THE SCOTTISH RED MEAT INDUSTRY PROFILE

2014 EDITION

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PROFILE

Quality Meat Scotland (QMS)

ISSN 2050-5205

Introduction

This report draws together a wide range of the latest information on the Scottish red meat sector and encompasses the whole production chain from producer to final consumer.

The data has been collated from a number of sources and, unless otherwise stated, covers the 2013 calendar year. The report's objective is to provide users with a single source of key information on the shape and scale of Scotland's red meat industry. This is the ninth edition of this publication, and it highlights the continued importance of the red meat sector to Scotland's economy.

After the extremely wet weather of 2012, cattle and sheep producers began 2013 much less confident than they had begun the previous year. Harsh weather conditions in the first third of 2013 added to the malaise. Spring calving and the 2013 lambing were particularly stressful on livestock and labour. Significant livestock mortality in the first half of 2013 led to a reduction in both the calf and lamb crops in 2013. However, 2013 was a much better year for pig producers, and the return of some optimism saw the breeding herd increase.

Tight cattle supplies pushed up beef producer prices to record levels, and this will have helped producers to rebuild cash flows following a difficult 2012. Better grass growth and lower purchased feed costs will also have helped reduce pressure on their margins. Lamb producers also benefited from increased farmgate prices, which recovered in the spring after a very slow start to the year, before benefiting from good summer weather which led to improved lamb growth in the second half of the year. Meanwhile, in the pig sector, a better supplied global market for grains and oilseeds pushed feed costs sharply down while producer prices reached record levels, helping margins recover to levels not seen for many years.

Despite the UK economy showing positive signs of emerging from a prolonged period of stagnation as 2013 progressed, the processing sector continued to struggle to pass on its increased cost of sourcing cattle, sheep and pigs. Consumption volumes of beef and pigmeat declined as retail price inflation reduced their competitiveness against other proteins. Lamb consumption recovered in the first half of the year as the availability of cheap imports held down retail prices, but as higher producer prices in the second half of the year began to pass through to the supermarket shelves, sales volumes dipped back towards the year-end. Although cattle supplies improved late in 2013, concerns remained over the longer-term situation as calf registrations declined significantly during the year.

The UK's overall trade in red meat increased during 2013, with imports rising by 1% and exports by 5%. On the beef side, imports edged higher, but exports fell significantly as production volumes declined. Trade volumes in sheepmeat increased considerably, as a better supplied global market in the first half of the year lowered import prices and stimulated demand, while exports were supported by increased domestic supplies, a favourable exchange rate and opportunities to achieve greater carcase balance.
For the pigmeat trade, the combination of higher domestic pigmeat production and lower consumption reduced import requirements and pushed up export sales.

All in all, after a difficult start to 2013, Scottish livestock producers benefited from higher farmgate prices, lower input costs and better weather conditions. However, tight supplies continued to make the processing sector nervous of the future, while many producers began to realise the potential implications of the future change in CAP support. However, on the upside, the British economy made a significant recovery in 2013 and, moving into 2014, the improvement in employment and overall sentiment offered the prospect of better red meat demand.

Please note that throughout this publication charts and tables may not always add up to 100% due to rounding.

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Executive Summary

Farming and processing of red meat makes a significant contribution to the nation's economic output. Net of subsidy payments and excluding ancillary industries and further processing, the sector generated revenues of just over £2bn during 2013. Nevertheless, this was a decline of around 5.5% on 2012, as revenues from both primary production and the processing sector contracted.

The rearing of beef cattle, sheep and pigs, together with the primary processing sector, directly employed approximately 26,000 employees and proprietors (both full and part-time). This was around 1% of the national labour force.

The Scottish suckler herd decreased in size for a third year. In 2013 it was 0.7% smaller than in 2012, at 428,500 head. Following the first increase in more than a decade in 2012, the ewe flock contracted once again in 2013. Numbers fell by 2% year-on-year to 2.88m head. A better year for pig producers encouraged some herd rebuilding and sow numbers rose by nearly 1.5% to 28,500 head.

A tightly supplied market pushed up prime cattle producer prices to record levels during the summer. However, prices cooled towards the end of the year as supplies picked up and higher retail prices subdued demand. After a slow start to the year, farmgate lamb prices picked up significantly in the spring and spent most of the rest of the year above 2012 levels. Pig prices traded 6–12% ahead of year earlier levels throughout 2013 and reached a record high in November. In real terms, cattle producers benefited from a third year of higher prices and pig producers also saw their prices outstrip inflation. By contrast, prime sheep auction prices were slightly lower in real terms.

Cattle slaughterings at Scottish abattoirs fell 1% to 474,000 head, and the total volume of beef produced fell by nearly 2.5% due to lighter carcase weights. Revenues from beef sales nevertheless rose 4% as beef became a more expensive commodity. Although there was only a marginal decline in the total sheep kill in 2013, annual production volumes fell 3% due to lighter carcase weights. Sales revenue edged lower as slightly higher wholesale values partially offset lower production volumes. The closure of the largest pig slaughtering facility in October 2012 resulted in the Scottish pig kill and production volumes nearly halving in 2013. Processor output fell to an even greater extent due to a major abattoir killing pigs on a contract basis rather than adding value within its own business. Scottish red meat production in 2013 totalled 216,700 tonnes, a year-on-year decline of 26,850 tonnes, or 11%. Abattoir output is estimated at £870m, down 10%.

Beef retail prices averaged nearly 6% higher than in the previous year, while pork was around 5% more expensive. Both outpaced the retail price index, which increased by 3%. However, increased imports pulled retail lamb prices 3% lower, making it a much more competitively priced protein.

Annual consumption of red meat in the UK declined for a sixth year as higher retail prices for beef and pork stymied purchased volumes. However, the opposite was true for lamb.

On average, agricultural input costs increased by 2.3% during 2013. This was principally due to the spike in feed costs during the second half of 2012, which left prices much higher than a year earlier throughout the first half of 2013. As better prospects for the 2013 global grain and oilseed harvest emerged in the spring of 2013, feed costs then fell back sharply. As a consequence, input costs trended lower over the course of 2013, until the annual round of energy price rises kicked in at the end of the year.

Lower consumption of beef and pigmeat reduced UK import demand in 2013, but sheepmeat imports picked up as the drought in Oceania led to increased slaughterings there, resulting in a better supplied global market and subsequently lower prices. Beef exports fell back due to tight domestic supplies and high prices, though higher domestic production helped support sheepmeat and pigmeat exports.

Farming Contribution

In 2013, Scottish agricultural output, excluding subsidies, totalled £3.1bn. This was an increase of £175m, or 6%, from the previous year.

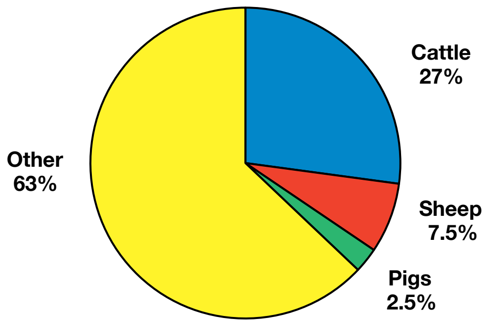
Output from the beef sector increased for an eighth consecutive year. However, output from sheep and pig farming declined to four and three year lows, respectively. The increase in activity in the beef sector was insufficient to offset the declines in sheep and pig farming, resulting in an overall decline in output from livestock of £22m (2%) to £1.16bn. With agricultural output expanding, livestock farming's share decreased from 40% in 2012 to 37% of the total in 2013.

Beef production was once again the largest sector of Scottish farming, contributing £851.5m. This was up 0.2% year-on-year. However, its share of agricultural output decreased to nearly 27% from 29% in 2012. Output from finished cattle and calves grew by 0.4%, contributing £678.5m to Scottish agricultural output. Production of store cattle and calves also increased, rising 5% to £73.4m. By contrast, due to lower stock numbers, capital formation (the asset value of replacement breeding cattle) declined by 5% in 2013 to £99.5m.

Sheep sector output decreased for a second successive year and slipped back to a four-year low. It fell by £22m (8.5%) to £229.6m and was affected by difficult weather conditions at mating in autumn 2012 and at lambing in spring 2013. This saw its share of total agricultural production fall by two percentage points to 7.5%. While output from finished sheep and lambs and store sheep declined, there were increases from wool and capital formation. Finished sheep and lamb production fell 12% to £173.6m.

Despite significant industry restructuring, output from the pig sector contracted by only 2.5% in 2013 as producers were able to find a better return from the marketplace. Output from pig farming fell to £82m, and its share of overall agricultural production fell slightly to 2.5%.

Livestock Contribution to Agricultural Output in Scotland – 2013



Source: Scottish Government (2014a)

Contribution to Scottish Agricultural Output

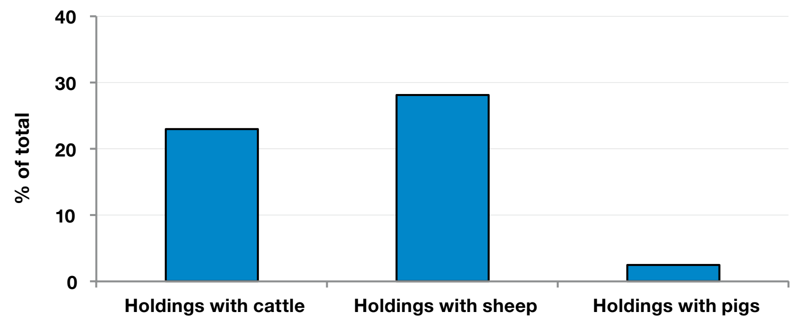
	2011		2012		2013	
	£m	%	£m	%	£m	%
Cattle	757.0	26.2	849.6	28.9	851.5	27.3
Sheep	269.9	9.3	251.6	8.6	229.6	7.4
Pigs	88.5	3.1	84.0	2.9	82.0	2.6

Source: Scottish Government (2014a)

Livestock continues to be of greater significance to Scottish agriculture than it is either in the UK as a whole or, on average, in the EU.

Sheep production maintained its position as the most common farming activity in Scotland, with more than 28% of Scottish holdings involved in sheep production during 2013. Twenty-three percent of holdings were involved in cattle production while 2.5% produced pigs. While there were fewer holdings involved in cattle and pig production than in 2012, the number of holdings with sheep increased slightly in 2013.

Proportion of Scottish Holdings with Livestock Enterprises



Source: Scottish Government (2014b)

Contribution to Agricultural Output

	Scotland (2013)	UK (2013)	EU (2011)
Cattle	27.3	14.7	8.1
Sheep	7.4	5.3	1.5
Pigs	2.6	5.0	9.1

Source: Scottish Government (2014a); Defra 2014 (a); European Commission (2013)

Average Herd and Flock Size

The average size of a Scottish beef suckler herd was 47 cows, down from the previous year, but still well above the UK average.

The average breeding ewe flock, at 206 head, was marginally lower than in 2012, as slightly more holdings kept ewes while total numbers fell back. The average Scottish flock remained smaller in size than the UK average.

The average Scottish sow herd contracted in size during 2013, as the decline in sow numbers was more significant than the slight fall in the number of holdings with sows. The average Scottish holding continued to have fewer sows than the average UK holding.

Average Herd and Flock Size

	Scotland (2013)	Scotland (2012)	UK (2012)
Beef cows	47	51	28
Breeding ewes	206	207	223
Breeding sows	53	57	70

Source: Scottish Government (2013, 2014b); AHDB (2014)

Cattle Production

In December 2013, Scotland's beef herd stood at 428,500 head, around 2,900 head (0.7%) smaller than a year earlier. Although this was the third successive year that the beef herd contracted, the rate of decline slowed significantly. By contrast, the dairy herd grew by 4,800 head (3%) to 167,400 head. The total cattle population decreased by 30,800 head (1.8%) during 2013 to stand at 1.72m head.

The regional spread of cattle across Scotland remained concentrated in the south-west and north-east. Within the distribution, a general movement in store cattle from west to east can be seen. It is reflected by regions in the east of Scotland generally having a higher proportion of the total herd in comparison to their proportion of the breeding herd. This is particularly pronounced in North East Scotland, therefore emphasising the importance of cattle finishing to the region's economy.

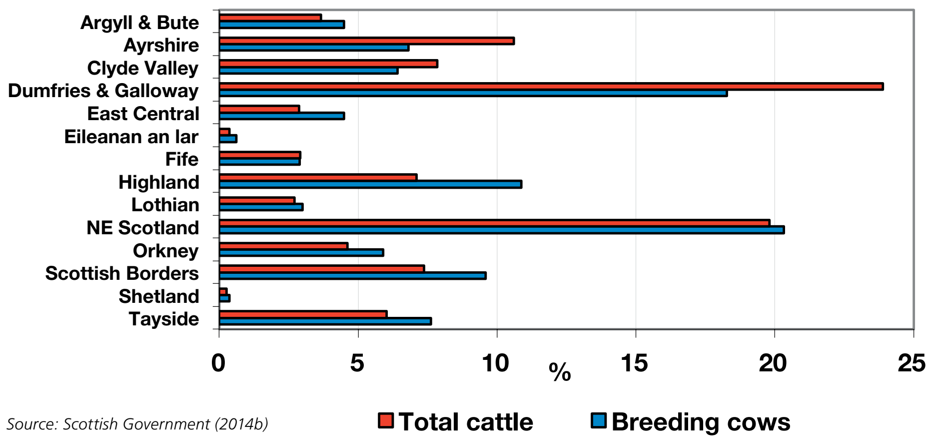
Scotland has a number of large cattle enterprises. As a consequence, 13.5% of holdings accounted for almost half of the beef herd in 2013, while 16.5% of holdings with cattle under 12 months of age kept more than 60% of the Scottish total. However, the beef sector was less concentrated than sheep or pig farming.

Scottish Cattle Population

	2011	2012	2013
		'000 head	
Beef breeding herd	449.6	431.4	428.5
Dairy breeding herd	162.1	162.6	167.4
Total cattle herd	1,757.5	1,755.4	1,724.6
Breeding herd comprises female cattle over two years of age with offspring			

Source: Scottish Government (2014c)

Regional Distribution of Cattle



Source: Scottish Government (2014b)

During 2013, 26,500 fewer calves were registered in Scotland than in the previous year. This was the second year of decline, following expansion in 2010 and 2011. Numbers fell by 4.5% to 551,500 head.

Both beef and dairy-sired registrations fell by 4.5% in 2013. Beef-sired calf numbers dropped by 21,400 to 444,300 head, while 5,000 fewer dairy sired calves were registered as numbers totalled 105,200 head. This meant that beef calves accounted for 80.5% of registrations for a second year.

Scottish calf registrations provide a leading indicator of potential beef production in the following couple of years. Calvings exceeded year earlier levels in late 2011 and early 2012, helping to explain the improvement in supplies early in 2014 as these animals reached slaughter weights. However, between April and December 2012, calf registrations were lower than a year earlier in seven of the nine months, suggesting that supplies of finished cattle will begin to tighten again in the second half of 2014.

During 2013, with the exception of April, calf registrations each month were lower than in 2012, pointing towards tight supplies in 2015.

In 2013, 23.5% of calves born in Scotland were either Limousin or Limousin Cross. While Limousin retained its position as the most popular sire in Scotland, its share of the total fell from more than 24% in 2012. Back in 2010 it had been as high as 26%.

Black and white dairy calves (Friesians and Holsteins) saw their share of total calvings increase marginally in 2013, maintaining their position as the second most popular sire in Scotland. An increased share in recent years reflects higher retentions of dairy-sired young bulls.

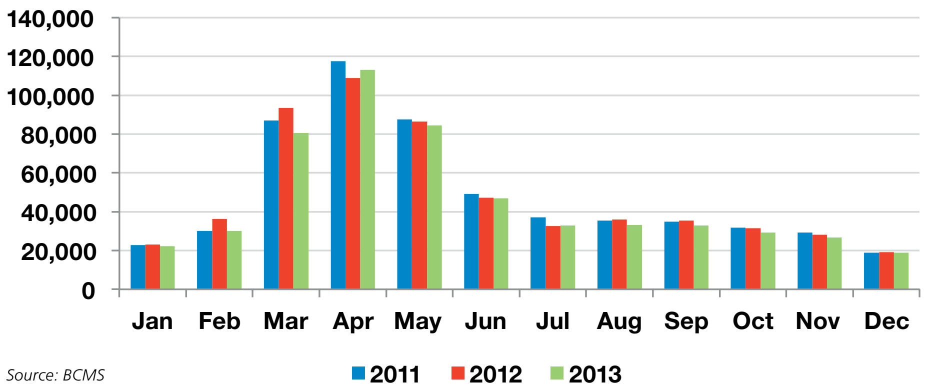
While the popularity of Charolais declined significantly, the proportion of Simmental-sired calves edged higher, back to its 2011 level. Meanwhile, the share of Aberdeen Angus increased to just over 15%.

Number of Scottish-born Calves Registered with BCMS

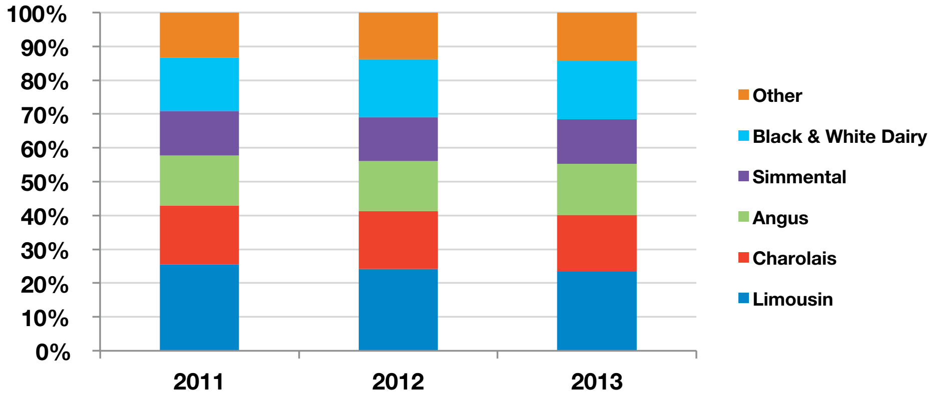
	2011	2012	2013
Calf registrations	581,600	578,000	551,500
Of which beef-sired	477,500 (82%)	465,800 (80.5%)	444,300 (80.5%)

Source: BCMS

Scottish Calf Registrations



Scottish Calvings – Top Sires



Source: BCMS

The popularity of other sires continued to vary. Of the native breeds, the number of Beef Shorthorn-sired calves rose by 9% while there was a 1% increase in Herefords. By contrast, there were declines in Luing and Highland of 4% and 10% respectively. Another breed to show an increase in calf registrations was the Saler, with numbers growing 3% in 2013.

Sheep Production

After a brief hiatus in 2012, the long-term downward trend in female breeding sheep numbers in Scotland resumed in 2013. In December 2013, there were 56,800 fewer female breeding sheep than a year earlier - a decline of nearly 2%.

A 5% decrease in the 2013 lamb crop resulted in a smaller pool of lambs available for future breeding. Numbers fell by 4.7% to 590,000 head in December 2013.

The total sheep population fell by a greater extent than the breeding flock, partly as a consequence of the smaller lamb crop in 2013. In addition, the better weather of summer and autumn 2013 led lambs to finish more quickly than in the previous year, leading to a smaller proportion of the lamb crop remaining on Scottish farms in December 2013. Consequently, the national sheep population was 144,500 head, or nearly 3%, smaller at the end of 2013 and stood at 4,764m head.

Just three regions accounted for 45% of the breeding flock in 2013. The Scottish Borders had the largest flock, with one sixth of the total, while Dumfries & Galloway had 14.5% of the total and Highland took a 14% share. The North East saw its breeding ewe flock expand by 5.5% in 2013. As a result, the North East increased its share of the total ewe flock to nearly 9% from just over 8% in 2012.

Regional variation in ewe performance leads to a different distribution of lambs across Scotland. The Scottish Borders was home to nearly 18% of Scotland's lambs in 2013, while Dumfries & Galloway had nearly 15% of the total and nearly 12.5% lived in Highland region.

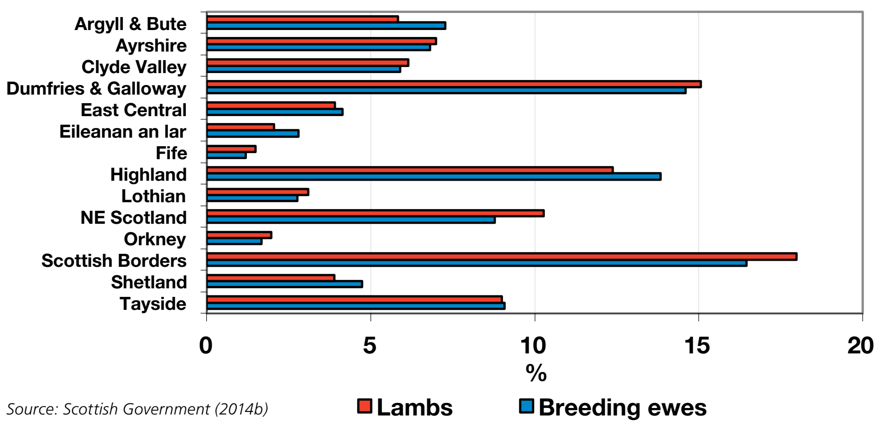
The bad weather of early 2013 appears to have had a considerable impact on lamb crops in the Borders and Dumfries & Galloway. Indeed, the former saw its share of the total decline by one percentage point and the latter by 0.5 percentage points. By contrast, in Highland region and the North East, where the weather was much better, lamb numbers increased and their share of the national total subsequently rose by close to a percentage point. Shetland and Orkney also saw flock expansion in 2013.

Scottish Sheep Population

	2011	2012	2013
		'000 head	
Breeding sheep flock	2,900	2,939	2,882
Lambs for future breeding	594.6	619.2	590
Total sheep	4,688.8	4,908.5	4,764

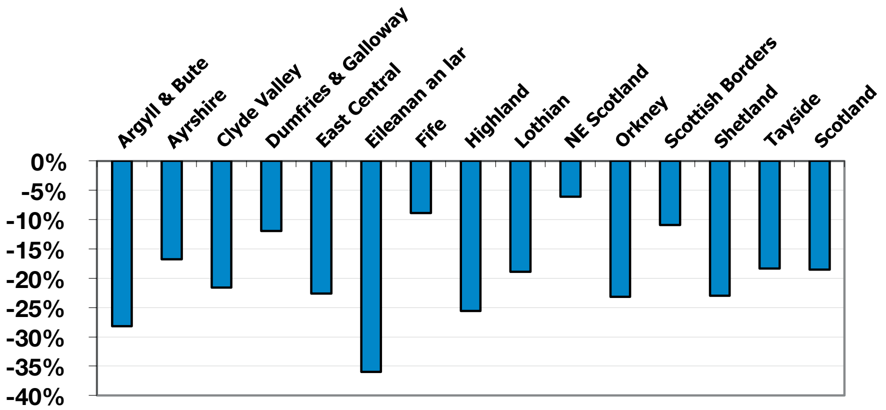
Source: Scottish Government (2014c)

Regional Distribution of Sheep



Source: Scottish Government (2014b)

Regional Decline in Ewe Numbers 2004 to 2013



Source: Scottish Government (2014b)

After the introduction of decoupled support payments in January, 2005 the ewe flock contracted annually in Scotland until 2011, and then again in 2013 after increasing slightly in 2012. There were differing rates of decline across the country, as areas in the north and west of the country with the highest proportion of the disadvantaged land and greatest distance from markets suffered most. In 2013 there were around a quarter fewer ewes in Argyll & Bute, Clyde Valley, East Central, Highland, Orkney and Shetland than nine years before, while the ewe population in the Western Isles had consolidated to less than two-thirds of its previous size. By contrast, North East Scotland lost a much smaller 6% of its flock over the nine-year period.

Pig Production

December census figures indicate that, following two years of considerable decline, the Scottish sow herd grew slightly in 2013. Numbers increased by around 400 head to 28,500 head - a gain of nearly 1.5%. Nevertheless, compared with December 2010, the breeding herd was more than a quarter smaller; on the decade, it was down by 42%.

With some optimism returning to the sector at the end of 2013 as producer prices reached record levels and feed costs had fallen sharply, the number of gilts retained for future breeding rose 14% year-on-year to 5,900 head; an eight-year high.

However, the total number of pigs in Scotland in December 2013 decreased by 30,600 head (9.5%) to 293,500 head. Overall pig numbers contracted due to the increased export of live weaner pigs from Scotland to English farms.

North East Scotland is home to the vast majority of the country's sows. However, industry restructuring saw the region's share of the national herd fall by three percentage points to 60% in 2013. The region lost 3,000 sows, taking numbers down to 17,200 head. By contrast, there was some expansion of sow numbers in the South West region.

In the North East, the average holding kept 156 sows in June 2013 - three times the national average. The average North East holding kept 628 fattening pigs compared with a national average of 222. Both statistics reflect the concentration of commercial pig production in this area of Scotland.

Pig production remains highly concentrated within a small number of businesses. In 2013, just 11% of holdings with breeding female pigs accounted for 92.5% of the sow herd, while 97.5% of fattening pigs lived on only 15% of holdings.

Scottish Pig Population

	2011	2012	2013
		head	
Pig breeding herd	32,200	28,100	28,500
Total pig herd	376,300	324,100	293,500

Source: Scottish Government (2014c)

During 2013 there were 45 holdings with more than 250 sows, averaging 538 each, while the 125 holdings with more than 100 fattening pigs kept an average of 1,442 each. In the South East, which includes Tayside, the average holding with more than 250 sows kept 587, compared with 548 in the North East. The North East, however, had an average of 1,535 fattening pigs on its largest holdings compared with 1,511 in the South East and a national average of 1,442.

Primary Processing Contribution

Supply of Product to the Processing Sector

Cattle

Scottish abattoirs slaughtered 411,700 prime cattle during 2013 - 0.7% below the previous year's figure of 414,800 head.

The decline in slaughterings of mature cows and bulls was more significant at more than 4%, with 62,600 mature cattle killed in 2013 compared to 65,400 in 2012.

In 2013, the overall number of cattle killed at Scottish abattoirs and entering the food chain was 474,300 head; this represents a year-on-year decline of a little over 1%.

In 2013, the average prime cattle carcase weighed 3kg less than in the previous year, returning to match its 2011 average, though it was still 5kg lighter than in 2010. Meanwhile, cows were 4kg lighter on average.

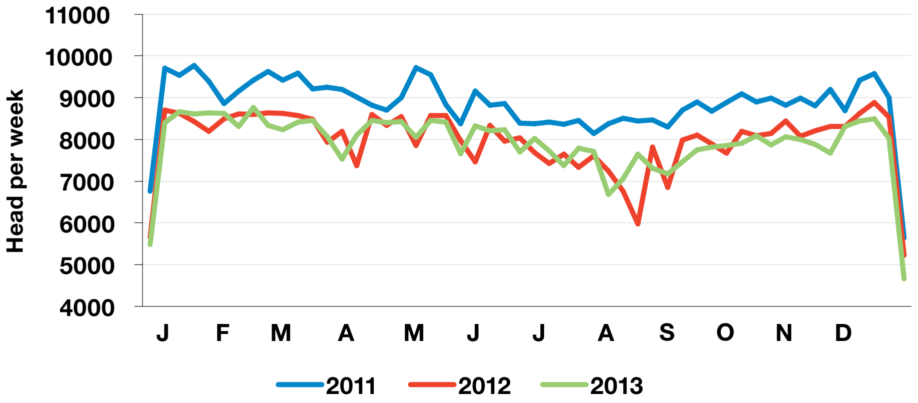
The main driver of smaller carcase weights was the legacy of bad weather in 2012. With cattle tending to finish at around two years of age, the effects of bad weather on the quality and quantity of available feed in 2012 meant that cattle had grown more slowly and were slaughtered at lighter weights in the following year.

With lighter carcase weights and a 1% decline in cattle throughput, Scottish abattoirs produced 3,850 fewer tonnes of beef in 2013 than they had in 2012. Annual production totalled nearly 166,000t - a decline of 2.5%.

During the year, the distribution of kill by gender changes. Steers and heifers are dominant throughout, averaging 80% between them in 2013, but this fell to less than three-quarters in July and August when young bull throughputs peaked.

The share of the total kill by gender changed a little in 2013. Tight supplies of steers saw their share fall by 1.5 percentage points to just under 44%.

Seasonal Supply of Prime Cattle to Scottish Abattoirs



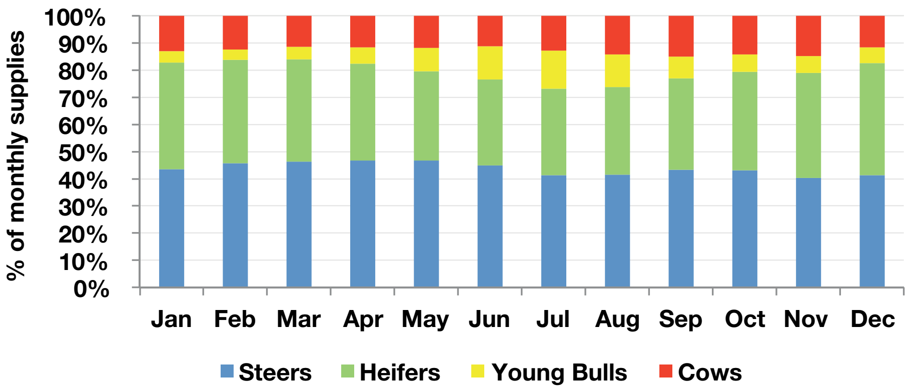
Source: Scottish Government

Average Carcase Weights

	2011	2012	2013
	kg per head		
Steers	374	377	373
Heifers	325	327	324
Young bulls	344	343	347
All prime cattle	351	354	351
Cull cows	344	344	340

Source: Scottish Government (d)

Seasonality of Cattle Supplies by Gender in 2013

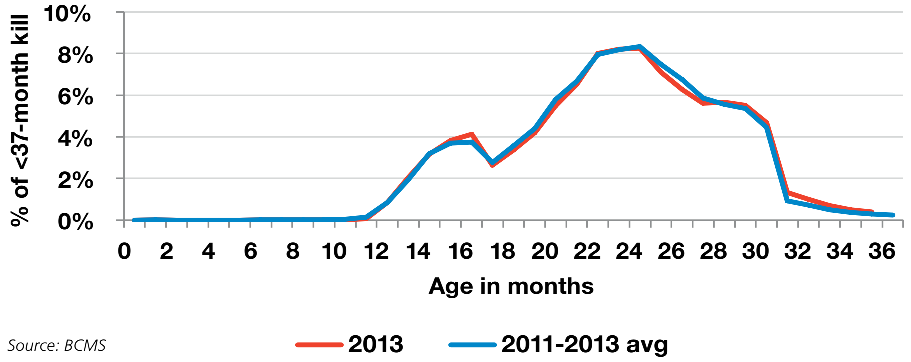


Source: Scottish Government

However, higher annual throughput of young bulls and heifers pushed up their shares. The young bull share rose from 7% in 2012 to just over 7.5% in 2013 while the heifer share increased by more than one percentage point, returning to the 36% share they had taken in 2011. By contrast, a lower cow kill saw its share slip marginally to just below 13%.

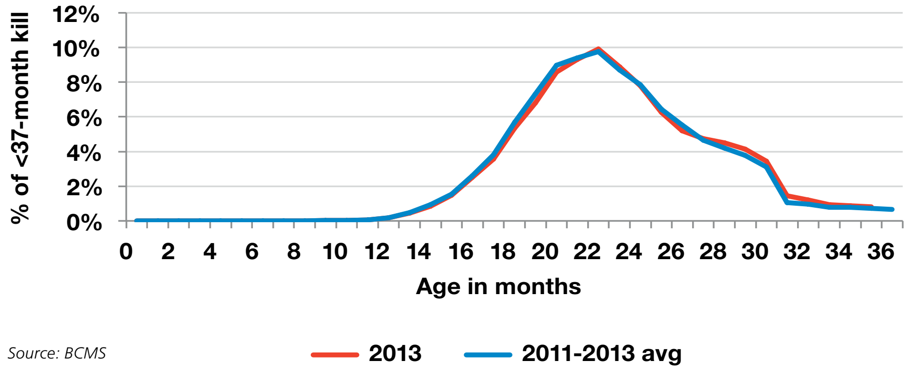
The slight bias in the curve towards older cattle in 2013 may reflect the slower growth rates achieved through 2012 and early 2013 due to wet weather and poor feed availability. In general, there has been little change in the slaughter age profile of female cattle since decoupling. However, in 2013 farmers sold their heifers at slightly older ages than in the previous two years; again this was most likely due to slower growing cattle.

Age Profile of Male Prime Cattle



Source: BCMS

Age Profile of Female Prime Cattle



Source: BCMS

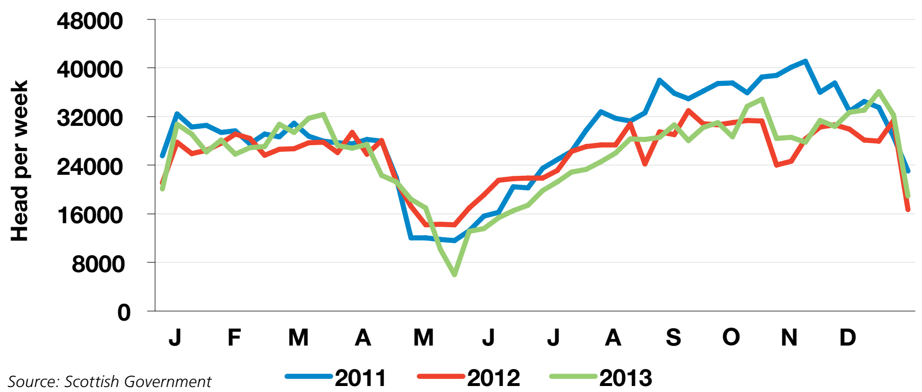
Sheep

In 2013, Scottish abattoirs killed 9,000 fewer lambs than in the previous year. With throughput totalling 1.33m, it was down 0.7% on the year and slipped to an eight-year low. The principal contributors to the annual decline were: the difficult conditions at mating in 2012, which led to lower scanning rates; and a difficult 2013 lambing due to heavy snowfalls in some areas of the country. As a consequence, the national lambing percentage slipped to 119% after several years around 125%. Nevertheless, there were a couple of factors supporting slaughter numbers. Indeed, a greater number of hoggs were carried into 2013 due to slower growth rates in 2012, while vastly improved summer weather helped producers finish their lambs much more quickly, boosting supplies towards the end of 2013. Supplies were 3% higher in the first third of the year, 13% lower in the May to August period, but then 5.5% higher in the final third.

The average lamb carcase in 2013 was lighter than a year earlier, at 19.9kg. However, carcase weights began to pick up towards the year-end, averaging 20.1kg in the final quarter.

Total abattoir production of sheepmeat in Scotland decreased by more than 2.5% in 2013 to 27,300t, as an increased kill of mature sheep in Scotland was unable to offset the combination of lower lamb throughput and lighter carcase weights.

Seasonal Supply of Prime Sheep to Scottish Abattoirs



Source: Scottish Government

Average Carcase Weights in Scotland

	2011	2012	2013
	kg per head		
Lambs	20.2	20.3	19.9
Cull sheep	33.0	32.6	29.4

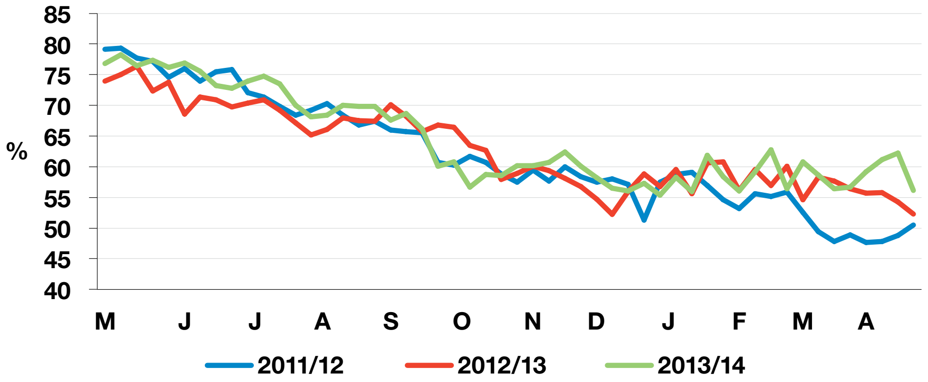
Source: Scottish Government

Carcase Quality

63.5% of the 2013 GB lamb crop achieved at least an R3L grading. This was nearly 1.5 percentage points higher than in the previous year and was historically high (though still one percentage point below the 2010 lamb crop). The year-on-year improvement is a likely consequence of a much improved quality and quantity of forage during the summer and autumn of 2013, leading to better feed conversion.

The annual profile of carcase quality showed a similar pattern to two years before and was ahead of 2012/13 throughout most of the lamb crop year. However, the proportion of hoggs grading R3L or better held steady through to the end of the season; in the past it has fallen back significantly in March and April.

Proportion of GB Sheep Carcases Achieving R3L Grade or Better



Source: AHDB Market Intelligence

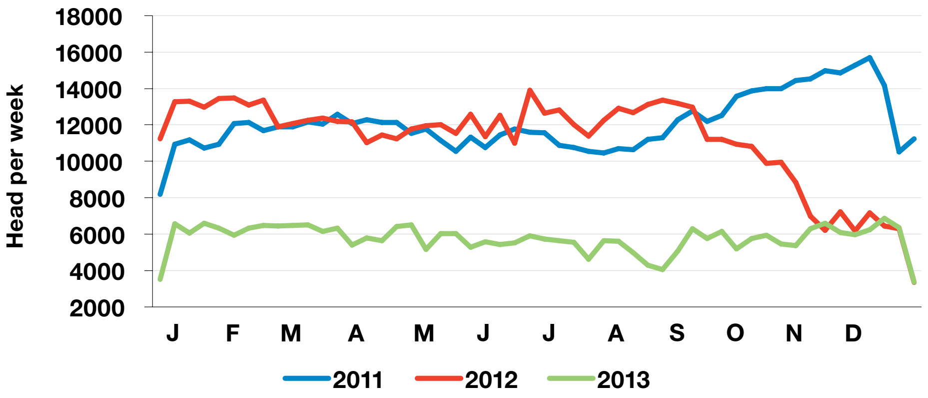
Pigs

The number of pigs slaughtered at Scottish abattoirs has been significantly affected by industry restructuring in recent years. Whereas the addition of a slaughtering plant in September 2011 boosted production as fewer pigs needed to be transported to England for slaughter, this reversed in the final quarter of 2012 when the largest abattoir ceased operating, leaving production around half its previous level.

The total number of clean pigs killed at Scottish abattoirs during 2013 was 299,400 head, 48.5% lower than in 2012.

The average carcase of a prime pig increased in weight in 2013 and was only fractionally lighter than two years earlier. The likely driver of the recovery in weights was the favourable movement in both feed costs and feed availability which will have encouraged producers to grow their pigs to heavier weights.

Seasonal Supply of Prime Pigs to Scottish Abattoirs



Source: Scottish Government

Average Carcase Weights in Scotland

	2011	2012	2013
		kg per head	
Clean pigs	79.3	78.1	79.2

Source: Scottish Government; QMS estimate

Scottish Red Meat Abattoir Sector

Twenty-four licensed red meat abattoirs operated in Scotland during 2013 and submitted levy returns to QMS. One of these abattoirs closed during the year. Of this total, 22 sites processed cattle, 21 processed sheep, and 18 processed pigs. During the year, some 2.135m animals were processed by Scottish abattoirs, a decrease of 12% on 2012.

Scottish Abattoir Output

It should be noted that this section is based on the results of an annual survey of Scotland's red meat abattoirs. Its accuracy, therefore, relies on the level of response. Where data is unavailable, estimates have been made.

Scottish Abattoir Output

	Number of animals		Volume of meat (t)		Estimated value (£m)	
	2012	2013	2012	2013	2012	2013
Cattle	480,320	474,360	169,810	165,950	638.5	664.5
Sheep	1,363,580	1,358,840	28,010	27,270	146.5	146
Pigs	582,480	302,310	45,710	24,110	151.5	24.5
Skins & hides	n/a	n/a	n/a	n/a	36	35

Source: QMS Processor Survey

It is estimated that the total turnover of the primary processing sector during 2013 fell by £97.5m, or 10%, to £870m. Following significant consolidation and restructuring within the red meat processing sector during 2012, employment is estimated to have fallen by around a third in 2013, to 2,700.

Despite the combination of lower cattle throughputs and carcase weights in 2013 leading to lower beef production, turnover is estimated to have risen by around 4% due to higher wholesale prices as abattoirs passed through some, but not all, of the increased cost of buying cattle from producers. Sales are estimated at £664.5m.

Revenues from sheep processing are estimated to have edged lower on the year, as slightly higher wholesale prices were unable to offset the decline in production volumes. Turnover is estimated at £146m.

Restructuring within the pig processing sector led to a sharp decline in the volume of pigmeat produced by Scottish abattoirs in 2013. With a major player in the sector operating on a contract killing basis, pig processing revenues fell even more sharply than overall production volumes and are estimated at just £24.5m

Sales of skins and hides were worth an estimated £35m to Scottish red meat processors in 2013, as higher prices came close to offsetting lower abattoir throughput.

Scottish Abattoir Sector Scale

	Cattle	Sheep	Pigs
Abattoirs killing stock	22	21	18
Proportion of kill in 5 largest abattoirs (%)	71.7	88.6	91.9
Proportion of kill in 10 smallest abattoirs (%)	3.3	2.3	6

Source: QMS levy returns

The cattle processing sector is more evenly spread in terms of capacity than the sheep or pig sectors. There are a number of medium-sized plants working with cattle, whereas sheep and pig processors tend to be either very small or very large.

During 2013, the five largest abattoirs in the cattle and sheep sectors increased their share of production, while it held steady amongst pig processors. The share of the kill in the 10 smallest abattoirs decreased in the sheep sector, stabilised for cattle and more than doubled for pigs. The considerable increase in market share of the smaller pig plants occurred due to the closure of the largest processor in late 2012 and the subsequent near-halving of the annual Scottish throughput.

Distribution of Scottish Red Meat Sales in 2013 (at first point of sale)

	Scotland		Rest of UK		Exports	
	Value (£m)	% by value	Value (£m)	% by value	Value (£m)	% by value
Beef	156.5	23.5	469.5	70.5	38.5	6
Sheepmeat	14.5	10	96	65.5	35.5	24.5
Pigmeat	16.5	67	8	33	<1	<1
Total red meat	187.5	22.5	573.5	68.5	74	9

Source: QMS Processor Survey

England and Wales remained the largest market for Scottish processors in 2013, with more than two-thirds of all revenues being generated there. During 2013 there was a slight rebalancing of sales towards the rest of the UK. Despite restructuring in pig processing pulling sales back to Scotland, this was more than offset by change in the beef sector.

The Scottish processing sector continued to send less of its produce overseas than the UK as a whole. On the beef side, tight supplies of cattle meant that Scottish processors had less meat to sell once their domestic contracts had been fulfilled. In addition, it pushed up prices, hindering the competitiveness of Scottish exports. However, lamb became more competitively priced against other proteins, and a surge in imports resulted in processors looking further afield to sell their product. Pigmeat exports fell to a negligible level. Total revenues generated from red meat exports fell 10.5% year-on-year in 2013, but made a slightly greater contribution to total sales revenues than in the previous year.

Processors again derived the largest proportion of their revenue from boneless and part-boned primals (estimated at 78%). This reflects the operating structures of Scotland's largest processors, where a number of firms based in Scotland are part of larger UK meat businesses and the majority of the processing of the carcase takes place at other locations in the UK.

Fifth quarter product continued to play an important part for cattle and sheep processors, helping them to achieve better balance of the carcase. It is of particular importance to the export trade, accounting for approximately 20% of overseas sales revenues.

Multiple retailers continued their domination of the sales profile of Scottish red meat processors, accounting for around 55% of sales. However, this share fell significantly in the beef sector relative to a year earlier, with a major player rebalancing its sales.

The higher proportion of sheepmeat sold to multiple retailers reflects the customer base of the small number of large plants killing sheep in Scotland.

Fifth quarter product has a considerably different sales pattern from carcase meat. As prices for these raw materials tend to be much cheaper than for carcase meat, the majority of fifth quarter product goes into the food manufacturing chain, where the ability to add value while holding prices down for a highly competitive market is imperative.

Distribution of Red Meat Sales by Market Outlet in 2013 (based on a sample of processors)

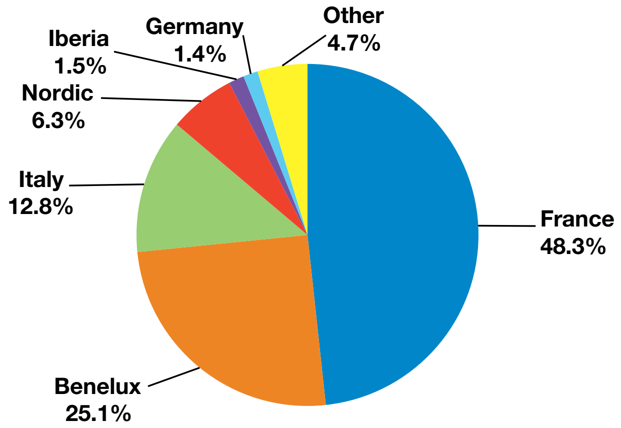
	Beef	Sheepmeat
	% by value	
Multiple retailers	49	85
Independent retailers	6.5	1
Retail wholesalers	18	5
Food manufacturers	18.5	4.5
Food service & catering suppliers	7.5	4.5

Source: QMS Processor Survey

Overseas Sales of Red Meat in 2013

During 2013, Scotland is estimated to have sold £74m of red meat to customers outside the UK – a 10.5% decrease from 2012. The value of exports made up around 9% of the processing sector's total red meat sales during 2013, up one percentage point on the year. France was the principal destination for overseas sales of Scottish red meat, taking delivery of nearly half of the total. Its share was unchanged on the year. France tends to take a significant share of beef sales and the majority of our lamb. Fifth quarter product has also traditionally sold well in France.

Scottish Red Meat Exports in 2013



Source: QMS Processor Survey

The wealthy trio of Belgium, the Netherlands and Luxembourg are also significant customers for the Scottish industry, accounting for one-quarter of the market. This edged lower on the year. Italy also continued to prove an important market, although the country's significant economic challenges saw sales fall back. Italy is mainly a market for beef from Scotland. Though sales to the Nordic countries and Germany were steady in 2013, there were promising signs as more Scottish exporters secured markets.

Scottish red meat exporters broadened their horizons in 2013, with sales to other markets taking a 5% share compared to 2% in 2012. In particular, sales to Eastern Europe became an important market outlet for a number of companies. This is likely to have been lower value beef and fifth quarter product destined for the food manufacturing trade. In a further sign of the export trade being used to balance the carcase, a number of processors exported to Sub-Saharan Africa. At the opposite end of the value scale, Switzerland and Norway were important non-EU markets, and there was also some trade with Hong Kong.

Prices

General Economic Factors

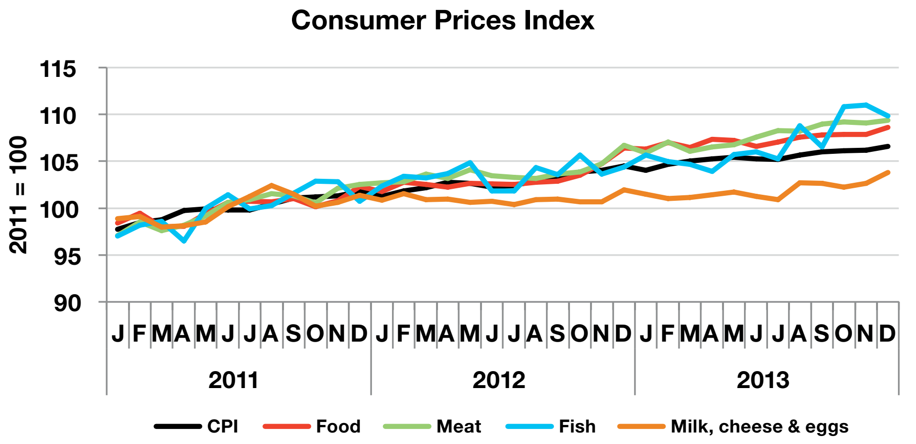
Consumer Prices Index (CPI)

The general level of inflation in the UK economy eased slightly during 2013. Having risen by 2.8% in the previous year, CPI rose by 2.6% in 2013. Despite a significant upturn in economic activity in the second half of the year, strong competition within industry sectors and slow growth in wages placed downwards pressure on consumer prices. A stabilisation of oil prices and a stronger sterling (on a trade-weighted basis) in the second half of the year also held inflation down in 2013.

At 4.1%, food price inflation was considerably higher than headline CPI in 2013. However, prices were in fact relatively flat over the course of the year. The main reason for this was the spike in agricultural commodity prices in late 2012 following the poor global harvest. As these prices passed through the supply chain in early 2013, it pushed food prices up significantly compared to a year earlier. By the time it reached the final quarter of the year, the rate of food price inflation then eased back since there was a higher price level to compare against.

Food price inflation fluctuated between 4% and 5% for much of the year, peaking at 4.8% in September. However, it fell sharply to 3% in November before finishing the year at 2.1%.

Taking 2013 as a whole, within the food basket most prices grew faster than in the previous year, with six of the nine categories outpacing their 2012 rate of inflation.



Source: ONS (2014)

Annual CPI Inflation (%)	2011	2012	2013
CPI	4.5	2.8	2.6
Food	5.0	3.1	4.1
Meat	5.4	3.7	3.9
Fish	9.2	3.6	3.3
Milk, cheese & eggs	2.6	0.9	1.0
Bread & cereals	6.4	2.2	3.9
Fruit	3.7	1.7	8.6
Vegetables	3.4	3.3	6.2

Source: ONS 2014

Two of the nine food categories showed higher rates of inflation than the average level of food price growth: fruit and vegetables. This was due to tight supplies and the 'raw' nature of these products, which means that retail prices will track raw material prices more closely than for food products which require a higher degree of processing. Meat prices grew more slowly than overall food inflation as consumer resistance reduced the rate at which raw material inflation passed through the supply chain. Lower lamb prices also held back overall meat inflation.

Exchange Rate Movements

During 2013, sterling fluctuated less on a month-to-month basis against the euro than in recent years, with a euro worth between 83p and 86p. On an annual basis, sterling averaged 4.5% weaker against the euro than in 2012, averaging €1 = £0.85. However, at its weakest point relative to a year earlier, in July and August, sterling was 9% lower. A weaker sterling tends to make British exports cheaper in the European marketplace, while pushing up the cost of imports.

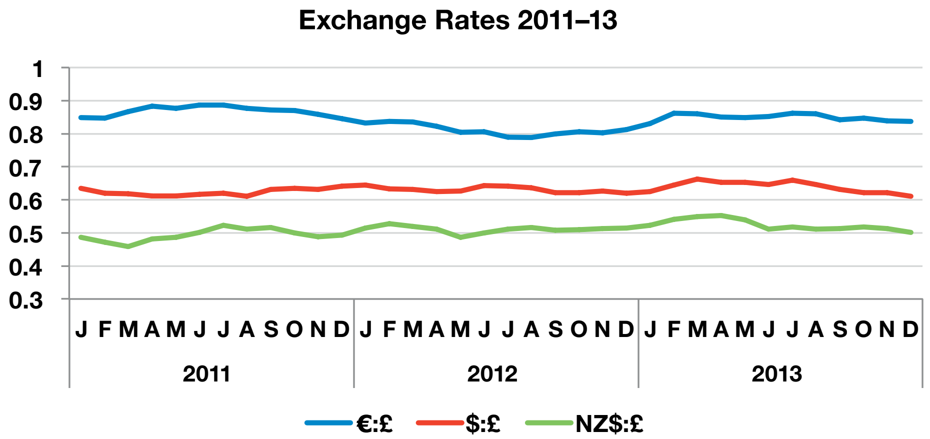
If sterling weakens then an exporter can increase their export sales revenue in three ways. Firstly, they can hold their euro price constant, which would convert back into an increased amount of sterling. Secondly, they can lower their euro price while holding their sterling price constant to attempt to increase their share of the market. The third option would be a combination of the two: lowering their euro price enough to capture a greater market share while also realising a higher sterling price.

2013 was the seventh consecutive year that the New Zealand dollar averaged stronger against sterling than in the previous year. Having averaged around 51p in 2012, the NZ dollar was worth 52.5p during 2013. With the NZ dollar averaging 2.5% stronger against the pound than in 2012, it will either have placed upwards pressure on the cost of importing lamb from New Zealand, or have forced down prices in NZ dollar terms to remain competitive.

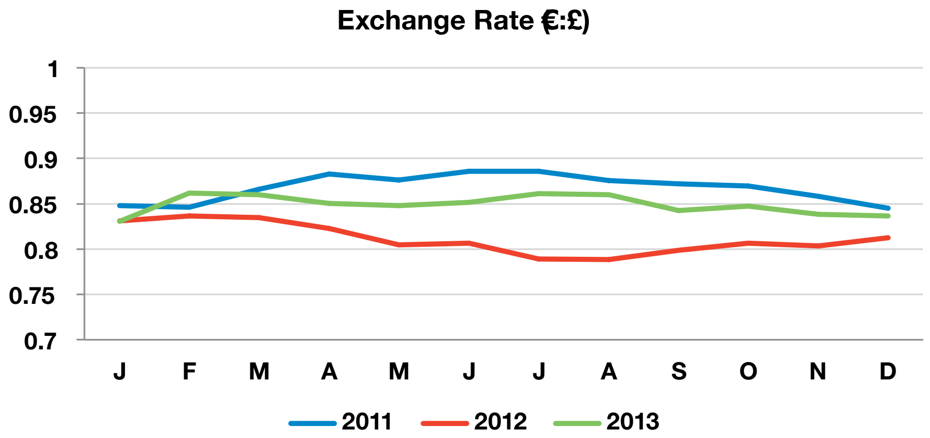
Nevertheless, most of the NZ dollar strength came in the first third of the year when it increased from 52p in January to 55p in April. However, due to changes in expectations for monetary policy in both New Zealand and the UK, by June it had fallen back to 51p where it held for most of the remainder of the year.

The exchange rate between sterling and the US dollar affects the price of globally traded commodities such as energy and protein feed, which tend to be denominated in US dollars. With sterling averaging 1% weaker against the dollar than in 2012, it, on average, added to the cost borne by UK producers importing commodities. However, this was only true during the first half of the year, as sterling rose in value by around 7% between July and December.

A stronger US dollar exacerbated the effects of the significantly increased prices faced by producers importing wheat and protein products in the first half of the year, but then a stronger sterling added to the downwards pressures in the second half of 2013.



Source: OANDA (2014)



Source: OANDA (2014)

Price Movements

Producer Prices

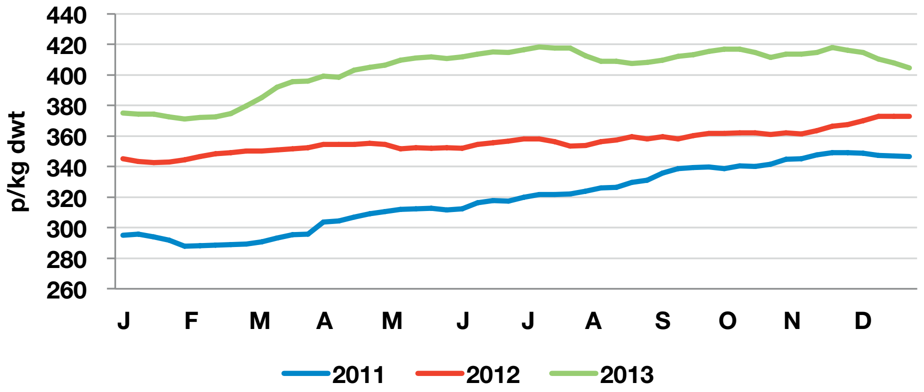
Cattle

After a slow start to 2013, deadweight prime cattle prices climbed sharply through March and then continued to increase at a steady pace until mid-July. Prices then dipped seasonally during the peak summer holiday period, before increasing again into the autumn. After lifting slightly in November as processors sought out the best quality cattle to supply the festive trade, the market then softened through to the year-end, closing the year at 405p/kg. Scottish steers reached an annual peak of 418p/kg dwt in July. This was 13% above their January low of 371p/kg. At 403p/kg, the average producer price for a Scottish steer in 2013 was 47p higher than in 2012 – also an increase of 13%.

Auction prices for prime cattle followed a similar trend to deadweight prices during 2013. The prime cattle average started the year at around £2 a kilo lwt, before rising steadily to a peak of 238p/kg in mid-July. Prices then fell back and fluctuated between 220–230p/kg throughout most of the remainder of the year. However, there was a seasonal lift in prices back over the 230p/kg mark at the beginning of December as producers presented their best cattle to the market. The annual average, at 225.5p/kg lwt, exceeded the 2012 average by 12%.

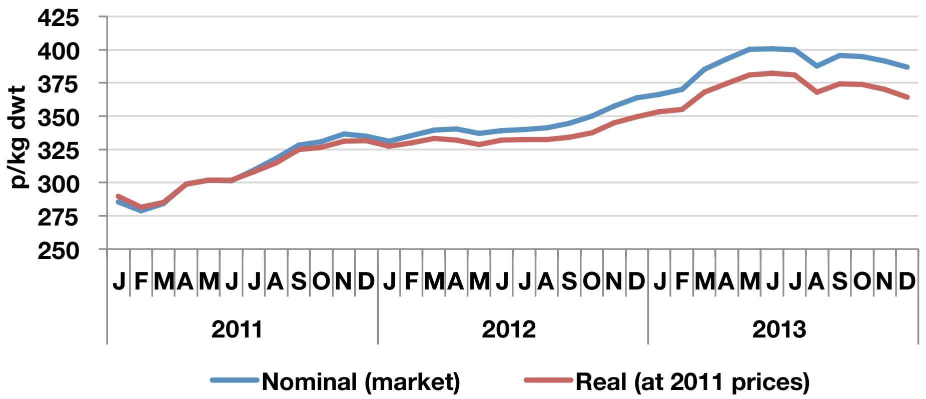
Prime cattle producer price growth outpaced the general level of inflation in the UK economy for a third successive year. Producer prices in real terms averaged 10.5% higher than in 2012[1].

Scottish Deadweight Steer Price



Source: AHDB Market Inteligence

Scottish Deadweight Steer Price



Source: QMS calculation from AHDB & ONS data

1 Real prices: Where inflation is greater than zero, the price that the producer receives is lower in real terms than the market (nominal) price as the sales proceeds have less purchasing power in the wider economy than in the past due to a rise in the general level of prices. For example, a sales price of 400p/kg in period 2 would be equivalent to a price of 392p/kg in period 1 if the rate of inflation was 2%. As inflation increases, the real price diverges from the nominal price to a greater extent – with inflation at 4%, a price of 400p/kg in period 2 would be equivalent to just 384p/kg in period 1.

Sheep

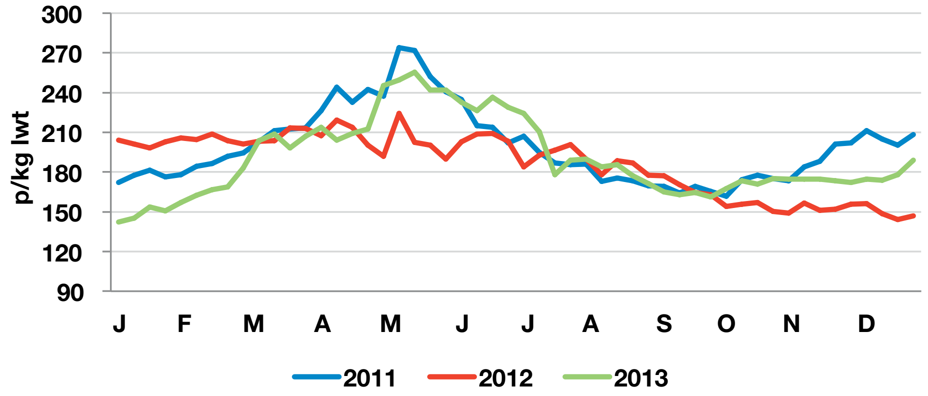
Producer prices returned to a more normal seasonal pattern in 2013.

Prime sheep prices opened 2013 at 142p/kg lwt, 29% lower than they had begun 2012. After a steady January they then began to pick up through February and then, after growing sharply in the first half of March, they closed in on their year earlier level of nearly 210p/kg. At the new season peak in May, prices reached 255p/kg – a 14% increase over 2012. A tightly supplied market then kept prices well ahead of 2012 levels through June and into July, delaying the seasonal decline until a very warm, dry period of weather led to a surge in lambs reaching markets in the second half of July. Prices then eased through August and September, reaching a seasonal low of 161p/kg. The first half of October then saw an improvement for producers, and the price picked up to around 175p/kg where it held through to the year-end. This was around 20p/kg higher than in the same period of 2012.

Deadweight lamb prices followed the same trend as the live trade in 2013. They peaked at 537p/kg dwt in mid-May, then bottomed out at 385p/kg in the first week of October before steadying at 395–400p/kg between mid-October and the year-end. Prices started out the year at around 25% below 2012 levels but had returned close to parity by March. Early in the new season they then traded 15–20% ahead of 2012, before falling slightly behind in August and September. In October they then moved back in front of year earlier levels and finished the year at a premium of around 10–15%.

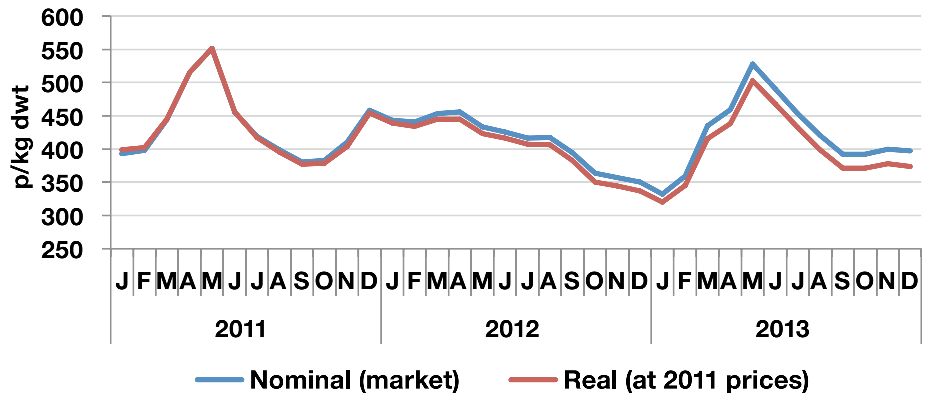
In the calendar year of 2013, deadweight producer prices averaged 3% higher than in 2012, at 411p/kg dwt. By contrast, the average price at Scottish auctions fell 1% to 181p/kg lwt. When adjusted for an annual RPIJ inflation rate of 2.4%, producers saw real terms deadweight prices edge higher. However, real auction prices fell by 3.5% in 2013.

Scottish Prime Lamb Auction Price



Source: AHDB Market Inteligence

GB Deadweight Lamb Price

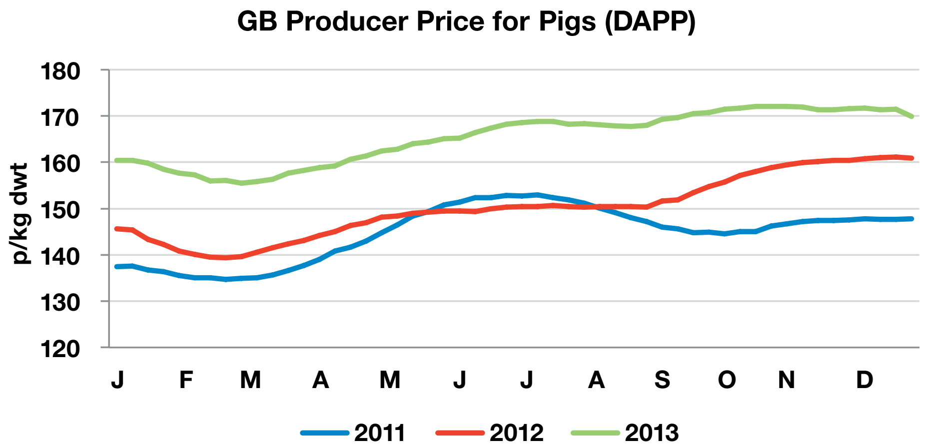


Source: QMS calculation from AHDB & ONS data

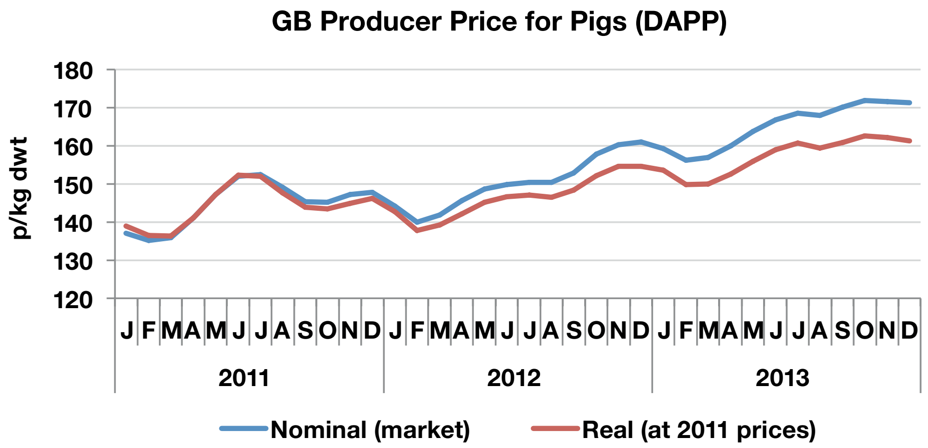
Pigs

At the beginning of 2013, prices fell back responding to low seasonal demand, as the UK market was well-supplied with pigmeat. However, prices quickly recovered, rising through the spring and early summer to a seasonal peak of nearly 170p/kg dwt in mid-July, 12% above their July 2012 peak. They then began to ease back seasonally in August. However, this quickly reversed, and the GB DAPP lifted gradually through September and October to an annual high of 172p/kg. Prices then steadied at between 171–172p/kg until the final week of the year when they slipped back below 170p/kg. This left them 5.5% higher than they had begun the year.

The average producer price in 2013 of 165p/kg was up 9% on the year. This exceeded the general level of inflation in the UK economy, meaning that real-terms pig producer prices rose by approximately 6.5% over their 2012 level. However, as the cost of living had risen more quickly than the GB DAPP in previous years, producer prices were still marginally below their 2009 level in real terms.



Source: AHDB



Source: QMS calculations from AHDB & ONS data

Store Prices

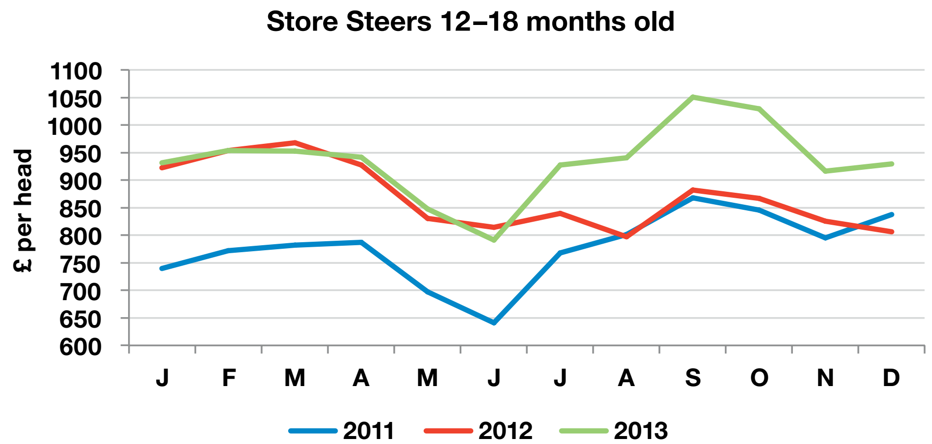
Cattle

Store cattle prices started 2013 in line with their year-earlier levels and this remained the case throughout the first half of the year. However, prices then picked up into the autumn whereas they had steadied the previous year, pushing prices up by around 20% over 2012 levels for the remainder of 2013.

Prices for both 6–12 month old calves and 12–18 month old steers exhibited their historic seasonal trends in 2013 and reached their annual peak levels in September. Younger steer prices fell more sharply thereafter, ending their year close to their summer low. While 12–18 month old stores also fell back from their September peak, they ended the year slightly more expensive than they had traded in November.

Compared with 2012, the average 6–12 month-old steer sold at a price 5% higher – averaging £835/head during 2013. Store steers aged 12–18 months averaged 9% higher than in 2012, at £966/head.

Source: Scottish Government

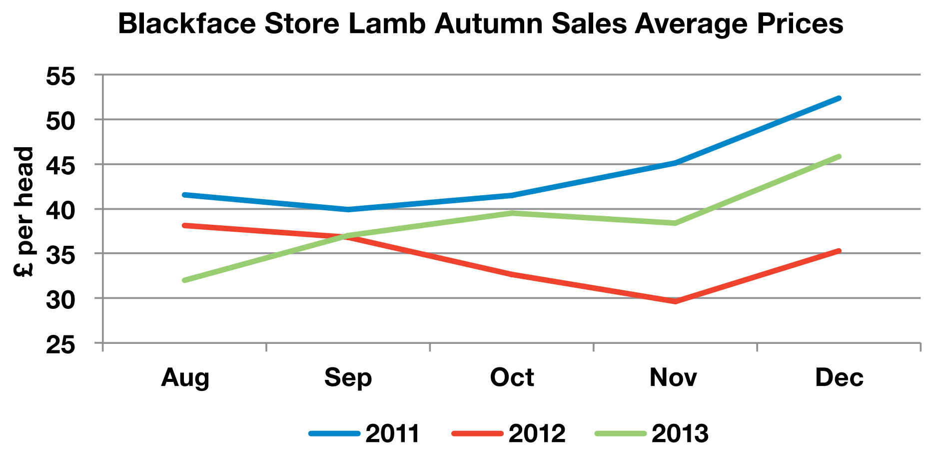


Source: Scottish Government

Sheep

Store lamb prices increased into the autumn, before dipping slightly in November and increasing again in the final month of 2013. As prices had fallen back in the autumn of 2012, this left prices trading one-third higher than year-earlier levels in November and December 2013.

The average Blackface store lamb sold for just over £38/head in 2013, a 9% year-on-year increase.



Source: Scottish Government

Producer Input Costs

In 2013, input costs for farmers averaged slightly higher than in the previous year. This was principally due to the spike in costs during the second half of 2012, which left prices higher than a year earlier throughout the first half of 2013. Over the course of the year input costs trended lower, but there was a slight upturn in December.

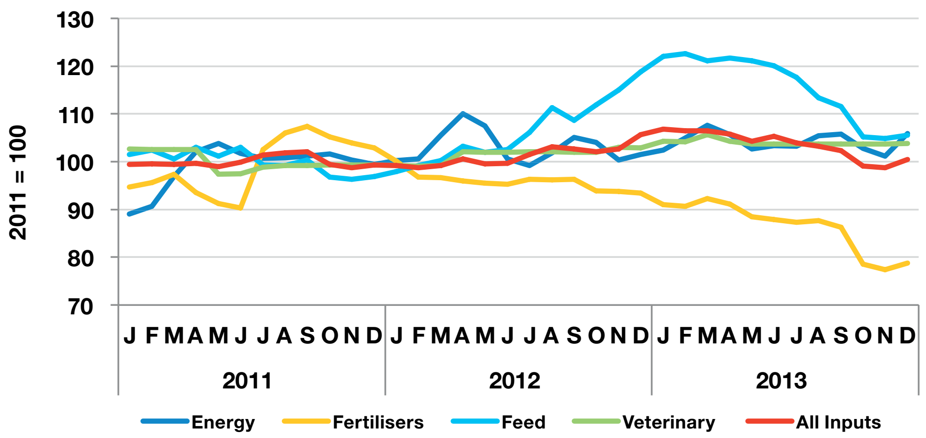
Energy costs increased through the first quarter of 2013 as oil and gas prices picked up on a tightening of global supplies. However, the oil price began to ease back in the second quarter as supplies recovered and financial markets anticipated an easing back of monetary policy stimulus in the US. There was then a further dip in the autumn after a deal to ease sanctions on Iran was agreed. However, energy prices then lifted towards the year-end as domestic companies raised their gas and electricity tariffs.

The cost of fertilisers continued to fall through 2013, having trended downwards since the second half of 2011. Weak demand at a global level for minerals as emerging economies, particularly China, slowed has been one of the main factors driving the market lower.

Feed costs averaged significantly higher in 2013 than in the previous year as a consequence of the spike in costs that occurred in the second half of 2012. This left prices well above year-earlier levels until the final quarter of 2013, despite a downwards trend over the course of the year. Prices eased through 2013 as a consequence of a much improved global harvest. Initially, prices fell on the back of positive supply forecasts, before declining further as increased levels of production materialised.

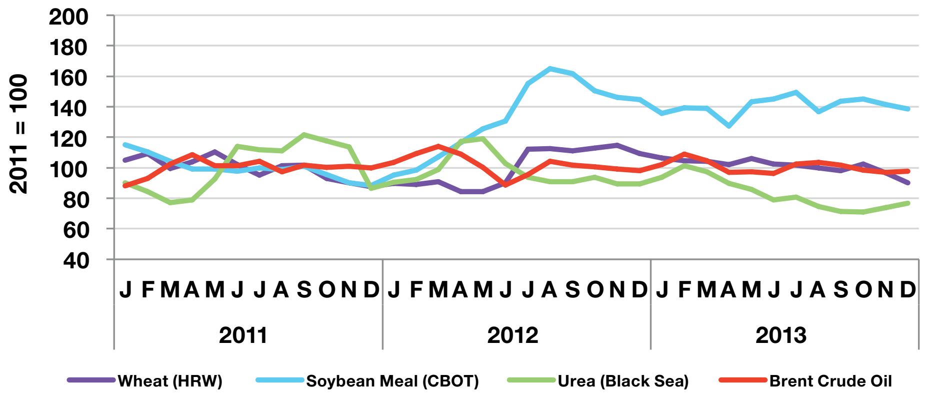
After a difficult start to the year for livestock producers, falling input costs are likely to have seen the pressure on margins ease as 2013 progressed.

Selected Agricultural Input Costs



Source: Defra 2014b

Global Commodity Prices in Sterling Terms



Source: World Bank (2014)

	2011	2012	2013	Annual change 2012:2013
		2010=100		%
Energy	118.2	122.4	123.4	+0.8
Fertilisers	130.4	125.2	113.1	-9.6
Feedstuffs	120.7	128.5	140.8	+9.6
Veterinary	102.0	103.6	106.1	+2.4
All means of agricultural production	112.2	114.1	116.8	+2.3

Source: Defra (2013b)

Retail Prices

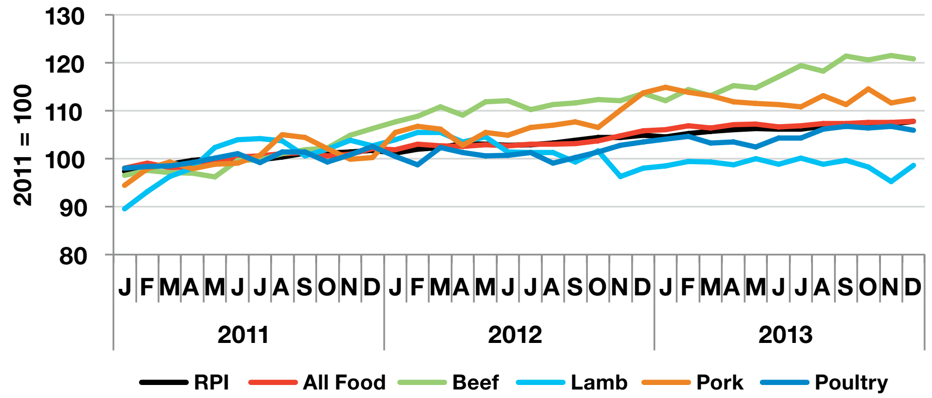
The Retail Prices Index (RPI) breaks food prices down into more detailed categories than the Consumer Prices Index (CPI). Within the RPI food basket, the majority of foodstuffs saw slower price growth in 2013 than in 2012. Nevertheless, fresh fruit and potatoes still posted double-digit gains, as the poor harvests of 2012 impacted negatively on supplies in 2013. Despite the generally lower level of inflation across the food basket, only imported lamb and eggs proved cheaper to buy than in the previous year; in 2012, five foodstuffs had shown deflation.

Beef retail prices rose steadily from January through to September, as previous sharp increases to raw material prices passed through the supply chain. However, prices then stabilised over the final quarter, as consumer sensitivity to higher prices led to falling sales volumes. UK beef retail prices averaged nearly 6% higher than a year earlier but grew at less than half the rate of GB farmgate prices.

Lamb retail prices were relatively steady throughout 2013, apart from a dip in November. In the first third of the year, the price of home-killed lamb fell back while the cost of imported product picked up. However, this reversed in May, and then both were relatively stable for the remainder of the year. The November dip was mainly due to a short-lived fall in the price of home-killed product.

Having risen sharply at the end of 2012, as the chain of production quickly moved to pass through the increased cost of sourcing pigs from producers, pork retail prices then trended steadily lower during the first half of 2013 as consumption volumes came under pressure from higher prices. Prices then drifted slowly higher during the second half of the year; although pork finished 2013 cheaper to buy than it had begun the year. Meanwhile, bacon prices grew slowly throughout 2013, following a sharp increase at the end of 2012.

Retail Prices Index



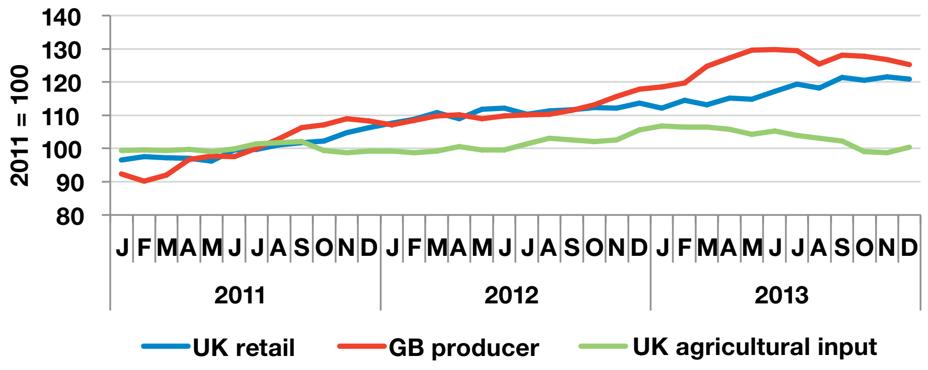
Source: ONS (2014)

Annual RPI Inflation (%)

	2011	2012	2013
RPI	5.2%	3.2%	3.0%
Food	5.9%	3.2%	3.7%
Beef	4.1%	10.9%	5.8%
Lamb	21.0%	1.8%	-3.0%
Pork	5.2%	6.9%	5.2%
Bacon	2.1%	0.6%	5.5%
Poultry	5.7%	1.0%	3.9%
Fish	9.2%	4.3%	3.8%

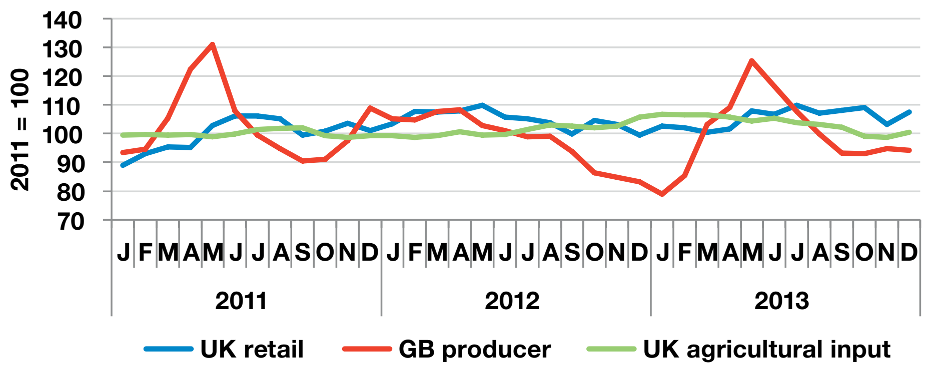
Source: ONS (2014)

Index of Input Costs – Producer and Retail Prices for Beef



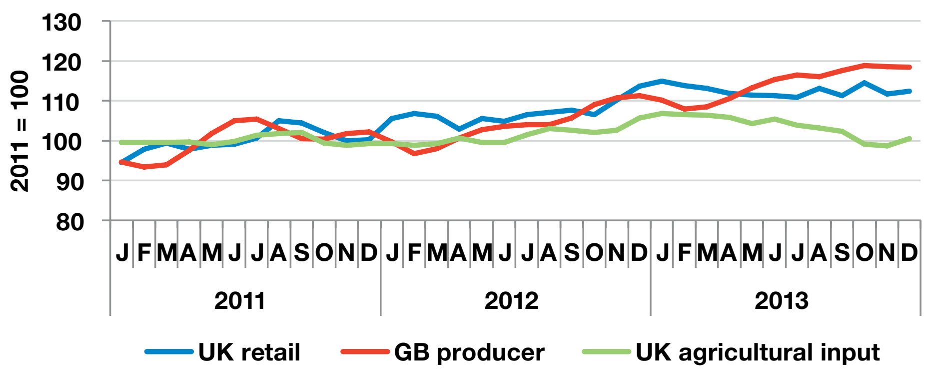
Sources: AHDB Market Intelligence; Defra (2014b); ONS (2014)

Index of Input Costs – Producer and Retail Prices for Lamb



Sources: AHDB Market Intelligence; Defra (2014b); ONS (2014)

Index of Input Costs – Producer and Retail Prices for Pork



Sources: AHDB Market Intelligence; Defra (2014b); ONS (2014)

Consumer Demand

Beef consumption in the UK fell for a third consecutive year, with the pace of decline holding at 2% for a second year. The total volume of product reaching the UK market slipped by 20,000t to 1.02m tonnes. This left beef consumption at its lowest level for a decade.

Following five years of decline, lamb consumption recovered in 2013, rising by 18,000t to 301,000t. This was an increase of more than 6% and pushed consumption to a three-year high. However, this was still 19% lower than in 2008.

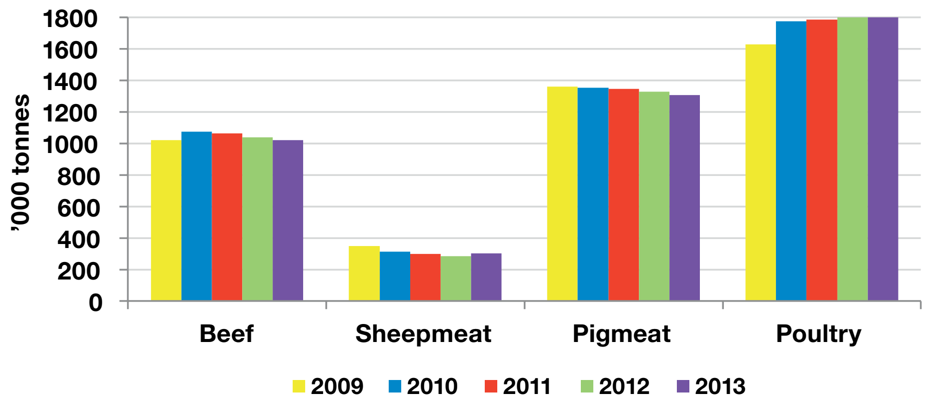
Consumption of pigmeat fell for a sixth successive year. Volumes decreased by a further 1.5% to 1.31m tonnes: a 13-year low.

The overall volume of red meat consumption fell by nearly 1% in 2013 to 2.63m tonnes. However, a switch to poultry saw overall meat consumption edge fractionally higher to 4.46m tonnes. The decline in beef consumption came despite a sharp fall in exports, as this was more than offset by the combination of lower production and flat imports. Sheepmeat consumption increased due to a better supplied global market and improved retail price competitiveness. Pigmeat consumption fell, despite an expansion in production volumes, as imports eased slightly and export demand jumped significantly.

It is estimated that Scottish beef and sheepmeat production volumes exceeded consumption during 2013, whereas net imports of pigmeat were required to satisfy consumer demand. While beef production was estimated at 147% of consumption and sheepmeat production at 178%, pigmeat was at just 22%.

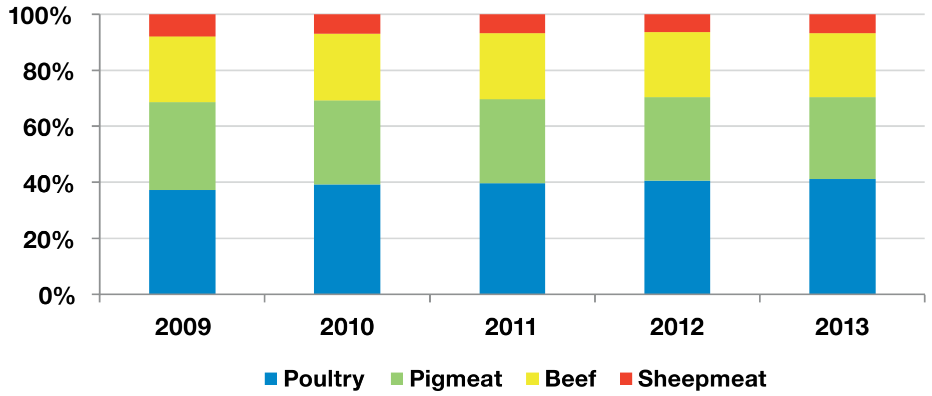
Scottish self-sufficiency for all three species fell back in 2013. For beef and pigmeat, this was due to production decreasing at a faster pace than consumption. By contrast, for sheepmeat it was caused by the combination of lower abattoir output and higher consumption.

Annual UK Meat Consumption



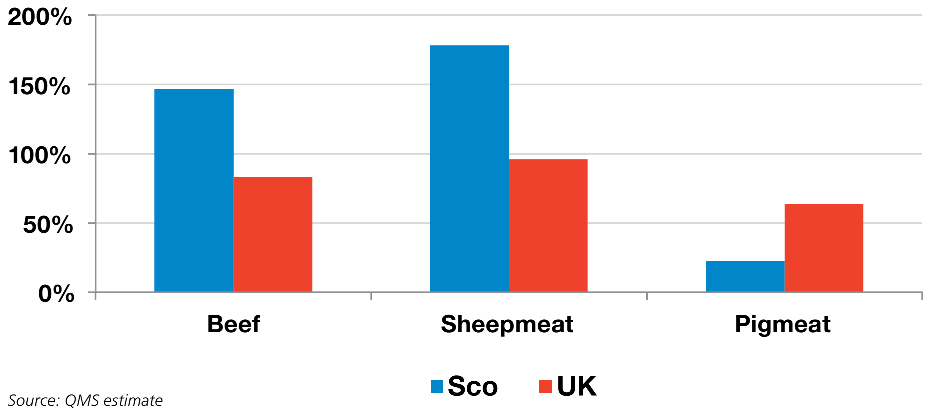
Source: Defra 2014 c

Annual UK Meat Consumption Share



Source: Defra 2014 c

Estimated Self-sufficiency in 2013



Source: QMS estimate

UK Overseas Trade

Details of imports and exports of red meat into and out of Scotland are unavailable separately from UK figures. Consequently, this section summarises trade data for the UK as a whole and reflects the trade environment in which Scottish producers and processors operate.

Imports

Beef

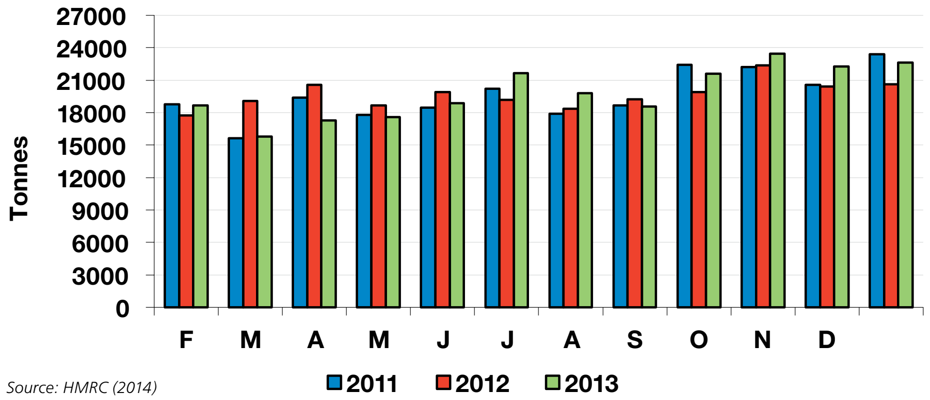
Beef imports to the UK increased by 1% in 2013 to 238,250t. This was 2,250t higher than in 2012.

Closer examination of the figures shows UK imports of fresh beef rose by more than 3% to 173,100t. This was a nine-year high. By contrast, imports of frozen product fell back by 5% to 65,100t. There was a shift from frozen beef to fresh beef following the horsemeat scandal, while requirements for manufacturing beef had been higher in 2012 due to the Olympic Games.

Ireland maintained its position of market leader in supplying the UK's beef import requirements. However, its share of the market eased slightly to 67.5% as UK imports from Ireland rose by 0.5% to 160,900t, compared with overall import growth of 1%. Early in 2013, deliveries from Ireland were impacted significantly by the horsemeat scandal, pushing them lower until May. However, shipments began to pick up again from June onwards and were 5% higher than a year earlier in the second half of the year, driven by increased Irish supplies and the increased price competitiveness of Irish beef.

Tight supplies across much of the EU pushed imports from a number of other suppliers lower. Imports from Germany and Holland fell by around 30%, reducing their shares of UK imports significantly. However, there was a 5% increase in imports from Poland, pushing up its market share slightly, from a low base.

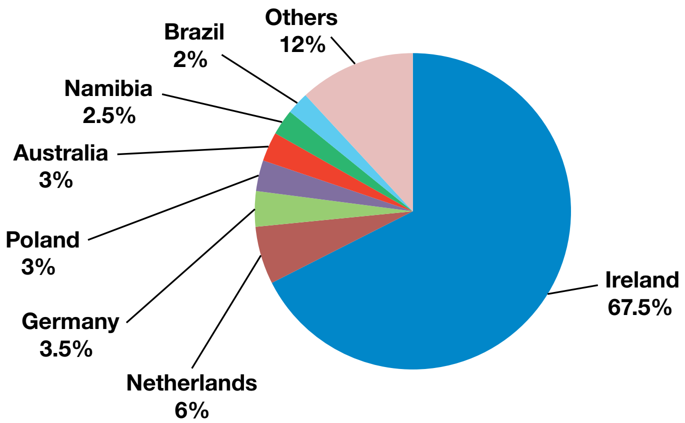
UK Beef Imports



Source: HMRC (2014)

With relatively tight supplies in the EU, deliveries from further afield increased. Imports from Brazil grew strongly for a second year and reached a five-year high of 5,450t. Drought in Australia led to a large increase in supplies there, supporting deliveries to their overseas markets. As a consequence, the UK imported 28% more beef from Australia than in 2012, with deliveries of more than 7,100t. Meanwhile, a return of Botswana to international markets following a Foot and Mouth Disease (FMD) outbreak in 2011 led to deliveries of 4,200t, and this helped neighbouring Namibia to expand its exports to the UK, up 60% to 6,250t. By contrast, imports from Uruguay contracted sharply for a fourth year.

Suppliers of Beef to the UK in 2013



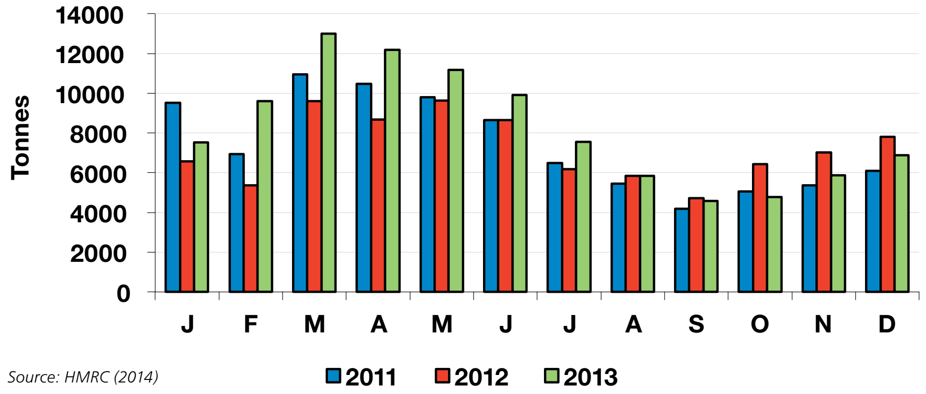
Source: HMRC (2014)

Sheepmeat

2013 was a tale of two halves in terms of sheepmeat imports. A drought in Oceania in the first quarter of the year pushed global supplies higher and made sheepmeat a much more price-competitive protein, thereby supporting imports. However, this began to change in the summer as supplies tightened in New Zealand and, by September, monthly imports had fallen well behind year-earlier levels. In the final quarter of the year, increased home production also reduced the requirement for imports, along with an easing back in domestic consumption growth as retail prices held above year earlier levels. In the 2013 calendar year, the UK imported 98,900t of sheepmeat, 12,400t (14%) more than in 2012.

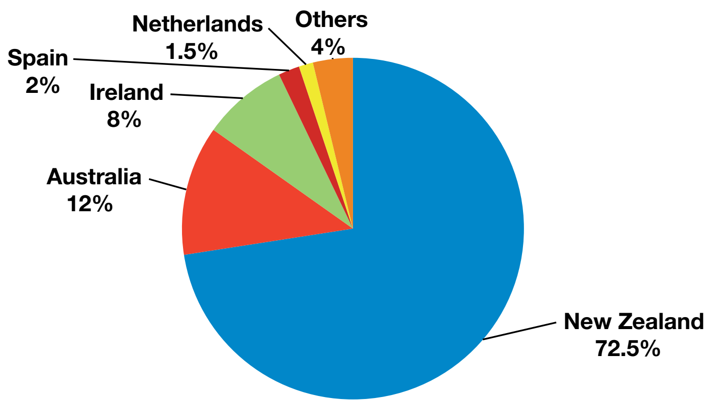
New Zealand (NZ) was once again the major supplier of sheepmeat to the UK. Deliveries increased by 15% compared to 2012, to 71,750t, and accounted for 72.5% of total shipments. The combination of drought-induced increased supply in NZ and the subsequent downwards impact on average import prices (of around 15–20%) encouraged imports throughout the first seven months of the year, leaving them up by 29% at the end of July. However, tighter supplies and higher prices then pushed imports from NZ lower than a year earlier in each of last five months of 2013, with deliveries down by 24% in the final quarter.

UK Sheepmeat Imports



Source: HMRC (2014)

Suppliers of Sheepmeat to the UK in 2013



Source: HMRC (2014)

Pigmeat

UK pigmeat import volumes fell for a second year in 2013. Deliveries fell by 5,000t (nearly 1%) to 601,600t. Breaking this total down, deliveries of fresh and frozen pork increased by nearly 1% to 351,800t, but this was more than offset by a 3% decline in shipments of bacon and ham to 249,800t. As a result, pork imports accounted for 58.5% of total pigmeat deliveries, compared with 57.5% in 2012.

In terms of fresh and frozen product, there were large changes to the sourcing of UK imports. Though Denmark retained its position as the largest supplier, it continued to lose market share, with shipments falling by 11% to 88,900t following a 15% decline in 2012. This left Denmark with a 25% share of the total, compared with 28.5% in 2012 and 32% in 2011. By contrast, as Germany and Holland grew their shipments of pork to the UK, their respective market shares rose from 19% to 22% and from 14% to 16%. Germany sold 77,700t of pork to the UK in 2013, an increase of 16.5%, while imports from the Netherlands rose by 15% to 56,300t.

Other suppliers to sell more pork to the UK in 2013 included Belgium (+14.5%) and Spain (+4.5%). However, Ireland sent 15% less pork while imports from France fell 10.5%.

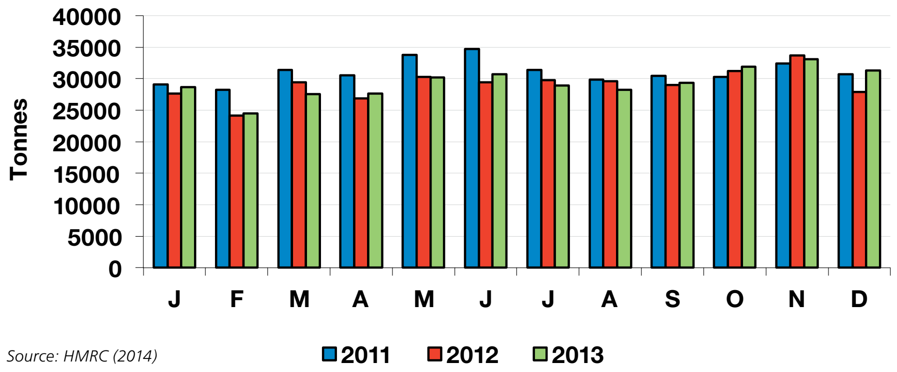
As stated above, imports of bacon and ham decreased in 2013. They were 22,500t down on the year, at 257,800t, and monthly import volumes trailed year-earlier levels in 11 of the 12 months for a second year. Cured product accounted for 42.5% of the UK's pigmeat imports.

During 2013, although Denmark exported slightly less bacon and ham to the UK than in 2012, its market share edged up to 41.5%. Shipments totalled 103,700t, a year-on-year decline of 2,200t.

After three years of increasing its share of the total, the Netherlands delivered 11% less bacon and ham to the UK, reducing its share from more than 40% in 2012 to 37% in 2013. Shipments from Holland decreased to 92,800t from 2012's total of 104,500t. Imports from Germany recovered slightly in 2013, having fallen sharply in the previous year. They rose by 2,000t to 34,100t, taking a 13.5% share of the total.

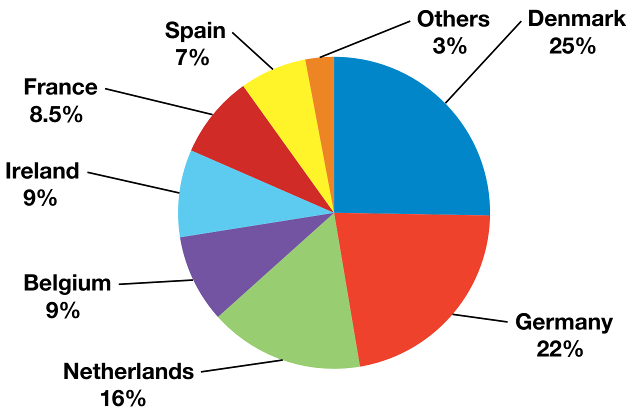
Of the smaller suppliers, Ireland, Italy and France all increased their shipments to the UK.

UK Pork Imports



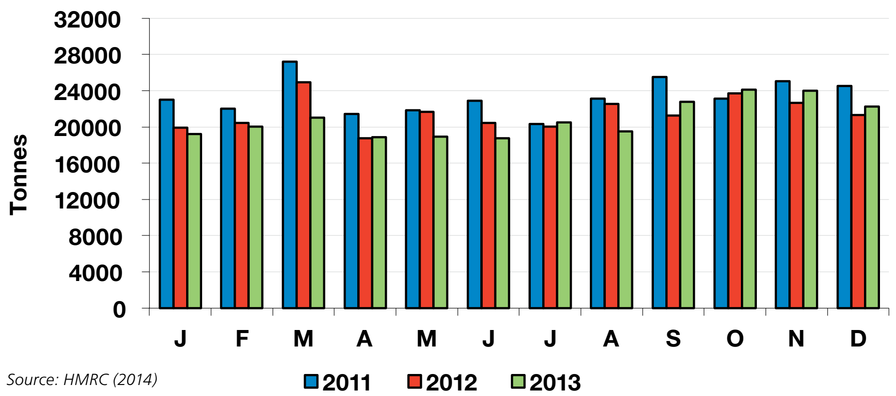
Source: HMRC (2014)

Suppliers of Pork to the UK in 2013



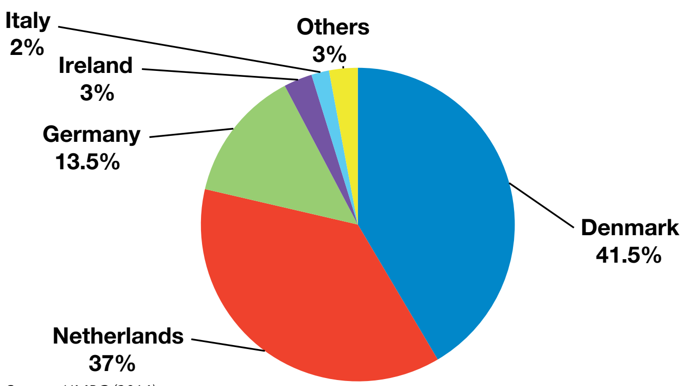
Source: HMRC (2014)

UK Bacon and Ham Imports



Source: HMRC (2014)

Suppliers of Bacon and Ham to the UK in 2013



Source: HMRC (2014)

Exports

Beef

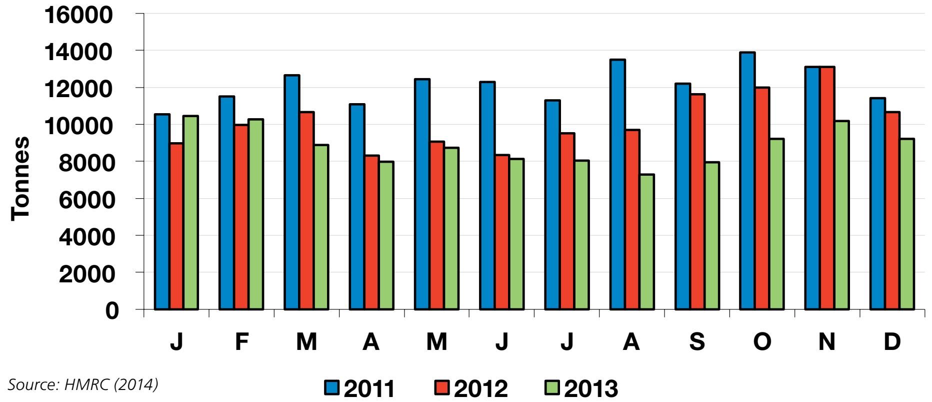
UK beef exports declined for a second year in 2013. Trade volumes fell back by 15,500t to 106,300t, a year-on-year decrease of 13%. In part, this was down to UK beef being in short supply and more expensive for foreign buyers compared with beef from other countries. However, another contributing factor will have been a ban on non-stun slaughter in Poland, which led to an increased volume of cheaper beef remaining in the EU market rather than being exported into the Middle East.

The Irish Republic remained the UK's largest customer in 2013. However, export volumes fell back by 18% from 2012 to 33,800t, giving it a 32% share of total exports compared with 34.5% in 2012. Sales to the Netherlands also fell significantly, by 5,000t (14%), and its market share decreased by one percentage point to 31%. There was a shift in composition of deliveries to Holland, with frozen product accounting for a greater share than in 2012, though it still accounted for just 10% of the total.

Of the other significant European markets, France and Germany bought considerably more UK beef than a year earlier, with shipments up by 18% and 41%, respectively. This saw their share of UK exports rise substantially given that overall UK exports declined. Meanwhile, a slight fall in sales to Belgium saw its share of UK exports increase.

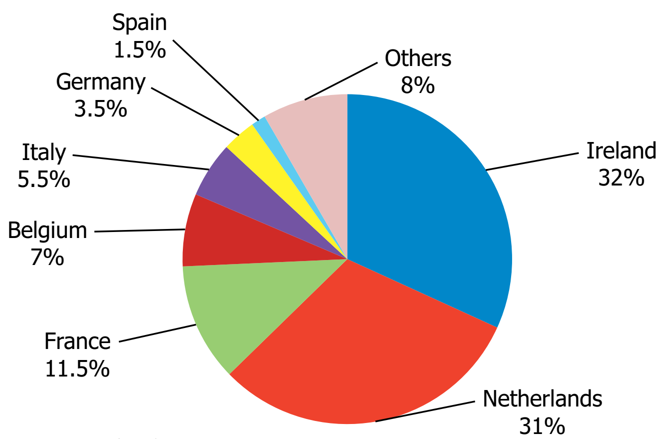
UK beef exports to non-EU countries decreased by more than a fifth in 2013, slipping back to 4,600t from 5,800t in 2012. This saw their share of total shipments slip back to 4% from 5% in 2012. Sales to Ghana and Hong Kong eased by 5%, and Swiss customers bought 29% less UK beef than in 2012. However, trade with Norway picked up in the early part of the year, and this pushed up annual shipments by nearly 70%.

UK Beef Exports



Source: HMRC (2014)

UK Beef Exports 2013



Source: HMRC (2014)

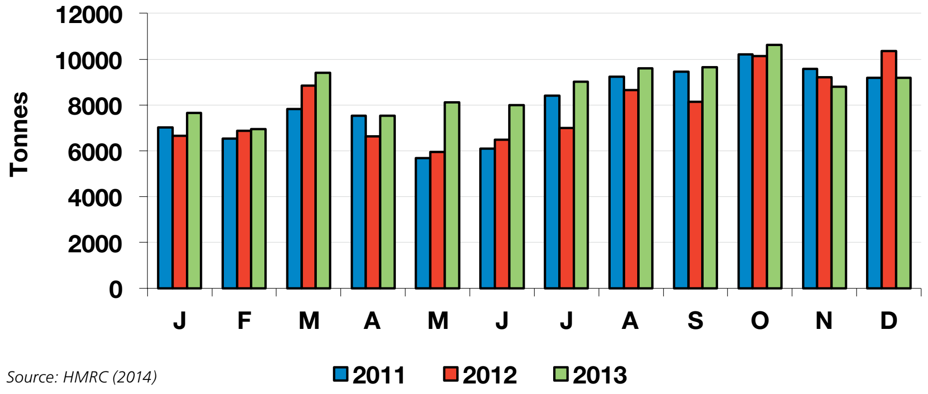
Sheepmeat

There was a 10% expansion in UK sheepmeat exports in 2013, helped by increased domestic production and a favourable exchange rate for the majority of the year. Export volumes rose by 9,700t to 104,500t, their highest level for 13 years. However, exports did slow in the final two months of the year, despite domestic production continuing to exceed year-earlier levels. A stronger sterling on the back of the recovery in the UK economy may have contributed to an easing of export demand towards the year-end. Lower import availability in the final quarter of 2013 may have also have had an impact, limiting export opportunities, as a greater proportion of home-produced product will have remained on the home market.

With the European economy beginning to see the first signs of emerging from a prolonged period of financial pressures, UK sheepmeat exporters were able to expand their sales, helped by a more favourable exchange rate for most of the year, plus tight lamb supplies on the Continent. Deliveries to the rest of the EU lifted by 5% over 2012 to 86,800t. Sales to the principal market, France, grew in line with overall trade with the EU, while Belgium, Germany, the Netherlands, Spain, Austria, Denmark and Sweden all provided increased opportunities compared with the previous year. However, trade with Italy, Ireland and Portugal did fall back.

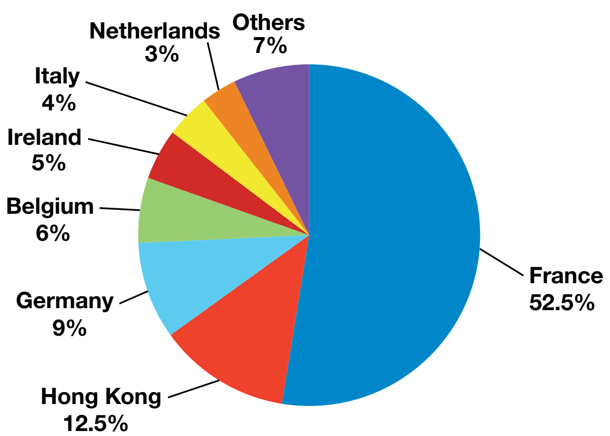
UK exporters made substantial inroads into Hong Kong and Ghana in 2013, with deliveries rising by a respective 78% and 133%. Growth into Hong Kong saw it become the UK's second largest customer, as its market share rose from 8% in 2012 to 12.5% in 2013. Both these markets offered processors opportunities to achieve a greater balance of the carcase, selling lower value cuts that are less in demand in the home market and in the EU. Closer to home, higher value shipments to Norway expanded by a quarter in 2013 to 2,100t, despite substantial tariffs on meat imports.

UK Sheepmeat Exports



Source: HMRC (2014)

UK Sheepmeat Exports in 2013



Source: HMRC (2014)

Pigmeat

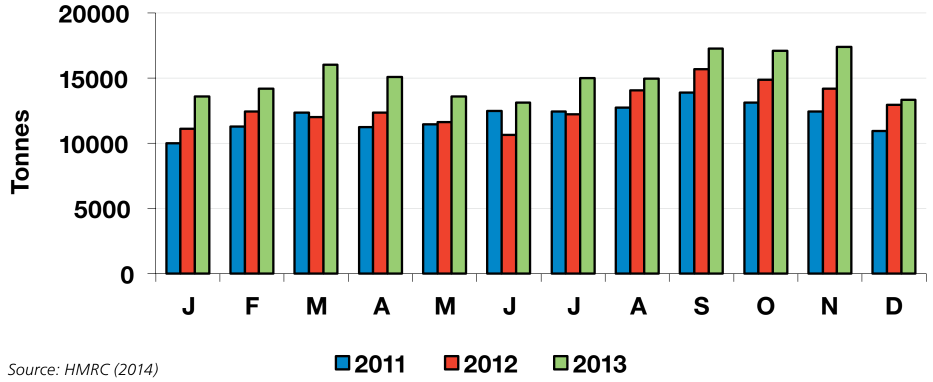
In 2013, UK pigmeat exports increased by 14.5% to 194,300t. While exports of fresh and frozen pork increased by more than 17% to 180,700t, this was partially offset by shipments of cured product falling back for a second year, to 13,500t.

Export volumes of fresh and frozen pork were supported by higher UK production and lower domestic consumption. Sales to the rest of the EU were up by 12.5% on 2012 to 128,600t, possibly helped by a rebalancing of consumption towards pork from more expensive proteins. Though Germany remained the largest customer, buying 30,900t, its share of the total slipped back to 17% from 21% in the previous year. By contrast, Ireland and the Netherlands bought 12–13% more UK pork, while Denmark increased its imports from the UK by 67%, increasing its share of the total from 8% in 2012 to 11% in 2013.

Greater access to markets in Africa and East Asia also helped drive sales higher for a second year. Indeed, deliveries to the Ivory Coast nearly trebled to 2,100t, while China purchased 25,000t of UK pigmeat in 2012 compared with 11,500t in 2012. Other areas of growth included the Philippines and Thailand. However, possibly as a reflection of better direct access to the Chinese mainland, shipments to Hong Kong fell back for a second year. Trade with the other developed markets of Japan, Singapore and Korea also contracted.

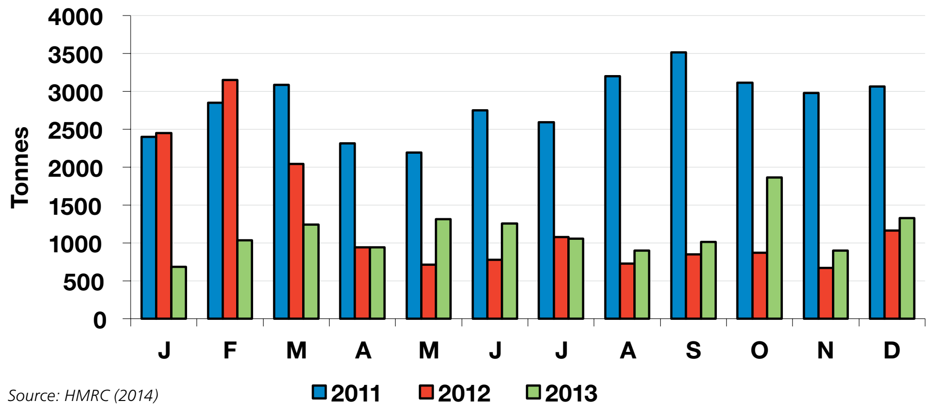
Though annual UK shipments of bacon and ham fell further in 2013, monthly volumes were generally well above year earlier levels from May onwards. The sharp decline early in the year was caused by a drop-off in sales of cured product to Denmark in the spring of 2012, which left a much higher figure to compare against in the opening months of 2013.

UK Pork Exports



Source: HMRC (2014)

UK Bacon and Ham Exports



Source: HMRC (2014)

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QM2648_06/14