite significant efforts from the industry to counteract this effect by highlighting the important nutritional aspects of red meat as part of a healthy and balanced diet.

27. **Price versus other proteins**: The combination of positive health messaging from the chicken industry, versatility of the product, and relentless cost reductions driven by the development of the intensively reared broiler industry, have resulted in chicken being the dominant and growing protein in the UK and many other countries.

28. **Environmental pressures:** Undoubtedly ruminant animal production (cattle and sheep) have an environmental impact, particularly in the form of methane emissions. The recent narrative around this topic has had a negative impact on farmer confidence. Whilst the protection of the environment is paramount global warming by definition is a global issue; Wales has a role to play in reducing greenhouse gas emissions. A balanced view, however, needs to be considered in the development of policy in relation to environmental gain against the unintended consequences of negative economic and food security impact. Wales' livestock impact on global emissions is estimated to be below 0.5% of the total, based on relative livestock numbers.

29. The Welsh climate, land and extensive grass-based production makes it particularly suitable to produce livestock in a comparatively advantageous way from an environmental viewpoint. This is evidenced by results published by HCC, namely the Welsh Way, biodiversity benchmarking, with further environmental baselining currently being undertaken to further underpin these findings

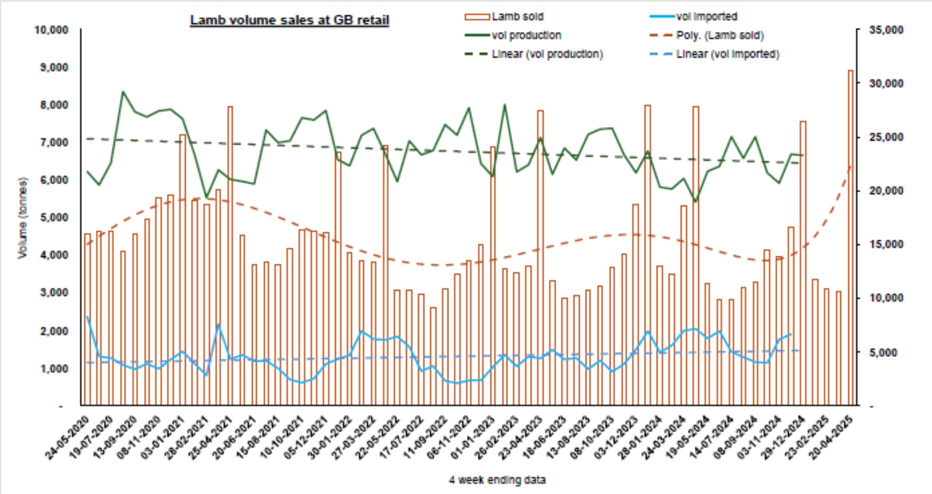
30. Assuming meat demand remains relatively static, if livestock numbers in Wales do not stabilise, we are running the risk of increased imports which would be at the detriment of Welsh producers and would effectively export the environmental impact to other producing countries likely to be less adept in producing livestock with a relatively low environmental impact (i.e. 'carbon leakage').

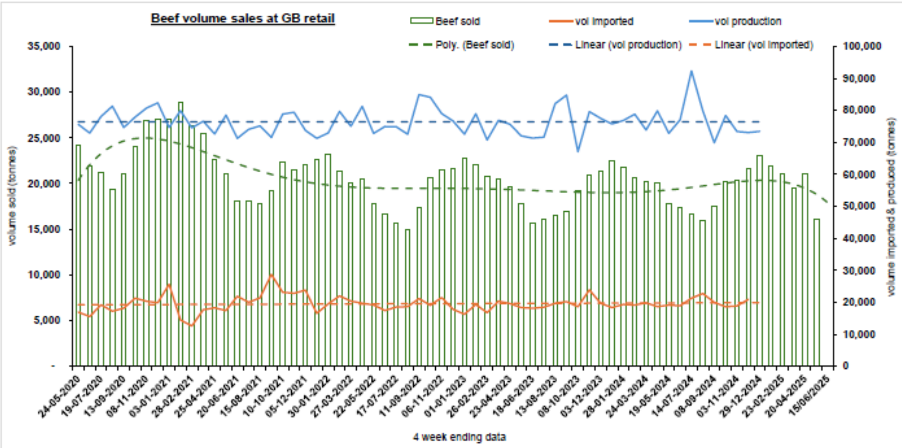
Global red meat demand

31. The OECD-FAO Agricultural Outlook projects a global increase in red meat consumption over the next decade, but with significant regional variations and shifts in consumption patterns. Global beef and sheep meat consumption are both forecast to increase, with projected growth of 11% and 16% respectively by 2033, largely driven by population growth, rising incomes, shifting dietary preferences and expansion of the foodservice sector.

UK red meat demand

32. The below data outlines GB retail sales.





33. Around 65% of the lamb produced in Wales is consumed in the UK (with England being the largest market), whilst the remaining 35% is consumed in export markets. Of these export markets, the EU is by far the largest destination and receives over 90% of the volume of lamb exported from Wales annually. For beef, around 85% of the volume produced is consumed within the UK, and 15% is exported globally – again, with the EU being the biggest market and receiving over 85% of the volume from Wales.

34. **The importance of scale and seasonality:** Retailers are in the business of selling squared metres of sales area which is prioritised on the basis of turnover (volume sold per unit of time) and margin. SKU (stock keeping unit) proliferation is a key cost driver for both retailers and processors and in order to pursue a better return, lower volume products tend to fall victim of SKU reductions with the net effect that over the long-term lower selling products cease to be present on shelf.

35. Naturally a big factor behind volume sales is price and competitiveness; because of this it is paramount for the long-term sustainability of Welsh Lamb and Welsh Beef products

additional effort is put into increasing productivity and hence reduced cost without affecting the net return to the producer.

36. The effect above is further exacerbated in the case of Welsh Lamb as it is not available in sufficient volumes for part of the year.

Barriers to public procurement:

37. Whilst from an economic impact point of view Wales public procurement is not necessarily a large factor for the Welsh red meat industry, we recognise and support its importance from a cultural, societal, and nutritional point of view.

38. Traditionally Welsh red meat has struggled to form part of a public procurement offer due to the following barriers:
    - Higher prices when compared with other proteins and/or sources, combined with limited public procurement budgets and spending targets
    - Lack of emphasis on the nutritional benefits of eating red meat as part of a healthy and balanced diet
    - Typically, overly bureaucratic and inflexible procurement schemes leading to large scale suppliers not applying for what they would see as a lower return contracts and smaller-scale suppliers not applying or not having the necessary resources to navigate the system.

39. We note the *Procurement Act 2023* and *Social Partnership and Public Procurement (Wales) Act* 2023 places a greater emphasis on social value than in the past as opposed to the most economically advantageous tender which should provide additional opportunities for red meat from Wales into public procurement.

Conclusion

40. Wales needs a thriving livestock sector to maintain a viable red meat industry. This requires a minimal 'critical mass' of livestock to ensure the industry has an economically viable scale. We are currently at risk of being near or below that critical mass.

41. In HCC's view a suitable set of policies can be developed that support not only a reduction of the environmental impact of red meat production in Wales but also as importantly an increase in productivity to improve food production to the benefit of the Welsh farmer, supply chain and the global consumer. The Sustainable Farming Scheme (SFS) currently under development offers an ideal opportunity to set such a strategic policy direction, incentivise farmers accordingly and have clear messaging to have net positive impact for food production in Wales.

42. Research and trade which is part of HCC's remit when it comes to the red meat industry, requires further financial investment in the following areas, to support the industry:
    - Research into livestock productivity increases and carbon footprint decreases
    - Additional support to the development of further trading opportunities and the suitable marketing of the product.