Submission to Low Pay Commission

Meat Industry Ireland

April 2015

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Overview of MII:

Meat Industry Ireland (MII) is the Ibec sector association responsible for representation of the business interests of the beef and lamb processing sector in Ireland. MII member companies are responsible for approximately 85% of total beef and lamb processing and exports in Ireland.

MII provides a wide variety of services for its members and promotes the interests of its members and the industry as a whole by interfacing on behalf of its members with Government Departments, State Agencies and European Institutions on policy formation and issues of concern for both the beef and lamb processing sectors.

Introduction:

The beef & sheepmeat sector in Ireland, from farm through to processing and export, remains one of the most important indigenous industries in the national economy, supporting in excess of 70,000 beef farmers and over 30,000 sheep farmers while generating an ex-farm output value of €2.8bn with 2014 exports in excess of €2.3bn. Approximately 10,000 jobs exist across processing, distribution and transport as a direct result of this important sector.

The sector has a major impact on regional economy spend and rural economic activity. In many of the rural areas where processing facilities have been established, the meat factory is often the largest local employer. Rural towns such as Camolin, Clones, Rathdowney, Ballymahon and many others do not benefit significantly from other Foreign Direct Investment and therefore are heavily dependent on these meat processing facilities and the employment and services generated by them.

This industry has made significant progress towards achieving the Harvest 2020 goals and the potential exists to further scale up the industry to an unprecedented level and to generate new revenues and jobs through farming and value-added processing and in the wider economy. The current Agri-Food 2025 strategy review is aiming to put in place a vision for the sector for the next 10 years and beyond to continue this growth trajectory.

Significant investment has been made by all Meat Industry Ireland (MII) members to upgrade processing facilities and ensure that companies are in a position to compete not just on a European scale, but also increasingly on a global scale. The sector operates in a very competitive environment against major exporting countries including Brazil, Argentina, USA, Australia and New Zealand.

Minimum Wage Rate:

MII members strongly believe that there should be no upward adjustment of the current minimum wage rate. The current level continues to be appropriate given the economic circumstances prevailing in Ireland today. In relation to national minimum wage, a number of points must be emphasised:

Meat processing sector

- The meat processing industry, as a large employer in the economy, is not in a position to absorb increased labour costs given the low margin nature of this business. In such a low margin industry, any increase in costs, including labour costs, will have a significant adverse impact on the economic sustainability and the international competitiveness of these companies and therefore their ability to reinvest in new projects and expansion.
- This minimum wage level is paid to unskilled employees who are new starters in these companies. Employees are encouraged to up-skill themselves and therefore are given every opportunity to progress their career and pay scales in the meat industry and earn higher wages and/or production bonuses.
- Any increase in the minimum wage rate would erode processor's ability to award an enhanced rate for service and skill levels, thereby dis-incentivising staff to up-skill and remain in the company. Given the resulting increased costs, there would also be a negative impact on processor's ability to proactively implement in-house training programmes which are aimed at assisting employees to develop new skills and enhance their earning potential.

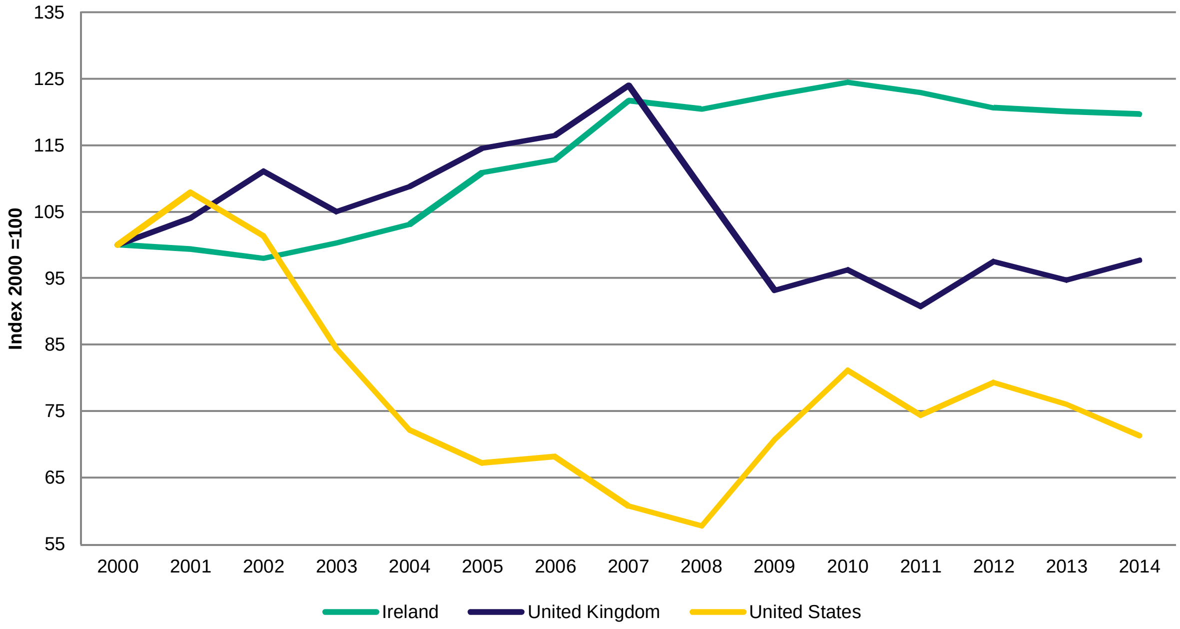
Current rate

- Ireland's minimum wage level remains at the upper end of developed countries.
- The low levels of relative taxation on Ireland's minimum wage increases its net value significantly.
- It is important that the rate must be set at a level which allows industry to absorb national, regional or sectoral shocks without having to resort to cutting employment levels. Meat processing in particular is a labour intensive industry for low skilled operatives and an increased rate would ultimately prove a threat to the competitiveness of the sector.

Cost of living

- The cost of living environment nationally remains below 2008 levels. Inflation in 2014 was again very low at a level of 0.2% due to low energy and commodity prices.
- Figure 1 below shows real (inflation adjusted) minimum wage trends in the UK, US and Ireland since the introduction of Ireland's minimum wage. In real terms the minimum wage in Ireland is now 19% above the level at its introduction (up 54% in nominal terms). This is compared with a 2.3% fall in the real value of the UK's minimum wage and a 28% fall in the real value of the US minimum wage.
- If Ireland's real minimum wage had followed the same pattern as that set by the low wage commission in the UK, the Irish minimum wage would now be in the region of €5.50. If the real value of the Irish minimum wage had evolved in the same way as the US minimum wage, it would now be just over €4. If it had risen in line with inflation in Ireland it would now be worth just over €7. The notion that Ireland's minimum wage has seen the same pressures as other countries is clearly false.

Figure 1: Index of real (inflation adjusted) minimum wages 2000 - 2014



Source: Ibec

Rural Impact:

As outlined earlier, the meat processing sector has a major positive impact on regional economies across Ireland between direct employment, indirect employment, purchasing of raw material (cattle and sheep) and supporting local services. Processing plants are key employers in these regions – any increase in minimum wage levels would add significant costs to these companies, which are already disadvantaged, in terms of competing globally, by higher costs of business in Ireland (energy, labour, cost of finance and higher distribution costs due to our insular remoteness from major markets etc.).

It should be noted that:

- During the recent recessionary period since 2008, whilst other industries were downsizing, the meat industry has been growing and increasing employment substantially.
- The meat industry is a high volume, low margin business and is very labour intensive. If the minimum wage were to increase, this would severely limit the processor's ability to continue to create new jobs (across rural economies) as the industry operates on very tight margins, as verified by CSO data. Furthermore it would undoubtedly result in further demands by employees who are currently earning above the minimum wage that the existing differentials should be maintained. Therefore there would potentially be an exponential effect on processors in terms of the impact of such increased labour costs.
- The setting of the minimum wage must also take into account affordability for the whole country rather than focused narrowly on cost of living in Dublin. Not taking this into account may mean job losses in poorer regions of the country where profitability and affordability may be significantly below average.

Opportunities and Competition:

By 2050, the global population is expected to reach 9 billion – the planet will need 70% more food, with less land, water and energy while also reducing greenhouse gas emissions. Given Ireland's grass-based production systems, Irish producers are well poised to take advantage of this population growth over the coming years.

There has been recent positive news regarding access for Irish beef to new markets such as the USA and China. Our ability to service those markets, with the resulting benefits to the Irish economy, is dependent on processors being able to compete with product from other markets, where business costs are well below the levels applying in Ireland.

Any increase in the minimum wage will hinder processor's ability to create employment in their business. To create jobs, the industry must increase its customer base in existing and new markets, something which can only be achieved by remaining competitive in a business where the cost of labour is second only to the cost of buying raw material (cattle and sheep).

The competitive advantage of the Irish industry is based on achieving efficient production throughput. Given the nature of the work (slaughtering and deboning), there are limited opportunities to replace labour with capital investment. Processors have invested significantly in capital projects to improve efficiency and enable them to compete globally in selling Irish beef and sheepmeat across many markets. An increased minimum wage rate would have significant negative impacts as a rising cost base would hinder the industry's ability to compete internationally.

Summary

From a competitiveness point of view it is clear that Irelands' current minimum wage is competitive in terms of its adequacy and among the top minimum wages in purchasing power terms in Europe. Against a backdrop of flat inflation, there is no justification for increasing this rate in the current climate.

Any increase in the minimum wage rate would significantly increase the cost base for the meat processing industry and impact negatively on the sector's ability to compete globally in both servicing new and existing markets. There would be a resultant expectation amongst other pay grades that their rates should increase proportionally. Ultimately such an increase in the minimum wage would prove a threat to the competitiveness of the Irish meat processing sector at a time when the industry is considering future expansion to put the sector on a strong footing to compete globally into the future.