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Poultry Sub Sector

In June 2015 the Welsh Government published an appraisal of the Welsh Food and Drinks Industry by sub sector. The appraisal identified a high level of poultry processing in Wales that was not highlighted in official statistics. It was decided that further investigation of this sub sector was required.

This short report provides more detail on the activities of the sub sector, from primary production through processing to retail. Specifically, the report provides production statistics from the Agricultural Census, detailed employment and business activity statistics from ONS and FSA, consumer trends through a review of Kantar data, and business activity through a selection of case studies. A range of consultations with industry provide further insight and context.

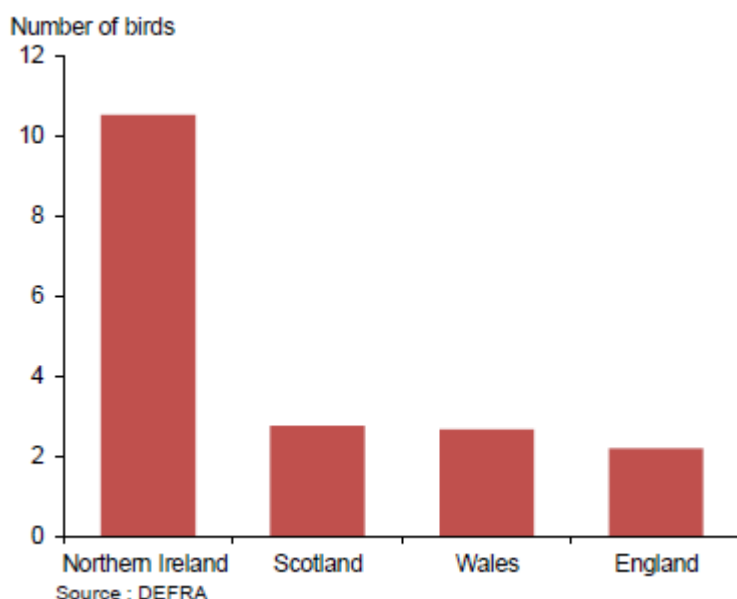


Primary Production: Poultry sub sector

Summary of UK Primary Production

- UK poultry numbers have increased by 4.4% to almost 170 million birds in 2014. The increase comes mainly from a 5.5% rise in table chickens.
- Chicken accounts for 91% of UK poultry production by number of birds, with turkey accounting for around 4% and other species such as ducks and geese etc. the remaining 5% (Defra 2014).
- Within the UK, Northern Ireland has the highest number of poultry per head of population and England the lowest with Wales in between – see Figure 1.
- Wales represents around 6.6% of UK chickens.

Poultry stock relative to population across the UK



Welsh Primary Production

- There are two main data sources for primary production – the Register of Poultry Keepers (maintained by Welsh Government for disease control purposes¹) and the Welsh Agricultural Survey 2014 (WAS). Both data sources give slightly different figures for the sector.
- There are just over 7,300 registered poultry keepers (all species) in Wales but the vast majority are hobby keepers.

Chickens

- There are 132-138 keepers of chickens for meat (WAS 132, Register 138).

¹ The Register was reviewed and any duplicates removed for the analysis. Some sites do not list numbers of birds.



- 46 keepers (WAS) on 72 sites (Register) are commercial scale (over 10,000 birds) accounting for 6.25m-8.35m birds and 99.9% of total production (WAS 6.25m, Register 8.35m).
- There are 30 very large producers (over 100,000 birds) (WAS) on 41 sites (Register).
- However, the Register records only 17 owners, highlighting that some owners have several sites.
- The two largest companies account for half the Welsh flock at 3.89m birds across 33 sites. These companies are also processors so vertically integrated.
- The trend in chicken numbers at the annual agricultural census in Wales is shown in the table below.

Welsh Broiler Numbers June 1998-2014 (millions)

	1998	2000	2002	2004	2006	2008	2010	2012	2014
Table Chickens (broilers)	7.09	8.24	4.34	6.48	4.03	5.43	5.85	5.75	6.26

Source: June Census of Agriculture.

Turkeys

- There are 131 turkey producers in Wales accounting for 58,600 birds. 21 have more than 100 birds. 10 have more than 1,000 birds accounting for 54,600 or 93% of turkeys in Wales. (Register)

Breeding Stock

- There are 32 breeders of high value poultry parent stock for broiler production (Register).
- There are 28 turkey breeders but only three of commercial scale (Register).

Primary Production Methods

- The main production method in the UK and Wales is deep litter. Large poultry houses with up to 32,000 birds, controlled heating, lighting and ventilation have a layer of chopped straw or wood shavings for the birds to live on freely.
- Chickens are reared to 2 kg which takes around 6 weeks or longer for indoor birds. This means that, allowing for 8 days cleaning time, the best farmers can rear 7 flocks of chickens per year. Turkeys are reared to 13kg in around 20 weeks with a focus on the Christmas market.
- The main issues are keeping the birds warm and well fed and preventing infection entering the unit through strict biosecurity.
- Organic birds can be reared in a deep litter system or free range where the birds are allowed to roam outside during the day while being housed overnight. With free range it is much harder to control biosecurity.
- A guide to organic poultry production has been published by Organic Centre Wales, which describes some of the differences between organic and conventional systems such as feed requirements (organic without synthetic amino acid supplements), older birds (81 days at slaughter) and no beak trimming. It also suggests that organic systems have smaller flocks and can be more labour intensive. However, it can complement certain farm systems, especially those with arable crops.

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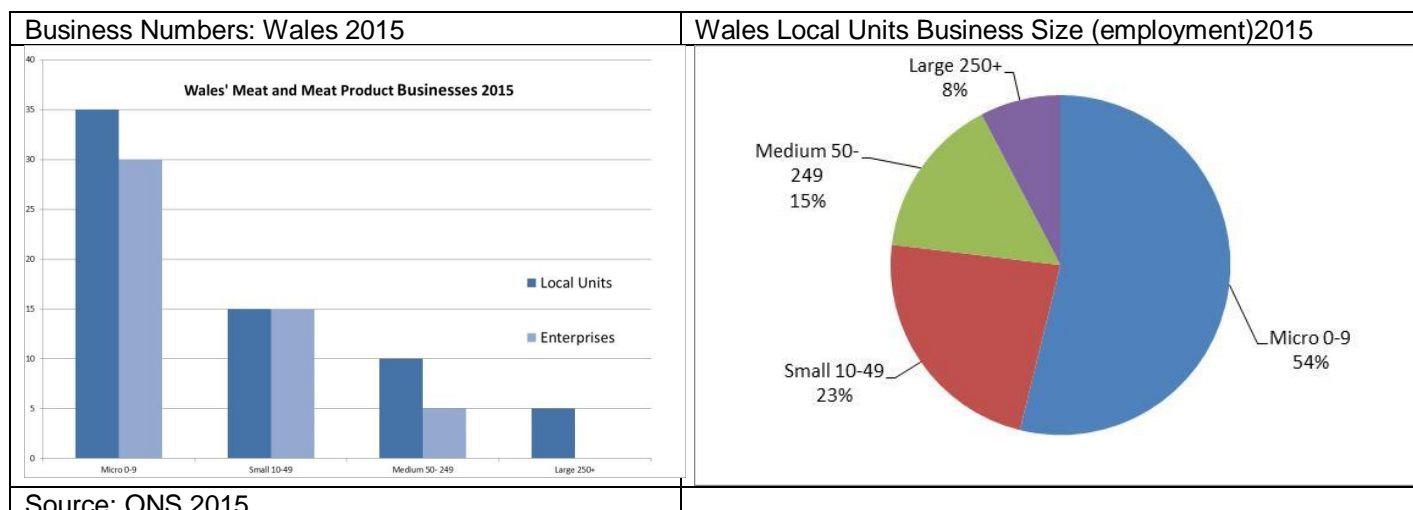
- Some Welsh farmers have diversified into poultry as it is seen as a more stable sector than lamb or beef. Whether this diversification will continue is unclear. It will depend on changes in the Basic Payment Scheme, returns in other sectors such as lamb and beef, proximity to poultry processing plants and the situation of the individual farm business e.g. succession planning and other options open to them.
- Gaining planning permission for poultry sheds is seen as a major barrier so many farmers rear on contract for the major companies. The companies may assist with the planning application and capital investment while the farmer receives a return based on performance.
- There are two contract types as follows:
 - Major vertically integrated companies – chicks and feed are sourced for the farmer who is paid £0.90p-1.10p per square metre per week. This margin covers heating, shavings, labour and depreciation etc. This provides a good return for top producers and an average return for average producers whose costs are higher.
 - Independent sector - the farmer rears the birds on a slightly longer growing programme, with thinning at 28 days and 40 days old, and final depletion at 55 days. The farmer is paid a market rate - currently 71p per kilogram live weight. This provides little or no return for an average producer.
- Production efficiency is key as margins are tight. Feed costs, transport costs and finished bird prices are the main variables.
- Poultry production tends to be clustered close to major processing plants, with key areas being along the Wales/England border; parts of Pembrokeshire and Anglesey.
- Producers can process up to 10,000² of their own poultry a year under an Environmental Health Office (EHO) license so long as sales are restricted to final consumer (including mail order) or local retail and foodservice. It cannot be sold to wholesale. Producers under EHO cannot process other farmers' birds.

² The 10,000 restriction does not apply if birds are dry plucked by hand or if processor slaughters less than 40 days a year.



Processing: Poultry Sub Sector

- UK poultry meat production stood at 1.69m tonnes in 2015, up 3% on 2014. Production was higher across broilers (2.4%), boiling fowl (10.6%), and turkeys (3.6%), however the production of duck was down 9%.
- Broilers account for 84% of UK production (by weight), with turkey production accounting for 11%. The remaining 6% being made up of duck and boiling fowl.
- Prices have been stable or slightly down so the latest output figures for 2014 were down 2.8% to £2.26 billion. No comparable figures are published for Wales.
- The market for chicken can be segmented as follows: 80% Standard; 15% Higher Welfare; 4% Free Range; 1% Organic. Industry sources suggest that 'Higher Welfare' is growing most strongly at the expense of Standard and Free Range/Organic segments.
- There are 34 major UK poultry processing establishments that are members of the British Poultry Council. Three of these large plants are in Wales.
- The Food Standards Agency (FSA) has licensed 36 poultry cutting plants in Wales. Of these 36:
 - 4 are also registered as poultry slaughterhouses
 - 19 are registered for meat product processing
 - 21 have a meat mincing licence.
 - 26 have a red meat cutting licence
- ONS data suggest 55 meat and meat product enterprises in Wales, and 65 units highlighting the existence of both multiple sites operated by businesses and non-Welsh enterprises running units in Wales. However, these figures include red meat so do not give a clear indication of the poultry sector alone.



- The size profile of business units is similar to GB as a whole, although Wales has fewer micro and small businesses (77% compared to 82%) and a slightly higher proportion on medium and large business units (23% compared to 19%).

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- Total meat business units in Wales have fluctuated between 65 and 70 since 2010. Across the production of meat and poultry products, the number has remained stable over the past 5 years at 35 local units.
- Employment in Meat and Meat Products was 6,600 in 2014; of which 2,600 operated in red meat plants, 2,100 in poultry plants and 1,900 in the production of meat and poultry products.
- **There has been strong employment growth since 2010**, with overall employment up 60%. Within red meat plants, employment is up 57%, within poultry plants employment is up 40% and within meat product plants employment has increased by over 100%.
- The **employment growth is significantly greater than the GB average**, which increased by 6% over the past four years. Even within the red meat plants where GB growth was 44%, growth in Wales has been much stronger. As for employment in poultry, overall GB growth was 5% and within meat products, employment actually fell by 11%.
- Welsh employment within the meat processing sector now accounts for 9% of GB employment, compared with 6% in 2010. Employment in poultry processing has increased from 8% of GB in 2010 to 11% by 2014. Employment within meat products has increased from 3% to 6% over the same period. **This highlights the increasing prominence of Welsh activity within the context of the GB industry.**
- 'British' is established as an expectation within the retail market
- The British poultry industry is dominated by very large companies, operating vertically integrated systems. It is a high volume, low margin sector, with high costs of entry. Whilst British provenance has become an increasing feature of the UK retail market, across many markets, companies compete against global prices and imports. It is likely that, given continued competitive pressures, the sector will continue to consolidate, with smaller businesses being acquired by larger companies. Some of the major poultry processors operating in the UK include:

Name	Turnover	Employees	
Moy Park	£1.4bn	9,000	Headquartered in Northern Ireland, Moy Park is amongst the UK's top 15 food companies. With 14 processing and manufacturing units, the company can process 240 million birds annually, supplying 200,000 tonnes per year. It has a vertically integrated system with 800 farmers, 35million chicks and 590 broiler farms. Moy Park produces a diverse range of poultry products across fresh primary, coated and ready-to-eat categories, supplying leading retailers and foodservice providers in the UK, Ireland and Europe.
2Sisters Food Group (part of Boparan Holdings with turnover of £3.4bn) Two sites in Wales	£1.0bn	5,000	2 Sisters has a strong UK presence in poultry, red meat, chilled and frozen food categories, supplying both retail and foodservice. The company owns 700 farms in the UK, and processes 6 million chickens a week. 2 Sisters operates two sites in Wales.
Sun Valley/ Cargill	£0.5bn	2,200	Part of a major multinational, with interest across a number of industries. The European poultry headquarters are in Hereford, with two major plants in the area. They operate a fully integrated structure, involving over a 100 farms, and capacity to process 1.8m birds a week. In 2013, the company invested

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			£35m in plant efficiency and innovation signally company expansion and commitment to the poultry market. Cargill supply primary and further processed chicken products to retail, foodservice and food manufacturing customers. Their location in Herefordshire means that they draw poultry from Welsh farms on the England Wales border.
Faccenda One site in Wales	£0.4bn	2,100	Faccenda produces over 100 million chickens and turkeys annually. In March 2015 the company acquired Cherry Valley Foods a major duck processor. Faccenda operates a vertically integrated business model. Faccenda has a processing facility in Abergavenny with proposals to invest in chicken slaughtering there.
Bernard Matthews	£0.3bn	2,600	Bernard Matthews is the largest UK turkey producer. It operates an integrated system across 56 farms, producing 7 million turkeys annually. Bernard Matthews has 100 turkey and chicken retail SKUs in frozen, fresh breaded and cooked meats range. In 2015, the company launched a £3m complete rebrand, which is being rolled out into 2016.
CCL Holdings (Crown Chicken)	£0.086bn	400	Integrated business, including feed mill, producing and processing 450,000 birds a week.

- The following eleven companies are registered exclusively as poultry processors in Wales. There are other companies which are registered as stated above but many process primarily red meat.

FSA Registered Exclusive Poultry Processors Nov 2015

Trading Name	Town
2 Sisters Poultry Limited T/A 2 Sisters Llangefni	Llangefni
2 Sisters Poultry Limited T/A 2 Sisters Sandycroft	Deeside
Faccenda Foods Limited	Abergavenny
Capestone Organic Poultry Limited	Haverfordwest
Abdul's Poultry Ltd	Cardiff
Jawaid Ishaq (T/A De Bone Halal Poultry)	Gwent
Llechwedd Trading Ltd (T/A Llechwedd Meats)	Anglesey
OG Griffiths & Son	Llansantffraid
SR Davis Ltd	Barry
Universal Foods	Cardiff
Usk Vale Poultry Ltd	Pontypool

Processing Industry Issues

- The major issues facing UK poultry producers are to do with animal health. A summary of the main issues is set out below.
- Campylobacter** is the top issue and the most common cause of bacterial food poisoning in the UK. It is mainly found in poultry. Processors are working with FSA, Defra and retailers to agree measures to reduce it. This is an EU wide issue as European Food Safety Authority surveys highlight. Measures to deal with Campylobacter include:



- On farm bio-security; feed security, water security.
- Reduced practice of flock thinning
- On farm testing and monitoring
- Processing innovations such as blast surface chilling, secondary scalding and lactic acid washing
- Packaging innovation – straight to oven; leak proof
- Consumer education - no need to wash chicken; cooking guidelines
- **Antibiotic use** – reducing antibiotic use at farm level is a priority following growing concern about global antimicrobial resistance. In December 2015, as part of the review of antimicrobial resistance, a report was published looking at reducing the unnecessary use and waste of antimicrobials in agriculture. The poultry industry has responded, with a number of companies introducing new policy. For example, 2 Sisters has issued the following policy for all their supplying farms:
 - Establish a balanced measure for antibiotic use (monitor, record and set targets to reduce)
 - Implement 3 R's (Replace, Reduce, Refine) including a commitment not to use 3rd and 4th generation antibiotics or Colistin.
- Reducing dependency on antibiotics in poultry may have short term cost implications in relation to reduced animal growth, higher levels of mortality and the cost of alternative solutions (e.g. husbandry, vaccinations etc).
- **Meat Inspection** – the fitness for purpose and cost of meat inspection and official controls is an issue which the industry is concerned about and keen to work with regulators to improve.
- **Avian Influenza** - The threat of AI is a major concern to all poultry producers, with the risk of losing flocks, together with clean up and disinfectant costs and lost markets. The implementation of good biosecurity can help reduce the risk from avian flu. Housed flocks are at much less risk from AI than free range as there is less risk of contact with wild birds. A key concern is the closure of export markets following an AI outbreak in the UK with some countries being more sensitive than others.
- Wales' relative distance from major poultry production areas of the UK can be considered an advantage within the context of avian flu, enabling some processing to continue should an outbreak occur in a core production area.
- **EU Exit** – is a final concern of the processing industry as it might lead to the UK being targeted by a wider number of lower priced competitors plus UK companies considering increasing their poultry production in other lower cost locations to export back to the UK.

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Retail Activity: Poultry Sub Sector

- The UK Family Food Survey captures the steady growth of household poultry consumption since the 1970s. Per capita consumption of carcass meat declined by 54% from 1974 to 2013. Non-carcass meat and meat products increased 22% but poultry³ consumption increased by 83% from 132 to 241 grams per person per week.
- Poultry is the main meat protein in per capita household consumption, and its competitive price positioning together with popularity, and overall population growth, is likely to see continued volume growth in the future.

Kantar Data⁴

- The GB retail poultry market is worth £3.763bn. Total GB spend is down 1% though volume is flat.
- In Wales the poultry market is worth £250m down 2% in volume and value.
- In GB fresh poultry accounts for 79% of poultry sales at £2.99bn.
- In Wales fresh poultry sales are slightly less pro rata at 76% worth £175m.
- Fresh volume sales are up in GB and Wales, but frozen sales are down 2% in GB and 5% in Wales.
- The following tables show the value and volume of different categories in GB and Wales along with changes.

	Spend (£000) 2015	% Change	Volume (000 Units) 2015	% change	Average Price (£)/(units) 2015	% change
GB Poultry						
Fresh Poultry	£ 2,161,458	-2%	471,857	2%	4.58	-4%
Cooked Poultry	£ 479,702	1%	55,850	-3%	8.59	4%
Chilled Processed Poultry Fresh Poultry and Game	£ 258,069	10%	36,559	13%	7.06	-2%
Chilled Processed Poultry Chilled Convenience	£ 92,533	-13%	13,152	-19%	7.04	7%
Fresh Processed Poultry	£ 400,304	3%	86,602	3%	4.62	1%
Frozen Poultry	£ 328,751	-7%	87,219	-7%	3.77	0%
Frozen Cooked Poultry	£ 42,962	-4%	8,280	2%	5.19	-5%
Total	£ 3,763,779	-1%	759,519	0%	£4.96	-2%

Source: Kantar May 2015

³ Including cooked chicken, uncooked chicken and other uncooked poultry.

⁴ All Kantar data is for the twelve months to May 2015.

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	Spend (£000) 2015	% Change	Volume (000 Units) 2015	% change	Average Price (£)/(units) 2015	% change
Wales Poultry						
Fresh Poultry	£ 126,131	-2%	29,383	1%	4.29	-3%
Cooked Poultry	£ 32,280	0%	3,843	-8%	8.4	8%
Chilled Processed Poultry Fresh Poultry and Game	£ 12,646	3%	1,892	7%	6.68	-4%
Chilled Processed Poultry Chilled Convenience	£ 4,747	-19%	654	-28%	7.25	12%
Fresh Processed Poultry	£ 26,709	-1%	5,982	-1%	4.47	0%
Frozen Poultry	£ 24,762	-9%	6,334	-11%	3.91	2%
Frozen Cooked Poultry	£ 3,313	11%	646	20%	5.13	-8%
Total	£ 230,587	-2%	48,734	-2%	£4.73	-1%

Source: Kantar May 2015

- The fresh poultry market is dominated by chicken, which outside of Christmas has a 90% share of the market, with Turkey having 6.5% and other poultry 3.5%. Over the 12 weeks including Christmas, Turkey's share of poultry rises to 21%⁵.
- The market is predominantly Own Brand, with most of the innovation being driven by Own Brand suppliers.
- In fresh poultry, the industry has launched a range of "roast in the bag" concepts, designed so the consumer does not need to touch the product. This reduces the risk of food poisoning from cross-contamination, whilst also building scope to add flavours. There are a number of concepts with added sauces/ flavour that are doing well. This is seen as an area for growth for the future.
- In meat one of the big consumer influences has been promotions, and this is particularly true of poultry. The 3 for £10 has become an industry norm with anything on this deal doing especially well. This price promotion is particularly well suited to poultry as so many different cuts could sit in the deal. Recently the 3 for £10 has been replaced with the return of the round pound pricing deals (e.g £2; £5 packs). This may enable new protein cuts and offers to appear on the end of aisles, broadening the deal offer for consumers. It may not in the short term be good for poultry, as it finds itself in direct competition with other meats on offer.
- In poultry brands there are really two well-known manufacturers, firstly Bernard Matthews with £100m plus sales across poultry and specific strength in turkeys. Bernard Matthews was hit hard by the Jamie Oliver programmes featuring school dinners and Turkey Twizzlers, but the company claims it is on a turnaround strategy.
- The other significant branded manufacturer is Gressingham, which dominates the duck sector and has grown it significantly. Gressingham has created a premium brand and promoted it well, both in terms of price but also easy-to-cook instructions on pack. The company has also expanded its offer into added value concepts such as pre-cooked Peking duck.

⁵ Kantar Jan 2016

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- Recently two other players are showing intent on entering the market with other branded propositions.
 - Moy Park is launching a range of added value convenience products such as breaded and filled chicken, and Roast in the Bag chicken.
 - Cranswick has launched a new cooked meats brand into NISA and Waitrose called “Welly” it includes 1 SKU of chicken in the range.
- Whilst fresh poultry is likely to grow, it is the added value sectors that will probably see more growth. Where freshness and convenience are combined, where a sauce or a marinade is added, where consumer handling is reduced and cooking made simple.

Other Market Segments

- The organic market is a very small segment (latest Kantar⁶ data shows GB sales of fresh organic poultry at £25.3million, equivalent to 1% of the GB fresh retail poultry market) but has potential at the top end of the market as Capestone has demonstrated. The GB organic poultry retail sales are up nearly 7 percent year on year⁷, compared with overall flat poultry sales value. There is potential for further growth in this segment in Wales but the volumes will be small in comparison to the major players above.
- The foodservice market tends to be dominated by imported product. There may be an opportunity for Welsh public food procurement to influence the market here with a Welsh specification but it may be resisted by processors on grounds of cost and availability.
- There may also be opportunities in segments such as Halal where small to medium sized processors may be able to take advantage.

⁶ Year to January 2016

⁷ Jan 2015-Jan 2016

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