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EU BEEF PRODUCTION TO INCREASE IN 2016

IN 2015 beef production in the EU increased by 2.2 per cent from 2014 levels to total 7.72 million tonnes. This is expected to increase by a further two per cent during 2016 before stabilising in 2017 according to the latest Short Term Outlook Report recently published by the EU Commission.



Much of the increase in EU beef production during 2015, and the forecast increase in production during 2016, is on the back of changes within the EU dairy herd. Restructuring of milk production systems and low milk prices during 2015 in response to global oversupplies of milk prompted high levels of cow cullings across the EU with cow throughput in the EU-15 up by 3.3 per cent in 2015 when compared to year earlier levels. The volume of cow beef processed in the EU during 2015 was up by 5.3

per cent from year earlier levels due to increases in average carcass weights.

Despite the overall increase in dairy cow slaughterings in the EU-15 there were declines recorded in cow throughput in Denmark, Ireland, the Netherlands and the UK during 2015. This indicates the continued expansion of the dairy herds in these countries.

According to the latest EU Short Term Outlook Report the recapitalisation of the dairy herd in these regions is expected to come to a halt during 2016 with fewer cows and heifers being retained to increase production capacity. It is expected that the low level of milk prices will encourage further restructuring and culling of surplus cows across the EU during 2016 which will result in a further increase in beef availability on the EU market.

The December 2015 Livestock Survey has recorded an increase in EU suckler cow numbers by

250,000 head when compared to December 2014 levels. This is the second consecutive year in which EU suckler cow numbers have increased after a prolonged period of steady decline. This increase in the suckler beef herd will also contribute to higher beef production within the EU.

The overall increase in EU suckler cow numbers during 2015 was driven primarily by strong increases in suckler cow numbers in Spain (+95,000 head) and France (+66,000 head). Meanwhile some EU regions recorded a decline in suckler cow numbers with the most notable decline recorded in Austria where suckler cow numbers were back by 11,000 head.

Live cattle exports from the EU recorded strong growth during 2015 which helped to relieve some pressure on the EU beef market. Increases in the live exports of cattle can primarily be attributed to the reopening of the Turkish market during 2015 with total EU cattle exports up by 60 per cent from year earlier levels. The outbreak of bluetongue in France and Romania during 2015 has restricted the movement of animals from these regions to other EU countries and has also prevented live exports of cattle to Turkey.

With reports of the disease still spreading in France early this year it is expected that this will have a negative influence on live exports. While Turkey is expected to remain an important outlet for live cattle from the EU the latest Short Term Outlook report indicates that live exports to Turkey are expected to decline by 10 per cent in 2016 and

a further 18 per cent in 2017 as domestic production in Turkey increases.

EU beef meat exports recorded a 0.5 per cent increase during 2015 when compared to year earlier levels despite the closure of the Russian market. During 2014 Russia had received 35,500 tonnes of beef exports from the EU but the closure of this market has now been compensated for by increasing exports to a range of other regions. Regions increasing the volume of beef they received from the EU during 2015 included Norway, the Balkan countries, Egypt, Algeria, Gabon and Vietnam.

According to the Short Term Outlook Report the reopening of the Russian Market would have a limited impact on EU exports. Total beef meat exports are forecast to increase by five per cent in 2016 to 217,000 tonnes before recording declines in 2017.

During 2015 beef imports to the EU declined by almost three per cent with other global markets proving more attractive than the EU. Imports of beef to the EU are expected to increase marginally by 1.5 per cent during 2016 and then by a further 4.5 per cent in 2017.

Per capita consumption of beef increased by almost two per cent in the EU during 2015 to total 10.7kg/capita. With increased beef availability forecast in the EU during 2016 beef consumption is expected to record a further 1.6 per cent increase on 2015 levels.

Image 1: Total EU beef production is forecast to increase by 2.2 per cent in 2016 when compared to 2015 levels.



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NI SUCKLER TO BEEF COST

ACCORDING to the DARD December 2015 agricultural census the NI suckler herd has shown a steady recovery with suckler cow numbers increasing by three per cent to total 261,000 head. The number of in calf beef heifers also recorded a slight increase to total 46,700 head in the December 2015 survey.

With the NI suckler herd starting to show some signs of recovery it is perhaps useful to consider the suckler beef production costs for 2014/2015 which have recently been produced by DARD's Farm Survey Branch.

The average cost of producing beef from the NI suckler herd during the 2014/2015 financial year was £4.44/kg, a slight decrease from the 2013/2014 financial year when the cost of beef production from the NI suckler herd was calculated at £4.49/kg.

Variable costs

During the 2014/2015 financial year variable costs associated with suckler to beef production on NI farms totalled £2.10/kg accounting for 47 per cent of the total cost of production. This was a decline from the previous financial year when variable costs totalled £2.25/kg and accounted for 50 per cent of total beef production costs.

The decline in variable costs year on year can be attributed primarily to a reduction in the costs associated with fertiliser and concentrate usage on NI farms. Fertiliser and concentrate costs had steadily increased year on year since 2006/07 before recording declines in the 2014/2015 period.

The reduction in costs can be partly attributed to lower usage of both inputs on NI farms in response to the improved production conditions on NI farms. To coincide with this reduction in usage the unit cost of both fertiliser and concentrates recorded a decline year on year which will have also contributed to

the reduction in total costs as outlined in Table 1.

While there was a reduction in feed and fertiliser costs in NI during 2014/15 the cost of herd replacements to the NI beef herd recorded an increase. During the 2014/2015 financial year herd replacements contributed 22p/kg to the overall cost of beef production from the suckler herd compared to 12p/kg in the 2013/14 financial year.

This increase in herd replacement costs can be attributed to stronger prices paid by producers for maiden heifers while prices for cull cows leaving the suckler herd were lower than 2013/14 levels. Additionally, growth in NI suckler cow numbers indicates an increase in the number of heifers being retained for breeding which would also have contributed to the increase in herd replacement costs.

Fixed costs

During the 2014/2015 financial year fixed costs (excluding depreciation) associated with suckler beef production totalled £1.46/kg, an increase of 9p/kg from the 2013/2014 production period when fixed costs totalled £1.37/kg. Fixed costs (excluding depreciation) accounted for 32.8 per cent of total suckler beef costs during 2014/2015 compared to 30.5 per cent of total suckler beef costs during the 2013/2014 production period.

The majority of fixed costs remained relatively steady between the 2013/14 and 2014/15 production periods. There was however an increase in the contribution of conacre costs to the suckler beef cost of production from 21p/kg in 2013/14 to 25p/kg in 2014/2015. In some cases this increase in conacre rents is likely to be a result of changes to CAP which effected rental agreements.

The contribution of building maintenance to suckler beef

Image 2: Cost of production on NI suckler to beef farms declined during 2014/15 when compared to 2013/14 levels.



production also recorded an increase year on year. In the 2014/15 production period the contribution of building maintenance costs to the suckler beef production costs was 21p/kg compared to 18p/kg during the 2013/14 production period.

Miscellaneous costs associated with suckler to beef production also recorded an increase, up from

15p/kg in 2013/14 production period to 17p/kg in the 2014/15 production period.

Depreciation

Depreciation costs associated with suckler beef production stem from current or historical investment on NI suckler to beef farms in fixed capital or machinery. The cost of the investment is accounted for in

WHAT COSTS ARE INCLUDED?

The figures used to calculate the cost of suckler beef production in NI are from farm enterprises that rear and/or finish suckler calves. These costs are for a combination of steer, heifer and young bull production including suckler cow maintenance costs.

Own Labour and Capital

With no provision for opportunity costs in these figures, producers therefore need to consider that the enterprise must also cover the cost of their own labour, land and working capital.

Depreciation

Depreciation, which is associated with current and historical investment in capital, contributes significantly to overall farm costs. It is important to note however, that this type of capital investment is not entirely funded by the suckler enterprise with other revenue streams such as the Single Farm Payment, LFACA, Farm Nutrient Management Scheme and Farm Modernisation Scheme important factors in driving investment. Care should therefore be taken when interpreting these figures given that these grants and subsidies are important factors in the investment decision.

Mixed Farms

On any farm business there may be a number of different enterprises. For example, a suckler producer may also be involved in lamb production alongside a broiler breeder operation. Care is taken in the Farm Business Survey to ensure that costs for each enterprise are allocated correctly and proportionately.

Table 1: Fixed and variable costs for NI suckler to beef producers (excluding land labour and working capital) 2006/07 to 2014/15

	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15
Total Variable Costs	1.19	1.27	1.48	1.61	1.61	1.72	2.05	2.25	2.10
Total Fixed Costs (excl depreciation)	0.95	0.96	1.01	1.14	1.15	1.25	1.26	1.37	1.46
Sub-Total	2.13	2.22	2.49	2.74	2.76	2.97	3.31	3.62	3.56
Depreciation	0.66	0.67	0.69	0.81	0.86	0.85	0.83	0.87	0.88
Total	2.80	2.89	3.18	3.55	3.62	3.82	4.14	4.49	4.44

Source: DARD Farm Business Survey

OF PRODUCTION 2014/2015

the form of depreciation in the farm accounts for the following ten years. Total depreciation costs during 2014/15 were similar to year earlier levels at 88p/kg, accounting for 20 per cent of total beef production costs.

Costs associated with the depreciation of machinery remained stable year on year and contributed 54p/kg to the total cost of suckler beef production in the 2014/15 time period. Meanwhile depreciation of fixed capital increased slightly to contribute 34p/kg to the total cost of suckler beef production in the 2014/15 time period.

Increase in beef production

While there was a slight reduction in beef production costs on NI suckler to beef farms between 2013/14 and 2014/15 the average carcase weight of suckler origin prime cattle slaughtered in NI plants has increased. During the 2013/14 production period the average price reported prime cattle

carcase weight was 340kg and this increased to 346kg in the 2014/15 production period.

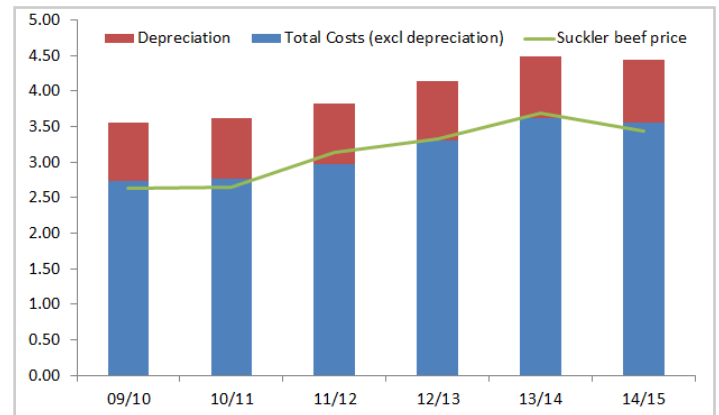
This increase in carcase weights will have also contributed to the 4p/kg reduction in the cost of production figures for suckler beef production recorded in 2014/15 as the total costs were spread over the increased volume of beef produced.

Comparison with prices

Figure 3 provides a comparison between the cost of suckler beef production on NI farms and farmgate prices paid for these suckler origin cattle from the 2009/10 production period to the 2014/15 production period.

The blue bar on the chart represents the total cost of production on NI suckler to beef farms excluding depreciation while the red bar represents depreciation costs. These costs do not include a return on

Figure 3: Suckler to Beef Production costs 2009-2015 - Average costs V Average Farmgate Price paid for Suckler Origin Prime Cattle



farmers' own land, labour and working capital. The green line on the chart plots the average farmgate price paid for suckler origin prime cattle (source: NI Price Reporting).

importance of focusing on continuous improvement to help reduce the costs of production for suckler to beef producers in NI.

Improving efficiency

These figures indicate that the average price paid for suckler origin prime cattle during the 2014/15 production period was £3.42/kg. This is 14p/kg lower than the calculated cost of suckler beef production (excluding depreciation) on NI farms which was £3.56/kg during the same period.

The results of the Farm Business Survey for the 2014/15 production period have indicated that while some suckler to beef producers in NI are operating at a loss there are also producers managing to cover all of their costs and make a margin from their production systems.

With the prices paid for suckler to beef prime cattle during 2014/15 lower than the average cost of production it highlights the reliance of the average NI suckler to beef producer on the Single Farm Payment to support their farming enterprise.

This indicates that there is scope to improve efficiencies on many NI suckler to beef farms to help reduce the average cost of production. The CAFRE benchmarking programme is an excellent source of support for producers who want to improve their efficiency by comparing their farm against similar enterprises to identify improvement measures. The new Business Development Groups being established will also be a great support vehicle for farmers seeking to improve the competitiveness and sustainability of their businesses.

It is important to consider that these figures are average costs calculated from the accounts of a wide range of beef farms participating in the Farm Business Survey. Some of these farms will be more efficient, with lower costs of production, while other farms will be less efficient with higher costs of production.

The shortfall between prices paid and the calculated cost of production highlights the importance of the Rural Development Programme and the farm business improvement scheme to support competitive improvement and efficiency measures on NI suckler to beef farms. However perhaps more importantly this highlights the

It is also important that NI beef producers continue to produce cattle that meet current market specifications. NI beef producers are encouraged to liaise directly with the procurement staff of the individual plants before finishing cattle. This will help ensure that the cattle being presented for slaughter in NI plants will meet current market specifications and maximise returns for the entire supply chain.

Figure 1: Suckler to Beef Production Index of Variable Costs 2006-2015

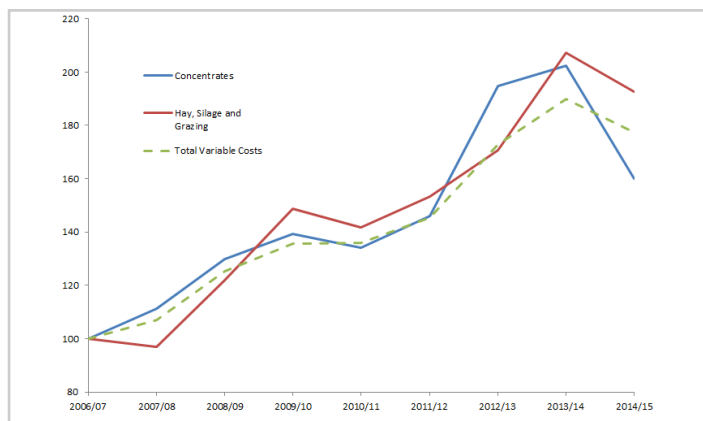
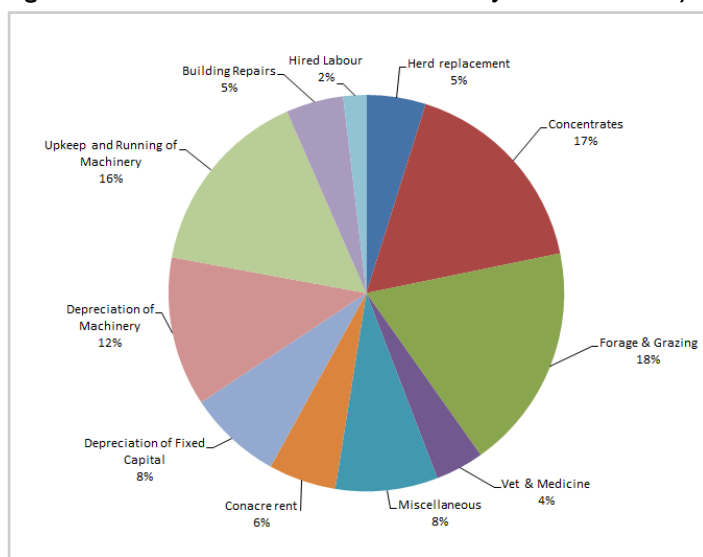


Figure 2: Suckler to Beef Production-Breakdown by Cost Centre 2014/15



GLOBAL SHEEP MEAT OVERVIEW

GLOBAL sheep meat production is widely distributed across the globe with production of sheepmeat totalling 8.7 million tonnes during 2014 according to a recent report issued by the International Meat Secretariat (IMS), of which LMC is a member.

The emergence of China as the largest producer, consumer and importer of sheep meat in recent times has changed the dynamics of the global sheep meat market.

Global Production

China accounted for 24 per cent of global sheep meat production during 2013 with Australia and New Zealand the next largest lamb producers, accounting for eight per cent and five per cent of global production respectively.

The EU as a whole accounts for nine per cent of global sheep meat production with UK production accounting for three per cent of global sheep meat production. This makes UK the sixth largest global lamb producer. Asia as a whole is responsible for 50 per cent of global sheepmeat production with Africa accounting for a further 20 per cent according to the recent IMS report.

Changes in the levels of sheep meat production globally have been very slow with volumes of production increasing by just 0.8

per cent per annum since 2000. It is currently the least important of the four major meat groups (namely beef, pork, poultry and sheepmeat).

Global Consumption

Sheepmeat consumption is also widespread across the globe however consumption levels remain much lower in comparison to the other major proteins. During 2013 global sheepmeat consumption was estimated at 8.6 million tonnes which equates to consumption of

Image 3: UK sheep production accounts for three per cent of global sheep meat production



1.2kg/capita given that the global population was almost 7.2 billion people. While lamb is more popular in developed economies demand for mutton in these regions is led by Muslim communities and other consumers with more limited purchasing power.

During 2013 China accounted for 27 per cent of global sheepmeat

consumption. By comparison the UK accounted for three per cent of global sheepmeat consumption in 2013 with similar levels of consumption in Turkey, Algeria, Australia and India. The EU as a whole accounted for an estimated 12 per cent of global lamb consumption during 2013 while countries in the Middle East and North Africa (MENA) accounted for 19 per cent of global consumption.

Exports

The global export trade of sheepmeat is very concentrated with Australia and New Zealand accounting for 68 per cent of total global exports during 2013 as indicated in Figure 4. The UK was the third largest sheepmeat exporter and accounted for nine per cent of global exports in 2013 while Ireland was the fourth largest, accounting for four per cent of the

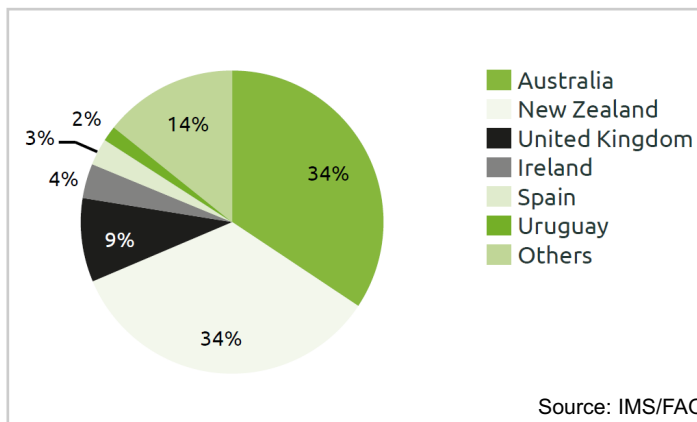
global export trade. The only other significant global exporters of sheepmeat during 2013 were Uruguay and Spain.

Imports

Due to the large number of countries importing sheepmeat the global import market is much more fragmented.

China dominates the import market and accounted for 25 per cent of all global imports during 2013. France was the second largest sheepmeat importer, accounting for ten per cent of global imports, just ahead of the UK which accounted for nine per cent. The EU as a whole accounted for a third of global imports during 2013. Other significant importers of sheepmeat include the USA, Saudi Arabia and the United Arab Emirates.

Figure 4: Major sheep meat exporters 2013 (Source IMS/FAO)



FQAS NOTICE ONLINE PAYMENTS

LMC has launched an online payment system for the Farm Quality Assurance Scheme. This allows producers to pay annual membership renewal and initial registration fees through the LMC website.

www.lmcni.com



Information Point

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Read it Weekly in the Farming Life or online at www.lmcni.com

FARMGATE:

LMC Price Reports Weekday Mornings & Evenings on BBC Radio Ulster

LMC MARKET INFORMATION

LMC'S Market Information Services are designed to support, examine and inform the NI red meat industry. The service aspires to support producers and processors with their decision making by producing accurate and timely information that creates a better understanding of the trade.

LMC is committed to creating an environment where our stakeholders are well-informed whether this is through our Market Information publications, the provision of basic statistics, further analysis of this data or the delivery of information through public events.

LMC encourages all of its stakeholders to utilise the Market Information section of the LMC website which provides a valuable source of statistics relating to beef and sheep meat production. If you require any further information or analysis please contact us directly via email at bulletin@lmcni.com or via telephone at 028 9263 3000.

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