



SHEEP INDUSTRY DEVELOPMENT STRATEGY

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SHEEP INDUSTRY DEVELOPMENT STRATEGY

INTRODUCTION:

Irish farming has entered a new era under the new decoupled regime. Farmers in this country now have the opportunity to farm more freely, which for the sheep sector presents both a threat and an opportunity. Therefore the time is opportune to formulate a new strategy for the sector and to assist the various players in the sector in making decisions and plans based on the best possible understanding of the new environment.

Mindful of the changing context and emerging challenges Meat Industry Ireland, supported by Enterprise Ireland funded the establishment of the Sheep Industry Development Strategy Group. The objective of this study, which has the involvement of all the stakeholders, is to devise a blueprint for the sector, which will help it to position itself to compete in the changed environment.

The blueprint comprises 37 recommendations. The challenges, which confront the sector, are serious and unprecedented. However there is reason to be positive about the future provided a series of strategic initiatives are undertaken.

IMPLEMENTATION:

Responsibility for implementing these initiatives falls on all elements of the industry. A process is being put in place to ensure a seamless transition to implementation phase. This will entail assigning responsibility for the various recommendations and pursuing a programme of implementation over a six month period. It is essential that the various stakeholders adopt a proactive approach in regard to the relevant recommendations.

TERMS OF REFERENCE:

PROPOSAL

A consensus has been formed in the Irish sheep-meat sector that the industry requires a comprehensive development plan to move forward. Enterprise Ireland is acting as a catalyst in this and will coordinate the preparation of the plan for the industry. The focus of the Project will be around lamb production and processing in Ireland and will be developed with the full co-operation and involvement of the Irish sheep farming, lamb processing and state organisations.

The goal is to facilitate the development of a more profitable sheep-meat sector in Ireland covering the lamb production, lamb processing and marketing sectors of the industry. Specifically the development plan will define real development options in terms of what is the optimum position for the Irish Lamb Industry measured against best international practices. The plan will be used as a blue print to help bring focus to each major step (farm to fork) of lamb commercialisation in Ireland.

OBJECTIVES

The specific objectives of the Project are to:

1. review the current position of the industry in an international context;
2. identify the options for the ongoing development of the industry;
3. define key strategic goals;
4. develop a strategic plan for the industry;
5. develop an action plan for the industry;
6. act as a catalyst for the industry in implementing the plan.

SCOPE

The Project will entail the examination of the current status of the Irish Lamb Industry and its key components including lamb production, processing, and marketing, along with the economic and policy environments, with a view to preparing an agreed industry development strategy covering the short to medium term of 2006 to 2010.

The Project will examine the fundamental competitiveness of this industry across the above areas, and recommend initiatives to enhance competitiveness, increase profitability and drive growth by way of matching best international practice across each of the component sectors.

Initiatives for development of the industry will be identified and cost benefit analyses prepared and presented. The intention is that the output of these initiatives will form the basis of a major shift towards international competitiveness for the Irish lamb sector.

MEMBERS OF STEERING GROUP

| | |
|--|--------------------------|
| Chairman | John Malone |
| Enterprise Ireland | Derek Breen |
| Enterprise Ireland | Peter Jackson |
| Enterprise Ireland | Michelle Purcell |
| Dawn Country Meats | Patrick Walsh |
| Irish Country Meats | Joe Hyland |
| Kepak Group | Bertie Mannion |
| Kildare Chilling Co. | Seamus Finucane |
| Meat Industry Ireland | Cormac Healy |
| Bord Bia | Michael Deely |
| Bord Bia | Jim O'Toole |
| Dept for Agriculture & Food | Luke Mulligan |
| Dept for Agriculture & Food | Ignatius Byrne |
| Irish Farmers Association | Henry Burns |
| Irish Farmers Association | Kevin Kinsella |
| Irish Cattle & Sheep Farmers' Association | Mervyn Sunderland |
| Irish Cattle & Sheep Farmers' Association | Eddie Punch |
| Teagasc | Bernard Smyth |
| Teagasc | Seamus Hanrahan |

The input and commitment of the members of the steering group was invaluable. Various individuals and groups provided assistance to the process, which is greatly appreciated. Michelle Purcell provided very efficient back-up support.

RECOMMENDATIONS:

PRODUCTION

Efficiency and productivity at farm level as the means to better profitability are critical for the future of the sector.

1. The industry should agree a specification as regards the ideal lamb for our best market outlets. Appropriate bonus and penalties should centre on that specification as part of a price structure in order to give proper market signals on a consistent basis. As a result producers should deliver a better specification of product over a wider period. Discussions should be held between producers and processors to agree an appropriate framework.
2. As part of that process, price supply contracts with producers may have a role. The best opportunities for production planning would seem to exist in the early lamb category and possibly in the late season.
3. It is accepted that the ideal quality is in the range 18.5 to 21 kgs. It is recognised that meeting this target will take some time. Therefore the following specifications are recommended as a method of achieving the desired goal.

| Recommended Carcase Specifications | | |
|---|------------------|------------|
| Carcase Weight | April – May | 17 – 19 kg |
| | June – July | 17 – 20 kg |
| | August September | 17 – 21 kg |
| | October – March | 18 – 22 kg |
| EUROP Grade | U/R 3 | |

Note: Carcase weights up to 22 kg are not desirable in the marketplace and weights above 20kg are included in the table above on a provisional basis to allow breeding programmes and production practices time to adjust.

4. Priority should be given to achieving an improvement in sheep production through better breeding. A robust breeding programme should be put in place with clear objectives and based on market signals. There is a need for better commitment by breeders than is presently the case and greater use of performance data by commercial producers.
5. The focus should be on breeding for growth rate and prolificacy. Targets should be set in regard to output per ewe and per hectare and should be updated on a regular basis. An output of at least 1.5 lambs sold/ewe to the ram compared with the current figure of 1.3 is a reasonable objective. Consideration should be given to the inclusion of other traits in the breeding programme e.g. foot-rot and parasite resistance. The service should be extended to non-registered flocks interested in genetic improvement.

6. ICBF should be involved in the development of breeding programmes, data capture and genetic evaluation and should take over the Sheep Breed Improvement Programme with immediate effect. The data currently available under the existing programme as well as initiatives being undertaken by certain breed societies in regard to data capture should be the starting point. It is accepted that adequate funding and resources should be provided to ICBF to undertake this task and all stakeholders should be involved. The additional work should complement and not undermine its existing role.
7. The Rural Environment Protection Scheme (REPS) is an extremely important measure for sheep farmers. Therefore an attractive REPS is essential to underpin the future of the sector in the period ahead.
8. Labour saving on the farm should be encouraged through grant assistance for handling facilities, especially mobile facilities. High standard fencing should also be encouraged through grant assistance. Opportunities to assist the sector under the Rural Development Plan should be exploited.
9. Proper presentation of lambs for slaughter should be achieved through the imposition of penalties for unsuitable animals. Clear standards especially in regard to cleanliness should be set. Castration before August and tail docking should be standard features.
10. Producer groups have a useful role and in some cases have been very successful. There should be a clear understanding on both sides as to their exact role and function. There is evidence of some confusion as to their exact role.
11. The role of livestock marts in the sheep sector has changed and they need to adjust to the new situation. There may be scope for livestock marts in assembling volumes of quality supplies and this should be pursued.
12. Formulating an effective and appropriate policy on sheep scrapie has proved difficult. However the industry must remain vigilant and have the necessary programmes in place to ensure consumer confidence. Therefore the voluntary programme on genotyping against scrapie should be supported.
13. A programme should be put in place to assist hill sheep production, which is essential to sustaining the mountain environment. This should involve pilot projects to develop better and new outlets for light lamb, as well as breeding programmes to protect the future of the mountain flock.
14. Maintaining the national flock at least at its current level is fundamental. Returns to producers are key to meeting that objective and achieving price returns closer to EU levels is a priority. The target should be to achieve 95% of the EU average in a five year period.

RESEARCH/ADVICE

Effective research and advisory programmes are critical to improving performance across the sector.

15. Teagasc should review its approach to the sector and formulate an integrated package for the sector. While it is accepted that Teagasc has needed to tailor its approach in the context of the changing environment a more clearly defined package of measures for the sector is nonetheless needed. Such a package must be geared to market requirements and improved productivity. Adequate financial and specialist human resources should be provided.
16. In the modern economic environment and given the profile of the national flock, full-time and part-time farmers must be catered for in this context. Specialist advisory programmes should have strong linkages with ICBF.
17. The role of monitor farms should be reviewed and a cadre of progressive producers should be identified who will act as catalysts for best practice with a strong focus on growth rates, farm productivity and grassland management. Such monitor farms should be adequately supported. The lessons of the New Zealand experience in using monitor farms should be taken into account. There should be strong linkages with Teagasc and ICBF.
18. Development in regard to breeding resistance and resilience to conditions like foot-rot should be examined with regard to their application in this country. Links with research institutes internationally should be intensified. Parasite resistance also fits into this category.
19. A proactive policy in regard to using latest developments in genotyping should be encouraged.

PROCESSING

Given the competitive environment processing facilities must operate to the highest international standards.

20. This study has not examined the issue of slaughtering capacity. Given that there is already over capacity any appreciable decline in the level of throughput would inevitably raise concerns about the long-term viability of the current configuration. Therefore every effort should be made to bridge the gap between the peaks and troughs in the seasonal pattern and to ensure a better utilisation of capacity. Contract purchasing may have a role in assisting that process.
21. Currently the industry is using the EUROP grading system. In the event that mechanical grading is proven to be a workable alternative the industry should convert to that system.
22. The industry needs to make full use of new developments in regard to extending shelf life particularly through carcase handling, modern hygiene innovations, use of

electrical stimulation to improve eating quality. There will also be a need for the sector to continuously update its processing standards.

23. The processing sector must play a lead role with the relevant agencies in driving product innovation.
24. The processing sector should be fully involved in the genetic improvement programmes to be run by ICBF.

MARKET

Positioning the product in a rapidly changing and highly competitive consumer market is a major challenge.

25. A Sheep-meat Quality Assurance Scheme should be put in place. It needs to have independence and to be based on EN 45011 standards. This could run in parallel to the Beef Quality Assurance Scheme and duplicate inspections should be avoided if at all possible. The cost/benefits of such a scheme needs to be assessed.
26. The possibilities in regard to labelling should be fully exploited, especially if an assurance scheme is put in place. There should be mandatory labelling of product on the domestic market.
27. A specific approach to alternative markets should be formulated by the industry in conjunction with Bord Bia. Linked to this is the matter of new product development and the proposed centre of excellence in Bord Bia and the National Food Centre have important roles to play. This work should focus on convenience and the requirements of the younger population.
28. Possibilities for developing niche markets for Irish lamb should be examined by Bord Bia in conjunction with processors. This could cover areas like grass fed production, regional product, hill lambs. Opportunities under Geographical Indications should also be fully exploited.
29. While it is recognised that selling to ethnic markets raises particular challenges, the reality is that this is a growing segment where sheep-meat is the product of choice. A specific strategy should be devised by Bord Bia/Processors to exploit that opportunity.
30. Given its central role, returns from the French market must be maximised and opportunities to further develop direct supply to retailers should be identified by Bord Bia. It is inevitable that the dynamics of that market will continue to change and the strategy of the Irish industry must evolve accordingly.
31. Concern has been expressed about price reporting. In relation to slaughter prices in Ireland an agreed methodology should be established and operated by the Department of Agriculture and Food. Bord Bia should continue to provide as wide a spread as possible of lamb prices for both delivery and final sales price. If any other suitable price series emerges then this should also be provided.

32. Given the developments taking place at the meat counter in the domestic market, there is a strong need for a tightly focused promotion to consumers of lamb. The value of any such campaign should be judged against specific and relevant criteria such as target audience impact and value for money.
33. Marketing activities overseas should be kept under continuous review and the question of Member States and the EU pooling resources to assist generic promotion should be pursued, in addition to identified Irish lamb campaigns.
34. The Bord Bia campaign should continue to be directed towards the areas which will give the greatest benefit. The strategy in relation to the French market needs to be kept under constant review.

POLICY/WTO/CAP

It is very clear that the sector is vulnerable under a new WTO round and it needs to present its case at this critical juncture.

35. The potential threat to the sector under a new WTO round is serious, as outlined in the FAPRI conclusions. The FAPRI exercise is based on a set of assumptions, particularly that in their opinion sheep-meat would not be designated a sensitive product. The link between sensitive product status and Tariff Quotas needs to be monitored very carefully.
36. It is clear that the sector needs to present its case strongly and urgently and that there needs to be co-ordination at European level. Sensitive product status is needed to protect certain tariff lines.
37. Given the diminished role of the EU Commission in relation to market management there should be better co-ordination among those Member States where sheep-meat is a significant enterprise at European level.

BENEFITS

Implementation of these recommendations will generate an estimated €50m in added revenue for the sector. This will arise through increased throughput, improved quality and better efficiency on farms.

SECTION 1

BACKGROUND

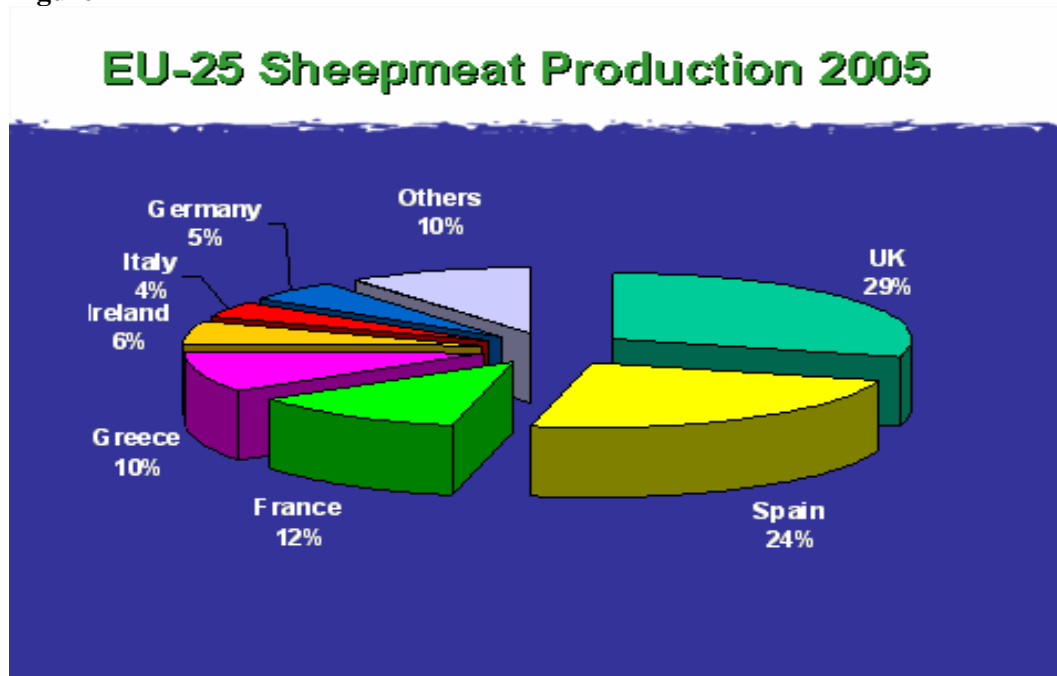
Sheep-meat remains an important indigenous industry in Ireland, with wide spread production throughout the country. It is a traditional production sector and at farm level involves some 35,000 flock-owners. It is export-oriented and generates foreign earnings of the order of €240 million annually. While Ireland is the fifth biggest producer in the EU it is the largest net exporter.

The sector expanded dramatically in the 1980s and ewe numbers had grown to 4.75 million in 1992 compared to 1.5 million in 1980. This expansion coincided with the introduction of a common EU regime for sheep-meat. Since 1992 numbers have declined at a gradual but consistent level. Ewe numbers in 2005 were recorded at 3.5 million compared with 4.05 in 2000. Over the last two years slaughtering levels have been maintained; this would seem to be attributable to de-stocking of ewes and ewe lambs which had been kept in previous years for premia applications.

A particular feature of the Irish industry is its export dependence and the significant role of the French market. Despite the fact that the industry has strengthened its presence on the home market and has diversified into new markets, the French market is a dominant influence in regard to the returns of both producers and processors.

The Mid Term review of the Common Agricultural Policy, and the decision by Ireland to opt for total decoupling has transformed the support regime. This has a number of consequences; the removal of what were regarded as a series of inequities in the earlier regime [Ref. **Sheep Forum Report October 1999**], and the reality that farmers can now produce for the market without the considerations of the premium requirements influencing decisions, especially stocking densities, retention periods etc.

Figure 1



It is a cliché but nevertheless very true that the sector is at a critical phase and its future development will be determined by performance and return from the market. Given the dynamics of the modern food industry the position of the product in the market will be determined by price, consistency, quality and service. This in turn raises a series of issues, in particular the state of readiness of the industry to adjust to the new context right across the spectrum from production through to marketing of the final product. This phenomenon is not unique to the Irish industry; the industry across Europe has been characterised by a modest if steady decline in production and by declining consumption.

Sheep-meat is an expensive product relative to other meats and is generally consumed by the older and more affluent category of the population.

At a very fundamental level the challenge is to maintain consumption, and to encourage consumption in a new generation of consumers especially through product innovation, in order to sustain a viable industry in Ireland, and to have a level of production which will provide, into the future, the basis for a strong and competitive processing industry. This in turn requires that an efficient and profitable production base continues to exist and that a drift from production in the post-decoupled environment does not undermine that goal. It is evident that even a modest reduction in throughput could have a detrimental effect on the current configuration of the processing sector. Therefore it is clear that any review must examine the industry in its totality and that any blueprint for the future must address all the issues right through the chain and that future development will depend on a decent margin for the different elements in the chain.

SECTION 2

ANALYSIS

An analysis of the sector under a series of different headings brings the following issues into focus:

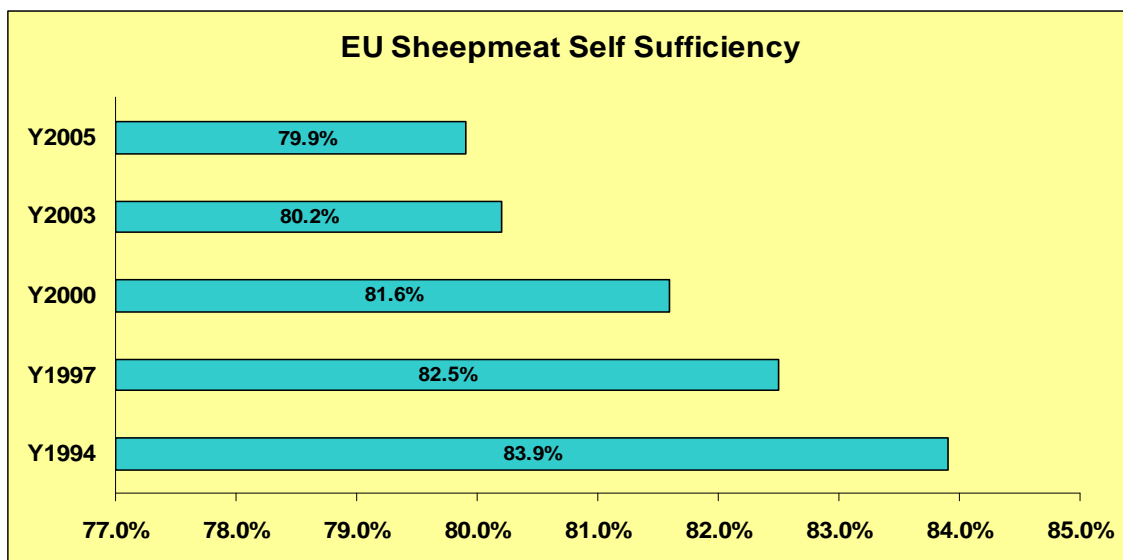
STRENGTHS

Sheep-meat is seen as a product with a good image, which in general has escaped some of the difficulties associated with other meat products and is positioned at the affluent end of the market. It is seen as a natural and environmentally friendly product and would be regarded as near organic if not organic as such.

The processing sector has developed a strong presence in the lucrative French market, the single largest importer in the EU, and is efficient relative to its competitors and for the current level of throughput is reasonably well configured. While France accounts for 60% of Irish lamb exports, the industry has to a certain extent broadened its market range. It has opened some new markets in the UK and Northern Europe and has been effective in securing the home market. It has made progress in extending the range of products through more cutting and deboning and is anxious to progress further in that direction.

The EU market is a deficit market – the level of self-sufficiency continues to decline. There is a growing Muslim population in Europe for whom sheep-meat is the product of choice. The Irish sheep-meat industry has the advantage of being an established supplier to that market.

Figure 2



The change to the single payment system has given the opportunity for a complete focus on market requirements without the complications or conditions associated with premia applications and payments. The single payment itself provides a simple and secure support regime for producers.

Sheep production is a natural enterprise in this country and fits easily with modern environmental requirements and standards. Relative to suckler-cow production the profit margins are good. Now that the support levels are no longer determined by the type or volume of production it should be an attractive enterprise if carried out efficiently. Teagasc data shows that 64% of producers retained 100% or more of their premium payments. Some 36% had a gross margin of €500 euro per hectare.

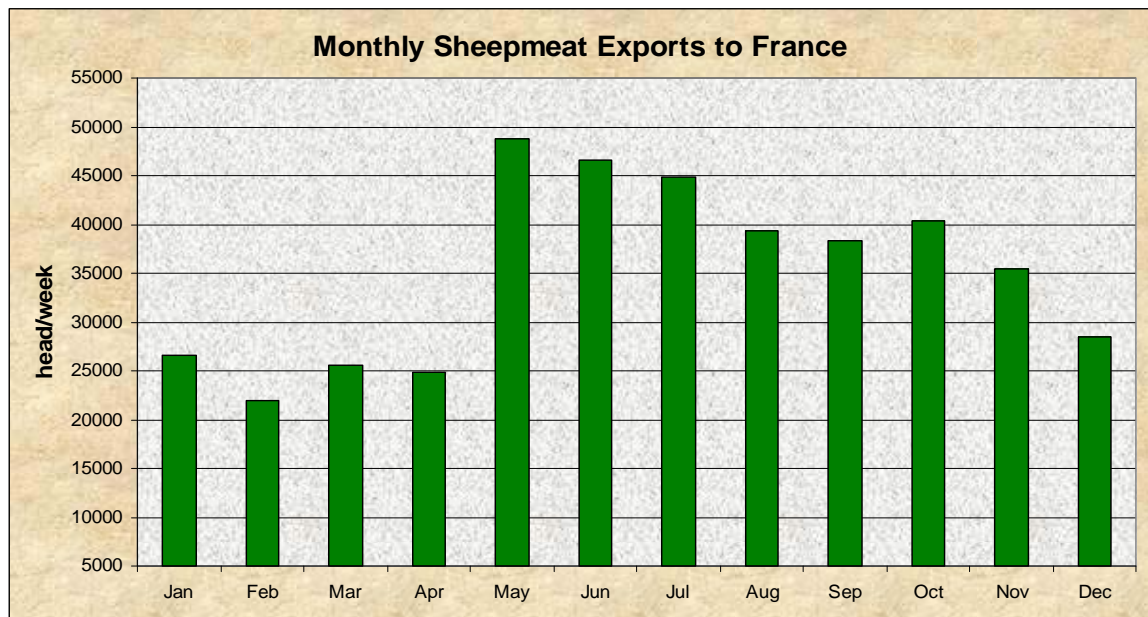
If the current base of production can be maintained then the industry has a reasonable platform for forward development. It is also the case that whatever de-stocking has taken place over the past two years has removed poorer quality stock.

WEAKNESSES

As a product sheep-meat is expensive and is generally consumed by the older and more affluent age group. It has many characteristics of a niche product and the absence of a wider and younger consumer profile has to be a concern. It is notable that the recent decline in poultry production has not generated any appreciable increase in lamb sales. It can also be claimed that the signals between the market and producers is not sufficiently strong.

On the French market the Irish product faces strong competition from a number of sources, which present good quality product in season. This includes native lamb, British lamb and product from Spain, all of which has its own season. Allied to this is a deep-seated loyalty to the native French product and the ability of the UK sector, because of its larger sheep population, to supply quality on a more consistent basis. In season the Irish product is recognised as being superb, however outside that period it struggles to compete on quality especially against product in season from other sources. The relationship between Irish processors and a group of intermediate processors in France is critical and these entities control the route to market and in many ways they can determine the positioning of Irish produce on retail shelves.

Figure 3



The seasonal nature of the industry raises challenges for the processing sector when the volume of Irish product appearing on the French market virtually doubles in a month.

Sheep production is a skilled enterprise and is therefore vulnerable in an era of part time farming and alternatives in regard to employment outside the farm. It is also recognised that a scale of enterprise is needed in order to protect viability and to encourage efficiency. Livestock production generally is a low margin business and therefore a lack of efficiency can threaten viability. The difficulty in terms of scale is highlighted by the fact that over 40% of flocks have less than 50 sheep and only 13% have more than 200.

Table 1

Flock Size by County

| | <i>1 - 50</i> | <i>51 - 100</i> | <i>101 - 150</i> | <i>151 - 200</i> | <i>201 - 300</i> | <i>301 - 400</i> | <i>401 - 500</i> | <i>> 500</i> | Total |
|--------------|---------------|-----------------|------------------|------------------|------------------|------------------|------------------|-----------------|---------------|
| CARLOW | 191 | 193 | 151 | 108 | 100 | 57 | 32 | 43 | 875 |
| CAVAN | 490 | 154 | 64 | 36 | 29 | 13 | 5 | 7 | 798 |
| CLARE | 515 | 111 | 26 | 8 | 6 | 2 | 1 | 2 | 671 |
| CORK | 814 | 422 | 248 | 142 | 151 | 49 | 20 | 40 | 1,886 |
| DONEGAL | 2,317 | 1,320 | 589 | 285 | 198 | 67 | 32 | 28 | 4,836 |
| DUBLIN | 71 | 39 | 29 | 13 | 16 | 8 | 4 | 6 | 186 |
| GALWAY | 1,772 | 1,523 | 747 | 376 | 306 | 105 | 50 | 56 | 4,935 |
| KERRY | 625 | 499 | 348 | 252 | 252 | 117 | 41 | 56 | 2,190 |
| KILDARE | 172 | 146 | 97 | 61 | 77 | 38 | 19 | 56 | 666 |
| KILKENNY | 237 | 168 | 115 | 64 | 79 | 44 | 19 | 25 | 751 |
| LAOIS | 208 | 128 | 74 | 47 | 45 | 20 | 13 | 14 | 549 |
| LEITRIM | 370 | 216 | 101 | 66 | 60 | 17 | 6 | 14 | 850 |
| LIMERICK | 165 | 46 | 19 | 13 | 10 | 5 | 8 | 8 | 274 |
| LONGFORD | 273 | 102 | 37 | 19 | 12 | 9 | 7 | 1 | 460 |
| LOUTH | 108 | 89 | 46 | 35 | 36 | 17 | 10 | 7 | 348 |
| MAYO | 2,261 | 1,107 | 578 | 245 | 199 | 65 | 22 | 23 | 4,500 |
| MEATH | 368 | 276 | 160 | 82 | 91 | 62 | 24 | 40 | 1,103 |
| MONAGHAN | 241 | 73 | 33 | 21 | 19 | 9 | 3 | 6 | 405 |
| OFFALY | 259 | 168 | 86 | 72 | 65 | 38 | 18 | 30 | 736 |
| ROSCOMMON | 786 | 489 | 289 | 146 | 145 | 40 | 27 | 22 | 1,944 |
| SLIGO | 872 | 237 | 99 | 57 | 67 | 22 | 8 | 23 | 1,385 |
| TIPPERARY | 450 | 242 | 148 | 89 | 94 | 51 | 29 | 45 | 1,148 |
| WATERFORD | 175 | 84 | 58 | 38 | 50 | 29 | 21 | 22 | 477 |
| WESTMEATH | 384 | 219 | 118 | 48 | 50 | 19 | 8 | 21 | 867 |
| WEXFORD | 400 | 294 | 195 | 150 | 173 | 81 | 33 | 44 | 1,370 |
| WICKLOW | 292 | 243 | 202 | 153 | 204 | 88 | 61 | 101 | 1,344 |
| Total | 14,816 | 8,588 | 4,657 | 2,626 | 2,534 | 1,072 | 521 | 740 | 35,554 |

Given the importance of premia requirements a loss of focus on breeding may be understandable. However the harsh reality is that the use of pedigree rams is limited and robust scientific data is not used to inform breeding decisions and policy. Furthermore less than 20% of pedigree flocks participate in the Sheep Breed Improvement Programme. It is also clear that the mountain flock suffered in particular from the phenomenon of keeping numbers to generate subsidies. This connects into quality and consistency, which in turn limits our presence and options on the most lucrative markets, which reflects on the returns payable to producers.

At policy level the role of the European Commission in market management has greatly diminished and it is clear that there is no appetite for interference in the market under the new Common Policy. In fact the Commission has at least as strong a focus on environmental impact.

Skin prices, which tend to be volatile to say the least, can have significant impact on margins. They have not been good in recent times. With the gradual winding down of the tanning industry in Europe the skin trade has become more dependent on developments on world markets which are unstable. The world market in turn has been overly dependent on the tanning industry in Turkey, which accounts for over 50% of EU trade. Lower Turkish imports have been replaced by increased trade to China, which has the largest tanning industry in the world and was heavily subsidised in the past. These subsidies are now being withdrawn which has weakened the traders financially. While it seems that prices may have bottomed out there is little evidence of any factor which would cause a significant uplift.

Wool as a product has experienced a serious downturn worldwide, with no evidence of any uplift on the horizon. It is difficult to see how it will regain its previous status in the market.

The most recent data available on financial returns to sheep farms is contained in the National Farm Survey 2004 and from the Teagasc Drystock Profit Monitor 2004. On average financial performance is poor with only the top third of producers achieving a reasonable level of profit excluding premium. Gross margin excluding premium for the bottom third of producers in the National Farm Survey at €107 per hectare reflects poor weaning and stocking rates and will not sustain a sheep enterprise into the future. The better physical performance of the top third translates into a worthwhile gross margin excluding the premium of over €700 per hectare and profit of over €20 per ewe.

Table 2

Performance in Mid Season Systems - NFS 2004.

| | Bottom 33% | Middle 33% | Top 33% |
|--|-------------------|-------------------|----------------|
| Number of Flocks | 47 | 49 | 47 |
| Average No. Ewes | 95 | 105 | 128 |
| Weaning % | 113% | 127% | 134% |
| Ewes per hectare | 6.1 | 8.5 | 11.5 |
| Variable Cost/ewe | €48 | €36 | €35 |
| Variable.Costs/lamb | €43 | €28 | €26 |
| Gross Margin/ Ewe Excluding Premium | €18 | €47 | €64 |
| Gross Margin/ ha excluding Premium | €107 | €397 | €739 |
| Estimated Fixed Costs/Ewe | €36 | €40 | €42 |
| Estimated profit/ Ewe excl premium | - €18 | €7 | €22 |

Returns from the Teagasc Profit Monitor give a good indication of the returns and performance of commercial sheep farmers.

Table 3**Performance on Sheep Farms with Teagasc Profit Monitor 2004**

| | Bottom 33% | Average | Top 33% |
|---|-------------------|----------------|----------------|
| Number of Flocks | 22 | 66 | 22 |
| Average No. Ewes | 202 | 207 | 238 |
| Weaning % | 130% | 139% | 148% |
| Ewes per hectare | 7.5 | 8.3 | 9.5 |
| Variable Costs/ewe | €55 | €47 | €41 |
| Variable Costs/ Lamb | €42 | €34 | €28 |
| Gross Margin/Ewe Excluding Premium | €29 | €53 | €78 |
| Gross Margin/ ha Excluding Premium | €204 | €435 | €705 |
| Estimated Fixed Costs/ Ewe | €43 | €43 | €48 |
| Estimated profit/ Ewe excl premium | - €15 | €10 | €30 |

The data indicates a wide range of financial and physical performance. It is essential to have a combination of high weaning rates and good stocking rates to achieve acceptable returns. The top third are performing well but have considerable scope to improve weaning and stocking rates in order to enhance profitability.

THREATS

At a strategic level the greatest threat facing the sector is a serious decline in output which would result in a loss of critical mass, a closure of some processing capacity and a loss of clout in the French market. If importers form the view that Ireland is not a reliable source of regular, consistent and high quality supplies then our industry could become a marginal player.

At retail level the danger is that lamb will continue to be a luxury product and the preserve of a declining and aging consumer niche. The reality is that retailers will give shelf space to products which will move quickly. It is also the case that the distribution systems for meat products have a strong tendency towards single suppliers in the UK and vertical integration on the continent. The French sector is moving towards distributors who provide a total meat offering.

At producer level the threat is that the drift out of production will intensify and that high standards in breeding and husbandry will no longer be the norm. In other words the sector could become one of low density and low efficiency. Any industry needs new entrants to maintain vibrancy and initiative.

Europe is a lucrative market for importers. New Zealand has a well-established import quota, which it fills assiduously through a well-developed network. It has focused on extending the shelf life of its product and thereby opening up opportunities for chilled product as well as focusing on the high priced season.

Ironically New Zealand has helped in maintaining a level of consumption, which might otherwise have been lost.

There is a danger in the context of the current WTO round of negotiations that tariffs will be reduced to a level that could enable Australia to become a volume exporter to the European Union. It is known that Australia is shifting its focus from wool to meat. Data produced by FAPRI very starkly outlines the extent of the threat faced by the sector in a WTO context.

As with any food, especially in the meat category, food safety standards and controls have to be kept under continuous review. This area has been the subject of considerable attention in recent years especially in relation to scrapie and experience has shown that the unexpected can happen.

OPPORTUNITIES

Sheep-meat has the advantage that consumer perception is good and therefore it starts from a more secure base than other competing meats. There is no compelling evidence to suggest that the new Member States in the EU will become significant producers and add to the volume of production. Total production from the 10 states amounts to 145,000 tonnes ewe. It is expected that the deficit will grow and Ireland is well positioned to avail of this opportunity.

At its best Irish lamb is regarded as an excellent product and if that period of high quality can be extended then there are opportunities to be exploited. French market research has shown that there is considerable consumer goodwill towards the Irish product and that promotions have an impact provided there is a supply of product to back the promotion campaign. It is also the case that sheep-meat is the product of choice among the Muslim population, which is a growing group in Europe.

There are also opportunities to develop new niche markets in different parts of Europe, especially in a deficit situation.

At producer level results from Teagasc monitor farms have demonstrated that good margins can be achieved on the best farms and there is considerable potential even from narrowing the variations in production efficiency. Lambs per hectare are 44% greater in the top third than in the bottom third.

The industry is supported by a robust traceability and registration system, which is designed to underpin human and animal health.

At processing level investment has taken place; the larger processors are part of larger meat processing groups which brings a degree of clout and enables lamb to be presented as part of a wider meat offering.

At production level the sector has a reasonable production base from which to develop and even though lambing rates and efficiency may have stalled in recent years in many senses the industry can match best practice and has the capability to move onto a new level. While standards in the mountain flock may have suffered it still represents a valuable asset with a population of 700,000 head and could be an important base in assisting increased prolificacy in the sector.

SECTION 3

MARKETS

Table 4

| Irish Sheep-meat Exports ('000 t cwe) | | | | | |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|
| | 2001 | 2002 | 2003 | 2004 | 2005 |
| Total | 62.0 | 49.0 | 44.0 | 53.6 | 57.4 |
| France | 47.0 | 35.0 | 29.0 | 32.3 | 32.3 |
| UK | 5.9 | 6.8 | 8.0 | 12.0 | 15.0 |
| Germany | 1.7 | 1.7 | 1.8 | 2.4 | 2.5 |
| Italy | 2.0 | 1.9 | 1.1 | 1.2 | 1.3 |

FRENCH MARKET FOR IRISH LAMB

France is Ireland's most important lamb export market accounting for between half and two thirds of all Irish sheep-meat exports. This earns the Irish economy more than €10 million annually. Accordingly the strength of the French lamb market has a direct impact on the sheep producing and processing sector in Ireland.

Production and Consumption

France is the third largest producer of sheep-meat in the European Union after the United Kingdom and Spain. It is a deficit producer and currently produces only 50% of what is consumed. France produced an estimated 130,000 tonnes in 2005. This level of production is almost six per cent less than in 2000. Forecasts for this year and next show a further gradual decline to some 127,000 tonnes in 2007.

There are 61,000 sheep farms in France that have ten or more ewes. Production is concentrated in the southern half of the country. There are two main lambing seasons in France, occurring in the spring in northern France and in autumn in the south thus making young lamb more available from different regions throughout the year. Many farmers produce three lamb crops every two years. The peak of French production occurs from Easter to May and is based on Lacaune lambs.

As many as one third of French producers are involved in producer groups. These groups play an important role and communication between farmers and processors is undertaken by the groups' executives. Their role also includes managing various quality assurance and labelling initiatives with auditing undertaken by their technical staff.

A number of schemes are available ranging from Label Rouge (red label) and product certification schemes to Protected Geographical Indications. These schemes occupy minor niches at the premium end of the market.

France is the second largest consumer of sheep-meat in the EU accounting for 19% of the total. The UK is the largest market at 28 % while Spain is the third largest at 18%. Lamb consumption in France has dropped 16 % in the 2000 to 2005 period. On a per capita basis this drop is equivalent to one kilogramme with 4.1 kg currently consumed. This level of consumption is forecast to largely remain stable for this year and in 2007.

A permanent loss in consumption of some 50,000 tonnes has occurred in France compared with the situation that prevailed prior to Foot and Mouth in 2001. Notwithstanding, French consumption remains approximately one third more than the EU average but lags Irish per capita consumption by almost a quarter.

The price competitiveness of lamb relative to other meats has been such that consumers are eating it less frequently. It has become a product that is increasingly reserved for festive occasions. French household lamb consumption peaks significantly at Easter and in 2005 was 50% greater during that period. Sheep-meat accounts for less than 5% of French meat consumption. Consumption is higher in the south of France. The consumer profile is biased towards older and wealthier population segments. Accordingly younger urban householders who require convenience and may lack culinary expertise are not attracted to lamb. Conversely as the demographic profile in France ages and becomes more affluent long-term consumption forecasts may be less pessimistic.

France has the highest Muslim population in Europe and this represents an important consumer segment of the market. This community demands fresh lamb rather than mutton but is generally less affluent. Consumption peaks in accordance with specific religious festivals such as El Aid and Ramadan.

Market Requirement and Route to Market

The French market demands a carcase of 16 to 20.5 kg with a fat score of three or lower and a conformation grade of R or better. There is some regional modification to this specification with lighter carcasses preferred in southern France. More than half of French lambs fall within the 16 – 19 kg weight range. French processors pay producers on a graded basis resulting in most lamb meeting specification.

Table 5

French Lamb Carcase Classification by Weight Range

| Kg | % |
|----------------|-------------|
| 13 - 16 | 19.9 |
| 16 - 19 | 53.2 |
| 19 - 22 | 25.8 |

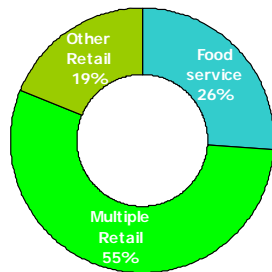
Product quality is largely judged by adherence to the market specification. The ability to export Irish product to this requirement particularly relative to competing UK product is critical to achieving the best price from the market. The UK has an advantage given its scale of production and therefore can more easily select suitable product for export. Failure to observe the market specification is the principal cause of price discounting for Irish product in the French wholesale trade.

Three quarters of French production is distributed to the retail sector with the multiple retailers accounting for 55% and the remainder passing to householders through butchers and other retail outlets. Foodservice outlets are supplied with a quarter of French sheep-meat production. The single largest location of purchase for household lamb consumption in France is hypermarkets, which account for over 40%. Supermarkets and butcher shops are the next most important purchasing sites for household consumers taking a 29% and 21% share respectively. On average up to 30% of all sheep-meat available in the French multiple retail sector is domestically produced with product sourced from the European Union and New Zealand accounting for 40% and 30% of the market offer respectively.

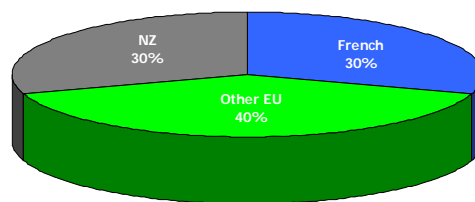
It is estimated that 15% of all Irish lamb exports are delivered directly to French retailers via their cutting and packing plants or distribution platforms. A further 50% is supplied to retail customers via specialist cutting and packing plants that operate both nationally and regionally delivering carcass and retail packed product to individual hypermarkets and supermarkets. The wholesale trade now accounts for a minority share of the total with 20% of Irish exports being sold to regional wholesalers and 15% being distributed through the Rungis wholesale market in Paris. The Rungis market while less important as a volume outlet plays an important role as a barometer of the French lamb market and is referred to throughout the trade.

Figure 4

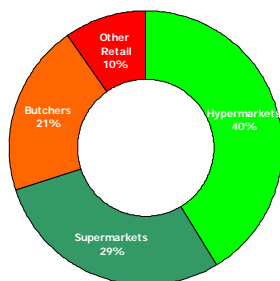
Distribution of French Production



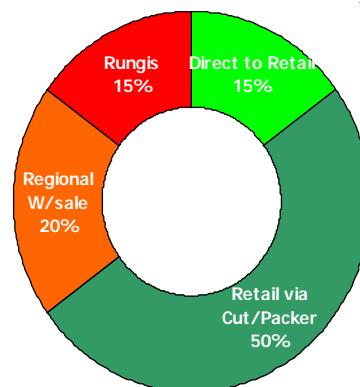
Origin of Lamb in Multiple Retail



Distribution of French Household Purchases



Distribution of Irish Exports



French supermarkets prefer to have a significantly larger supplier base than that of their British equivalents. The rationale is that in France retailers legally assume some of their suppliers' financial liability if their business accounts for a dominant proportion. France occupies a significant land mass and this geography also dictates that a more balanced regional spread of suppliers must be established to allow chilled distribution for short lead

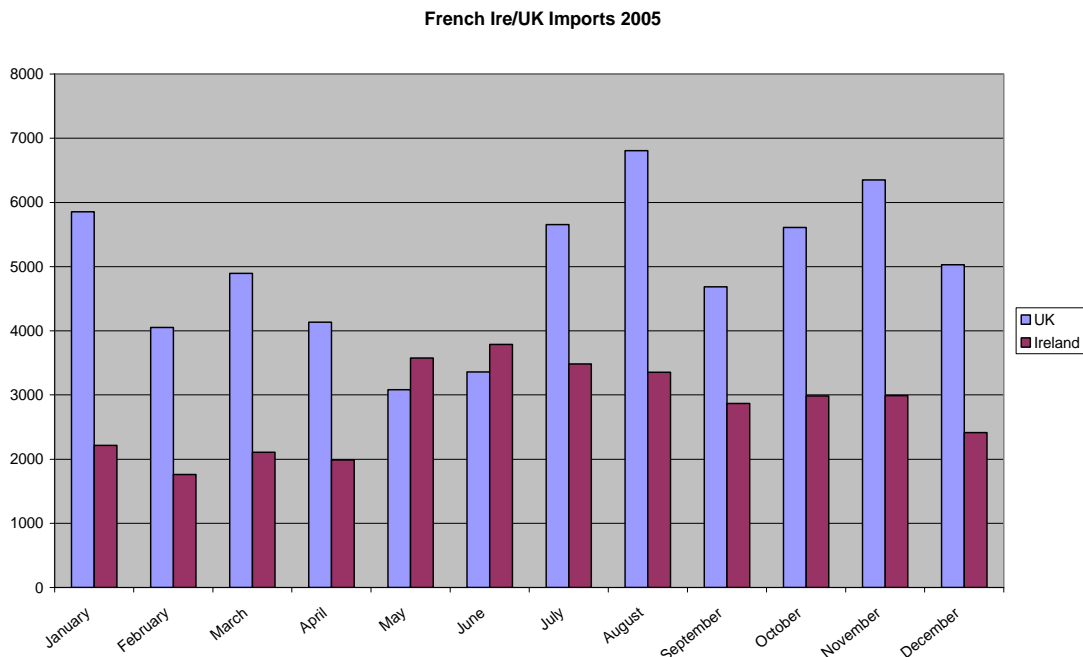
times from order to store delivery which is typically no more than 24 hours. In the large supermarket and hypermarkets that dominate French retailing traditional butcher counters coexist with self-service and partly explains why carcass lamb as well as cut lamb is supplied. Regionally carcass lamb delivery to stores predominates in the south with more cut lamb supplied in the north. There is a bias towards supplying full carcasses to avoid wastage from disposing of less popular cuts. This is particularly true for French and other EU sourced product given the dominance of New Zealand in the supply of legs. However as the number of skilled butchers in France is rapidly declining there will be a trend towards greater supply of cut and retail packed lamb in the future.

The specialist intermediary who cuts, packs and delivers lamb is therefore a critical link in the French supply chain. A small number of these intermediaries dominate the market although only those that are wholly owned by a retailer have national coverage. Their turnover is heavily reliant on the multiple retail business and they source domestically as well as from other European sources and also from New Zealand. These intermediaries have an important influence on the relative quantities sourced by country of origin and is dictated by the relative quality and price competitiveness of available product. Were an Irish processor to set up such an operation they would be forced to compete against some of their biggest existing customers. The absence of such ownership however reduces their control from this important part of the supply chain.

Imports

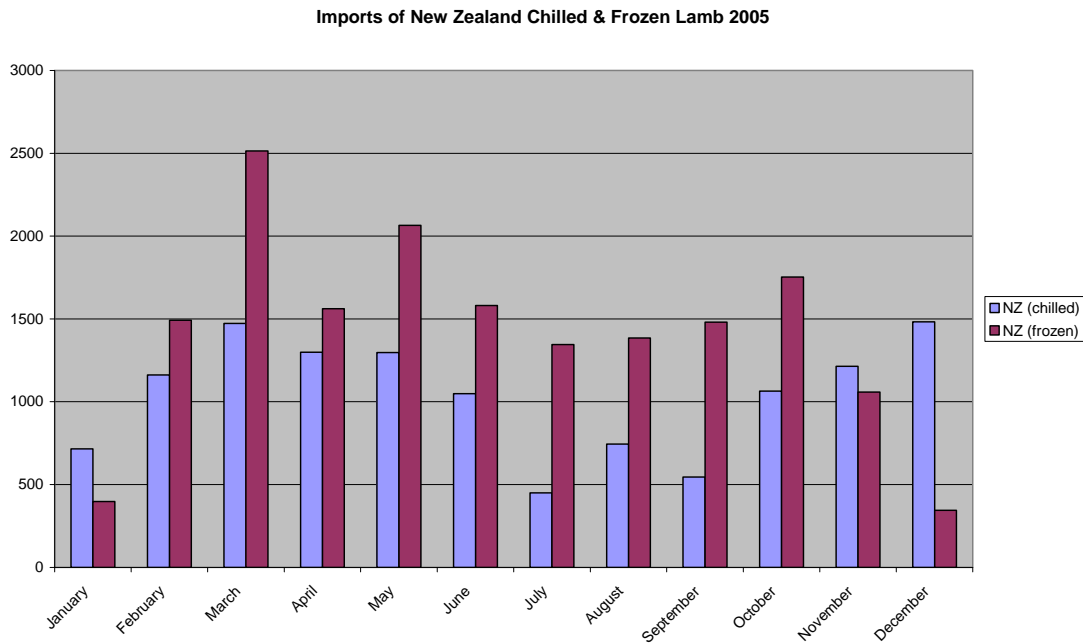
France is the single largest import market in the EU with an annual requirement in 2005 of over 142,000 tonnes, more than 85% of which is supplied as fresh chilled product. The current level of imports represent a reduction of 20% on the 2000 figure. Accordingly the import market has contracted by more than 35,000 tonnes and has been damaged by the drop in consumption to a greater extent than domestically sourced supplies.

Figure 5



During this same period UK exports to France declined by 35%, reflecting the decrease in their flock, whereas supplies from both New Zealand and Spain increased by 12% and 5% respectively. New Zealand exports to France of fresh chilled product almost doubled while volumes of frozen lamb declined by 17%.

Figure 6



France accounts for a diminished share of Irish exports, which reflects mutton exports to markets such as the UK and Germany. It is strategically important for Ireland to remain a significant volume supplier to the French market. Currently Ireland has a critical mass that allows volume access to the French multiple retail sector. In going forward this position must be at least maintained.

The French market traditionally has been supplied with fresh carcase lambs from other European suppliers. An analysis of the four largest suppliers in the year 2000 shows that 16% of their total volume was delivered as fresh chilled lamb cuts. Ireland and the UK supplied a smaller than average proportion in this form with New Zealand and Spain both providing a quarter of their volumes as fresh cut product. In 2004 the proportion of fresh cut lamb supplied from the four main importing countries rose to 23% with New Zealand supplying 44% of its total French exports in this format. Ireland has grown the proportion of fresh cut lamb supplied to France to 18% of its total volume whereas the relative volumes from the UK and Spain are largely unchanged.

The four principal exporting countries to the French market supply lamb with a seasonal imbalance. The UK being the largest producer in the EU, has the least seasonal variation delivering two thirds of its exports during the July to January period. Ireland supplies a similar proportion of its total between May and October. Almost two thirds of chilled New Zealand product was delivered in two three month periods, November to January and March to May indicating their focus on targeting the peak seasonal consumption periods of Christmas and Easter and also reflecting their production cycle.

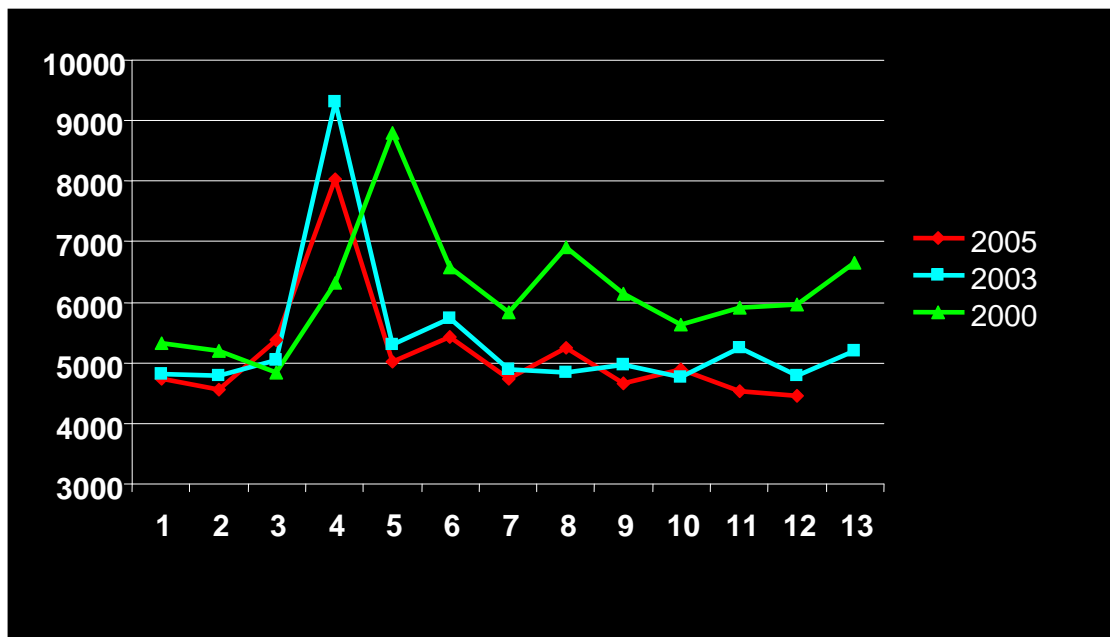
Almost 70% of frozen New Zealand product was delivered during the five months between March and July and also in the month of September. Spain had the most concentrated supply period supplying more than 60% in the five month March – July interval.

Price

Producer lamb prices in France peak at Christmas, New Year and Easter reflecting the festive consumption pattern and the relative scarcity of imported product during these periods. That said producer prices in France are less volatile than those in Ireland or the UK. For the cumulative 2004 to 2005 period French prices averaged 481 cent per kg but the variation between the highest and lowest price was 103 cent per kg. The average Irish price for the period was 352 cent per kg while that for the UK was 372 cent per kg. During 2004 and 2005 Irish prices therefore lagged French prices by 126 cent per kg and UK by 106 cent per kg, reflecting the importance of domestic markets in both cases. Irish producer prices are slightly less volatile than those in Britain with the gap between the highest and lowest price in Ireland equivalent to 144 cent per kg whereas the equivalent spread for the UK is 164 cent per kg. The closest convergence between Irish prices and French prices occurs in the early summer period.

Figure 7

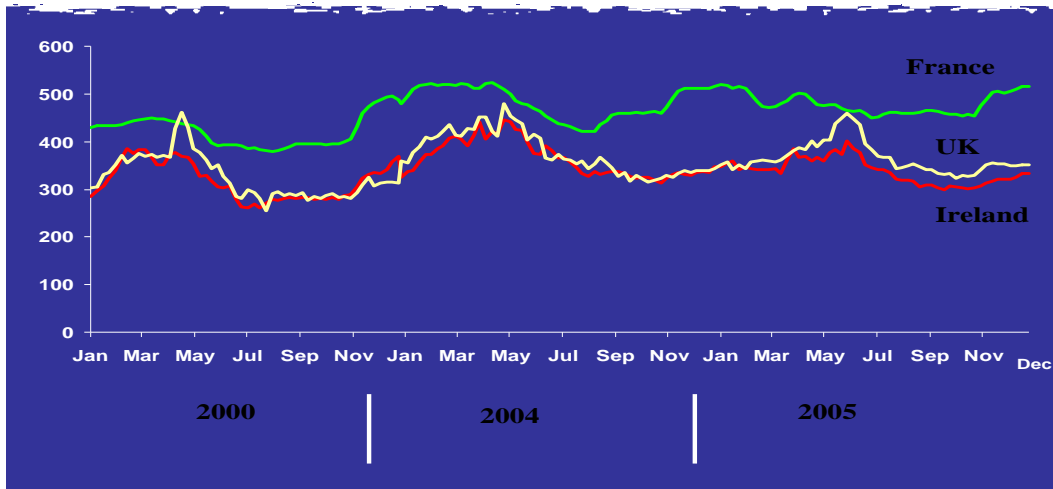
French Household Purchases



The differential in price between French and imported R grade lambs on the Rungis market continues to average €1.3 to €1.4 per kg annually. Generally the differential tends to be at its lowest during the May to July period when it can be as little as 70 cent per kg. This coincides with the period when imported supplies are at their optimum quality while volumes of main season lamb, particularly from the UK, have yet to peak.

Figure 8

**Producer Lamb Prices: 2000, 2004 – 2005
(c/kg dw)**



The quoted Rungis wholesale selling-out price is the result of the recording of all the daily transactions on the market and therefore is a reliable and quoted indicator that is referred to throughout the supply chain. In addition Bord Bia provides price reports from the French market frequently during each week reflecting price fluctuations and changing market dynamics. These reports are based on the buying-in prices from a variety of wholesalers active on the market.

Marketing Strategy

In assessing the French market it is important to identify the competition for Irish lamb. French lamb while achieving the highest returns is essentially a niche product. It is preferred by the traditional butchers and only has a minority share in the multiple retail sector. The lowest prices achieved in the market are those sourced from New Zealand for chilled and frozen product. Irish lamb does not compete with this product. The principal competition for Irish lamb is from the UK.

French consumers have a positive perception of Irish lamb especially during its early summer seasonal peak. There is little evidence from a French market perspective that either retailers or consumers will pay a premium for quality assurance. Traceability systems are regarded as functioning satisfactorily throughout the EU. The French retail buyers' view is that quality assurance is not required for Irish lamb given the positive consumer image it enjoys, however were food safety issues to arise the security provided by a quality assurance scheme would be beneficial.

Generic promotion is often proposed as a solution to reversing recent declines in French lamb consumption. The European Commission have to date failed to show any enthusiasm for providing funding for such as an initiative on the basis that the European market is in deficit. An alternative proposition is that all the major suppliers to the market jointly resource a campaign. The decision that each marketing agency must make is whether they will achieve better value for money by acting independently or collectively. Given that the market is supplied by a series of seasonal peaks from each country of origin it would be

beneficial to all suppliers to promote lamb on a collaborative basis so that consumers are frequently targeted with positive marketing messages.

Following Foot and Mouth Disease in 2001, it became appropriate to amplify the Irish provenance of the product. The current merchandising material that is used to promote Irish lamb concentrates on origin and taste by portraying an image of rural Ireland that corresponds to positive French perceptions, but is modern in style.

Meat counters in French retail outlets lack the marketing vigour of their equivalents at home or in Britain. Bord Bia's promotional activity in recent years has concentrated on providing merchandising material and undertaking in-store product tastings. These initiatives have been successful in introducing consumers to Irish lamb and have been welcomed by the multiple retailers. The challenge more recently has been to ensure that Irish lamb is identified and marketed on the basis of its origin. Accordingly the focus has been on developing on-pack identification, which overtly includes Irish imagery. This can be achieved more consistently with retail packed product. Promotional activity is increasingly associated with product where the Irish origin is clearly identified, so that consumers can repeat purchase Irish lamb subsequent to promotional periods.

Figure 9



Promotion is necessary to sustain and grow consumer awareness. The early summer period of May and June is when Irish lamb is the most dominant imported source and promotional activity supports the market throughout the peak summer supply period. In 2005 consumer research conducted during retail promotions showed that Ireland with a spontaneous awareness of 53% was recognised as an origin for lamb significantly ahead of any other imported source. Purchases of Irish lamb were made by 44% of the shoppers interviewed, which was again the highest level for imported product and was greater than that of New Zealand and England combined. French retailers are more dependent on Irish lamb in early summer but it is important that their goodwill is nurtured. The research results from the 2005 campaign showed that Irish lamb scored highest after France and ahead of all imported sources in terms of quality, again demonstrating that this criterion is fundamental to succeeding in the French market.

BRITISH MARKET

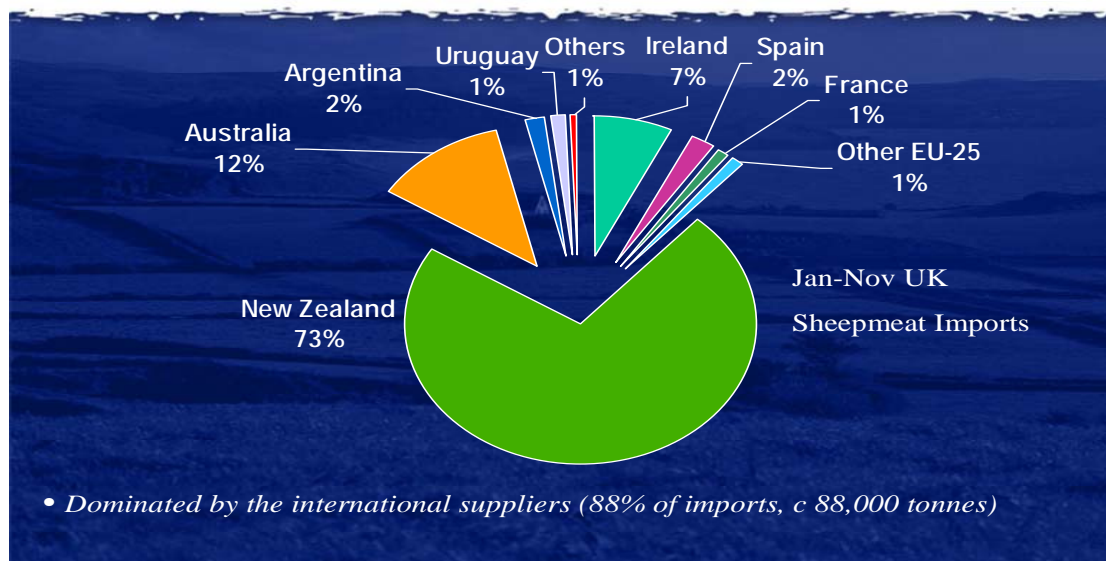
Britain has over 17 million sheep and slaughtered production is of the order of 300,000 tonnes. Even prior to the difficulties associated with Foot and Mouth their flock had declined substantially – a loss of 3.5 million ewes in a four year period from 1998. Britain has a self-sufficiency ratio of 87% and is both a substantial importer and exporter. It is a significant consumer of sheep-meat with average consumption at 6kg per head, which is higher than either Ireland or France. In 2005 it imported 122,00 tonnes and exported 81,000 tonnes.

France is also the dominant market for their exports, accounting for 74% of the total. Relatively small volumes are exported to other EU markets such as Germany, Italy, Belgium and Netherlands. Their imports come from a variety of international suppliers, with New Zealand having the dominant share at 73%. Australia comes next with 12% and the remainder comes from a range of sources of which Ireland provides 7%. New Zealand supplies on a year round basis, with the biggest volumes arriving in the March, April, May period. A noticeable feature is the increased penetration of chilled product with a commensurate decline in the volume of frozen product. The tonnage of chilled now exceeds 20,000 tonnes. A particular feature is the growth of food service - this has been a feature of the food industry generally - but the extent of the growth in the lamb sector is bigger than in other meats. The value of meat sales is estimated at £1billion with a growing trend towards ready meals and mince.

Butchers are the dominant influence at 23% of sales and in that sense all the major retailers under-perform relative to their presence in other food sectors. The value of foodservice is estimated at £600 million and the product has managed to maintain a presence at both the high and low end of the market. The Irish industry has made progress in this market mainly for mutton.

Figure 10

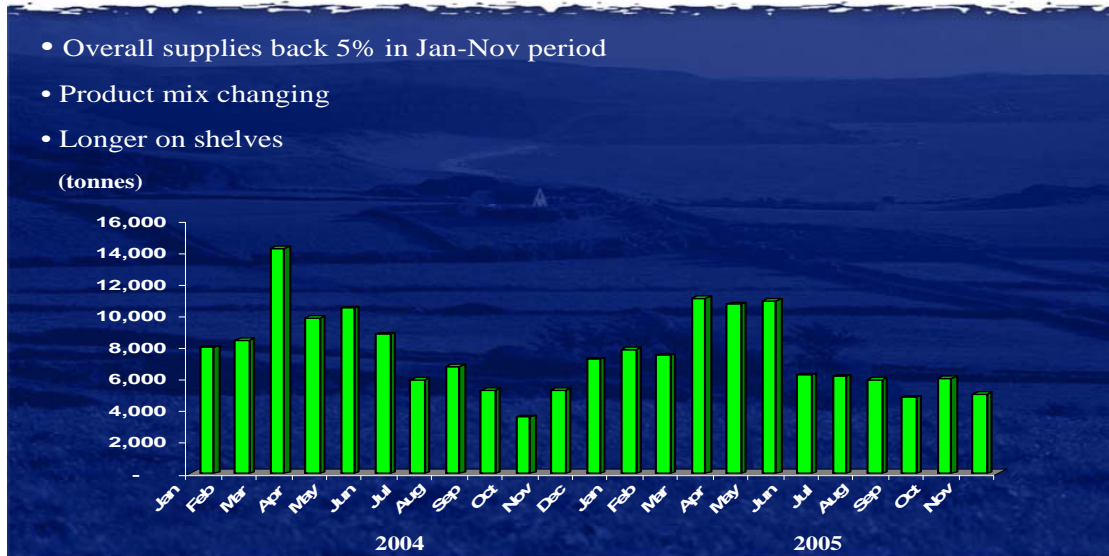
UK Sheepmeat Imports



There would appear to be opportunities for branded offerings as well as for targeted markets such as the high Muslim population. For example Muslims account for 9% of the population of London. An interesting innovation is the 'Mutton Renaissance Club', which aims to bring all elements of the supply chain together.

Figure 11

Main Competition on Market – New Zealand



OTHER MARKETS

Germany

Flock size

The German ewe flock size currently stands at just over 1.5 million head, down two per cent from 2005 due to decoupling. It is forecast to fall further.

Production

Net production is forecast to fall this year by 3% to 49,100 tonnes following a rise in 2005. This increase last year was mainly due to an increase in throughput after decoupling came into play (and slightly higher carcase weights). It is expected to fall back to 2004 levels this year due to stabilization of the flock.

Imports

Imports are expected to remain stable at 53,000 tonnes this year after a substantial 14% rise in 2005. Imports increased last year (along with production) due to an increase in consumption.

Consumption

Consumption increased by 8% in 2005 to over 92,000 tonnes. It is expected to fall slightly this year. Per capita consumption currently stands at 1.1kg/person and remains relatively unchanged over the last six years. This is quite low when compared to the EU-15 average of 3.3kg/capita in 2005.

Almost 13 per cent of total lamb is consumed over Easter and 6.5 per cent at Christmas.

The main market for sheep-meat in Germany is the Turkish community. The Turkish population is currently over 2% of the total German population standing at 1.8 million people. The majority of sheep-meat is currently being sold through ethnic food service channels and is mainly mutton. German sheep-meat consumption is much more price orientated than in other countries.

Table 6

Irish sheep-meat exports to Germany (tonnes cwe.)

| | 2003 | 2004 | 2005 |
|----------------------|-------------|-------------|-------------|
| Grand Total | 2,078 | 2,425 | 2,086 |
| <i>Of Which:</i> | | | |
| Total Chilled | 1,946 | 2,004 | 1,559 |
| Total Frozen | 132 | 421 | 527 |

Irish sheep-meat exports to Germany stood at 2,086 tonnes last year, a fall of 14% on 2004. The majority of Irish exports to Germany are mainly fresh/chilled.

Opportunities for Irish lamb

There is scope to increase exports of mutton to the German foodservice sector and possibly some old season lamb. However early season lamb may be more difficult to sell on the German market due to the higher price it demands and stiff competition from New Zealand. Nevertheless, as prices decline during the year there could be opportunities at retail and wholesale. Some interest in Irish lamb has recently been expressed by the retail sector which could result in more trade.

Competition:

New Zealand currently supplies approximately 80 per cent (over 30,000 tonnes) of all sheep-meat imports taken in by Germany and is mainly made up of frozen lamb.

Spain

Sheep-meat production in Spain at around 260,000 tonnes is the second largest in the EU after the UK. The average carcass weight is 4.5kg.

Consumption of sheep-meat in Spain, at 245,000 tonnes, is third in the EU after the UK and France. This puts self-sufficiency at 106%. Per capita sheep-meat consumption is higher than the EU average at 6kg.

Around 12,000 tonnes of sheep-meat is imported to Spain with the principal time being towards year-end when demand peaks for Christmas. Most imports are frozen with New Zealand the principal supplier.

Spain has established an export meat trade of around 20,000 tonnes with around 7,000 tonnes going to France, with Italy and Greece also significant. They are also significant live exporters of lamb, principally to the south of France.

Spanish consumption is mainly for milk lamb of 7kg with a feedlot lamb of 11/13kg making up the balance. Consumption is very nationalistic with most retailers reluctant to promote imported lamb.

Irish trade to Spain at 800 tonnes in 2005 was well up on 2004.

Only the very best quality Irish hill lamb is suitable to supply the light carcass with a light fat colour and pale meat colour required by the market.

Portugal

Portugal is a small sheep-meat producer of around 25,000 tonnes. With a consumption of 34,000 tonnes it is only 73% self-sufficient. Imports, therefore, amount to around 10,000 tonnes annually. Per capita lamb consumption is low at 3.3kg.

Portugal is not as nationalistic as Spain and Irish lamb is well received in the market.

The market requires a light lamb 9/13kg with a light fat covering. It is very price competitive with Welsh lamb being the principal competition to Irish lamb. Demand is mainly for the Christmas market when domestic supplies are low. They have good access to retailers. These provide limited opportunity to promote at retail level, so most work is at trade level to ensure they are fully informed of Ireland's capability to supply the market. Irish trade in 2004 was strong at 1,300 tonnes but was well back in 2005 at just under 1,000 tonnes.

Netherlands

Less than 20,000 tonnes of sheep-meat is produced in the Netherlands but meat imports are significant at 12,000 tonnes. They continue to export around 6,000 tonnes.

Per capita sheep-meat consumption is low at around 1.3kg which results in a total consumption of 21,000 tonnes. Imports are distributed evenly between EU suppliers and New Zealand.

Irish trade has developed in the last few years and now amounts to almost 450 tonnes. The ethnic sector dominates the market, accounting for 65% of demand. The catering sector is strong for lamb in Holland with over 20% of consumption being attributed to that sector.

Scandinavia

The majority of sheep-meat going into Scandinavia was traditionally coming from New Zealand as frozen product. Mutton was especially popular. However in the last 2-3 years, Ireland has become increasingly interested in the region. Irish exporters appear to have achieved the right balance between price, product and quality.

The majority of this is going to Sweden. There is some trade in Denmark and Finland. Sheep-meat is a niche market in Scandinavia. The product tends to be both lamb and mutton. The trade is built around a meat offering including beef.

Sweden is a very small scale producer and consumer of sheep-meat. Production amounts to 4,000 tonnes while per capita consumption is only at 1kg with a total consumption of almost 10,000 tonnes. This results in yearly sheep-meat imports of 5,000/6,000 tonnes which is principally supplied by Ireland (2,000 tonnes), Belgium (1,000 tonnes) and Germany (1,000 tonnes). The remaining imports are from New Zealand. The Irish trade is mainly the supply of mutton to the processing industry which is well developed there.

Italy

Production: Sheep-meat production in Italy is around 70,000 tonnes per annum based mainly in the South of Italy. The typical Italian lamb is a light milk lamb weighing between 6-9 Kg.

Consumption: Per capita consumption is low at around 1.4 Kg or approx. 110,000 tonnes per year. It is highly seasonal peaking at Christmas and Easter. The requirement in the main is for a light, white carcass with very little fat cover. However there is a small market for somewhat heavier lamb cuts all year round in the north of Italy and for heavy fat ewes in the south. A growing Muslim population is causing a slight general increase in demand for sheep-meat.

Imports: Italy imports some light live lambs from Eastern European countries viz. Hungary, Bulgaria, and Romania. France is also a supplier. Meat imports come mainly from New Zealand, France, UK, and Spain with smaller volumes coming from Ireland. The Irish volume has been at around 1000-1500 tonnes over recent years.

New Zealand has historically supplied the bulk of frozen lamb into the market but is now supplying more and more in the fresh form. France supplies the lighter lamb (10-13 Kg) not consumed on the home market. The UK supplies a similar type of lamb and also good quality cuts all year round. Ireland supplies small volumes of light carcasses (10-13 Kg) and cuts.

Spain is a supplier of milk lamb carcasses at Christmas and Easter in particular. It is a very similar product to that produced in Italy and achieves a premium price.

Nature of Trade from Ireland: Italy has traditionally been an outlet for small volumes of carcass lambs weighing 10-13 Kg. Prices achieved for these lambs tend to be discounted relative to UK lamb who can supply higher volumes of more consistent quality.

Italy is also an outlet for cuts from heavier carcasses (15-18 Kg) which could not be sold bone-in. The market can absorb a good quantity of saddles all year round and this can be an attractive outlet especially when there are promotions for legs and shoulders in the UK and France. The import trade is dominated by importers/distributors, who supply the catering sector. Prices tend to fluctuate wildly with no real pattern. Carcase prices tend to be less volatile.

The Adriatic coast is a small but useful outlet for heavy Irish ewe carcasses which weigh about 35 Kg and are quite fat. There are a handful of wholesale importers who take supplies of ewes out of Ireland.

Opportunities: The light lamb carcase trade from Ireland has not increased much over recent years but will remain a relatively important outlet for light mountain lamb. The quantity of lamb cuts from Ireland has been increasing and so has the quality.

There is limited potential to grow lamb exports to Italy as consumption is low and NZ is well positioned. However to capitalise on whatever potential there is, Irish suppliers must be prepared to cut more lamb and focus particularly on the catering market. This sector has some further potential provided it is backed with quality and service.

DOMESTIC MARKET

Ireland is among the leading EU lamb consumers with per capita consumption of about 6kgs. Total Irish sheep-meat consumption in 2005 amounted to 22,500 tonnes. As production has declined in recent years the domestic market has increased its share of total production. It now accounts for around 30% of the total.

Research carried out by Bord Bia on lamb in Ireland indicates:

- Lamb is seen as a luxury meat with a specialised taste.
- Spring is strongly associated with lamb consumption.
- 74 % of consumers eat lamb with around 40 % eating at least once a week.
- The best consumers are over 35 years of age and reside in Munster but in recent years consumption in Dublin has improved as more lamb cuts are offered.
- Consumers generally would like more lamb cuts to be available throughout the year.
- More shelf space devoted to lamb would help consumption.
- Consumers are interested in lamb recipes that are easy to prepare and appreciate recipes being prepared in store
- The message on the nutritional value of lamb needs to be simple

The Irish market is year round and can be a useful testing ground for new products. On-pack recipes are now a feature of retail lamb promotion. Lamb is also promoted at events organised in the Bord Bia food centre for school-goers, health professionals and consumers generally. It is also covered extensively by the regional Bord Bia staff at Agricultural shows and food events throughout the country. Considerable work needs to be done in presenting consumer-friendly cuts of lamb to consumers. Bord Bia organises lamb promotions around Spring Mid Season and Autumn [hill lamb].

SECTION 4

CHALLENGES

Against that background it is clear that the industry will decline, albeit at a gradual rate, if action is not taken across a number of fronts. Effective action in a number of key areas can help the sector initially to consolidate and to embark on a path of growth.

Production

At production level the priority must be to maintain the ewe flock and thereby have a secure production base. This means that the decline in numbers must be halted. The objective must be a national flock of at least 3.5 million ewes with a target of four million. At the same time quality as distinct from quantity must be enhanced. While there are differing market requirements it is accepted that the ideal carcass weight for Northern Europe is 18 –21 kgs and this should become the accepted norm in the industry. In order to maintain our reputation as serious producers and to strengthen our clout in the market, the shoulders of the top quality production season need to be broadened. To achieve that there must be increased use of good quality rams and lambing rates must be increased.

The key to achieving this is the cadre of progressive commercial farmers who in effect must act as pioneers for change through better breed replacement and higher prolificacy. This in turn must feed back to the pedigree breeders to ensure that they breed for the requirements of the market. The reality is that is not happening at the moment. This in turn implies a more ruthless culling policy than has been the case up to now. Even a modest increase in lambing rates could have a dramatic impact; an extra 0.1 in lambing rates is at least four times the value of a 1kg increase in weaning weight.

At farm level the enterprise must be made attractive to a new generation of producers and made more compatible with the existence of part time farming. This objective inevitably leads into profitability, labour saving devices, improved standards of fencing and handling facilities where a new and innovative approach is required. In summary there needs to be a stronger emphasis on management techniques.

There are mixed views on the role of producer groups, on the one side they are seen as a pressure group on price and on the other an instrument to ensure a volume of good quality product. It is accepted that they have a role but there has to be a clearer understanding of their role and purpose. That role should centre on the delivery of a volume of product of specified quality within a particular period.

The need to improve breeding and to increase the use of high genetic merit pedigree rams is self-evident. Improved breeding should not just be an end in itself but rather a means to enhance prolificacy and growth rates.

The sheep breeding improvement programme requires a fundamental review and is not tenable in its current format. The establishment of a database to inform breeding decisions has to be a priority and ICBF could have a role in that regard. There is a compelling case for the involvement of ICBF.

Easy care is frequently referred to especially in the context of the New Zealand experience. Easy care does not equate with 'no care' but entails a system where productivity and growth rates are achieved, without an intensive labour input.

Clearly there are vast differences in flock sizes and farming conditions as between Ireland and New Zealand; nevertheless there are developments that and could assist the process in Ireland. These include the use of modern innovation to assist disease resistance, foot-rot etc. where interesting scientific developments have taken place. Work being carried out at Lincoln University is a case in point.

Livestock marts have lost a considerable volume of throughput in the sheep sector in recent years. There are many reasons, changes post Foot and Mouth, the drift to part-time farming, the reduction in the number of domestic abattoirs who tend to source their supplies from marts. ICOS have suggested that marts could play a role as assembly points for volumes of quality product. This is an issue worth examining but its viability will depend on it being beneficial for farmers, marts and processors.

In a modern food industry the presentation of animals at point of slaughter is the first link in the quality and food safety chain. There are lessons to be learned from the New Zealand industry in this area. The simple message is that more attention needs to be paid to the condition and cleanliness of lamb's prior to dispatch for slaughter. It is also accepted that there is a need to castrate lambs by August, where this is not done the quality of the product can suffer.

The same argument applies to the drafting of lambs. Sending animals under-weight or over-weight - and there may be understandable reasons for this – simply undermines good work already done.

Quality Assurance

Lamb is a product that lends itself relatively easily to Quality Assurance. Other meat sectors have such schemes. Given the extensive nature of the production system it can be argued that quality assurance is inherent in the product. It may be the case that quality assurance may not bring any special advantages in the French market but it could be the basis for opening some niche markets. Against that it is clear that there is a demand for such schemes in the Irish and UK retail sectors, indeed they are a sine qua non for entry to the market. Any credible assurance scheme should have credibility based on a volume of independent inspections.

The logical step is to have a scheme based on clear rules and requirements and inspections could be carried out in conjunction with those under the Beef Assurance scheme. In many cases this would entail a single inspection. Clearly the cost/benefits of any such scheme will be an important consideration.

Processing

As with any processing activity the challenge for any lamb processor is to ensure that the slaughter line works to maximum efficiency. The industry has the ability to handle a higher level of throughput and in that sense there is excess capacity. There is no evidence of any initiatives to change the current configuration. Clearly the concern for processors is to ensure that a steady supply of quality raw material is available. Clear signals as regards the

ideal quality in regard to weight and fat score, as well as a less seasonal production curve are key components of that process.

There is a growing emphasis on adding value to carcasses and in that context a wider spread of markets and the use of best technology in cutting product are matters that require special attention. Equally there are lessons to be learned from best practice in slaughtering, which avoids handling the carcass if at all possible. Washing animals prior to slaughter allows for less handling later in the slaughter line. Interesting developments are taking place in regard to electrical stimulation, especially customised stimulation in order to improve eating quality. The Irish industry needs to keep in touch with such developments. The route to market is critical and in that context the relationship with a series of intermediate boning halls in France requires constant attention.

Marketing/Quality

As has been outlined the market for sheep-meat is complex and competitive. A fundamental requirement is a regular supply of high quality product. There is strong evidence to show that the Irish industry does not always achieve that goal.

Table 7

EUROP Carcass Classification:

| | France | England | Ireland |
|--------------|---------------|----------------|----------------|
| U2 | 8.9% | 2.7% | 3.2% |
| R2 | 21.1% | 12.2% | 10.7% |
| U3 | 10.2% | 15.1% | 14.9% |
| R3 | 42.4% | 43.7% | 36.4% |
| O3 | 12.0% | 9.0% | 7.9% |
| Total | 94.6% | 82.7% | 73.1% |

For the selected EUROP grades shown, only 73% of Irish lambs achieve these grades compared to 83% in England and 95% in France.

Table 8

Carcass Weight Range:

| | France | England | Ireland |
|------------|---------------|----------------|----------------|
| 13 – 16 kg | 19.9% | 5.0% | 10.0% |
| 16 – 19 kg | 53.2% | 46.0% | 26.2% |
| 19 – 22 kg | 25.8% | 39.0% | 36.1% |
| | 98.9% | 90.0% | 72.3% |

Source: Bord Bia, MII

Tables 7 and 8 give a comparison with our competitors based on quality. The product has inherent advantages which when combined with a good image of Ireland as environmentally friendly creates a good platform for promotion. It is noticeable that most lamb is promoted on the basis of image and production conditions. Therefore it is essential that promotions have a quality product to back them and that the link between quality and the impact from promotion are clearly understood. A strong presence on the French market is essential for the future of the industry. That entails volume, quality and good positioning on the market.

The route to market is a key issue especially in France. Irish processors have relationships with all the major distributors and there would seem to be little advantage at this juncture in acquiring control of a single platform. The dynamics of that market will inevitably change and the Irish industry must have the flexibility and capability to move with whatever changes emerge.