

**REPORT OF THE INDEPENDENT GROUP
INTO ANTI-COMPETITIVE
PRACTICE IN THE IRISH BEEF INDUSTRY**

September 2000

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Conclusions, Recommendations and Executive Summary

The Independent Group was appointed by the Tanaiste and Minister for Enterprise, Trade and Employment on 26 January 2000 to examine allegations of anti-competitive practice in the beef Industry.

The terms of reference of the Group were:

- To examine allegations of anti-competitive practice in the beef Industry,
- To establish why there is such a large differential between the producer price and the prevailing consumer price, and,
- To make any appropriate recommendations in the matter

Our conclusions and recommendations are highlighted in the two boxes below, while our report is summarised in the subsequent text.

Conclusions

Regarding Anti-Competitive Practice:

We have found no evidence of anti-competitive behaviour either in the pattern of cattle prices or in profits. On the contrary there is evidence from the various sources we have consulted that on average the industry is one of low profitability. At the same time some periods are favourable for processors, such as the second half of 1999, and some companies perform much better than average, as is the case in all businesses.

Regarding Price Gaps:

Allegations about price gaps between the producer and consumer are based on simple comparisons between the level and movement of farm-gate prices and retail prices. Such comparisons are inadequate for two reasons: they do

not take full account of the weight losses involved in converting the live animal into saleable beef and they totally ignore cost developments in the post farm-gate sectors of the food chain which account for half the value of the total chain. When these issues are properly considered the changes in retail prices are fully explained by the combined movement in farm-gate prices and post farm-gate costs. There is no scope for alleged manipulation of prices by wholesalers and retailers. The analysis refutes the allegation that changes in farm-gate prices are not reflected in prices at retail level.

Recommendations

1. That an annual census of the economic performance of the food and drinks industry, as has been carried out in Northern Ireland since 1989, be initiated in the Republic.
2. That the Minister for Agriculture, Food and Rural Development should bring forward proposals designed to modernise the meat inspection system.
3. That the status of collective negotiations, as sought by the farming organisations in the dispute that led to our Inquiry, be clarified in the context of Section 4 (1) of the Competition Act 1991 and Article 81(1) of the Treaty of Rome.
4. That every means be used to promote integrated action in the food industry where farmer, processor and retailer work in harmony to meet consumer requirements. We support the efforts of An Bord Bia in this regard.

The Future of the Irish Cattle/Beef Industry

The Irish cattle/beef industry last year was worth £1.034 billion to farmers in receipts from the market place and in addition farmers received £562 million in direct payments on their cattle. The wholesale value of cattle/beef was close to £2 billion. Virtually all farms in the country contributed to it as there is a beef enterprise of some kind on most Irish farms. This is derived from the calves of 1.2 million dairy cows and 1.1 million beef cows, along with the cows and bulls culled from the breeding herds.

Total disposals in 1999 were at a record high of 2,511 thousand head. These were sold in three distinct markets, namely, the domestic market, EU markets and Third

Country (TC) markets. The market shares by cattle numbers were 11.2% to the domestic market, 44.4% to the EU and 44.4% to TC markets.

Sales to the EU and TC markets are in both live and beef form. About one-sixth of all disposals last year were live, a trade which is continuing to grow rapidly, being 30 per cent higher for the first six months of this year compared with the same period last year. The remainder – nearly 2.1 million – were slaughtered.

The EU cattle/beef industry is being transformed by the policy changes of the past decade under MacSharry and Agenda 2000. Two changes in particular are noteworthy, namely, the reduction in support prices and the accompanying increase in Direct Payments (DPs). By 2002, after the full implementation of the Agenda 2000 decisions, DPs are likely to account for nearly half the total revenue from beef. In other words, the cheques in the post may equal market receipts.

Beyond 2002 the CAP will continue to be reformed. The direction of that reform is well mapped, as EU enlargement and a new global trade agreement will continue to move markets towards free trade. But the pace of this reform is difficult to gauge, as there are very strong forces ranged against further changes. However, by 2005 the free trade road should be in sight. Irish and EU prices will then reflect international trading levels. While there is no way of knowing accurately what these levels are likely to be, for Ireland - as a surplus exporting country within the EU - they will perhaps range in the region of 50 to 70 pence per lb.

DPs will continue to supplement market receipts. Whether they will be directly linked to the production of beef or not will be one of the central issues to be decided in the Millennium Trade Round. The present headage and premia payments are already decoupled from quality, as there are no quality requirements for payments. This undoubtedly has contributed to the deterioration in the quality of Irish cattle in recent years. And the quality problem is likely to get worse as decoupled DPs increase in value relative to market returns.

These economic circumstances point strongly towards a swing back to seasonal production off grass. Winter finishing of cattle will tend to contract in Ireland and to some degree will move to feed-lots in the UK and other EU countries, thus returning towards the situation prevailing before EU accession, whereby most of our exports were in the form of live cattle.

Beef processing in Ireland will be under severe pressure for several reasons. In addition to seasonality trends, overall volumes of production are declining, export refunds to Third Countries - which applied to half of total exports last year - are shrinking, processing costs are rising in the Tiger Economy, existing investment is run down and new investment will be difficult to justify.

Cattle/Beef Price Spreads

One of the two terms of reference of the Independent Group is “to establish why there is such a large differential between the producer price and the prevailing consumer price”. Two distinct allegations are made against the retailers:

- (i) that the gap between the producer and consumer is excessive, and
- (ii) that retailers do not adequately reflect the movements in producer prices, especially when these movements are downwards.

With respect to the alleged gaps between the level of farmer and retail prices, the extent of waste involved in converting a live animal into saleable beef is not usually acknowledged. To demonstrate this we decided to ask Teagasc to purchase, slaughter and cut up four heifers which were typical of those used in the domestic market. We are well aware of the great variation in real life in the quality of heifers and in slaughtering and butchering practices and this must be taken account of in interpreting the results of our small experiment. The actual butchering was carried out according to detailed specifications agreed between the Teagasc personnel involved and butcher members of the Association of Craft Butchers of Ireland.

The average kill out percentage from the live state for the four heifers was 54% and the average saleable yield from the carcass was 67%. The full extent of the losses, starting with the live animals as purchased in the mart, is now apparent. There is first the 46 per cent loss between the live state and slaughter and then the further 33 per cent loss from slaughter to retail cuts. Only somewhat over one-third of the weight of the original live animal is available to sell over the retail counter as beef. There is even some further loss over the counter in cutting out but this is too variable to quantify.

Including the value of the hide and edible offals at the time of the butchering exercise, the relative prices at the three stages of butchering were as follows: £0.95 per kg live in the mart, converting into £1.76 per kg of carcass and into £2.36 per kg of retailable beef. In other words before the abattoirs and butchers charged anything to cover their own costs, the beef which they had to sell had cost them £2.36 per kg.

The Relationship between Producer and Retail Prices

To evaluate the allegation that retailers do not adequately reflect the movement in producer prices, especially when these movements are downwards, we carried out a detailed regression analysis. We first regressed farm-gate prices on retail prices as was done in the IFA submission to us. The relationship was found to be very weak with only 49% of the movement in retail prices being explained by the movement in farm-gate prices.

But this two variable analysis completely ignores half the value of the food chain and the behaviour of all of those agents employed between the farm-gate and the consumer including assemblers, processors, butchers and retailers. These agents run businesses from which they aim to achieve margins large enough to exceed their operating costs by an amount sufficient to give them a satisfactory return on their labour and capital. Therefore, they can be expected to adjust their buying and selling prices in response to the changing cost situation confronting them.

To simulate the behaviour of the post farm-gate wholesalers and retailers, we selected the quarterly hourly earnings of workers in the “slaughtering, preparing and preserving of meat”, as published by the CSO. Since wage movements reflect both inflation and real increases, we hoped that this wage series would track wholesaler and retailer cost movements.

In this more complete form of equation virtually all the variation in retail prices was explained. This means that retail prices have moved over the years almost precisely in line with the combined movement of farm-gate prices and meat workers' wages. There is no scope for any other variables to improve on the relationship, nor is there any scope for alleged manipulation of prices by wholesalers and retailers.

While these results are conclusive, given the deeply entrenched belief of the existence of manipulation on the part of farmers and consumers, it would be desirable to have comprehensive financial accounts to confirm the above results. In the case of butchers' shops it would be virtually impossible to disentangle the beef element in what are mostly mixed enterprise family run businesses. With respect to the four supermarket chains, all four claimed that the meat counters in their shops are relatively low profit businesses, but they are an important element in providing a comprehensive fresh food menu to their customers. One of the four did submit audited accounts which confirmed this view.

It should not be a surprise that domestic beef prices have moved over the years in line with farm-gate cattle prices and labour wages. An industry which is populated to-day by some 1,500 butchers' shops throughout the country and some 320 supermarket outlets in four keenly competing groups is not likely to afford opportunities for manipulation of profits. If there were such opportunities, entry to the business - which is wide open - would quickly eliminate them. The net movement in recent years is out of the industry rather than into it. Given the availability and attractiveness of alternative employment in the Tiger Economy, that net outward movement is set to increase in the years ahead.

Farm-gate Prices and Processor Concentration

Similarity in prices paid or quoted by the factories has been cited to us as evidence that there are anti-competitive or collusive forces at work.

We analysed the Department of Agriculture data on actual prices paid and the price quotation data published weekly in the Irish Farmers' Journal.

The Department of Agriculture data show that prices actually paid by the various factories for particular animal types vary within a narrow range. There is least variation for steers, slightly more for cows and heifers.

The factories pay prices slightly higher than those quoted to the Irish Farmers Journal. There is a clear correlation between prices quoted and actually paid. There are some systematic variations in prices actually paid by the different groups, but these are small.

The price data do not, in our view, constitute evidence that collusion has occurred. They could equally be consistent with the absence of any attempt by the factories to orchestrate the market for cattle. Given the nature of the industry, a pattern of similarity in prices paid or in prices quoted is to be expected, and the results of our analysis are accordingly unsurprising.

It is however impossible to prove a negative, that is, to prove that no collusion has ever occurred or that no collusion has ever been attempted. Under competition law, the onus of proof would lie on the State should breaches be alleged against the beef factories. We believe that the data on prices and on price quotations would not help to sustain such a case.

As regards concentration, the three largest players account for about 50% of the industry, with the balance in the hands of a large number of smaller operators.

Overall, the industry does not have a particularly concentrated pattern, by comparison with many other industries. The pattern of market shares does not provide a priori ground for expecting collusion.

Profitability of Meat Processing in the ROI

We have analysed in Chapter 5 the patterns of cattle prices in recent years. In general we found a high degree of uniformity in line with IFA claims. However, we argue that such uniformity is not proof of anti-competitive practices, as it could equally arise from perfect competition. We also reviewed the degree of concentration in the industry. As mentioned above, the pattern of market shares does not provide a priori ground for expecting collusion. A more informative indicator is the profitability of the industry, as one would expect collusive powers would be used to generate excessive profits. Unfortunately, the quality of data available on profitability in the ROI is not very satisfactory for this purpose.

There are two basic sources of information on profitability in the ROI, namely, the Central Statistics Office (CSO) and company accounts. There are in turn two CSO sources and two company account sources available. The CSO sources are their Input-Output Tables and their Census of Industrial Production (CIP). The former is deemed to be too aggregated and too out of date to be of use to us. The accounts sources are the McKinsey data as published by Bacon & Associates and the results of a special survey carried out for our Inquiry. The purposes and methodologies of these three sources are very different, so we must be careful in making comparisons among them.

The CIP is carried out each year by the CSO. Its coverage includes the 'production and preservation of meat' (NACE 1511). This definition is not ideal for us because beef is not separated from sheepmeat and pigmeat. However, the series is available over time. On average over a seven-year period the Net Margin, before depreciation and interest on working capital are deducted, was 5.8 per cent of turnover. This may

be contrasted with the food sector as a whole where the result is 13.9 per cent of turnover or 2.4 times that for meat processing.

An alternative to the Input-Output and CIP data are company accounts, but these too have limitations. They are often out of date, the format varies from company to company, the segregation of beef from other activities is extremely difficult and the availability and consistency of the data over time is problematic. Nevertheless, the McKinsey consultants in their study of the industry, which was centred on strategy rather than profitability, attempted to assemble accounts for 20 beef processing plants for 1996 and 1997. While no information was released by McKinsey on this exercise, some of the aggregate results are published in the Bacon & Associates Report. They show a profit (after interest on working capital and depreciation and before tax) of 2.0 and 1.7 per cent of turnover for the two years. These results are not directly comparable with the Input-Output and CIP results because interest on working capital and depreciation have been deducted in arriving at them.

At our initial meeting with the Irish Meat Association in February last, we asked them to furnish information on the profit margins of beef processors. They appointed the accountants BDO Simpson Xavier, a firm with no direct contact with the beef industry, to carry out the study. Their full report is included in Appendix 9 and a summary is outlined below.

BDO Simpson Xavier got access to the accounts of companies covering 70% of cattle slaughtered in Ireland. As already stated above, both the timing and methodology of accounts vary from company to company, so a considerable amount of adjustment had to be made to reconcile the data. The selection of an appropriate time period has to consider the desire for up to date results and the availability of compatible figures back over the years. The time period chosen was 1996 to 1999, a period which spans the BSE crisis after 1996 and the recovery from that experience in recent years.

Basically BDO Simpson Xavier had access to the audited sales and costs of the co-operating companies over the chosen time period. The data for each company was aggregated to give a single set of results for all companies and for the entire period. The net profit margin as a percentage of sales was only 1.1. After interest on working capital and depreciation are added back the Gross Profit Margin becomes about 2.5 per cent. The sample was subdivided into independent processors (those mainly in slaughtering and de-boning) and integrated processors (those which are more diversified). The results for the former are worse than the overall average and those for the latter are better.

Profitability of Meat Processing in NI

The meat processing business in NI is similar to that in the ROI. Therefore, the profitability should be similar. In contrast to the inadequacy of the data for our Inquiry in the ROI, the NI data are excellent. They are available for the Beef and Sheepmeat segments and are not confounded by the inclusion of pigmeat and poultrymeat. In addition, the data are much more comprehensive. Among other things they provide information on two key indicators of performance, Net Profit after depreciation as a percentage of turnover and Return on Capital.

In the most recent year available, 1998, the net profit amounted to 3.2 per cent of turnover, while the return on capital was 12.7 per cent. Also published is the range of performances in Beef and Sheepmeat processing. This highlights the fact that despite the low average returns in that year there were some companies faring very well.

These data are available back to 1989, so the trends over time can be studied. Net Profits are extremely low – at or below 2 per cent of turnover, except in 1997 and 1998. It seems that the responses to the BSE crisis actually improved the profitability of processing. Return on Capital was high in the early years but fell sharply after 1992. The main reason for this seems to have been high investment in intensive processing over this period which proved to be relatively unprofitable. As the BSE

crisis recedes there may be an opportunity for recovery, but the outlook for the industry outlined in Section 2.3 of our report will make this recovery a very challenging target.

Conclusion on Profitability

We have emphasised the limitations of the data available to us for our Inquiry. The exercise would have been straightforward if the ROI had the kind of data on the industry as are available in NI. Indeed, if such data were available over the years there would have been less suspicion and more enlightenment as between farmers and processors. We recommend that such data be compiled in the ROI either by the CSO, the Department of Agriculture and Rural Development or Teagasc.

Despite the limitations of the data, these findings point to a predominant pattern of low profitability. While high profitability would not of itself establish collusion or other forms of anti-competitive behaviour, the available data contain no such pattern. There is no doubt that there were some periods of high profits, as in the second half of 1999. There is also no doubt that within any period there are some companies who perform much better than others, as is the case in all businesses.

Conclusions on Anti-competitive Behaviour

We have found no evidence of anti-competitive behaviour either in the pattern of cattle prices or profits. Furthermore, the investigation initiated by the Competition Authority has not to date resulted in the initiation of proceedings against processors. Also, the European Commissioner for Agriculture has informed us that the European Commission's competition directorate consider that "the evidence brought forward to date by the Irish Authorities or the Irish beef sector is insufficient to become actively involved by launching its own investigation in parallel to yours."

Our conclusions are not only in line with such data as are available and with the evidence presented to us, they are also in line with the experience of farmer co-operatives when they engaged in beef processing. There has been a string of

failures of farmer co-operatives over the years including Golden Vale in 1979, North Connacht Farmers in 1981, Clover Meats in 1984, Cork Marts/IMP in 1986. Kerry Group exited in 1996 and Glanbia last year. As a result farmer owned beef processing has fallen from 55 per cent of the total in the mid-seventies to 5 per cent now represented by Dairygold.

The Meat Inspection System

The proximate cause of the dispute in January last between the farmers and the factories was the cost of meat inspection. We encountered dissatisfaction with the existing arrangements in our discussions with farmers, processors and retailers, all of whom see excess cost being imposed from this source. The multiple retailers stressed that marketplace expectations, in particular those requiring traceability, are leading to additional costs, which come on top of what they see as the excessive cost of the existing arrangements.

The issue has been studied in detail in an Ernst & Young Report (February 1996) and was also addressed by the Steering Group on Systems Review in the Department of Agriculture, Food and Rural Development which reported in December 1999 (Cromien Report).

The Report concluded:

“If the practice elsewhere in the food processing industry were followed, the Department’s role would be that of regulation and inspection, requiring greatly reduced resources to perform its functions.

We have been informed that there have been discussions within the EU and at various international fora aimed at introducing changes in meat inspection arrangements. The changes being discussed include the possibility that inspection tasks could be carried out by personnel contracted by the meat industry or by accredited bodies. In such a context, the role of the State services would be to prescribe the appropriate level of inspections and, subsequently, audit and control the arrangements in place.

We understand that the Department is in favour of this approach. In our opinion, this should be the way forward. We see difficulties in justifying the present system, which places primary responsibility on the State for standards in the meat industry. We believe that this responsibility should eventually be transferred to the industry itself, or elsewhere in the food area”.

This issue remains unresolved, and contains the potential to generate disputes in the future. We accordingly recommend that the Minister for Agriculture, Food and Rural Development should bring forward proposals designed to modernise the inspection system and to reduce the costs currently imposed on farmers, processors, retailers, consumers and taxpayers.

Resolution of Recent Dispute

We received a submission from Dr Patrick Lyons, Competition Consultant and former Chairman of the Competition Authority. Dr Lyons raised the issue as to whether the collective setting of selling prices by competitors and the organising of boycotts to secure such prices amount to infringements of Section 4 (1) of the Competition Act 1991 and Article 81(1) of the Treaty of Rome. Dr Lyons’s letter is reproduced in Appendix 11.

In the interests of clarity, and in view of the likelihood that disputes over cattle prices paid by the factories may well arise in future, we recommend that the status of collective negotiation of this type should be resolved.

The Outlook for the Industry

The future painted in Chapter 2 is daunting for the Irish cattle/beef industry. In addition to the policy driven changes as outlined, the power structure of the industry has changed. Consumers have become dictators. They enforce their growing demand for taste, for safety, for convenience and for value. Farmers, along with

processors and retailers, will have to deliver to survive and this will require close links between all three partners. There are a number of schemes now operating such an integrated approach, but the volumes involved are still very small. The only long-term future for processing in Ireland is integrated action of this kind. Every means should be used to promote such action. We support the efforts of An Bord Bia in this regard.

Meanwhile the old escapism, whereby each segment of the food chain goes on blaming the others for its failures, is continuing to stifle progress. The civil war between farmers and processors which led to our Inquiry is just another example of this relationship. The reality is that farmers are located vulnerably towards the upper end of the food chain where they have little bargaining power. The only possibility of increasing their say is through joint action in co-ops, in producer groups or in purchasing groups. Cattle farmers have dabbled in these, but never approached them wholeheartedly. The record is striking: twenty-five years ago farmers owned 55% of beef processing capacity; today they own 5%.

Given the record of false starts over that 25 years, we must agree with the conclusions of the McKinsey team that “both producers and processors face potentially catastrophic outcomes over the medium term” (Mc Kinsey & Co. p.3). “We are not optimistic that the sector has the foresight or the wherewithal to take the concerted action necessary to mitigate the threats and capture the prizes” (Mc Kinsey & Co. p.8).

References

1. **The Meat Inspection System**, Ernst and Young , 1996
2. **Systems Review in the Department of Agriculture, Food and Rural Development**, Department of Agriculture, 1999

Chapter 1

Introduction & Background

The setting up of the Independent Group arose out of a dispute between meat processors and the IFA over cattle prices.

1.1 Independent Group

On 26 January, we were formally appointed by the Tanaiste and Minister for Enterprise, Trade and Employment as an Independent Group to examine allegations of anti-competitive practice in the Beef Industry, following a Government decision of 19th January, 2000 to establish such a group.

The terms of reference of the Group are:

- To examine allegations of anti-competitive practice in the Beef Industry,
- To establish why there is such a large differential between the producer price and the prevailing consumer price, and,
- To make any appropriate recommendations in the matter.

We realised that the beef industry has been the subject of detailed and thorough analysis in the last few years, in particular the McKinsey Report in September 1998, the Beef Task Force Report in June 1999. In March 2000, the IMA published “Irish Beef

Processing” by Peter Bacon and Associates. In short, the industry does not want for analysis.

We immediately advertised for views and submissions in the national daily newspapers. We subsequently met with the organisations and individuals set out in Appendix 1, and we also met some people on the basis of non-attribution.

We did not have the powers to summon witnesses or to demand documentation. Our report therefore is submitted on the basis of the discussions we had with the various organisations and individuals, together with information and submissions received, and the analyses which we have carried out.

We would like to sincerely thank all those concerned for their cooperation. We would also like to thank Dr. John O’ Connell of the Department of Agribusiness and Rural Development, University College Dublin, who analysed the relationship between beef prices at producer and at retail level. We are grateful to Teagasc for a butchering exercise carried out on our behalf.

Thanks are also due to John Lawlor of DKM who analysed farm-gate price trends at our request.

1.2 The Dispute

An increase in veterinary levies triggered action by farmers who picketed meat factories on 11 January. The pickets in effect amounted to a blockade with no product either entering or leaving the factories. The five demands of the IFA are reproduced in Appendix 2.

The IMA obtained a temporary court injunction restraining the IFA from picketing. Subsequently the IFA were fined £100,000 per day plus costs.

The Minister for Agriculture called the parties together on 15 January. The IMA agreed to remove the increase in the veterinary levy. The IFA insisted that the main issue was price. The parties met again on 16 January.

On 17 January, fines on the IFA were increased to £500,000 per day. The National Council of the IFA resigned but before it did so, it agreed to abide by the High Court orders.

Picketing however continued on 18 January.

The Government, after its meeting on the 19th of January, announced the establishment of the Independent Inquiry. The Government also promised the establishment of a price transparency mechanism with independent verification.

Negotiations resumed on Wednesday 19 January chaired by the Minister for Agriculture.

On 20 January, the IMA made a final offer with an indicative price range for each of the main conformation groups – see Appendix 3.

On 21 and 22 January, negotiations concluded at local level and deals were concluded in all plants except one conceding the IFA demand of 90 pence per 1b for 0 grade steers.

1.3 IFA Allegations

In a submission to the Group the IFA made a number of allegations of anti-competitive practices in the beef industry. In summary these are:

- Uncanny similarity in factory price and quotations in price per pound

- Price data for second half of years 1996-1999 shows same prices are quoted for the same grade of animal by most of the meat plants
- Analysis of prices must have regard to numbers i.e. large and small lots
- Not having the option of selling cattle to Third Countries in 1997, 1998 and 1999 gave monopolistic powers to meat processors
- Meat plants manipulated cattle numbers especially in the Autumn of 1998 and 1999
- Analysis of factory prices for December and January in years 1995-2000 shows meat plants manipulated the situation to lower prices in years 1996-1998 in an anti-competitive manner eroding the Slaughter Premium values.
- In Autumn of 1999, the meat industry through anti-competitive behaviour withheld the benefit of market price improvements in both domestic and international markets for prices paid to Irish farmers.
- Meat plants anti-competitively introduced a Specified Risk Materials levy from March 1997 to September 1999 and a meat inspection levy on 10 January 2000.
- Retail prices of food have grown much faster than farm prices e.g. retail prices have declined by only half the decline in producer prices since the BSE crisis in 1996.

The full list of allegations is in Appendix 4.

1.4 Competition Authority Investigation

The Competition Authority commenced an investigation into the meat-processing business in May 1997. While this investigation remains open, the Authority has concluded that there is at present "... insufficient evidence to apply for search warrants", much less to initiate civil proceedings or forward papers for consideration to the Director of Public Prosecutions.

The (then) Director of Competition Enforcement furnished us with an account of the Authority's involvement in the matter on February 16th last, from which the following is the relevant extract:

“The Authority received a number of complaints alleging that meat plants were engaged in a cartel in or around December 1996.

On 30 April 1997 the Director received a letter from the Dept. of Agriculture requesting it to conduct an investigation into alleged anti-competitive practices by meat processing companies. The Secretary to the Authority wrote to the Department of Enterprise, Trade and Employment on 1 May indicating that it had received a number of complaints on this matter, that it was monitoring the situation but that a full investigation was delayed pending the recruitment of economists to the Authority. The Secretary also expressed concern that any publicity would hinder its investigation by alerting the parties concerned, thereby affording them an opportunity to eliminate possible evidence. The Director wrote to the Private Secretary to the Minister for Agriculture in similar vein on 2 May. The then Minister for Agriculture subsequently announced that he had asked the authority to investigate the matter.

Following this the Director undertook an investigation. Further information was sought from many of the complainants; historical data on cattle prices was sought from the Dept. of Agriculture, and a number of other parties who claimed to have information relevant to the inquiry were interviewed. When interviewed, however, these individuals proved unable to provide any useful information. The price data indicated some degree of price similarity for short periods but was not conclusive. Similarity in prices does not by itself establish collusion and, given that prices are publicly announced on the radio on a daily basis, may be explained by other factors.

During the course of 1999 the Director made a fresh approach to the IFA to see if they had any further information which might assist the investigation. The

Director met representatives of the IFA on 15 September 1999 but nothing emerged from this meeting. It appeared that some form of understanding had been reached between the IFA and processors and the IFA had no desire to push the matter. On 11 January 2000 the Director again approached the IFA following newspaper reports of a threatened dispute with meat plants. The IFA President Mr. Parlon subsequently delivered a sworn affidavit and other documents on 12 January 2000.

The Director has made a number of attempts to arrange meetings via the IFA with individual farmers who might be in a position to provide first hand evidence of recent developments, with little success.

The investigation remains open at the present time. At present there is insufficient evidence to apply for search warrants. Given the high level of publicity, however, the prospect of uncovering evidence by such means appears limited. It is widely recognised that, in the case of a well-organised cartel, a successful investigation is heavily dependent on the emergence of a 'whistleblower' with inside information. In many jurisdictions competition authorities operate leniency programmes which provide strong incentives for parties participating in a cartel to break ranks. There is considerable evidence that where such programmes have been put in place they have resulted in a substantial increase in the level of successful detection of cartels. The Authority has written to the Director of Public Prosecutions to explore whether such arrangements could be put in place in this jurisdiction".

A fuller statement of its position was given by the Authority to the Dail Committee on Agriculture on 10 March 2000 and this is included in Appendix 5.

1.5 Views of EU Commissioner

The EU Commissioner for Agriculture, Mr. Hans Fischler, was quoted in the Irish newspapers on 31 March to the effect that he believed that anti-competitive practices were evident in the Irish beef industry.

We wrote to the Commissioner on 31 March and received a reply dated 27 July.

The letter states that “ The European Commission’s competition department consider that the evidence brought forward to date by the Irish Authorities or the Irish beef sector is insufficient to become actively involved by launching its own investigation in parallel to yours.”

The full text of the letters is at Appendix 6.

1.6 Individual Witness

In the company of IFA representatives we met an individual witness who made allegations about collusive activity in the beef processing industry almost a decade ago. This witness also spoke to the Competition Authority. While we accept the sincerity of these allegations, we feel that they are inadequate to substantiate the existence of collusion, both in terms of the time which has elapsed and the fact that the individual’s experience related primarily to Northern Ireland.

1.7 Outline of Report

Our Report begins with an analysis of the beef industry in Chapter 2. There follows in Chapter 3 a study of cattle/beef prices in the domestic market. Chapter 4 analyses farm-gate prices using data from the Department of Agriculture and the Irish Farmers’ Journal. The report concludes with an examination of data on the profitability of meat processing. Our conclusions and recommendations together with and executive summary are set out at the beginning of the Report.

Chapter 2

The Irish Cattle/Beef Industry

2.1 Overall

The Irish cattle/beef industry last year was worth £1.034 billion to farmers in receipts from the market place and in addition farmers received £562 million in direct payments on their cattle. The wholesale value of cattle/beef was close to £2 billion. Virtually all farms in the country contributed to this as there is a beef enterprise of some kind on most Irish farms.

This cattle output was derived from the calves of 1.2 million dairy cows and 1.1 million beef cows, along with the cows and bulls culled from the breeding herds.

The numbers involved in 1999 are shown in Table 2.1. Total disposals were at a record high of 2,511 thousand head. This entailed a reduction in inventory of some 385 thousand animals which means that disposals in the current year will be less than in 1999 – estimated by Bord Bia at up to 50 thousand head.

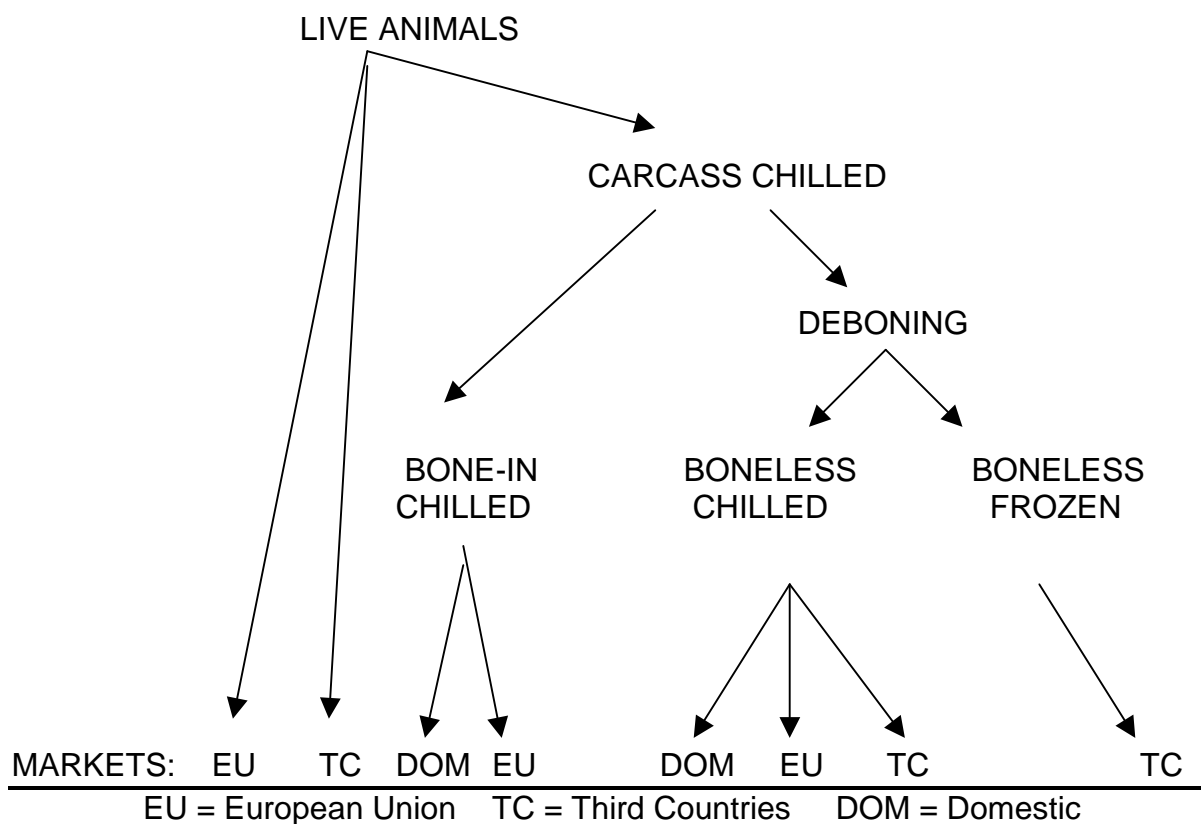
Three categories of market are identified, namely, the domestic market, EU markets and Third Country (TC) markets. Sales to the EU and TC markets are in both live and beef form. About one-sixth of all disposals last year were live, a trade which is growing rapidly being 30 per cent higher for the first six months of this year compared with the same period last year.

Table 2.1: Irish Cattle Disposals, 1999. '000 head

	Domestic	EU		TC		Intervention	All Markets		
		Live	Beef	Live	Beef		Domestic	EU	TC
Calves	-	106	-	-	-	-	-	106	-
Steers	53	10	172	48	833	27	53	182	881
Weanlings	-	221	-	-	-	-	-	221	-
Heifers	196	5	294	-	55	-	196	229	55
Cows	31	-	287	-	111	-	31	287	111
Bulls	-	-	7	26	29	-	-	7	55
Total 1	-	342	760	74	1028	27	280	1102	1102
Total 2	280	1102		1102			2,511		

Source: Bord Bia.

The remainder – nearly 2.1 million – were slaughtered. This occurred in either one of the 42 abattoirs approved for export or in one of over 400 smaller abattoirs which are not so approved and are consequently confined to supplying the home market. The various branches of this trade are illustrated in Figure 2.1.

Figure 2.1: Alternative Channels and Markets for Irish Cattle

In the abattoirs the live animals are slaughtered and converted in the first instance into dressed carcasses, hides which are destined for the leather industry, edible offal and inedible offal. Arising from the BSE crisis, there is now a requirement to remove so called Specified Risk Material (SRM) which are principally the brains and spinal cord, and dispose of them in a special rendering plant. The dressed carcasses are then chilled after which they either go for deboning or are sold with bone in.

Some 10 to 15 per cent of beef leaving EU export approved abattoirs was sold in bone-in form to the domestic or export markets. It is sold as carcasses or fore and hind quarters in a fresh/chilled state.

Most Irish beef nowadays is deboned prior to sale and the boneless beef is sold into different outlets in accordance with prevailing demand and prices. The boneless beef may be either shipped immediately in a fresh/chilled state or, alternatively, it may be frozen prior to export. Most of the beef destined for TCs is exported in a frozen state, while product sold into the domestic market or exported to the EU is mainly in the form of vacuum-packed fresh/chilled beef. This goes for consumption to retail outlets, wholesalers and caterers or, alternatively, it may go for further processing into beef burgers, ready meals etc.

Distribution to retailers may be directly from the processor or *via* centralised packing/distribution centres. The growing requirement for traceability by health conscious consumers is forcing farmers and processors into more formal relationships among themselves and with the retailers. This trend is expected to accelerate in the immediate years ahead and it will offer both challenges and opportunities to Irish farmers and processors.

2.2 The Various Markets

Irish cattle supply the domestic Irish market, the EU market and TC markets. Each of these is described in sequence below. Sales into and out of intervention were very important in the past but have now ceased.

2.2.1 The Domestic Market

This accounts for only 11 per cent of all sales, making Ireland by far the most export orientated country in the EU; the next to Ireland is Denmark which exports around 70 per cent of its total production. The domestic market is supplied by both export approved and non-export approved abattoirs. The former service some 60 per cent of the market, which is mainly composed of four multiples, and the latter account for the remaining 40 per cent which consists of some 1,500 butchers' shops.

The domestic market favours light to medium weight heifers in the deadweight range of 220 to 270 kg. These would typically be early maturing animals – Hereford and Aberdeen Angus crosses, for example. Some young cows and steers are also consumed in the domestic market.

The most significant force for the future of the home market is the Celtic Tiger economy. This is sustaining the market for beef but it is causing severe labour problems. In the words of one of the submissions made to us:

“We are experiencing great difficulty in getting young people to apprentice themselves to the butchery trade and this difficulty is widespread. It reflects the general shortage of labour in Ireland, but also a judgement by potential entrants – many of whom have family members who are butchers – that butchery is a shrinking, if not a dying trade. This will make the promotion of beef sales more difficult in the future and will increase the tendency towards full preparation and packing in the factory.”

2.2.2 EU Markets

These consist of markets for live animals and markets for beef.

2.2.2.1 Live Animals

The EU trade for live animals last year consisted mainly of weanlings aged under a year supplying a feedlot demand to Spain and Italy. This is a new trade which has

grown from nothing in 1997 to 221 thousand last year. While these markets will accept animals originating in the dairy herd, some are paying substantial premia for animals from the beef cow herd.

Most of the remaining live animals going to EU markets are calves. Some of these also go into feedlots and others are for veal. The latter come mainly from the dairy herd.

Some 18 thousand store and finished cattle went to Northern Ireland.

2.2.2.2 Beef

This market took 760 thousand animals in 1999 or 43 per cent of all beef exports. See Table 2.1. Most were exported in vacuum packed form. Not surprisingly the UK is the largest Member State market followed by France, Italy, Holland and Scandinavia in descending order of importance. This market was severely affected by the BSE outbreak in 1996, sales falling by nearly 40% between 1995 and 1997.

The volumes in this market have recovered since then, but the channels of distribution have deteriorated. Before BSE Irish processors were making significant progress in direct selling to retailers. The resurgence of national bias in favour of home produced beef consequent on the BSE crisis reversed this progress and forced Irish suppliers to return to wholesale trading. In 1995 over half of the Irish beef exported to Britain and France ended up on supermarket shelves. Last year that figure was just 16% in the UK and 10% in France.

Efforts are now in train by Bord Bia and the processors to restore confidence in Irish beef and thereby revert to retail selling. However, with new country of origin labelling coming into force in the EU in September, the retail sector is likely to remain a difficult market for Irish beef for some time to come.

Within the EU market there is a great variety of preferred types of beef. Bull beef is the predominant type. All markets also accept steer beef and there is a demand for

heifer beef in the UK and for young cow beef in France. There is a preference in all of those markets for Continental breeds.

2.2.3 TC Markets

All exports to TCs depend on export refunds to bridge the gap between high EU prices and low prices in world markets. Ireland as a relatively large exporter is especially reliant on refunds and accounts for about 8 per cent of EU beef production, but last year used half of all available export refunds. The quantity of beef that can be exported with refunds is declining under the Uruguay Round Trade Agreement and that decline is expected to continue under the next global trade agreement whenever that is reached. There is thus an increasing urgency to sell more on EU markets to reduce dependency on these refunds.

2.2.3.1 Live Animals

Live exports to TCs amounted to 74 thousand and went solely to Lebanon in 1999. Some 65 per cent of the total were steers and 35 per cent were young bulls. The numbers traded to TCs fluctuate widely from year to year and were particularly affected by the closure of the Egyptian and Libyan markets since 1996 because of BSE. Typically the animals going to these markets are poorer quality store cattle over two years of age, mainly steers of Holstein breed from the dairy herd. However, Lebanon buyers are prepared to pay a premium for better quality animals. The animals are slaughtered according to Moslem ritual after a short fattening period and thus earn a premium as a fresh product.

2.2.3.2 Beef

TC markets for Irish beef have grown in importance in recent years. With increased beef production in Ireland, with the phasing out of intervention purchases and with the renationalisation of the EU beef market after the BSE outbreak, Irish processors have been forced to sell increasing volumes to TC outlets. They amounted to 1,028 thousand animals or 57 per cent of all beef exports last year. The main countries involved were Egypt, the Gulf States and Russia.

Beef to these markets is usually sold in boneless frozen form. Generally poorer quality cattle are involved. Some 80 per cent are steers with the remainder being heifers, cows or bulls. As in the case of live exports to TCs, this beef trade is also volatile because it is supplying unstable economies and is exposed to frequent changes in export refunds by the EU Commission.

2.3 Pressures for Change

The EU cattle/beef industry is being transformed by the policy changes of the past decade under MacSharry and Agenda 2000. Two changes in particular are noteworthy, namely, the reduction in support prices and the accompanying increase in Direct Payments (DPs).

As a result of the trends in these two variables the DPs have grown as a proportion of total beef revenue from 10% in the early 1990s to around 35% last year. By 2002, after the full implementation of the Agenda 2000 decisions, DPs are likely to account for nearly half the total revenue from beef. In other words, the cheques in the post may equal market receipts.

Beyond 2002 the CAP will continue to be reformed. The direction of that reform is well mapped, as EU enlargement and a new global trade agreement will continue to move markets towards free trade. But the pace of this reform is difficult to gauge, as there are very strong forces ranged against further changes. However, by 2005 the free trade road should be in sight. Irish and EU prices will then reflect international trading levels. While there is no way of knowing accurately what these levels are likely to be, for Ireland, as a surplus exporting country within the EU, they will perhaps range in the region of 50 to 70 pence per lb.

DPs will continue to supplement market receipts. Whether they will be linked to the production of beef or not will be one of the central issues to be decided in the Millennium Trade Round. The present headage and premia payments are already

decoupled from quality, as there are no quality requirements for payments. This undoubtedly has contributed to the deterioration in the quality of Irish cattle in recent years. And the quality problem is likely to get worse as decoupled DPs increase in value relative to market returns.

While decoupled from quality the present payments are coupled to numbers up to the size of available quotas. Full decoupling of DPs from numbers is being sought by the "Cairns" group of countries and by the USA in the new trade negotiations. The EU decision in Agenda 2000 to switch from headage payments to area payments in the Disadvantaged Areas Scheme is a clear pointer for the future of the various other DPs in operation.

2.3.1 Implications for Production

In the price and premia environment outlined above, production decisions by Irish farmers will be increasingly based on expected prices of 50 to 70 pence per lb. At such price levels the cost of silage – which is escalating by the year - will be prohibitive and the feeding of meals, even as cheap as £100 a tonne, will be questionable. Furthermore, the provision of new buildings for cattle, the cost of which is also high and rising rapidly in our Tiger Economy, will not be affordable. Of course, some farmers will be able to make do with existing buildings provided they meet pollution control requirements.

These economic circumstances point strongly towards a swing back to seasonal production off grass. Winter finishing of cattle will tend to contract in Ireland and to some degree will move to feed-lots in the UK and other EU countries, thus moving back towards the situation prevailing before EU accession, whereby most of our beef exports were in the form of live cattle.

The increase in calf and live weanling exports in 1998 and 1999 from zero to over 300,000 , and a further increase in this trade of 38% for the first half of this year, may prove to be the forerunner of even more traffic in this direction. Against these forces which are favourable to the live trade, high transport costs will continue to be a

barrier. Later on, increasing supplies from Eastern Europe could further discourage the Irish live trade.

2.3.2 Implications for Processing

Beef processing in Ireland will be under pressure for several reasons as follows:

- (i) **Volume Movements:** A sharp reduction in available supplies is to occur in the immediate years ahead as a result of increased live exports in recent years, unusually large numbers slaughtered last year and a decline in the breeding herd of 2.4% in the December 1999 CSO Survey. Further reductions in the dairy herd are inevitable so long as quotas restrict output. In later years the availability of supplies for processing will depend on the size of the total breeding herd, the extent of live exports and trends in carcass weight. Under Agenda 2000 these are all likely to be negative as the breeding herd contracts, its calf productivity declines and carcass weight falls. The Kyoto Protocol is a further threat. FAPRI is projecting a volume reduction of 11% before any further reforms of the CAP beyond Agenda 2000. Such declines in volume will intensify competition for remaining supplies and will put pressure on margins.
- (ii) **Seasonality Trends:** Curtailed winter finishing as outlined above will aggravate the seasonality problem and increase the difficulty of all year round marketing.
- (iii) **Quality Movements:** Historically, Irish processors and farmers have been unwilling to agree appropriate premia for higher quality animals, preferring instead to pay and receive relatively flat prices. This behaviour is being encouraged by the growth in decoupled payments described above and by the trend towards Holstein dairy cows. On the other hand, the new weanling trade to the EU is paying for quality and, in processing, the increasing emphasis on traceability should lead to

more integration in the food chain and should thereby encourage payment for quality.

- (iv) **Dependence on Export Refunds:** The dependence of the Irish cattle / beef industry on Third Country markets is highlighted earlier in this chapter. Last year 50% of all exports went to such markets. Access to these markets is made possible by export refunds which are declining and will continue to decline under pressure from our trading competitors. There is therefore a major challenge ahead to find extra markets in the EU to reduce dependence on export refunds.
- (v) **Processing Costs:** Processing costs will move up in Ireland in the immediate years ahead more rapidly than in the UK and other EU countries, as Irish wage rates are pushed up in our full employment economy.
- (vi) **New Plant Costs:** Current factory margins are virtually free of depreciation as most of the capital investment in the past has been written off. Whenever the processing plants will be required to modernise, the cost of the new investment will have to be covered by either increased productivity or decreased payment for cattle supplies, or by a combination of both of these options.

2.3.3 Impact on the National Economy

The loss to the national economy from free trade in cattle/beef compared with present protected markets may not be substantial. The overall volume of output will be less and some loss will result. The overall price of output will also be lower, but this may be more or less offset by increased DPs. In addition, there could be a significant price bonus for live exports if quality in this trade continues to be more fully rewarded than in the case of processed beef. Many of the jobs in processing will be lost. This will not be a national loss if the present fully employed economy is

sustained. There is however an important regional dimension here because most of the present jobs are located in rural areas, some of which have little other employment.

The overall contribution to the economy of the cattle/beef industry will be less than 1% in 2010.

References

Binfield, J. et al, Agricultural Outlook for Ireland, March 22, 2000. Section 2.3. FAPRI – Ireland Partnership, Teagasc.

Chapter 3

Cattle/Beef Prices in the Domestic Market

3.1 Structure of Retailing

As already indicated in Chapter 2, the domestic market accounts for only 11 per cent of all cattle sales in Ireland, and its impact on the agricultural economy is restricted accordingly. The market may be subdivided nowadays into two distinct components, namely, the traditional butcher shops and the more recent supermarket groups.

There are some 1,500 butchers' shops in the country. These are supplied to about one-third of their requirements by export licensed abattoirs, the other two-thirds coming from small abattoirs which are not approved for export. In the case of butcher shop chains the abattoirs may be owned by the butchers themselves and both the slaughtering (or wholesaling) and the butchering (or retailing) are integrated. In other cases the retail butcher will order and procure from the abattoir such carcasses or parts of carcasses as he/she may desire.

Of course butchers deal in all meats and not just in beef which is the subject of this Inquiry. Furthermore, competition has forced butchers to diversify into non-meat trading, such as eggs and vegetables, in an effort to maintain adequate margins. Despite their best efforts the butcher shops have been losing market share for many years and the process continues. Their current market share is about 60 per cent. The Associated Craft Butchers of Ireland estimate that about 40 butcher' shops per annum have been closing in recent years.

There are four large groups in beef retailing. They are Dunnes Stores, Musgraves, Superquinn and Tesco. The Musgrave group includes the larger Supervalu outlets as well as so-called symbol shops, which are typically smaller. They are owner-operated, but supplied centrally by Musgraves. The current number of meat outlets for each of the four, in order, are 56, 192, 17 and 56. These procure their beef

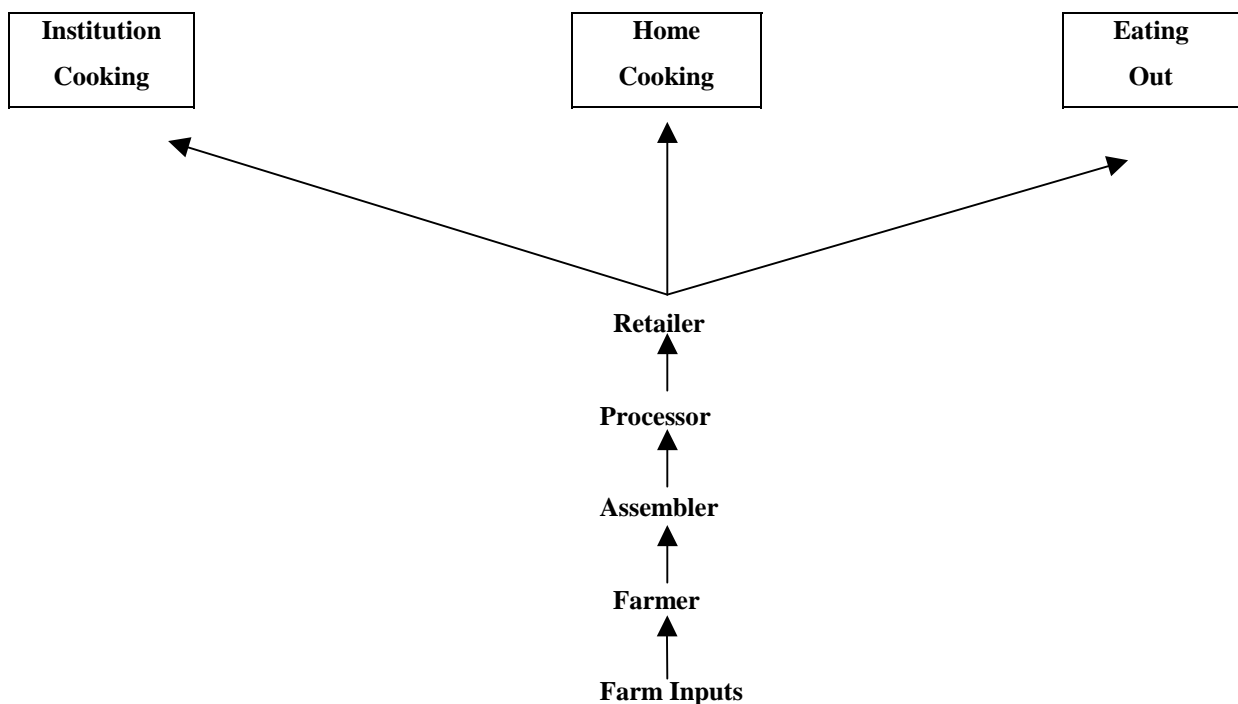
mainly from larger abattoirs. The beef is typically supplied in vacuum packs and these are sliced into retail cuts either at a central distribution depot – in the cases of Dunnes, Musgraves and Tesco, or within the individual supermarkets – in the case of Superquinn.

3.2 The Food Chain

Food is defined as those goods consumed by people for their nourishment and enjoyment. Farmers produce food in this sense only in so far as some farm produce is consumed directly by the farm household.

The beef which is ultimately consumed in homes, institutions and restaurants originates on farms and typically flows through assemblers, processors and retailers. The full food chain has five links as illustrated in Figure 3.1.

Figure 3.1: The Food Chain



The farmer combines his own resources (land, labour and capital) with purchased inputs (fertilisers, machinery etc.) to produce cattle. When the cattle are ready for sale they are sold to assemblers either on the farm or in cattle marts. The assemblers transport and deliver the animals to shippers and hauliers in the case of live exports or to an abattoir where they are slaughtered. The carcasses are hung in a chill-room for a week or so to mature. Next they are boned and vacuum-packed to be delivered to the retailer, either a butcher's shop or a supermarket. There the cuts for the consumer are prepared and sold over the counter. Restaurants and institutions may purchase either at processor or retailer level.

All the handling after the animal leaves the farm is just as necessary as the feeding and care of the cattle on the farm. It also involves costs. These costs, along with those of the farmer, must be covered by the final price paid by the consumer or else someone in the food chain is making a loss.

On farm costs consist of purchased inputs and returns to farmers and their families – often called Family Farm Income (FFI). The price of purchased inputs tends to rise over time for various reasons. Post farm-gate costs in the food chain are also increasing over time. This is so because of general inflationary pressures which are especially evident in the Tiger Economy. Added to these are trends more specific to the beef chain. For example, the removal of SRM as described in Chapter 2 has a cost attached. Also, consumers are demanding more preparation of cuts to make them more convenient and they are demanding more quality assurance in the form of traceability through the food chain of the beef they are purchasing. To deliver these extra services requires extra supervision and extra testing, all of which involves extra costs.

Therefore FFI is being squeezed by upstream pressures in input prices and by downstream pressures in the post farm-gate sectors. The outcome of these trends would be solved by market forces of supply and demand in a free market agriculture, but under the managed market of the Common Agricultural Policy free market forces are moderated by political intervention.

3.3 Price Gaps and Price Movements

One of the two terms of reference of the Independent Group is “to establish why there is such a large differential between the producer price and the prevailing consumer price”. Two distinct allegations are made against the retailers:

- (i) that the gap between the producer and consumer is excessive, and
- (ii) that retailers do not adequately reflect the movements in producer prices, especially when these movements are downwards.

These allegations are made frequently by farmers and their organisations and also, from time to time, by consumers. They date back a very long time. For example, in 1974 they led to a public inquiry in Ireland by a **Meat Prices Advisory Body** which, after detailed study including extended public hearings, issued a report (Meat Prices Advisory Body, 1974). The Report concluded:

“We found no evidence, however, of collusion in pricing at the retail level, and consider that active competition prevails even though it is imperfect in its manifestations in retail markets. The necessity to dispose of all the meat from a carcass in the face of unbalanced demand and the need to minimise the amount of waste are critical factors in retail butchering. Given the labour-intensive nature of the trade and the high level of wage costs, especially in the Dublin area, we do not consider that the gross margins as revealed by our analysis have been excessive over most of the period covered by the Enquiry. In respect of prices, our main conclusion is that, taking one period with another and over a period of time, retail margins in the beef and lamb trade have not been excessive, and there is no evidence that consumers have been asked to pay unjustifiably high prices except in recent months. The market, however, has always manifested fluctuations in producer prices, and there have been occasions when both prices and margins have been very high, leading to strong complaints by consumers. There have also been occasions when retailers were achieving low margins, or even making losses” (p.84).

This exercise and its conclusions are long since forgotten. In any case the situation of the trade so far back may have been different from the situation to-day. Whatever the current reality, both farmers and consumers maintain a fervent conviction that the Irish retail beef trade is not competitive.

This conviction is based on partial analysis. With respect to the alleged gaps between the level of farmer and retail prices, the extent of waste involved in converting a live animal into saleable beef is not usually acknowledged nor is the contribution of post farm-gate costs considered. This is so in the submission made to us by the IFA called **Food Prices – Who Profits?** published in 1997.

In the IFA paper, producer and retailer price trends for a number of commodities including beef were studied over the period 1985 to 1997. In relation to beef it concluded that “the above comparison of prices shows that heifer prices in 1996 were only 1.2% higher than in 1985; average consumer prices were however over 20% higher over the same period”. In relation to all commodities it concluded that “the general trend is that consumer prices follow producer prices upwards, but are much less responsive when producer prices fall”, IFA’s overall conclusion is “that the relatively weak relationship between food raw material costs (i.e. producer prices) and retail prices in recent years indicates that market forces are not operating to the full extent possible in the food chain from farmer to consumer”.

These conclusions are reached by comparing movements in producer prices only with movements in retail prices. But this comparison totally ignores movements in the post-farm sectors of the food chain. These post-farm sectors amount in value terms to about half of the retail value, so excluding them from the analysis omits the impact of cost movements in half of the food chain. Clearly this approach is unsatisfactory.

3.4 The Butchering Analysis

With respect to the price gaps we decided to ask Teagasc to purchase, slaughter and cut up four heifers which were typical of those used in the domestic market. We

are well aware of the great variation in real life in the quality of heifers and in slaughtering and butchering practices and this must be taken account of in interpreting the results of our small experiment. The actual butchering was carried out according to detailed specifications agreed between the Teagasc personnel involved and butcher members of the Association of Craft Butchers of Ireland.

The purpose of the butchering exercise was two-fold, (i) to measure the waste involved in converting a live animal into edible cuts of beef and (ii) to provide weightings for the five beef retail price series available from the CSO over the years. We will return in the next section to this price analysis, while we report here on the butchering exercise.

Four beef cross heifers, typical of the type that butchers and multiples use, were purchased at Maynooth Mart by Teagasc personnel. They cost on average £0.95 per kg liveweight. These were slaughtered the following day at the Teagasc Food Centre in Dunsinea and the SRM (mainly brains and spinal cord) along with the kidneys and channel fat were removed. The carcasses were then hung for a week to allow them to mature and they were then butchered into retail cuts. These cuts were grouped into five categories to match the five prices published by the CSO. These cuts are (i) round steak, (ii) sirloin steak, (iii) rib steak, (iv) leg of beef (boneless) and (v) brisket pot roast.

The respective average weights for the four heifers are reported in Table 3.1. The live heifers weighed 448.8 kg at the time of purchase. After slaughter the resulting average carcass weighed 241.5 kg or 53.8 per cent of the average live animal before slaughter. In other words the “kill out” percentage was 53.8, a typical result for butcher type heifers.

The remainder of the live animal was apportioned as in Table 3.1 into the carcass and other parts. After hanging for a week the average carcass weigh had fallen to 235.6 kg because of seepage loss. These carcasses were then butchered into the saleable and unsaleable cuts shown in Table 3.1. The average retail yield of the

five saleable categories for the four carcasses amounted to 157.2 kg or 66.7 per cent, again a typical result for butcher type heifers.

The full extent of the losses, starting with the live animals as purchased in the mart, is now apparent. There is first the 46 per cent loss between the live state and slaughter and then the further 33 per cent loss from slaughter to retail cuts. Only somewhat over one-third of the original live animal is available to sell over the retail counter as beef. There is even some further loss over the counter in cutting out but this is too variable to quantify.

Table 3.1: Average Weights of Heifers at Different Stages of Butchering, kg.

Live on purchase	448.8
After slaughter:	
Carcass (hot)	241.5
Edible offal (liver + kidneys)	1.0
Inedible offal	34.1
Hide	31.4
Other (blood, SRM etc)	140.8
Carcass before cut-out	235.6
Cut-out carcass:	
Round steak and related cuts	34.6
Sirloin steak and related cuts	26.0
Rib-steak and related cuts	32.5
Leg beef and other	45.6
Brisket pot roast and related cuts	18.5
Total Saleable cuts	157.2
Retail yield, as % of live animal weight	35.0
as % of carcass weight	66.7

Ignoring the value of the hide and edible offals for the moment, the relative prices then at the three critical stages of butchering are as follows: £0.95 per kg live in the mart, converting into £1.76 per kg of carcass and into £2.63 per kg of retailable beef. In other words, before the abattoirs and butchers charge anything to cover their own costs, the beef which they have to sell has cost them £2.63 per kg.

To the extent that hides and edible offal have values, this result is moderated. The value of hides fluctuates widely from time to time, but at the date of the butchering exercise, it was around £30 per hide. The value of edible offal is also variable and has been particularly damaged by the BSE outbreak. At the date of butchering it was about £12 per animal. Allocating the £42 over the 157.2 kg of retailable beef amounts to 26.7 pence per kg, thus reducing the £2.63 above to £2.36.

The average consumer – and indeed the average farmer – has little appreciation of the fact that the cost of beef to the butcher to-day, whether in butchers' shops or in supermarkets, is in the order of £2.30 to £2.40 per kg before any charge for processing and distribution. The media are probably even more unaware of this fact. If they were better informed, the retail prices they are confronted with would be easier to comprehend. It is surprising how little effort at educating the public has been attempted by any of the groups concerned, including the retailers who are the principal target of profiteering accusations.

Retail prices of beef must of course range widely around whatever average price prevails to allow for the great variation in demand for the different cuts. Indeed, one of the important tasks that retailers have to fulfil in managing their businesses is to secure satisfactory outlets for this range of qualities. This is a bigger challenge for the smaller butcher who purchases entire animals than it is for the larger butchers and supermarkets who purchase specified cuts and thereby can reduce the more unpopular cuts, leaving them to the abattoir to dispose of.

3.5 Retail Price Analysis

Data on retail beef prices of the five cuts specified above are collected and published by the Central Statistics Office. This was done on a quarterly basis up to 1997, but since then it is done monthly. For our purposes it is necessary to combine these prices into a single retail price, but to do this requires weightings to attach to each of the five categories. These were derived in the butchering exercise as reported above in Table 3.1.

To obtain a retail price series back over the years, these same weights were used throughout the period studied, namely, 1979 to 1999. This could be criticised on the grounds that the components of the five categories of beef may have changed over the years and consequently the weightings may have changed. Very little evidence is available on this issue, so it is interesting to compare the results of the recent butchering exercise with a similar one carried out by Teagasc's predecessor, An Foras Taluntais, as part of the Meat Inquiry of 1974. The results are presented in Table 3.2.

Table 3.2: Comparison of Results from two Butchering Exercises: 1974 and 2000 in kg

	1974	2000
Heifers – liveweight ¹	360	449
Retail cuts – deadweight	178	236
1. Round	29.9	34.6
2. Sirloin	15.5	26.0
3. Ribsteak	29.7	32.5
4. Leg and other	31.6	45.6
5. Brisket	9.2	18.5
Total:	115.9	157.2
Retail yield, %	65.8	66.7

¹ Estimated indirectly.

The first point to note is the increase in carcass weight over the years which has resulted mainly from improved cattle breeding and husbandry. Next, overall percentage yields from the carcasses are almost identical. However the composition of the five retail cuts appears to have changed, but this has to be viewed cautiously

as the boundaries between the cuts are rather subjective. The differences in composition appear large, but the use of the 1974 weightings instead of the 2000 weightings to arrive at a single retail price would make only trivial differences to the results presented below.

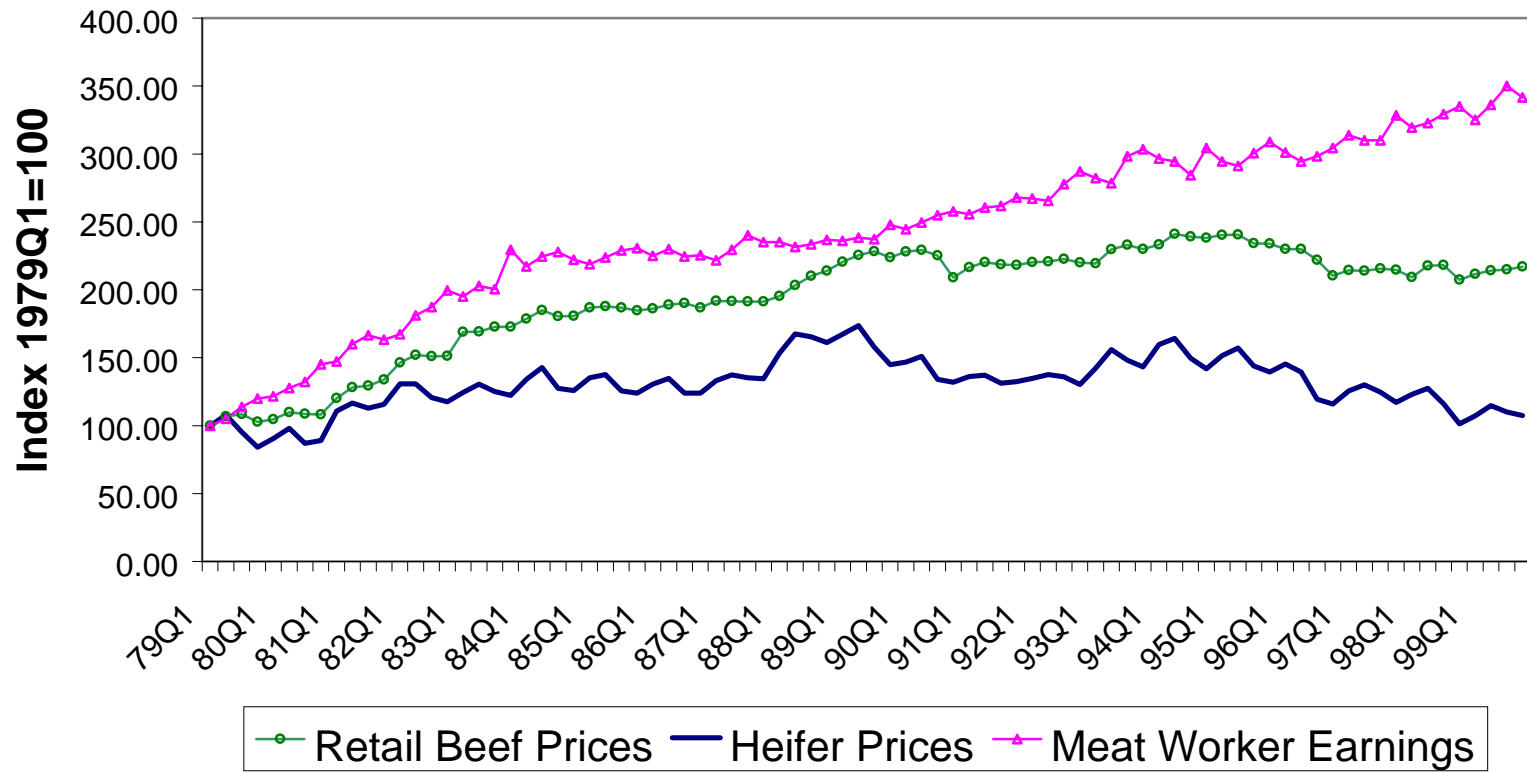
The resulting retail price series is shown in Figure 3.2, setting the price in the first quarter of 1979 equal to 100. The indices and actual retail prices are included in Appendix 7. The average four quarter retail price of beef in 1999 is shown to have increased by 82 per cent since 1979 when general inflation trebled. In other words the real retail price of beef decreased by almost 40 per cent between 1979 and 1999.

The farm-gate price of cattle for the domestic market is easy to establish, as the CSO publishes comprehensive data on cattle prices. For our analysis we chose the prices of 400 to 449 kg heifers which are the closest to the weight of animal consumed in the domestic market. The results are included in Figure 3.2 and Appendix 7. The average four quarter price increased by only 14 per cent between 1979 and 1999, so that in real terms farm-gate heifer prices fell by 62 per cent, compared with the 40 per cent fall at retail.

Having constructed the two price series we can relate the movement in them over time, as done in the IFA submission cited earlier. The results are presented in Figures 3.2 and 3.3 and Appendix 7. The relationship between the farmer and retail prices is not very strong. A visual examination shows that from 1979 to 1989 retail beef prices trended upward. From that point onwards retail beef prices have remained relatively stable, while heifer prices trended downward. Between 1979 and 1989 retail prices increased by 92 per cent while farm-gate prices increased by only 66 per cent. Between 1989 and 1999 retail prices fell by 6 per cent while heifer prices fell by 32 per cent. Over time retail prices moved ahead of farm-gate prices when the latter were rising and lagged the heifer prices when they were falling.

There is nothing untoward about these differential price movements as will be demonstrated below.

Figure 3.2: Retail Beef Prices, Farm-gate Heifer Prices and Meat Worker Earnings



The results of the statistical analysis are shown in Table 3.3 under Equation 1. The R^2 is only .49, or in layman's language, only 49 per cent of the variation in the retail price is explained by the movement in farm-gate prices. The rest is unexplained and attributable to factors other than changes in farm-gate prices. The misfit of the regression equation is evident in Figure 3.3, where the values predicted by the equation are graphed against the actual prices. The predicted results are too high in the first half of the period and too low in the second half.

Table 3.3: Results of Regression Analysis

Equation Number	Regressor	Coefficient	T-ratio	R^2
1	Constant term	0.23	0.45	0.49
	Live heifer price	0.043	9.0	
2	Constant term	-0.81	-4.8	0.95
	Live heifer price	0.026	15.7	
	Meat worker earnings	0.64	26.9	
3	Constant term	-0.26	-3.6	0.99
	Live heifer price	0.0092	8.9	
	Meat worker earnings	0.14	5.4	
	Retail price in previous quarter	0.73	21.0	

But, as has been emphasised above, this two variable analysis completely ignores the behaviour of all of those agents employed between the farm-gate and the consumer as described in Figure 3.1. In the earlier years of our period of analysis these agents would have consisted of wholesalers in the form of small abattoirs and retailers in the form of butchers' shops. During the 1970s the supermarkets expanded in the meat trade and have grown to now control some 40 per cent of the retail market. Furthermore, the supermarkets source their beef from larger abattoirs which are licensed for export. The wholesalers to-day then consist of a mixture of small and large abattoirs and the retailers consist of butchers' shops and supermarkets. These account for about half of the retail value, the other half being the heifer value at farm-gate.

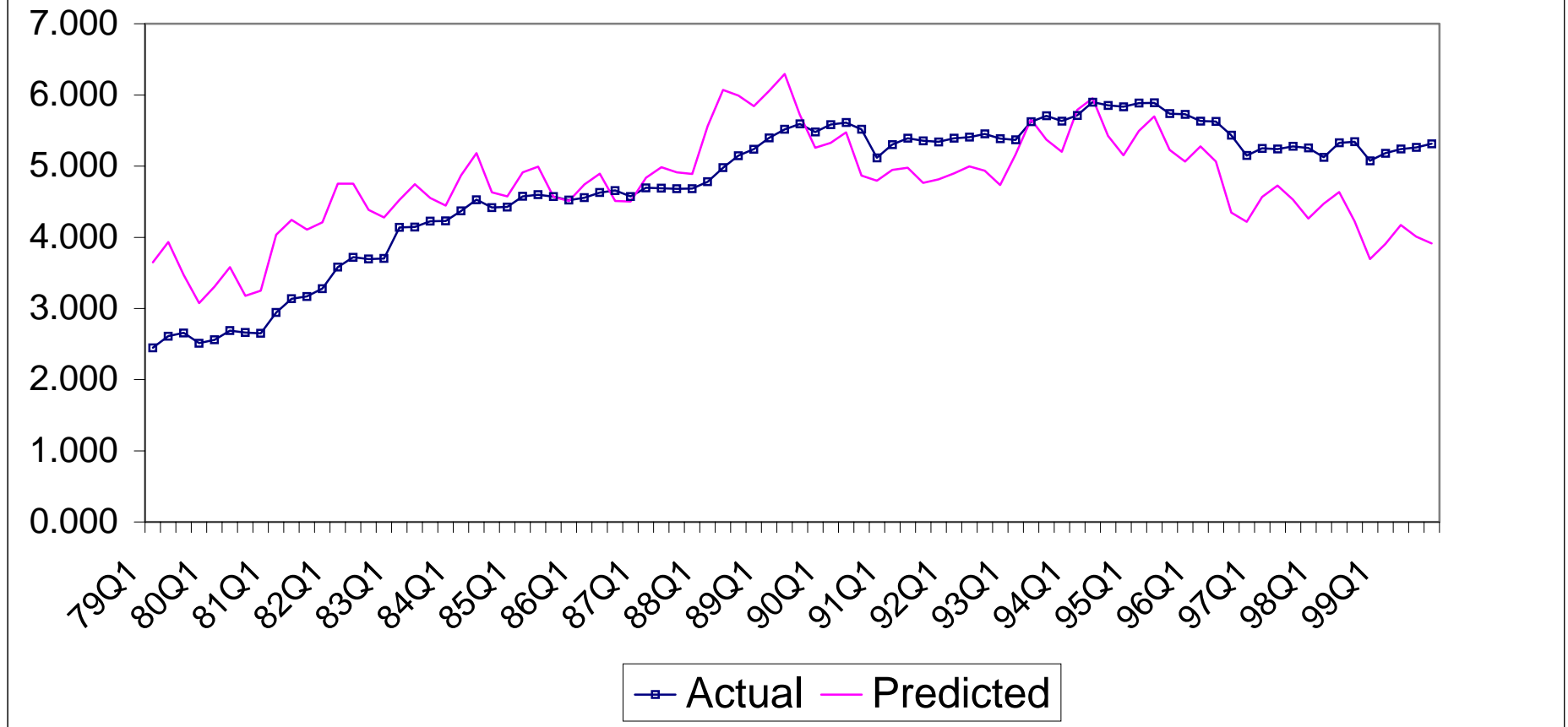
These agents run businesses from which they aim to achieve margins large enough to exceed their operating costs by an amount sufficient to give them a satisfactory return on their labour, capital and enterprise. Therefore, they can be expected to adjust their buying and selling prices in response to the changing cost situation confronting them.

To analyse the behaviour of the post farm-gate wholesalers and retailers, we would like to have available, over the period of our analysis, detailed information on the prices paid for cattle by wholesalers, on the cost movements of the important inputs of wholesalers and retailers, such as, labour, energy, packing materials etc and on any changes in slaughtering and butchering practices over the years which might affect productivity and yields of saleable meat. Such information is not available, and any attempt to procure it would be way beyond the scope of our Inquiry.

In the absence of comprehensive data we searched the available statistics for a variable or variables that would serve as proxies for the cost and productivity movements as outlined above. We selected the quarterly hourly earnings of workers in the 'slaughtering, preparing and preserving of meat', NACE 412, as published by the CSO in their quarterly **Statistical Bulletin**. Since wage movements reflect both inflation and real increases, we hoped that this wage series would track wholesaler and retailer cost movements, though there was no guarantee of such a relationship before we undertook the analysis.

In the extended analysis we retained the retail price series shown in Table 3.3 as the dependent variable and we retained the farm-gate series in Table 3.3 as one independent variable. A second independent variable, average hourly meat worker earnings, was added to reflect the post farm-gate contribution to retail price movements. The results are presented under Equation 2 in Table 3.3. .

Figure 3.3: Actual Retail Prices and Retail Prices Predicted using Heifer Prices Only



The R^2 increases to .95 indicating that the three variable equation explains 95% of the variation in retail prices. This is a very high figure, but the equation from which it is derived has a large degree of autocorrelation – a statistical characteristic that distorts the significance of the coefficients in the equation.

To overcome this problem a further variable was added in Equation 3, namely, the retail price in the previous quarter. This statistically superior equation produces an R^2 of 0.99. The virtual perfect fit of the predicted and actual prices is clear in Figure 3.4.

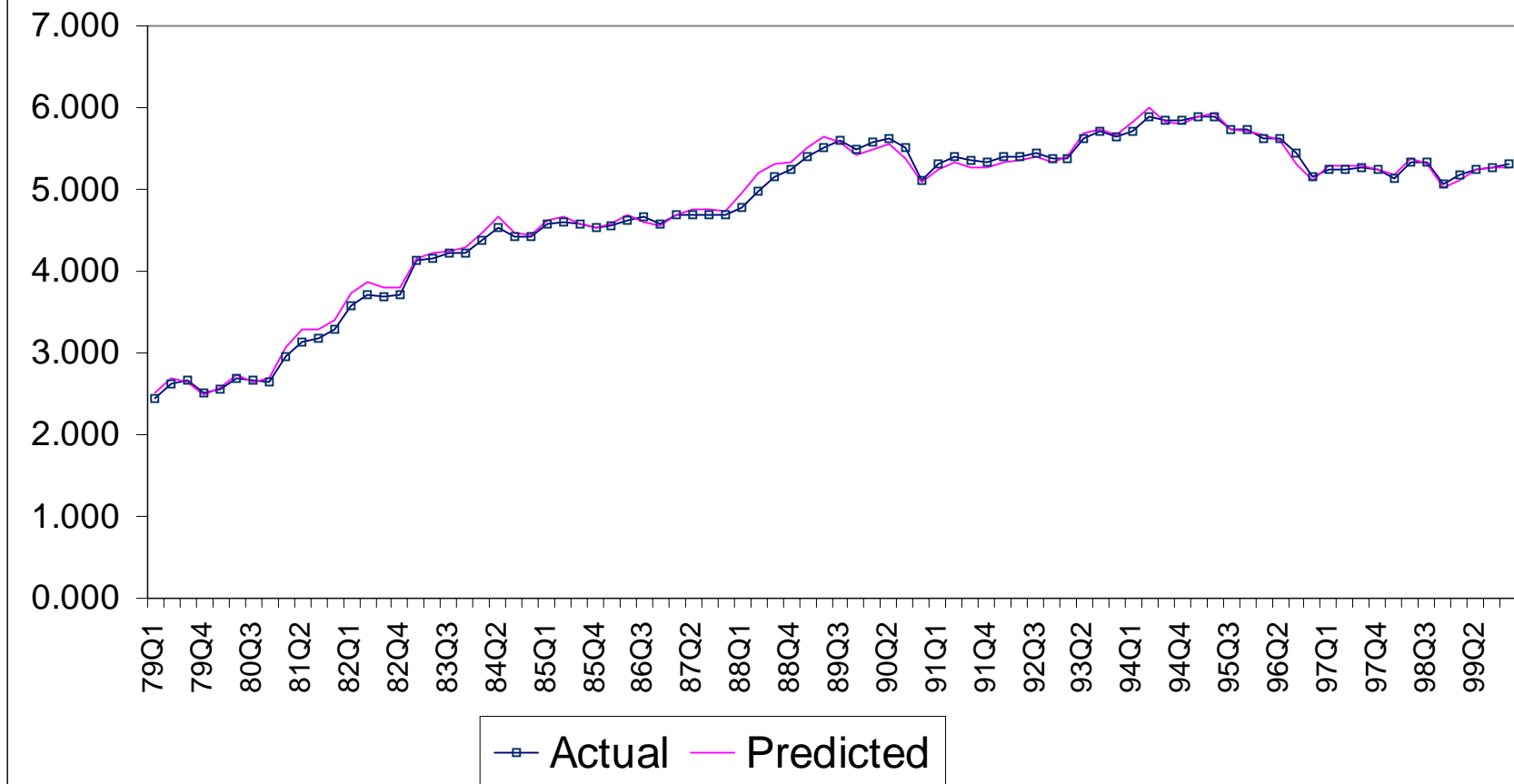
3.6 Conclusions

These results are remarkable. We expected to improve the R^2 , but we did not expect to explain virtually all of the retail price movement which is the outcome. Retail prices have moved over the years in line with the combined movement of farm-gate prices and meat workers' wages. There is no scope for any other variables to improve on the relationship, nor is there any scope for alleged manipulation of prices by wholesalers and retailers.

While these results are conclusive, given the deeply entrenched belief of the existence of manipulation on the part of farmers and consumers, it would be desirable to have comprehensive financial accounts to confirm the above results. We explored this possibility by requesting audited accounts from the Associated Craft Butchers of Ireland. They eventually produced some accounts but their representativeness and format rendered them of little use to us. We are not suggesting any reluctance on the part of the Association as we realise that in the case of butchers' shops it would be virtually impossible to disentangle the beef element in what are mostly mixed enterprise family run businesses. With respect to the four supermarket chains, all four claimed that the meat counters in their shops are relatively low profit businesses, but they are an important element in providing a

comprehensive fresh food menu to their customers. One of the four did submit audited accounts which confirmed this view.

Figure 3.4: Actual Retail Prices and Retail Prices Predicted using Heifer Prices, Earnings and Lagged Retail Prices



Finally, it should not be a surprise to learn that domestic beef prices have moved over the years in line with farm-gate cattle prices and labour wages. An industry which is populated to-day by some 1,500 butchers' shops throughout the country and some 320 supermarket outlets operated by four keenly competing groups is not likely to afford opportunities for manipulation of profits. If there were such opportunities, entry to the business, which is wide open, would quickly eliminate them. The record among butchers in recent years is one of net exit with more leaving the industry than entering it.

References

1. ***Report of Enquiry into the Domestic Meat Trade***, Meat Prices Advisory Body, Stationery Office, 1974, Prl. 4143
2. ***Food Prices – Who Profits?***, Irish Farmers' Association, 1997.

Chapter 4

Analysis of Farm-gate Prices

Our purpose in analysing the available price data was to seek to determine whether there were any patterns in the prices that might suggest anti-competitive behaviour by meat processors.

The degree of price variation between factories was analysed. A low level of price variation is not of itself evidence of anti-competitive behaviour. It could also indicate very high degrees of competition, especially if profit levels in the factories were low. So the evidence we collect from prices is not sufficient alone to indicate anti-competitive behaviour.

We obtained data on beef slaughterings as follows:

- A. From the Department of Agriculture:
 1. Weekly VAT exclusive price, weight, number and classification data on animals slaughtered in the major factories in Ireland, on a sample basis, for the four years 1996 to 1999.
 2. Aggregate data on numbers slaughtered by factory by week for the same years.
- B. From the Irish Farmers Journal – weekly price quotes for the main factories, for the periods July to December for the same years.

With this data, we carried out a number of analyses:

- For the most important animal types, we calculated the average price, and coefficient of variation for each week across the factories we have data for.
- We compared the actual prices paid with the quotes in the Irish Farmers Journal.
- We carried out an analysis of the data on the basis of groups of meat factories with common ownership.

4.1 Analysis of Department of Agriculture Weekly Traded Price Data

We received from the Department their weekly data for the following 26 factories, in computer form, for the years 1996 to 1999:

AIBP, Cahir
 AIBP, Waterford
 AIBP, Bandon
 AIBP, Clones
 AIBP, Longford
 AIBP, Nenagh
 AIBP, Rathkeale
 Ashbourne Meats, Roscrea
 Bergins, Broadford
 Clonmel Chilling/Fair oaks Clonmel
 Dawn Meats, Grannagh
 Dawn Meats, Midleton
 DPM, Carrigans
 Duffy Exports, Gort.
 Fair Oaks, Bagenalstown
 Galtee Foods, Charleville
 Honey Clover, Freshford
 ICM, Ballaghadereen
 ICM, Ballyhaunis
 Kepak, Athleague
 Kepak, Clonee
 Kepak, Watergrasshill
 Kildare Chilling Company
 Liffey Meats, Ballyjamesduff
 Meadow Meats, Rathdowney
 Slaney Meats, Bunclody

These factories between them account for roughly 90 per cent of all slaughterings. The data received was in the form of average price, average weight, and numbers killed for each animal type for each factory for each week.

Roughly 35 per cent of the animals killed in the factories are included in the data. The Department is required by EU regulations to collect the data in question for at least 30 per cent of all animals slaughtered.

The Department does not have a full record for all factories for the four years. Over the years, the Department has been increasing the coverage of its records to meet the EU's requirements, so there is more data from the later years than from the earlier years. At the start of 1996 there were data for 22 factories.

Furthermore, in some cases, data for specific factories for specific weeks were not included in the computerised records, due to delays in returning the data, or because the factories were not slaughtering that particular week. In some cases

also, some data were miscoded as regards which factory it related to, and these were discarded in our analysis.

We chose the 13 most important animal types – 6 steer/bullock types, 3 cow types and 4 heifer types, based on advice from the Department of Agriculture, as follows:

Steer R3
 Steer R4 Light
 Steer R4 Heavy
 Steer O3
 Steer O4 Light
 Steer O4 Heavy
 Cow O4 Light
 Cow O4 Heavy
 Cow O5
 Heifer R4 Light
 Heifer R4 Heavy
 Heifer O4 Light
 Heifer O4 Heavy

For each week, we calculated the average price, standard deviation, coefficient of variation, and a quartile analysis, across all the factories. Table 4.1 overleaf shows a typical example – for the week ended 18th December 1999.

Steers/bullocks represent the most numerous animal type. For the year 1999 as a whole, steers accounted for 54 per cent of the total kill, cows for 21 per cent and heifers for 23 per cent, with young and mature bulls accounting for the remainder. This split is similar in the other years we examined.

The quartiles are simply the range, from highest to lowest price observation, divided into four equal segments. Where each quartile contains a significant number of factories or cattle, this should be interpreted as showing a fair spread of prices over the week. Where one quartile contains most of the volume, this suggests a tight price spread in that week. Both patterns are evident in the data.

The degree of price variation is best indicated by the coefficient of variation, which is the standard deviation expressed as a percentage of the average price. The coefficient is very low, especially for steers, with slightly higher variability for heifers and somewhat more variability in the case of cows.

This demonstrates that very similar prices are paid across a range of factories, especially for steers. Data for other weeks over the four years show a similar picture.

Table 4.1: Summary of Sales Price Data for Week ended 18/12/1999

	Steer R3	Steer R4L	Steer R4H	Steer O3	Steer O4L	Steer O4H	Cow O4L	Cow O4H	Cow O5	Heifer R4L	Heifer R4H	Heifer O4L	Heifer O4H	Total #
# animals	514	1,318	1,369	667	1,310	880	358	402	619	338	430	471	444	9,120
# factories slaughtering	25	25	25	25	25	25	24	24	24	21	21	22	23	
Average price p/kg (note)	177.52	178.28	178.53	173.32	173.87	174.08	122.10	123.66	124.74	171.25	171.72	166.04	166.70	
Highest price	185.70	183.30	185.30	176.50	177.40	178.00	139.90	160.30	149.30	179.50	176.20	171.40	170.80	
Lowest Price	175.90	175.90	175.90	163.10	171.70	171.20	114.10	111.00	113.20	161.10	166.60	137.80	156.00	
Standard deviation	1.95	1.97	2.06	1.71	1.68	1.98	5.87	6.06	4.42	2.87	2.74	3.67	3.23	
Coefficient of variation	1.10	1.10	1.15	0.99	0.97	1.14	4.81	4.90	3.54	1.68	1.60	2.21	1.93	
# in each price quartile														
Factories														
1st quartile	20	13	16	1	13	12	10	12	7	1	5	1	2	
2 nd quartile	4	7	6	0	5	7	9	10	16	8	4	0	4	
3 rd quartile	0	2	2	11	5	3	3	1	0	10	7	5	8	
4th quartile	1	3	1	13	2	3	2	1	1	2	5	16	9	
Animals														
1st quartile	432	730	788	5	640	400	168	173	191	2	53	1	18	3601
2 nd quartile	62	320	391	0	333	260	145	221	421	169	119	0	43	2484
3 rd quartile	0	72	135	290	177	58	30	4	0	127	143	62	154	1252
4th quartile	20	196	55	372	160	162	15	4	7	40	115	408	229	1783

Note on Table 4: This represents the average price paid in each factory (VAT exclusive), weighted by the number of animals slaughtered in each factory, for the particular animal type.

4.2 Analysis of Irish Farmers Journal (IFJ) Quoted Prices

The IFJ is a weekly newspaper, dated Saturday, but going on sale the previous Thursday, having been printed on the Wednesday.

On Wednesday, the main exporting factories are asked to quote the price (VAT inclusive and exclusive) to be paid the next day (i.e. Thursday) for a range of animal types.

The factories quoting vary somewhat over time. At the end of 1999 the factories involved were:

Galtee Meats
Fair Oak Foods
Donegal Meats
Kepak Clonee
Kepak Cork
Ashbourne
Dawn Meats (mainly the Grannagh
factory)
Fair Oaks Clonmel
Kildare Chilling
Slaney Meats

The set of quotes is incomplete as the largest group of factories, AIBP, do not quote prices to the IFJ

The animal types quoted for are:

- Bullocks E, U, R and O
- Heifers E, U, R and O
- Grade 1 cows, which are close to types R and O.

The most complete set of quotes is given for bullocks.

We examined extracts from the IFJ, provided to us by the IFA, for the period July to December of the four years 1996 to 1999. We concentrated on R and O bullocks, which we had also analysed using the Department of Agriculture data.

Appendix 7 summarises the data graphically for each animal type for each year. The degree to which the same price is quoted across a number of factories, and often for a number of weeks in a row, is striking.

This is the quoted rather than the traded price. The latter is the more important of the two, needless to say. We were interested to see how well the quoted price predicted the traded price. This is not straightforward, because our traded data is for the entire week, while the quoted price is a prediction, made on the Wednesday, of the price applying on Thursday.

Nonetheless, we have carried out an exercise comparing how closely related the two prices are, by calculating the correlation coefficient between the two series of numbers, for selected factories for which there is a reasonably complete set of data. The following table shows the result, and also gives the ratio of the actual price paid to the quoted price, averaged over the period for which data are available.

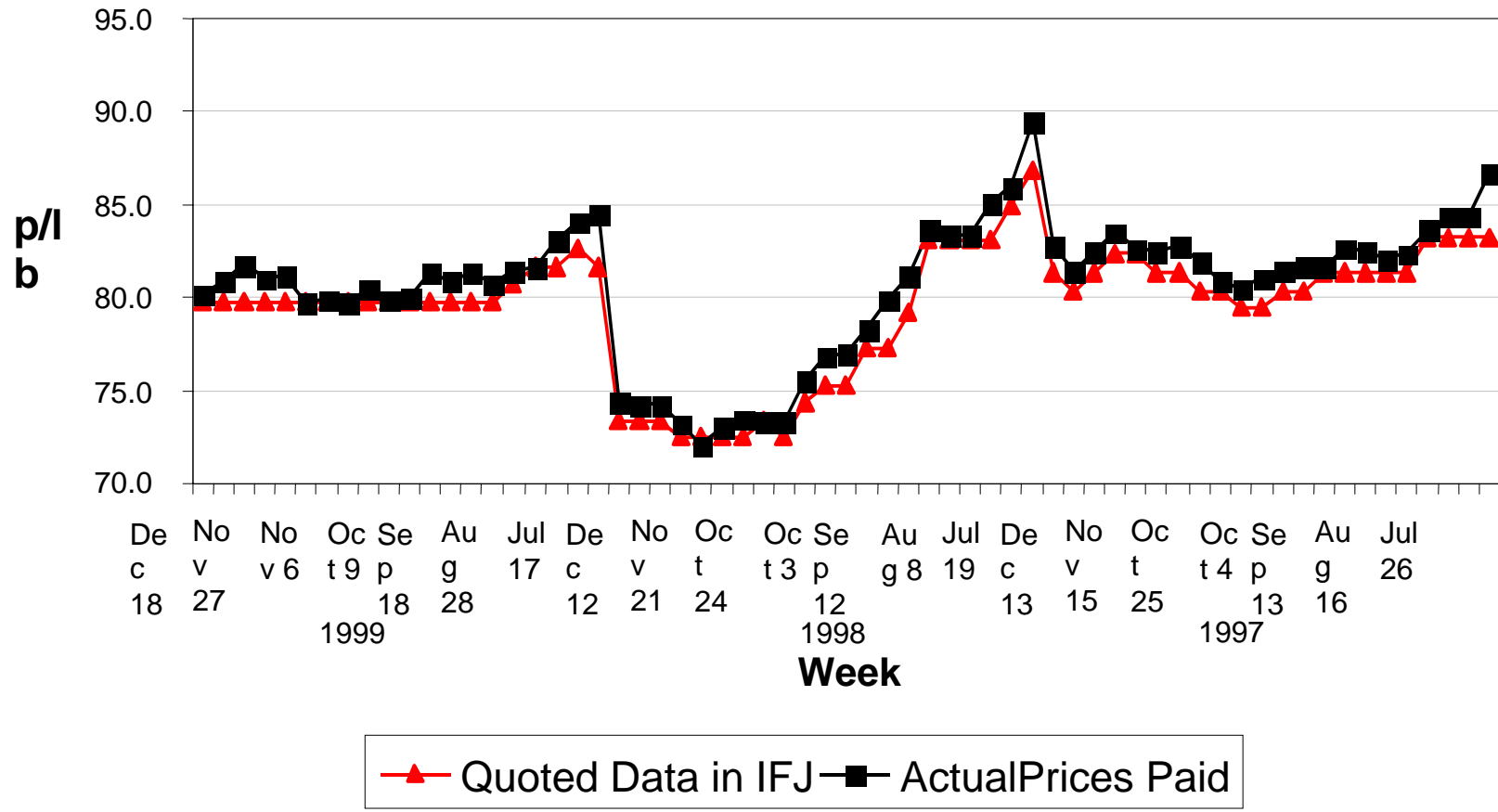
Table 4.2

Relationship between Prices Quoted in the IFJ and Actual Traded Prices, Selected Factories, July to December 1996 to 1999

	Correlation Coefficient		Ratio of Price paid to price Quoted	
	Bullock R	Bullock O	Bullock R	Bullock O
Galtee Meats	0.92	0.96	1.008	1.011
Fair Oak Foods	0.98	0.97	1.020	1.016
Kepak Clonee	0.96	0.97	1.017	1.017
Ashbourne	0.98	0.95	1.014	1.017
Kildare Chilling	0.98	0.97	1.006	1.013
Slaney Meats	0.98	0.95	1.010	1.023

As can be seen, there is a high degree of correlation between the two sets of prices, though some variation does exist. Actual prices paid can be higher or lower than the quoted prices. On average, however, the actual price paid was slightly above the quoted price. This pattern holds across all the factories in question, and over time. As an example, data for one of the factories is shown in graphic form overleaf in figure 4.1.

Figure 4.1: IFJ Quoted Price Vs Actual price Paid, Meats, Bullock R



4.3 Concentration in the Industry

Appendix 8 summarises the total kill in each year by export-approved factories¹. Over the 4 years in question there were in the region of 50 active factories, though a number were inactive for at least some of that time.

In terms of individual factories, the industry is quite fragmented, with the busiest individual factory being responsible for in the region of 7 per cent of the total kill in each year. In 1999, the top ten factories accounted for 44 per cent of the total kill. Considering individual animal types, the industry is slightly less fragmented.

In terms of ownership, there are a number of groups, and there have been some changes in ownership in recent years. From discussions with Department of Agriculture personnel, the main groups at the time of writing were:

- AIBP, with 8 factories;
- Dawn Meats, with 5 plants, plus Irish Country Meats plants taken over in mid-1999 (4 plants);
- Kepak, with 3 factories.

The three largest players account for almost 50% of the industry, with the balance in the hands of a large number of small operators.

Most of the rest of the plants are individually owned, though there are a number of smaller groups in addition to the ones specified above.

The following tables indicate the percentage of the total national kill, and of each animal type, accounted for by the main groups in each year.

¹ The percentage of the national kill that takes place in non-export approved factories is between 4 and 5%.

Table 4.3: Kill at Export Approved Factories Combined into Groups - Total**Summary of Percentage of Kills in Each Year**

	1996	1997	1998	1999
AIBP	25.0%	24.1%	23.2%	21.8%
Dawn Meats	13.8%	13.3%	11.8%	
Irish Country Meats	7.5%	7.3%	6.6%	
Dawn + Irish Country Meats				18.0%
Kepak	13.0%	15.0%	14.4%	12.7%
Others	40.8%	40.3%	44.0%	47.5%
Total	100%	100%	100%	100%

Source: Department of Agriculture.

Table 4.4: Kill at Export Approved Factories Combined into Groups - Bullocks**Summary of Percentage of Kills in Each Year**

Group	1996 %	1997 %	1998 %	1999 %
AIBP	26.1%	25.5%	25.2%	24.3%
Dawn Meats	12.7%	13.0%	12.1%	
Irish Country Meats	8.7%	8.5%	7.6%	
Dawn + Irish Country Meats				18.0%
Kepak	14.5%	15.2%	14.4%	12.1%
Others	37.9%	37.8%	40.7%	45.6%
Total	100%	100%	100%	100%

Source: Department of Agriculture.

Table 4.5: Kill at Export Approved Factories Combined into Groups – Heifers**Summary of Percentage of Kills in Each Year**

Group	1996 %	1997 %	1998 %	1999 %
AIBP	24.5%	22.8%	17.6%	16.3%
Dawn Meats	18.6%	17.3%	13.1%	
Irish Country Meats	5.7%	5.4%	5.6%	
Dawn + Irish Country Meats				16.4%
Kepak	20.5%	18.5%	18.8%	16.4%
Others	30.9%	35.9%	44.9%	50.9%
Total	100%	100%	100%	100%

Source: Department of Agriculture.

Table 4.6: Kill at Export Approved Factories Combined into Groups - Cows**Summary of Percentage of Kills in Each Year**

Group	1996 %	1997 %	1998 %	1999 %
AIBP	21.9%	21.7%	22.2%	22.2%
Dawn Meats	12.2%	10.9%	18.0%	
Irish Country Meats	5.8%	5.8%	0.0%	
Dawn + Irish Country Meats				18.0%
Kepak	12.9%	11.8%	10.0%	10.0%
Others	47.1%	49.9%	49.8%	49.8%
Total	100%	100%	100%	100%

Source: Department of Agriculture.

The main features are:

- AIBP is the largest group in the country, accounting for in excess of 20 per cent of the national kill, though its market share is falling over time. The other two large groups between them account for 30 per cent of the

market, though their market shares are slipping somewhat also. Notwithstanding the slippage, the three groups between them accounted for 52.5 per cent of the market in 1999.

- The overall pattern is mirrored in the case of bullocks, though the main groups have a slightly higher market share than is the case with the aggregate kill.
- There has been a significant increase in market fragmentation with heifers. In 1996, the three main groups accounted for almost 70 per cent of the market; by 1999 this had fallen to less than 50 per cent.
- The pattern with cows has shown the least change over the 4 years.
- With the three animal types, the market pattern appears to be converging to a situation whereby the three main groups account for about 50 per cent of the kill.

4.4 Prices between Factory Groups

We were interested to know whether there are any patterns in the prices paid for animals by the factories that form part of groups. The following table summarises data for three representative animal types, for each of the groups, and for the rest of the factories combined.

	4 Years P/kg	1999 P/kg	1998 P/kg	1997 P/kg	1996 P/kg
Steer R4L					
AIBP	183.06	176.60	181.46	181.29	193.69
Dawn/ICM	183.74	177.23	181.68	182.10	194.41
Kepak	183.81	177.04	181.98	182.24	194.59
Others	183.52	177.35	181.53	181.52	194.26
All	183.54	177.10	181.63	181.76	194.29
Cow O5					
AIBP	145.93	131.45	145.37	151.48	156.32
Dawn/ICM	148.43	134.42	147.68	153.52	158.79
Kepak	148.53	134.32	148.10	153.68	158.81
Others	148.18	134.12	148.17	153.39	157.70
All	147.94	133.77	147.53	152.85	158.19
Heifer O4L					
AIBP	179.44	168.38	177.54	181.66	191.07
Dawn/ICM	179.92	168.81	178.15	181.37	192.08
Kepak	180.79	169.46	179.25	182.77	192.35

Others	177.53	165.89	174.89	180.08	190.03
All	179.57	168.16	177.61	181.62	191.58

The following patterns are apparent:

Steer R4L –

- AIBP paid less than the average.
- By-and-large, both Dawn/ICM and Kepak paid more than the average.
- The variations are very small – less than 1p per Kg between highest and lowest.
- Others (non-group) were very close to average.

Cow O5 -

- As with the steers, AIBP paid less than the average.
- Again, Dawn/ICM and Kepak paid more than the average.
- There is a greater difference between the highest and lowest prices than is the case with the steers, the range being 2 pence per kg. This is made up mostly of the difference between the prices paid by AIBP and those paid by other factories.

Heifer O4L -

- The three groups pay a higher price for heifers than do Others (non-group).
- Among the three groups, Kepak pays the highest price, with AIBP in most cases paying the lowest price.
- There is a bigger difference between the highest and lowest prices paid than with steers, made up mainly of the difference between prices paid by the three groups and those paid by other factories.

4.5 Conclusions on Price Data and Concentration

The Department of Agriculture data show that prices actually paid by the various factories for particular animal types vary within a narrow range. There is least variation for steers and slightly more for cows and heifers.

Given the low emphasis on quality in the Irish beef industry, and the tendency for the export business to assume the character of a commodity-type

business, the small divergences in prices paid by the different factories are not surprising. There are buyers (factories) throughout the country, facing large numbers of sellers (farmers). It is to be expected in these circumstances that significant divergences in prices offered, should they emerge, will not survive.

The factories pay prices slightly higher than those quoted to the Irish Farmers Journal. There is a clear correlation between prices quoted and actually paid. There are some systematic variations in prices actually paid by the different groups, but these are small.

The price data do not in our view constitute evidence that collusion has occurred. The data could equally be consistent with the absence of any attempt by processors to control the cattle market. Given the nature of the industry, a pattern of similarity in prices paid or quoted can be expected and the results of our analysis are therefore not surprising. We would in fact have been surprised if there was a large variation in price levels as between the various plants.

On the other hand, it is impossible to prove on the basis of price data that no collusion has ever occurred or has ever been attempted.

As regards concentration, the three largest players account for about 50% of the industry, with the balance in the hands of a large number of smaller operators. Overall, the industry does not have a particularly concentrated pattern, by comparison with many other industries. The pattern of market shares does not provide a priori ground for expecting collusion.

Chapter 5

Profitability of Meat Processing

We have analysed in the previous chapter the patterns of cattle prices in recent years. In general we found a high degree of uniformity in line with IFA claims. However, we argue that such uniformity is not proof of anti-competitive practices, as it could equally arise from perfect competition. We also reviewed the degree of concentration in the industry and found no basis for anti-competitiveness. A more informative indicator is the profitability of the industry, as one would expect that collusive powers would be used to generate excessive profits. Unfortunately, the quality of available data on profitability in the Republic of Ireland (ROI) is not very satisfactory: much better data is available in Northern Ireland (NI).

5.1 Profitability in the Republic of Ireland

There are two basic sources of information on profitability in the ROI, namely, the Central Statistics Office (CSO) and company accounts. There are in turn two CSO sources and two company account sources available. The CSO sources are their Input-Output Tables and their Census of Industrial Production (CIP). The account sources are the McKinsey data as published by Bacon & Associates and the results of a special survey carried out for the IMA in response to our request.

The purposes and methodologies of these four sources are very different, so we must be careful in making comparisons among them.

Input-Output Tables show for the meat industry as a whole that the Net Operating Surplus before depreciation was 3.5 per cent of turnover in 1990 and 4.3 per cent of turnover in 1993. After depreciation the surpluses were 2.7 per cent and 2.5 per cent for each of the two years, respectively. These tables have not been updated since 1993 and they relate to the entire meat industry and not just beef which is the focus of our analysis. They are therefore of little use in our Inquiry.

Potentially, a better source of data is the CIP which is carried out each year by the CSO. Its coverage includes the meat industry. In the years 1991 to 1997, and only in these years, three categories of meat industry were segregated, namely, "production and preserving of meat", "production and preserving of poultry meat" and "production of meat and poultry meat products". The first category is closest to our interest, but the margins are still confounded by the inclusion of sheepmeat and pigmeat. On the other hand, the series has the advantage of being available over time.

The data published from the CIP includes Turnover, Gross Value Added and Wages and Salaries. The Turnover as published does not include export refunds under the Common Agricultural Policy. Since these are a significant part of processors' revenue, they have to be included in our analysis to give an Adjusted Turnover series. They must also be added to the Gross Value Added (GVA) to give an Adjusted GVA series. From the adjusted GVA we can deduct Labour Costs to give a Net Margin before depreciation.

The results are shown in Table 5.1. On average over the seven year period the Net Margin was 5.8 per cent of turnover. Viewing the data over time, the series is more stable than one would expect in a volatile industry like beef processing. In particular there seems to be no adverse effect on margins from the BSE crisis of 1996 and 1997. While the market returns did collapse in these years, this seems to have been offset by a substantial increase in subsidies. In addition, the pigmeat sector which is included would add a stabilising element.

The 5.8% average may be contrasted with the food sector as a whole excluding “production and preserving of meat”. The corresponding result is 13.9% of turnover or 2.4 times the result for meat processing.

Table 5.1
Net Margin as a Percentage of Turnover in the Irish Meat Industry for the
1991-1997 Period

YEAR	NET MARGIN
1991	5.3
1992	4.7
1993	5.9
1994	5.9
1995	7.1
1996	6.1
1997	5.6
7 year average	5.8

A better alternative to the Input-Output and CIP data are company accounts, but these too have limitations. They are often out of date, the format varies from company to company, the segregation of beef from other activities is extremely difficult and the availability and consistency of the data over time is problematic. Nevertheless, the Mc Kinsey consultants in their study of the industry, which was centred on strategy rather than profitability, attempted to assemble accounts for 20 beef processing plants for 1996 and 1997. While no information was released by Mc Kinsey on this exercise, some of the aggregate results are published in the Bacon & Associates report. They show a profit (after interest on working capital and depreciation and before tax) of 2.0 and 1.7 per cent of turnover for the two years. These results are not

directly comparable with the Input-Output and CIP results because interest on working capital and depreciation have been deducted in arriving at them.

. The authors' comments were as follows:

The key feature of this data is the very low rate of profitability (as a proportion of turnover). Since 1997 output of IMA members has increased and there has been an improvement in processor prices to judge from some indicators of these notably in 1999. Therefore, it is likely that profitability in 1999 has improved. However, this would appear to be more in the nature of a cyclical upswing than any fundamental improvement in the structural performance of the meat processing sector (pp. 31,32).

At our initial meeting with the Irish Meat Association in February last, we asked them to furnish information on the profit margins of beef processors. They appointed the accountants BDO Simpson Xavier, a firm with no direct contact with the beef industry, to carry out the study. Their full report is included in Appendix 9 and a summary is outlined below.

BDO Simpson Xavier got access to the audited accounts of companies covering 70% of beef slaughtered in Ireland. As already stated above, both the timing and methodology of accounts vary from company to company, so a considerable amount of adjustments had to be made to reconcile the data. The selection of an appropriate time period has to take into account the desire for up to date results and the availability of compatible figures back over the years. The time period chosen was 1996 to 1999, a period which spans the BSE crisis after 1996 and the recovery from that experience in recent years.

In the BDO Simpson Xavier analysis, the data for each company was aggregated to give a single set of results for all companies and for the entire period. These results are shown in Table 5.2.

Table 5.2: Percentage Margins in the Irish Beef Industry for the 1996-1999 Period

Total Sales	100
Cost of Sales	84
Average trading margins	16
Direct wages	4.0
Packaging etc	4.2
Gross profit margin	7.8
Overheads including interest on working capital and depreciation	6.7
Net profit margin	1.1

The net profit margin as a percentage of sales was only 1.1. If interest on working capital and depreciation are added back the margin becomes about 2.5 per cent. The sample was subdivided into independent processors (those mainly in slaughtering and de-boning)and integrated processors (those which are more diversified). The results for the former are worse than the overall average and those for the latter are better.

These BDO Simpson Xavier results are even lower than those derived from Input-Output Tables and McKinsey and they are considerably lower than the CIP data. A more detailed comparison among the four sets of data is not possible because of the very different coverage and methodologies involved.

5.2 Profitability in Northern Ireland (NI)

Meat processing in NI is an enterprise which is similar in many ways to that in the Republic. The raw materials are similar, the products are similar, the technology is similar and the market outlets are similar. In addition cross-border ownership of processing facilities is common. Therefore, the profitability of the industry should be similar on both sides of the border.

In contrast to the inadequacy of the data in the ROI., which we have emphasised above, the data for NI is excellent. This is so because the Economics and Statistics Division of the Department of Agriculture and Rural Development carries out a business census each year on the "**Size and Performance of the Northern Ireland Food and Drinks Processing Sector.**" A number of data sources are used in this census, but the estimates are mainly based on information contained in the annual accounts of businesses in Northern Ireland with an annual turnover in excess of £250,000.

The overall Food and Drinks sector is subdivided into 10 subsectors, of which Beef and Sheepmeat is one. Pigmeat and poultrymeat processing are treated separately, leaving a relatively homogeneous Beef and Sheepmeat subsector. There were 39 businesses in the subsector in 1998 and they accounted for 18 per cent of the Turnover of the total Food and Drinks industry.

For each subsector, detailed information is assembled on the value of sales, the value added, employment, exports, etc. These statistics are supplemented by 15 performance indicators, including profitability and returns on capital. "Net Profit" is the residual after deducting all costs including interest payments and depreciation, but before the deduction of tax. The Net Profit for 1998 was 3.2 per cent of turnover.

"Return on Capital" is a better measure of profitability than Net Profit, and this information is uniquely provided by this census. It is defined as the total net profits *plus* interest paid divided by total capital employed. The latter is calculated for incorporated businesses as the sum of the share capital, reserves and total borrowings and for partnerships and sole traders as net worth *plus* total borrowings. The Return on Capital for 1998 was 12.7 per cent in the beef and sheepmeat subsector.

Also published in this report is the range of performances within the subsector. The data for 1998 are shown in Table 5.3. They quantify the great variation in each of the two measures of performance. In the case of Net Profit as a percentage of turnover, while the weighted average for the entire

subsector was 3.2 per cent, the best one third of companies averaged 5.1 per cent and the worst one third averaged only 0.1 per cent. Similarly, the return on capital ranged from 2.3 per cent to 22.5 per cent around an average of 12.7 per cent.

Table 5.3
Range of Performances of Beef and Sheepmeat Processing in NI, Average of Bottom Third & of Top Third of Companies, 1998

Net Profit:	Bottom third, average	0.1
	Top third, average	5.0
	Overall average	3.2
Return on Capital:	Bottom third, average	2.3
	Top third, average	22.5
	Overall average	12.7

Source: *Economics & Statistics Division*, NI Ministry for Agriculture and Rural Development.

Finally, it is of interest to analyse performances over time. Again this is possible with the NI data because they have been collected in a standard format since 1989. The results are summarised in Table 5.4. Net Profit as a per cent of turnover is seen to have been extremely low throughout the period. Indeed the results for the most recent years of 1997 and 1998 were good by historic standards.

Return on Capital follows a different pattern. After 1992 a sharp fall was recorded from 23.6 per cent to a low of 8.8 in 1995. It appears that the main reason for this was high investment in intensive processing over this period, which was not very profitable.

In respect of overall performance, there was a recovery in more recent years despite the BSE crisis, indicating that the various responses to the BSE crisis actually improved the performance of the processors.

As the BSE crisis recedes there may be an opportunity to improve performances, but the outlook for the industry outlined in Section 2.3 of our report will make this recovery a very challenging target.

Table 5.4
Performance Over Time of Beef and Sheepmeat Processing in NI,
1989 to 1998.

	<u>Net Profit</u>	<u>Return on Capital</u>
1989	1.3	20.2
1990	1.9	26.5
1991	2.0	24.9
1992	2.0	23.6
1993	1.2	16.9
1994	1.0	10.1
1995	1.3	8.8
1996	1.6	9.1
1997	3.0	14.2
1998	3.2	12.7

Source: *Size and Performance of the Northern Ireland Food and Drinks Processing Sector*, Northern Ireland Ministry for Agriculture and Rural Development, 1998.

5.2 Conclusion

Drawing conclusions from the data presented above in Sections 5.1 and 5.2, and from the evidence of presentations made to us is complicated by the limitations of the data. The exercise would have been much easier if the ROI had the kind of data on the industry as are available in NI. Indeed, if such data were available over the years, there would have been less suspicion and more enlightenment as between farmers and processors. We recommend

that such data be compiled in the ROI either by the CSO, the Department of Agriculture and Rural Development or Teagasc.

Despite the limitations of the data, these findings point to a predominant pattern of low profitability. While high profitability would not of itself establish collusion or other forms of anti-competitive behaviour, the available data contain no such pattern. There is no doubt that there were some periods of high profits, as in the second half of 1999. There is also no doubt that within any period there are some companies who perform much better than others, as is the case in all businesses.

Our conclusions are not only in line with such data as are available and with the evidence presented to us, they are also in line with the experience of farmers co-operatives when they engaged in beef processing. There has been a string of failures of farmer co-operatives over the years including Golden Vale in 1979, North Connacht Farmers in 1981, Clover Meats in 1984, Cork Marts/IMP in 1986. Kerry Group withdrew in 1996 and Glanbia last year. As a result farmer owned beef processing has fallen from 55 per cent of the total in the mid-seventies to 5 per cent now represented by Dairygold.

References

1. Bacon, P. and Associates, *Irish Beef Processing*, Irish Meat Association, 2000.
2. CSO, *Census of Industrial Production*, 1989 to 1998.
3. CSO, *Input – Output Tables*, 1997.

Appendix 1

Organisations Consulted and Submissions Received

Irish Meat Association*
Irish Farmers' Association*
Irish Creamery Milk Suppliers Association
Competition Authority
Department of Agriculture*
Department of Enterprise, Trade & Employment
Irish Craft Butchers Association*
Dunnes Stores*
Superquinn*
Tesco*
Musgraves*
Bord Bia*
Enterprise Ireland
Mr. P. Lyons, former Chairman of the Competition Authority

*Submission received as well

Appendix 2

IFA Livestock Action Committee

DEMANDS

1. Minimum base price – 90p/lb. 0 Grade Cattle.
2. Removal of illegal veterinary inspection levy on cattle and sheep.
3. Abolition of factory controlled insurance levy and replacement with agreed scheme.
4. Price quotations and payment for cattle and sheep exclusive of VAT – VAT @ 4.2% (March 2000) added to price paid.
5. Provision of facilities to clip cattle after stunning on line

Issued by The Irish Farmers' Association

Appendix 3

20th January, 2000

To: All Members

Re: Final Industry Position Tabled Last Night

Level of Prices on Re-opening

Price to be agreed at individual plant level in the context of a rising price environment arising from the better balance in the EU market, the elimination of intervention stocks and a reduction in cattle supplies in Ireland.

When the blockades are removed, purchasing will commence at local level, based on the following indicative range of prices:

O grade steers 84-85 p/lb

R grade steers 85-86 p/lb

U grade steers 90-92 p/lb

To get the industry back to work the processors will finance a £15 per head special premium on steers, payable to winter finishers to top up the current £21 premium and to match the level of the deseasonalisation premium available in 1999 (£36/head). The special premium of £15 per head, offered by the processors will operate for the same period as the deseasonalisation premium.

Veterinary Inspection Charge

The principle of full cost recovery is accepted. The processors will charge £3.74/animal to recover a portion of the meat inspection costs of farmers.

A Technical Committee will be established to examine implementation aspects and the definition of full recoverable costs.

Compensation Scheme

The existing compensation scheme for rejected cattle will be reviewed. Any replacement scheme to be negotiated between meat processors and the suppliers.

The IFA demand to remove the existing competition scheme means that future cattle purchases will have to be on an "owners own risk" basis and therefore, payment on the day will not be feasible.

Regards
JOHN SMITH
IMA

Appendix 4

IFA Allegations – Letter from IFA dated April 19, 2000

Mr. Kevin Bonner, Chairman
Independent Group to Examine
Allegations of Anti-Competitive Practice in the Beef Industry
22 Lr. Leeson Street
Dublin 2

Dear Kevin,

Further to our meeting of April 18 and previous meeting of February 3, 2000 I wish to set out a summary of the IFA position.

IFA makes of the following allegations of anti competitive practices in the beef industry.

1. Cattle Prices:

- IFA is satisfied that from time to time there is an uncanny similarity in factory price quotations in pence per lb. For cattle from the different meat plants each week.
- An examination of the price data for the second half of the years 1996, 1997, 1998 and 1999 shows that typically the same prices are quoted for the same grade of animal by most of the meat plants.
- IFA refers to the comprehensive documentation presented on factory price quotations to the Independent Group at our meeting on February 3.
- IFA wished to contrast the similarity of the factory price quotations for beef with the situation for lamb prices. We refer to the comprehensive set of documentation presented on lamb price quotations in our letter of February 18, 2000 for the years 1996 through to 1999.
- IFA considers that in analysing price quotations as opposed to cattle prices paid in assessing anti-competitive practice, motive, influence and impact must be considered. In addition IFA believes that an analysis of prices paid must take account of the actual numbers of cattle involved in the price spread for each different grade as reported by the Department of Agriculture. Prices paid on a small number of cattle may well show significant variation but may be insignificant in the overall price picture because of the small numbers involved.
- The Department of Agriculture has refused to provide IFA with a detailed breakdown of prices paid by named meat plants for the years 1990 – 1999 thus restricting our analysis and evidence in this area.

2. *Live exports:*

- Contrary to the argument made by the IMA in the report from Peter Bacon and Associates of March 2000, IFA are firmly of the view that for the years 1997, 1998 and 1999, Irish farmers did not have the option of selling adult cattle to third country markets, namely Egypt and Libya, giving monopolistic powers to the meat processors and eliminating cattle price competition. IFA refer to a study undertaken by Dr. John O'Connell from UCD in February 1997 showing that for the periods 1994, 1995 and 1996 the price benefit to producers arising from an active live trade compared with a situation of no live exports is calculated at £64/animal

3. *Cattle Numbers:*

- IFA alleges that the meat plants manipulated cattle numbers, particularly in the Autumn of 1998 and again in the Autumn of 1999 with a view to negatively impacting on cattle prices during these periods. In the Autumn of 1998 and again in 1999, it was extremely difficult to get cattle booked into meat plants and slaughtered despite the fact that the processing industry was not at maximum capacity.
- The Department of Agriculture has refused to provide IFA with a detailed breakdown of the weekly slaughtering from each individual meat plant for these periods, thus restricting our analysis and evidence in this area.

4. *Deseasonalisation Premium and Factory Prices:*

- IFA refers to the group submission made at our meeting on April 18, 2000 outlining a comparison of factory prices in December and January for the years 1995-1996, 1997-1998, 1998-1999 and 1999-2000. IFA is alleging that the meat plants manipulated the situation to lower prices in January in 1996, 1997 and 1998 in an anti-competitive manner eroding the value of the slaughter premium to Irish livestock farmers. This allegation is in line with the comments of EU Agriculture Commissioner Franz Fischler in Dublin recently.

5. *Irish cattle Prices vs EU Cattle Prices – Autumn '99:*

- IFA alleges that in the Autumn of 1999 the meat industry engaged in anti-competitive practice and withheld the benefit of market price improvements on both EU and international markets from prices paid to Irish cattle farmers.
- IFA refers to the submission made to the group at our meeting on April 18, 2000 entitled EU Cattle Prices vs Irish Cattle Prices – Autumn '99. This data shows that from October '99 to December '99 cattle prices in Northern Ireland increased by £61/head and cattle prices in Great Britain increased by £54/head. During the same period cattle prices in Ireland remained almost static with an increase of only £5.71/head.

6. *SRM Levy:*

- IFA alleges that through anti-competitive practice the meat industry introduced an SRM levy of £3/head across the board from Monday March 10, 1997. This levy remained in place until September 1999, costing farmers in excess of £13m. during that period. It was removed following negotiations as part of the Beef Task Force.
- IFA refers to the submission to the group of February 2, 2000 including Press Releases and copies of correspondence together with farmer invoices.

7. *Meat Inspection Levy:*

- IFA is alleging that through anti-competitive practice and collusion, the meat factories imposed a new higher meat inspection levy of £5.50/animal with effect from January 10, 2000.
- On January 14, 2000 due to farmer protest and blockades at the meat plants, the IMA reversed this decision and recommend that its members reduce this charge by £1.80/head. The meat inspection levy continues to be collected across the board at a rate of £3.74/animal despite the fact that there is no statutory levy in place.
- IFA refers to the submission made on the 23 February, 2000 together with full details regarding the meat inspection levy including copies of correspondence and invoices from farmers.

8. *The Relationship between Producer Prices and Consumer Prices:*

- IFA refer to copy correspondence presented with our letter of February 18, 2000 entitled Food Prices – Who Profits? This is an IFA report on the trends in farm product prices and consumer food prices from 1995 to 1997, subsequently updated to 1999. This report shows retail prices of food have grown much faster than the corresponding farmer prices. Retail beef prices have declined by only half the decline in producer prices since the BSE crisis in 1996.

9. *Recommendations:*

- IFA strongly maintains that the Department of Agriculture must extend its current reporting of prices paid by each individual named meat plant to cows and heifers on a weekly basis. In addition IFA is requesting that the Department of Agriculture would publish the classification data for each grade of animal on a weekly basis from each of the named meat plants in order that a comparison can be made between actual price and percentage grade.
- As part of the Beef Task Force Monitoring Committee and Market Price reporting, IFA considers it should be compulsory for all meat factories to report market prices weekly under the price model developed by the Beef Task Force Monitoring Committee. In addition, IFA considers that both market prices and

farmer prices reported by meat plants must be verified by an Independent Auditor under the auspices of the Beef Task Force Monitoring Committee.

- In relation to the retail sector, IFA considers it would be appropriate that all retail outlets would display retail meat prices openly and prominently at the point of sale. In addition, IFA considers that recommendations should be made regarding having a standard system of pricing at the retail level.

Should the Independent's group require any further details or clarification regarding any of the above, please do not hesitate to contact me.

Kind regards,

Yours sincerely,

Kevin Kinsella
Director of Livestock

Appendix 5

Competition Authority Submission to Oireachtas Joint Committee on Agriculture, Food and the Marine.

1 March 2000.

Introduction.

Chairman, Deputies and Senators first of all I would like to begin today by introducing ourselves. I am Patrick Massey, this is Isolde Goggin and Declan Purcell and we are the present members of the Authority, this is Ciaran Quigley the Authority Secretary and finally Fergus O'Regan our legal advisor for today. I would like to state at the outset that the Authority welcomes this opportunity to appear before the Committee to make a submission on its investigation into alleged anti-competitive practices in the meat processing industry. With your permission Chairman I propose to make a short presentation to the committee outlining the facts, as far as possible. Following my presentation my colleagues and I will attempt to answer any questions which committee members may wish to put to us. To begin with I will outline the main provisions of the Competition Acts. I then propose to make some general remarks regarding cartel investigations. Following that I will describe the background to the Authority's investigations into allegations of cartel behaviour in the meat industry. However, as I am sure the members of the committee will appreciate, engaging in cartel behaviour can constitute a criminal offence. In addition obviously in the course of a cartel investigation the Authority will receive certain information in confidence and it is important to protect the sources of such information. In addition under the provisions of the 1991 Act it is an offence to disclose any information obtained by virtue of the powers conferred in the Act. Thus while we are anxious to be as helpful as possible here today, I would ask you all to appreciate that there are a number of significant constraints on what we may and may not say.

The Competition Acts.

The main features of the Competition Acts are relatively straightforward. Section 4(1) of the 1991 Act provides that:

'All agreements between undertakings, decisions of associations of undertakings and concerted practices which have as their object or effect the prevention, restriction or distortion of competition are prohibited and void.' Among the classes of agreements listed as coming within this prohibition are those 'which directly or indirectly fix purchase or selling prices'. Section 6 of the Act provides that any person aggrieved by such practices may bring proceedings in the High Court for an injunction, declaration and or damages including exemplary damages. The 1991 Act did not give the Authority any power to investigate alleged breaches of the Acts.

The lack of an effective enforcement regime was remedied by the introduction of the Competition (Amendment) Act, 1996. Section 9 of that Act provided that the Minister could assign one permanent member of the Authority the title of 'Director of Competition Enforcement' and that the Director could investigate alleged breaches of the Acts either on foot of a complaint or on his/her own initiative. Where there is

evidence of such a breach the Authority may bring civil proceedings to obtain an injunction or declaration. The 1996 Act also provided that breaches of Section 4 could constitute criminal offences. Firms found guilty of engaging in such behaviour may be fined up to £3m or 10% of their turnover whichever is greater. Individual managers and directors may also be fined and/or imprisoned. The Act also provides that the Authority and/or an authorised officer of the Authority may investigate any of the criminal offences.

To sum up, the legislation prohibits anti-competitive arrangements including price fixing. Under the 1996 Act, the Director of Enforcement has the power to conduct investigations of alleged breaches and advise the Authority regarding bringing court proceedings. In cases where the Authority believes that a criminal prosecution is justified, a file is submitted to the Director of Public Prosecutions who has sole discretion with regard to bringing criminal prosecutions on indictment. The Authority may bring a summary prosecution in the District Court itself where a maximum fine of £1500 may be imposed.

The Authority's function in the case of alleged cartel behaviour is to investigate and decide whether civil proceedings should be brought or whether the matter should be referred to the DPP. It is for the Courts to decide whether or not firms have engaged in anti-competitive practices. It is not the Authority's function to produce reports of its investigations giving its views as to whether or not any undertaking has breached the provisions of the Acts. Similarly any undertaking alleged to have engaged in anti-competitive behaviour must be presumed innocent until proven guilty. In the event that the Authority concludes that there is no evidence of a breach of the Acts, the complainant is informed by letter and a brief outline of the reasons for the Authority's conclusion are set out in such letters.

The Authority has issued Enforcement Guidelines setting out its priorities and I have a number of copies of these available for the members of the Committee. The Authority has repeatedly stated that investigations of alleged cartel behaviour are its main priority. It has also stated that in the case of alleged cartels it would favour criminal prosecutions. Essentially this is because in the Authority's opinion the evidence indicates that cartels are almost unambiguously harmful. Cartels involve deliberate conspiracies to raise prices to consumers or, as alleged in this instance, reduce them to suppliers, in order to boost the profits of those engaged in the cartel. Such cartels are invariably organised secretly as participants are generally well aware that what they are doing is illegal.

As part of its anti-cartel campaign the Authority has produced a detailed guidance note. This is designed to increase public awareness about the threat posed by cartels in order to encourage more complaints to the Authority. It also describes how investigations are conducted so that complainants will have some idea as to what happens following the making of a complaint. This note is currently with the printers but we have brought some draft copies of this note with us for the members of the committee. The Authority's approach to cartel investigations is based on practices of competition agencies in many other countries.

Proving a cartel exists

The Authority's mandate is to bring cases to court where it finds evidence of a cartel. In some other countries, the competition agency investigates cases, decides on whether or not the law has been breached and imposes fines. This is not the case in Ireland, where the Constitution provides that justice is administered by the courts, in public. Where the Authority is convinced that it has enough evidence to obtain a decision in its favour, it will institute civil proceedings. Where it considers that the case is serious enough, and that the evidence meets the required standard, it will refer a case to the Director of Public Prosecutions with a recommendation that criminal proceedings be brought. The standard of proof for a civil case is "on the balance of probabilities." The standard of proof for a criminal case is "beyond reasonable doubt."

The best possible evidence of a cartel is a witness. This means someone who will not only come forward to the Authority and say that they have been present at meetings between competitors where prices were agreed or markets divided up, but is willing to get into the witness box and swear to this in court. It may be difficult to find a witness who is willing to do this. They may be acquaintances or even friends of other people in the industry and may not want to be perceived as "breaking ranks". They may also fear some sort of retaliation. On the other hand, they may have participated in the cartel to some degree themselves and may therefore be worried about either incriminating themselves or leaving themselves and their company open to civil actions for damages.

Supporting documentary evidence is also important. This type of evidence could include notes of meetings, evidence that companies exchanged price lists, faxes informing each other of forthcoming price rises, etc. The Authority has powers to search premises on foot of a warrant issued by a Judge of the District Court. To get a warrant, it must go before the judge and swear information to the effect that it has reason to believe that there is information on the premises relevant to its investigation.

Because cartels are effectively secret by their nature and given the very serious penalties for engaging in such behaviour, firms participating in such arrangements have obvious incentives to conceal evidence. It is vital to the success of an investigation that participants in a cartel should not be alerted to the existence of an investigation until the Authority has obtained sufficient evidence to enable it to obtain warrants to enter business premises and look for documents and any other evidence of possible cartel practices.

The key feature of the legislation is that it prohibits "agreements, decisions and concerted practices" which have as their object or effect the prevention, restriction or distortion of competition. It is therefore necessary to prove that members of a cartel in some way "got together" to fix prices. Price similarity, or price shadowing, is not in itself conclusive, especially in a market where the prices paid by various companies are well known.

Investigation of Meat Processing.

The Authority first received a number of complaints alleging a cartel in the meat processing industry in late November/early December 1996. A total of five complaints were received from individual farmers, although it appears that there was some co-ordination between the complainants.

At the time of the passage of the 1996 Act it was decided to recruit a number of economists and an additional lawyer specifically for enforcement investigations. None of these staff were in fact recruited until August 1997 more than a year after the passage of the 1996 Act. As a result at the time of the original complaints it was not possible to do more than carry out a very preliminary investigation which involved asking the complainants for any further information they might have. For the most part the complainants were unable to provide any information to substantiate their allegations. Some claimed that individuals had told them the factories operated a cartel. However, they were either unable or unwilling to provide any information as to who had told them this.

One of these complainants subsequently alleged that a certain meat-processing firm had been put under pressure to participate in the alleged cartel and that the owner/manager of the firm would be in a position to confirm this. The complainant stated that he had obtained this information second-hand and he refused to indicate the source of this information. The Director and a member of staff subsequently visited the company concerned on 28th May 1997 and interviewed the named owner/manager. However, this individual flatly denied that any approaches had been made to him to participate in any cartel arrangement and stated that his firm set the prices they paid for cattle independently.

A sixth complaint was received on 10th January 1997. This complainant alleged that individuals at a mart had told him that there was a cartel but he refused to name the individuals concerned.

On 30 April 1997 the private secretary to the Minister for Agriculture wrote to the Authority indicating that the Minister was concerned about alleged price fixing in the meat processing industry and asking the Authority to investigate the matter. I asked the Secretary to reply and point out that the Authority had already received some complaints on this matter and to stress the need to keep the existence of our investigation confidential at this point. However, we received indications that the Minister intended to publicise the matter. I was concerned that this would seriously hinder our investigation. On 1st May 1997 I wrote to the Department of Enterprise and Employment setting out my concerns and suggesting that the Department might advise their colleagues in the Department of Agriculture of our concerns. On 2nd May I wrote to the private secretary of the Minister for Agriculture and outlined my concerns to him.

The Minister nevertheless issued a statement indicating that he was asking the Authority to investigate allegations of a cartel in the meat processing industry a few days later. On 7 May I wrote to the Minister's private secretary indicating my concerns that this had harmed the possibility of a successful outcome to the investigation. Also on 7 May I met with officials of the Department of Agriculture

who outlined the background to this case. They suggested representatives of the IFA who might be able to provide additional information. I subsequently met the Secretary General of the Department of Agriculture and the Principal Officer with responsibilities in this area on 21 May 1997. They indicated that they recognised the problems we had regarding publication of the investigation but stated that the decision had been out of their hands. I discussed with them the sort of statistical information which the Department had regarding beef prices and arranged for them to provide such information to us. I also outlined to them the role of the Authority and indicated that in the case of enforcement issues it was not our function to produce reports. I also indicated that investigations of this kind could be quite lengthy. They asked if any developments were likely before 6th June.

On 7th May 1997 the Authority received a separate complaint from a Teagasc agricultural officer. The Authority sought further information from the Teagasc officer by letter dated 20th May but received no reply.

Following the Minister's announcement I received a telephone call on 20 May 1997 from an individual who claimed to have information that would substantiate allegations of a meat-processing cartel. I agreed to meet this individual at a hotel outside of Dublin. In the course of this meeting the individual indicated that he had not decided whether or not he wished to come forward with information. I was equally concerned not to give information away to someone who was not known to me. I was naturally concerned that such an individual might not be genuine. The individual indicated that he had been involved in the beef industry and had information indicating the existence of a cartel. However, it subsequently became clear that he had been involved with a firm outside of this jurisdiction and that any information he had related to the behaviour of firms outside of this jurisdiction. On that basis I indicated that he would need to address the matter to the relevant authorities as the Competition Authority could not deal with anti-competitive practices in another State. I agreed to provide him with a contact name and telephone number. My understanding is that the individual concerned did provide information to the relevant competition agency. However, I have been informed recently by an officer of that agency that the allegations made have largely proved to be inaccurate, although certain matters are still under investigation.

In August 1997 I instructed one of the newly appointed economists to liaise with officials in the Department of Agriculture and IT staff in the Department of Enterprise, Trade and Employment, in order to obtain detailed information on beef prices. We agreed that it would be preferable to get the information in computer usable form as this would enable him to analyse the relevant data. On 29 July 1997 one of my officers wrote to the Department of Agriculture concerning the length of time it had taken to provide price data to us. On 7th August 1997 the Department of Agriculture replied indicating that there had been problems because of incompatibilities between the two computer systems but they had sent a sample of the data on the 5th of August. Ultimately the difficulties involved in providing the data were overcome and the data requested was furnished later that year.

In addition in May 1997 the Authority also received a number of letters from another individual regarding this case. This individual indicated that he had information relevant to the case but wanted information regarding the Authority's investigation of

the matter. The Authority was unable to provide such information for confidentiality reasons. Eventually after further exchanges I met this individual with other officers from the Authority on 30th April 1998. The individual concerned indicated that he had been involved in the meat processing industry in the 1980s. He alleged that at that time the meat companies engaged in price fixing. However, as all of the events he had knowledge of occurred before the passage of the Competition Acts, it did not amount to evidence of any breach of the legislation.

The Authority approached the Irish Farmers' Association and met with IFA representatives on 22 May 1997 to see whether they could provide any information which might assist in its investigation. The IFA representatives alleged that in their opinion there was a cartel operating in the meat processing industry. They were, however, unable to provide any specific evidence to substantiate their allegations but claimed that it would be obvious from an examination of the price data. At around the same time the Authority had also contacted the IFA regarding allegations of price fixing by the Irish Veterinary Union. In this instance the IFA provided names of various farmers who were prepared to make statements to the Authority. A formal statement was also taken from the General Secretary of the IFA. This ultimately led to the institution of proceedings by the Authority against the IVU. The IVU subsequently gave undertakings to the High Court that it would discontinue certain practices on the 19th of October 1998.

The Authority received a further complaint regarding meat processing on 14th October 1997 from the Mid-West Regional Authority. A letter requesting further information was issued on 8th January 1998 but no reply was received.

Three further letters alleging a cartel in the meat processing industry were received from the same individual, dated 4th November 1998, 12th April 1999 and 26th April 1999. The third letter included an extract from the Irish Farmer's Journal. The author of these letters has submitted a number of complaints alleging various breaches of the Acts in a number of different industries over the past three years.

In mid 1998 I requested a full report from the case officer assigned to the case reviewing all of the evidence to date including the price data provided by the Department of Agriculture. The result of his analysis of the price data was that at certain periods of time there was a strong similarity in the prices paid by the meat plants. I would stress that of itself this does not amount to conclusive evidence. The European Court of Justice has clearly held that price uniformity of itself is not sufficient to establish the existence of a cartel. One would expect to find a strong similarity in prices in highly competitive markets as firms are forced to cut prices to the minimum, as well as in markets where firms are engaged in a cartel. In addition in oligopolistic markets, i.e. markets with very few firms, prices may diverge from competitive levels without any form of overt or tacit collusion between the firms involved. Quite simply in such circumstances there may be a lack of competition because of the structure of the industry. Unless some form of collusion can be established such behaviour is not in breach of the Competition Acts.

The case officer met with the individuals who had made the original complaints on 6th May 1998 in order to establish whether in fact they might be able to provide some further relevant information. This proved not to be the case. In fact it was indicated

that their original letters did not constitute a complaint at all but that they had merely been looking for information on which to base a submission to the Minister for Agriculture.

In August 1999 the case officer responsible for this case resigned. The case was one of a several assigned to a new case officer. I stressed to the new case officer the need to further progress this case and suggested that he should familiarise himself with the background and that we would then seek a further meeting with the IFA to see if they could provide any further information. The officer contacted the IFA on 9th September 1999 and this meeting was subsequently held on 16th September 1999. The IFA representatives were critical of the lack of progress made in the investigation. They also indicated that they felt the matter had been resolved with the establishment by the Minister for Agriculture of the Beef Industry Task Force. The IFA representatives undertook to contact the Authority in the event of there being any further developments. The case officer made a further phone call to the IFA representatives on 8th October 1999.

On 11 January 2000 I instructed the case officer to contact the IFA on foot of newspaper reports that they were about to take action against the meat factories. On 12th January that day I received a phone call from a representative of the IFA indicating that they wished to meet me urgently. I met Mr. Parlon the President of the IFA and one of his officials at around 6:15. Mr. Parlon handed me what he said was an affidavit detailing anti-competitive practices in the meat processing industry. He then indicated that he had to leave immediately but stated that he and his officials would assist us in our investigation. On considering Mr. Parlon's affidavit it was found to consist largely of hearsay and unsubstantiated allegations. I gather that the affidavit was put before the High Court but was rejected as not providing any evidence that the meat factories were engaged in a cartel.

The Authority has since interviewed a number of individual farmers and representatives of certain meat processing firms.

Conclusion.

Before concluding I would just like to make some further comments. The Authority has received a large number of complaints of alleged cartels since July 1996. In that time it has instituted civil proceedings in respect of approximately a dozen cases where it is alleging that firms have engaged in cartels. These included proceedings on foot of a complaint from the ICMSA alleging that the Irish Veterinary Union (IVU) and its members were engaged in price fixing in respect of fees charged to farmers for carrying out compulsory TB tests. The proceedings were settled on 19th October 1998 after the IVU gave undertakings to the court that it would not recommend minimum fees to be charged by its members for carrying out annual testing for TB and Brucellosis and/or for providing clinical veterinary services. Files on three cases have been submitted to the Director of Public Prosecutions, while the Authority has also instituted a summary prosecution in another case over the past 14 months. In this respect I would point out that the Authority has instituted more proceedings against alleged cartels over the past three years than the European Commission. Several other cartel investigations are currently at an advanced stage and further legal proceedings are likely.

The reality of the situation, however, is that cartel investigations require considerable resources and take time. In my view the number of cases which have been brought over the past three years represents a tremendous effort in light of the fact that there were only four investigators to handle all alleged cartel cases. The Authority has repeatedly indicated that further resources are required for such investigations. In particular it has proposed that Gardai be seconded to assist the Authority with such investigations. The Government has already decided that a total of seven Gardai should be assigned to the proposed new office of Company Law Enforcement. However, the Authority has not been provided with the additional resources which it sought and over the past few months most of the staff involved in investigations have resigned, mainly to take up jobs in public or private sector industry.

The number of cartel investigations completed over the last three years represents a considerable achievement given the limited resources available to the Authority and represents a very good return for the limited outlay involved. The potential saving to consumers and the economy as a whole from effective action against cartels is substantial. As I have indicated already our investigations in this and a number of other matters are ongoing. While I would not like to prejudge the outcome of any particular case, as I have already said, further court actions are likely in at least some of these cases.

Appendix 6

Letter to EU Agriculture Commissioner dated March 31, 2000

Mr Franz Fischler

Commissioner for Agriculture & Fisheries
DGVI
European Commission
Rue de la Loi 200
1049 Brussels
Belgium

Friday, 31 March 2000

Dear Commissioner

We are a group set up by the Tanaiste and Minister for Enterprise, Trade and Employment to examine allegations of anti-competitive practice in the beef industry. Our terms of reference are as follows :-

- To examine allegations of anti-competitive practise in the beef industry;
- To establish why there is such a large differential between the producer price and the prevailing consumer price, and
- To make any appropriate recommendations in the matter.

We therefore read with interest your comments in today's Irish Times – copy attached.

We would appreciate if you would let us have the material on which your comments are based and in particular

- (1) evidence of the effects of a formal cartel whether it exists or not
- (2) details of the farm gate price – differential between Irish cattle prices and those existing on continental Europe.

We would appreciate an early reply as we intend completing our work in the next few weeks. We look forward to hearing from you.

Yours sincerely

Kevin Bonner
Chairman

Reply from EU Commissioner dated July 11, 2000

Mr. K. Bonner
Chairman of the
Independent Group to Examine Allegations of
Anti-Competitive Practice in the beef Industry
Colm McCarthy
Professor Seamus Sheehy
22 Lower Leeson Street
Dublin 2

Dear Mr. Bonner

Thank you for your letter of 31 March 2000 in which you are requesting on the one hand material supporting evidence of the effects of a formal cartel in cattle prices whether it exists or not and on the other hand details on the differential between Irish cattle prices and those existing on continental Europe.

To answer your first question, there may indeed be signs of a cartel in the Irish Beef industry. Frequently in recent years offers for intervention buying-in were introduced at the same price (for instance the 25 offers of the 48th and 49th tender or 6 offers out of eleven as regards the 193rd tender). With the granting of the deseasonalisation premium on the 1st of January, a simultaneous reduction of the market price was regularly applied, neutralising the effect of the premium (as was observed at the beginning of 1996, 1997 and 1998). It is also worthwhile mentioning the SRM levy of IR£3 by head which was introduced across the board in the majority of meat factories from Monday March 10th 1997. These facts might point to the existence of a concerted action between meat factories. Nevertheless, the European Commission's competition department (for which my colleague Mario Monti is responsible) consider that the evidence brought forward to date by the Irish Authorities or the Irish beef sector is insufficient to become actively involved by launching its own investigation in parallel to yours.

Leaving aside the controversial question of the existence or not of a cartel on cattle prices, there are other facts that contribute to understanding the traditional lower level of prices in Ireland.

At first sight, it seems clear from the prices published for the beef sector in the EU on a weekly basis that a price differential exists between Ireland and the average price in continental Europe. To give one example, for week 18 of this year (1st week of May), the average price for steers (main Irish production) was 272 EURO/100kg DW and for young bulls (main continental production) 296 EURO/100 kg DW, i.e. 9% higher. Comparison of only steer prices limits the exercise to UK and Ireland. Here however it should be kept in mind when comparing those prices expressed in EURO that the UK market still suffers from several measures taken because of BSE. Furthermore, UK prices for steers are boosted by the strong pound sterling. These prices are communicated to members of the Beef management committee and can be obtained from your Ministry of Agriculture or the relevant professional organisation in your country.

A comparison of prices between Member States can of course only be done taking into account differences in production systems; and it has to be acknowledged that the extensive steer production in Ireland has a different cost factor from the intensive bull production seen on the continent. Furthermore, it produces an end product that is not necessarily presenting the characteristics required by consumers in certain markets.

As you know, your country has the largest self-sufficiency in the European Union with about 90 per cent of the production being exported. However, with the exception of the cattle census of December 1999, the cattle population has since 1990 continued to rise, contributing to the surplus. As a consequence, very often beef plants had to sell Irish beef in third country markets at low prices while knowing that most of the time the prices at home reflect the export contract prices.

I trust that this response covers the issues raised in your request.

Yours sincerely,

Franz Fischler

Appendix 7

Retail Beef Prices, Farm-gate Heifer Prices and Meat Worker Earnings, 1979-99

Table 7A: Retail Beef Prices, Heifer Prices and Meat Worker Earnings(indices)			
Quarter	Retail Beef Prices	Heifer Prices	Meat Worker Earnings
1979Q1 =100	100.00	100.00	100.00
79Q2	106.68	107.93	105.00
79Q3	108.47	95.07	113.89
79Q4	102.60	84.01	120.00
80Q1	104.53	90.51	121.67
80Q2	109.85	98.07	127.78
80Q3	108.71	86.90	132.22
80Q4	108.24	88.94	145.00
81Q1	120.24	110.82	147.22
81Q2	128.13	116.59	160.00
81Q3	129.41	112.84	166.67
81Q4	133.89	115.62	163.33
82Q1	146.24	130.76	167.22
82Q2	151.93	130.79	181.11
82Q3	150.92	120.58	187.22
82Q4	151.24	117.57	199.44
83Q1	169.00	124.43	195.00
83Q2	169.24	130.55	202.78
83Q3	172.58	125.15	200.56
83Q4	172.76	122.28	229.44
84Q1	178.50	134.08	217.22
84Q2	184.96	142.72	224.44
84Q3	180.45	127.36	227.78
84Q4	180.71	125.79	222.22
85Q1	186.84	135.20	218.89
85Q2	187.82	137.48	223.89
85Q3	186.71	125.65	228.89
85Q4	184.69	123.99	230.56
86Q1	186.08	130.44	225.00
86Q2	189.04	134.73	230.00
86Q3	190.21	124.02	224.44
86Q4	186.77	123.85	225.56
87Q1	191.77	133.11	221.67
87Q2	191.49	137.28	229.44
87Q3	191.18	135.19	240.00
87Q4	191.28	134.62	235.00

88Q1	195.25	153.38	235.00
88Q2	203.29	167.48	231.67
88Q3	210.17	165.33	233.33
88Q4	213.89	161.15	236.67
89Q1	220.39	167.18	236.11
89Q2	225.33	173.72	238.33
89Q3	228.38	157.74	237.22
89Q4	223.73	144.86	247.78
90Q1	228.04	146.72	244.44
90Q2	229.18	150.89	249.44
90Q3	225.31	133.98	255.00
90Q4	208.96	132.00	257.78
91Q1	216.55	136.17	255.56
91Q2	220.20	137.04	260.56
91Q3	218.71	131.14	261.67
91Q4	218.07	132.49	267.78
92Q1	220.15	134.78	267.22
92Q2	220.83	137.54	265.56
92Q3	222.65	135.87	277.78
92Q4	219.94	130.22	287.22
93Q1	219.27	142.18	282.22
93Q2	229.62	155.99	278.33
93Q3	233.03	148.08	298.33
93Q4	230.03	143.26	303.33
94Q1	233.25	159.63	296.67
94Q2	240.91	164.27	294.44
94Q3	239.01	149.52	284.44
94Q4	238.28	141.87	304.44
95Q1	240.34	151.43	294.44
95Q2	240.51	157.15	291.11
95Q3	234.27	144.05	300.56
95Q4	233.92	139.49	308.89
96Q1	230.03	145.37	301.11
96Q2	229.80	139.48	294.44
96Q3	221.89	119.44	298.33
96Q4	210.30	115.84	304.44
97Q1	214.36	125.65	313.89
97Q2	213.98	130.01	310.00
97Q3	215.50	124.53	310.00
97Q4	214.60	117.16	328.33
98Q1	209.24	123.02	319.44
98Q2	217.59	127.48	322.78
98Q3	218.18	116.08	329.44
98Q4	207.24	101.24	335.00
99Q1	211.62	107.17	325.00
99Q2	214.02	114.64	336.11
99Q3	214.92	110.08	350.00
99Q4	217.05	107.40	341.67

Table 7B: Retail Beef Prices, Farm-gate Heifer Prices and the Meat Worker Earnings, 1979-1999 (actual)

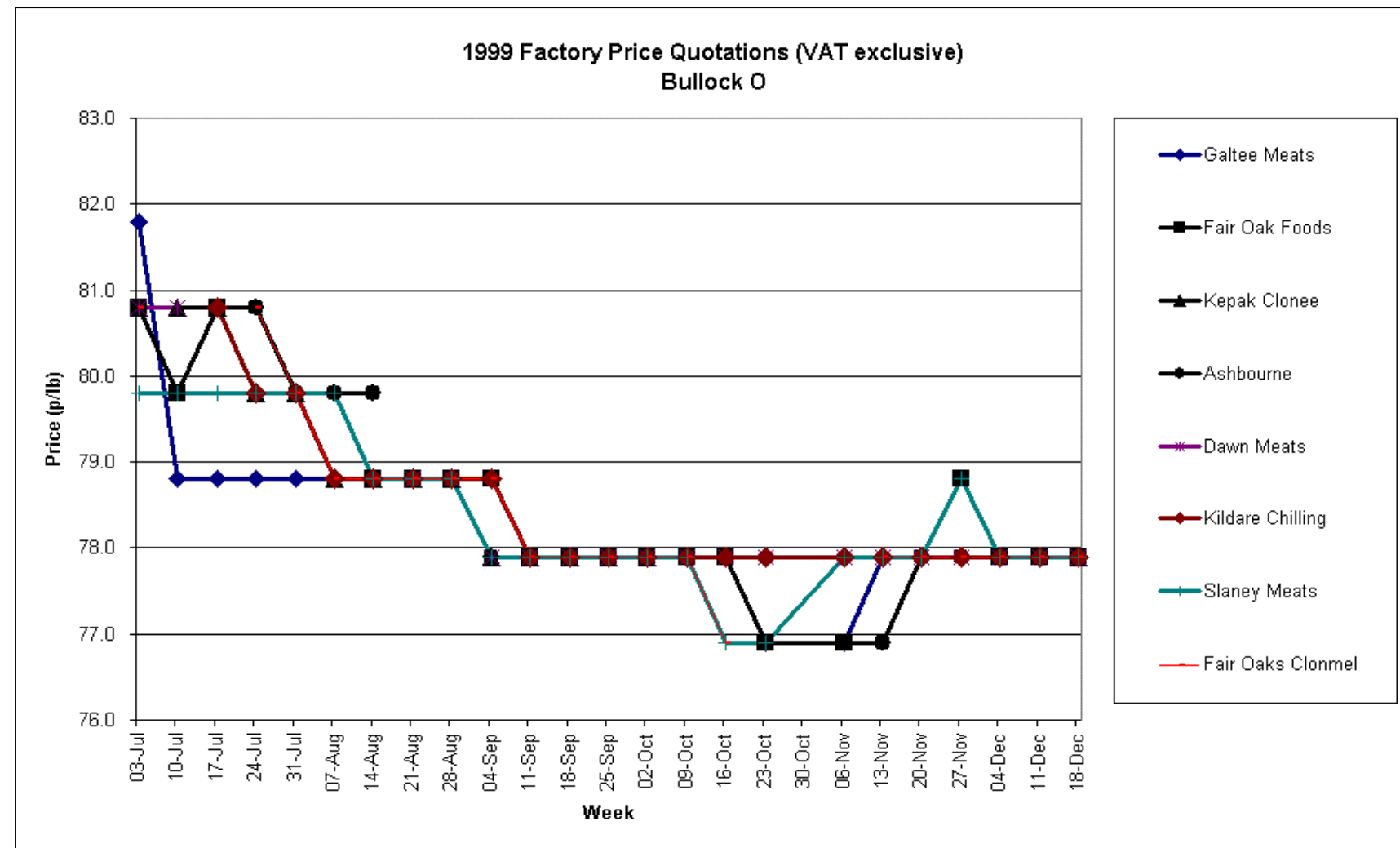
Quarter	Retail Beef Prices IR£ per kg	Heifer Prices IR£ PER 100kg LW	Meat Worker Earnings IR£ per hour
1979Q1	2.726	79.60	1.80
79Q2	2.894	85.91	1.89
79Q3	2.951	75.67	2.05
79Q4	2.786	66.87	2.16
80Q1	2.848	72.05	2.19
80Q2	2.992	78.06	2.30
80Q3	2.949	69.17	2.38
80Q4	2.936	70.80	2.61
81Q1	3.267	88.21	2.65
81Q2	3.483	92.80	2.88
81Q3	3.514	89.81	3.00
81Q4	3.627	92.03	2.94
82Q1	3.972	104.08	3.01
82Q2	4.120	104.11	3.26
82Q3	4.091	95.98	3.37
82Q4	4.096	93.58	3.59
83Q1	4.111	99.04	3.51
83Q2	4.114	103.92	3.65
83Q3	4.190	99.61	3.61
83Q4	4.196	97.33	4.13
84Q1	4.338	106.72	3.91
84Q2	4.495	113.60	4.04
84Q3	4.369	101.38	4.10
84Q4	4.385	100.12	4.00
85Q1	4.537	107.62	3.94
85Q2	4.566	109.43	4.03
85Q3	4.521	100.02	4.12
85Q4	4.475	98.69	4.15
86Q1	4.500	103.83	4.05
86Q2	4.571	107.24	4.14
86Q3	4.598	98.72	4.04
86Q4	4.510	98.58	4.06
87Q1	4.651	105.95	3.99
87Q2	4.639	109.27	4.13
87Q3	4.627	107.61	4.32
87Q4	4.639	107.15	4.23
88Q1	4.745	122.08	4.23
88Q2	4.947	133.31	4.17
88Q3	5.100	131.59	4.20
88Q4	5.196	128.27	4.26
89Q1	5.357	133.07	4.25
89Q2	5.482	138.28	4.29
89Q3	5.557	125.55	4.27
89Q4	5.432	115.30	4.46
90Q1	5.539	116.79	4.40
90Q2	5.577	120.11	4.49
90Q3	5.478	106.64	4.59
90Q4	5.040	105.07	4.64
91Q1	5.253	108.39	4.60

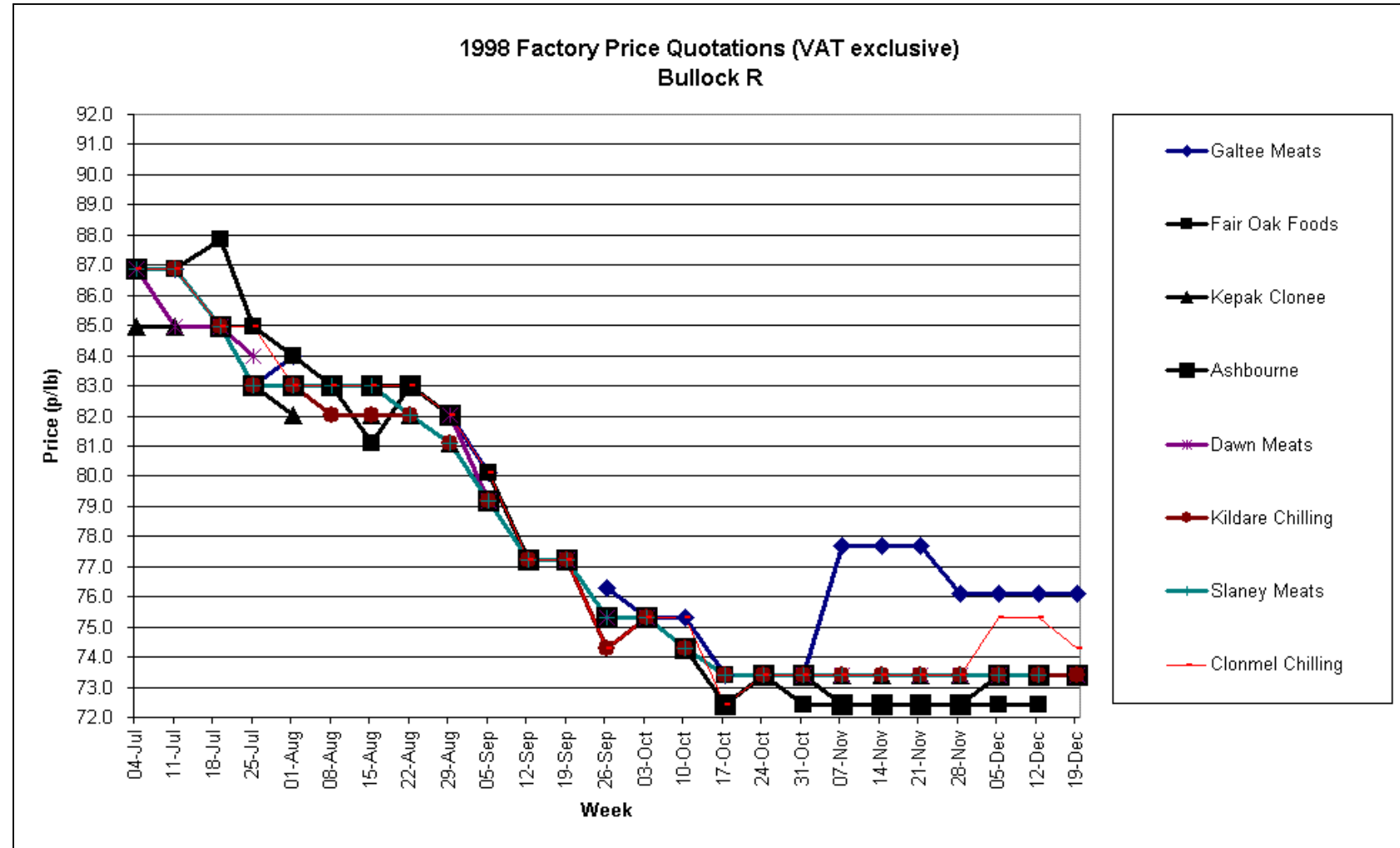
91Q2	5.343	109.08	4.69
91Q3	5.297	104.38	4.71
91Q4	5.300	105.46	4.82
92Q1	5.339	107.28	4.81
92Q2	5.360	109.47	4.78
92Q3	5.393	108.15	5.00
92Q4	5.335	103.65	5.17
93Q1	5.326	113.17	5.08
93Q2	5.586	124.17	5.01
93Q3	5.656	117.86	5.37
93Q4	5.585	114.03	5.46
94Q1	5.673	127.06	5.34
94Q2	5.849	130.76	5.30
94Q3	5.803	119.02	5.12
94Q4	5.782	112.92	5.48
95Q1	5.850	120.53	5.30
95Q2	5.831	125.09	5.24
95Q3	5.683	114.66	5.41
95Q4	5.686	111.03	5.56
96Q1	5.596	115.71	5.42
96Q2	5.569	111.02	5.30
96Q3	5.344	95.07	5.37
96Q4	5.058	92.20	5.48
97Q1	5.175	100.01	5.65
97Q2	5.146	103.48	5.58
97Q3	5.188	99.12	5.58
97Q4	5.192	93.25	5.91
98Q1	5.025	97.92	5.75
98Q2	5.222	101.47	5.81
98Q3	5.252	92.40	5.93
98Q4	4.967	80.58	6.03
99Q1	5.089	85.30	5.85
99Q2	5.139	91.25	6.05
99Q3	5.162	87.62	6.3
99Q4	5.221	85.49	6.15

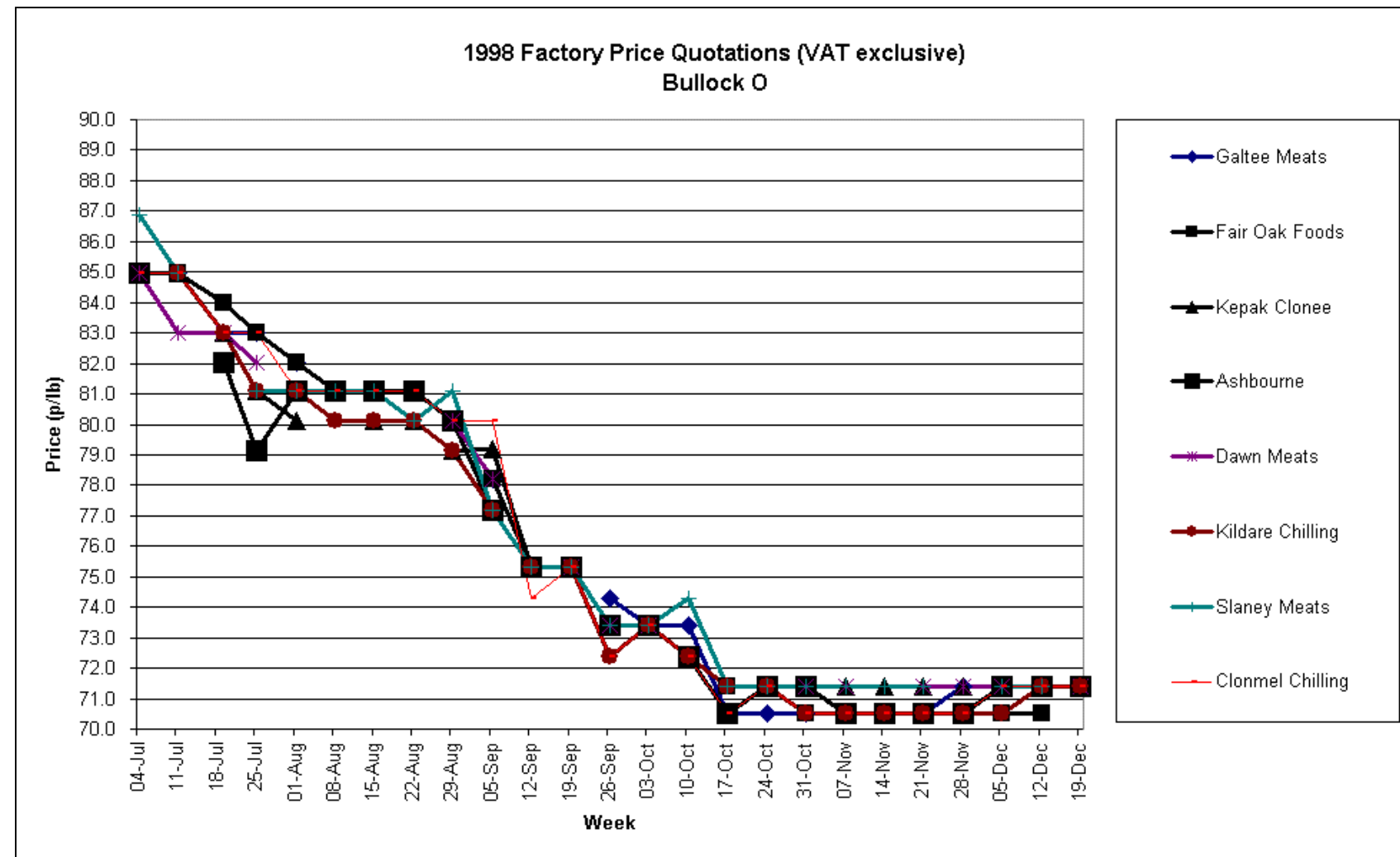
Appendix 8

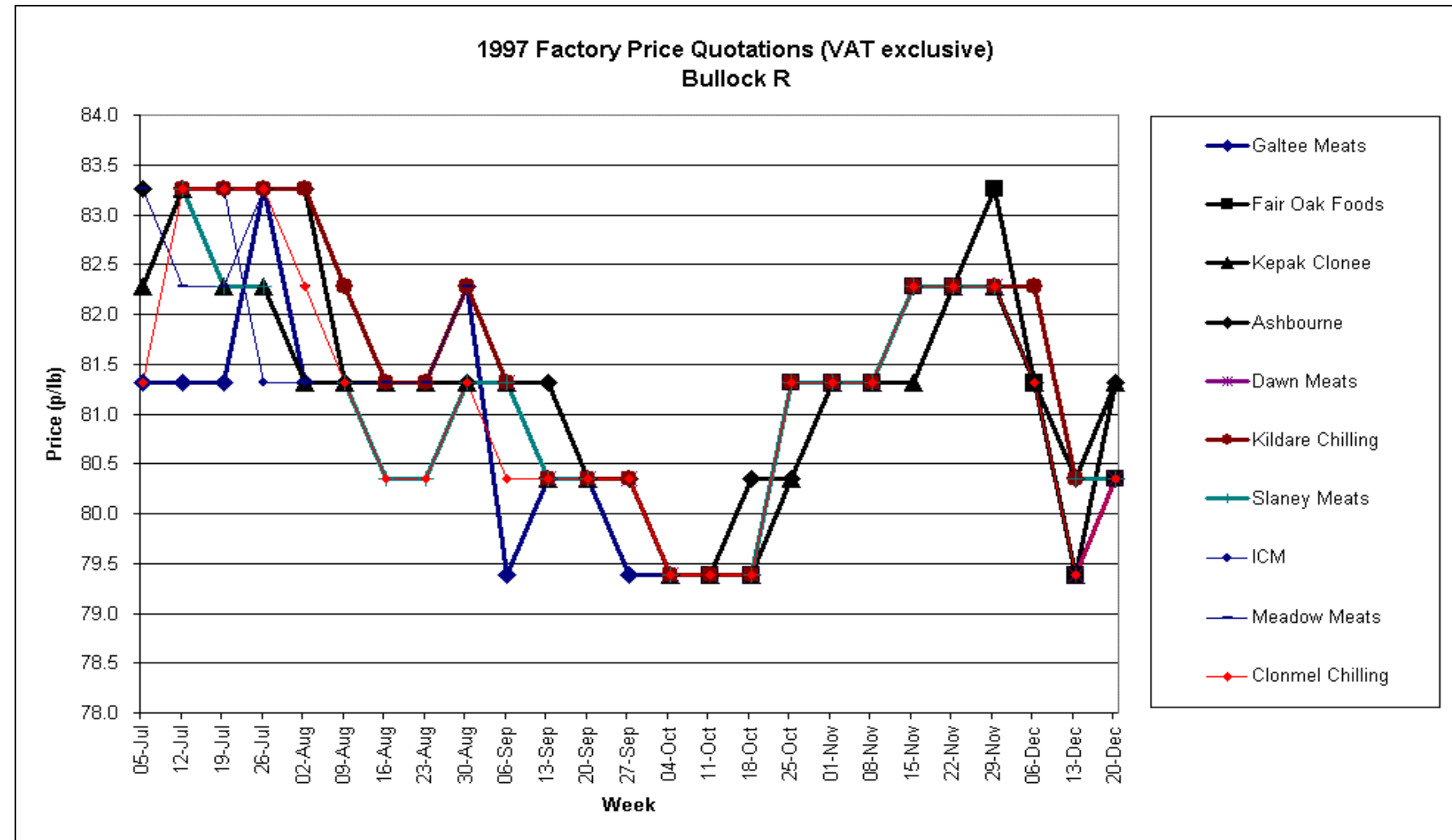
Factory Price Quotations for R and O Bullocks July to December 1996 to 1999

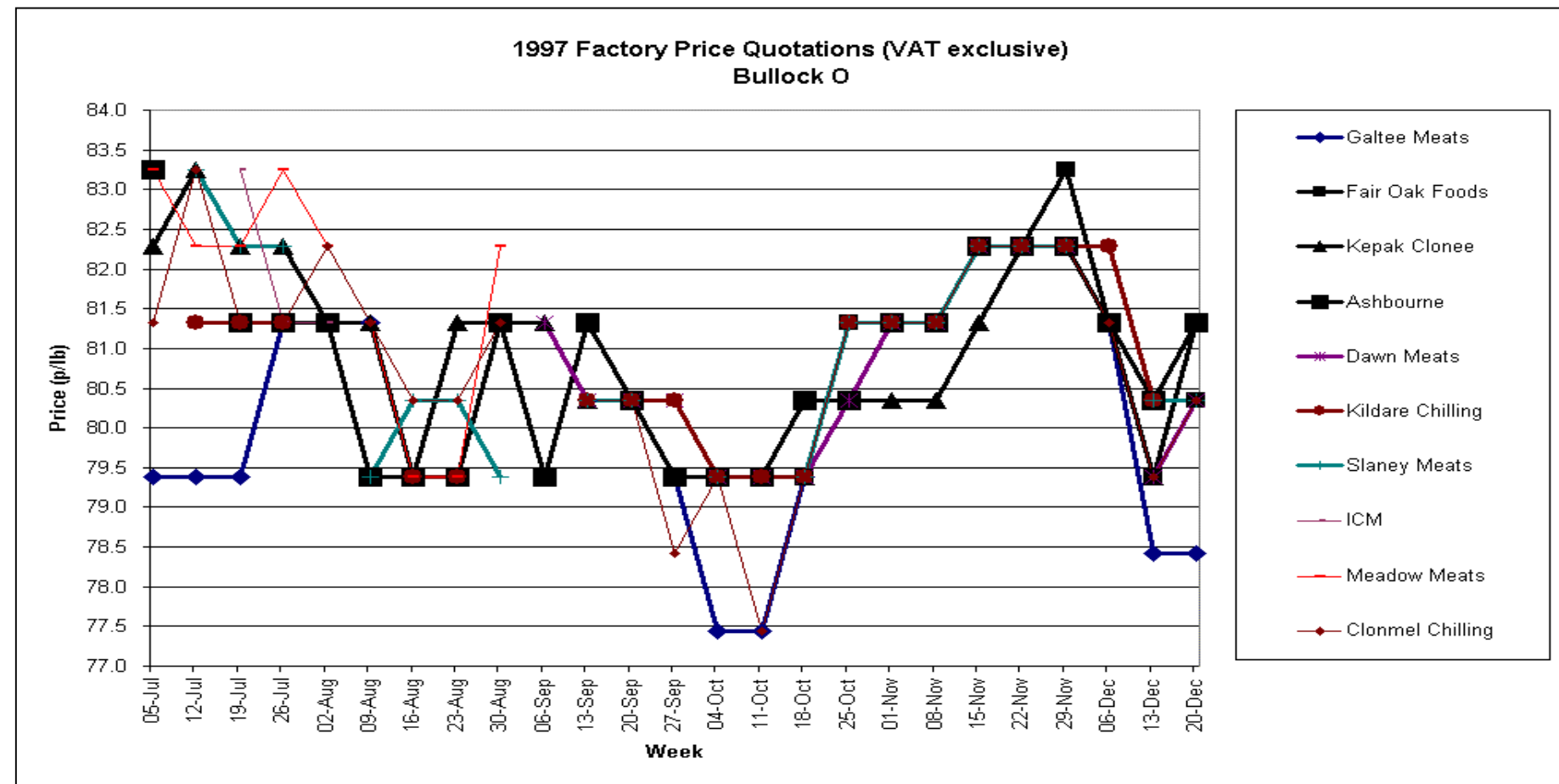
The following figures show the prices quoted in the Irish Farmers' Journal by selected factories for R and O bullocks for each year.

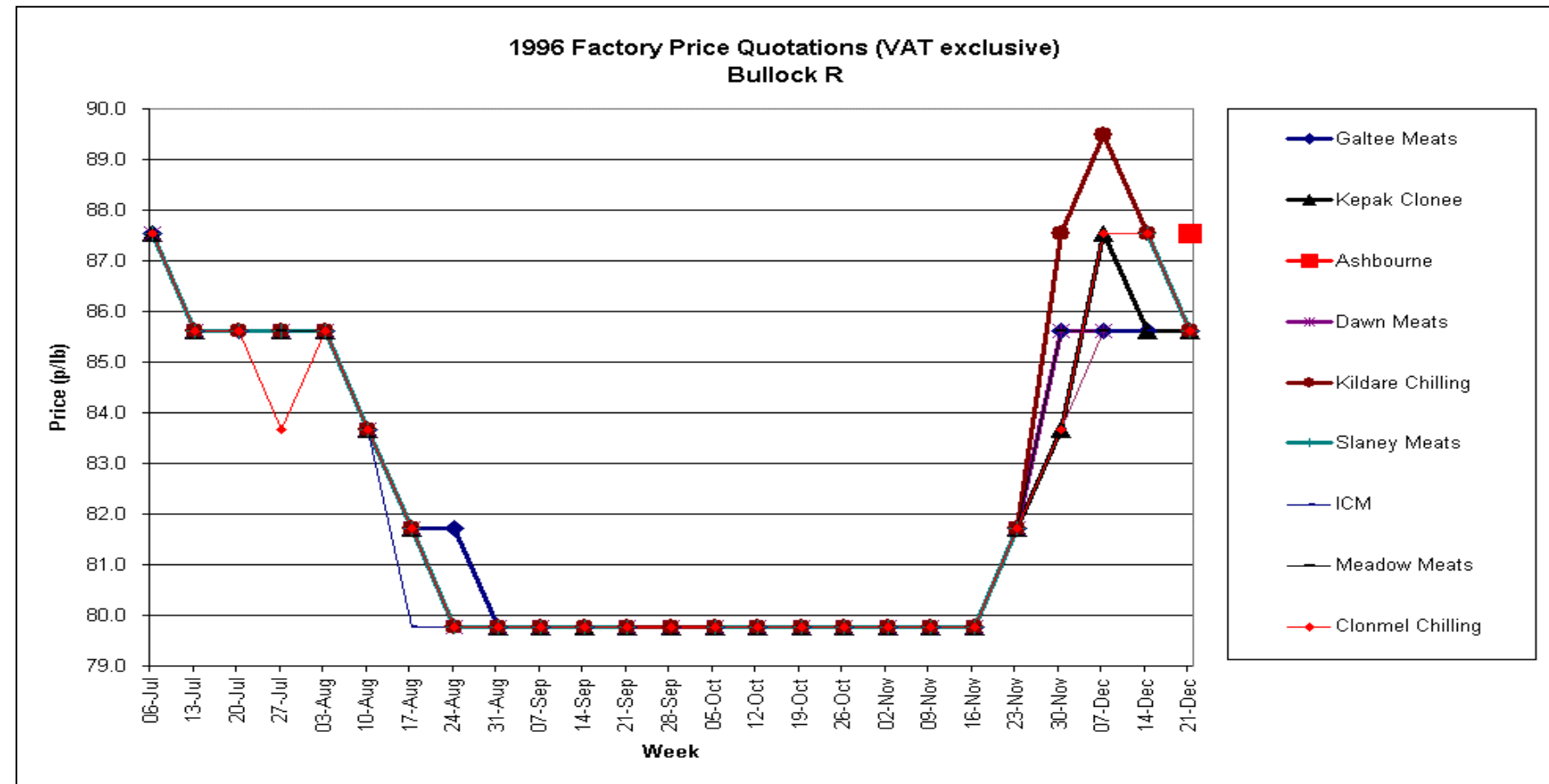


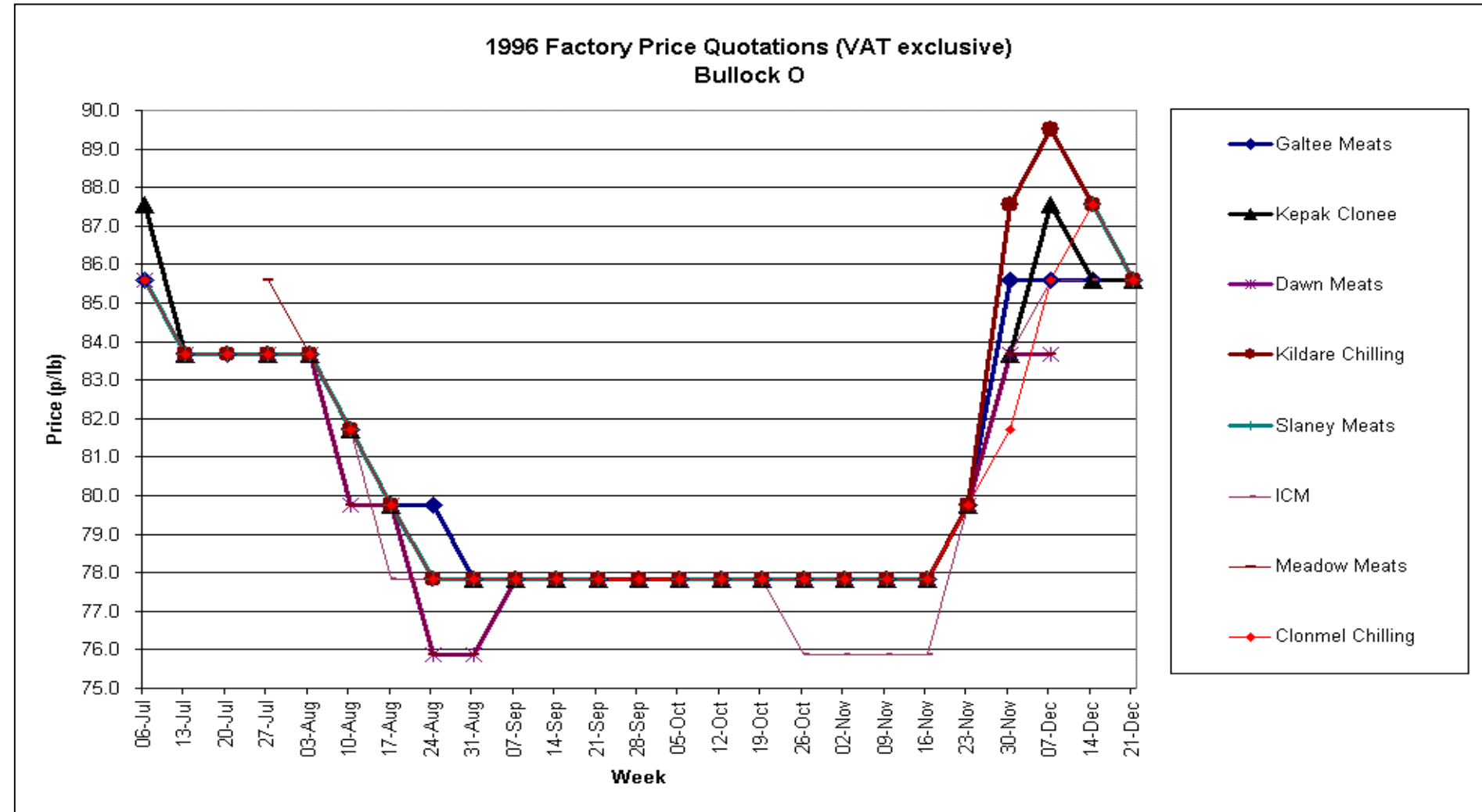












Appendix 9

Breakdown of Annual Kill in Export Approved Factories

Breakdown of Annual Kill in Export Approved Factories - Total				
Factory	Percentage of Kill in Each Year			
	1996 %	1997 %	1998 %	1999 %
A.I.B.P. BANDON	4.1%	3.6%	3.8%	3.2%
A.I.B.P. CAHIR	4.1%	4.0%	4.0%	3.9%
AIBP, Carrigans	2.4%	2.2%		
A.I.B.P. CLONES	3.3%	3.5%	3.8%	3.5%
A.I.B.P. LONGFORD	1.9%	1.8%	1.9%	2.0%
A.I.B.P. NENAGH	3.4%	3.2%	3.6%	3.6%
A.I.B.P. RATHKEALE	2.4%	2.2%	2.5%	2.3%
A.I.B.P. WATERFORD	3.5%	3.5%	3.6%	3.4%
ASHBOURNE MEATS ROSCREA	0.1%	2.7%	3.0%	3.0%
B&F THOMASTOWN	0.5%	0.5%	0.7%	0.7%
BALLON MEATS			0.3%	0.8%
BARRY BROS CONNA				0.6%
BARRY'S KINSALE				0.5%
BERGIN MEATS LTD., URLINGFORD				0.5%
BERGINS BROADFORD CO KILDARE	3.1%	3.1%	3.3%	3.2%
BOOTH'S BEAUPARK NAVAN		0.2%	0.4%	0.8%
D.M.P. CARRIGANS DONEGAL			2.3%	3.2%
DAWN BALLAGHADEREEN				3.0%
DAWN BALLYHAUNIS				3.5%
DAWN MEATS GRANNAGH	4.5%	4.6%	4.2%	4.0%
DAWN MEATS MIDLETON	4.7%	4.2%	3.7%	3.5%
DAWN MEATS RATHDOWNNEY	4.6%	4.6%	3.9%	3.6%
DOYLE'S (JOSEPH) BRAY				0.2%
DUFFY EXPORTS GORT	0.1%	1.1%	1.5%	1.9%
EUROWEST, Sallins	2.6%	2.2%	0.9%	
EUROWEST HACKETSTOWN			0.4%	0.2%
FAIR OAKS BAGENALSTOWN		0.4%	1.6%	1.7%
FAIR OAKS, CLONMEL (formerly Clonmel Chilling)	2.8%	2.7%	2.7%	2.6%
GALTEE FOODS CHARLEVILLE	4.9%	4.8%	4.6%	3.7%
GLYNN'S PATRICKSWELL	0.7%	0.8%	0.6%	0.7%
HENSHAW, Limerick	2.1%	0.4%	0.0%	
HONEY CLOVER NAVAN		0.4%	0.2%	
HONEYCLOVER FRESHFORD	2.1%	2.7%	2.9%	3.0%
IR. CTRY Mts, B'derreen	3.9%	2.7%	2.9%	
IR. CTRY Mts, B'haunis	3.6%	4.6%	3.7%	
I.C.M. CAMOLIN CO WEXFORD				0.1%
I.C.M. NAVAN				0.3%
JENNINGS BALLINROBE		0.5%	0.9%	1.3%
KEPAK ATHLEAGUE	5.5%	5.0%	4.7%	4.3%
KEPAK CLONEE	7.5%	6.9%	6.3%	5.4%
KEPAK WATERGRASSHILL (formerly Agra Meats)	2.4%	3.1%	3.4%	3.0%
KILDARE CHILLING COMPANY	7.4%	6.8%	6.6%	6.4%
LIFFEY MEATS BALLYJAMESDUFF	6.7%	6.1%	6.1%	5.4%
LISSADELL MEATS, SLIGO				0.1%
M.A. MOLLOY & SONS WATERFORD				0.3%
MIDLAND MEATS, KILBEGGAN				0.7%
O'FARRELL MEATS, MIDLETON			0.1%	0.5%
SLANEY MEATS BUNCLODY	4.3%	3.8%	3.5%	3.4%
TARA FARM FOODS, MULLAGH			1.3%	0.3%
TRALEE BEEF & LAMB COMPANY	0.1%	1.0%		2.0%
Western Meats, Dromod	0.0%			
Total	100%	100%	100%	100%
Total kill	1,509,112	1,648,456	1,763,835	1,996,929

Source: Department of Agriculture.

Breakdown of Annual Kill in Export Approved Factories – Bullocks				
	Percentage of Kill in Each Year			
Factory	1,996	1,997	1,998	1,999
A.I.B.P. BANDON	3.0%	2.7%	3.2%	3.2%
A.I.B.P. CAHIR	4.4%	4.5%	4.7%	4.4%
AIBP, Carrigans	2.8%	2.5%	0.0%	0.0%
A.I.B.P. CLONES	4.2%	3.8%	4.1%	3.7%
AIBP, Dublin	0.0%	0.0%	0.0%	0.0%
AIBP, Dundalk	0.0%	0.0%	0.0%	0.0%
A.I.B.P. LONGFORD	1.8%	1.8%	2.0%	2.1%
AIBP, Muinebheag	0.0%	0.0%	0.0%	0.0%
A.I.B.P. NENAGH	3.1%	3.1%	3.7%	3.9%
A.I.B.P. RATHKEALE	2.6%	2.5%	2.6%	2.3%
A.I.B.P. WATERFORD	4.3%	4.6%	4.9%	4.7%
ASHBOURNE MEATS ROSCREA	0.2%	3.3%	4.3%	4.7%
B&F THOMASTOWN	0.0%	0.0%	0.0%	0.0%
BALLON MEATS	0.0%	0.0%	0.0%	0.1%
BARRY BROS CONNA	0.0%	0.0%	0.0%	0.0%
BARRY'S KINSALE	0.0%	0.0%	0.0%	0.2%
BERGIN MEATS LTD., URLINGFORD	0.0%	0.0%	0.0%	0.0%
BERGINS BROADFORD CO KILDARE	1.5%	2.5%	2.3%	2.7%
BOOTH'S BEAUPARK NAVAN	0.0%	0.0%	0.0%	0.3%
D.M.P. CARRIGANS DONEGAL	0.0%	0.0%	2.8%	4.5%
DAWN BALLAGHADEREEN	0.0%	0.0%	0.0%	4.1%
DAWN BALLYHAUNIS	0.0%	0.0%	0.0%	3.1%
DAWN MEATS GRANNAGH	4.4%	4.5%	4.3%	3.8%
DAWN MEATS MIDLETON	3.9%	4.0%	3.9%	3.8%
DAWN MEATS RATHDOWNEY	4.4%	4.4%	3.9%	3.2%
DOYLE'S (JOSEPH) BRAY	0.0%	0.0%	0.0%	0.0%
DUFFY EXPORTS GORT	0.1%	1.1%	1.1%	1.7%
EUROWEST, Sallins	3.7%	2.9%	1.2%	0.0%
EUROWEST HACKETSTOWN	0.0%	0.0%	0.4%	0.2%
FAIR OAKS BAGENALSTOWN	0.0%	0.4%	2.2%	2.5%
FAIR OAKS, CLONMEL (formerly Clonmel Chilling)	3.2%	2.8%	3.0%	3.3%
GALTEE FOODS CHARLEVILLE	4.1%	3.9%	4.1%	3.8%
GLYNN'S PATRICKSWELL	0.2%	0.3%	0.2%	0.2%
GPMP, Drumlish	0.0%	0.0%	0.0%	0.0%
HENSHAW, Limerick	1.7%	0.3%	0.0%	0.0%
HONEY CLOVER NAVAN	0.0%	0.0%	0.0%	0.0%
HONEYCLOVER FRESHFORD	1.9%	2.5%	1.4%	1.6%
IR. CTRY Mts, B'derreen	4.4%	3.2%	4.0%	0.0%
IR. CTRY Mts, B'haunis	4.4%	5.3%	3.6%	0.0%
IR. CTRY Mts, Sligo	0.0%	0.0%	0.0%	0.0%
I.C.M. CAMOLIN CO WEXFORD	0.0%	0.0%	0.0%	0.0%
I.C.M. NAVAN	0.0%	0.0%	0.0%	0.0%
JENNINGS BALLINROBE	0.0%	0.0%	0.0%	0.3%
KEPAK ATHLEAGUE	5.6%	5.3%	4.6%	4.1%
KEPAK CLONEE	6.6%	6.2%	6.0%	5.0%
KEPAK HACKETSTOWN	0.0%	0.0%	0.0%	0.0%
KEPAK WATERGRASSHILL (formerly Agra)	2.2%	3.8%	3.8%	2.9%
KILDARE CHILLING COMPANY	8.5%	7.3%	6.7%	7.5%
LIFFEY MEATS BALLYJAMESDUFF	6.7%	5.7%	5.4%	5.4%
LISSADELL MEATS, SLIGO	0.0%	0.0%	0.0%	0.0%
M.A. MOLLOY & SONS WATERFORD	0.0%	0.0%	0.0%	0.0%
MIDLAND MEATS, KILBEGGAN	0.0%	0.0%	0.0%	0.3%
O'FARRELL MEATS, MIDLETON	0.0%	0.0%	0.0%	0.3%
SLANEY MEATS BUNCLODY	5.2%	4.5%	4.9%	5.2%
TARA FARM FOODS, MULLAGH	0.0%	0.0%	0.0%	0.0%
TRALEE BEEF & LAMB COMPANY	0.7%	0.4%	0.6%	0.9%
Western Meats, Dromod	0.0%	0.0%	0.0%	0.0%
Total	100%	100%	100%	100%
Total kill	836,810	950,196	991,960	1,060,671

Breakdown of Annual Kill in Export Approved Factories – Heifers				
Factory	Percentage of Kill in Each Year			
	1,996	1,997	1,998	1,999
A.I.B.P. BANDON	1.6%	1.4%	1.0%	0.7%
A.I.B.P. CAHIR	5.0%	4.4%	3.4%	3.7%
AIBP, Carrigans	2.3%	3.5%	0.0%	0.0%
A.I.B.P. CLONES	3.1%	4.6%	4.6%	3.9%
AIBP, Dublin	0.0%	0.0%	0.0%	0.0%
AIBP, Dundalk	0.0%	0.0%	0.0%	0.0%
A.I.B.P. LONGFORD	3.1%	2.4%	2.3%	2.2%
AIBP, Muinebheag	0.0%	0.0%	0.0%	0.0%
A.I.B.P. NENAGH	5.5%	3.9%	3.8%	3.0%
A.I.B.P. RATHKEALE	1.3%	0.9%	0.9%	1.7%
A.I.B.P. WATERFORD	2.7%	1.7%	1.4%	1.2%
ASHBOURNE MEATS ROSCREA	0.0%	0.8%	0.4%	0.6%
B&F THOMASTOWN	2.1%	2.5%	2.7%	2.1%
BALLON MEATS	0.0%	0.0%	1.7%	3.1%
BARRY BROS CONNA	0.0%	0.0%	0.0%	2.4%
BARRY'S KINSALE	0.0%	0.0%	0.0%	1.5%
BERGIN MEATS LTD., URLINGFORD	0.0%	0.0%	0.0%	2.2%
BERGINS BROADFORD CO KILDARE	5.6%	4.5%	3.7%	3.3%
BOOTH'S BEAUPARK NAVAN	0.0%	0.8%	1.3%	0.7%
D.M.P. CARRIGANS DONEGAL	0.0%	0.0%	3.5%	2.9%
DAWN BALLAGHADEREEN	0.0%	0.0%	0.0%	3.2%
DAWN BALLYHAUNIS	0.0%	0.0%	0.0%	2.0%
DAWN MEATS GRANNAGH	4.6%	4.8%	3.7%	3.6%
DAWN MEATS MIDLETON	6.0%	4.7%	3.1%	2.2%
DAWN MEATS RATHDOWNEY	7.9%	7.8%	6.3%	5.3%
DOYLE'S (JOSEPH) BRAY	0.0%	0.0%	0.0%	0.7%
DUFFY EXPORTS GORT	0.3%	2.5%	4.1%	4.4%
EUROWEST, Sallins	1.8%	1.9%	0.8%	0.0%
EUROWEST HACKETSTOWN	0.0%	0.0%	0.8%	0.4%
FAIR OAKS BAGENALSTOWN	0.0%	0.4%	0.4%	0.4%
FAIR OAKS, CLONMEL (formerly Clonmel Chilling)	1.0%	1.0%	1.4%	1.0%
GALTEE FOODS CHARLEVILLE	1.7%	1.9%	1.2%	0.6%
GLYNN'S PATRICKSWELL	1.2%	1.6%	1.2%	1.3%
GPMP, Drumlish	0.0%	0.0%	0.0%	0.0%
HENSHAW, Limerick	2.5%	0.8%	0.0%	0.0%
HONEY CLOVER NAVAN	0.0%	0.0%	0.0%	0.0%
HONEYCLOVER FRESHFORD	2.0%	2.2%	4.1%	3.2%
IR. CTRY Mts, B'derreen	3.3%	2.3%	2.7%	0.0%
IR. CTRY Mts, B'haunis	2.3%	3.1%	2.9%	0.0%
IR. CTRY Mts, Sligo	0.0%	0.0%	0.0%	0.0%
I.C.M. CAMOLIN CO WEXFORD	0.0%	0.0%	0.0%	0.0%
I.C.M. NAVAN	0.0%	0.0%	0.0%	0.0%
JENNINGS BALLINROBE	0.0%	2.5%	4.5%	4.8%
KEPAK ATHLEAGUE	8.0%	6.4%	6.9%	5.9%
KEPAK CLONEE	11.9%	10.7%	9.5%	7.9%
KEPAK HACKETSTOWN	0.0%	0.0%	0.0%	0.0%
KEPAK WATERGRASSHILL (formerly Agra)	0.6%	1.5%	2.5%	2.5%
KILDARE CHILLING COMPANY	5.4%	4.4%	4.1%	3.6%
LIFFEY MEATS BALLYJAMESDUFF	2.9%	2.9%	3.4%	2.6%
LISSADELL MEATS, SLIGO	0.0%	0.0%	0.0%	0.3%
M.A. MOLLOY & SONS WATERFORD	0.0%	0.0%	0.0%	1.2%
MIDLAND MEATS, KILBEGGAN	0.0%	0.0%	0.0%	0.8%
O'FARRELL MEATS, MIDLETON	0.0%	0.0%	0.4%	1.3%
SLANEY MEATS BUNCLODY	2.3%	2.1%	1.3%	1.0%
TARA FARM FOODS, MULLAGH	0.0%	0.0%	0.0%	1.3%
TRALEE BEEF & LAMB COMPANY	2.0%	3.2%	3.8%	3.3%
Western Meats, Dromod	0.0%	0.0%	0.0%	0.0%
Total	100%	100%	100%	100%
Total kill	312,561	323,341	352,178	461,492

Breakdown of Annual Kill in Export Approved Factories - Cows				
Factory	Percentage of Kill in Each Year			
	1,996	1,997	1,998	1,999
A.I.B.P. BANDON	9.0%	8.7%	6.2%	6.2%
A.I.B.P. CAHIR	2.5%	2.6%	3.0%	3.0%
AIBP, Carrigans	0.8%	0.1%	0.0%	0.0%
A.I.B.P. CLONES	1.0%	1.4%	2.5%	2.5%
AIBP, Dublin	0.0%	0.0%	0.0%	0.0%
AIBP, Dundalk	0.0%	0.0%	0.0%	0.0%
A.I.B.P. LONGFORD	0.9%	1.2%	1.6%	1.6%
AIBP, Muinebheag	0.0%	0.0%	0.0%	0.0%
A.I.B.P. NENAGH	2.4%	2.5%	3.6%	3.6%
A.I.B.P. RATHKEALE	3.1%	2.8%	2.8%	2.8%
A.I.B.P. WATERFORD	2.2%	2.4%	2.5%	2.5%
ASHBOURNE MEATS ROSCREA	0.0%	3.0%	1.5%	1.5%
B&F THOMASTOWN	0.1%	0.1%	0.9%	0.9%
BALLON MEATS	0.0%	0.0%	0.1%	0.1%
BARRY BROS CONNA	0.0%	0.0%	0.0%	0.0%
BARRY'S KINSALE	0.0%	0.0%	0.0%	0.0%
BERGIN MEATS LTD., URLINGFORD	0.0%	0.0%	0.0%	0.0%
BERGINS BROADFORD CO KILDARE	4.9%	4.1%	4.7%	4.7%
BOOTH'S BEAUPARK NAVAN	0.0%	0.0%	2.2%	2.2%
D.M.P. CARRIGANS DONEGAL	0.0%	0.0%	0.4%	0.4%
DAWN BALLAGHADEREEN	0.0%	0.0%	0.3%	0.3%
DAWN BALLYHAUNIS	0.0%	0.0%	5.6%	5.6%
DAWN MEATS GRANNAGH	4.7%	5.1%	5.4%	5.4%
DAWN MEATS MIDLETON	5.5%	4.1%	4.4%	4.4%
DAWN MEATS RATHDOWNNEY	2.0%	1.8%	2.4%	2.4%
DOYLE'S (JOSEPH) BRAY	0.0%	0.0%	0.0%	0.0%
DUFFY EXPORTS GORT	0.0%	0.0%	0.1%	0.1%
EUROWEST, Sallins	0.8%	0.9%	0.0%	0.0%
EUROWEST HACKETSTOWN	0.0%	0.0%	0.0%	0.0%
FAIR OAKS BAGENALSTOWN	0.0%	0.4%	1.3%	1.3%
FAIR OAKS, CLONMEL (formerly Clonmel Chilling)	3.3%	4.0%	2.9%	2.9%
GALTEE FOODS CHARLEVILLE	9.7%	10.3%	7.0%	7.0%
GLYNN'S PATRICKSWELL	1.0%	1.6%	1.0%	1.0%
GPMP, Drumlish	0.0%	0.0%	0.0%	0.0%
HENSHAW, Limerick	2.7%	0.3%	0.0%	0.0%
HONEY CLOVER NAVAN	0.0%	0.0%	0.0%	0.0%
HONEYCLOVER FRESHFORD	2.9%	3.9%	6.4%	6.4%
IR. CTRY Mts, B'derreen	3.1%	1.7%	0.0%	0.0%
IR. CTRY Mts, B'haunis	2.8%	4.1%	0.0%	0.0%
IR. CTRY Mts, Sligo	0.0%	0.0%	0.0%	0.0%
I.C.M. CAMOLIN CO WEXFORD	0.0%	0.0%	0.0%	0.0%
I.C.M. NAVAN	0.0%	0.0%	0.0%	0.0%
JENNINGS BALLINROBE	0.0%	0.0%	0.0%	0.0%
KEPAK ATHLEAGUE	3.2%	3.2%	3.2%	3.2%
KEPAK CLONEE	5.3%	5.5%	3.1%	3.1%
KEPAK HACKETSTOWN	0.0%	0.0%	0.0%	0.0%
KEPAK WATERGRASSHILL (formerly Agra)	4.5%	3.1%	3.6%	3.6%
KILDARE CHILLING COMPANY	6.6%	6.5%	6.6%	6.6%
LIFFEY MEATS BALLYJAMESDUFF	10.3%	10.6%	8.7%	8.7%
LISSADELL MEATS, SLIGO	0.0%	0.0%	0.1%	0.1%
M.A. MOLLOY & SONS WATERFORD	0.0%	0.0%	0.0%	0.0%
MIDLAND MEATS, KILBEGGAN	0.0%	0.0%	1.8%	1.8%
O'FARRELL MEATS, MIDLETON	0.0%	0.0%	0.1%	0.1%
SLANEY MEATS BUNCLODY	4.1%	3.6%	1.7%	1.7%
TARA FARM FOODS, MULLAGH	0.0%	0.0%	0.0%	0.0%
TRALEE BEEF & LAMB COMPANY	0.7%	0.4%	2.3%	2.3%
Western Meats, Dromod	0.0%	0.0%	0.0%	0.0%
Total	100%	100%	100%	100%
Total kill	323,555	320,595	390,338	415,496

Appendix 10

BDO Simpson Xavier Report

**Profit Margins Achieved by
Irish Beef Processing Factories
1996 -1999**

Submission by the Irish Meat Association

**Prepared by:
BDO Simpson Xavier**

June 2000

Introduction

The Irish Meat Association (IMA), commissioned BDO Simpson Xavier to establish and provide current and independent information regarding gross profit (G.P.) and net profit (N.P) margins, as a percentage of sales, achieved by beef processors in the period 1996 – 1999. BDO Simpson Xavier do not act as auditors to firms in the sector and has no connections with respect to the preparation of financial accounts for the firms involved in this study.

This study has been prepared to assist the Independent Group, established in January 2000, to examine allegations of anti-competitive practice in the beef industry.

Research focused on a review of audited accounts of beef processing companies for the years 1996 –1999. The analysis focused on the slaughter and de-boning activities of processors. A period of at least 48 trading months was considered for each firm reviewed. Therefore, data being considered includes results from part of 1995 and up to January 2000, dependant on the financial year end date of the firm under review.

One feature of the Irish beef industry in the 1990's is the number of company liquidations and ownership changes that have taken place in the past decade. Therefore, the duration under review includes results from a small number of companies which changed structure and ownership in the period.

From our analysis there are two distinct types of firm involved in the beef processing sector. These we term, based on terminology used by the beef producers interviewed, as (1) independent processors and (2) integrated processors.

1. An independent beef processor typically focuses on slaughter and de-boning activity alone.
2. The "integrated" operation is involved in several additional activities, which can include,
 - UK and overseas processing,
 - import / export activity (sometimes involving GATT licensing),
 - mincing and speciality butchering,
 - food product manufacturing (beef burgers etc.),
 - display packaging, and
 - distribution.

Integrated beef processing businesses consistently put forward the case that growth in their sector could not happen without the evolution into these other additional activities, which move the processor closer to the retailer. In fact, the case is strongly made that the slaughter and de-boning activities, conducted by the larger groups, which is the focus of this report, would not be sustainable without the proximity of these operators to the retailer and ultimately beef consumers.

Given the volumes of beef processed by both types of operator, we propose it is worthwhile to look at aggregated Gross Profit and Net Profit margins as a percentage of sales for both types of firm, and an aggregated statistic for the industry in general.

There is some evidence of cyclical changes in G.P. and N.P. margins over the four year period under review. Available supply of beef to factories and subsequent demand for the product is the major contributor to cyclical behaviour. Apart from more usual supply factors, these market forces were adversely affected as a result of the BSE crisis in 1996.

From analysis of un-audited data it is also evident that seasonality impacts margins within the annual cycle. Several periods of over supply and others of scarcity of animals for slaughter are evident from some companies records.

A small number of respondents who were particularly involved in the slaughter of cows as opposed to steers or heifers identified a slightly stronger margin in this aspect of their business.

Most of the companies involved in this research have variable year ends and inconsistent reporting periods, therefore this report looks at the aggregate G.P. and N.P. margins from 1996 – 1999 using aggregated data.

Methodology

The appendix to this report lists the firms who assisted BDO Simpson Xavier in the research. The primary source data for the reported findings was the companies' audited accounts. These were subsequently examined to investigate, particularly, cost of sales headings and line cost items to establish consistency of reporting from the various firms under review.

In order to level the comparisons between firms in the sector, exceptional items, interest on capital expenditure, and any GATT licence incomes detailed in audited accounts have been extracted in all cases where possible.

To further level the comparisons, and to focus on the processing activities at the slaughter and de-boning end of the beef value chain, we have excluded, where possible, any revenues and costs associated with activities further along the value chain. For group companies with activities in the UK, it is more difficult to extract exact amounts for sales and costs, as the operators with UK activities state that their UK business forms an integral part of their overall business. The point was made on several occasions in interviews with processors that Irish factories for these operators would not work as efficiently if the UK operations did not exist. The result of this addition to trading criteria demonstrates integrated firms showing a slightly higher gross and net margin over the independent, or stand alone, operations.

Gross and net margin reporting can vary from firm to firm depending on where costs are allocated in the preparation of trading accounts. To provide a more level comparison the following guidelines were applied:

Gross Margin

- Sales Figures at factories include sales of slaughtered and boned beef typically 90-93% of value, with a credit for Offal and Hide added, typically 7-10% value.
- A trading margin is calculated whereby the cost of cattle and associated costs including commissions are taken into account.

- Gross margin is calculated after direct costs are deducted, consisting of: kill wages, boning wages, loading wages and offal wages. Variable costs such as energy, vet charges and direct storage costs are included and in general, directly related transport, contract expenses (expenses paid to third country clients representatives) and guarantee fees are also deducted in order to calculate gross profits and hence GP margin as a percentage of sales.
- Based on the companies sampled we calculate the overall average gross margin per annum in the beef processing sector to be 7.79% based on the years 1996-1999.

Net Margin

- To calculate net profits and hence net margins as a percentage of sales, all indirect expenses including indirect wages and general expenses reported in audited accounts were deducted from the gross profit figures. In addition, interest on working capital and depreciation charges are included in the deduction to calculate net margins.
- The key exclusions have been: All exceptional items, and interest on capital expenditure.
- The overall net margin for the sector as a whole is calculated as 1.13% based on the years 1996-1999.

Table 1

Break down of costs as a percentage of sales and profit margins – Averaged for the Irish Beef Industry and focused on slaughter and de-boning activities, 1996-1999.

Total Sales Including Offal & H de Credits		100%
Less	Average Cost of Sales	(84%)
:		
	Average Trading Margin	16%
Less	Direct Wages	(4%)
:		
Less	Packaging, Storage, Energy, Vets, Contract Expenses, Boning Charges	(4.21%)
:		
	Gross Profit Margin as % of sales	7.79%
Less	Overheads:- Indirect wages, General Expenses	
:	Interest on Working Capital & Depreciation	(6.66%)
	Net Profit Margin as % of sales	1.13%

Margins for Integrated and Independent Beef Processors 1996-1999

To split out the statistics for independent firms (i.e. slaughter and de-boning alone) the average results over the period under review are:-

- G.P. 5.8% Ranging from a low of 3.5% to a best of 6.6%
- N.P. 0.5% Ranging from a low of -0.3% to a best of 1.86%

The conclusion of this result is that net profits are difficult to attain for some independent firms.

For integrated firms (i.e. those involved in multi-faceted beef processing businesses, where sales and costs for activities other than slaughter and de-boning have been excluded):

- G.P. 8.4% Ranging from a low of 5.6% to a best of 9.5%
- N.P. 1.5% ranging from a low of 0.96% to a best of 1.84%

The conclusion of our research is that the margins being enjoyed in the beef processing sector at the slaughtering and de-boning end of the value chain are similar between integrated and independent firms. Integrated firms can demonstrate healthier margins as economies of scale can be a benefit where direct access to the retail market is more within their own control.

A majority of operators interviewed for this report saw 1999 as an improvement on the previous three years with Gross profit margins typically recovering by 1.5% on 1998 with net margins recovering similarly, and in some firm's cases returning to profit, having incurred losses in a poor 1998.

BDO Simpson Xavier Consulting

16th June, 2000

Appendix – Study Participants

BDO Simpson Xavier wish to thank the following Beef Processing firms who assisted in the research and who opened their financial accounts and provided information to us of a confidential nature.

Slaney Meats International, Enniscorthy and Bunclody, Co Wexford
 Liffey Meats, Ballyjamesduff, Co Cavan, trading as Touleen Ltd
 Moyvalley Meats Limited, Broadford, Co Kildare
 Fair Oak Foods International, Clonmel, Co Tipperary
 Donegal Meat Processors, Co Donegal
 Keypak Group, Clonee, Co Meath
 Dawn Meats Group Limited, Waterford
 Galtee Meats (Dublin) Limited and Galtee Meats (Kilbeggan) Limited
 AIBP Meat Division, Ardee, Co Louth

The following Auditors also assisted our research on behalf of some of the above firms:

Arthur Andersen, IFSC, Dublin 1
 Sheehan Quinn and Co, Dublin
 Ernst and Young, Waterford

. Appendix 11**Letter from Mr. P Lyons, Competition Consultant and former Chairman,
Competition Authority**

Mr. Kevin Bonner
Chairman
Independent Group
22 Lower Leeson Street
Dublin 2

1 February 2000

Dear Kevin,

I am writing in connection with the investigation into allegations of anti-competitive practices in the beef industry. As regards differences between producer and consumer prices, the Group will no doubt refer to the report of the Meat Prices Advisory Body in the mid-1960s, with which Prof. Sheehy was involved.

Little attention appears to have been paid to the recent activities of the IFA in negotiating the price to be paid for cattle to its members by the meat factories. The collective setting of selling prices by competitors, and the organising of boycotts to secure such prices, would appear to be infringements of section 4(1) of the Competition Act, 1991. These arrangements do not seem to have been notified to the Competition Authority, and they would not appear to satisfy the conditions for a licence under section 4(2) of the Act. They are also likely to constitute an infringement of Article 81(1) of the Treaty of Rome, insofar as they affect trade between member states.

Not only are such arrangements now criminal offences under the amending Act of 1996, but the Authority has stated that, in its enforcement activities, it intended to treat agreements directly or indirectly fixing purchase or selling prices as criminal. The Authority has taken court proceedings against the alleged price fixing of this nature by an association of undertakings in the case of the Irish Road Haulage Association and the Irish Veterinary Union, and has referred to the Director of Public Prosecutions alleged price fixing by associations and undertakings in the milk and alcoholic drink sectors. An injunction was also sought by the Authority at an early stage in the proceedings against the IRHA, though the Authority wrongly believed that a boycott of Dublin port by lorry drivers was in connection with a price-fixing operation.

It is suggested that the Group consider an infringement of competition law, and, if so, why no action to stop this infringement was taken by the competition Authority, contrary to its declared policy and responsibility. This matter is further complicated by the fact that the unilateral imposition of purchase prices for cattle by meat factories, either individually or collectively, without negotiation with suppliers, might constitute the abuse of a dominant position, which is prohibited by section 5(1) of the 1991 Act.

Yours sincerely,

Patrick M. Lyons
Competition Consultant

