Fighting for social justice from farm to fork.

Putting meat on the bones

A report on the structure and dynamics of the European meat industry.

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Contents

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Foreword

EFFAT commissioned GIRA to write the following report on the structure and dynamics of the European meat industry in order to give trade unionists dealing with the industry some new information and a different perspective on the challenges they face. GIRA have been providing their assessments of the industry to meat companies as well as their banks and investors for many years. They do not give a trade union point of view and EFFAT affiliates may object to some of the views they express - which are more sympathetic to the people running meat companies and arguably less understanding of the men and women who work for them than ours would be. However, they have given us a useful and honest overview of the industry as they see it and we believe that their insights and expertise can inform our efforts to better represent the interest of meat-workers.

EFFAT is naturally interested in what how European Works councils can improve the representation of workers in the meat industry. Gira's report identifies a number of key companies in Europe. Some have already got EWCS such as Danish Crown, HK Scan, Kerry, Plukon and Campofio Foods. Some companies look like they really should have EWCs already but for various reasons don't have one yet. In this category the European companies Vion, ABP and Tonnies are the ones that really stand out. We can also spot two American giants that have avoided having an EWC for many years. Cargill has European meat operations in the UK and France but of course is much bigger than just its meat business and is present all over Europe. Smithfield has directly owned subsidiaries in Poland and Romania but has put the rest of its European businesses into Campofrio foods. So although Campofrio now has an EWC it has not been possible to create a Smithfield EWC bring Campofrio workers together with their Polish and Romanian comrades. Two other international businesses that we need to be aware of are from Brazil: JBS and Marfrig. They have so far acquired European businesses in only one country each; JBS in Italy and Marfrig in Northern Ireland, with the acquisition of Moy Park. However, both these companies are likely to expand their European operations if they see a suitable opportunity present itself. Finally we must watch the national champions that are significant across Europe in terms of size and market position and so would be suitable for an EWC if they start operating in other members sates in future (whether that be a consequence of expansion, merger or acquisition). Companies like Westfleisch in Germany, Biggard, Doux and LDC in France, 2 Sisters in the UK and Veronesi in Italy would fall into this category.

Having identified the companies of interest to us from the point of view of an EWC strategy, we can also use GIRA's report to look at common issues that workers' in meat companies are facing and on which they would benefit from having a common response.

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Primary processing companies are experiencing cost pressures from a number of different areas:

- Competition from outside the EU (especially from Brazil and Thailand)
- Over-capacity of the industry (linked to external competition)
- Aggressive retail power (not so pronounced in southern Europe)
- The gap between slaughtering and further processing (grabbing the profit)
- High animal prices (linked to global demand and grain prices)
- The German meat industry (low wages and economies of scale)

Employers are responding with strategies that hit workers in various ways:

- Taking unprofitable business to keep busy – putting more pressure on labour costs
- Increasing line speeds – with health and safety implications
- Increasing mechanisation – more production with fewer workers
- Pushing flexible labour arrangements and introducing shift work
- Dividing the workforce – core vs precarious workers (often sub-contracted migrant labour)
- Moving production to cheaper parts of Europe
- Consolidation of businesses (reduce competition and exploit economies of scale)

Trade unions and EWCs need to develop their responses to these issues. Some of the things we might consider are:

- Counter-pressure to stop big retail bullying on prices;
- Labelling/ identification initiatives (especially for Horeca);
- Consumer awareness initiatives to promote the value of locally produced meat;
- Clear positions on EU trade agreements relating to meat (especially from Thailand and Brazil)
- An even greater commitment to keep fighting against precarious work and low wages for meatworkers in the EU;
- Solidarity with meat unions in low cost countries fighting for better terms and conditions;
- Better ways to share information about innovations that increase H&S risks for workforce so that we can fight them effectively.

We also need to keep up to date with the many changes occurring in the industry so that we can continue to respond appropriately. This is not an easy task. However, in addition to EWCs in the sector, the new meatworkers.org website and the new EFFAT Working Group give organised European meat workers and their unions the space and the opportunity to tackle these challenges together … and it is only together that we can prevail.

Harald Wiedenhofer
EFFAT General Secretary

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1. Introduction

This report focuses on the structure and dynamics of the primary processing of meat in Europe. That is the defined as the slaughter and de–boning of meat. The European slaughter industry has slowly evolved since man began farming livestock in Europe. It has developed from its subsistence origin of local animals being sold as fresh meat to local consumers … and further processing as a means of preserving meat: to a 40 million tonne per annum industry, capable of supplying meat to the whole of Europe and exporting to many countries through the rest of the world.

There are still clear signs of its origins, with local preferences and cultural differences still evident in both fresh meat and the enormous range of processed meats. Very largely the processors operate regionally or at a national level. Although there is a large volume of meat which is traded across national borders, very few of the European processors have operating assets in different countries. There is no processing company which could be deemed pan–European: certainly not in the scale or scope that the major US or Brazilian firms operate.

In spite of national differences to meat eating culture and in the structure of the processing industry, the meat industry has a very individual culture which is different to most other industrial sectors:

- it is dealing with an expensive raw material, which is micro-biologically alive … and dangerous to human health if mistreated;
- it is prone to sporadic crises and upheaval by animal diseases and other events, which are difficult to predict;
- labour cost is the second major component of cost for processors (after their raw materials);
- it employs a vast amount of labour – often in rather tough conditions: of being cold, repetitive, and requiring physical strength. Not surprisingly labour turnover rates are high. Retaining labour is often a challenge;
- it has a 'producer mentality' quite closely related to a farming culture;
- it faces huge day–today operational and management challenges;
- it is a fragmented industry, with excess capacity … and consequently under cost pressure from more powerful customers, who have access to imported product and can pressurise on cost. So the meat industry margins and low … and volatile.

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The sector is under immense pressure to reduce its costs and compete at not just a European, but a global level... whilst still hanging on to its provincial origins. This is a time of change, with pressure on the industry to respond to the increasingly demanding needs of its customers, and against international competition which has lower costs. With around 1 million people employed in the EU meat processing industry (not including the farmers), and with labour being a key component of cost: this is a highly important and sensitive sector. The whole industry needs to be aware of the serious issues which are faced, and to work together to tackle them.

To understand this situation, the whole story of the slaughter industry must be considered; the scale, the different species, the integration at a national and EU level, and the cost drivers that increasingly force the hand of change. It is a complex picture, with no simple solutions for the future, and a string of hard choices if companies and the industry are to survive.

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2. Global Perspective

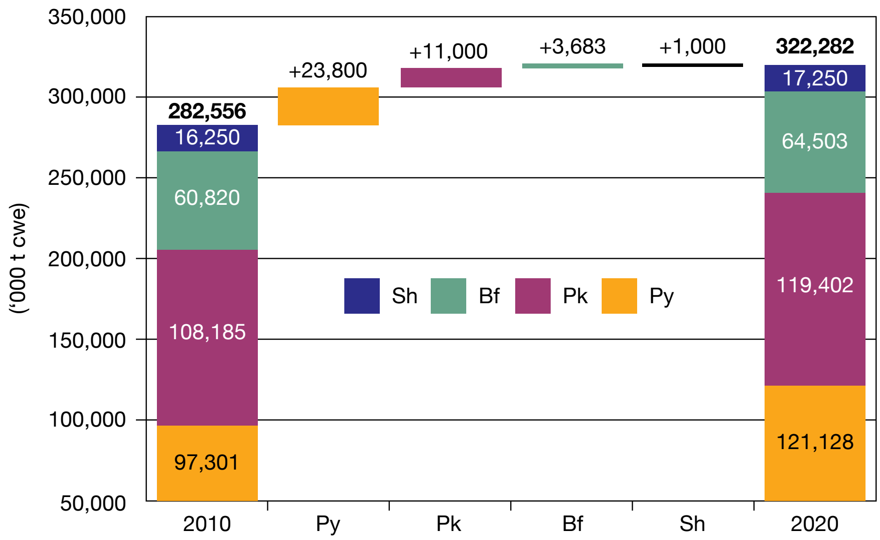
2.1 Global Meat Consumption

Over the next 10 years there will be strong global meat consumption growth, driven by rising disposable incomes and living standards around the world, but especially in Asia and the Middle East.

Increased disposable incomes mean consumers in Asia will eat larger quantities of meat at a time, and eat meat as part of a main meal more frequently. Meantime, in spite of quite a lot of negative press[1] and imagery, the total meat consumption in the EU will be rather static at around 40 million tonnes. Whilst this is a huge volume: the key point for Europe's meat industry is that the majority of consumption growth will be elsewhere in the world.

Increased demand will favour poultry meat (especially broiler meat) due to its relatively low cost of production; this will be followed by pigmeat for similar reasons.

Global Meat Consumption Growth by Species – 20010 – 2020(f)



Source: Gira Long-Term Meat Study

Whilst Asia will be at the forefront of demand growth over the next 10 years, it will struggle to develop its domestic production at the same rate as demand is increasing, leading to an increase in imported meat. This will favour the lowest cost production chains, which can compete most efficiently in a globalised market that is focused on price. Brazil and the US are likely to be the biggest winners due to their cost advantage throughout the meat production chain. Their low cost advantage stems from both agricultural and industrial strengths. The agricultural advantage reflects a combination of climatic, soil, landmass, and structural strengths. These are compounded by the scale of their meat processing factories, the industrial concentration and integration, and the low cost of their labour, relative to Europe.

1 Negative press from elements of the vegetarian, environmental, animal welfare, medical research, and nutritional fraternity – amongst others.

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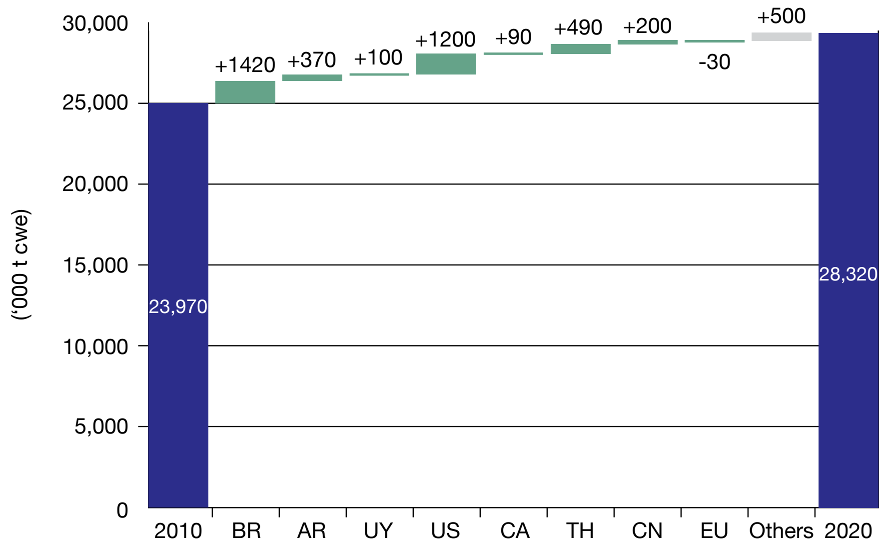
Global Meat Export Growth by region– 20010 – 2020(f)



Source: Gira Long-Term Meat Study

The EU is likely to lose volumes of meat exports over this decade, as meat production is less competitive on cost from the EU than Brazil (cheaper feed) and the US (better scale economies and cheaper feed).

However, the EU should grow its 5th Quarter export volumes[2] over the same period, as processors become increasingly adapt at accessing foreign markets for these products at higher values than they can achieve domestically.

2.2 Key Global Livestock Slaughter Companies

The European meat industry needs to be seen in the context of the global industry. That is because European companies have to compete with 3rd country operators in two key areas: against imports in the core domestic European market, and against these companies in some of the attractive 3rd country export markets.

The top 10 global meat processors account for approximately 15% of the global kill, with the next 10 accounting for a further 3%. This is a fragmented industry, with huge international variations in practice, quality, and preference, which few have managed to grow into global businesses successfully.

The key Brazilian companies (JBS, Marfrig and Brasil Foods) have grown quickly over the last 10 years, to become the leading players in the world. This has mainly been achieved through the opportunistic acquisition of companies in a spate of takeover activity. The objective has been the purchase of apparently cheap assets to gain scale economies for international marketing, to broaden their product portfolio, to gain route–to–market in markets where they perceive an interest for Brazilian product … and of course, for profit. It was enabled by the encouragement of the Brazilian Government.

2 This 5th Quarter includes items such as the hides, intestines and internal organs which are not includes in the definition of carcass. This volume is not included in the above chart, which just records carcass weight.

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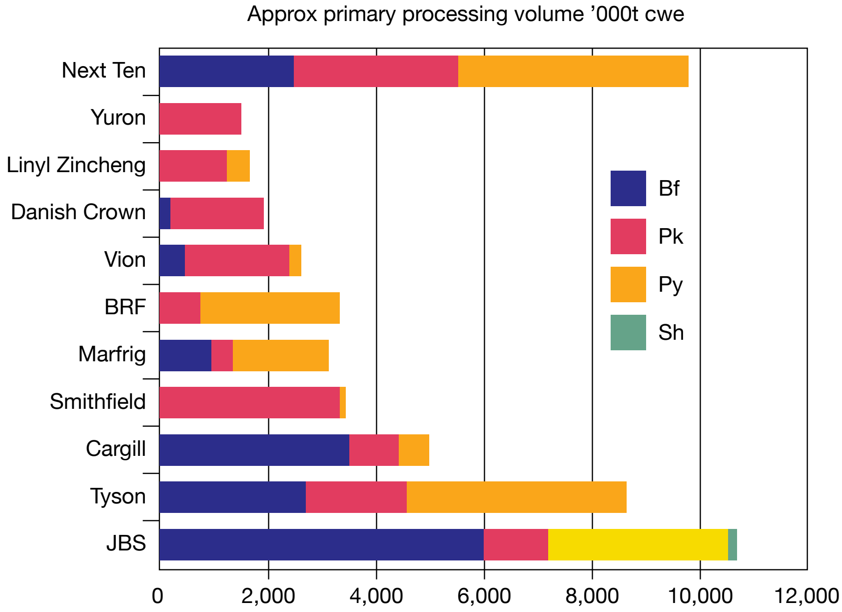
Of the global top 10 meat production companies, only 2 are European, (Vion and Danish Crown) and both are much smaller in terms of slaughter volume than the leading 5 companies in the list. Both only produce within the EU with a small global sales network.

Major Global Meat Processors– 2011



Source: Gira

The challenge for the vast majority of EU processing companies is how to maintain their cost effectiveness against imports, as well as becoming competitive for specific cuts in global export markets. Is it enough now for them to be relatively small national operators that are good in their home markets?

3. Structure of the European Meat Industry

3.1 Integration in the EU Slaughter industry

There are 2 forms of integration within the European slaughter industry that are important from a structural perspective;

- **Vertical integration**, which should be considered again as 2 parts;

  Backwards, (where a company has investment in feeding and livestock ownership). This is rare in the European red meat sector, although the common model in poultry. There are a few notable examples, of which the Veal operator Van Drie would be one of the best examples.

  Forwards, where a company has further processing activities, producing complex meat products, normally as a method of adding value. Also not common in the EU. Tulip Foods, a subsidiary of Danish Crown would be a one of the better integrated firms.

- **Horizontal integration**, which in the slaughter industry is normally used to describe companies who move into mixed species operations. This is more common, normally occurring through merger and acquisition, although many small slaughter plants are multi species. There are several notable international operators here, although few tackle both red meat and poultry.

European slaughter groups largely limit their activity to slaughtering, de-boning and cutting of carcasses. They sell 'ingredient' meat to further processors and retailers. Industrial retail packing is increasingly becoming a specialist activity in the hands of plants dedicated to major modern retailers, although often independently owned (best illustrated by the Hilton Food Group relationship with Tesco[3]).

It is notable that in fresh meat there are very few processor brands present at retail, with the modern retail chains preferring to develop their own retail brands in meat, and therefore the control over where they source meat from. Processor brands are more plentiful in further processed meat products.

Further processing in the EU is largely a separate industry to slaughtering. Further processing in this instance is the production of cooked or raw meat products, which have other ingredients added; these range from raw seasoned beef burgers and sausages, to the vast range of cooked, cured or smoked products, and to more complex ready meals where meat plays a small part of the overall product weight. Those slaughter companies that are forward integrated to this level tend to run their further processing operations at arm's length from their primary activities as the business dynamics are different: with low cost ingredient purchasing, adding value and brand marketing being key.

3 *Hilton also has a close relationship with Albert Heijn (NL), ICA (Se), and Coop (Dk) amongst others.*

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The further processing sector has traditionally been higher margin than primary processing. Not surprisingly there has been a trend for forward integration – either organically, or through acquisition – to capture these better margins, and to secure an outlet for ingredient meat.

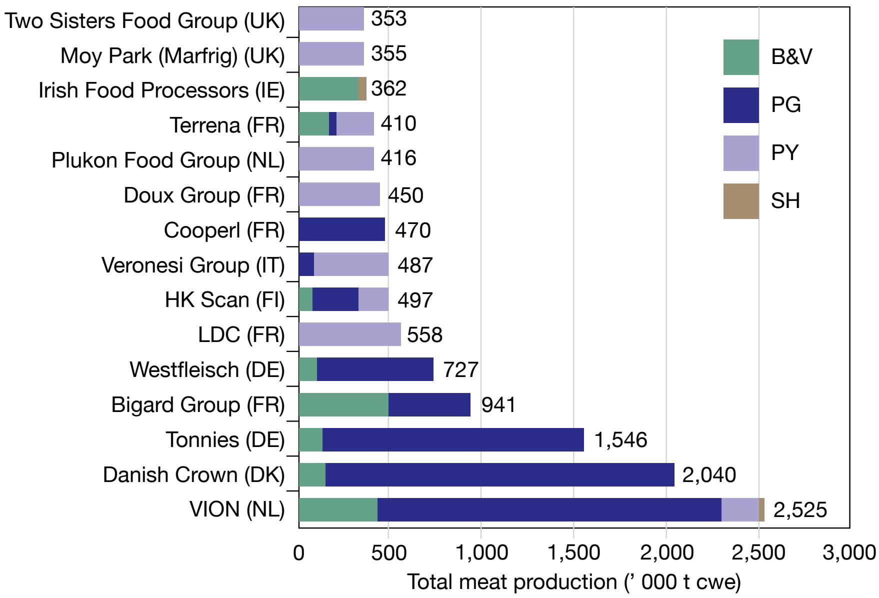
3.2 The Top EU Companies

The EU meat processing industry is undergoing steady consolidation within each country, but is still far from being a concentrated industry – either nationally, or at a pan–European level. The top 15 companies have 28% of the EU meat production, accounting for 12.1 mio t of production in 2010, an increase of 3.2 mio t over 5 years, and marking steady consolidation across much of the industry.

At EU level, and even within most Member States, there is normally a long tail of much smaller slaughter companies after the top 3–5. These operate locally, traditionally and are fiercely independent.

The biggest European meat companies are pigmeat focussed, with some beef activity. Very few firms operate in red meat and poultry. Of the major players, only Vion has some poultry activity[4], and this is minor compared to the overall operation (although bigger than lamb). Whilst several of these companies now have slaughtering activity (and further processing) outside of their home country, none are truly pan–European for slaughtering: normally with 2–3 countries the limit of their scope. However the sale of meat can be highly international – normally achieved through traders, but the largest companies have their own international sales operations.

Top 15 EU27 Meat Companies, by Meat production Volume 2010–11



Source: Gira compilations and estimates

4 *The poultry and lamb activities were acquired as a part of the UK Grampian Country Food acquisition in 2008. This acquisition has proved problematic, and Vion is currently in the processing of selling its UK activities. This important development is covered later in the report.*

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The leading poultry processors tend to be single–species companies, normally focused on broiler chicken, and not even dealing with other poultry species – let alone the red meats[5]. Poultry is a much more modern industry which has developed fast over the last 50 years as they have grown their market. These leading poultry companies also tend to be nationally focused, with little primary slaughtering activity outside of their home market.

Those European slaughter companies that have become multinational have found it difficult to exploit the synergies in production and marketing. They often bear the cost of restructuring a national industry, whilst the other players reap many of the benefits.

Pig and poultry slaughtering is characterised by large, scale–efficient and high–tech plants. This is enabled by the standardisation of their input animals: which are the product of intensive, highly specialist farming, which suits the nature of an automated slaughter and de–boning line better than cattle and sheep.

Cattle and sheep slaughtering in the EU is still relatively small scale, with lower numbers of livestock processed, typically through smaller lower–tech plants. These plants are hard to mechanise, due to both the capital cost involved and the lack of uniformity in carcasses. As cattle and sheep numbers have declined in the EU, the excess processing capacity situation has become more severe. One dynamic of this is that animal procurement is a key skill … and this is a very local and relationship business – reflecting the small size, family ownership and fragmented nature of the farm supply base.

3.21 Vion

The development of Vion over the last 10 years into the EU's biggest meat processing company is an important and salutary story. It illustrates how difficult it is to consolidate the meat industry and achieve scale economies.

Vion is owned by the ZLTO farm union in the south of the Netherlands. ZLTO had accumulated a substantial capital reserve, largely from its extremely profitable rendering business. It felt a strategic need to rescue the troubled Dutch cooperative, Dumeco – and it rapidly had the opportunity of 3 major acquisitions in the German primary processing sector. Subsequently, in 2008, it had a further opportunity to acquire the biggest, but troubled, UK processor, Grampian Country Food Group. These foreign acquisitions were made for a combination of good reasons: they were cheap, they were big, and they were in the key export markets for the Dutch. So here was an opportunity to buy significant assets in key markets: to invest in them and to sort them out. The result was intended to be scale advantage at a national and international level. In so doing, the group became multi species, as well as vertically integrated through to further processing.

The emergence of Vion, and its subsequent strategic development, is important to everyone in the industry – be they employees, suppliers, customers or competitors. However, sadly the experience has not been easy for Vion. Even though it has invested heavily to restructure some of its operations, the task seems to have been too great and too costly. It has lost slaughtering share in all of its key markets, it has not been profitable, and it has recently announced the forthcoming sale of its UK operations. This is a significant retreat for Vion. It is also an

5 *There are a few which have gained pigmeat activities through merger and acquisitions.*

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example of how tough the market conditions are in the European meat processing industry, and how difficult it is to be a leader in the restructuring of this industry.

3.3 EU Further Processing Companies

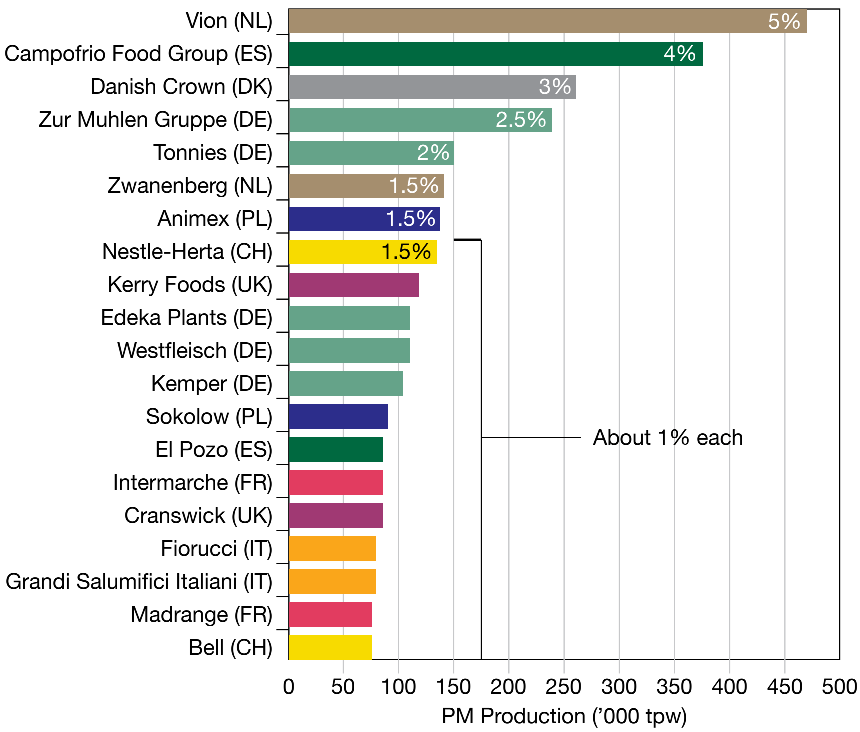
Whilst further processing is not the focus of this report it is worth noting that there are only a few pan–European further processed companies. There are a large number of nationally or regionally focussed firms, due to a high level of regional preferences for processed meat products. The few international operators have two distinct strategies:

- Produce generic products on a high volume : low–cost, commodity basis, to capture the volumes at the cheaper end of the market. This is typified by the cheaper products in retail (especially in hard discounters), a significant share of food service, and for ingredient use in assembled modern products such as ready meals pizza etc.. Typically these firms operate from a few large–scale manufacturing plants.

- Build up a range of nationally based production companies, producing local products for their domestic market, under established brands. This strategy is typified by Campofrio Food Group.

In Western Europe, the companies in this further processing sector have traditionally been different to the slaughter industry, they have not been backward integrated, and they have a different culture and operating dynamics. In the New Member States (NMS), there was more vertical integration. However, there has been a recent trend towards forward integration by the slaughter industry into further processing: either through organic development, or through acquisition.

Top 15 EU27 Meat Companies, by Meat production Volume 2010–11



Source: Gira estimates

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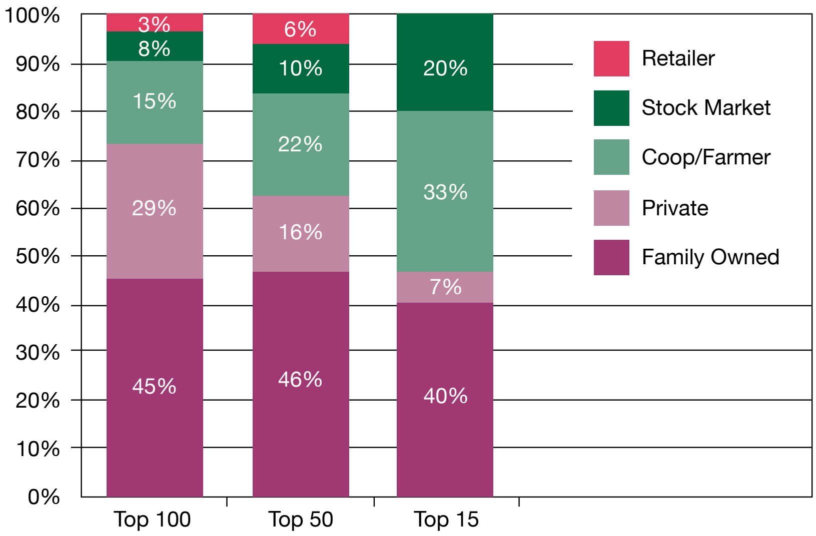
It is notable that the companies in the list rapidly become smaller – to reflect a long industry tail with few operators being backward integrated to slaughtering, and predominantly being focused on traditional, regionally branded, processed products.

3.4 Ownership of the leading EU Slaughter Companies

European primary processors are largely owned by the private sector (including family ownership), with 47% of the top 15 and 74% of the top 100 companies falling under private ownership. Farmer–owned cooperatives make up the next major ownership bracket, accounting for a further 33% and 15% respectively, whilst stock market ownership is just 20% of the top 15, and a much smaller proportion of the next tier of companies.

Ownership of the Top 100 EU–27 meat companies – 2010



Source: Gira compilations

Private and family ownership has continued to dominate the industry in Europe (and to some extent globally) due to the highly operational & volatile nature of the business, the importance of personal and local relationships to procure livestock, and that the profitability and growth rates have been inadequate for stock market investors. Family businesses have largely found solutions to the challenges of succession, and have managed to keep the business together, although these companies remain open to ongoing merger and acquisition, especially in difficult times.

It is notable that in the last couple of decades municipal ownership of slaughter plants has dwindled, this has been due to the need to invest in newer technology and larger plants, which has taken the industry beyond the scope of many local authorities. This means that the ethos and service behind these once public facilities has changed to harder commercial realities.

Investment from Brazil in the European slaughter industry has not been at the same level as seen in the US, but has been a part of the reality of a global industry. This has been with mixed results for all parties, but does allow for some increased investment in parts of the European industry and some longer term stability. This investment had slowed in recent years, after an initial surge, to allow the acquiring companies to align their acquisitions with their core business. It is likely that there will be further substantial acquisitions in the future.

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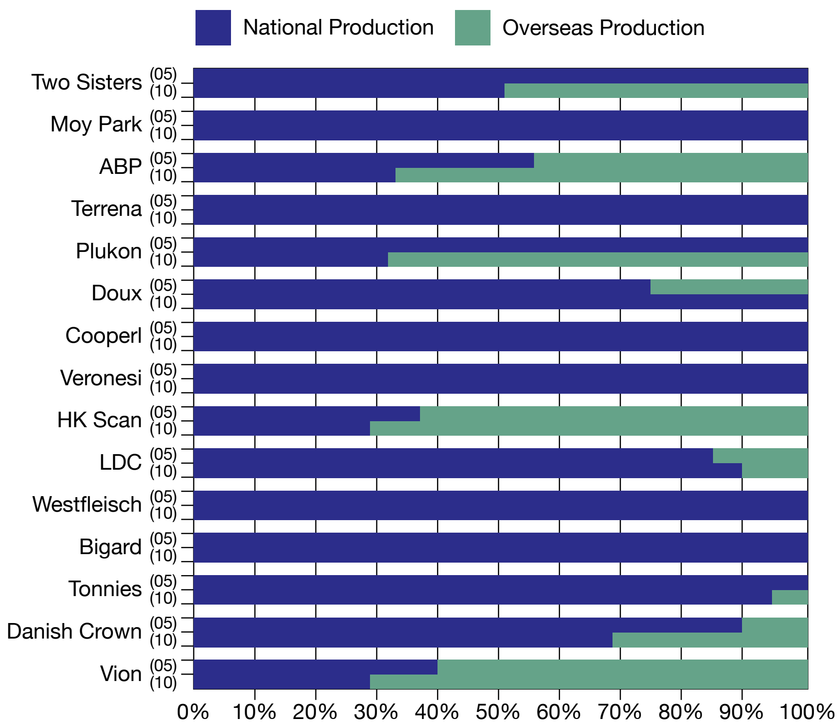
3.5 Internationalisation

There has also been a significant trend by the market leaders to internationalise in recent years with share of production produced outside of their home market increasing in many of the top 15 companies. The key mechanism for this growth is cross border acquisitions of slaughtering assets. These acquisitions tend to be in neighbouring EU countries, allowing for integration of some activity.

Normally these acquisitions are opportunistic, and require a subsequent injection of capital to make them work. There are both successes and failures in this model, but there is an increased significance in the ability of a company to be able to market some of its cuts / product onto 3rd country markets.

Top 15 meat companies % overseas production – 2005 vs 2010



Source: Gira compilations and estimates

There are a several companies on the list that have not made the transition to multinational well. There are a number of reasons for this which includes competition from smaller, local competitors, and the cost of integrating the acquired plants into the company structure (often with some plant closure / modernisation required).

None of the EU slaughter companies have primary processing activities outside of the EU. Historically they were important – especially for some of the old British meat groups mainly as a source of meat to be imported into the UK. These international processing and trading firms have been broken up, with the 3rd country assets acquired by local firms. The French firm, Doux is the latest to retreat from foreign processing as it has exited its Brazilian chicken and Pigmeat business. Now in fact, the trend is reversed, with a few foreign slaughter firms, buying–in to EU processing as a route–to–market for a full portfolio of meat options to include fresh, frozen and further processed (e.g. the Brazilian firm Marfrig). Many EU processors export to 3rd countries, but only the biggest have their own international sales force: whereas the great majority export through international trading firms.

Lastly the European industry still has a considerable way to go in terms of concentration and although the degree of severity varies between the species there are a few factors which are common to all;

- Slaughter overcapacity, with lines unable to operate a full 5 shifts per week in many plants, let alone 10...
- Small companies, leading to less negotiating power in the market, especially when dealing with major retail clients.
- Small plants, which are not economic for investing in modernisation of slaughter lines, or where investments made are harder to realise.

This leaves European slaughter companies at a disadvantage on the cost of slaughtering and cutting compared to potential importers who operate larger scale plants and in many cases also have a significant labour cost advantage.

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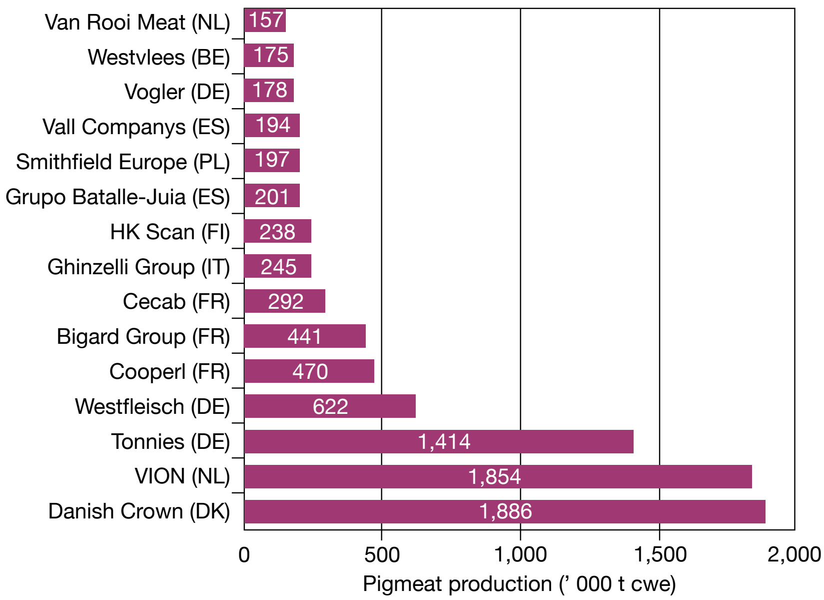
4. EU Slaughtering by key Species

4.1 Structure of Pig Slaughtering in the EU

The pig and poultry slaughtering industries in the EU are the most concentrated of the species. There are 3 significant major European slaughter groups in pigs, which have an international presence and account for > 6% of total EU pigmeat production each.

Top 15 Pigmeat companies in the EU (by volume) – 2010–11



Source: Gira compilations and estimates

The industry is continuing to concentrate with the top 15 companies now accounting for 37% of EU pigmeat production (2010), up from 34% in 2005. This is driven by the closure of small plants, which are replaced by increasingly large, modern, automated plants. These new plants have a cost advantage in processing over the smaller operators.

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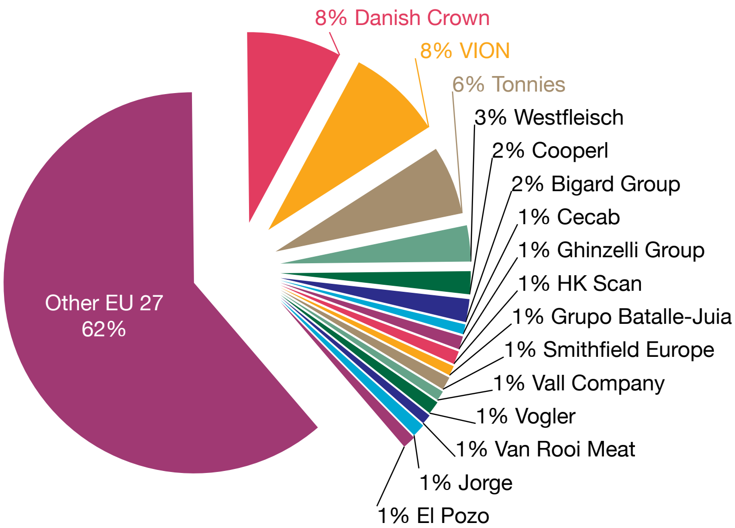
Top 15 Pigmeat companies Share in EU27 production (%) – 2010–11



Source: Gira compilations and estimates

Most of the leading 15 companies have grown over the last decade, mainly through merger and acquisition of smaller companies, although in some countries this has now reached a peak, with leading companies now looking for opportunities outside of their home markets. Notable examples here are;

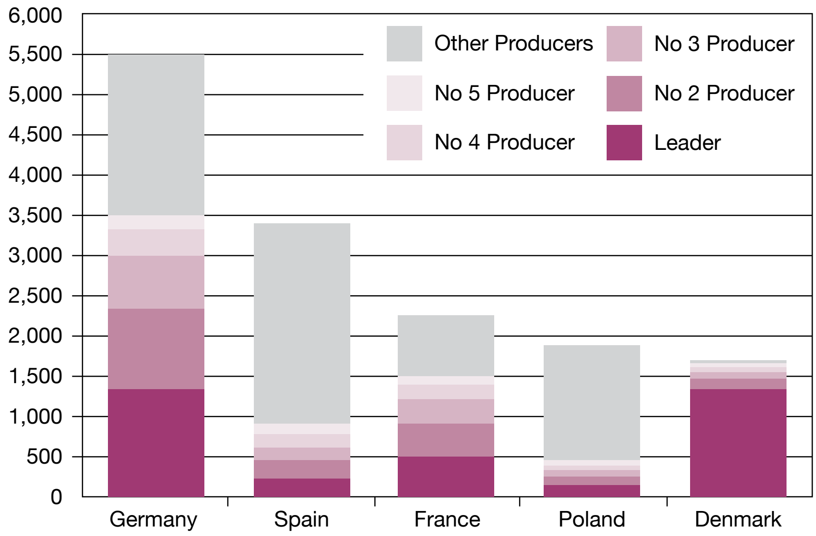
- **Danish Crown**: is the result of many mergers amongst the export oriented cooperatives in Denmark. It has dropped slightly to an 80% share of production in the domestic Danish kill, whilst looking to opportunities for slaughtering and cutting in its neighbouring German market, where it can utilise the same labour advantages as its key competitors (Tönnies & Westfleisch) in the market. It acquired a 50% share of the Polish firm Sokolow, and has invested further in deboning operations as the costs are lower than in Denmark. Danish Crown is also a major player in the UK where it has long invested in further processing as a route–to–market for its Danish meat, and where it has over the last 20 years also acquired slaughter activities to provide local origin meat to service its UK customers.

- **Vion**: who has also lost market share on its domestic Dutch market, after acquiring Hendrix Meat Group, and investing in its plants. It acquired into the UK and Germany, but as previously stated, the cost of integrating and modernising has come at a time of tight margins in the industry. Profitability has been unacceptable, and other operators have proven more competitive as they do not carry the same burden of investment and overhead costs.

- **Tönnies**: The fastest growing of the 3 leading companies, is a German slaughter group and the leading EU slaughterer of sows. It has been very successful over the last decade in Germany. This has been achieved through a mix of having large, modern, automated and efficient processing plants, with low cost contract labour advantage. It is a key supplier to the hard discounters Aldi and Lidl, and has grown on the back of hard discounter market share growth in fresh meat and also in processed meat. It also has good procurement relations. The Tönnies family also acquired the Zur Muhlen group of further processing companies. Outside Germany, it has acquired – and then grown a slaughtering business in Denmark. Through which it has access to some of the 3rd country markets for which German supply is not possible. It also is investing in Russia. However a family dispute might herald some restructuring of the business.

After the leading 15 companies there is a significant tail of slaughter companies in the EU, which are mainly nationally focussed, and produce less than 100,000 t cwe of pigmeat a year. Many of these plants are in need of modernisation, but can continue to operate as the equipment has already been amortised, allowing them to compete with bigger better invested operators. Of the major Pigmeat producing countries in Europe, the fragmentation of ownership in Spain and Poland is especially striking.

Concentration in leading pigmeat markets in the EU – 2010/11



Source: Gira estimates

4.2 Structure of Cattle Slaughtering in the EU

The EU beef slaughter industry is very fragmented, with only 3 notable players followed by a very long tail of medium sized companies and a longer tail of single plant, (and sometimes multi species), smaller slaughter companies!

The top 15 companies held 36% of total EU beef production in 2010–11, up from 30% in 2005. The leading companies have grown by merger and acquisition, whilst many of the small slaughter plants have closed as they cannot compete with the efficiencies of the larger plant, or gain access to the modern retail system.

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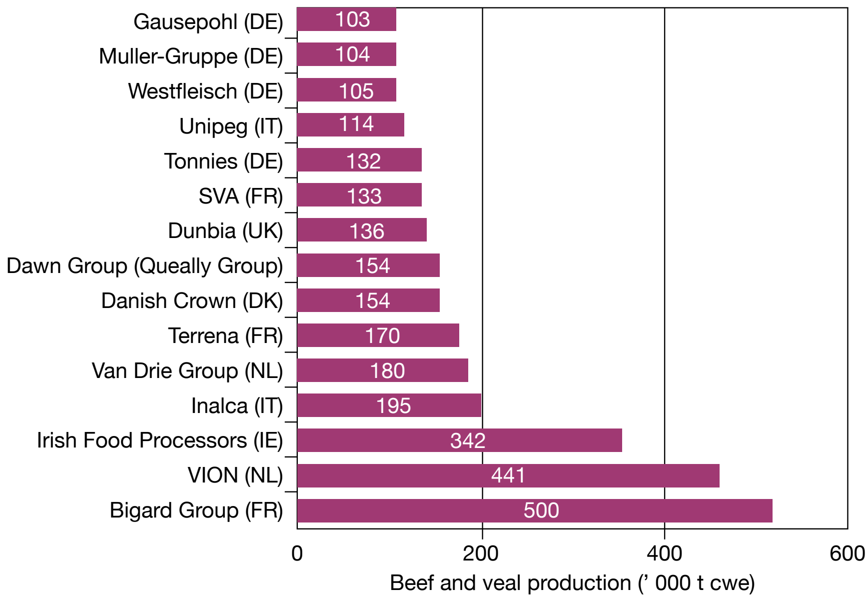
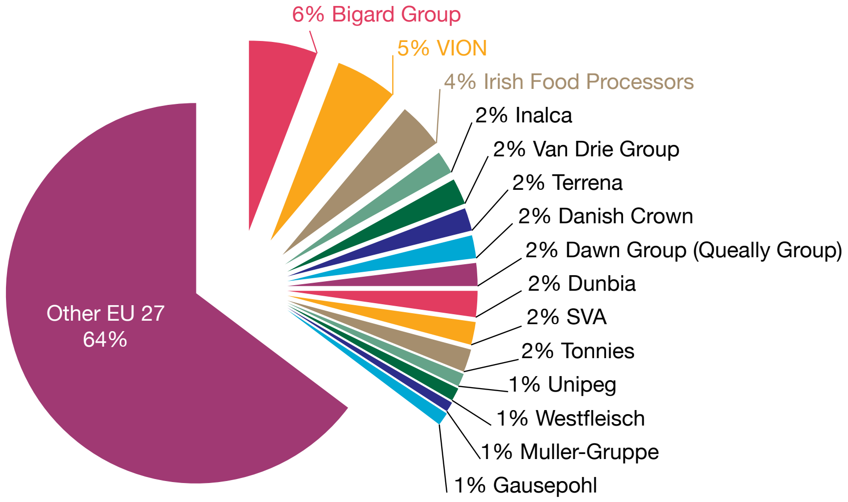
Top 15 Beef & Veal companies in the EU (by volume) – 2010–11



Source: Gira compilations and estimates

Only 3 of the top 15 beef and veal companies are also in the EU Top 15 slaughter companies (by production volume) and both Bigard and Vion have considerable pigmeat activity. With the exception of the Irish owned firms (ABP, Dawn and Kepak), the British Dunbia, Vion, and the Dutch company van Drie, the other leading companies are focused on their domestic market for beef production, with no true multinational beef production operation … although they do have some export sales activity.

Top 15 Beef & Veal companies Share in EU27 production (%) – 2010–11



Source: Gira compilations and estimates

The leading beef production countries do have a high level of domestic consolidation, with France, Germany and the UK all having >55% of national production in the hands of the top 5 national players.

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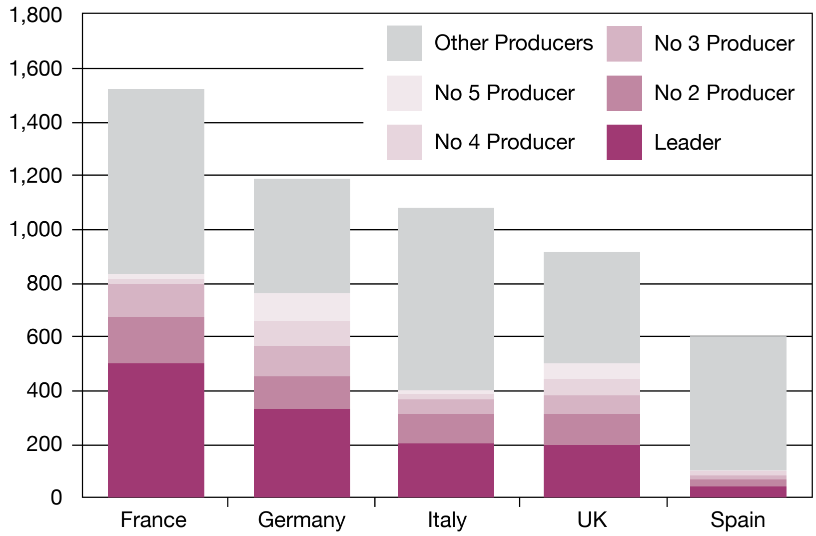
Concentration in leading beef markets in the EU – 2010/11



Source: Gira estimates

With the long term and steady decline in the European beef and dairy herds, there is now a shortage of slaughter cattle compared to slaughter plant capacity in many EU countries. This has led to a number of serious structural issues in the beef slaughter industry, with few companies prepared to bear the cost of plant closures that would benefit those that remain in the business. In the meantime slaughter plants are paying increasingly higher prices to attract cattle, in order to maintain throughput in their plants. Even so, many plants in Europe are failing to operate 5 shifts a week.

4.3 Structure of Poultry Slaughtering in the EU

The outstanding characteristics of the European broiler business are its steady growth, its vertical integration (with most of the production being orchestrated by the integrators) …. but its modest profitability over the years. The modern further processed poultry product sector has largely shifted to using imported ingredient meat either in raw from form Brazil, or cooked from Thailand. Domestic broiler meat struggles to find an outlet in further processing.

The poultry slaughter industry in the EU is more concentrated, with 38% of slaughtering carried out by the leading 15 companies. Although due to downsizing by 2 of the leading European players since 2006 the level of concentration has actually apparently fallen from 51%! This is not seen in any other slaughter sector and is due to exceptional circumstances, as the other key players in the poultry industry have continued to consolidate, looking for synergies between plants, supply contracts and in selected cases across national borders.

The two major companies that have downsized are the former numbers 1 and 2 in the EU: Doux & Veronesi (Aia). Both companies were heavily integrated, and have suffered from the impact of disease (HPAI) and high feed costs, pushing their live bird prices higher than has been competitive. Doux also had production and slaughtering activity in Brazil, which it has recently divested as part of its restructuring. The French core business has had a very tough few years. It entered Administration in 2012, from which it is now being restructured, with part of the business being taken–over by the Barclays Bank.

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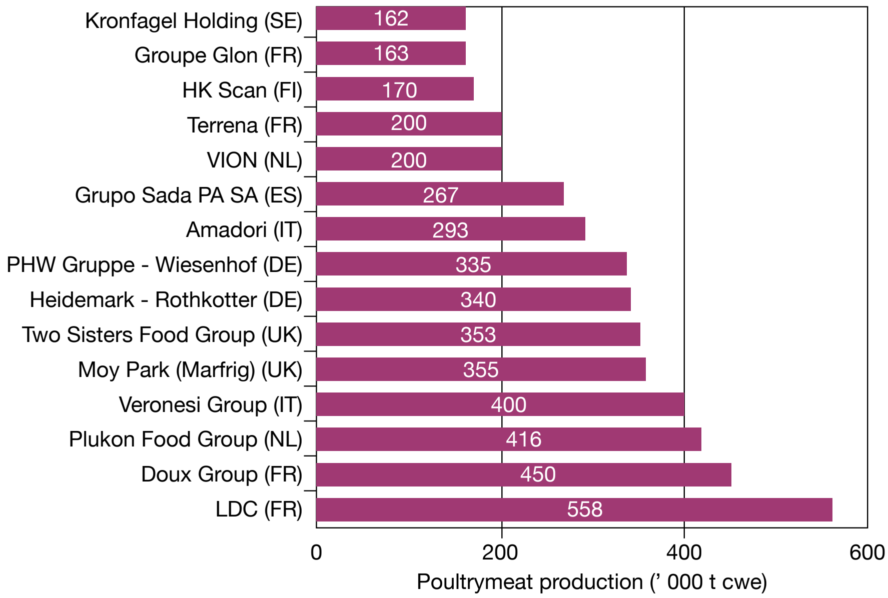
The industry leader, LDC of France has grown through a solid core business and through opportunistic acquisition. In leading EU countries (based on production volumes) the overall share of the top 5 companies has not changed very much in the last 6 years, but the ownership of those shares has, with increasing investment across borders, from what was, and still is a domestically focused industry, with the best premium for fresh chicken, supplied to its domestic market.

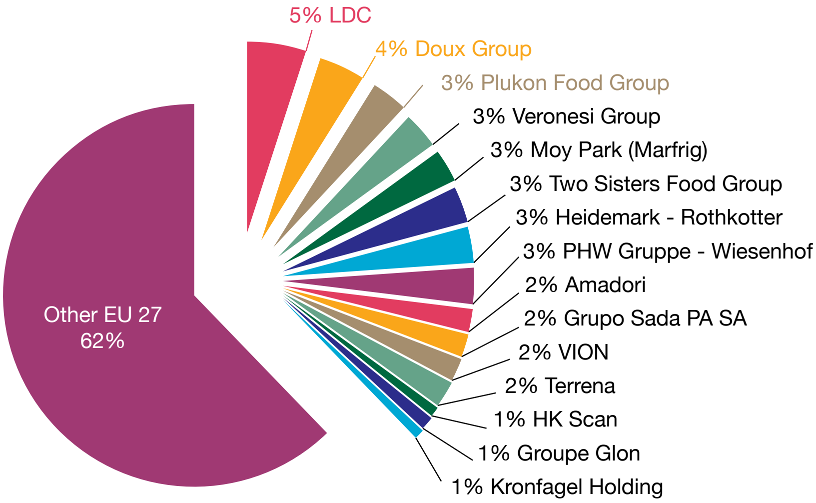
Top 15 Poultry companies in the EU (by volume) – 2010–11



Source: Gira compilations and estimates

Amongst the leading players there has been a spate of merger & acquisition activity. The key German players have consolidated, also involving merger between the broiler and turkey sector. Plukon has grown strongly: with operations now in Germany and Belgium, as well as its core Dutch business. Moy Park was acquired by the Brazilian beef processor, Marfrig. Two Sisters acquired Storteboom. Vion acquired the Grampian broiler business, along with its red meat activities etc.

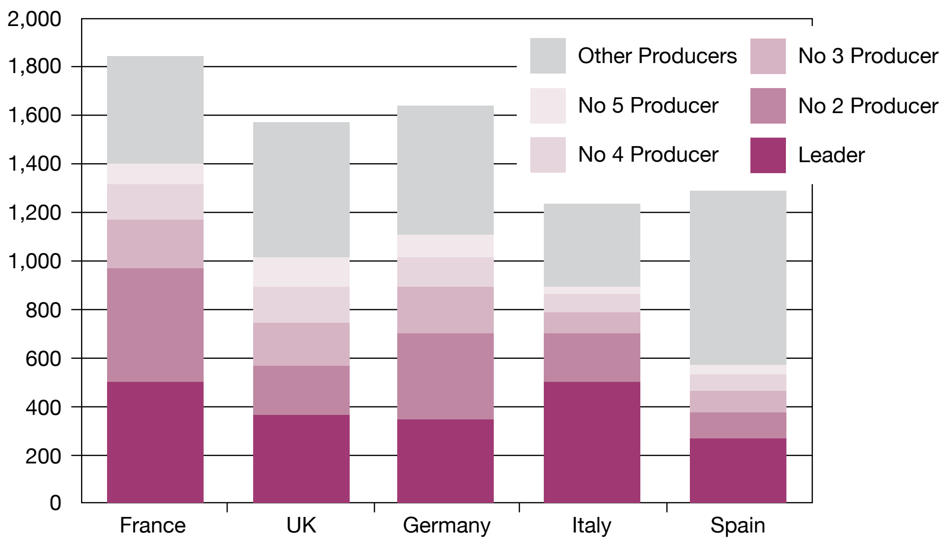
Top 15 Poultry companies Share in EU27 production (%) – 2010–11



Source: Gira compilations and estimates

In the leading countries for poultry production there is more industry concentration than in the smaller (mainly Eastern European) producing nations. France has over 75% of production in the hands of the top 5, but has had a turbulent few years as a result of tough competition for key contracts. In Germany the top 5 firms have over 66% of the market, and in the UK over 60%.

Concentration in leading poultry markets in the EU – 2010/11



Source: Gira estimates

In the struggle not to pass the increasing cost of feed onto the consumer, in a product that by many is considered a staple basket item, some retailers are forcing a change in supply structure. There has been a clear trend by some retailers, from domestic origin fresh poultry only, to selective use of imported fresh poultry for selected lines. This is happening in unison with established poultry slaughter groups changing strategy to become international, and importantly able to import some of their retail offer from different (cheaper) origins.

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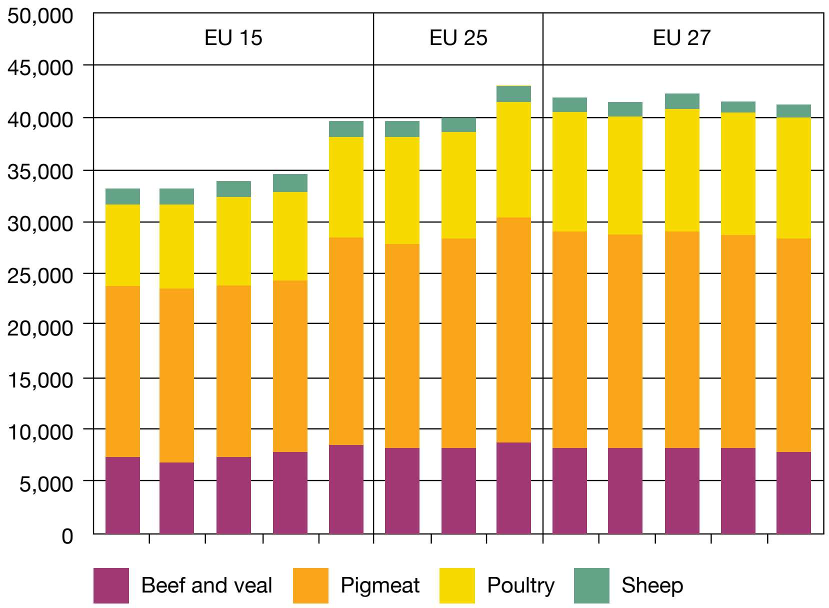
5. EU Meat Supply and Demand

5.1 Consumption

EU meat consumption is led by pigmeat, and then poultry, with the share of beef shrinking, and sheepmeat largely a niche product, but with some specific regional and ethnic demand strength. At >40 million tonnes, total EU meat consumption is vast ... but it is a mature and rather stable market. There is a continual shifted toward chicken for it's relatively low cost, for social reasons (increase in easy cook meals) and for its low fat image. There are also short term impacts of eating fads (e.g.: Atkins) and animal disease (e.g.: HPAI).

Over the last 4 years, total meat consumption has declined as a result of the rising cost of meat and the poor economic climate. Consumers have traded–down to cheaper cuts (e.g. beef steak to burgers and mince) and then to cheaper meats, notably chicken. This trend is common across most of the EU. This dynamic is not lost on the major modern retail chains, with aggressive price competition between chains on key grocery items, including key meat items. This is in spite of increased producer prices for livestock as high feed costs have limited supply and forced producer prices upward.

EU Meat Consumption, 2000–2012(f) Total '000t cwe



Remarkably the result has been a rising EU meat expenditure trend (in real terms) with dramatic rises in 2007/08 and again in 2011 due to increases in global commodity prices. This has somewhat decreased the import pressure on the EU (such as from Brazil) as other markets have more attractive prices, and also motivated EU exports to these same markets. Despite the awesome power of the modern retail sector in the EU, meat producer prices have risen in response to the increase in farm input costs. However margins throughout the slaughter and processing industry have been squeezed to minimise the increase on consumer prices.

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Despite ongoing economic concern and increased meat prices, demand for meat in the EU is remarkably robust, with plenty of innovation to help maintain consumption levels in a market increasingly fixated on time saving rather than taste.

Lastly it should be considered that there are markedly different trends within the EU, with the most notable split between the New Member States in the Eastern EU, who have lower per capita meat consumption than their Western counterparts, but are seeing year–on–year growth, as opposed to a stagnation or slight decline in the west.

5.2 EU Meat Balances

Meat Balances are a quick way to describe the overall industry in the EU by species, and understand the basic dynamics between production, trade and consumption.

5.21 Pigmeat

European pigmeat consumption is mature, with some fluctuations due to relative price (to other meats), and occasional crises of one sort or another. Some 65–70% of EU Pigmeat is eaten in further processed form: sausages, hams, pates, bacon etc – in a multitude of mainly traditional products, often regionally branded. European fresh pork is largely supplied from local production, but this definition is often lost for processed products, in spite of the highly regional nature of many processed pigmeat recipes which helps protect local supply, (although it will often be produced with meat imported from other EU Member States).

The graph below is the addition of the balance tables from all EU27 Member States. It clearly illustrates a vast … but rather stable production and consumption situation. It also shows an upward trend for exports and imports. This is very largely a trade between Member States, but with the net export balance growing, to show current success in 3rd country export markets. However, the total import figure implies that almost 40% of European pigmeat crosses a national border before being consumed. This vast trade of 8 million tonnes takes place because of price differentials between countries. The underlying reason is the extreme raw material cost sensitivity of processors and retailers. It explains the continual focus of the whole chain to drive down cost: that is what survival is about!

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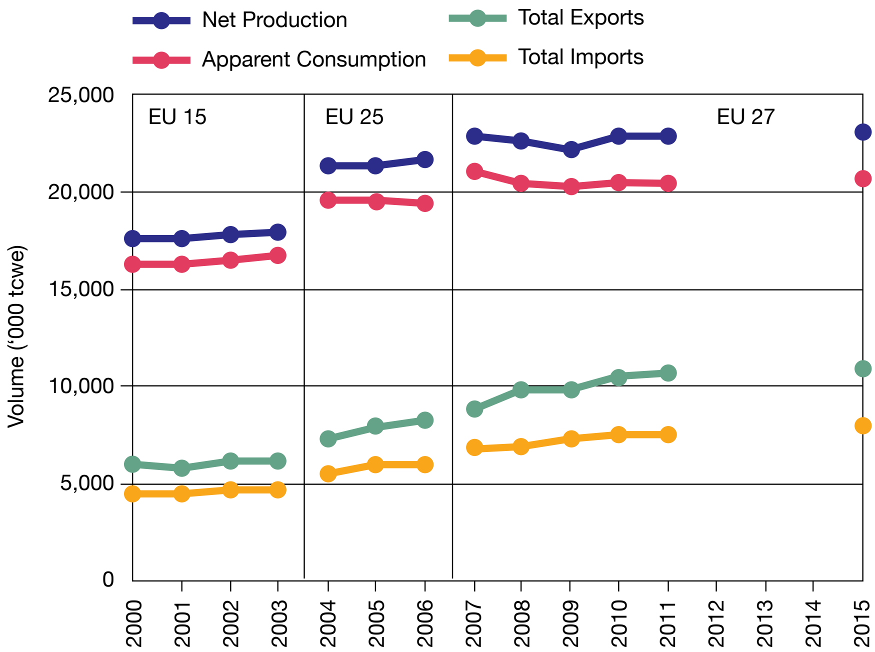
EU Pigmeat Balance, 2000–2012(f) ('000t cwe)



Source: GIRA

The EU is a net exporter of pigmeat, (to the tune of approx. 2 million tonnes) with increasing demand for exports from new markets in Asia (especially China) and Africa (for lower quality cuts), whilst other developed markets like Russia have become harder, and volumes fluctuate.

Despite high farming costs in the EU, the increase in scale and mechanisation in slaughter plants has allowed for certain cuts to be competitive in selective export markets – even against the 'industrial might' of North American processors: with their farming cost advantage magnified by the production and marketing scale advantages of their enormous processing plants. Success in 3rd country export markets is vital for EU processors (and farmers) to access better prices for selective cuts and 5th quarter items, which significantly enhance supply chain margins. Even more important, is the defence of the EU market from lower cost ingredient meat imports. Currently this is very largely achieved through Tariff Rate Quotas (TRQ). Relaxation of import tariffs through Free Trade Agreements and/or a WTO agreement would be a significant threat to the whole EU Pigmeat chain … as indicated by the volume of meat which is currently traded between Member States.

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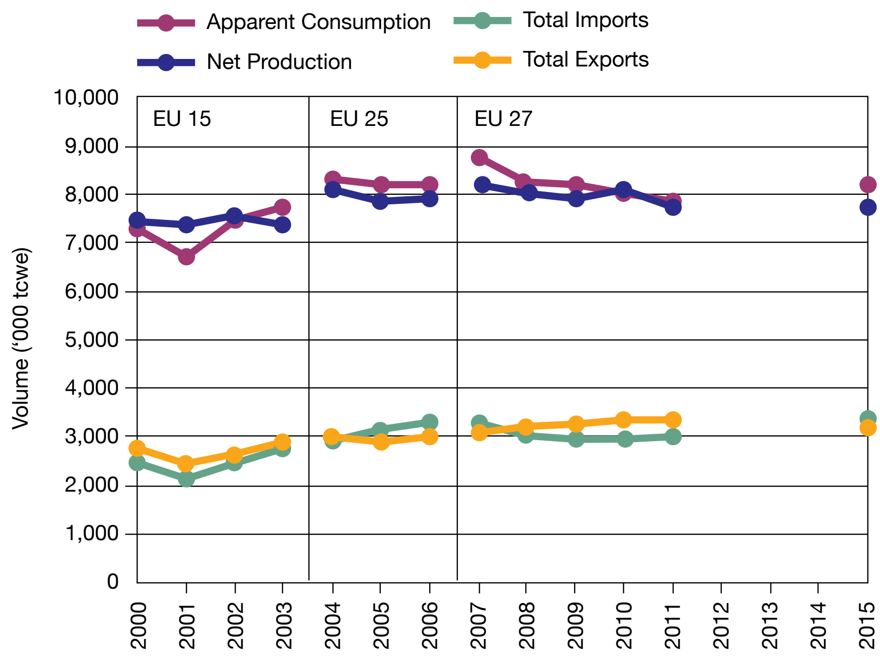
5.22 Beef

European beef production has been in a slow long term decline due to its relatively high cost versus global competition, and the declining number of calves originating from the dairy herd[6]. Beef consumption has been in slow decline in the EU over the last five years, due to higher prices, and weaker demand created by the ongoing financial crisis. This is a trend change from the period 2001–08 when demand recovered from the trough caused by consumer reaction to the BSE crises[7], and imports from South America were rising strongly.

EU Beef & Veal Balance, 2000–2012(f) ('000t cwe)



Source: GIRA

Beef is identified by consumers as an expensive meat, with high quality cuts struggling to find a market in the current environment. Consumers have shifted away from steaks and roasting joints to mince and diced cuts. It is thought that >55% of beef consumed in the EU currently is minced. Even though minced beef prices have risen, the processor and retailer margins have been squeezed by the higher producer price and reduced throughput volumes.

6 This is important as 60% of the cow herd is of dairy breed. European milk production is constrained by milk production quotas. With year-on-year increases in milk yields per cow, fewer cows are required.

7 The importance of the BSE crises to the beef industry specifically, and the meat industry as a whole cannot be underestimated. It has forced many changes in working practices (many for the better), but increased costs, and reduced revenue (for instance through the rendering of Meat & Bonemeal)

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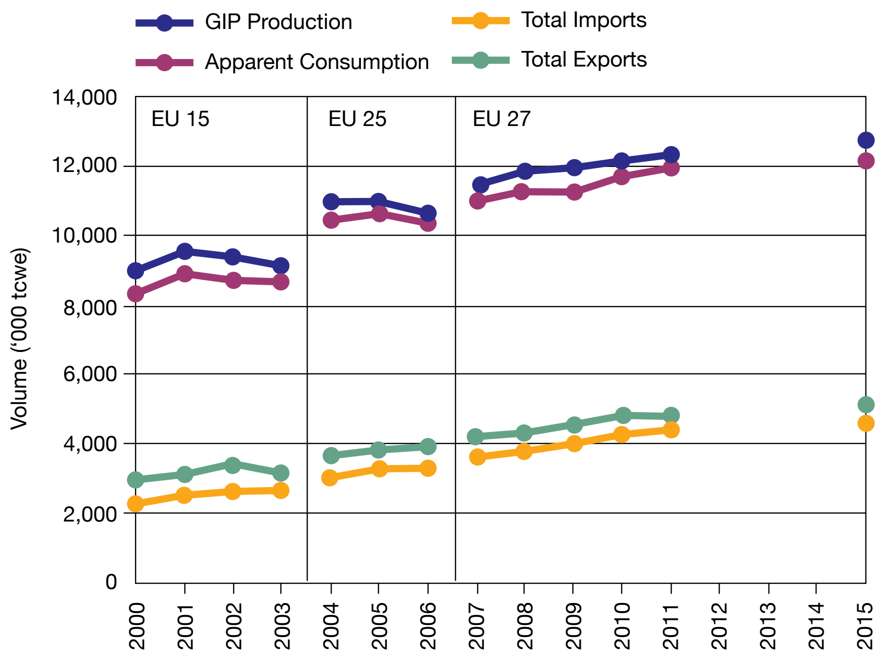
With strong demand for both cattle and beef in the Middle East and North Africa, EU exports[8] have increased in recent years, helping to offset some of the consumption decline in the domestic market. This has been a major factor in pulling the producer higher … which is invaluable for the farmers, but a problem for the processors. They struggle to achieve adequate price increases from their domestic customers.

At the same time imports[9] have remained flat, with on–going issues in key supplier countries (notably Brazil) and strong global demand helping to deflect product away from the EU, and keeping global prices high. This has offered some short term shelter to the EU beef industry… which would struggle to compete with imports of lower priced beef, were it not for the considerable protection afforded by TRQs and non–tariff barriers such as the ban on beef imports from cattle which have been treated with hormones.

5.23 Poultrymeat

Poultrymeat has experienced steady growth in demand in recent years, fuelled by long standing consumer trends toward convenient, cheaper meat options. The rate of growth has been higher in recent years as a direct result of the ongoing economic crisis in the EU, with consumers moving from more expensive beef and sheepmeat.

EU Poultry meat Balance, 2000–2012(f) (‘000t cwe)



Source: GIRA

8 *Slaughter plants have also become far better at exporting 5th quarter items to Africa and Asia where prices are far higher. This is a strategy that requires economies of scale, as export markets normally want entire containers of similar product, (not easy for small provincial cattle plants)!*

9 *The total import figure shown in the graph represents the sum of imports by EU Member States: most of which is intra-EU trade. In fact the volume of imports from 3rd countries declined dramatically in 2008 due to Brazilian supply problems and the financial crisis.*

Demand at retail is largely for domestic origin fresh poultry (mainly broiler chicken), although there is a creeping trend to source chicken from other EU sources for use in EU retail as the value price point. Imports from 3rd countries are frozen poultry, (either raw or cooked) with the main import markets for either further processing or the food service industry. Exports have lost some momentum with weaker demand from Russia, but have developed opportunities in other markets, notably the Middle East and Asia.

5.3 EU Meat Trade

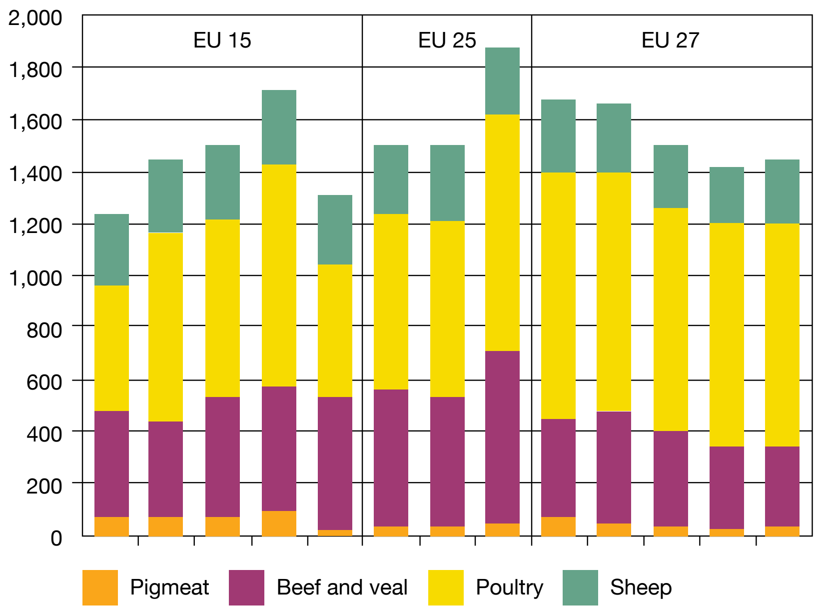
5.31 Imports

Meat imports remain a key threat to the European meat industry as a whole, they are normally from countries that enjoy a feed cost advantage over the EU and often from countries with lower welfare regulations and far less restrictions on livestock management practices, which all adds up to lower production costs at farm level. This gives the slaughter companies access to cheaper live animals than are available in the EU, often at similar quality points.

Processors in these countries normally have a substantial labour cost advantage over the EU as well, with lower working standards. Although plants must meet EU specifications for food safety if they are to ship to the EU, making them amongst the best plants in their domestic markets (plants focused on Japan are some of the best from this respect).

These two factors give imports to the EU a substantial price advantage over domestic production, and whilst the consumer is often prepared to pay extra for domestic product at retail, they are largely unaware at food service, or in processed products.

EU Imports from 3rd Countries, 2000–2012(f) (‘000t cwe)



* including the carcass equivalents of live animals

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Import volumes are restricted by a number of quota and tariff systems, designed to shelter the EU meat producers from their cost disadvantage, although this protection is being slowly eroded by free trade agreements, and the requirements of the WTO…

European producers cannot rely on such high protection from cheaper 3rd country imports in the future, and instead will need to be more cost efficient in production. This obviously has a bearing on the slaughtering sector in the EU … as it relies on domestic farm production for its throughput. It also creates relationship pressures with their further processing, retail and food service customers who would like to have more access to cheaper imported meat.

5.32 Exports

European meat products have struggled in the past due to high production costs in the EU compared to other global exporters. In the case of beef, the trade bans[10] on Europe put in place as a result of BSE were also immensely damaging. But in recent years there has been strong growth in EU exports to 3rd party countries. This has been driven by rising international demand, rising international prices, the opportunities to export by–products, and the need for EU slaughter companies to better find alternate outlets as a means to offset some of the pressure on margins from the retail sector.

This has been achieved through exporting cuts with low demand in the EU to markets where they are more in demand. These markets include Africa and the Far East, which have become strong if opportunistic buyers of European by–products & unwanted cuts in recent years.

10 With the incidence of BSE now much diminished, and with BSE risk management practices having good credibility, export market access for EU beef is slowly opening.

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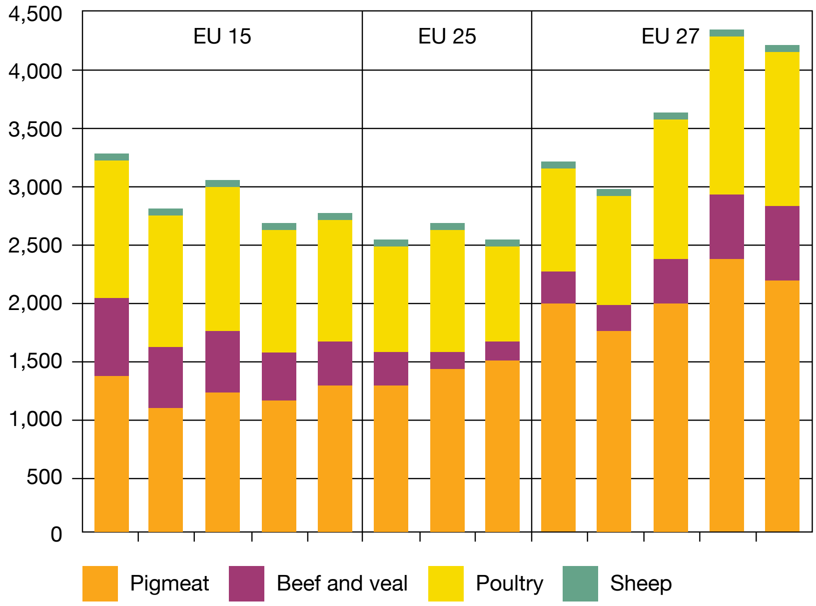
These new markets are not open to all, with the biggest hurdle the amalgamation of exportable quantities (usually 20 tonnes in shipping containers as a minimum), and attention to detail that requires extra labour to cut and trim these items to export specifications required by the buyer.

EU Exports to 3rd Countries, 2000–2012(f) ('000t cwe)



* including the carcass equivalents of live animals

European exports will remain tough in the future, with production costs higher than key competitors, but the will is there on the part of slaughter groups to explore these outlets, which will offset some lost volumes to more traditional markets like Russia.

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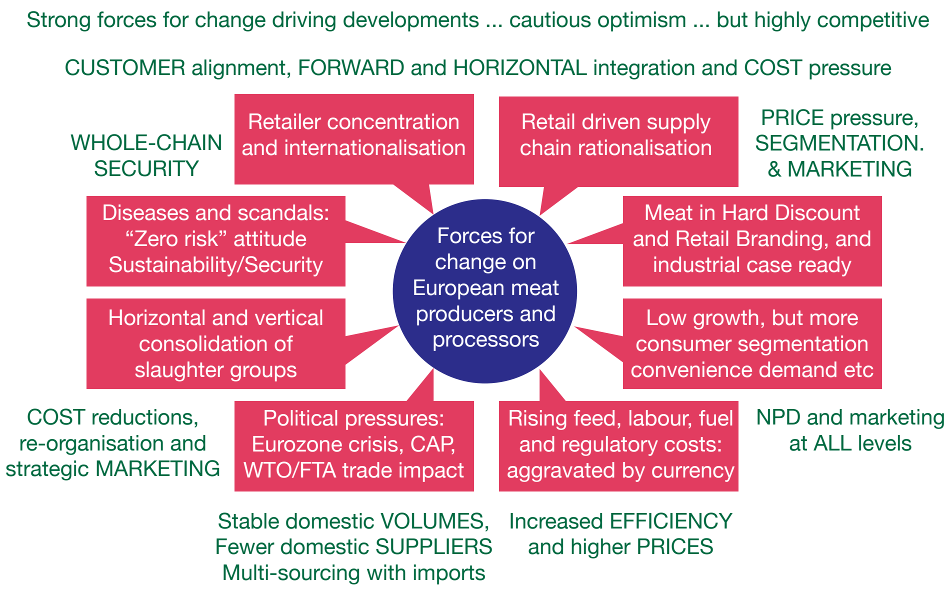
6. Forces for Change

The following figure summarises the major forces for change on the European meat industry, with the strategic implications of these forces expressed in the green 'outer circle'. Some of the key themes are picked up in the following sections. The overall message is very clear: that this is a relatively low margin industry, which is under an immense set of pressures. There is neither the capital, the profit, nor the cash flow in the industry to respond adequately. So the changes will take time … and there are, and there will be casualties.

Summary illustration of the forces for change on the European meat industry



6.1 Livestock Cost : Customer Resistance Squeeze

European slaughter companies have been under considerable pressure in recent years to cut costs and increase efficiency. In the current climate this is exacerbated by the twin pressures of:

- increasing prices of livestock which reflect restricted supply, rising farm costs[11] and rising international commodity prices.
- Customer resistance to higher prices, as modern retail chains resist passing price increases on to consumers who are already feeling the mounting pain of ongoing recession across much of Europe.

This is forcing slaughter companies to become increasingly ruthless in their cost control process, with retailers using the ever present threat of moving to an alternative supplier (forced to cut prices to win the business) or even an imported source, to gain leverage over the slaughter group.

11 The cost of farm production has risen, and farmers need higher prices to recover some profitability and to pay for feed costs and other raw input costs which continue to rise.

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The HoReCa (Hotel Restaurant Catering) industry is already using imported meat (from both other EU and non–EU) sources to supply its fresh / frozen meat, as consumers cannot tell the origin of the meat, and most are fixated on prices.

Processors are actively looking to export outlets in order to diversify their customer base. This includes 3rd countries – especially for an increasing range and volume of 5th quarter items. In an effort to maximise margin opportunity and profitability the slaughter groups are also looking to add value, by forward integrating into:

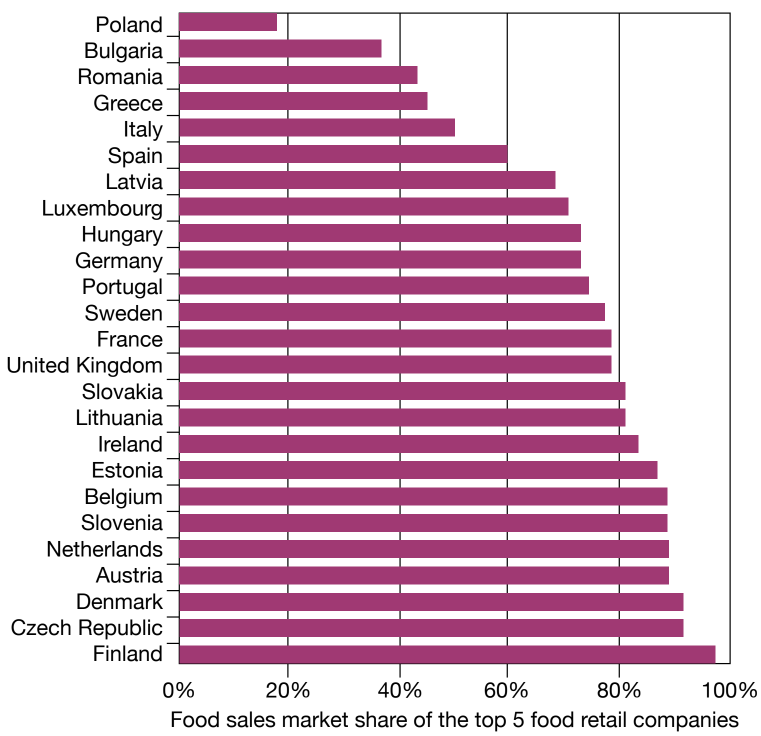
- Secondary cutting (helps utilise plants that are under capacity),
- Retail packing (often as a way of maintaining a major multiple retail client),
- Further processing, adding value, but at the cost of investing in new market areas.

These options are not possible for all companies and are capital intensive, with areas like retail packing increasingly concentrated into a few major players in each national market.

6.2 Retailer Pressure on the Supply Chain

As the following figure illustrates, modern grocery retailing in each European country has become concentrated into the hands of a few firms. This is exacerbated because some of the main retailers have considerably internationalised their operations, and have central purchasing functions for their international operations which gives them considerably more buying power.

Food Market Share of Top Five Food Retail Companies in Europe – 2010



Source: Gira compilation

There are a number of vital steps to the phenomenal power exercised by the modern retailers over their meat supply chain:

- The modern retail share of the retail meat market has grown through the fast demise of traditional, independent butchery outlets;
- Many of the most successful supermarket retailers of meat have shifted to industrial case ready packaging of their fresh meat. In some cases this is contracted to specialist industrial retail packing firms … of which the best example is Hilton Food Group, which is not backward integrated into slaughter … and has established important retail alliances in the UK, Ireland, NL, Sweden, Poland and now Denmark;
- The branding of fresh meat is largely taken over by their retail brands: which are marketed in a sufficiently sophisticated manner to work at several different price points: premium, organic, healthy–eating, mainstream, … and economy;
- The hard discount chains, Aldi and Lidl have expanded their outlet number throughout Europe. They also moved into fresh meat in industrial case ready packaging in a roll–out strategy that started around 10 years ago. They already have a major share of the retail processed meats sector in some markets (especially Germany). Their aggressive pricing forces all other retailers to react;
- There has been a sustained strategy by retailers to rationalise their meat supply chains. They concentrate volume on a small number of suppliers and share in the benefit of the production scale economies. They are also stretching back through the chain to eliminate unnecessary links in the chain … such as wholesalers or live auction markets. The shorter the chain, the easier it is to exert pressure, and to benefit from margin squeeze;
- Retailers look to imports – outside of their domestic arena for sources of fresh meat to selectively put margin pressure on existing suppliers, and also for extra volumes to deal with promotional peaks;

All of these drivers have a huge impact on the meat processors – who need to become more vertically aligned to their retail and food processor customers, as well as be clear thinking on their core business. For instance, where there is central retail packing undertaken, the supplying slaughter firms need to stop at the primary processing stage.

Clearly these modern retailers also have a huge impact on the labour involved in the meat chain. For instance there is been a sharp reduction in the numbers of butchers involved in counter–service … as the shift in jobs to industrial retail packing has taken place. This involves different employers, in different locations, different working practices and skills etc.

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6.3 Overcapacity in the Slaughtering sector

The slaughtering business is particularly prone to a desire to increase volume because of the high fixed costs of slaughter plants, and because the industry is fragmented. There has long been excess processing capacity, because:

- Firms like to grow, and are commonly tempted by marginal volume;
- Most firms only operate on a single shift basis, but increasingly the largest plants are moving to 2 shifts per day
- Production mentality of the sector: driven by ambitions of line speed, volumes and full hooks;
- Automation and efficiency improvements. Most plants have a range of investment projects at 1–2 year payback;
- Cattle and sheep slaughtering numbers have decreased

In a few countries, the construction of large scale, modern and highly automated slaughter plants has occurred. These add capacity at faster pace than the demise of capacity in smaller scale plants.

This situation means that most plants are running at under capacity, with plants having to bid against each other for available livestock, further driving up input costs.

The situation is worse in beef and sheep than pigs and poultry, but is still widespread across the EU. The required reduction in slaughtering capacity will lead to a more robust industry, but will come at significant cost, both financial and in terms of jobs. So far few companies have been prepared to undertake this exercise, which in reality will benefit the rest of the players in the market at their expense!

The likely end result will be that smaller slaughter groups (normally independent solus–plant operations) will find themselves unable to compete with scale efficiencies of their larger competitors, and will go out of business...eventually. This will be at a slow rate, leading to a prolonged and uncomfortable period in the industry as slaughterhouses pay too much for livestock in order to attempt to maintain throughput.

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6.4 Labour cost differences

It is a widely known 'fact' that labour costs vary considerably through the EU, in spite of minimum wage legislation, and the free movement of labour. However – it has proven difficult to pin down the 'facts', and there is a real danger of not comparing like with like in terms of the work undertaken, the training and skill level, social charges, the terms and conditions of work etc. The following 'typical' hourly wage rates are sourced informally from discussions held at the Berlin conference, and are only used to illustrate the differentials within Europe.

Poland	€3 – 6[12]
Germany	€7 – 7.50 per hour (some much lower) agency workers[13], basic wage €12 – 14/hr for permanent employees[14]
UK	€7.60 – 9.20
Ireland	€8.65 – €10 for line workers
France	€9.2 – 11.2[15]
Sweden	€13 – 25
Finland	€17 – 22[16]
Denmark	€25

It is clear that:

- the unit labour cost is much lower in Poland than in neighbouring northern EU15 countries. The costs of labour in Romania and Bulgaria are understood to be even lower, and a trend is reported towards utilising labour from these countries in preference to Polish labour;
- The German meat processing industry has access to low cost labour from these NMS countries through the widespread use of service contracts
- Costs in some nearby countries, such as Scandinavia are considerably higher.

12 Workers on the lowest position earn from €120 to 150 per week (in total with all extras). The most experienced workers from €170 to 240 /week.

13 Mostly on around €7 -7.50 per hour (some much lower) and precarious in relation to holiday, sick pay etc.

14 Basic wage is €1850 - 2200 per calendar month for permanent employees in large plants.

15 Line workers min basic salary between €1431 and 1746 per calendar month according to grade.

16 The average for the whole branch it is about €17 per hour. For meat cutters and slaughterhouse workers in big companies it is about €22 per hour.

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The German slaughter industry enjoys a considerable production cost advantage over its rivals in Northern Europe, due to a far lower labour cost. This has been a major driver for the German slaughter industry to grow quickly over the last 10 years: in pigs especially, in poultry, and to a lesser extent in beef processing. In Pigmeat it has grown through increased domestic farm production, and through imported pigs. The live imports increase the competitiveness because they improve German capacity utilisation, and undermine that of the competing plants which struggle with reduced availability of slaughter animals.

The cost advantage in Germany allows them to compete at two points in the chain:

- The lower cost of labour allows German plants to pay more for live animals, which is attractive to the domestic farmer supply base, as well as live imports. The advantage in Germany is so strong that the processors are attracting slaughter animals from neighbouring companies notably from the Netherlands and Denmark, but also further afield.

- The lower processing cost also allows German plants to compete for retail and food service customers, by offering lower prices to these customers.

This is one of drivers[17] which makes German plants highly competitive against their neighbours, and the impact has forced some competitors to move some activity to Germany to capture a share of this saving.

This has happened in 2 stages:

- Initially some carcasses were shipped to Germany for de-boning, cutting and further processing. Companies only needed to invest in cutting lines, or could use a contractor to carry out some activity

- Slaughter animals are shipped to Germany for slaughter, de-boning, cutting and further processing. This has required increased investment in owned facilities, and is a long term strategy.

17 There are other factors as well, such as the significant investment in many plants, the fact that some of major plants operate 2 shifts per day, the German consumer preference for German origin meat etc.

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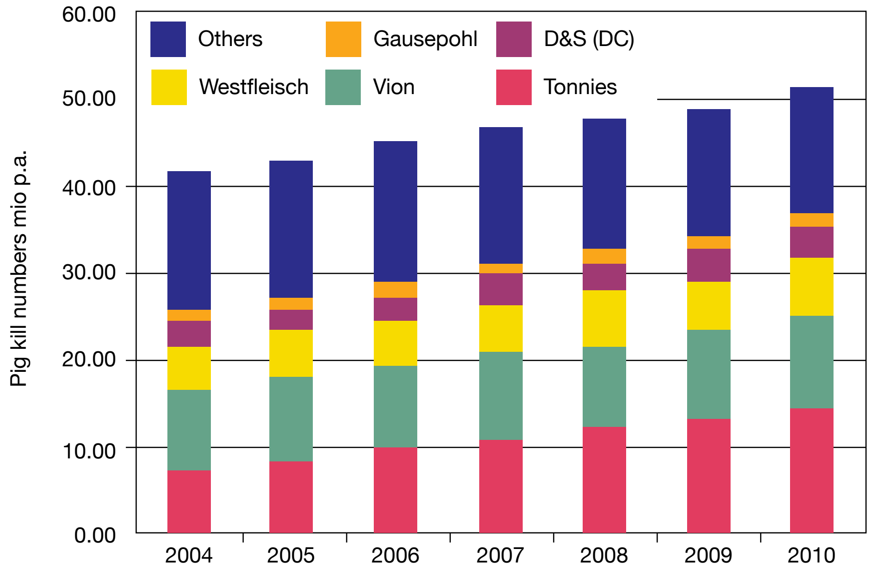
This move allows companies to offset some of the German labour advantage, whilst still maintaining domestic production, but is limited by the cost of transportation. The cost of transportation ultimately limits the availability of raw material for processing in Germany, but the product pulled through this system is a major price driver for the whole industry.

In a mature European pig sector, the growth of German meat production, and in export volumes is striking. It has been a major driver on the whole industry in NW Europe.

German pig slaughtering per company – 2004–2010



Source: Gira based on ISN

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7. Conclusions

The European slaughter sector faces huge pressures, which due to low margins it is not as well placed as many other sectors to put in place new strategies. It is still heavily fragmented, although there is some consolidation at a national level. It is likely that in the next 5–10 years there will be further concentration at a national level, and even internationally within Europe. This is a difficult process to manage, and one that does not always bring the desired effect of increased profitability. Capacity streamlining and reinvestment is capital intensive and time consuming. The driver for further consolidation is the need for cost reduction and the removal of excess slaughter capacity that exists in the EU. It will be reduced through mergers and plant closures... a slow but inevitable process, but a necessity if the industry is to be in a shape to supply the meat demands of the European consumer in the next 20 years.

The European meat industry will also have to compete with freer international trade, resulting in increased imports of meat into the EU from countries with lower costs. European origin products can compete on their EU provenance in the meat industry so long as the price differential is not too great, and so long as the consumer is not under too much economic pressure (which they currently are). The industry will continue to be squeezed by the retail sector to operate on thinner and thinner margins. This will lead to an increased use of mechanisation, as a solution to reduce high labour costs, and also there will be pressures to increase labour flexibility.

This is a difficult period for the EU slaughter industry, but one that it is already adjusting to. Higher food prices will increase the food share of disposable incomes over the next decade. Whilst this will mean more money in the food chain, it will also force tougher scrutiny of costs by major customers (especially from the retail sector). The streamlining of the supply chain will remain a ruthless process.

However there will remain a significant livestock industry in Europe, requiring a significant labour force in the slaughtering and further processing sector to supply the quality of products that EU consumers expect.

The EU meat industry is a huge source of employment, but one with a historically poor image. The industry employs quite high levels of immigrant labour. It is frequently physically hard, and repetitive work. Labour retention rates are low. Despite this many of the roles within the industry require specialist skills, and a relatively high level of training. With the total labour cost being a major expense item for processors, there is a drive for automation. This is not a negative factor. The quality of work will improve, and the industry will remain a huge source of employment: being a better mix of skilled and more basic labour.

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