

**VISION FOR FUTURE OF AGRI-FOOD INDUSTRY:  
REPORT FROM THE AGRI-FOOD SECTOR STRUCTURES  
SUB-GROUP**

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The Structures Sub-Group met on 12 occasions. It received 9 major presentations from specialists on areas of interest to the Sub-Group. The Group also considered 5 written submissions from outside organisations or individuals and 5 papers from Group members in addition to background statistical and other information supplied by the Department of Agriculture and Rural Development (DARD) and other sources. A list of those making presentations and written submissions is provided at Appendix 1.

## **1. REMIT**

### **1.1 The Terms of Reference for the overall Vision exercise were:-**

‘Taking account of the CAP and UK policies, particularly the Action Plan announced at the Downing Street Summit, and potential challenges arising from a new WTO Round and EU enlargement:-

- to identify the problems, and opportunities, in the rural economy over the next decade; and
- informed by that, to develop a Vision for the agri-food industry to enable the industry to map out a strategy to meet that Vision.’

1.2 The initial remit of the Structures Sub-Group was:-

*'In this Group, issues of farm and enterprise size would be considered, as would issues such as re-skilling and retraining, creating pathways for new entrants, early retirement and other factors inhibiting structural change. Competitiveness issues, including exploitation of any advantages conferred by Northern Ireland's high quality grassland, could also be considered.'*

1.3 Subsequently, the remit was extended and Structures Sub-Group was asked to concentrate on internal efficiency issues which included consideration of matters such as *'skilling for employment within the agri-food sector, information and communications technology (ICT) and potential for diversification'*. Finally, the Sub-Group was asked to consider *'the development of the equine sector'*.

## **2. STRUCTURE OF REPORT**

2.1 By virtue of cross-membership with other Sub-Groups, the Structures Sub-Group was aware that other Sub-Groups were considering certain issues of mutual interest and that there was potential for duplication of effort, e.g. the work of the Food Chain Sub-Group on food processing and supply chain issues. Accordingly, the Structures Sub-Group limited its work largely to production sector issues and the cross-cutting themes for which it had been given responsibility.

2.2 The Structures Sub-Group Report, therefore, comprises the following:

- Executive Summary;
- Production Sector – Analysis of Structural Issues and Recommendations
- Production Sub-Sectors – Analysis of Issues and Recommendations:-
  - Beef
  - Sheep
  - Dairying
  - Intensive Livestock
  - Arable Crops and Commercial Horticulture
- Processing Sector and Supply Chain – Structural Issues and Recommendations
- Education and Training for a Competitive Industry
- Information and Communications Technology in the Agri-food Industry
- Developing the Potential of the Equine Sector

2.3 The **Key Themes** which emerged during the Sub-Groups deliberations were:-

- **Developing Improved Structures**
- **Developing Responsiveness to the Marketplace**
- **Developing Improved Business Efficiency**
- **Developing the Competence of the Workforce**
- **Developing All Sub-Sectors**

These are reflected in the presentation of the Executive Summary.

### **3. PRODUCTION SECTOR – ANALYSIS OF STRUCTURAL ISSUES AND RECOMMENDATIONS**

3.1 The Structures Sub-Group has considered data from Economics and Statistics Division, DARD on Background to the Agri-food Sector and Analysis of the Agri-food Sector (trends, etc) which will form part of the papers supporting the main Steering Group Report.

3.2 Among the conclusions, the Structures Sub-Group would expect to see the following **problems** highlighted:-

1. **World Trade Organisation agreements and CAP Reform** will inevitably result in prices reducing towards world market levels – the only unknown is the speed of transformation.
2. **Strength of sterling** has a major influence on the agricultural industry's prosperity – other than lobbying Westminster as effectively as possible, nothing locally can be done about it.
3. **'Brown envelope' support** inhibits structural improvement, reduces incentive to farm efficiently and drives down quality. – but again little local influence.
4. While agricultural support will continue, it will be at a reduced level, possibly decoupled from production and linked to common priorities such as environmental sustainability (ecoconditionality) and food safety.

5. **Farm size** in Northern Ireland, while double the EU average, may be inhibiting efficiency and income generating potential of businesses. Although **farm restructuring** has been taking place steadily, e.g. the number of farms has been reducing by 1.8% per year over the past 30 years, the present rate of change may be too slow for optimum future competitiveness.
6. **High land prices**, the conacre system and inheritance tax advantages for non-farmers are interrelated factors militating against land transfer and structural improvement. However, the conacre system does provide flexibility and other advantages.
7. There is huge **variation in enterprise/farm business performance** and major potential for farmers with average and poor performance to improve their incomes and sustainability by applying best business management practice.
8. There is little or no **benchmarking** to compare performance with or learn from our UK, EU and world-wide competitors and few exemplars of good commercial practice are being effectively exploited as **role models** for others.
9. The Northern Ireland agri-food sector has been slow to exploit the benefits of **ICT**.
10. **Communication and trust along the supply chain** is poor, with few farmers genuinely understanding or responding to market requirements. **Lack of organisation and collaboration** between farmers, along with poor market orientation, means that farmers are at the mercy of buyers.
11. Often, there is **lack of clarity about market requirements**, pricing and financial benefits of quality (both productivity and market returns). Some sectors, in particular the beef sector, have major **quality and market orientation problems** that will inhibit recovery and development.
12. **Levels of education/training** in the agri-food industry are low, with few people, particularly at management level, having vocational qualifications appropriate to their business/employment responsibilities.

13. **Young people** no longer see farming as an attractive career option. Other EU countries provide support for young farmers.
  14. While many farm families have alternative sources of income, there is a **lack of awareness** that many more farm families, if they are to remain on their farms, will need off-farm employment and/or farm diversification to supplement farm incomes
  15. In some other countries, part-time farmers seem better able to secure **other sources of income** through off-farm employment, e.g. Holland, or receive substantial indirect payments, e.g. Rural Environment Protection Scheme in the Republic of Ireland.
  16. The **issues are complex**, with problems and potential solutions varying according to farm size, full-time/part-time operation, enterprise type and other factors.
- 3.3 An underlying problem is the industry's 'short-sightedness'. The Vision Steering Group Report will have to address how this might be overcome. While recognising the problems outlined in Paragraph 3.2, the Report should adopt a positive approach and identify certain **strengths and advantages** that Northern Ireland does have and which can be built upon to move forward:-
1. While the CAP inhibits structural change, the **protection from world markets** provides a breathing space to allow the progressive elements of the Northern Ireland agri-food sector to become more competitive.
  2. The relatively **small size of Northern Ireland** and the **integrated nature of support systems** could facilitate fairly rapid change if the industry and Government can agree of a strategy for moving forward towards a 'Vision for the Future'.
  3. There is a potential international image of Northern Ireland as '**green, clean and wholesome**' - it is largely under the control of industry and the locally elected Government to ensure that this is justified, maintained, further developed and exploited for market advantage.
  4. The **Programme for Government** and the discretionary elements of EU Rural Development Regulation funded under the forthcoming **Programme for Building Sustainable Prosperity** and by match funding arising

from modulation could be exploited to strengthen the industry and equip farmers to help themselves.

5. There are some **examples of good practice**, e.g. lamb producer groups, where farmers are securing business advantages by working together, while some processors and farmers are considering how more effective collaboration could be developed for their mutual advantage.
6. **ICT** offers opportunities to improve business management, marketing and competence development – immediate, enthusiastic exploitation can secure commercial advantage while inaction will drop us further behind our competitors. **National/international benchmarking** is now a practical proposition and could assist our industry to move forward.
7. Northern Ireland has **some excellent farmers** – the best ‘model units’ could be identified, developed and exploited as role models and mentors for other farmers and students.
8. In most farm business, it is within the **control of the farmer to embrace change** and adopt best management practice to improve business performance and sustainability.
9. **Education and training** is locally controlled, is focused on meeting industry’s requirements and can be a powerful driver of change. It can bring about different attitudes and address the increasing management, marketing and technical needs of agri-food businesses, as well as diversification and off-farm employment needs.
10. Northern Ireland has substantial, locally controlled **research and development (R&D) and technology transfer** capabilities that can target the priority needs of local industry.
11. A **buoyant general economy** can provide opportunities for farming families to secure supplementary sources of income.

## **RECOMMENDATIONS OF STRUCTURE SUB-GROUP (OVERALL STRUCTURES ISSUES)**

### **Ownership of Industry's Strategic Plan for Development of Competitiveness**

- 3.4 In order to do the 'right things' for the future, the industry (and each sub-sector within it) needs a vision of where it can realistically strive to get to in the next 5-10 years. This exercise is a good start, but the Vision can only be realised if the industry (or at least a substantial, progressive component of it), in partnership with Government, takes ownership of the Action Plan which should evolve from this exercise.
- 3.5 The Minister of Agriculture and Rural Development, the Steering Group and key industry leaders should have an agreed strategy for achieving industry ownership of, and commitment to, a Strategic Plan for Development of Competitiveness following publication of the Vision Report.

### **Awareness of International Marketplace**

- 3.6 An underlying problem is that too many people in the industry, in common with many opinion leaders, underestimate the nature and strength of the international competition. Insular attitudes are being reinforced rather than challenged and altered.
- 3.7 DARD should consider introducing a programme to support 'stakeholders in Northern Ireland agri-food plc', specifically including progressive farmers and processors, to travel abroad to assess the opposition and to identify innovation which can be applied in Northern Ireland.

### **Impediments to Farm Restructuring**

- 3.8 The Structures Sub-Group recognises that the conacre system (unique to Northern Ireland), the Agricultural Property Relief concession within UK Inheritance Tax and the relative ease with which Planning Permission for housing can be obtained have all been impediments to faster, permanent restructuring. There is an innate reluctance within farming families to sell land. These factors are responsible for ensuring that little land comes onto the market and, when it does, there is strong competition, especially from businessmen, ensuring that land prices are very high.

- 3.9 Conacre provides relatively inexpensive, temporary/renewable restructuring and has other advantages, e.g. it is effectively a large component of the industry's 'pension scheme'. Expert advice from PriceWaterhouseCoopers strongly counsels against tampering with the conacre system which serves Northern Ireland very well.
- 3.10 The Structures Sub-Group recognises that the potential dangers of opening a public examination of conacre or of seeking to introduce any fundamental change which may outweigh the possible advantages. Accordingly, the Structures Sub-Group recommends that changes in Inheritance Tax, conacre and Planning Regulations should not be pursued at this time as a means of speeding up agricultural restructuring. However, these issues should be considered in the longer term in the context of developing a Rural White Paper. Any actions to stimulate more rapid and sustainable improvement in farm structures should preserve the advantages of conacre. Inheritance Tax is a UK fiscal issue and there is little chance of securing any advantageous change.

### **Stimulating Restructuring – Young Entrant Farmers and/or Early Retirement**

- 3.11 The Structures Sub-Group considered the potential of support for young farmers and support for early retirement, both of which are permissible under the EU Rural Development Regulation. The Sub-Group concluded that support and encouragement for new entrants and young farmers has much greater merit than an early retirement scheme. Certain other EU countries are effectively supporting young farmers at relatively modest cost and appear to be gaining structural improvement and competitive advantage.
- 3.12 A retirement scheme would probably represent poor value for money and would help relatively few farmers (unless there was a huge commitment of resources), some of whom would be retiring anyway. It would do little to strengthen the industry as a whole. The Structures Sub-Group would see greater merit in a scheme to provide counselling, advice and other support for farm families to plan and make arrangements for succession and retirement.
- 3.13 The Structures Sub-Group recommends that a priority for Vision must be to attract young people into the industry and equip them to deal with the challenges they will face. Match funding, which will become available in the context of the modulation of direct producer payments, should be used for a New Entrant Programme to provide targeted support for



qualified, young, new entrant farmers. Further support should be given through preferential allocation of any production quotas that may become available and preferential rates of grant. Such action was strongly recommended by the UFU Farm Family Committee and the Young Farmers' Clubs of Ulster.

- 3.14 The Sub-Group recognises the complexity of the issue and welcomes the commissioning by the Minister of Agriculture and Rural Development of a more detailed studies to assess the implications of support for early retirement and/or young farmers before a final decision is made.

### **Government Responsibility for the Agri-Food Sector**

- 3.15 Primary agricultural and horticultural production is the responsibility for one Department (DARD), while responsibility for supporting and developing food processing and food marketing and for other aspects of land-based industry is shared by at least three Government Departments (DARD, the Department of Enterprise, Trade and Investment and the Department for Learning and Employment). Small businesses in particular experience difficulty in relating to the confused Government responsibilities and support programmes. The Structures Sub-Group questions the effectiveness of the present arrangement and concludes that the Republic of Ireland system, whereby responsibility for the agri-food industry is vested in a single Department under Mr Walsh, is far superior.
- 3.16 The three Departments should consider whether unified responsibility for the agri-food industry under the Minister for Agriculture (Food) and Rural Development would improve upon the effectiveness of the present arrangement with its split responsibilities for policy as well as support and development of the agri-food sector and food marketing.

### **EU and UK Representation**

- 3.17 The Sub-Group concentrated on recommendations for actions which are within the control of the Northern Ireland authorities and the local agri-food industry. However, the Sub-Group was concerned that Northern Ireland has had relatively little influence on some of the critical issues, e.g. exchange rates, UK taxation policy and CAP reform. The Sub-Group would wish to see a more concerted effort from the Westminster MPs, MEPs, MLAs, Northern Ireland Ministers and industry representatives to identify and effectively represent in a more unified manner the interests of the Northern Ireland agri-food industry and

rural communities in the framing of EU, national and Northern Ireland policies and programmes.

- 3.18 In particular, the Structures Sub-group felt that the agri-food industry in the Republic of Ireland has gained major benefits from having a permanent representation in Brussels. While recognising that Northern Ireland is not an independent member state, the Structures Sub-Group recommends that the Northern Ireland agri-food industry should have permanent representation from both Government and industry in Brussels to provide unified and effective lobbying on the industry's behalf and improved feed-back on developments.

### **Reducing Bureaucracy – Regulations and Schemes**

- 3.19 The Structures Sub-Group is deeply concerned about the increasingly demanding regulation and bureaucracy associated with farming and food production. Many farmers are experiencing great difficulty in coping with regulatory demands. While recognising that appropriate regulation is essential for the agri-food industry, the Sub-Group considers that DARD should review all EU and UK regulations to eliminate unnecessary elements of regulation and minimise the burden of compliance for those affected.
- 3.20 The Structures Sub-Group commends the work of the Better Regulation Task Force established by the UK Government and, in particular, its report *'Environmental Regulations and Farmers'*. DARD should consider these recommendations with a view to implementing those that are applicable to Northern Ireland, specifically including Recommendation 13 (reduced record keeping and data sharing), Recommendation 15 (more effective use of the internet for IACS, etc.) and Recommendation 19 (co-ordinated farm assurance).

### **Guidance on Accessing Rural Development Funds and Other Support**

- 3.21 Various forms of financial and other support are available to farm businesses and other agri-food businesses. The problem for many farmers and proprietors of other small and medium sized enterprises (SMEs) is understanding what is available and how to access it. The situation is complex and, particularly with LEADER programmes, there seem to have been differences in approach across Northern Ireland. There are concerns that problems with accessing support may continue into the next EU funding round.

- 3.22 DARD should broker the production and regular up-dating of a user-friendly directory of all forms of support available to farmers and rural micro-SMEs. The directory should be available in both electronic and paper format.

### **Support for Farm Families Seeking Alternative Incomes**

- 3.23 The Structures Sub-Group anticipates that, in future, a smaller a proportion of all farm businesses will be full-time (2 labour units plus) or marginal (1-2 labour units) farm businesses. A greater proportion of Northern Ireland farms will be incapable of meeting the full income requirements of the farm family and will become part-time farm businesses. Given the traditional reluctance to sell farms, many of these farmers and their families face the double challenge of securing income from off-farm employment or business and of sustaining or increasing income through improved management of their farming activities.
- 3.24 The Wider Rural Issues Sub-Group is considering matters related to diversification and off-farm employment. To complement off-farm employment, there is a need for the development, demonstration and promotion of low labour input farming systems, specifically including encouragement of collaboration between farmers to accommodate part-time farming.

### **Research and Development**

- 3.25 The Structures Sub-Group regards appropriate R&D as being essential to the future development of the industry. Locally controlled R&D should be sharply focused on industry's development priorities and the Sub-Group was concerned that a relatively small proportion of expenditure appeared to be on these key areas.
- 3.26 A major review of research and development related to the agri-food sector should be undertaken. An Advisory Group should be established to identify priorities for research and development and associated technology transfer. The predominant thrust of a revised programme must be to support industry in responding to the demands of the international marketplace and increasing its competitiveness. Government and industry R&D, specifically including AgriSearch, must be better co-ordinated to avoid overlap and ensure best value for money. The review should also consider how R&D within food processing companies and other organisations in the supply chain might be stimulated and supported.

- 3.27 DARD, with the support of its Research & Development Advisory Group, should seek to develop greater collaboration with the Republic of Ireland authorities to identify R&D priorities and implement an R&D programme on an all-Ireland basis.

#### **4. PRODUCTION SUB-SECTORS - ANALYSIS OF ISSUES AND RECOMMENDATIONS :-**

##### **ALL LIVESTOCK**

##### **Conclusions and Recommendations**

- 4.1 Consumers are demanding assurances related to food safety. Rapid adoption of effective systems to provide these assurances could produce significant competitive advantage for the agri-food industry. Electronic identification of livestock has the potential to aid traceability, reduce operator health and safety risks and improve herd management by simplifying recording. DARD should introduce a system of electronic identification of livestock in Northern Ireland as soon as the European Union has agreed a common system. In addition, the Department should progress a traceability system based on genetic finger printing or any alternative technology which delivers the same advantages.
- 4.2 Farming systems must be developed to integrate good environmental management practice with profitable production of quality livestock and livestock products which can attract a premium in the marketplace. High priority must also be accorded to the introduction of schemes and initiatives which ensure the rapid adoption of such systems throughout the industry.

##### **BEEF**

##### **Conclusions**

- 4.3 Papers from Dr Sheehy, Dr Tempest (Livestock and Meat Commission) and DARD's Economics and Statistics Division, in addition to the views of Sub-Group members, all support the conclusion that the beef sector faces a very difficult future – both for farmers and processors. Prices will fall towards world market prices – the only unknown is the rate of the fall. Collaboration between farmers and processors leading to better integration could greatly improve prospects, but continued conflict and mistrust makes it unlikely that progress will be made at the rate required.

- 4.4 The live trade could have a substantial impact in Northern Ireland once BSE-related restrictions are lifted and exporting is restarted. From a farmer's perspective, an appropriate strategy may be to maximise the opportunities offered by competition between local processors and the live trade, which could offer a substantial quality premium. To sustain throughput volume, meat plants may be tempted to pay too much for poor quality cattle, but that cannot be sustained indefinitely. The drop in the carcase quality of locally produced cattle over the last 10 years means that the industry is not well placed to secure quality premia from sales of either the live cattle or meat.
- 4.5 With decoupling of support, a two-tier industry may develop. A lower tier, comprised principally of smaller, part-time farmers, may rely mainly on EU support payments and be content to produce low (and reducing) quality animals at minimal cost and effort. An upper tier will seek to augment subsidy payments as far as possible by maximising market returns through quality and efficient, cost-controlled production. Production systems will have to maximise the utilisation of cost-effectively produced grass in situ - grass silage is/will be a relatively expensive feedstuff.
- 4.6 Professionally managed, top-tier suckler herds should focus on securing best returns from a top quality product. Dairy-bred calves and calves from lower-tier suckler herds will satisfy the medium and low quality market segments

### **Recommendations**

- 4.7 The key challenges for the beef sector are to improve cattle quality and adopt low-cost, grass-based systems of production in order to compete at, or close to, world beef prices.
- 4.8 A DARD or EU funded programme is urgently required to help the beef sector undertake urgent and sustained action to upgrade the genetic potential of the suckler herd. Stimulating the production and retention of top quality female replacements from within the suckler herd must be a core objective. Quality improvement can be achieved through utilisation of the highest quality imported semen and measures to improve the output of Northern Ireland pedigree herds.
- 4.9 DARD, the Livestock and Meat Commission and other industry interests should intensify their efforts to develop improved supply chain collaboration and effective marketing. The Marketing Development Grant Scheme should be exploited to develop links between groups of producers and processors. The

aim should be for Northern Ireland successfully to market top quality, grass fed beef; a superior product, quality guaranteed, with full traceability, good for health, etc.

- 4.10 A priority for R&D should be the development of low-cost, grass-based systems for calf rearing and finishing. A major promotion and competence development campaign should focus on stimulating farmers to exploit the profit potential of quality cattle by adopting low cost systems and best management practices on-farm (this must include reduction of slaughterhouse waste, such as condemned livers, injection sites, etc).
- 4.11 DARD should also assist the beef sector to move forward through adopting ICT and other forms of new technology. Major competitive advantage could be secured from the piloting and introduction of objective grading (reflected in producer payments), electronic identification and monitoring of cattle and provision of improved ICT-based business support services, specifically including further development of DARD's Animal and Public Health Information System (APHIS).
- 4.12 A pilot of objective grading based on the yield of saleable meat should be carried out as soon as improved technology is available. This exercise should compare objective grading with the present method.
- 4.13 A pilot of electronic identification of cattle should be carried out on 30-50 farms, with further roll-out if successful. This technology has the potential to aid traceability, enhance producer health and safety and improve herd management by simplifying recording.
- 4.14 DARD should accelerate the development of APHIS to utilise its vast potential to support marketing, supply chain communication and monitoring of quality, as well as animal health and movement information.
- 4.15 DARD should consider, in consultation with industry, the transfer of responsibility for classification from the Livestock and Meat Commission to the meat companies and the refocusing of LMC activities onto promotion and marketing.
- 4.16 The Sub-Group considered the potential for a cohesive, independent Red Meat Marketing Board but consensus was that such a body was unlikely to work. However, the potential for some form of IT based livestock trading platform should be investigated.

## **SHEEP**

### **Conclusions**

- 4.17 The development of the sheep sector might share many characteristics of the beef sector as outlined above. A two-tier industry may emerge, with the top tier seeking to maximise the potential of high quality livestock through best production/management practice, cost control, traceability/quality assurance, supply chain collaboration and effective marketing. The lower tier would typically engage in production of low quality at minimal cost.
- 4.18 The impact of overgrazing in hill areas, particularly on common grazing land, is increasingly evident. Urgent action is required to prevent further environmental damage. Another problem related primarily to hill areas is that much of the output is of poorer quality light lambs suitable only for the commodity market with its low returns.
- 4.19 The key challenges for the sheep sector are to improve the quality of breeding stock and adopt low-cost, grass-based systems of production in order to compete at world prices. The ultimate aim should be for Northern Ireland to produce and successfully market top quality, grass-fed lamb; a unique product, quality guaranteed, good for health and with full traceability.

### **Recommendations**

- 4.20 Sheep numbers, particularly in the hills and on common grazing areas, will have to be reduced to a level compatible with environmental sustainability. Action should be taken to replace support based on stock numbers with an area-based support system in order to secure the potential advantages related to conservation of the environment, a reduction in livestock movements and possible benefits to livestock quality.
- 4.21 BSE/scrapie will strongly influence the future of the local sheep industry. Results and recommendations from the current study on the incidence of scrapie in Northern Ireland should be carefully examined with a view to identifying and implementing actions which can reduce or eradicate scrapie and secure competitive advantage for Northern Ireland. If its value is confirmed by the current study, the Ram Genotyping project should continue to have high priority.
- 4.22 A major challenge for the sheep sector is to improve the quality of breeding stock and to exploit improved lamb quality to secure

improved market returns. While livestock quality on the lowland requires attention, particular action is required to improve the quality of the much larger number of stock on the hills and uplands and to link this with product innovation to make better use of lighter lambs.

- 4.23 Actions to improve the quality, maternal characteristics and production efficiency of replacement females should pay dividends. DARD should work with the industry to stimulate the production and retention of top quality female replacements and to improve the quality of output from Northern Ireland pedigree flocks. This must be backed up appropriate R&D and by a major promotion, competence development and technology transfer campaign, with initiatives including the promotion of recording in pedigree flocks, benchmarking and a study of the reasons why many farmers do not retain the best quality females for breeding.
- 4.24 A further challenge is to develop and adopt/optimize low-cost, low labour input, environmentally sustainable, grass-based systems of production in order to compete more effectively as EU support is reduced. This will require research and development, competence development and technology transfer programmes focussed on stimulating farmers to exploit the profit potential of quality livestock by adopting appropriate production systems and best management practices.
- 4.25 Lamb Groups have had a major beneficial influence on the sheep sector and continued support should be provided to foster further collaboration between farmers and encourage linkages with processors to secure maximum returns from the marketplace.

## **DAIRYING**

### **Conclusions and Recommendations**

- 4.26 In future, the dairy sector in both Northern Ireland and Republic of Ireland will continue to be dependent on production of powders which at present is very exposed to price volatility. High value products, e.g. yoghurts, offer profit potential but utilise little milk.
- 4.27 Reduction of export refunds and decoupling of support will bring prices much closer to world prices but the full impact will not be felt until 2006-2007. While there is more justification for optimism in the milk sector, the production and processing sectors will have to be much more cost effective than at present



if they are to survive and prosper. The key challenge for milk producers and processors is to prepare to compete at, or close to, world milk prices brought about by the reduction of EU price support. Milk quotas will become less relevant, whether or not the system is formally dismantled.

- 4.28 Producers will need to adopt and carefully manage low cost, grass-based systems which maximise production from grass utilised as far as possible in situ and be more responsive in meeting quality requirements of processors.
- 4.29 Change should be stimulated and supported through R&D on low cost systems, grass breeding and livestock breeding/selection, as well as vigorous technology transfer and competence development programmes utilising ICT, benchmarking and 'model units'.

## **INTENSIVE LIVESTOCK**

### **Conclusions and Recommendations**

#### **- Pigmeat Sector**

- 4.30 The key challenge for the pig sector is to produce the required quality at a price which the market will support. There are major variations among pig units in their productivity, quality of output and profitability. Accordingly, the sector must set a priority for benchmarking and 'model units' in support of technology transfer and competence development programmes.
- 4.31 As with all forms of livestock production, animal health and providing assurances to customers about the safety of food is of critical importance. DARD should collaborate with authorities in the Republic of Ireland to develop and implement an Aujeszky's Eradication Scheme for the pig industry with support from public funds.

#### **- Poultry Sector**

- 4.32 The Northern Ireland poultry meat industry is already competing successfully in a very competitive international marketplace. It will continue to benefit from its flexibility, integrated nature and innovation and should survive in something like its present form as processors continue to process both imported and home-produced meat. Similarly, the small egg-producing sector should survive.

## **ARABLE CROPS AND COMMERCIAL HORTICULTURE**

### **Conclusions and Recommendations**

- 4.33 The local potato industry is unlikely to be a major international exporter. Continuation in the overseas seed business will require specialisation to supply high quality, non-mainstream varieties for certain niche markets. On the ware side, there is scope both for replacement of current potato imports to Northern Ireland and some ware exporting to GB. The key challenge for growers is to identify the requirements of buyers and produce a consistently high quality product while practising strict cost control and waste avoidance. With buyers increasingly providing technical support, DARD should concentrate primarily on the development of business competence.
- 4.34 With Northern Ireland suffering from disadvantages in terms of climate and drying costs, there is little scope to expand traditional grain production. However, there may be potential for increased output of moist grain for use by local ruminant enterprises seeking to reduce over-wintering costs. There would also be scope for biomass production and utilisation. These should be early priorities for R&D and technology transfer.
- 4.35 The Northern Ireland horticulture industry could face a very difficult future and, without help, may largely disappear. Local growers do not have the substantial capital grant support available for commercial horticulture in both the Republic of Ireland and Great Britain. The Northern Ireland Assembly should be alerted to the unfair competition facing horticultural growers and encouraged to provide similar financial support in Northern Ireland.
- 4.36 With a more level playing field, growth opportunities for various horticultural crops would exist. Issues vary across sub-sectors but all require support to identify and adopt innovative systems and technologies, particularly those related to environmentally friendly production, and to identify and develop linkages and collaboration to exploit new business opportunities.

## **5. PROCESSING SECTOR AND SUPPLY CHAIN – STRUCTURAL ISSUES AND RECOMMENDATIONS**

- 5.1 The Structures Sub-Group has considered a presentation from Graham Davis of IDB and data from Economics and Statistics Division, DARD on Background to the Agri-food Sector and

Analysis of the Agri-food Sector (trends, etc) which will form part of the papers supporting the main Steering Group Report.

5.2 Among the conclusions, the Structures Sub-Group would expect the problems flagged up in Paragraph 3.2 above and the following **problems** to be highlighted:-

1. **Rationalisation or restructuring is needed** in the beef/sheep, dairy, poultry, animal feedstuffs, bakeries and fish processing sectors, but many factors limit progress towards rationalisation and achieving the scale and organisational structures needed to become internationally competitive.
2. **Profit margins** on turnover are very low at 2% overall (including the relatively lucrative drinks sector), with some sectors, notably pigs and bakeries, losing money. Many companies not making enough to provide for reinvestment, while expenditure on R&D is extremely low.
3. The Northern Ireland food processing sector has **significant inherent disadvantages**, including high raw material costs, high support costs (e.g. fuel) and massive over-regulation.
4. In many respects, 'Northern Ireland Agri-food Ltd' is **going backwards in terms of structures** – cattle numbers are declining but new meat processing plants appear; the milk processing sector is losing its capability in cultured and manufactured products; there are too many animal feedstuffs plants; there is insufficient competition in the pig processing sector.
5. **The attitudes and capabilities of management** are major issues; not enough young, innovative and educated people are getting into positions where they can initiate change. Seventy per cent of companies produce the same or similar products to what they did 30 years ago.

### **Recommendations**

5.3 The Structures Sub-Group recognises that the Food Supply Chain Sub-Group is primarily responsible for making recommendations in this area but would offer the following contributions to the debate.

5.4 Restructuring is needed in all sectors. All sectors will be affected directly or indirectly by change in the CAP and should prepare to face that change. There are dangers in restructuring,

but no alternative. There will be resistance e.g. from farmers losing choice of outlets, but no alternative.

- 5.5 Northern Ireland may be able to compete in terms of production of undifferentiated products in the grass-based sectors, but these are unlikely to yield high profit margins. Accordingly, all sectors must look to niche/quality products. A strategy to avoid excessive R&D expenditure might be to copy other products and differentiate in some other way, e.g. in terms of service, customer support, etc.
- 5.6 Post-rationalisation support is greatly preferable to pre-rationalisation support.
- 5.7 Vertical integration is a possible way forward but has an unhappy history in Northern Ireland. Some form of joint venture might work in certain situations. Co-operatives and privately owned companies can both work successfully if their market focus is sufficiently strong; combinations are more difficult.
- 5.8 A study should be commissioned to gain a better understanding of the why/how certain companies do well and the results from this used to help devise sectoral/business development strategies in consultation with industry representative bodies. Market differentiation and the ability to move quickly to exploit opportunities are considered to be important contributory factors to achieving success in some cases.
- 5.9 All sectors need to push down costs and avail of opportunities to maximise profit. As in the production sector, benchmarking could be a valuable aid to management. Quality assurance is vital for the future but action is required to squeeze costs out of the food chain.

## **6 EDUCATION AND TRAINING FOR A COMPETITIVE INDUSTRY**

- 6.1 The Structures Sub-Group produced a working report on education and training. The key issues and recommendations, which emerged from that study, are as follows.

### **Background**

- 6.2 The agri-food workforce lacks relevant vocational qualifications and there is insufficient emphasis on up-skilling in employment. Serious management skills deficiencies relate to production management, business management, marketing and core skills such as ICT. Hence, agri-food and rural businesses

have limited capacity to adapt to address changing market demands.

- 6.3 A rapid and major improvement in attitudes, values and level of competence is a pre-requisite to increased competitiveness. Education and training must, therefore, have a key role in any strategy for developing the industry.

### ***Recommendations covering Production, Processing and Supply Chain Management***

- 6.4 A key challenge will be to promote 'Lifelong Learning' to improve the attitudes, values and competence of people already in the industry who will control agri-food and other rural businesses over the next 10-15 years. The highest priority must be the development of management competence as other benefits should flow from application of improved management expertise.
- 6.5 Education and training programmes arising from the competitiveness strategy must take account of food safety and traceability, prevention and control of animal and plant diseases, animal welfare and environmental concerns and address deficiencies in common skills.
- 6.6 To engage and sustain the involvement of managers who are already under pressure, competence development programmes must be easily accessible, address business needs and deliver immediate business advantage. Programmes should be technology-based and develop managers by supporting them to apply best practice in their own businesses.
- 6.7 A dramatic increase in industry's ability to exploit ICT for management, marketing and competence development is vital. Substantial investment in ICT training and infrastructure development is needed.
- 6.8 High levels of counselling and mentoring will be required to make a breakthrough, while group-based learning approaches can secure the benefits of peer support. Model Units and benchmarking will be important development tools.
- 6.9 DARD should ensure that all education and training programmes resourced by it meet the needs of industry and avoid unnecessary overlap, particularly at higher education level. In evolving its course provision and education support arrangements, DARD should take account the requirements of

ancillary industries, the service sector and public bodies for highly skilled staff.

### ***Recommendations Specific to the Production Sector***

(Further recommendations related to diversification of farm businesses and development of other rural employment opportunities may emerge from the Wider Rural Issues and Future Challenges Sub-Groups)

- 6.10 The industry needs to recognise that change within existing farm businesses is essential and to promote proactively that change.
- 6.11 DARD's computerised database on farm businesses needs to be expanded to include more comprehensive information on farmers and members of their families.

#### ***- New Entrants***

- 6.12 Future farmers should take vocational courses to the highest level commensurate with their abilities. The optimum scenario would be for future farmers and farm managers to have a technology degree or Higher National Diploma (NVQ Level 4 equivalent) in agriculture or farm business management. Where this is not possible, a National Diploma or NVQ Level 3, supplemented with on-the-job business management training, would be a satisfactory alternative. People responsible for an enterprise should ideally have an appropriate NVQ 3, National Diploma or better, while farm workers should have an NVQ 2 or better.
- 6.13 DARD needs to consider how its colleges can satisfy an immediate and on-going requirement for agri-ICT specialists.
- 6.14 The concept of Multi-skilling for potential new entrants (future successors) to marginal and part-time farm businesses should be further developed.

#### ***- People Already in the Industry***

- 6.15 Priority must be given to increasing industry's capacity to utilise ICT effectively by developing the competence and confidence of a further 3,000 farmers within 3 years and a further 2,500 within the following 2 years.
- 6.16 The Sub-Group welcomes the attempts to secure PEACE, Interreg and other EU funding to provide counselling, up-

skilling, re-skilling and financial support to assist farm families. Agencies delivering EU programmes should seek to engage families on part-time farms in farm business development groups and to promote ICT training;

- 6.17 Group development methods and ICT provide cost effective means of supporting the development of part-time farmers.
- 6.18 DARD, DLE, DETI and others should liaise to ensure that appropriate retraining opportunities match potential local employment needs and that disadvantaged farm families are encouraged and supported to participate.

### ***Recommendations Specific to the Processing Sector and Supply Chain***

(Further recommendations may emerge from the Food Chain and Future Challenges Sub-Groups)

- 6.19 It is vital that there is a single, agreed strategy for developing the competitiveness of the food processing sector and supply chain. Industry needs to take ownership of this strategy with Government and other bodies supporting.

#### ***- New Entrants***

- 6.20 Industry should strive for world-class standards in its workforce. Ideally, managers, technologists and marketing staff should have degrees or HNDs in a food-related or appropriate discipline. Supervisors and technicians should have an appropriate NVQ 3, National Diploma or better. Operatives should have a NVQ 2 or better.
- 6.21 Industry should be much more pro-active in promoting career opportunities.
- 6.22 DARD, in consultation with industry, should consider how full-time and part-time courses in food technology might be developed and promoted to increase uptake. Opportunities for more active recruitment targeting of Secondary Schools should be investigated.
- 6.23 DARD, in liaison with DLE and industry, should investigate whether an alternative format of apprenticeship programme would better meet industry needs.
- 6.24 DARD and DLE should consider how the immediate and on-going requirement for ICT specialists might be satisfied;

- 6.25 DARD should consider the potential for Loughry College to introduce HND and degree programmes in Food Marketing in conjunction with the University of Ulster;

**- *People Already in the Industry***

- 6.26 Loughry College and the industry organisations should collaborate to identify and provide training in priority commercial areas.
- 6.27 There needs to be greater emphasis on development and delivery of innovative and flexible support packages.

**7 INFORMATION AND COMMUNICATIONS TECHNOLOGY IN THE AGRI-FOOD INDUSTRY**

- 7.1 The Structures Sub-Group received two major presentations from William H Morris, Director of Laboratory Operations for Nortel Networks (NI Division) and Paul McGurnaghan, Head of Educational Development Division at Greenmount College of Agriculture and Horticulture.

**Conclusions**

- 7.2 ICT offers tremendous potential benefits for Northern Ireland agri-food businesses. However, the same benefits are available to our competitors and, therefore, ICT simultaneously poses a major threat. To secure competitive advantage, individual businesses and the industry generally will need to make a better job than our competitors of exploiting ICT.
- 7.3 With a few notable exceptions, uptake of ICT across the industry has been slow. To make up the backlog and get ahead will be a big challenge but Northern Ireland does have certain potential advantages. The ICT work at Greenmount is leading edge. The small size of Northern Ireland could aid the development of strong supply chain linkages. EU Structural Funds and the Northern Ireland Programme for Government could be harnessed to accelerate uptake of ICT.
- 7.4 Increasing capacity to exploit the potential of ICT will require rapid progress to be made simultaneously on three fronts :-
- ***E-Skilling*** – training key people in businesses to be able to use computers confidently and competently for a range of business purposes;



- **E-Access** – (a) stimulating businesses to procure suitable computers with the software and utilities needed efficiently to exploit agri-food and other business applications and, (b) enabling businesses to connect easily to the range of internet-based applications via a common portal or gateway;
- **E-Services and E-Commerce** – developing a wide range of applications which provide clearly demonstrable business advantage to individual businesses and the overall industry.

## **Recommendations - ICT in the Production Sector**

### **- E-Skilling**

- 7.5 To secure the widespread acceptance and use of ICT, the Sub-Group believes that urgent action is required quickly to build up a critical mass of farm business users. The Sub-Group, therefore, recommends that a challenging but realistic short term target would be to have a further 3,000 farms routinely and effectively utilising ICT in their businesses within three years, with a medium-term target of a further 2,500 users within 5 years. By 2010, all businesses will need to utilise ICT.
- 7.6 Farmers must see an early pay-off. Training, with the exception of initial training in keyboard skills and basic applications, must, therefore, be contextualised to address business needs of farmers and be delivered by people with relevant farming experience. Spouses and other members of farm families should also be targeted for training, particularly, where the farmer is reluctant to come forward.
- 7.7 While development of competitiveness *per se* might suggest concentrating on the larger full-time businesses, ICT has much to offer progressive, part-time businesses as it provides a cost-effective means of linking them to the same high quality business support as full-time farms. Promotion of ICT and training should, therefore, target all farm businesses that wish to develop.

### **- E-Access**

- 7.8 Increasing uptake will require easy access to highly user friendly applications. The Sub-Group welcomes the recent allocation of funds by the Minister of Agriculture and Rural Development to begin the development of a single portal through which agri-food internet-based services and applications can be accessed. There should be opportunities for public-private partnership and the Sub-Group recommends that continued high priority be given to the provision of

Government's share of the funds needed to complete the development and undertake subsequent updating.

**- *E-Services and E-Commerce***

- 7.9 Rapid uptake of ICT will happen only if farmers can be given easy access to a range of user-friendly applications which provide clearly demonstrable business advantage. High priority must, therefore, be given to making IACS, APHIS and other Government forms, regulatory systems and services easily accessible and user friendly to farmers via the internet.
- 7.10 Benchmarking is an important management tool facilitated by ICT but its value is being limited by the absence of a common protocol and standard performance indicators. DARD should seek to broker the development of a common protocol in consultation with industry interests, specifically including key players such as banks and the accountancy profession.
- 7.11 Focussing initially on the more innovative dairy sector has been the right strategy for DARD in the development of ICT-based business support programmes. The next phase should address the needs of beef and sheep farmers, particularly in light of the importance of improving red meat quality, a priority which is emerging from the Vision Group's deliberations.

**Recommendations - ICT in the Processing Sector and Supply Chain**

- 7.12 The situation in the food supply chain and food processing businesses is less clear. While the Sub-Group has little hard evidence upon which to base a judgement, the perception is that uptake and utilisation of ICT is highly variable. Some companies, mainly larger companies and those dealing the multiple retailers, may operate sophisticated ICT systems. However, many smaller companies often make very limited use of ICT.
- 7.13 DARD and DETI should commission an urgent study to assess the present uptake of ICT by companies in the food processing sector and supply chain and to identify actions that would stimulate and support a more rapid rate of uptake.
- 7.14 Elsewhere in its report, the Sub-Group has made recommendations for actions to improve exploitation of ICT for traceability, quality assurance, supply chain linkages, etc. The recommendations specifically include developing the use of APHIS for the benefit of the beef industry

- 7.15 Technical, training and financial support should be given to small agri-food businesses to stimulate the development of business-to-business applications and establishment of single, virtual shopping mall for Northern Ireland produce.

## **8 DEVELOPING THE POTENTIAL OF THE EQUINE SECTOR**

- 8.1 The Structures Sub-Group requested the preparation of a paper (available from the Sub-Group Secretary) giving an overview of the equine industry at present and examining the issues affecting its future development, specifically including the references to equine development in the Downing Street Agriculture Summit of 30 March 2000. The paper was produced and presented by Deirdrie Cooper, Education Development Division at Greenmount College of Agriculture and Horticulture.

### **Conclusions**

- 8.2 The Northern Ireland equine industry is a significant sector of the economy, both in terms of the amount of money spent directly and indirectly on equines and the number of people gaining full-time and part-time employment. The perception of the industry as the preserve of the more affluent is incorrect as, particularly in the breeding, training and use of sport horses, many farmers and others of limited means are involved.
- 8.3 The potential of the industry to develop is being strongly constrained by various factors.
- The equine industry is effectively an all-Ireland industry but the Northern Ireland component is strongly disadvantaged by the UK tax system (non-agricultural status), ineligibility for GB industry financial support and lack of Government or other financial support.
  - The industry is very fragmented, with no active umbrella organisation to look after its interests.
  - The people involved have exceptionally low levels of relevant vocational education and training. Significant gaps North and South include the provision of farriery training.
  - There are highly traditional attitudes with little uptake of improved technology in areas such breeding, health, nutrition and training, as well as management.
  - There is a serious depletion of the genetic merit of the breeding herd, with the best horses constantly being exported.
- 8.4 The Structures Sub-Group concluded that there is potential for the Northern Ireland equine industry to play a greater role in

the rural economy but that this will require the development of a more effective public-private partnership to address some of the fundamental weaknesses which now afflict the industry.

### **Recommendations**

- 8.5 The Department of Agriculture for Northern Ireland should broker and facilitate discussions and subsequent actions to establish a more unified 'umbrella' organisation to represent the key industry interests and provide stronger leadership in the development of the industry. As part of that process, DARD should engage with the responsible bodies in the RoI to agree and implement mutually beneficial actions.
- 8.6 Although the ideal scenario for development of the equine sector would be the designation of the horse as an agricultural animal with the accompanying tax advantages, the Sub-Group reluctantly accepts that a major change in UK taxation is almost certainly an unattainable objective. However, DARD should ensure that the undertakings in the March 2000 Downing Street Agriculture Summit are followed through to positive outcomes:-
- *'The Government will revise planning guidance to give clear encouragement to diversification, for example, to re-use redundant farm buildings and to encourage small-scale farm enterprises on working farms;*
  - *The Government will consult publicly on proposals to extend rate relief to other horse enterprises linked to farm premises. This will require primary legislation.*
- 8.7 A key challenge will be to promote Lifelong Learning to improve the attitudes, values and competence of people already in the industry who will control equine businesses over the next 10-15 years. DARD should, therefore, extend its range of part-time and short training courses to address the needs of the equine sector.
- 8.8 The highest priority must be the development of production and management competence as other benefits should flow from application of improved management expertise. To engage and sustain the involvement of people who may be already under pressure, competence development programmes must be easily accessible, address business needs and deliver immediate business advantage. The potential for developing and delivering distance learning (including ICT-based programmes) and management information systems on a cross-border, collaborative basis should be explored.

- 8.9 An early priority should be the introduction of training in farriery, which is not presently available at any centre in Ireland.
- 8.10 Availability of finance to support the application of improved technology is clearly a limiting factor. DARD should seek to secure some funding through the Programme for Government and to assist the industry exploit the potential of the forthcoming round of EU funding, specifically including Interreg.

## Appendix 1

### INDIVIDUALS AND ORGANISATIONS THAT MADE PRESENTATIONS AND WRITTEN SUBMISSIONS TO THE AGRIFOOD SECTOR STRUCTURES SUB-GROUP

Mr Douglas Rowe	The Ulster Farmers' Union
Mr Robert Overend	The Ulster Farmers' Union
Mrs Angela Martin	The Ulster Farmers' Union
Mr John Gilliland	Farmer and Chairman of the Northern Ireland Food Chain and Environment Pesticide Group
Mr David Rutledge	Chief Executive, Livestock and Meat Commission
Dr Mike Tempest	Agriculture Manager, Livestock and Meat Commission
Mr Phelim O'Neill	Marketing Manager, Livestock and Meat Commission
Mr Norman Murray	The Young Farmers Clubs of Ulster
Mr Eugene Hassan	PriceWaterhouseCoopers
Mr Philip Price	PriceWaterhouseCoopers
Mr William Morris	Director of Laboratory Operations, Nortel Networks
Mr Graham Davis	Food Division, Industrial Development Board
Mrs Sheila Magee	Economics and Statistics Division, DARD
Dr Harry Gracey	Countryside Management Division, DARD
Mr Ian Titterington	Education and Finance Division, DARD
Mr Paul McGurnaghan	Education Development Division, DARD
Mrs Deirdrie Cooper	Education Development Division, DARD
Dr Sam Kennedy	Crops and Horticulture Technology Division, DARD