ANNEX 2

THE FUTURE FOR ABATTOIRS

NOTE BY AGRICULTURAL AND HORTICULTURAL DEVELOPMENT BOARD MEAT SERVICES

The number of abattoirs in Great Britain has been gradually declining for many years, due largely to commercial forces that have steadily changed the structure of the meat industry.

1. 1985 - 1996

In 1985 1000 operational abattoirs (i.e. those making mandatory MLC levy payments) serviced a meat and livestock industry in Great Britain with over 21,000 retail butchers shops. They and similar outlets (i.e. butchery franchises in independent grocers, market stalls, co-operatives etc), accounted for 68% of beef and lamb, and 65% of pork retail sales (source: AGB/TNS data). High street supermarkets (there were very few out of town 'superstores') accounted for around 26% of beef and lamb and 29% of pork retail sales.

At least 800 plants (accounting for less than 10% of total throughput) could be considered as 'artisanal', existing primarily to service a retail butchery outlet. Many of the other butchery outlets were serviced by local medium sized wholesalers (some with abattoirs and some not), and many were serviced by national wholesale meat companies, some of which owned abattoirs but many of which, despite EU tariff barriers, still dealt heavily in imported meat supplies.

The throughput of larger abattoirs gradually increased, particularly as export markets in Europe opened up, although even by 1990/91 only 80 plants were operating to full EU approved standards. Most were larger abattoirs that accounted for 48% of total throughput of cattle, sheep and pigs (source: MLC). Some had benefited from grant aid from EU structural funds to improve their facilities, available from 1976 to the early 1980s as part of the Red Meat Slaughterhouse Industry Scheme.

In the late 1980s and early 1990s a change in the situation facing livestock farmers resulted in a fall in cattle slaughter and a levelling off of sheep and pig slaughter. This led to overcapacity in the industry, a period of overall very low profit margins and low levels of investment, particularly in the smaller and medium sized plants. Capacity in all sizes of plants was maintained by a continued re-cycling of assets (i.e. abattoir closure followed by purchase by a new operator at 'fire sale' prices). Much of the industry struggled on over this period until new legislation required new investment to upgrade facilities or increased operating costs in a way such that in a low profit business in a highly competitive market, they could not be passed onto suppliers or customers.

Such legislation arrived when, in preparation for the EU Single Market on 1 January 1993, there was a harmonisation of meat hygiene standards across the EU, as set out in Council Directive 91/497. This was applied by The Fresh Meat (Hygiene and Inspection) Regulations 1992. Revised and updated in 1995, it brought central licensing for all red meat and poultry slaughterhouses and the introduction of the role of the Official Veterinary Surgeon (OVS) and the Meat Hygiene Service (MHS) in the control of abattoir activities.

Many plants decided to close or put the facilities up for sale rather than invest. In 1983/84 there had been 1,040 operational plants. In 1993/94 there were 543 operational red meat abattoirs, slaughtering 2.4 million cattle, 18 million sheep and 13.6 million pigs (about 7 million EU livestock units - ELUs).

Many closures were of small/medium sized plants owned by butchers and smaller meat companies but there was also a great deal of merger activity among larger companies, who took the opportunity to rationalise older plants they had picked up through ‘fire sale’ purchases, some of which had been built by local authorities as municipal abattoirs in the 1930s to 1950s.

Even after the impact of the new regulations, overcapacity in the industry was still seen as a problem, particularly among the larger abattoirs, so much so that the MLC proposed a levy funded rationalisation scheme to reduce it. This scheme was shelved in 1996 with the onset of the BSE crisis, which had a lingering impact on the structure of the industry.

2. 1997 - 2007

The structure of the industry continued to change. The number of retail butchers fell below 6800 and in 2007 they accounted for only 10, 14 and 11% of all beef, lamb and pork retail sales. The 14 large multiple retailers control over 80% of the GB household sales of meat at retail (source: TNS). Most have rationalised their meat supply chains and their buyer power has ‘forced’ many of the large abattoir companies which supply them to do so through dedicated plants.

Abattoir profitability has come under even greater pressure than in previous years from a combination of lower fifth quarter returns, higher costs of by-product disposal and the sourcing policies of the multiple retailers that have used their market power to control margins.

The abattoir sector has become more concentrated. In 2006 the 10 largest companies slaughtering cattle, sheep and pigs respectively, accounted for 57%, 53% and 75% of total slaughterings for each of those species. By 2006 the number of operational abattoirs had fallen to 285, slaughtering about 5.3 million ELU, an average closure rate of about 21 plants a year.

Under the EU Food Hygiene Regulations introduced from January 2006, all abattoirs (and meat cutting facilities) are being re-approved by FSA. Until they are visited all plants that have a license under the old regulations can continue to operate. After the visit abattoirs are either given ‘full approval’ or ‘conditional approval’ to continue. Conditional approval implies that the abattoir needs to address either some structural or operational issues within a set period if it wants to get ‘full’ approval to continue to operate.

3. The present

There are ongoing discussions about MHS costs and efficiency. The likelihood is that these will increase when the present government subsidy is withdrawn. The potential impact on the industry will differ according to the nature and size of the abattoir.

Recent MLC work has used the following size ranges to define five size ranges of abattoirs, these use the EU definition of livestock units, which in its simplest form is *ELU = 1 cattle beast = 2 calves = 5 pigs = 10 sheep*:

Very large	> Over 100,000 ELU a year
Large	30,000 to 100,000 ELU a year
Medium	5000 to 30,000 ELU a year
Small	1000 to 5000 ELU a year
Very Small	< 1000 ELU a year

On this basis the table below shows the make up of the industry in 2006/07:

GB: RED MEAT ABATTOIRS OPERATING IN 2006/07 (ELU)

Size Group ELU	Abattoir Numbers	Total Throughput ELU	Average Throughput ELU	Throughput Share %
Very small (< 1K)	96	31,594	329	0.6
Small (1-5K)	49	118,554	2,419	2.2
Medium (5-30K)	82	1,046,285	12,760	19.9
Large (30-100K)	47	2,646,311	56,304	50.2
Very large (> 100K)	11	1,426,784	129,708	27.1
Total	285	5,269,528	18,490	100.0

Source: MLC data on abattoirs in operation during the calendar year

ELU = 1 cattle beast = 5 pigs = 10 sheep

As of April 2008 there were 290 red meat abattoirs (recorded on the Meat Plant Industry Database - MPID). The industry structure is thought to be very similar to that above (new information for 2007 will be available in June 2008).

As in the mid-1980s, the majority of the very small and small plants can be considered as 'artisanal' plants that exist primarily to service a retail butchery outlet. A main difference is that many of these smaller plants are increasingly being asked to provide local service slaughter facilities to farmers who have become involved in the direct sale of meat (e.g. from farm shops, market stalls/farmers markets and by post).

Many medium sized abattoirs not directly linked to the large supermarkets, are also undertaking more service slaughter, not only for farmers and a reducing number of retail butchers but also for larger abattoirs supplying supermarkets who are reluctant to expand their slaughtering operations in the light of the uncertainties in the livestock farming sector (investment has been on the cutting/ storage/packing and added value side of the business).

Such business has in part come about through the willingness of the supermarkets to accept 'lighter' quality assurance standards (e.g. through the ABM scheme) from smaller scale suppliers than those such as the British Retail Consortium standards required of the large suppliers. In the future the smaller abattoirs may benefit more from this, if the supermarkets interest in stocking differentiated premium products of a more local origin continues to develop.

There has also been a growth in the number of large specialist sheep abattoirs serving the ethnic 'halal' domestic and export trade. In 2006 there were 13 such companies that were not servicing the large supermarkets but still accounted for 26% of sheep slaughterings (source: MLC report), all of which are still operational in 2008.

4. Driving Forces for Change

An MLC report on the abattoir sector prepared in 1998 (after the lingering effects of the BSE crisis, when there were still over 420 abattoirs), predicted that by 2005 there could be;

- A top tier of 40 to 50 large integrated abattoir operations (i.e. with slaughter/cutting and packing activities) controlled by 15 to 20 companies serving an EU market.
- A second tier of 50 medium to large independent more domestically orientated plants.
- 150 or so 'artisanal ' abattoirs

This prediction is not far from the 2006/07 situation, when there was a top tier of 28 companies with 52 abattoirs and 145 'artisanal' abattoirs. A few more of the second tier of medium to large abattoirs survived than expected due in part to the new opportunities offered by undertaking more 'service slaughter' and in the sheep sector in particular servicing the 'halal' and export trade.

This report also predicted that the commercial forces instigating this change could generate even more radical re-structuring:

1. **Legislative standards** – acting as a 'final straw'; but with an added threat of an increase in MHS costs.

2. **The customer base** – the concentration of retail sales in the hands of a small number of companies. Although growing interest in more local product (with worries about food miles and food security) will also create opportunities, the search for customers for abattoirs becomes more intense. The rise in importance of a few catering suppliers has continued and if a recession bites and catering demand falls, this sector could become even more competitive. The smaller/medium sized abattoir wholesalers may benefit from the increasing interest in the public part of the food service sector (e.g. schools, hospitals) to source local supplies, but the evidence so far is that this part of the catering sector will continue to be driven by the need for low cost supplies that favour the imported product. In 1998 it was predicted that a re-emergence of the export market would help some (after BSE). This still remains the case (after FMD) but in the eyes of many the market remains a bit of a 'Cinderella'.

3. **Customer assurance** – the pressure to maintain consumer confidence - seen as a growing threat in 1998 with the need for greater traceability, remains a threat today as the abattoirs realise that they still have to better secure their supply bases (as in 1998) but now particularly in the beef and sheep sectors have to cope with Food Chain Information. as required by the 2004 Food Hygiene Regulations.

   Although the view in 1998 that this need for traceability would lead to greater co-operation or the development of large 'farmer controlled' integrated companies, this has so far failed to materialise (indeed many schemes of this nature that were set up are history). In their place larger privately owned abattoir companies have set up their own loose 'producer clubs', while the medium abattoirs have continued to prefer to base their businesses on the 'trading' and not 'supply chain' principles.

4. **Product format** – the 1998 report saw a market that was rapidly developing from one where abattoirs sell traditional fresh cuts of meat to the traditional wholesale and retail sectors (for them to break down further to sell to consumers), towards one where abattoirs sell prepared and often retail packed meat as food market ingredients direct to large retailers and catering suppliers. The large abattoir sector has developed in this way and today many small/medium plants also need access to cutting, packing and basic meat preparation facilities than was the case in 1998. Such added value development comes with a hefty price tag in the need for investment and this has increasingly come from other countries.

5. **Future supplies** – the 1998 report envisaged drivers to future livestock supplies coming from WTO talks, EU enlargement, UK adoption of the Single Currency and CAP reform. It predicted that cattle and sheep production would continue to fall (indicating that overcapacity in the industry would remain a problem) but that pig production could rise but be subject to extreme cyclical movements.

   While Britain has not given up the pound, all the other factors continue to be real threats to the industry. Pig numbers have fallen dramatically and the expectation is that following CAP reform (conducted partly to come into line with WTO requirements), cattle and sheep numbers will decline. The problem of falling livestock supplies will be most acute for large abattoirs which can only be run profitably at certain levels of throughput.

   The big question is the extent to which a fall in livestock numbers (that would be expected to result in an increase in livestock prices) can be matched by an increase in the prices that consumers are prepared to pay for meat. If this does not happen (or not in the same proportions) then the margins faced by all sizes of abattoirs will be squeezed, hard, and low profitability which has been a cyclical scourge for the industry will continue to bite into the structure of the sector.

   Given energy market expectations, greater environmental controls, and the pressure on enforcement costs, relief from falling costs looks unlikely. Similarly unless major advances can be made in reducing the cost of by product disposal (e.g. by returning material derived from mammalian offal back into a material with value in the animal food chain), or increasing returns from e.g. sales of edible by products, hides and skins and edible co-products, the abattoir sector will continue to see this whole area as a 'cost sink'.

5. Future Numbers of Abattoirs

Given the above forces a gradual decline in abattoir numbers looks likely to continue. There are few if any new large plants being built (one is being refurbished). The cost of building is prohibitive for many (even a small/medium plant with adequate chill rooms to mature meat and cut and prepare can cost £1.5m plus – source MLC Consulting). Some existing large companies are continuing to invest in chillers and cutting facilities but hardly any in slaughter lines. There are proposals for replacement plants, mainly of the small/medium multi-species variety, mainly where, due to actual or impending closure, there is a local void in the availability of such as service slaughter. Many of these are being put forward by consortiums of farmers and sometimes with 'old meat industry' interests on board. But the forces for rationalisation and closure look likely to swamp these new builds, ownership will change, but more abattoirs will close than will open.

The scenario for 2010- 2015 could therefore be one with 200 - 220 abattoirs where:

- **A top tier of 40 to 50** large integrated operations controlled by 15 to 20 companies still looks possible.
- **A second tier of 60 to 70** medium/large independent abattoirs with a significant group looking to service the export/ethnic trade for sheep.
- **100 or so 'artisanal' abattoirs** with a better geographical spread to cater for local niche needs.

CM Palmer
AHDB Consulting
April 2008