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From Blockades to Supply Chain Integration: Challenges of Co-ordination in the
Agrifood Sector

Alan Renwick

Contributed paper prepared for presentation at the 59th AARES Annual Conference,
Rotorua, New Zealand, February 10-13, 2015

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From Blockades to Supply Chain Integration: Challenges of Co- ordination in the Agrifood Sector

Alan Renwick

AARES Rotorua

February 2015



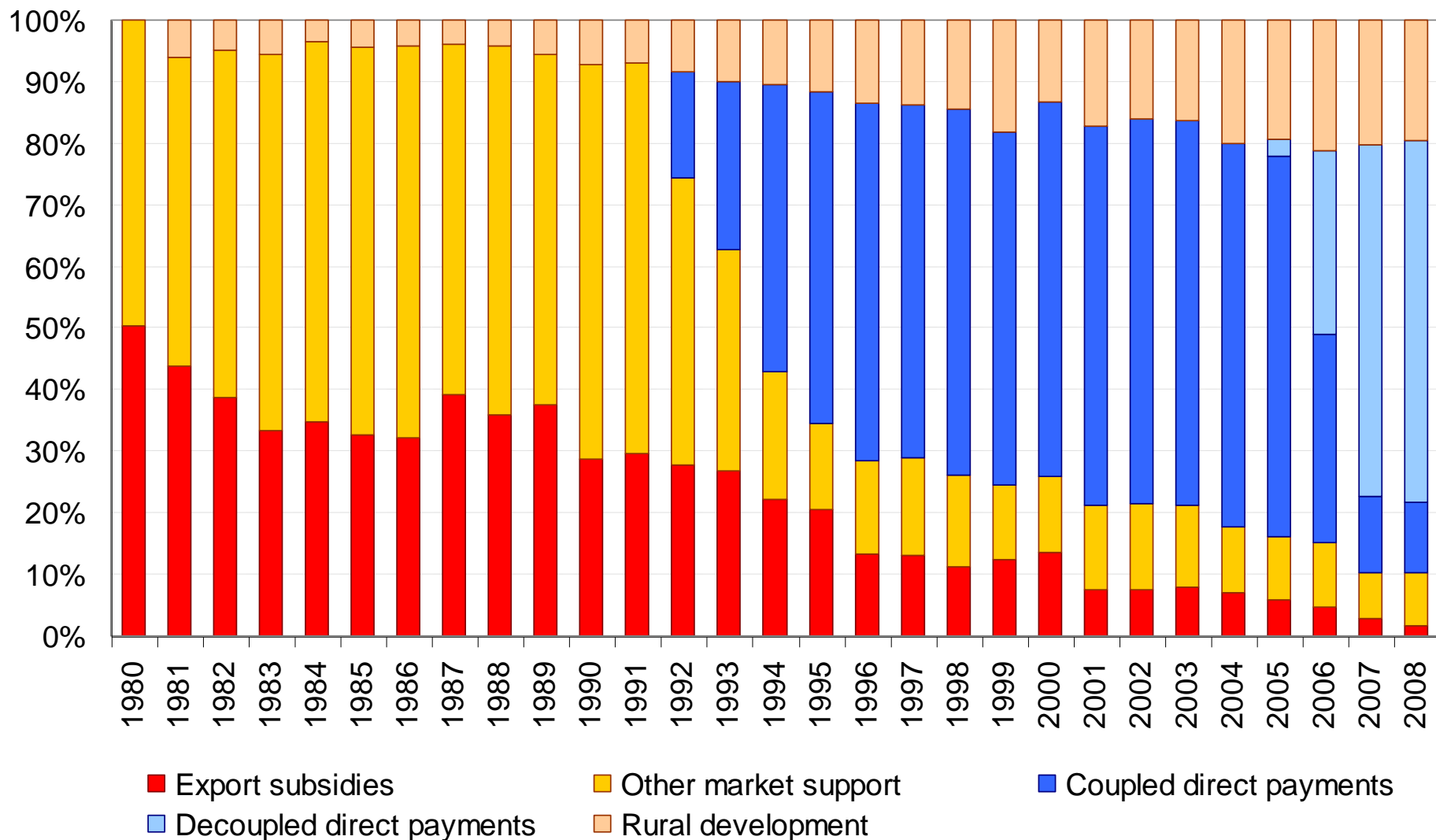
**Agri-Business and Rural Development
School of Agriculture and Food Science.**

Outline

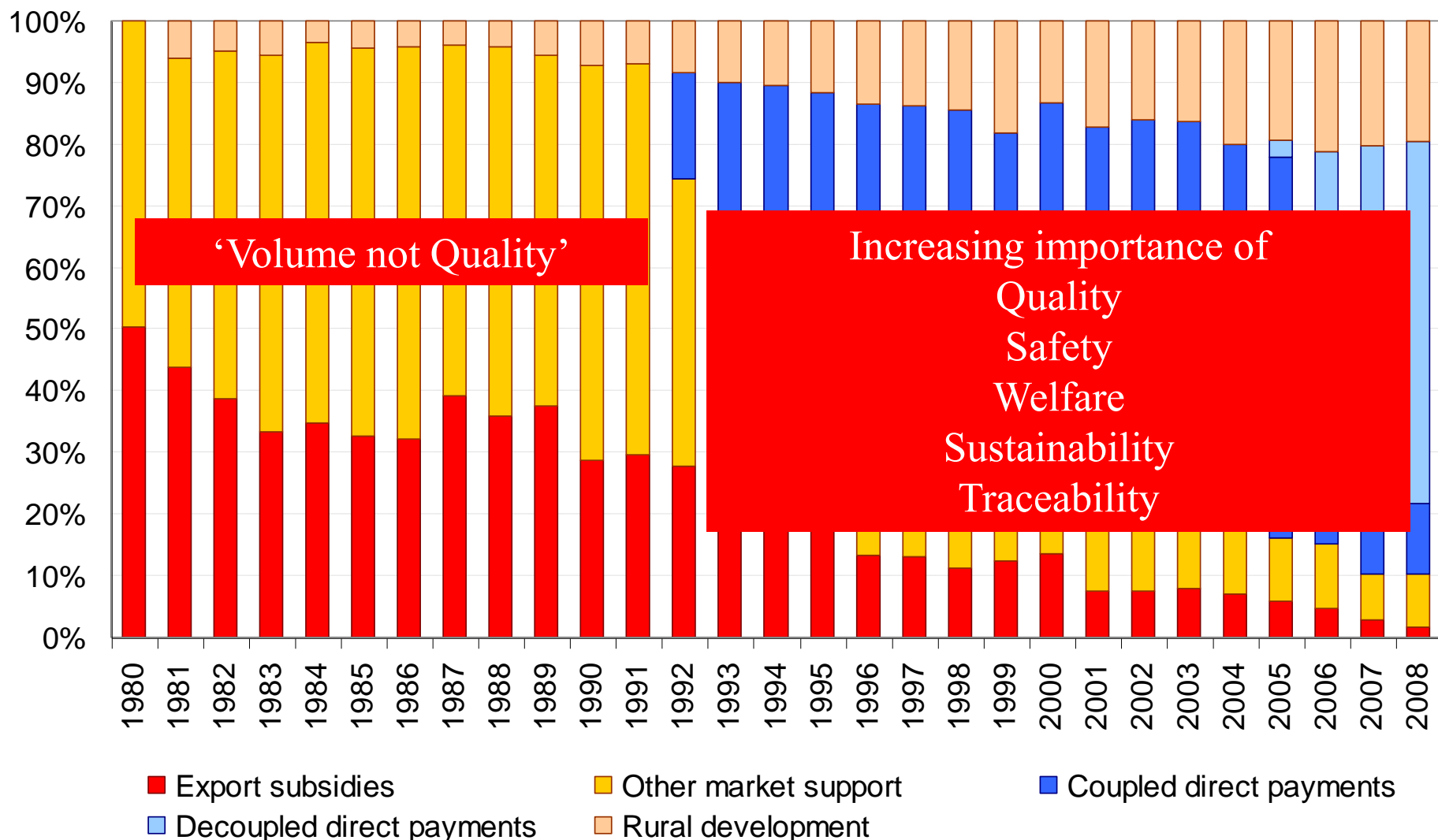
- Increasing importance of integration of Agrifood value chains
- Theoretical Framework
- Case Study: The Irish Beef Crisis
 - Background
 - Implications
- How do we improve co-ordination?



Increasing importance of co-ordination within supply chain



Increasing importance of co-ordination within supply chain



Premises

- Leat and Revoredo-Giha (2008) argue that 'improved supply chain co-ordination and cooperation amongst the different segments of a supply chain can improve its efficiency and effectiveness, and therefore, its competitiveness and long term sustainability.'
- The basic premise is that for a country to have a successful Agrifood sector in the future, all parts of the system have not only to work well individually but also function collectively as well.
- For example, there is no point having world class food manufacturers and processors if there is no raw material supply.



Theoretical Framework



Notes:

Characteristics of supply chain members

Interventions of the supply chain leader

Devices to facilitate relationships and performance

Results



Source: Leat and
Revoredo-Giha (2008)

Beef in Ireland

- Theory highlights what is needed for a sustainable and resilient supply chain
- However, it is clear that we are a long way from this ideal in many chains
- Nowhere is this more evident than the Beef chain in Ireland
- Under FH2020 Ireland has ambition to increase value of output from Beef production by 20 (40) per cent by 2020
- Up to mid-2013 all looking rosy as higher commodity prices boosted value but then ...





British cattle making €315 more

KIERAN MAILEY
LIVESTOCK SPECIALIST
kmailey@farmersjournal.ie

Finished cattle in Britain are worth €300/head more than cattle slaughtered in Ireland this week.
Strengthening beef prices in Brit-

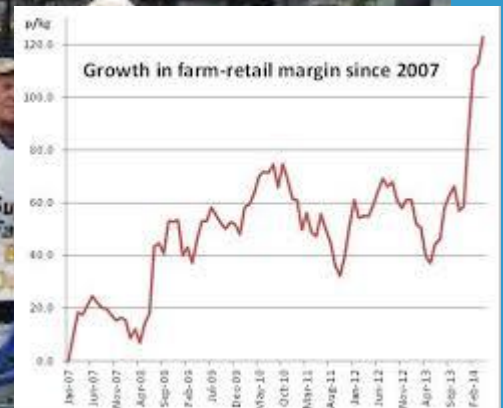
ain have opened up a 90c/kg price differential for cattle slaughtered on either side of the Irish Sea.

A 350kg R3 steer finished in Britain is now worth €315 more than its Irish counterpart, taking an Irish beef price of €3.75/kg when in-spec bonuses are applied.

While demand from Irish factories is rising, it is not being reflected in farmgate prices, much to the dismay of farmers. In contrast, beef prices in Northern Ireland have risen sharply over the past seven days, with base quotes increasing by as much as 27c/kg at

certain plants. R3 prices north of the border stand at €4.52/kg (including VAT), bringing the differential on the same 350kg steer finished on either side of the border to €270/head.

Continued on page 6



Do you want healthier cows pregnant sooner?

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- Health & Wellness Monitoring.
- App with 2 way communication.
- And much more...

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CALL US NOW FOR A BROCHURE:

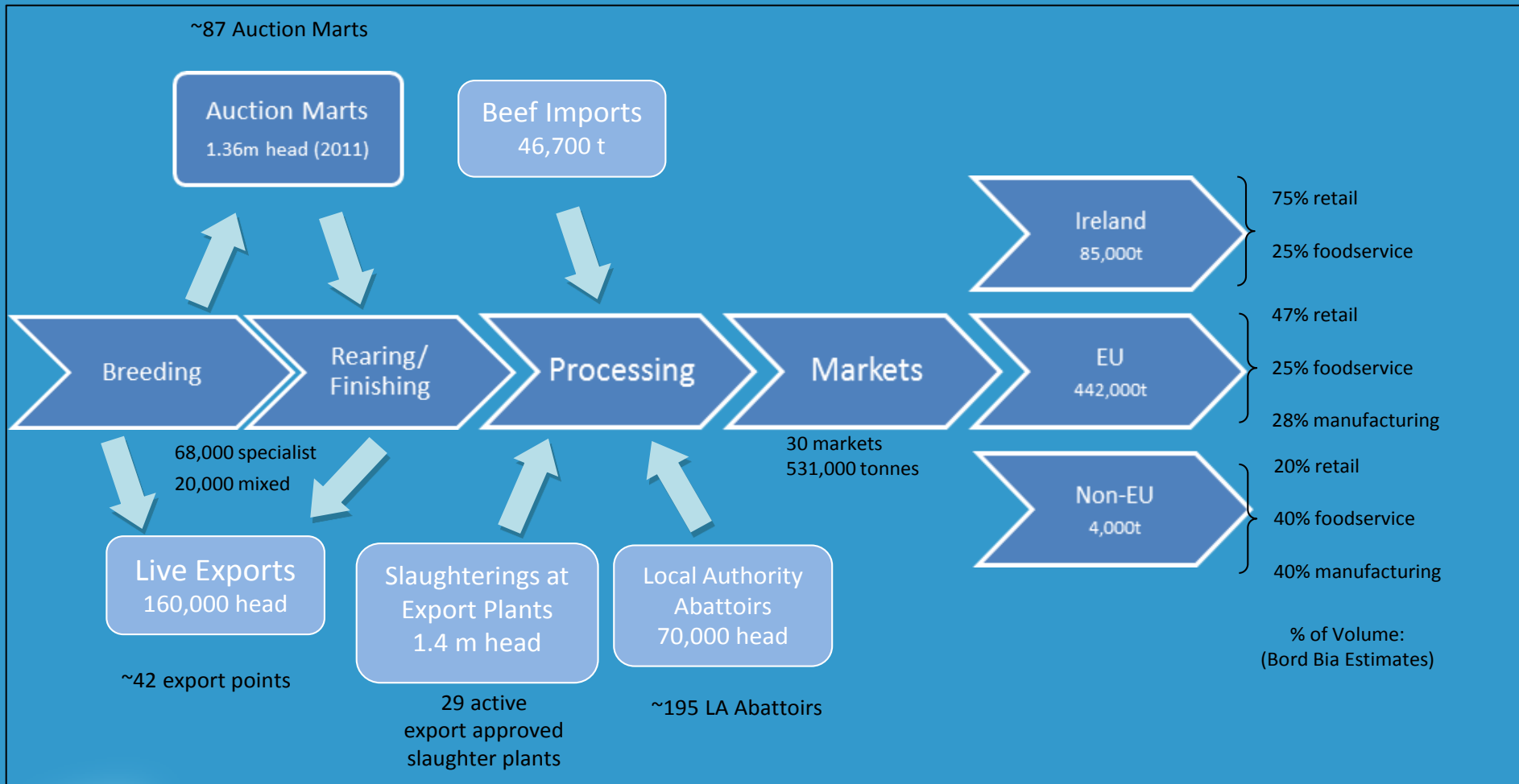
Milking - Feeding - Cooling - Manure Scrapers - Health & Fertility Monitoring

The Beef Crisis

- Price began to fall from mid-2013
- We can see two stories
 - There is an 'economic' supply and demand story underlying the price development
 - But perhaps more interesting in the context of this talk is how the 'dysfunctional' nature of the supply chain turned price pressure arising from supply and demand issues into a 'crisis'



Irish Beef Cattle Chain

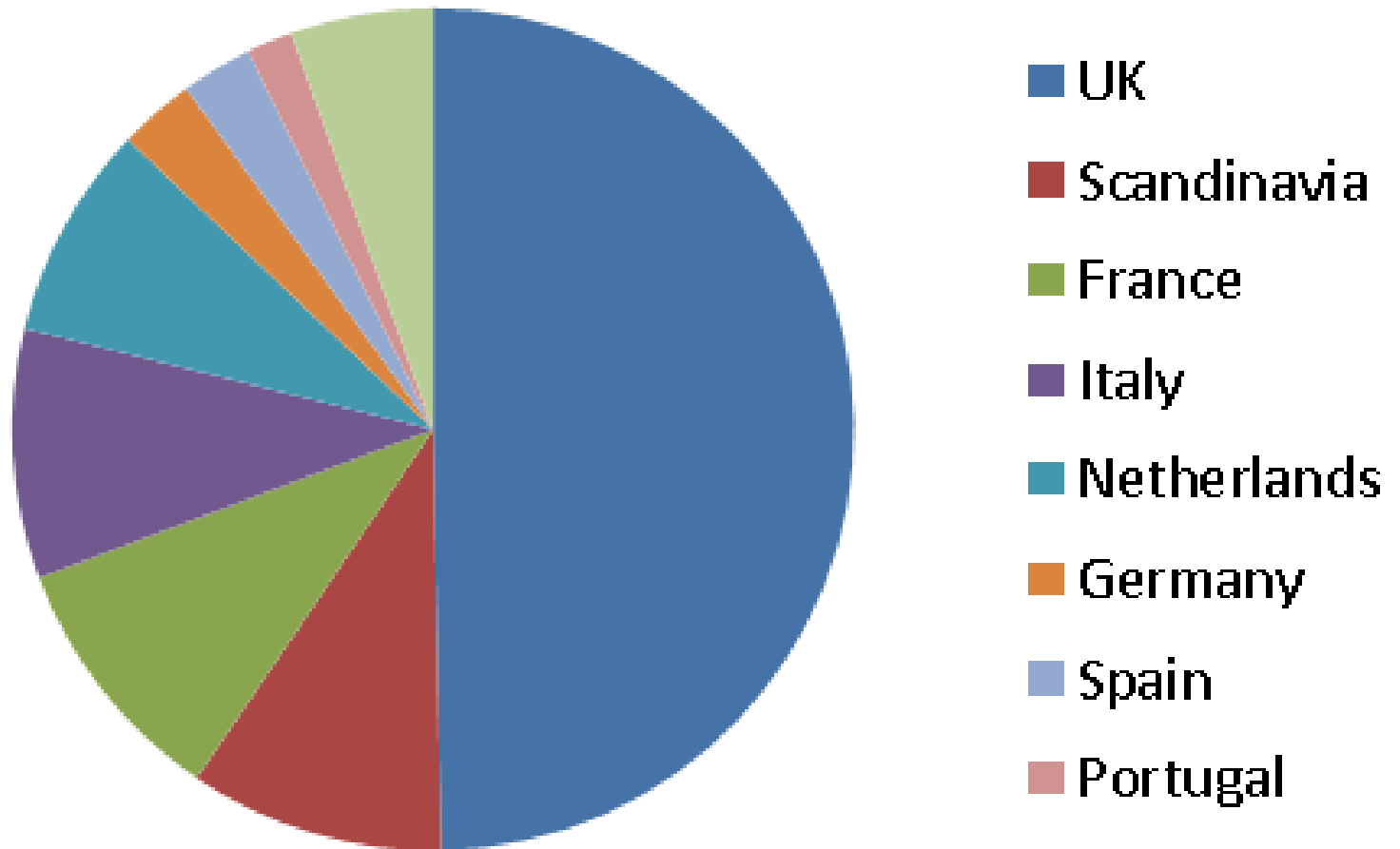


Processor Shares

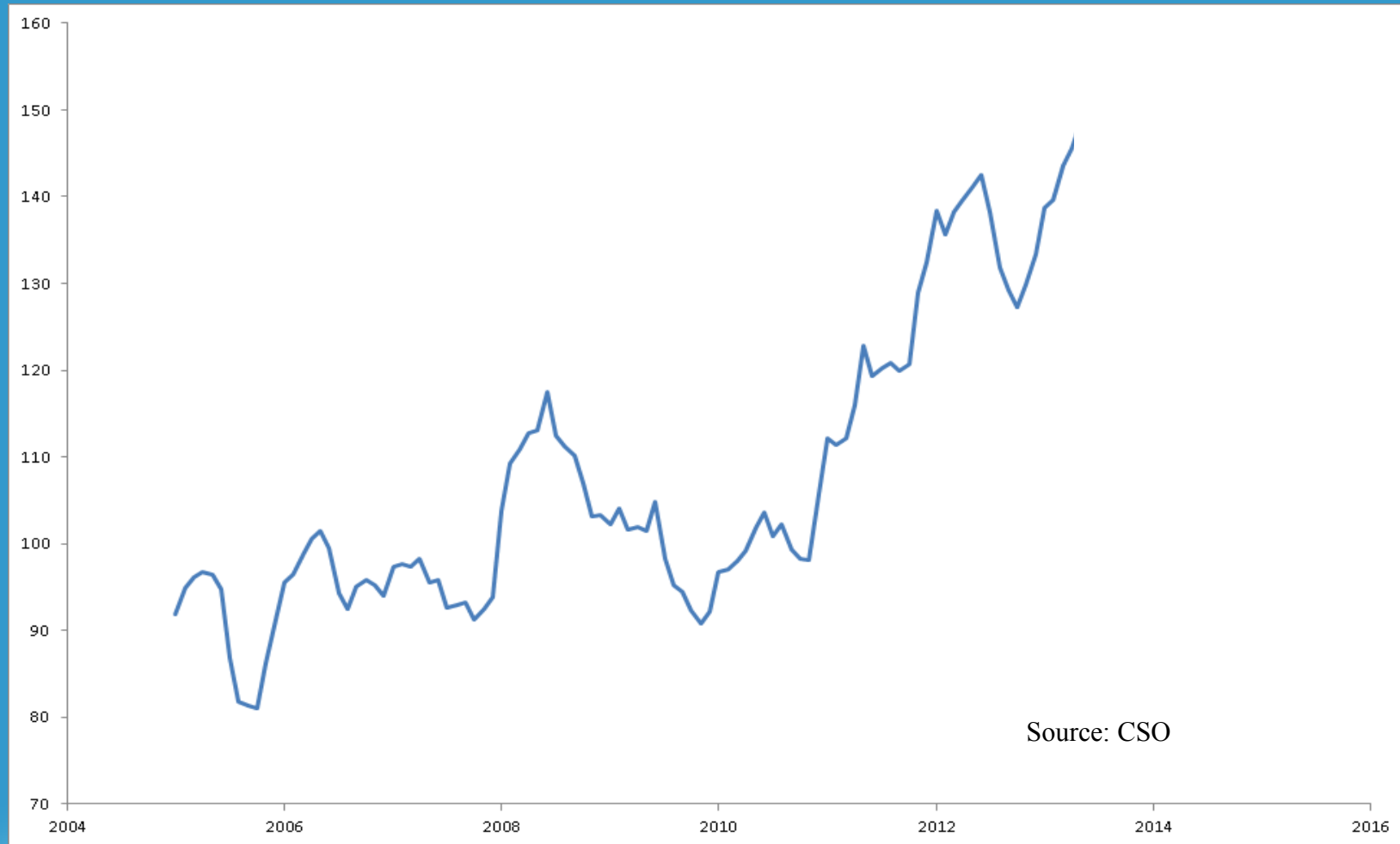
- 'The Big 4 Irish meat processors (ABP, Dunbia, Dawn and Kepak) now account for 65% of the total Irish cattle kill and approximately 45% of the UK kill. This caters for probably 80 – 90% of the total killed for export destined to UK multiple retailers'



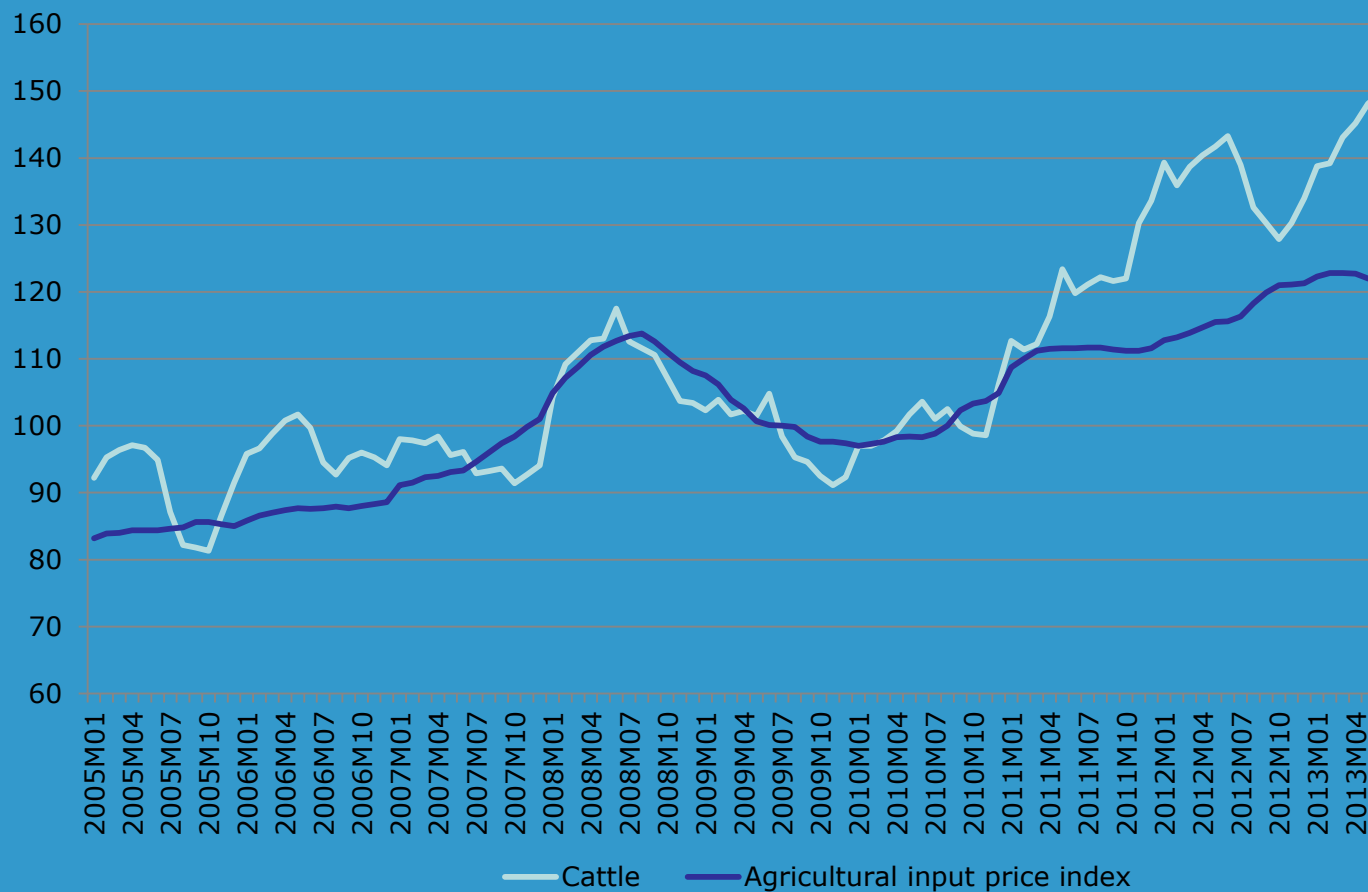
Export Destinations



Trends in Cattle Prices in Ireland



Input Prices up as well



Source: CSO



Price Pressure

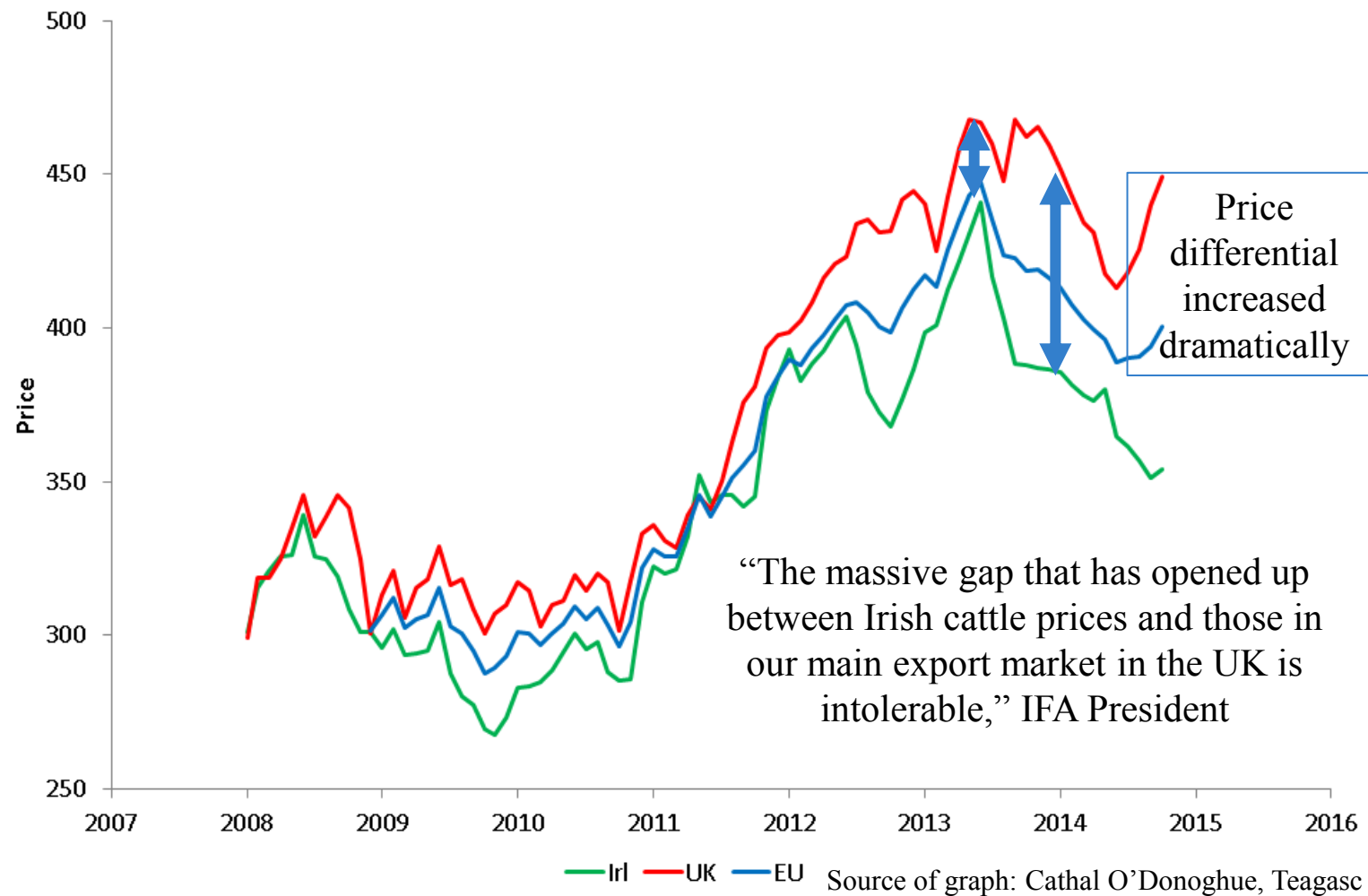


Source: CSO

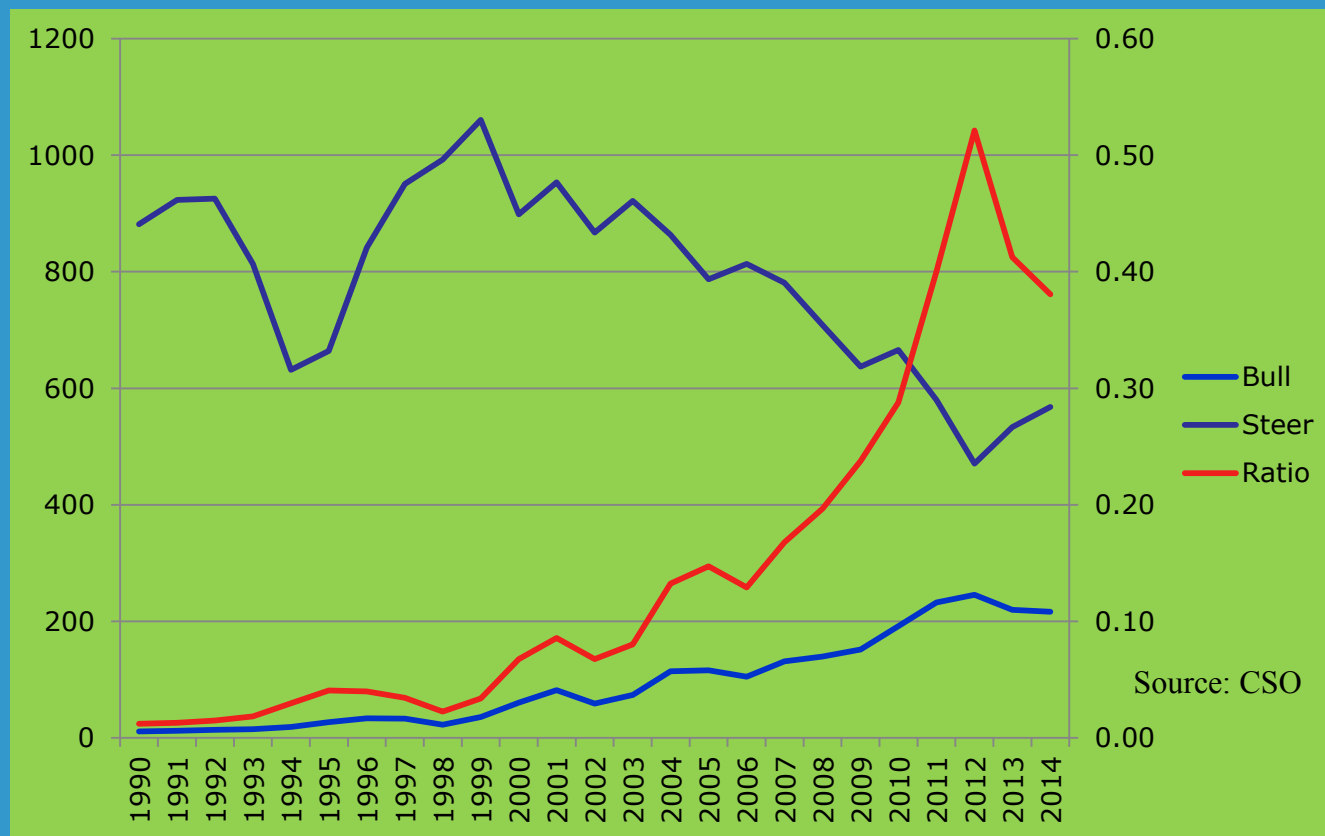
- Ok so prices are going down but key issues were:
 - Relative difference with UK rather than absolute prices
 - Specification Changes
 - Quality Assurance bonuses



Relative as much as Absolute



Specification Issue: No one told us they didn't want bull beef anymore!



This development [fourfold increase in young bulls] was largely producer-driven rather than market-led, as beef producers responded to improved efficiency at farm level' Joe Burke

Quality Assurance

- 'The Irish Cattle and Sheep Association says it has instigated the campaign [encouraging farmers to pull out of QA programmes] as a response to the scandal that only one in four cattle are getting a quality assured bonus even though 90% of all cattle going into meat plants are quality assured.'



So what drove this?

- Processor Views
 - Supply and demand issues in the UK
 - Horsemeat Scandal led to structural break
 - Price comparison wrong
 - Supermarket specifications for younger lighter animals and these had been communicated to farmers over the last few years
- Farmer Views
 - Abuse of market power – cartels
 - Weren't told about specification changes
 - Using Specification to force down prices further



Transparency

- Real challenge is the lack of transparency in the chain leading to high level of mistrust
- Low returns for farms and suspicion of profiteering further down the chain
- Lack of communication – Problem was that even if they did communicate specification changes they did not enforce them earlier when supplies were tight



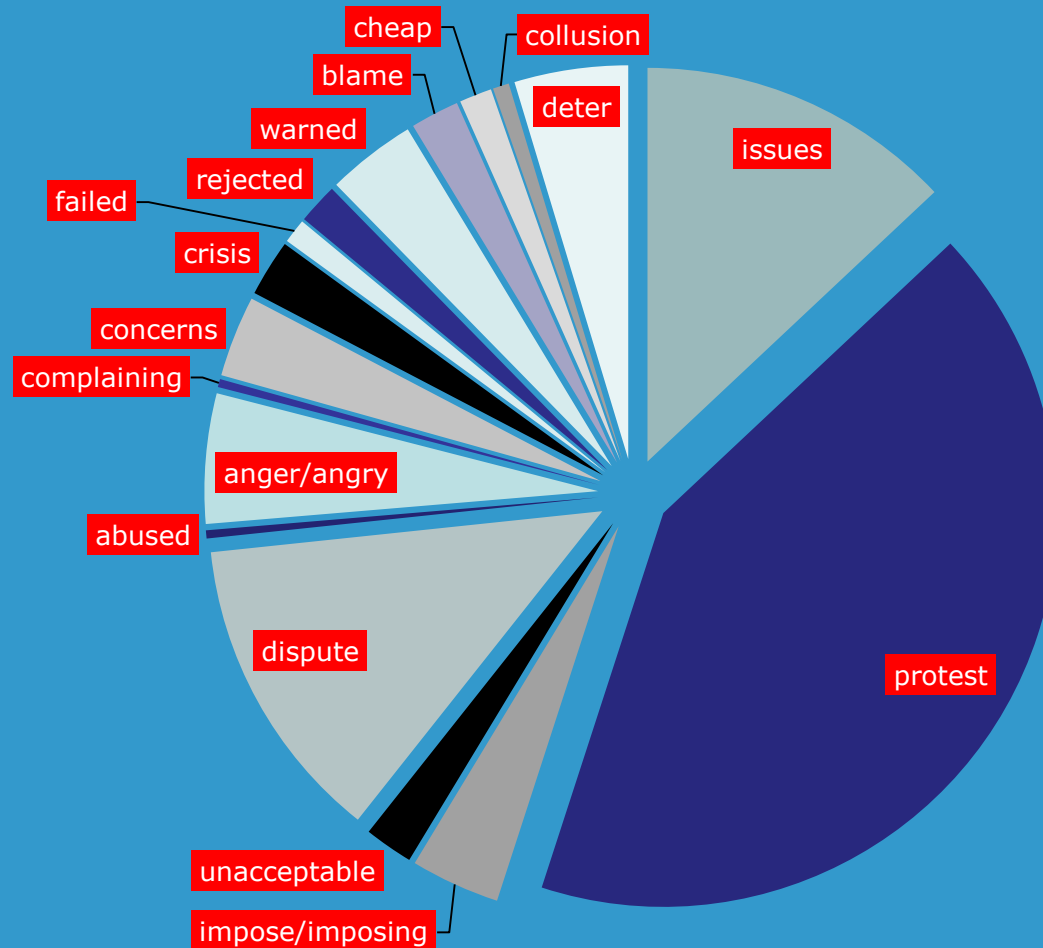
Distribution of Rewards

	Cattle - Rearing		Cattle - Other	
	2011	5 year average	2011	5 year average
Gross Output (€)	30,745	27,663	41,805	35,769
Direct Payments/Subs(€)	13,407	13,618	16,795	16,071
Family Farm Income (FFI) (€)	10,453	7,890	14,573	11,100
Market Income (€)	-2,954	-5,728	-2,222	-4,971
Cash Income (Approx) (€)	13,165	11,572	17,247	15,626

Source: Teagasc National Farm Survey

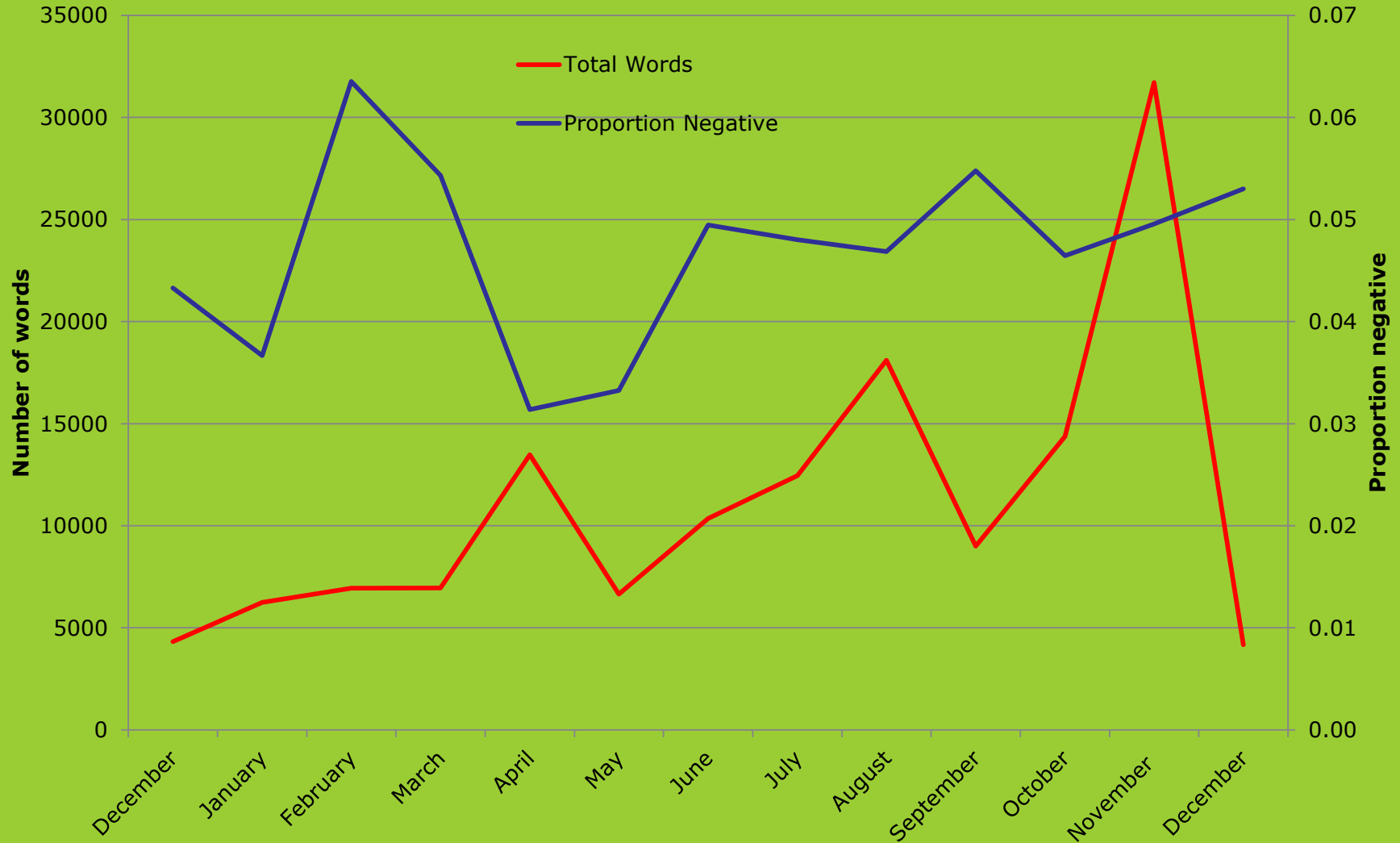


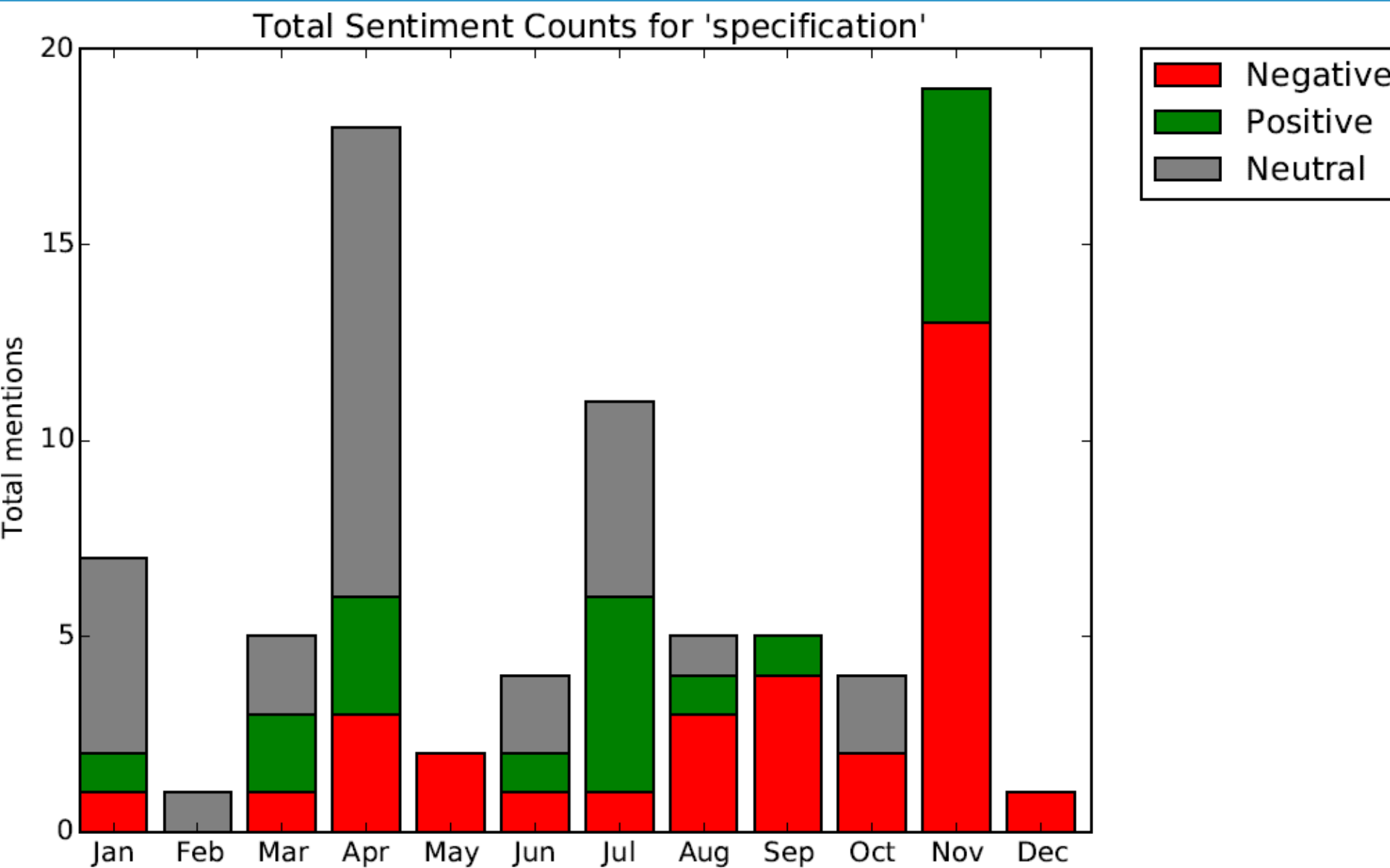
Sentiment Analysis: November 2014

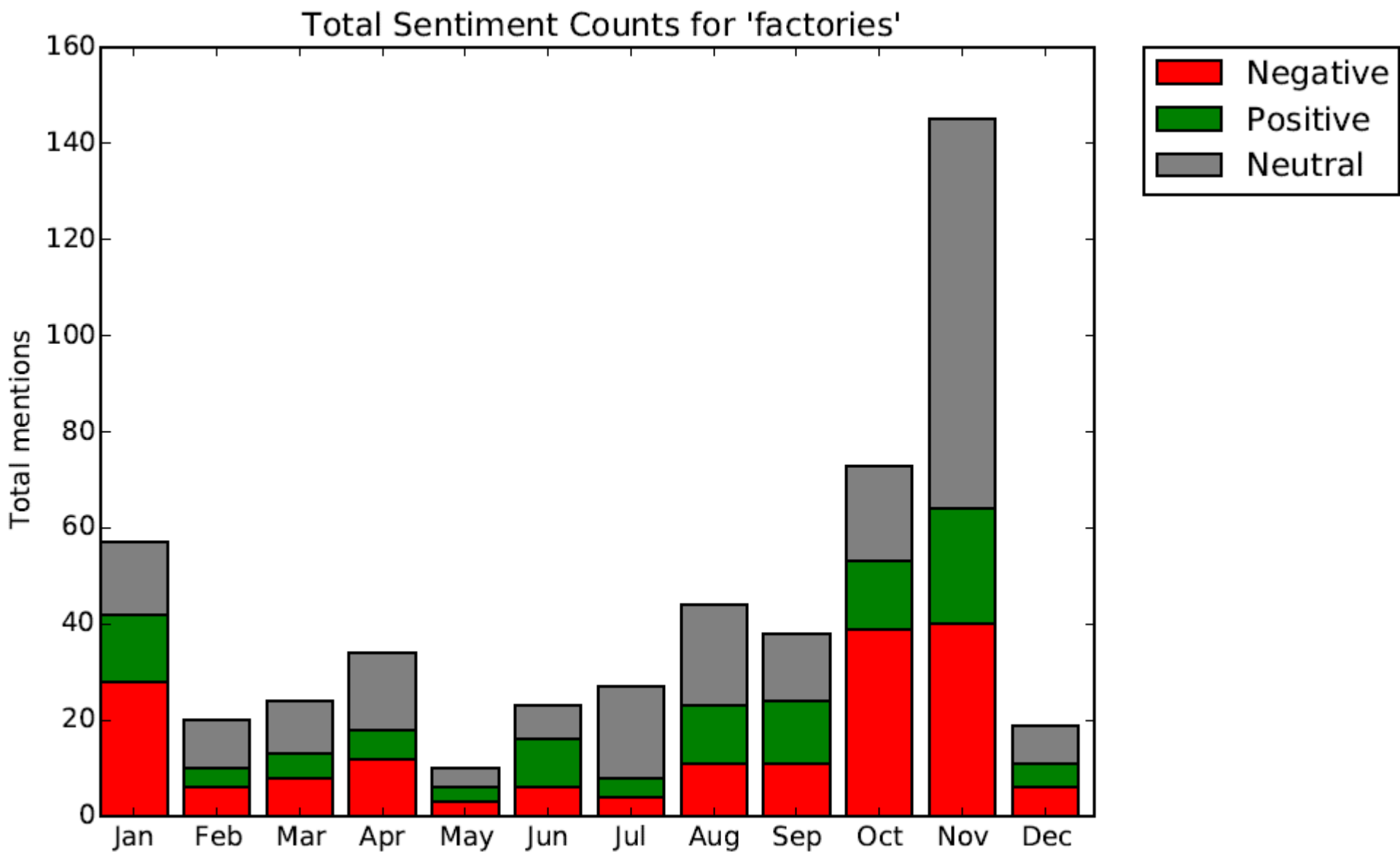


This graph highlights the frequency of words in the farming press in Ireland during November 2014 with negative sentiment associated with meat processors

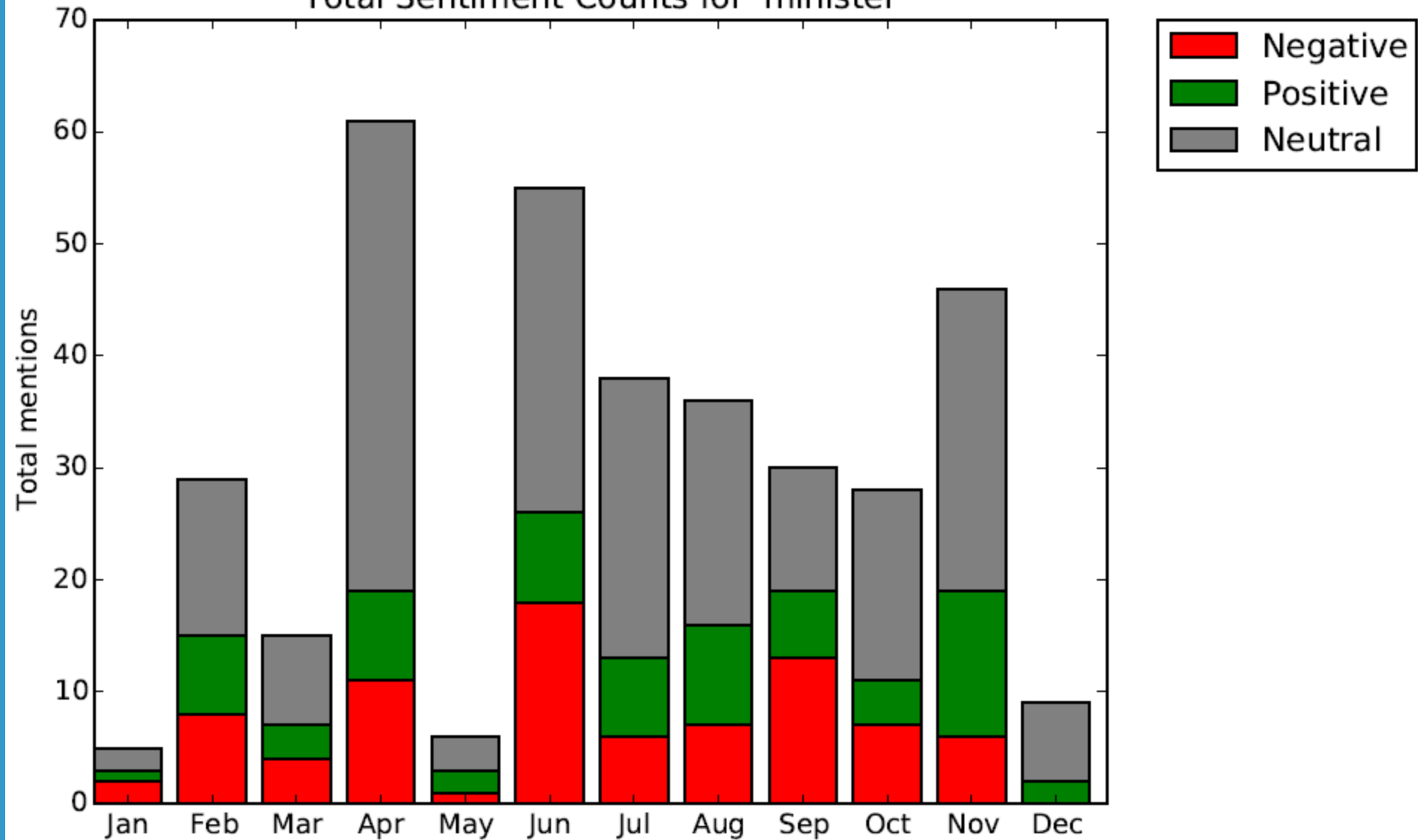
Evolution of the Dispute in the Press



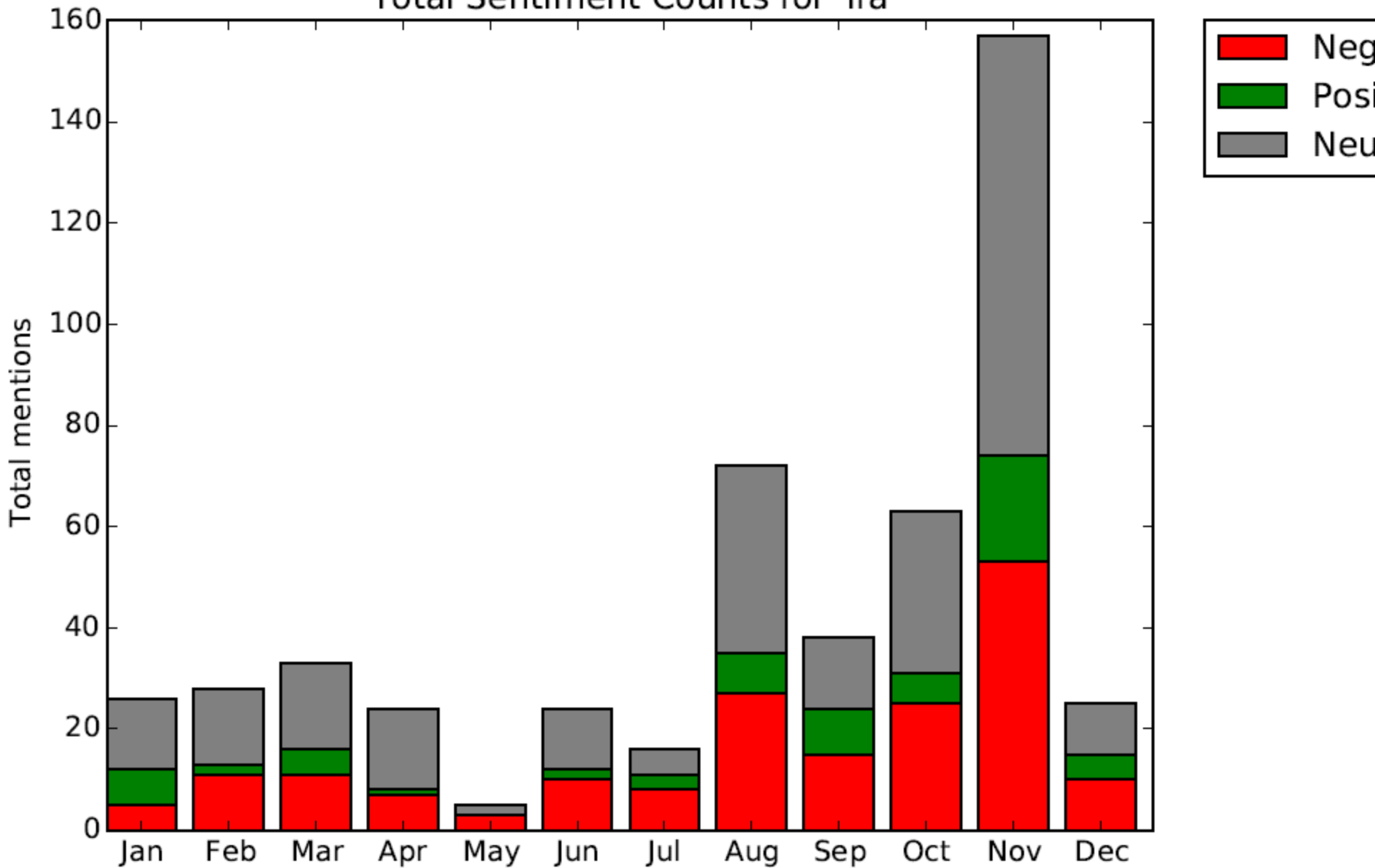




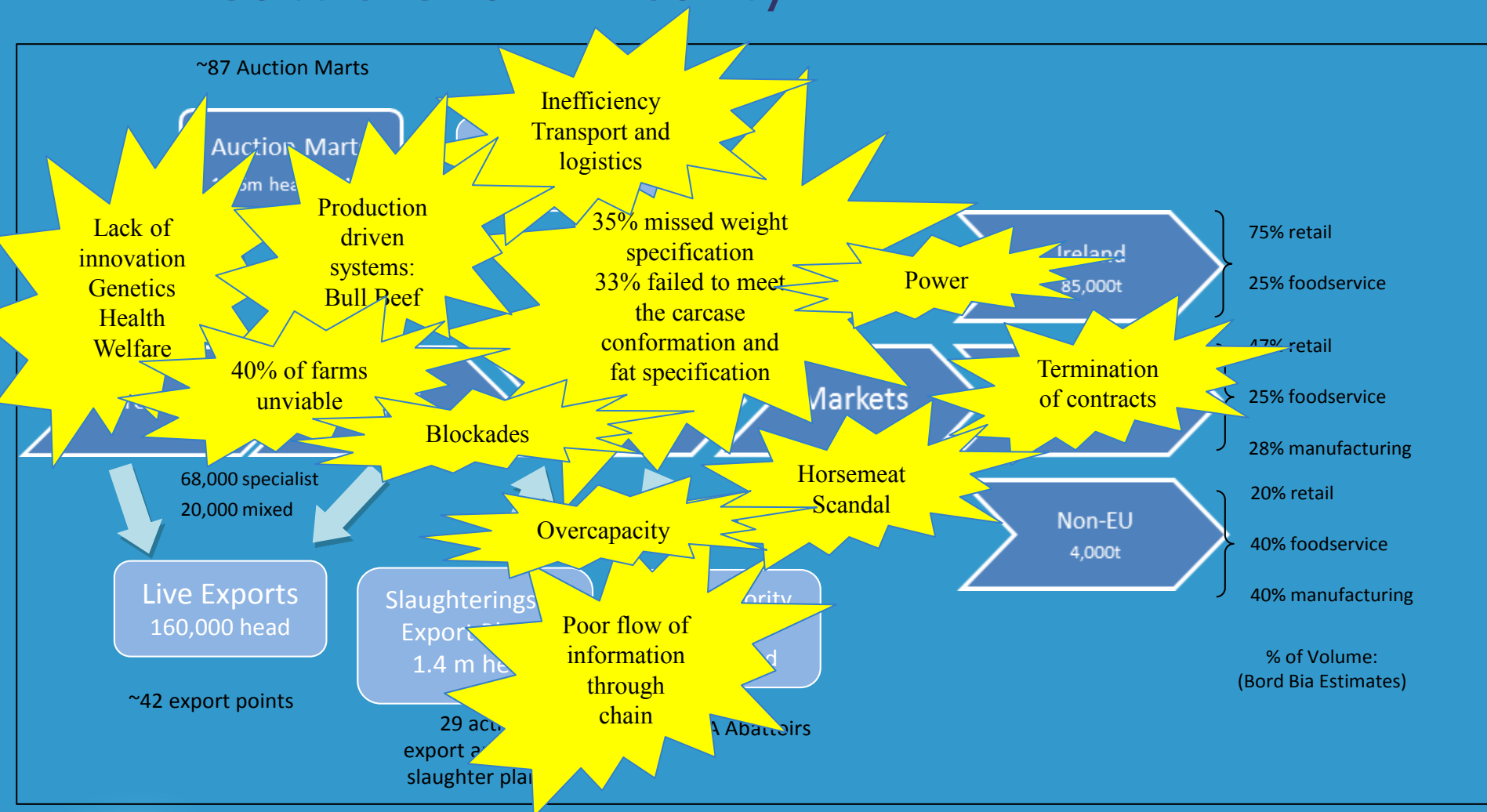
Total Sentiment Counts for 'minister'



Total Sentiment Counts for 'ifa'



Cattle Chain: Reality



What can be done

- Short Run
 - Beef Forum
 - Agreement on QA
 - Processors agreed to more transparency in specification
- Longer run
 - Lessons from other chains
 - Examples within Ireland
 - Producer organisations?
 - Contracts



Competition Authority issues warning on discussion of beef prices ahead of forum

Discussions around beef prices could now be off the agenda for today's beef forum meeting after a letter from the consumer and competition watchdog.

Beef prices could now be off the agenda at this afternoon's beef forum meeting after a warning from the Competition and Consumer Protection Commission.

A circular released this morning (Wednesday) said it wanted to "remind participants of competition law - in the interests of consumers."

"The Commission has taken the action to suspend the planned discussions, due to take place this afternoon, for example in relation to fixing prices, as it is concerned that both the beef processors and farmers might be influenced," said.

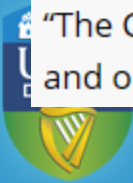
The IFA staged a 48 hour protest from Tuesday to Wednesday in terms as well as increased prices. Because of the protest. However, the Competition Commission has intervened.

"The Commission will also keep under review the impact of the intervention on consumers."

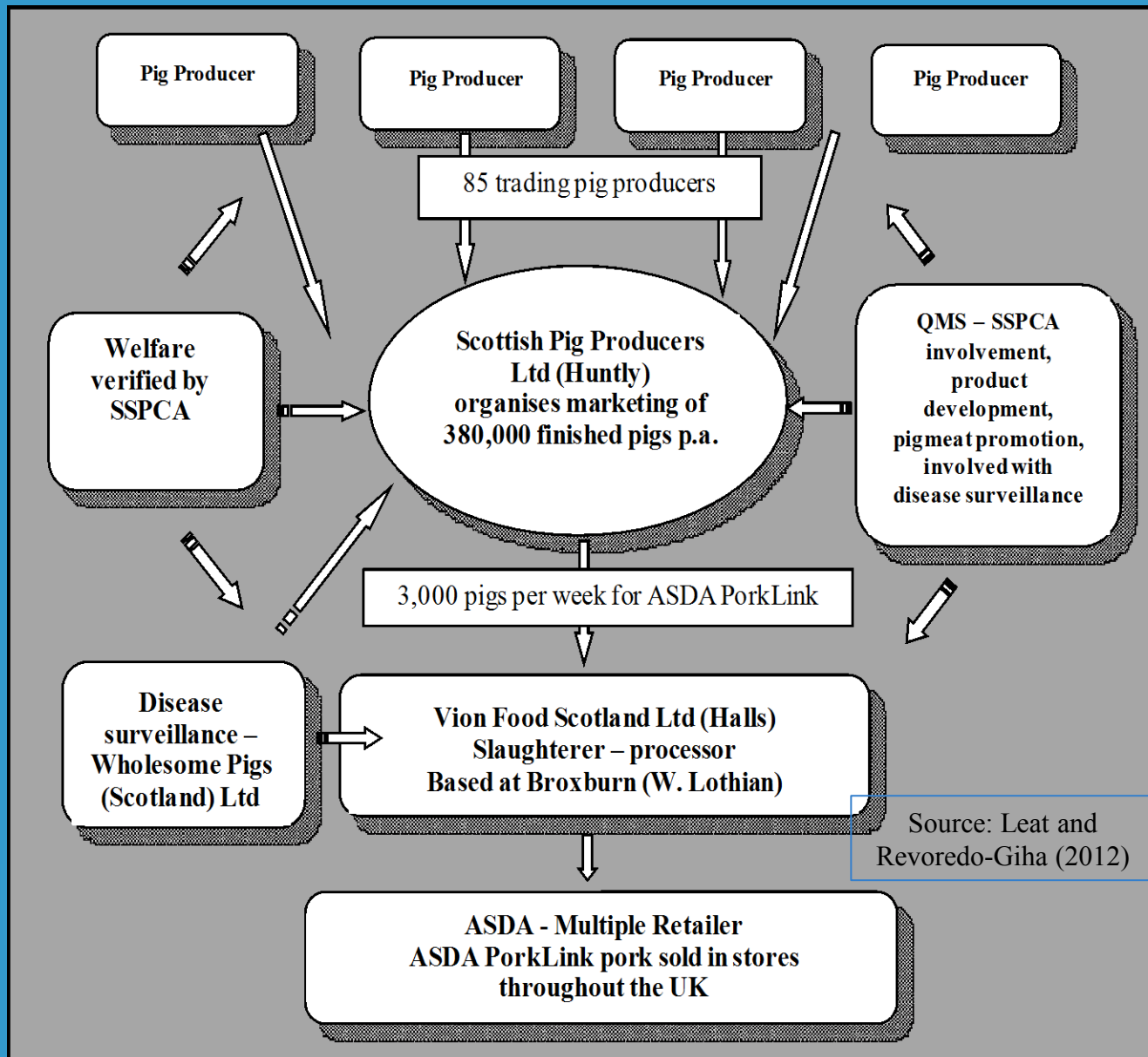
Nov
12
2014

Comer describes Consumer Commission's intervention in beef dispute as "brass necked and partisan"

The President of the Irish Creamery Milk Suppliers Association (ICMSA) has reacted critically to the intervention of the Competition and Consumer Protection Commission in the run-up to this afternoon's session of the Beef Forum in which the Commission – previously known as the Competition Authority – warned participants that it will monitor the talks to ensure adherence to the obligations of both the beef processors and farmers under competition legislation. John Comer said the intervention will be seen by farmers as supporting the factories' position that current price differentials between Ireland and the UK are merely a function of straightforward supply-and-demand market movements and not at all a result of a deliberate strategy on the part of the factories, which farm organisations argue is almost certainly the case. Mr Comer said that he and his association would consider the Competition Authority's intervention as "brass-necked and almost without comparison in terms of insensitivity and display of partisanship". He said that the timing of the Authority's intervention was deeply suspicious and it looked very much like the Authority had been "whistled up" to provide an excuse for the policy of non-intervention which seemed to be the Departmental line thus far.



Supermarket Led: The ASDA PorkLink Chain



- Scotland's largest single pork supply chain
- Strong horizontal and vertical collaboration
- Unique contractual agreement
- Price transparency
- Involvement of QMS
- Strong emphasis on quality and animal welfare

Source: Leat and Revoredo-Giha (2012)

Processor Led: McCains

The Collaborative Model - Grower Groups



Source: Vermont (2012)

Examples within the Chain

- Kepak-Keenan Club
- Aberdeen Angus Group
- Dawn-Teagasc
- Processor led – ‘10% now from own feedlots’



Producer Organisations

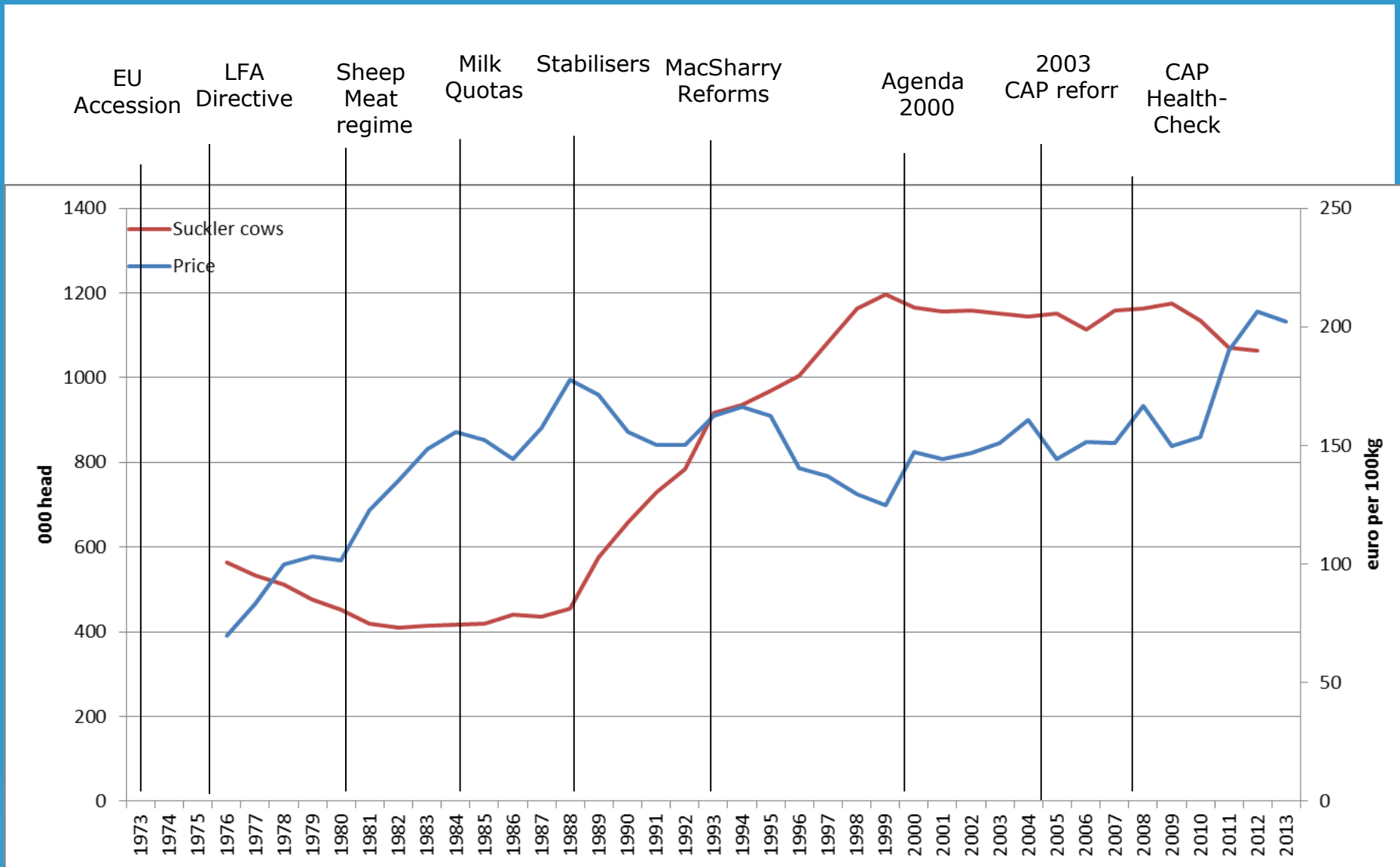
- EU have made it possible for producers to form POs for
 - Joint distribution, including selling.
 - Coming together to promote their products.
 - Joint organising of quality control.
 - The use of common equipment or storage facilities.
 - Joint management of waste directly related to the production of live cattle.
 - Buying inputs in a group.



- Minister favours POs envisages groups of 5 to 10,000 farmers
- Main focus on joint distribution and selling although buying inputs could be beneficial
- A number of issues
 - Redress the power balance
 - POs in other areas (Horticulture, Mushrooms) but have declined
 - Hard to break into chains that are established



Policy: Key Driver of Primary Production



Source Cattle Numbers and Prices: CSO

Conclusion



Notes:

Characteristics of supply chain members

Interventions of the supply chain leader

Devices to facilitate relationships and performance

Results



Source: Leat and Revoredo-Giha (2008)

Conclusion

- We know what is needed for well functioning sustainable supply chains
- Change in mindset within the agrifood sector away from 1970s style industrial relations to value chain thinking
- Rights, Roles and Responsibilities through the chain
- Beef forum a platform for communication
- Price and Policy signals need to be aligned to market needs



Acknowledgements

- Prof Mark Keane and Marija Banovic from UCD for considerable help with the sentiment analysis
- Prof Cathal O'Donoghue from Teagasc for allowing use of slides

