



# **A Review Of The Study 'Abattoirs in the North East - Mapping Existing Capacity and Future Demand'**

*- Summary Document -*

**Completed For  
Tynedale Council  
& One NorthEast (ONE)**

**By MLC Industry Consulting**

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## EXECUTIVE SUMMARY

- This report reviews the previous study conducted by Promar - '*Feasibility and Capability Mapping of Abattoirs*'-, as commissioned by One NorthEast (ONE) in 2002. The objective was to update and reassess the findings of the previous study within the context of the changes that have occurred in the meat and livestock sector in the North East since 2002, and the challenges it now faces.
- The livestock sector, both nationally and in the North East, has experienced a significant period of change and faces a continued period of uncertainty. In addition to CAP reform contributing greatly to the ongoing challenges, commodity livestock production is faced with continued exposure to competition from world markets over the coming years.
- Nationally, livestock numbers for all three red meat species have continued to decrease since the previous report was written. This has been most dramatic in the pig sector. The livestock populations in the North East appear not to have suffered such reductions, with cattle, sheep and pig numbers on average increasing over the 2002 to 2004 period. However, to some extent this may reflect the recovery period for the sector in the region following the 2001 FMD crisis, rather than indicating any major differences to national trends.
- On-farm profitability improved somewhat during the interim years between the previous study and this report, although this was largely due to the upturn in arable enterprises rather than greater returns for livestock-based activities. Farm incomes in 2004 once again returned to similar levels that were being experienced in 2001/02.
- Since the last report was written, the number of abattoirs in the region has shrunk from 18 to 11. These closures included the large plants of *Hargreaves* and *Northern Counties*, as well as the smaller plants of *Fawcett*, *Brown*, *White*, *Turnbull* and *Simpson*.
- An apparent concern for the abattoirs and meat processing facilities in the North East is the volume of finished livestock that moves out of the region. It is thought that the larger plants in adjacent regions are procuring large volumes of the better quality North East primestock (*especially cattle*), leaving the remaining lower quality residual livestock for the local plants. This may be associated with the larger out of region abattoirs having superior customer contracts in comparison to their North East counterparts, which in turn enables improved prices to be paid to producers (*or livestock procurers*).
- As a whole, abattoir investment has been relatively low in the region since the last report was completed. This continues the trend experienced in the 1990's. The investment that has occurred has mainly been attributed to chilling, cutting and boning facilities. The slaughter lines are therefore fairly basic compared to other large plants in other parts of the country. (*For example, none of the plants have line/rail or chiller equipment/facilities that will easily allow them to practice hipbone suspension of carcasses, neither do any have*

*high/low voltage electrical stimulation equipment*). This comment is not meant to imply that the facilities are inadequate for the tasks being performed, but simply indicates the low level of technology in the plants.

- No sources of capital funding in the way of grant assistance had been realised by any of the abattoirs in the region at the time of writing. General awareness of the restricted grants schemes available to the meat-processing sector was limited.
- The external structures (*appearance, suitability and features*) and internal facilities (*layout, finishes and equipment*) of the 11 abattoirs were assessed. This was performed relative to the age and type of the facilities (*measured against the legal and commercial requirements and compared to other plants in Great Britain, based on the consultants knowledge of the industry*). Five of the larger plants were adjudged to be above the average standards. Two of the smaller plants and one of the larger plants were deemed to be below average. The remaining three plants were assessed as being average. At the time of writing, none of the plants had experienced an FSA re-licensing visit (*but these will occur for all plants within the coming months*).
- Four of the abattoirs in the region may face ownership/operator succession issues in the coming years that may threaten their future. Three of the larger plants and the largest of the small plants. It is possible that these plants could be sold as going concerns, but it is also equally possible that they could be closed and in some cases the sites sold for development.
- Most of the slaughtering activity in the region is still geared towards servicing the 'traditional' sector of the meat market (e.g. sales to meat companies further up the supply chain involved in specialist wholesale and further processing activities, or to traditional butcher retailer and catering/food service). Three abattoirs mainly serviced their own retail shops and two of the smaller ones provided a slaughtering service only.
- None of the abattoirs in the North East admitted to supplying either the large or medium sized supermarket or food service companies. Several of the larger plants were performing varying levels of ethnic slaughtering (e.g. *Halal*).
- Other than that being carried out by the small producer/retailer type of livestock producer, there is little current evidence of regional branding/regional meat initiatives in the North East.
- One of the larger plants in the region is preparing to resume exporting beef (*from older cattle*), with the likely resumption of such trade in mid-2006 and a second is seriously considering entering this export market.
- The abattoirs in the region are notable in lacking of any form of higher quality assurance scheme accreditation (e.g. *such as EFSIS approval*). One of the larger plants however did hold an Assured British Meat (ABM) accreditation. It is thought that this situation may be severely restricting the ability of the larger abattoirs to gain trading relationships with national multiple retailers

and the larger food service buyers This therefore will restrict any future activities surrounding the national promotion of North East meat brands.

- Of the sample of wholesalers/catering butchers in the North East contacted, it appeared that the use of local abattoirs for supplying their meat was limited. Those with FSA cutting plant licenses sourced more from local plants, than those without. However, the use of local abattoirs by retail butchers in the region was more widespread, with 79% maintaining that they sourced meat from a local abattoir (*although for some this may have been indirectly through a wholesaler*).
- Based on the assessments carried out on the capabilities of the abattoirs in the North East as part of the study, the estimated potential operative capacity of the 11 North East abattoirs was estimated at 210,000 European Livestock units (ELU's). When this figure is compared to the actual 2004/05 throughputs that were in the region of 126,500 ELU, the volume of potential extra capacity is realised.
- A great deal of the unused capacity is held by two plants in the region. These plants also provide by far the largest proportion of contract slaughtering services to the North East region. If one or both of these facilities were to cease operating, a further major proportion of the North East's throughput would be lost, along with a significant amount of the extra (*unused*) slaughter capacity. In addition, such closures would also result in a grave downturn in the region's contract slaughter provision.
- The general low levels of return on commodity livestock based enterprises have helped to drive the activities of the 'alternative' speciality producers. This sector, particularly the producer/retailers in the North East, appears to be growing, albeit from a small base. The requirements of this sector are particularly responsible for the continued (*and possibly expanding*) demand for contract slaughtering. Pressure is also being exerted on abattoirs in the region to gain specialist certification for specific attributes (*e.g. organic approval*)
- Nine of the region's 11 abattoirs, claimed to offer contract-slaughtering services that were a varying proportion of their business. From the information provided by each abattoir, the total proportion of contract slaughtering in the North East was estimated to equate to 12% of the region's cattle throughput, 14% of the sheep throughput and 12% of the pig throughput. If all of this type of slaughtering activity were condensed into one abattoir facility, a 'medium' sized plant would be required to perform this work alone.
- A large proportion of this contract slaughtering activity at most of the larger plants was carried out on behalf of other 'trade customers' (i.e. abattoirs and other meat wholesaler/processors). Contract slaughtering for the smaller speciality producer/ retailer and other smaller speciality retailers (and small food service suppliers), was estimated to equate to about 4 to 5% of the region's cattle throughput, 6 to 7% of the sheep throughput and 2 to 3% of the pig throughput.

- The demand for contract slaughterings from this speciality sector in the North East came mostly from customers in the mid and northern parts of County Durham and Northumbria.
- The activities of local/regional initiatives will go some way to securing a viable meat supply chain infrastructure within the North East. However, ultimately wider national market forces will also drive the level of prosperity in the abattoir sector over the coming years. This in turn will largely determine the level of slaughtering activity and the structure of the industry going forward.
- The report concludes with strategic recommendations regarding the options that the public bodies responsible for development in the North East have to:
  - a) Raise the capabilities of the abattoir industry in the region.
  - b) Maintain the contract slaughtering resource.

## CONCLUSIONS AND STRATEGIC RECOMMENDATIONS

### Conclusions

The previous report's overarching conclusion following its review on the abattoir sector in the North East in 2001/02, was that no additional slaughtering capacity was required (p99)- *'there is currently no requirement for a new abattoir to provide additional animal slaughtering capacity in the North East region'*.

This we believe still remains the case for the following reasons:

- Despite a total of 7 abattoirs closing since the previous report was written, it appears that the North East's slaughtering capacity (for cattle and sheep) has only been marginally affected as a result. Indeed, the most significant outcome of these closures has been on the geographical spread of plants (some producers will have to travel further in order to transport livestock to an abattoir).
- Overall, it appears that the North East region still has ample slaughtering capacity to cater for its current requirements. It is not envisaged that livestock production in the area is going to experience any significant increases over the coming years and so given the current pattern of trade, slaughtering requirements are unlikely to increase.

There are however, a number of concerns for the future:

1. The previous report also took the view that (p99) - *'if in the future one of today's major players were to cease to exist, a requirement might exist'* for additional slaughtering capacity. This we believe also still remains the case, particularly if it is the closure of a plant or plants important for the provision of contract slaughtering services in the region. This is because:
  - The demand for contract slaughtering services from specialist producer/retailers and retailers has been and is likely to continue to increase, this demand may not equate to a large proportion of the overall market but is important to the development of local speciality meat production in the North East.
  - Two of the existing larger abattoirs in the North East at risk provide a significant proportion of the North East's throughput, hold most of the region's spare slaughtering capacity and are also important in offering a contract slaughtering service to speciality producers.
  - Clearly, if one or both of the aforementioned larger abattoir facilities were to cease operating, a major proportion of the North East's throughput would be lost along with the extra (unused) slaughter capacity they currently hold. What would also be lost would be a significant proportion of the service slaughter provision in the region. The remaining plants would have difficulty coping

with additional demand from this source (even if they wanted to). This could be a very serious issue for the growing producer/retailer and speciality sector in the North East.

2. Very few of the larger abattoirs in the North East are independently 'assessed' to meet the 'assurance requirements' of a growing number of customers. Such requirements mainly arise from the multiple retailers and the larger suppliers in the food service sector. Most of the largest of the multiple supermarkets and food service suppliers have organised dedicated supply chains with large abattoir/processors outside of the North East, but as these and the smaller multiples beginning to offer products from more 'local' sources, there may be opportunities for abattoirs and related cutting plants in the North East to service these. Clearly this will only occur if they can raise their capabilities to meet the 'assurance requirements' (which are above the legal requirements).

### **Strategic Options**

In order to cope with these concerns for the future the public bodies responsible for development in the North East have a number of options:

#### **Raising the capabilities of the industry:**

- a) Do nothing and let commercial forces alone sort out which companies are going to invest to improve their capabilities.
- b) Assist all existing abattoir companies (and linked and supply chain related cutting plants) to make best use of the advice and financial assistance that may be available to help them improve their capabilities.
- c) Target assistance to those plants that have existing structures, operational practices and development plans, that make them most willing to developing their capabilities - some would like to change but just need some additional help to get there.

#### **Maintaining the contract slaughtering resource:**

- d) Do nothing and let nature take its course, e.g. if / when a plant owner retires and plants close, another company will step in if there is a viable market. If there is not a sufficient market farmers will have to travel to nearest plant willing to contract slaughter.
- e) Use public funds to buy a strategically located plant that may close and operate using existing staff. Difficult to justify if long term funding is required - plant must be self-financing - it doesn't have to make a large profit - just enough to fund maintenance and upgrade costs. But State aid rules and challenges of unfair competition from the remaining players may prevent this. There is also a question of who would be the owner? Unlikely that Councils would want to go back to the providing 'municipal facilities'; however, in other parts of the EU (e.g. in the more rural areas of France and Italy), local municipal authorities have worked closely with

producer and retailer co-operatives to set up local abattoirs to provide slaughtering services to maintain local speciality production.

- f) Do nothing but encourage more collaborative thinking/planning e.g. amongst those in whose interest it is to have such a resource (e.g. the speciality/producer retailers); following such closure they could be forced to work together and open their own new plant or take over one of the existing plants.
- g) Be more pro-active. Talk to existing owners/users (farmers and others) and prepare so that if it seems unlikely that a company from within the meat trade will step in to take over a 'strategically important plant' (for contract slaughter), a co-operative or collaborative group can be formed ready to enter into commercial discussions before any plant closes. This could include the option of leasing from the existing owner and including them in these discussions?

### **Strategic Recommendations**

The consultants view is that with regards to raising the capabilities of the industry in the North East, Option C should be implemented:

- Target assistance to those plants most willing to develop their capabilities.

As regards maintaining the contract slaughtering resource in the North East, Option G should be implemented:

- Pro-active involvement with those parties that would be most at risk from the potential loss of the contract slaughter resource. This would aid the development of a possible co-operative or collaborative venture. This could eventually include assistance that could be offered to help them do this – financial assistance, to help buy or improve facilities (depending on State aid issues) – organisational help, vector in advice on business structures and experience from elsewhere (e.g. such as similar initiatives in other parts of the country where producers are given reduced slaughter rates if they invest through buying a block of slaughtering time).

At the same time the suppliers of livestock to the abattoirs should be helped so that they are best able to supply the customers requirements. This would encourage the agents in the region (producers, livestock markets, supply groups, abattoirs etc) to work together with the aid of industry support programmes such as the EBLEX 'Better Returns' scheme.