



**STANDING COMMITTEE
OF
TYNWALD COURT
OFFICIAL REPORT**

**RECORTYS OIKOIL
BING VEAYN TINVAAL**

**PROCEEDINGS
DAALTYN**

**ENVIRONMENT AND INFRASTRUCTURE
POLICY REVIEW COMMITTEE**

Meat Plant

HANSARD

Douglas, Monday, 7th June 2021

PP2021/0165

ENVI-MP, No. 4/2021

All published Official Reports can be found on the Tynwald website:

www.tynwald.org.im/business/hansard

Members Present:

Chairman: Mrs C L Barber MHK
Mr C R Robertshaw MHK
Mr R J Mercer MLC

Clerk:

Miss F Gale

Assistant Clerk:

Mr K Skehan

Contents

Procedural.....	67
EVIDENCE OF Hon. Tim Baker MHK, Chairman, Mr Phil Parsons, Meat Plant Director, and Mr Andy Lees, Non-Executive Director, Isle of Man Meats	67
<i>The Committee sat in private at 12.37 p.m.</i>	98

Standing Committee of Tynwald on Environment and Infrastructure

Meat Plant

*The Committee sat in public at 10.30 a.m.
in the Legislative Council Chamber,
Legislative Buildings, Douglas*

[MRS BARBER *in the Chair*]

Procedural

The Chairman (Mrs Barber): Good morning and welcome to this public meeting of the Environment and Infrastructure Policy Review Committee. I am Clare Barber MHK and I chair the Committee. With me today are the other members of the Committee, Mr Chris Robertshaw MHK and Mr Rob Mercer MLC, along with our Clerks.

5 Before we begin, please can we all ensure mobile phones are either off or on silent. For the purposes of *Hansard*, I will ensure that we do not have two people speaking at once.

Today we are taking evidence for our inquiry into the Meat Plant and will be hearing from representatives of Isle of Man Meats.

EVIDENCE OF

**Hon. Tim Baker MHK, Chairman,
Mr Phil Parsons, Meat Plant Director,
and Mr Andy Lees, Non-Executive Director,
Isle of Man Meats**

10 **Q211. The Chairman:** Just to begin, for the record, I would be grateful if you could each state your name, the capacity in which you are appearing today and how long you have been in the role.

Mr Baker: Tim Baker, Chairman of Isle of Man Meats since the end of March 2018.

15 **Mr Parsons:** Philip Parsons, Plant Director, in the role since June 2018.

Mr Lees: Andy Lees, Non-Executive Director since March 2018.

20 **Q212. Mr Robertshaw:** Thank you, Chair.

Good morning. I think the Committee would like to start by understanding, in a lot more detail than we have at the present time, how the whole process of the company forming came about.

We would like to start, in particular, with the issue related to, Tim, your role as chair of the assessing committee, I think it was, that looked at the tender documents that came in when there was a decision to go out to tender for the plant. Our understanding is you had two submissions.

25 Could you talk to us about those submissions, why they were not successful and how the current
company, as it stands, came into being out of that process?

Mr Baker: I can, thanks, Mr Robertshaw, yes. I think you are referring also to the time before
the company was established (**Mr Robertshaw:** Correct.) and the future of the Meat Plant was
30 very much a matter of great public interest.

My role at that time was as a political Member of DEFA under Minister Boot, who is obviously
still the Minister. I had a role within the agricultural sector. It was a defined role, a proper
delegation. When this administration came in, in September 2016, there had been a significant
amount of uncertainty about the future of the Meat Plant for a number of years and there had
35 been various exercises procured by DEFA to try and work out how to move forward.

As I recall, there was the involvement of an individual called Scott Baker, who is no relation to
me whatsoever but who had a longstanding relationship with Government; I think he was assisted
by others.

There were what were called at the time 'tripartite discussions' ongoing between the
40 Department and the Fatstock Marketing Association (FMA), who, at the time, were running the
Meat Plant because of course it was a farmer-owned co-operative, albeit the funding was
provided by the Department because it needed a level of subvention. The Manx National Farmers'
Union (MNFU) were also involved in those discussions, and I recall that the Agricultural Marketing
Society, which is the parent company of the Fatstock Marketing Association, was also involved in
45 those. That is a recollection from the very early days of this administration, Mr Robertshaw.

Those discussions led to a decision to put the Meat Plant operation out to tender. There was a
PIN process, expressions of interest, all the normal procurement activity. That was communicated
to the marketplace, to the industry and stakeholders, I recall, at a meeting at St John's School,
which was particularly well attended. That led to a tender process, and as I recall, you are quite
50 correct, there were two submissions received. The evaluation of those tenders was done in a
proper way and none of those tenders were viewed as being supportable, so the Department took
the decision that it needed to look at other options.

The very clear strategic nature of the Meat Plant, which was expressed on at least two
occasions in either the House of Keys or in Tynwald Court by the Environment Minister, was
55 recognised, so simply allowing the Meat Plant to fail was not seen as appropriate. Change had to
be made. The Fatstock Marketing Association was not in a position to be able to continue to
operate the plant without levels of subvention from DEFA, and there was not the willingness and
the confidence to extend that relationship, so something different had to be found, and that is
how we came about the current process.

60

Q213. Mr Robertshaw: You were on the evaluation committee, though, weren't you?

Mr Baker: I was involved in that process, as were a number of people: DEFA officers and the
Attorney General's Chambers, as I recall. It was done properly, Mr Robertshaw. I have come here
65 as the Chairman of this organisation, which I stepped into in 2018. You are talking about a period
prior to that, and I think if you want to go down that path it may be more appropriate to have
DEFA in to explain that process.

Q214. Mr Robertshaw: No, you were a Member of DEFA at that time and you were –

70

Mr Baker: I was a political Member of it, yes.

Q215. Mr Robertshaw: Yes, and therefore it is appropriate that we ask you these questions,
sir. So, were you chairing the evaluation committee? Yes, or no?

75

Mr Baker: I cannot recall, Mr Robertshaw. I was involved in that committee.

Q216. Mr Robertshaw: You cannot recall whether you were chairman of the evaluation committee?

80 **Mr Baker:** I would need to check. I was certainly part of it. I absolutely have no disagreement with that.

Q217. Mr Robertshaw: Okay, let's put it another way. Were you the only politician on the evaluation committee? Yes, or no?

85

Mr Baker: I would need to go back and check, because there was a significant cast. Everything I did then was in my role as the DEFA delegated Member, under the authority of the DEFA Minister.

90 **Q218. Mr Robertshaw:** Okay, so let's take it as an assumption, unless you write to us to the contrary, that you were the politician on the evaluation committee, and the likelihood, in those circumstances, is that you chaired it. If I am incorrect in that assumption, this Committee looks forward to getting advice to the contrary, sir.

95 **Mr Baker:** And I will be happy, Mr Robertshaw, to get that clarified. I think that should come from the Chief Executive of DEFA because it was in my role as a DEFA Member that I was playing whatever precise role I played, but I was certainly heavily involved in it.

100 **Q219. Mr Robertshaw:** That is fine. What do you recall as having that significant role on the evaluation committee? What do you understand as being, in very broad terms, the main issue that had you decide that neither of the two tenders submitted were in any way sufficient or adequate for either party to enjoy the future role as the manager and owner of the plant? What were the key points that you recall?

105 **Mr Baker:** The key points that I recall, Mr Robertshaw, were that the business plans put forward by both gave those involved in assessing the bids no confidence that this would provide a long-term, sustainable solution for the Meat Plant, and there was a very real concern that we would end up making a decision that then, in a period down the line, whether it be a couple of years or whatever, would leave the Meat Plant and the Department in a very similar position as they already were in. So, essentially there was not the confidence to back them as delivering a suitable solution for the Meat Plant as a strategic asset, integral to the future of farming on the Isle of Man.

115 **Q220. Mr Robertshaw:** What was it, then? Was it the level of subsidy that was concerning you in their submissions? What was it, essentially, that had you decide that these two submissions were inadequate, which did not lead to substantive and supportive futures that you could have confidence in? What was it that was the weak point?

120 **Mr Baker:** It was that the whole proposition was not sufficiently confidence-building for the group of people who were assessing the bids to be confident that those were business plans that were worth backing. It is very much as in the private sector, Mr Robertshaw: if somebody comes in with an investment proposition and a bank or a fund does not believe that it is going to be a good investment with a strong management team and a credible business plan, then it does not get funded. It was a very similar situation to that.

125 Of course, the tender process was properly evaluated, as one would expect in a process that is being run through the Government, so the scoring of the tender documentation will all be there, but fundamentally there was no belief that that provided a sustainable solution for the Manx farming sector.

130 **Q221. Mr Robertshaw:** Thank you. Would you please make that evaluation document available to our Clerk, so that we can assess it ourselves?

Mr Baker: Mr Robertshaw, with due respect, I am happy to ask the DEFA Minister and the Chief Executive of DEFA to do that. As the Chair of Isle of Man Meats, which is an arm's-length entity, I cannot bind DEFA, as our shareholder, to do that, but I am certainly quite prepared to ask, and I have no reason to withhold any of that.

Q222. Mr Robertshaw: Okay, thank you very much, we would be grateful if you would communicate with DEFA.

140 **Mr Baker:** I have said I will, Mr Robertshaw.

Q223. Mr Robertshaw: That is great. Otherwise, we would do it ourselves. So, you assessed the two tender documents. You were the chair of that, as far as we are concerned, unless we are told otherwise. They were then rejected. At what stage thereafter, in timeline terms, did you then move into the position of chair of the new company?

Mr Baker: The new company was formed as part of the implementation of the direction of travel. As soon as the company was formed the directors were appointed, and I was appointed as one of the directors.

150 **Q224. Mr Robertshaw:** And how do the proposals that now exist within the company significantly differ from the two tender documents? In what significant way is what you are doing now better than what the tender documents provided?

155 **Mr Baker:** It is completely different. We have a strong management team, we have a strong board, we have a clear business plan and we are delivering.

Q225. Mr Robertshaw: Isn't it true to say – as we have read the tender documents – that they both have exactly those things? You will recall them, surely.

160 **Mr Baker:** If you have read them more recently than I have, Mr Robertshaw, then you will have formed your own opinion on that, but the view of the group that was assessing those tenders was that they were not backable.

165 **Q226. Mr Robertshaw:** Okay. So, you are now chairman of the organisation that took the place of the two failed separate submissions. This is a pretty rude question, but it is relevant; we are in the public domain and we are discussing matters of significant of taxpayer funding. In the event of you not being successful in your election bid in September, will you remain the chair of the company?

170 **Mr Baker:** That is not a matter for me to determine, Mr Robertshaw. I am sure that, given the diligent approach that the Committee, I am sure, has taken to this, you will have seen the articles of association and the powers of appointment of directors, which are very clear that the Minister of the Department of Environment, Food and Agriculture has the power to appoint the vast majority of directors. If he or she, whoever they may be, wishes me to continue in post, then I am happy to have a conversation around that. It is an unremunerated post, as I am sure you are aware.

Mr Robertshaw: We are, yes.

180 **Mr Baker:** I believe that I have added significant value. I have the confidence of the management team and they have my confidence. If a future DEFA Minister wishes me to carry on, I am more than happy to have a conversation about that in whatever role I have post-September, whether I am a member of the public or a Member of Tynwald.

185 **Q227. Mr Robertshaw:** You will understand that the Committee must, by duty of care, ensure that we look at potential areas of conflict here that must be examined in detail. I am sure you would understand that and you would be in the same position if you were sitting –

Mr Baker: May I, Mr Robertshaw?

190

Mr Robertshaw: By all means.

Mr Baker: In terms of areas of conflict, could you just expand?

195 **Q228. Mr Robertshaw:** Yes. Retrospectively, if it transpired that the new Minister of DEFA after the election appointed you in what would become a remunerated role, it would be very important to show with absolute transparency, going back to 2017, that the process of rejecting the two tendered submissions, by you, as chair of that committee ... were rejected for very good reason and that the organisation put in place as the alternative to those submissions has shown
200 categorically that the decisions made were the right ones, because otherwise it would cast a shadow over your circumstances. That is the point.

Mr Baker: So, your hypothesis, Mr Robertshaw, if I can paraphrase, is that somehow there was a poor process back in 2017 and I ingratiated myself to do an unremunerated role, which has been
205 extremely intensive for three years, in the event that if I was then unelected in September of this year I would secure a paid position out of it. Is that the scenario you are –?

Q229. Mr Robertshaw: No, that is your assessment of it. We cannot take a view until such time as we have seen the fine detail surrounding the rejection of the two tender documents.

210 The two tender documents approach the subvention side in what appears to the Committee, on reading the submissions, as being fairly healthy. You have to bear in mind that the organisation running the abattoir up to the time of these great changes did not incur the same level of subvention that is currently the case. You would accept that?

215 **Mr Baker:** I would need to go back and study the level of subvention that the organisation did enjoy. We could go into great detail on this, but there is a fundamental difference in the sense of the level of pricing that has gone back to the farming community during this period. There is also a fundamental difference in terms of the level of volume that has gone through the plant, and the subvention per kilogram of output has dropped by 20% over the last two years, plus the
220 marketplace is obviously different as well. So, we are comparing something that is extremely difficult to compare. It is a hypothesis as to what might have happened if somebody else ... very much as if Mrs Barber were to speculate on what might have happened if she had married somebody else. It is just a different scenario.

I am very content that the process was done properly back in 2017. It was a difficult process. I
225 am aware that the Fatstock Marketing Association previously operated the plant and they did put a bid in to continue it, but I am absolutely certain that that decision will withstand scrutiny. It was not a Tim Baker driven decision; it was driven by the whole committee of people who were involved in it.

230 **Mr Robertshaw:** No, it was –

Mr Baker: Sorry, if I had known that this was the direction of travel, I would of course have refreshed my memory on those events of five years ago, but I came here as the chair of this company which was formed in 2018.

235

Q230. Mr Robertshaw: Fine. You will recall in the first instance that we asked Mr Parsons, and you wished to come today, so we simply have taken the opportunity to ask you other questions.

Mr Baker: Mr Parsons would have known absolutely nothing about the events of those days and would have even less interest in them.

240

Q231. Mr Robertshaw: And that is why we are addressing you, Minister. So, what was it that had the company that ran the abattoir up to the time of these great changes ...? What were the pressures that brought about this change, in your recollection? Was it concern on the part of DEFA that if they did not want to continue the subventions ...? Was there any conversation between DEFA and the then company that there were question marks hanging around the issue of whether you, DEFA, through Treasury, through Government, would allow the subventions to continue?

245

Mr Baker: From my point of view – and I will ask if Andy has any perspective on that, as he is a DEFA officer, but certainly my recollection politically was that both in the previous administration and the early part of this current administration there was great concern about the sustainability of the Meat Plant being run in the way it was being run. The prices were being driven down to the farmers, which was making farming on the Island really unattractive. The volumes of animals being shipped off Island were increasing significantly because the farmers were not getting a satisfactory price. There was little confidence in the day-to-day management of the Meat Plant. There was a board in place under the Fatstock Marketing Association, but there was no senior management in the way that you or I, Mr Robertshaw, would know a senior management team to operate, whereas now we have a very well-ordered, professional, committed management team. As I recall, there were last-minute requests from the FMA to DEFA for funding, which clearly put DEFA, and subsequently Treasury, into difficult situations. There was just a lack of confidence around the operation.

250

255

260

Q232. Mr Robertshaw: Okay. So, lack of confidence and concerning levels of remuneration to the farmers, but is it not fair to say that that situation might have been different if ...? Looking at the subvention figure from 2008 through to 2017, the lowest was £130,000 and the highest, up until these great changes, was £765,000. Is it not true to say that if that company at that time had enjoyed the degree of subvention you are enjoying now, the situation might have been different?

265

Mr Baker: It is certainly possible. It might have been different, Mr Robertshaw. Anything might have been possible, but the reality was that, as the funder of the business, DEFA did not have the confidence to continue to fund the Fatstock Marketing Association.

270

The other point that I must highlight is that the period that you have referred to I think crosses the days when the red meat derogation was in place. (**Mr Robertshaw:** 2010.) Okay. You referred to 2007 onwards.

275

Q233. Mr Robertshaw: We have got the subvention from 2008, and obviously it is affected. By 2012 the subvention goes up, presumably as a direct consequence of derogation and the loss of headage. I have not got the date when the headage payments were withdrawn. I think that was the same time as the Countryside Care Scheme came in, perhaps; I do not know.

280

What is very clear to us, as the Committee, is that from the point at which derogation occurred and the adjustment on headage payments disappeared, that was what put the then company under intense pressure. Almost anybody who knows anything about how to read accounts or is involved in business would recognise that the then company was in very difficult circumstances. I

285 take it that you took that into account, rather than dismissed them as being somehow an
organisation in which you had no confidence. Is it not inevitable that they were in really difficult
circumstances at the time, and isn't that now displayed in the level of subsidy that is currently
being enjoyed?

290 **Mr Baker:** I think your point around the market, Mr Robertshaw, I could not argue with, in
terms that an organisation which had been operating in a monopoly protected market, that was
processing volumes of animals and had effectively no competition would be severely impacted by
that change. That, of course, was due to outside factors. That was not, as I understand it, a decision
that was made in the Isle of Man in isolation. It reflected international factors, the Common
Agricultural Policy and other concerns around the way that states supported their industries. You
295 are going back a significant number of years, but those changes did affect the whole of the
agricultural industry and, of course, affected the Meat Plant, so you are absolutely right that
whoever was operating the plant at that point in time would have struggled to come to terms with
those changes.

300 **Q234. Mr Robertshaw:** So, it was the changes then, surely, more than your lack of confidence
in the then structure and organisation of the business that was the issue. You seemed to indicate
that you had no confidence in the company, when, in fact, the circumstances were that they were
in intense difficulty because of external factors. It is important to be fair to the then organisation,
surely, to state that.

305

Mr Baker: I have just stated, Mr Robertshaw, that the conditions that they found themselves
in would have been challenging and they needed to manage their way out of that. Of course, those
conditions are what we currently have as well, so it is not as though we have now reverted back –
there is no derogation and there is no headage – but I can assure you that those tenders were
310 evaluated on the basis of looking forward as to what the business plans were and how supportable
the Department and the panel felt they were. The clear desire was to find a solution through that
tender process. It was not some kind of a process that was gone through somehow as a stepping
stone to achieve what has been achieved now. It was very much in the hope that the private sector
would step forward and find a solution. There were conversations with off-Island operators and
315 there was certainly a hope that one of the major multiple-site meat processors would step in and
take the Meat Plant and integrate into their operations. All options were open and there was a
clear desire to find a solution. Where the Department found itself after that failed tender process
was that it had to find a Plan B. Simply going back to the previous arrangements was not only
unacceptable to DEFA, it also was not acceptable to the farming community on the Isle of Man
320 and particularly the Manx Farmers' Union.

Q235. Mr Robertshaw: Is it true or false to say that during the time running up to 2017 and
the call for tenders to be submitted for a new company to run it – the then organisation, which I
understand, right or wrong, had assets of between £1.5 million and £2 million – that company
325 would be required to use those assets before serious levels of subvention would be agreed by
DEFA? Is that true or false? Mr Lees, would you recognise that?

Mr Lees: I had very little to do with the actual tender process; I was doing a different role at
that point in time. It was my predecessor, Peter McEvoy, who was responsible for the tender
330 process.

Q236. Mr Robertshaw: I thought you were on it.

Mr Lees: I was not on the board, no. I did not –

335 **Q237. Mr Robertshaw:** Did you take any part in it at all?

Mr Lees: In terms of evaluating it, I worked with Scott Baker. With regard to sitting on and deciding the final decision, I was not on that panel.

340 **Mr Robertshaw:** Okay.

Mr Baker: If I may, Mr Robertshaw, if the company had significant assets, it depends, obviously, what form those assets would take. As to whether they should be used to support the business, that may well have been DEFA's position, but you would really need to ask not just the current
345 Minister for DEFA but his predecessor, who I believe was Mr Ronan.

This has played out over a long period of time. It had its origins in the removal of derogation, which, as I understand it, was phased in. The Meat Plant at times had been quite profitable and had a reasonable original balance sheet, but by the time the tender process was being run, it was requiring significant levels of subvention. That was coming from DEFA, and DEFA clearly needed
350 to make sure it was happy with that use of public funding.

Q238. Mr Robertshaw: Now I am confused, because you are now saying that up to derogation the company was pretty successful, and yet post derogation it was not. And yet your earlier comment suggested that your problem was with the structure and organisation of the company, not the source problems. So, there is a confusion there in what you are saying to me this morning.
355

Mr Baker: No, there is no confusion. When the tenders were brought forward, every tender was treated on its merits, the business plans were appraised and the assumptions, as you would do with any business plan. You and I both understand that well, Mr Robertshaw. You challenge
360 the assumptions, you challenge the forecasts and you ask, 'So what is the contingency plan? What happens if this does not work out the way that people are hoping?' The decision of the panel was that those business plans were not supportable for those tenders. There was no confidence that they would provide a solution, and that was based on what was presented to us.

The Fatstock Marketing Association had gone through many iterations in terms of board members and people running the plant; there was a regular change of people being appointed to
365 the board. So, yes, it was the same company, but it was being managed and driven by different people. That is the reality of the situation. It had not adapted. Change was needed. They had an opportunity to bid for it, as did anybody else. It was a completely open process and it did not deliver a solution. DEFA had to then go down to a plan B, and the new company, of which I am
370 chair, is what was put in place.

Q239. Mr Robertshaw: Thank you for that. That draws this part of our session to a close.

Are we clear now? Are we writing to DEFA directly to seek the information regarding the chair, the tender documents? **(The Clerk: Yes.)**

375 Forgive me for asking you – that perhaps was a little improper – but we will do that and we will understand in great detail how you came to the decisions and conclusions that you did.

Chair, thank you very much.

Q240. The Chairman: Perhaps we can move on to the relationship between DEFA and the Meat
380 Plant and just how that works. Obviously we have spoken to the OVS, but it would be helpful to understand that better from your perspective, and any conflicts that you have recognised or how you have mitigated them.

Mr Baker: If I can just clarify, Mrs Barber, the terms of the relationship, obviously it is a
385 multidimensional relationship, as I am sure the Committee appreciates. I will bring in Andrew and then Phil, but from my point of view, my relationship with DEFA is very much subsidiary company

chairman through to parent company key shareholder. My appointment is very much to be the chairman of the board, non-executive, and to be accountable for its performance back to DEFA as shareholder, and ultimately, through them, to the Treasury, given the public funded nature of the subvention.

390

Clearly, in terms of operational involvement, there is an involvement, and Phil will be able to comment on that side of things.

In terms of a governance dimension, from Andrew's perspective he is the direct link back into the Department from that point of view. You will be familiar with the powers of the DEFA Minister to select whom he wishes to have on the company's board, and that is the level of relationship that I would speak of.

395

Andrew?

Mr Lees: I sit on there as the shareholder's representative. I have the same responsibilities as any other non-executive director. I will feed back, where required, to the shareholder with regard to how the business is doing – any concerns as well as the successes. Anything that the shareholder requires is then fed back into the board. At that point, the board is an arm's-length company from DEFA. It operates as an arm's-length company and makes its own decisions as an arm's-length company.

400

405

Mr Baker: Phil, do you want to talk about some of the operational sides that DEFA are engaged in?

Mr Parsons: Yes. From my point of view, I answer back to DEFA, as the main shareholder, via the board, but my real link with the DEFA side of it is from the regulated bodies that we have in the plant, which are obviously employed by DEFA.

410

Q241. The Chairman: Just in terms of the directors' roles, we note that obviously when you have the board minutes they are published as five G directors and one A director, so although you are the primary director for DEFA, you would all recognise yourselves as DEFA directors?

415

Mr Baker: The G and the –

Q242. The Chairman: Because that is the shareholding.

420

Mr Baker: The G is appointed by the DEFA Minister. In the memorandum and articles of association of the company, the rights of the two shareholders to appoint are spelled out, so the vast majority of directors are appointed at the whim and the will of the DEFA Minister. The Fatstock Marketing Association has the right to appoint one director, which they do. So, it is entirely in the gift of the Minister whom he wishes to have as directors.

425

Obviously, I was appointed from the initial formation of the company. Mr Parsons and Mrs Bufton were appointed when we changed the balance of the board to bring the executive management team on to the board, which we felt was far more appropriate for an organisation of this size and nature. But yes, we are all directors of the company and we have a fiduciary duty to the company in the same way as any other board director of any other corporate entity.

430

Q243. Mr Robertshaw: You said you restructured the board and you have just described why, but you lost at that stage what you might call an independent non-exec. Why would you go down to one clearly identifiable, independent non-exec, when the influence of DEFA, one way or another, is highly significant? Why would you do that?

435

Mr Baker: The independent non-executive director on the board ... I presume you are referring to Andrew McDonald, or are you referring to the Fatstock Marketing Association's director as independent?

440

Q244. Mr Robertshaw: Wasn't there somebody called ...?

Mr Baker: Mr Bromley Martin? (**Mr Robertshaw:** Yes.) Yes, Mr Bromley Martin was one of the DEFA-appointed non-executive directors. He was appointed when the company was first formed. He was known to the Department and he was seen as somebody who could add some value to the organisation. He had a corporate background, involved in many projects elsewhere, off Island, and he has some interests on Island as well. He was very useful, particularly in the initial establishment of the company, getting it set up, getting through the transaction to acquire the plant and for it to initially bed down. He did not have particular expertise in the food sector or in farming. It got to the end of the first year, it was recognised that he had other projects that he wished to pursue and we agreed that the board would accept his resignation at the same time as Peter McEvoy moved away from the Island. That created two gaps on the board, and in my view, as the Chairman, my recommendation was that we brought the two executive managers who were running the business day to day on to the board, to create that far more joined-up approach.

445

450

455

This is a £7 million turnover business. This is not something of the order of magnitude of a major international corporate. This is relatively small, although in Island terms it is not, it is significant, but you need to be joined up. You need to be giving the people who are running the business the accountability and the influence to allow them to contribute fully to the future of the business. I felt personally that that was a very progressive step to take. I would stand by it, I would do it again if the same situation was in front of us, and it was something which the shareholder accepted.

460

Mr Robertshaw: I appreciate that explanation.

465

Q245. Mr Mercer: Chris, could I just jump in?

Was that accepted by both shareholders? We have just 'the shareholder'. Are you referring just to DEFA there?

470

Mr Baker: If I can clarify, Mr Mercer – a very pertinent question – the DEFA Minister has the power to appoint whomsoever he or she likes; they do not need consent from the other shareholder to do so, in the same way as the Fatstock Marketing Association can appoint whomsoever they wish to represent their interest on the board. So, it was not a matter of whether the other shareholder agreed or not; it was entirely within the gift of the DEFA Minister and reflects the economic reality of the situation, that DEFA is funding Isle of Man Meats and DEFA, from a Government point of view, has responsibility for the agricultural sector on the Island.

475

Mr Mercer: Thank you for the clarification.

480

Q246. Mr Robertshaw: Thanks. So, it was a decision taken by you that it was appropriate? I am not arguing.

Mr Baker: The decision ultimately was made by the DEFA Minister, but it was my recommendation, as chair, that we went down this path.

485

Q247. Mr Robertshaw: I am happy with that. So, you now have two executive directors, Mr Parsons and ...?

Mr Baker: Mrs Bufton. She is the Finance Director.

Q248. Mr Robertshaw: The Finance Director, yes.

490 The Committee had difficulty in, I suppose, the sparsity, if that is the right word, of the amount of information when we read the board minutes. I have read and written board minutes over a long career. I have never quite seen such sparse board minutes as I see in your company. It does not seem to say very much at all. What do you put that down to?

495 **Mr Baker:** Could you clarify what is not there that you would expect to be there?

Q249. Mr Robertshaw: Goodness me, I will be here all morning! The board minutes just do not say anything. They do not tell the story. They do not tell you that the board, including the non-DEFA-associated membership is getting a clear and concise understanding of a lot of key indicators that you would expect to see in board minutes, not least of which are detailed monthly profit and loss accounts, yield management and all these sort of things. We could not see assembled information. It almost seemed that maybe it happened in conversations.

500

Mr Baker: If I may, Mr Robertshaw, (**Mr Robertshaw:** Please do.) what you appear to be not connecting is the management packs that have been provided to your Committee. Every month there is a full management pack, which is circulated to the board members along with the agenda. It includes profit and loss account, cash flow, balance scorecard, customer details, age debt details and other KPIs. Those are all there, Mr Robertshaw. It is absolutely fit for purpose, for the size of the business. You will note in the minutes that there is reference to, in most cases, the management pack and the financial report, which is a narrative written by the Finance Director. They are explicitly referenced as having been previously circulated, having been discussed and noted by the board. There is absolutely no point in repeating in the board minutes what is covered in, I think, from memory, 16 pages of management pack. (**Mr Robertshaw:** Okay.) Any issues are brought out and discussed on the table, and actions come from that.

505

510 I think this is entirely appropriate for the size of the business. The management pack is fit for purpose. Of course, these things evolve over time, and I am more than happy to look at that with the management team, but the management team's job is to run the business and the board's job is to both guide and challenge and scrutinise, and I am absolutely content that that happens.

515

Q250. Mr Robertshaw: Fine. The Committee had difficulty following the lab report process. It seemed to stop at management level and we could not see it appearing as the important issue it is before the board. Did we misunderstand that?

520

Mr Baker: You are referring to the routine regulatory testing that is conducted by DEFA. Clearly, if there were significant issues coming out of that, those would of course come to the board.

525

Q251. Mr Robertshaw: We did not see them.

Mr Baker: Because they were not significant issues, Mr Robertshaw. This is a well-regulated business. It has all the accreditations; accreditations that it never had previously, particularly in more recent times. That has allowed us to open up routes to market into major multiple supermarkets. If there were issues that were preventing those things happening, then of course the board would be concerned, but this is operational detail and –

530

535

Q252. Mr Robertshaw: You can see the Committee's concern, because you have a company which you consistently tell us is independent but whose board is appointed, effectively, as you have indicated, by the Minister of DEFA, which has significant reporting lines in health and safety, lab testing and animal welfare, all these areas, coming from, at the present time, the same

540 Department, and therefore it is an absolute imperative, surely, that there is total transparency
there and that the board can see that transparency. Do you accept that point?

Mr Baker: I think we have two different things here, Mr Robertshaw. I think if one is wanting
to have a debate around the separation of operation and regulation and the structure of
545 independent regulation across Government, then that is a separate discussion. In terms of Isle of
Man Meats, we are in a regulated environment, as many businesses are. We work with the
regulator operationally. There is lots of contact. Phil will talk to you about the way the plant
operates with the vets and the lab testing and inspections that go on there. They are embedded
in the plant. Those are operational things. They work.

550 **Q253. Mr Robertshaw:** But the issue is that, because it is a combined plant, and according to
the 1995 regulations, which I think we follow, where it is a combined plant, where you have the
abattoir itself and also the meat handling side and the development of mince and the like, you
have two separate authorities where the vet effectively has particular and distinct authority. Does
555 that reporting line, with all the vet's serious and significant responsibilities, enjoy direct access
and written and identifiable contribution that the board and the likes of us can read, or does that
go through the operational side before it gets to the board?

Mr Baker: The vet, as regulator, does not report to the board. If there was an animal welfare
560 issue, the condition of an animal being brought into the plant, for instance, it would be brought
up –

Mr Parsons: Do you want me to ...?

565 *Mr Baker:* Yes, you take that, Phil.

Mr Parsons: Can I go back to the question about what is raised to the board? On an operational
matter, the only time I would raise to a board if there was an issue – if we are talking about mince
and results – is if a recall procedure needed to be implemented. Before that, really it is a day-to-
570 day operational matter, which is dealt by our compliance manager, myself and the other director
on site; and if there was a decision to be made, I would contact another director to take advice on
that.

Q254. Mr Robertshaw: So, that is a pretty high level of reporting, isn't it, where you get a
575 withdrawal? Do you not think it is appropriate that the board becomes aware of other areas that
have not the same threshold as withdrawal? Do you not think that would be sensible, Mr Parsons?
And should that process not be documented?

Mr Parsons: Perhaps it is something we need to look at in the future, but at the moment –

580 **Q255. Mr Robertshaw:** I think it is, sir.

Mr Parsons: Mr Robertshaw, I appreciate your opinion, but at the moment, the way we run, I
would escalate it if it was recall. There has been no request to escalate anything else on a day-to
585 day ... which happens in every factory you go into. You would not bring that up at a board meeting.
Whether you have good results or not, it would be brought in via your compliance team to the
directors on site.

Q256. Mr Robertshaw: But there are very rare situations, surely, in the UK, that you refer to,
590 where you see a government body that appoints the directors also associated with the regulator

and you do not get an opportunity for the regulatory process to be made available to the board in a transparent fashion. So, the comparison is not, in any shape or form, acceptable there.

I do ask you all to reflect very carefully on this whole process. I accept, Chairman, that there is a significant issue over the separation of regulation from operations, but it shines loud and bright
595 in this particular circumstance, surely.

Mr Baker: Mr Robertshaw, one of the advantages of having the executive directors on the board, as I instituted back in 2019, is that that direct link is there from the operations to the –

600 **Q257. Mr Robertshaw:** But he has just said that he only reports to you when it is a withdrawal matter.

Mr Baker: As a director, Mr Parsons is responsible for the day-to-day operations. You have to allow people to use their judgement in the way they handle situations. If Mr Parsons believed that
605 this was a major issue that required being brought to the attention of the board, I am absolutely certain that he would do that. He talks directly to individual board members in quite an open way, and if there was an issue I am absolutely confident it would not be hidden from the board. Equally, from the regulatory point of view, I am absolutely certain that that would go through the appropriate channels in DEFA and would come back into the board.

610 When Isle of Man Meats took over the Meat Plant, there were actually some outstanding notices on the plant. Mr Lees, if you would like to –

Q258. Mr Robertshaw: No, before Mr Lees does, just hang on a second. This is a very complex situation we have got here, where you have regulators part and parcel of the organisation that
615 appoints the directors and you have that same organisation with directors on the board, and yet, at the same time, you have a vet, with very particular responsibilities, separate to the management of the plant. That surely should become a matter of routine course for the board to become aware of, rather than waiting for the balloon to go up and the reporting process to come back through the very same organisation that owns the company. I have never, actually, in all my
620 life come across anything quite as convoluted and capable of opaqueness than the current situation.

Mr Baker: It could be capable of opaqueness, but it is –

625 **Mr Robertshaw:** Precisely the point.

Mr Baker: It could be, Mr Robertshaw –

630 **Q259. Mr Robertshaw:** In that case, why is it that you allow such an opaque situation to continue?

Mr Baker: It has not caused any difficulties, Mr Robertshaw. However –

635 **Q260. Mr Robertshaw:** Because it is opaque and you do not know it is.

Mr Baker: I have full confidence in the management team that runs the plant, Mr Robertshaw – if you would let me finish – and I am absolutely certain that if there was a major issue in any of these areas, animal welfare, health and safety or any of these other areas, it would be properly brought to the board's attention without delay. We have had issues where things have not been
640 as one would ideally want them. They have been brought up by Mr Parsons and the management team. We have a compliance officer. The management team is very properly put together, and

the level of expertise in this management team is far higher than it has been, certainly for many years.

645 If the Committee has a recommendation that they would like to see a report from the regulator being tabled to the board, it is something that of course I am happy to pick up with the Department. However, the standards that this businesses is being run to are extremely high. We have independent regulation. We have accreditation from UK-wide bodies in order to be able to trade with major retailers.

650 **Q261. Mr Robertshaw:** I will take it from you, Chair – I must call you Chair in this particular instance – that you accept that there is opaqueness and that that needs to be addressed.
Chairman, do you want to ...?

655 **Mr Baker:** Sorry, just for clarity, I accept that in a small jurisdiction like the Isle of Man, in an organisation like this there is the situation where people are wearing a number of different hats. I accept that. I do not necessarily accept that this causes any negative outcome. However, I accept that, from your perspective, this is not neat and as black-and-white and simple as it could be, and that separating things out brings greater independence, but that comes at a cost, Mr Robertshaw.

660 **Q262. Mr Robertshaw:** It is on *Hansard*. I think the record shows that you have said that the situation is opaque.

Mr Baker: You said the situation –

665 **Q263. Mr Robertshaw:** I said it, and you agreed with me.

Mr Baker: Well, I have just clarified, Mr Robertshaw.

670 **Q264. Mr Robertshaw:** Okay, well, we will healthily agree to differ, then, on that.

Mr Parsons: Mr Robinshaw, could I make a point, please?

Mr Robertshaw: Robertshaw – Robert, not Robin.

675 **Mr Parsons:** Sorry, that is right, I cannot see that far.

Mr Robertshaw: It is all right.

680 **Mr Parsons:** Basically, I did say that if there was an issue, we would contact another director to see how further we needed to take the matter. Not everything waits until a board meeting or is minuted, what happens on a daily basis, whether it is animal welfare or food safety.

685 **Q265. Mr Robertshaw:** Well, then, what is the point of the daybook? That is what you are supposed to do, isn't it?

Mr Parsons: The daybook?

690 **Q266. Mr Robertshaw:** Yes, the daybook. A welfare issue should be reported in the daybook, should it not? Yes, or no?

Mr Parsons: They get reported to the vet, and then there is a discussion whether it goes in the daybook. We do not have to write in a daybook.

695 **Q267. Mr Robertshaw:** Hang on, you mean to say that if the vet identifies an issue that requires logging, he will not log it –?

Mr Parsons: He will log it. You are asking me if I am putting something in the daybook.

700 **Q268. Mr Robertshaw:** What I am trying to get to is that the board is aware of what the vet is logging, because in the structure of this organisation, being a combined plant, the vet has very senior responsibilities and yet it stays within and below the line of line management, and board becomes ... Unless –

705 **Mr Baker:** I am sorry, Mr Robertshaw, I cannot accept that.

Q269. Mr Robertshaw: Well, that is what Mr Parsons has said.

Mr Parsons: No, I have not.

710 **Mr Baker:** We are trying to clarify. The vet is independent of the Meat Plant. He will behave in whatever professional way he deems appropriate, and it will be dealt with properly. The daybook does not belong to Isle of Man Meats, is my understanding.

715 **Mr Parsons:** No, it does not. We have the right to read and reply.

Mr Baker: Our regulator for animal welfare is the Official Vet. They are on site, they are independent, they are not influenced by management, so if they say, 'That animal is not fit to be slaughtered,' then that is the situation, and prosecutions and other remedial action can be taken. That is completely outside the Meat Plant, in the same way as any issue in a bank, for example, that the financial services regulator identifies. There is a clear separation there.

720 The confusion here and the potential opaqueness is the fact that this is owned by DEFA, and everything is being tangled up in the Committee's minds because of that, but the reality is that this is properly scrutinised by a vet who operates to very high standards, and, if there are any issues, they are dealt with appropriately.

725 **Mr Robertshaw:** I think I have made my point on this one.

Q270. The Chairman: Just for clarity, with the directors, are there fixed-term appointments? You said 'at the will of the DEFA Minister' – is it that they can go on forever, in theory?

730 **Mr Baker:** As far as I am aware, as long as the person is willing to continue and the DEFA Minister believes that they wish them to continue, then they can continue. Equally, there is no obligation for that to remain in place, so if a Minister decided that he or she wished to have a different board composition, they could decide and implement that at their will, Mrs Barber.

735 **Q271. The Chairman:** Okay. Maybe this has changed, obviously now that you have the two directors, Mr Parsons and Mrs Bufton, on the board, but how often would directors usually go on to the ground in the Meat Plant and actually see for themselves what is going on?

740 **Mr Baker:** It is down to individual directors as to how they operate. One of the directors is based in Scotland, Andrew McDonald. Clearly, his ability to drop into the Meat Plant has been fairly restricted, due to COVID, for last 18 months, and the plant has, in common with many other strategic assets, such as the power station, for example, been very rigorous in controlling access to the Plant, because there is no other meat plant. One of the biggest achievements of last year
745 from the management team has been to keep the plant running in extraordinarily difficult

circumstances when meat plants across the UK, and Europe indeed, were regular sources of COVID outbreaks.

750 It is the job of the directors to deliver their fiduciary duties. It is the job of the management team to run the business. Would I go in and start interfering in the operational detail? Of course not. That is the management team's responsibility. The board are diligent in attending board meetings. The majority of those have been done over Teams, for obvious reasons, but the board is, in my view, appropriately close to the business. I personally have a weekly catch-up with Mr Parsons and the Finance Director. Other directors operate in different ways, but I think we are all very diligent in the way we do this role.

755

Q272. The Chairman: And if anyone wanted to, they could obviously go on to the shop floor? I am not suggesting to interfere with operational matters, just, as you said, to put their own minds at risk around the responsibilities they have in the role of director.

760 **Mr Baker:** When you say 'anyone', one of the directors?

The Chairman: The directors specifically.

765 **Mr Baker:** Yes, and if there was a specific issue that came up, we would have the ability to go and view it. For example, the security cameras and closed-circuit television tracks what goes on in the plant, and if there are any issues it can be viewed. There have been instances where I have personally got into that level of detail, where it has been appropriate.

770 **Q273. Mr Robertshaw:** Can we drill down a bit, gentlemen, into your reporting processes to the board on the accounting side? Chairman, what do you look for, in terms of efficiency and margin etc., when you are seeing the monthly accounts? Are they presented a week or so after the end of the monthly period, or what?

775 **Mr Baker:** The accounts are circulated a few days before the board meeting. Do not forget, Mr Robertshaw, this is a very small management team with quite a low level of administrative resources and quite a complex end-of-month process, but we have a good, robust set of management accounts which are delivered to the board, and they contain, in my view, the things that, as a chartered accountant with 30 years' experience, I would expect to see.

780 **Q274. Mr Robertshaw:** Such as?

785 **Mr Baker:** Such as profit and loss account, cash flow, statement, balance sheet, forecast, sales analysis, age debtors analysis, some KPIs in what I call the balance scorecard. I think those are the main components, from memory.

Q275. Mr Robertshaw: What about yield management, in terms of items in and items out? How do you score whether or not you are getting the sort of returns on the input? Shall we say input and output? That is the best way of using it.

790 **Mr Baker:** When you talk about returns, do you mean physical returns?

795 **Q276. Mr Robertshaw:** Let me explain myself. If you have a given number of head of a given type of animal coming into the plant, then taking into account reasonable allowances and adjustments and fails, all that stuff, you would have some sort of target margin that you would be aiming for. Do you see that?

Mr Baker: So you are talking margin in financial terms now?

Q277. Mr Robertshaw: Return on the input. The value of the output related to the input.

800 **Mr Baker:** You are talking in money terms, Mr Robertshaw?

Mr Robertshaw: Yes, I am.

805 **Mr Baker:** That is fine. It is important to clarify that because yield management in the world that Mr Parsons operates in is around how many kilograms of meat you get out for the animals that you put in, but you are talking financially.

810 **Q278. Mr Robertshaw:** Well, that output translates into cash. Let's do it on Mr Parsons' basis, then. If you have a given number of animals, the accounting system will show that is how many were input, and therefore, on that basis, on Mr Parsons' measure, there is going to be an expectation – given allowances and failures, rejections, whatever it might be – that on average your output in meat terms, and therefore translatable into a value, is going to be x. You must have that throughput, surely.

815 **Mr Baker:** That is operational management information that would be available at an operational level, yes.

Mr Robertshaw: Well, perhaps Mr Parsons –

820 **Mr Baker:** That is why I have tried to clarify, Mr Robertshaw.

Mr Robertshaw: Thank you, Chairman.

825 **Mr Parsons:** Mr Robertshaw – I will get it right this time, sorry.

Mr Robertshaw: Thank you, Mr Parsons.

830 **Mr Parsons:** We have an industry-standard yield system implemented, which is used. It is maintained by an external contractor. At all times we are monitoring this system, from our point of view, within the system itself. We have everything scanned in and scanned out, so we have full traceability of everything that comes into the plant and out. Obviously we can account for – as we have to do it to British Retail Consortium (BRC) – what is called the mass balance, and that is done via that process, where we have to prove that on day 10 five cattle come in, and we have to then prove where it all went. We use that system, and there are quite a few other people who use the company that we use and their system.

835

Q279. Mr Robertshaw: Who is the company, Mr Parsons?

840 **Mr Parsons:** H C Amora.

Q280. Mr Robertshaw: How does that work? Tell me.

845 **Mr Parsons:** We have a system and it is a bespoke system to the meat industry. At the moment, they have some of the big ones – Welsh and Scottish lamb, Randall Parker, Donald Russell – and they have another 36 customers who use their system. The system allows traceability. As soon as an animal comes into the lairage, if we just take cattle, it has a passport. On a passport there is a barcode. All those details are entered into the system at the very beginning, as they walk in. On the day of processing, that animal goes through the process and comes then to another terminal within the plant. The details are entered again, against the ear tag that is on the animal, so it is

850 checked at that point. It is then what we call 'sequenced'. Once it is sequenced, it cannot change
its place within the line, so it goes down the line and gets processed all the way out, and at the
other end there is a Meat and Livestock Commission (MLC) grader.

Q281. Mr Robertshaw: Sorry to interrupt – on site?

855

Mr Parsons: On site, yes, at the bottom of the line. He would then look at that animal, give it
its grade, and because it was sequenced at the far end, when he presses 'Print' it draws all the
information that we have inputted at that end onto that label, and then its grade, which we pay
on, comes into it at that point. That then goes into the fridge, and then it either goes out as a
860 whole carcass, which we would scan ... Four tickets go on to the animal, and then it goes into the
fridge, and then the decision is made whether it gets sold across or to a local butcher in primals
or quarters, or it goes into the boning room. When it goes into the boning room, we take those
labels and scan those labels into the boning room, which creates a batch, which gives you the
weight of the animal and the grade of the animal, and if you wanted to dig further back into the
865 system, it would tell you what farm it came from and all its details. So, at that point we have got
it scanned into the butchery.

The system, in general, batches everything for that day. Some of the bigger plants, when they
buy from a mart, their traceability is back to the batch they bought on the day. Ours is the same,
but in a smaller version, so our batch is what we put into the boning room on that day. Then
870 it comes out the bottom boned out, into a box. The batch is in the system, so when the box comes
off at the other end there is then a box end label created with a weight on it. That goes on the box
end. That, then, is in stock. As soon as that is created, that box is then in stock, which then ... If
you go into a different part of the system, you can see what is sitting in stock on that day, what is
created. Another part of it is what is sold or what we call 'scanned out'. When we sell a product
875 we scan the label out, which puts it into another box, in another part of the system, to say that it
has been moved off stock into sales, which goes into SAGE and then becomes a part of the
accounts.

Mr Robertshaw: That is very clear and I thank you very much indeed. That is very helpful to
880 the Committee to understand that, because we were not aware of that process.

Mr Parsons: Can I just add one more thing?

Mr Robertshaw: Yes, please do.

885

Mr Parsons: When I say H C Amora are working on the system all the time and we are linked
in with them, there is a manual part, at the moment, where we have to take it from the last piece
of the H C Amora system and put it into SAGE. They are working on it at the moment and they
have –

890

Q282. Mr Robertshaw: Who does that? You do that, do you?

Mr Parsons: Yes, we have to do that. We have a girl who is doing that all the time. She checks
the orders that come from downstairs on the dispatch sheet against the orders that come up on
895 the H C Amora system.

Q283. Mr Robertshaw: And who audits that manual transfer? Who audits the transfer from
one system to the other?

900 **Mr Parsons:** Well, she does it as a part of the process.

Q284. Mr Robertshaw: Chairman, who audits that?

905 **Mr Baker:** The business is fully audited by external auditors, but in terms of that process, it is part of the management job to –

Q285. Mr Robertshaw: But if there is a manual transmission from one system to the other, there is a potential for differences to occur. Who audits the accounts for the company?

910 **Mr Baker:** It is Crowe. There is a separation of duties as well, because the individual Mr Parsons was referring to is one of the admin staff, and then obviously there is a Finance Director in place, Mrs Bufton. As in most companies, there are processes going on, but part of the reason the accounts take the amount of work they do is because effectively we have the accounting system and the operational system, and it is that transfer, which is manual, and there is an opportunity
915 to speed things up.

Q286. Mr Robertshaw: And what is that opportunity?

920 **Mr Baker:** That is what we are –

Mr Parsons: Can I just ...? Sorry. Yes, they are working at the moment ... They are just completing a package, which I was in on last week, where it automatically will go into SAGE, so we are actually going to do away with that piece.

925 The issue we have is the system was put in 25 years ago and no money has been spent on it, so now there are upgrades to be done to it and we need to spend a little bit of money for this package.

Q287. Mr Robertshaw: That answers the question nicely, thank you very much. So, it will be fluid –

930 **Mr Parsons:** Fluid, straight through.

Mr Robertshaw: – without any manual intervention?

935 **Mr Parsons:** Nothing at all.

Mr Robertshaw: That is fine.
Chair, can we move on to marketing and sales now?

940 **Q288. The Chairman:** I was just going to touch on one query around the finances stuff again. With the low-margin, high-throughput nature of the business, do you get weekly reports from the on-the-ground function? We have spoken and done lots of research around this, and weekly reports seem to be something that would be fairly standard for a plant of this size, so that you are completely on top of those numbers, which I assume probably come out of some of these
945 machines. Is that something you would have, Mr Parsons?

Mr Parsons: I would look at yields, and then we would have discussions, obviously through the finance department, which we do weekly.

950 **Mr Baker:** And in terms of the sales side of it, because obviously this product needs converting into cash, Mr Parsons is extremely integrated in his way of working with our strategic sales partner, which is Northgate Foods, a UK-based meat specialist, and an individual there called ... Phil Woodfield? (**Mr Parsons:** Yes.) He is on the ground in the UK, driving sales and managing

955 customers, and is doing a really good job in opening up new opportunities and improving the pricing on our UK side of the business.

That is a strategic partner relationship, rather than having an employed sales manager in the UK. Again, that was a change that we brought in, probably about a year after the business restructuring took place, because we felt that we needed to be better in the UK. Roughly two thirds of the output from Isle of Man Meats goes into the UK market, and it has to be converted into cash. It is a very aggressive marketplace; you really need to be hungry and you need to be on the ground at the sharp end.

Q289. The Chairman: Does all off-Island meat go through Northgate now?

965 **Mr Baker:** It does now, yes.

Mr Parsons: Sorry, there is one exception. We have one customer who has a standing order, and it is the same ... Well, it varied, obviously, through COVID, but he has the same standard product every week.

970

Q290. The Chairman: Okay, and they are done on a commission basis?

Mr Parsons: Yes.

975 **Q291. The Chairman:** Is there a requirement on Northgate to promote Manx meat, or is it sold as just product?

Mr Parsons: He promotes. He physically drives round and speaks with new customers, potential customers, and sells, for us, Manx meat.

980

Mr Baker: One of the things that really attracted Northgate was the quality of the meat that is produced by the farmers on the Island, with the high herd and flock status, the low food miles, the traceability.

985 The quality of meat that is produced on this Island is exceptional and it has to be properly marketed. We have the balance between the resources in the UK and the fact that we are a tiny pinprick in the overall market, and also the need to actually sell what we have got. You cannot just keep it. You cannot come back to it in a month's time and sell it. It has to be converted into cash. It is about balancing those different parts of the market.

990 One of the key attractions was the quality of the meat, and that requires promoting and marketing out at the sharp end, and they are having some good success with that.

Q292. The Chairman: So, the Northgate commission is done on a percentage basis, or on a pounds per kilo ...?

995 **Mr Baker:** Pence per kilo.

Q293. The Chairman: Pence per kilo, okay, so it is not incentivised to get a higher return on it?

1000 **Mr Baker:** Not directly. They do not get more pence for getting a higher price, but they are driven to achieve the best price by their professionalism. They see themselves as an extension of Isle of Man Meats, and in the same way as you could recruit a sales manager, a sales manager does not necessarily get remunerated based on a higher price either, and indeed the model that Isle of Man Meats had pre-introducing Northgate was very much based on a day rate, a time-based charge, so that was not even based on how much volume was sold.

1005 When we first set the relationship up we did talk about incentivising them for a stronger margin performance, but actually I am very happy, with the way that Northgate Foods apply themselves, that they are motivated by being part of what they see as potentially a very good success story over time.

1010 **Q294. Mr Robertshaw:** I am not absolutely clear yet in my mind how Northgate functions. Do they specifically say to the ongoing recipient of the Manx product, 'This is Manx produce'?

Mr Parsons: Yes. That is what they sell. They sell our product for us, as Manx.

1015 **Q295. Mr Robertshaw:** Okay, and is it stamped or marked in any shape or form? Is the carcass, is the piece of meat marked in any shape or form that it is Manx?

Mr Parsons: Well, obviously, it has its label on that it is Manx, but discussion –

1020 **Q296. Mr Robertshaw:** What labels does it have?

Mr Parsons: It is on the carcass.

Q297. Mr Robertshaw: What does it say?

1025

Mr Parsons: It has that it is Manx meat on it.

Q298. Mr Robertshaw: Stamped on it?

1030 **Mr Baker:** It is physically stamped on it, yes. I know we did extend this invitation a couple of years ago and I know one or two Members have been, but if the Committee wishes to come and actually see the Meat Plant in operation to help contextualise this, we would be more than happy to facilitate that.

1035 **Q299. Mr Robertshaw:** Okay. I am just confused between the ... Is it simply because it is Manx that they are going to sell it, or is it ...? If there is no incentive for them to get a higher price, as you have just kindly explained, then what is the incentive for them?

1040 **Mr Baker:** The incentive for them is that (**Mr Parsons:** Quality product.) they are selling a quality product. They see it as a good opportunity for growth. They are earning revenue, but they are earning revenue based on what they sell in volume terms. If they do not do a good enough job for us, we are not bound to retain their services.

1045 I am sure you will agree, Mr Robertshaw, that not everything is motivated by having to get a slice or a cut of the margin. Many people will perform to the best of their ability just out of their professional standards and their pride in their job. Absolutely, I look these people in the eye and I am convinced that they will do the best job they possibly can.

Phil, you deal with them on a day-to-day basis. What would you say?

1050 **Mr Parsons:** I have dealt with them for years with other companies, and they are still dealing with those companies now.

At the beginning of the financial year we secured a reduction in their charges because obviously we were producing a quality product, which was helping them sell more from us.

1055 **Q300. Mr Robertshaw:** So, when it gets to the other end, is it still known as Manx produce?

Mr Parsons: It is stamped all over it. It has a stamp on it as well: it is Manx.

1060 **Mr Baker:** There are some customers that Northgate have opened up, who really value the quality and the attributes of the meat. There are other customers, who by necessity we have to have, who see it as a product that becomes just another source for them. (**Mr Parsons:** A commodity.) Yes.

Q301. Mr Robertshaw: What is the percentage? How much is identified as high-quality Manx, and how much, as you have just kindly described, is classed as commodity?

1065 **Mr Parsons:** I would have to come back to you with that sort of information, if you wish, but if we are looking –

Mr Robertshaw: Roughly speaking.

1070 **Mr Baker:** There are a couple of customers, really, two or three customers, aren't there, Phil?

1075 **Mr Parsons:** We have Davidson ... Really, if I were to look at the lamb job individually, that is a bigger commodity, so that would go through the likes of Weddel Swift. Really, in their eyes it is just a commodity, but for us to go out and find sales for another 40,000 lambs to the individual butcher would not work. They take volume, so we need to push it through to them, obviously, because we have volume this side to move. If you could change the structure, where I could kill and only sell it as Manx, I think you would be looking at a different scenario as farming.

1080 **Q302. Mr Robertshaw:** Well, talk to us more about that, then, in the light of both lamb and beef, in terms of what is coming down the track.

1085 **Mr Parsons:** Beef is not such a big issue with 5,000 animals, but if you look at lamb – and they all seem to come at once – you need the customer at the other end who is going to take them within that time period, to clear the product through a price for us, A to B, make money.

Q303. Mr Robertshaw: Okay, so, are you saying that, but for the reasons just described, in general terms lamb is a general commodity and the beef is seen to be a Manx product? Is that fair, or is that too much of a generalisation?

1090 **Mr Parsons:** In the numbers, yes, I agree with you, but we have done a deal over the last fortnight with somebody to push Manx lamb, and that is actually on Island as well.

Q304. Mr Robertshaw: That is separate to Northgate?

1095 **Mr Parsons:** Yes. On Island, we deal with.

Mr Robertshaw: Oh, on Island. I beg your pardon.

1100 **Mr Parsons:** On Island, we deal with. Everything across, we let them handle it, so there is no confusion.

1105 **Mr Baker:** If I could just add, Mr Robertshaw, the perceived value of Manx, clearly, in a local context is well understood, and we would love to sell everything that is produced here on Island because we are going to get the highest return and we are going to get the lowest cost to do that. The reality is we cannot do that because for lamb the volumes are so much greater, and on the beef you end up with being able to sell certain cuts. This is where the complexity comes in. Certain cuts you could probably sell 10, 20 or 50 times what we can actually produce; other cuts have to be effectively converted into cash as economically as possible.

1110 **Q305. Mr Robertshaw:** If the meat product is so well respected – as it should be – away, through Northgate, and Manx lamb, on the other hand, is a heavy burden on the market in limited time frames, is there not an argument for the company to consider separating the two off and getting an enhanced price for the Manx meat cattle product, beef product?

1115 **Mr Parsons:** That is what we are doing at the moment with Northgate. We are pushing through with them to raise prices and the profile of it across, but obviously we have just had over 12 months of restricted movement. Before COVID, I went across a couple of times to meet customers with Northgate.

1120 **Mr Baker:** When you say ‘separate off’, Mr Robertshaw, what is in your mind there? When Northgate are going out, they are effectively our representatives in the UK. If somebody wants to buy beef, or if they want to buy lamb, it is all part of the same trading relationship and most customers will be interested in both, so you would not separate the business into two divisions, for example. That is not –

1125 **Q306. Mr Robertshaw:** Well – Rob will come in, in a second – I thought, from what you had said, that there was cause to consider that, in the sense that lamb is a commodity and beef is an enhanced product identified as being Manx.

1130 **Mr Baker:** Mr Robertshaw, with respect, there is some really high-quality lamb on the Island and there is some really high-quality beef, but to say all lamb is commodity and all beef is premium is overstating it.

1135 **Mr Parsons:** That is my terminology, as a production person. To me, it is a commodity. As soon as that animal has passed over, it is a commodity meat to sell, and our biggest commodity is lamb.

Q307. Mr Mercer: I would just like to understand how you square volume production with quality. Isn’t it an either/or? If you are producing greater volume, aren’t you actually also requiring a greater degree of subvention?

1140 **Mr Baker:** The quality and volume is not a trade-off. The quality of our product is down to the quality of Manx farming. Manx farming is perfectly capable of producing very high-quality product, and it could produce more, as long as it has got a market for it. So, there is no trade-off there that says if we make more, they have to be poorer, if that is the supposition – that is what I interpreted from that.

1145 In terms of the volume and the subvention, that is a really pertinent point. The margins, in gross margin terms, are the thinnest of any business I have ever been part of, and that is a function of the fact that we are paying good prices back to the farmers, which is in line with the methodology that DEFA set when Isle of Man Meats was established back in 2018. So, we are not driving the price to the farmer down, as would be a normal commercial approach. Normally, you would squeeze your suppliers to buy the products as cheaply as you can, and then sell it for as much as you can in the market and widen that gap. We have an obligation to play fair by the agricultural sector. They need decent returns. The cost of producing product on the Isle of Man has a number of elements that are higher than other parts of the British Isles.

1150

1155 One of the dimensions we look at is to do with the decisions we make: what effect does it have on the supply chain back to the farmer? The other dimension is obviously the financial impact on the local food and hospitality sector, because we need a distinctive Manx food offering as part of the visitor proposition, in particular. And then the final thing is what is the impact on the trade in live shipping of animals off Island, because if an animal is bred on the Island, if it is not processed through the Meat Plant, then it will have to be shipped off Island.

1160 From a pure commercial point of view the business would not behave in the way that it does,
but it takes into account all of these wider parameters, Mr Mercer. It is beneficial for Isle of Man
Meats to be able to process more if farmers are producing more, and then we have to try to get
as positive a margin as we can in the marketplace, which has been a huge challenge, particularly
1165 in the last 12 months, with Brexit and COVID, which have radically changed the dynamics. We
could sit for another three hours and talk about the market effects of those two things. But there
is also a big fixed-cost element in the plant, just actually being there. It is a bit like any other entity
with an establishment cost and a production line. You have to have the physical space and you
have to have the people, irrespective of how many animals are going through. The challenge is for
us to get a sufficient sales price return that it brings incremental margin by selling more animals.
1170 The marginal cost of processing an additional animal is relatively minor, other than what we are
paying the farmer for it, so if we can drive the sales price up, we can make a positive margin and
that then reinforces ...

We have a 20% reduction in subvention per kilogram of output over the last two years. That is
significant. The challenge going forward is to drive our prices, in combination with Northgate and
1175 our on-Island retail and distribution partners, to get the optimal mix. That is really in amongst the
detail and the management team are really engaged with that.

Q308. Mr Mercer: Have we got historical figures going back further than two years for that
subvention per kilo?

1180 **Mr Baker:** It is worked on a rolling average basis, so that uses all the data from ... We have got
it since Isle of Man Meats took over, but it is on a rolling 12-month basis, so effectively that two-
year analysis covers three years, if you understand my logic, and the businesses has been going
three years. What the FMA had previously, I do not know.

1185 **Q309. The Chairman:** Just picking up on one of the points you made, one of the issues that was
raised by the FMA – I think this is back in 2011, or so – was around the challenge of ... Because the
subvention was not a guaranteed amount and was not coming in at guaranteed timeframes, it
made it incredibly difficult for the FMA to be able to actually schedule input into the plant. I know
1190 that we have had anecdotal information about slowing input into the plant earlier this year – for
similar reasons, actually – and I just wondered whether you had any comment on that. Obviously
there is an impact, potentially, on profit for the farmer because the animal is ready at a certain
point and if you miss that point you have to continue to feed and care for an animal that has
passed its peak. So, I would just be grateful for your observations on that.

1195 **Mr Baker:** There is little I can add, Mrs Barber, about 2011 and the FMA because I was not
there and I do not know, but I can understand the tone of that comment. Any business, whether
it is a publicly owned business or a privately owned business, the more certainty it has over its
financial position, the better. This is, indeed, one of the challenges that arm's-length entities that
1200 are subvented face and will continue to face. Whether it is Isle of Man Meats, the Airport or
anything else that Government puts at arm's length, unless you give the board and the
management team a reasonable amount of certainty over its finances, it is going to be difficult,
particularly when board directors have the fiduciary duties that directors have. Isle of Man
Government's budgeting and financial management arrangements do not lend themselves to this
1205 type of organisation and this type of arm's-length corporate body.

However, in terms of the particulars of Isle of Man Meats, we have, obviously, the relationship
with DEFA. DEFA made it quite clear how much subvention the business had to operate with, in
the last financial year – and you are quite right, we had to rebalance our inflow of livestock
towards the end of the year, to manage our way through the year end. But, like any other business
1210 with limited finances, you have got to steward what you have appropriately. Certainly, decisions
around the flow of animals through the business are taken absolutely with the wider interests of

Manx agriculture in mind. Again, if you were purely operating commercially, you would not worry about that sort of thing.

1215 We do recognise that farmers generally want to deliver their animals when they perceive them to be in optimal condition. It is not always possible to do that, and it is not always possible for customers to fit with the needs of the producers, so one of the prerequisites that DEFA set in establishing Isle of Man Meats was that we became far more market and customer led than producer led, which was a big change.

1220 Historically, the Fatstock Marketing Association had an obligation, as I understand it, to take any animal that a producer chose to send to them at the time that they were dictated to, so that was a production-led system. A very clear tenet of agricultural policy over recent years has been to move to a more market-led situation, not just in the Isle of Man but certainly in the British Isles. As part of it, we have moved to a different relationship with producers. We manage our supply chain as any other good business would do. I am sure Mr Robertshaw, in his days in the hospitality industry, would not have taken his deliveries of spirits when the distiller chose to send them; he would say, 'I am going to buy them according to when my customers are going to be coming to frequent my establishment.'

1230 **Mr Robertshaw:** My supplies were dead; they were not alive.

Mr Baker: So, we are basically running the business like any other business with a supply chain, and we are working with farmers to try to bring animals in, in a way which matches our customer demand but also is sensitive to their reasonable requests. It is a balance.

1235 Phil, you are engaged with the procurement team in that dialogue.

Mr Parsons: It was planned, at the end of the day. The year end was planned for us, to make sure that we got to the year end. There was not much disruption at all. When we called for numbers of lambs they actually were not ready or they were not there, so there was not that great a disruption.

1240

Q310. Mr Mercer: 'Production led' sounds like volume to me, and 'market led' does not sound like volume. Am I getting it wrong here? You can be market led and do volume?

1245 **Mr Baker:** Absolutely, yes, but there is no point producing something that nobody wants to buy, and, under the derogation and headage, that was the risk. There was a disconnect between the farming sector and what motivates them to produce, and the end customer – whether that be retail, hospitality or distribution – what they wanted to buy and when they wanted to buy it, importantly, because as Mr Parsons has said, a lot of the production matures at the same sort of time. There are different markets to go at, but fundamentally you need to work out what you think you can sell and then organise your business around that. In my view, any successful organisation is customer focused, not producer focused.

1250 But we can absolutely do volume. Since Isle of Man Meats has been in operation there has been more consistency of pricing to farmers. You may say I am biased, but, in my view, there is a lot more confidence around the countryside to start investing in farm businesses, and that is because there is confidence in Isle of Man Meats, which is integral to the supply chain. It delivers the product from farm to fork and the cash back to the farmer. That is what we are here to do.

1255

1260 **Q311. Mr Robertshaw:** If we can pursue the marketing side a little bit further, because obviously we are in a state of flux, having seen Brexit come and go, and significant change is expected in the market in terms of new engagements with Australia and the like ... I am coming back to the point that we touched on before. I think you – fairly – accuse me of being oversimplistic, where I was talking about lamb being a commodity and beef being a quality product. Forgive me, I had not intended it to sound quite as brutal as that, but if I can refine it a

1265 bit, it seems that in the beef sector – let’s stick to that, so that we can focus – there is both the routine commodity and there is the higher-quality product. Did I understand you correctly in what you said – that Northgate are actively now separating the basic non-identified commodity and the Manx higher-quality product; they are now pursuing both on our behalf? Is that correct, or incorrect?

1270 **Mr Parsons:** It is correct. They are pursuing both. When I talk of ‘commodity’, some of the cuts within the animals we have are the commodity. The trim, to me, is the commodity of that animal. We process a hundred animals a week. We are going into a market. They are processing 250 animals at some of these plants, so our push is for that quality at that site, but we are still going to have a commodity of trim and all the other cuts that just hit the market.

1275 **Q312. Mr Robertshaw:** It comes back to Rob’s point, this business about volume and quality and the impending challenge that is going to presumably – do tell me if I am wrong – develop in the market as the UK market becomes more exposed to new pricing offers from Australia and the like. What I am clumsily trying to get to here, I think, is: is it not going to be important for the future well-being of a small Island with a small sector that it pursues the concept of high-quality product if it is going to defend itself in the marketplace? We certainly will not be able to achieve continuance, short of significant subsidies, without adopting a very clear strategic approach to high-quality delivery.

1285 **Mr Baker:** Yes, to be fair, Mr Robertshaw, I think that is what we are doing, but I think the point Mr Parsons makes is that some of the cuts of the meat are perceived in the marketplace as commodity. Mince, for instance, is not something where you can as easily differentiate your product as perhaps some of your prime steaks, but the qualities that underpin Manx meat are being communicated to the customer. Both on Island and off Island we are trying to sell as much as we can into an informed, educated market, but there will always be a need for somebody to take the product that is left over, at a simplistic level, and convert it back into cash.

1290 Our positioning on Island is very much around a high quality, locally produced, and consumers should expect to pay more for that. We have some really developing conversations going with the leading retailers on the Island around some of the products we can put in, including mince; but even with that, we are going to differentiating it from the cheap and cheerful, if I can use that phrase. Consumers need to be educated as to what they are getting and why a price of a little bit more might actually be far better value than something that is perceived as cheap.

1295 So, it is about value, not cheapness, and we absolutely have to have the ability to communicate that to our customers. That is what Northgate give us across, and on Island we are working far closer than we have ever done before with the major retailers. The relationship with one of the major retailers was so broken when we talked about putting the Meat Plant out to tender that they said they had not even seen anybody from Isle of Man Meats for a year. This was back in 2016-17. Now we are working very much hand in glove, trying to find mutually beneficial opportunities for those people because they are our route to market.

1305 **Q313. Mr Robertshaw:** What is your assessment, Chairman, of where the market is likely to go in the next three to five years in the UK as a result of all these impending challenges to the market?

1310 **Mr Baker:** The challenges, Mr Robertshaw, are not impending; they are live and they have been live for the last two years at least. The market has been heavily disrupted by Brexit. Whatever your political view on Brexit is, it caused mayhem in the market, particularly with beef – Phil? – coming in from Ireland and being dumped.

1315 **Mr Parsons:** Ireland, yes, processed quickly to get it dumped prior to Brexit; lambs being returned from some of the major producers at the border for paperwork being incorrect. The

paperwork was changing that quickly they could never keep up, so that had a major effect as well at certain times. We had more lambs hit back on the market.

1320 **Mr Baker:** The reality is the market has been tough and it is going to stay tough. It is about having a quality management team, a real focus and some agility. We are small enough to be able to have those attributes, but we are going to have to work really hard. Nobody is going to put this on a plate for us. *(Laughter)*

1325 **Mr Robertshaw:** You couldn't help yourself there!

Mr Baker: Natural, Mr Robertshaw! *(Laughter)*

1330 **Q314. Mr Robertshaw:** To recap on this element, I think we have agreed, have we not, that you are going to come back to us – forgive me if I have got this wrong – and you are going to try and identify the degree to which, on the beef side, there is determination on the part of Northgate to specifically identify the Manx product as such, and what percentage is going out as a general 'commodity'? I think you were going to try and find that out for us.

1335 **Mr Baker:** We will write to you, Mr Robertshaw, to clarify that. We will need input from Northgate, but I am sure we can clarify that.

Mr Parsons: He is listening.

1340 **Mr Robertshaw:** Good afternoon, whoever you are.

1345 **Q315. The Chairman:** We have talked about the Agriculture and Horticulture Development Board (AHDB) pricing, which I think we recognise has been very much welcomed, but then, from a business perspective, there is also that important acknowledgement that that makes trading harder for you to realise the asset, essentially. Is it the case that the subvention is being used to subsidise unsustainable producer pricing in reality, in simplistic terms?

1350 **Mr Baker:** I would not say it is unsustainable. Those were the rules of the game that we were set, so when the decision was made to set up Isle of Man Meats, there was, effectively, a user agreement set between DEFA and Isle of Man Meats, in a very similar way to which ... We are all familiar with the Steam Packet arrangement, where you have a monopoly asset, in terms of the linkspan, and you are putting conditions on the operator to use it, and if they do not comply with those conditions, they do not get to use it any longer.

1355 Isle of Man Meats is the operator of the monopoly Meat Plant on the Island. It also requires a level of funding, and the rules of the game that were set out were that we had to maintain, at least for the first year, a defined methodology around the payments to the producer. That included the linkage to AHDB prices and the specific deductions that come off that for the various different elements – that is the way the industry works; it makes deductions for different elements – and that was linked to DEFA's willingness to provide subvention. If DEFA did not require that level of pricing, then it would not necessarily need the same level of subvention support.

1360 The business is not sustainable without ongoing subvention, so if the shareholder wished to play tunes on that and say, 'We want to carve it up slightly differently,' it could be done, but there would need to be a considered approach to it. At the moment, we have a level of subvention that is relatively stable and we have some pricing that is relatively stable, and those are the rules within which the business, the board and the management team are operating.

1365 **Q316. The Chairman:** Do you believe the Meat Plant could ever be sustainable without a subvention?

Mr Baker: Ever is a very long time, Mrs Barber, isn't it?

1370 **Q317. The Chairman:** In your five-year plan, 10-year plan, 20-year plan? *(Laughter)*

Mr Parsons: That's my lifetime plan!

1375 **The Chairman:** A lifetime in the plan only, Mr Parsons – don't write yourself off yet!

Mr Baker: If you look at it very simplistically, the business turns over around about £8 million of revenue and it has a subvention of around about £2 million. So, if you were saying that Isle of Man Meats needed to be self-funding, it would need to find another £2 million of revenue, essentially, at the same activity level without incurring any extra costs.

1380 How could it do that? There are only really two things it could do. It could try to increase its selling prices. We are in a very competitive market, and whilst the challenge to the sales team and the management team is to eke out as much as they can, it is not realistic to think that you could get another £2 million of sales revenue for the same volume. So, you turn it round the other way and start looking down back down the supply chain and say, 'Can you squeeze £2 million out of the farming community?' and the answer to that is if you were to do that, you would cause devastation of Manx agriculture and you would destroy the thing that we are here to serve, so I do not see that as being the right way to go either.

1385 If the Isle of Man wants to have a healthy agricultural sector, it needs a Meat Plant. If it needs a Meat Plant, then it has to be funded correctly. Of course, there is room for improvement in performance. That is the challenge of the board to the management team, and it is a challenge the management team is up for, but we were in a market ... Let's be really clear, Mrs Barber: Isle of Man Meats, if it were located in any part of the British Isles other than a part that is surrounded by sea, with a long boat journey, would no longer exist. It would have been consolidated many years ago into one of the major multiple meat processors. I would contend that that would have been a very bad thing for the Isle of Man. Manx agriculture would have no real future and, equally importantly, it would have a knock-on effect on the landscape, on our visitor proposition and on what the Isle of Man is, and I think that would destroy a huge amount of value.

1395 The other point that people do not always recognise is that the money that comes from Government is matched not just by money going back to Government in terms of rent, rates, ITIP and National Insurance, but also purchases into the local economy. All the meat that Isle of Man Meats buys of course comes from local producers, by definition, but also most services. Our distribution services are provided by Trade Distribution, part of the Heron and Brearley group. Our maintenance is done by reputable local electrical firms and plumbing firms. From memory, I think it was over 200 local suppliers when we did a –

1400 **Mr Parsons:** It was 220 suppliers, yes.

Mr Baker: So, money is going back in –

1410 **Q318. Mr Robertshaw:** Can I cut you short? I think it is important for the Committee to say, and have it on record, that we are incredibly supportive of the importance of all of this. Do not see us as somehow a critical group who want to rip this apart and prove it inappropriate. I think you are preaching to the converted here.

1415 **Mr Baker:** Thank you. That is greatly appreciated because, obviously, from Isle of Man Meats' point of view, we are hugely committed to what we are trying to do. We are trying to do something for the best interests of the Isle of Man. From a personal point of view, I stepped into this role because I thought I could add some value to it, and I believe I have done. The whole team is hugely

1420 committed, so it is really reassuring. I appreciate you putting that on *Hansard*, as you have done, Mr Robertshaw.

Mr Robertshaw: Indeed.

1425 **Q319. The Chairman:** Yes, I think that is certainly something we have said in previous hearings. We are certainly not suggesting that we should not have a Meat Plant. We want to make sure that the Meat Plant is right for the Island, but we recognise very clearly the need for it.

1430 Just to expand slightly on that, one of the concerns, which I know you are aware has been raised with us from a number of areas, is around the AHDB pricing. You touched on those deductions and things around the distribution charge and the marketing levy. How can you, as an organisation, provide the assurance to those producers you are purchasing from that those would not be used as levers if you were in a financially difficult situation? How do you demonstrate exactly what you get for the price that is taken in deduction?

1435 **Mr Baker:** They are part of the company's terms and conditions of trade, so they are spelt out and are explicit. This is no different from what other meat businesses would be doing. They are part of the trade, effectively, between the producer and the business.

1440 You can do your pricing in many different ways. Our analysis shows that we deliver a very high percentage of UK equivalency, and that is after those charges. We make those charges explicit, in the same way as when one goes on an airline – if you do not want to pay the baggage charge, do not take any bags. If you want to trade with an airline, you pay the prices for the service that you want, and the service that Isle of Man Meats offers predominantly is a full service which takes the animal from the farmer, processes it, distributes it, markets it and sells it, and returns that cash back to the farmer.

1445 There is some confusion in some people's minds around the haulage-in charge, because we actually act as agents, effectively collecting those charges for the hauliers, who are independent entities. That money does not benefit Isle of Man Meats whatsoever. It is a completely separate thing, but it is a source of confusion.

1450 **Q320. The Chairman:** Is that the £25 per –?

Mr Baker: It is the haulage in.

Mr Parsons: Haulage in. We provide a service to –

1455 **Q321. The Chairman:** Okay, maybe it is the delivery charge I am thinking of.

Mr Baker: The delivery charge predominantly applies to producers who use the home kill service or the business kill service, where –

1460 **Mr Parsons:** It is optional.

1465 **Mr Baker:** It is optional because they could collect the animal and distribute it themselves if they wished. We have benchmarked with other delivery companies on the Island and the charge is very reasonable, particularly as it is temperature controlled. The small number of producers who are using the business kill service for running their business are paying a modest kill charge and then they pay a delivery charge. It is a different trading relationship than most producers have, albeit I do recognise that for some producers it is the business model that they are quite invested in, and that may be where you have got your information on that one from.

1470 We are taking the animal, we are processing it and we are shipping it either to the customers
on Island or to the customers in the UK. We have a sales cost for our sales team through Northgate
in the UK and the marketing activity that we do as well.

1475 Ultimately, our accounts are a matter of public record. They were laid before Tynwald along
with the rest of the Government Accounts fairly recently, and that is the level of transparency.
There are some who do not believe that is sufficiently transparent. I would completely disagree
with that statement. We are not owned by the producers; we are an arm's-length entity. We
behave in a proper, professional way. The terms are all transparent and the accounts are there.

Q322. Mr Robertshaw: I have just two more points, Chair.

1480 A little bit more clarity – you very kindly explained earlier on about how the tracing system for
the goods going through the plant transfers currently to SAGE on a manual basis, but that you
have plans to automate it so it is an automatic transfer. Could you give me some sort of, first of
all, timescale on when you hope that is going to happen? Is it imminent?

1485 **Mr Parsons:** It is imminent, yes. We had the first demonstration last week, so we are just
waiting to ... There is somebody on holiday and we wanted to go back and make sure they are
included in it. I would say over the next three months.

1490 **Q323. Mr Robertshaw:** And can the Committee understand that this auto transfer will permit
the traceability to be made self-evident to the end user, so that if something is deemed to be
Manx, not only is it stamped but the accounting process can take you almost back to the farm? Is
that the degree of information transfer you are hoping to see across the system?

1495 **Mr Parsons:** We can, anyway, now. We quite often get customers from across wanting the
details of the animals they have bought, and we do that through that system. It does it already.
What we would do on that is look at their invoice and have to do the trace back via the system.

1500 **Q324. Mr Robertshaw:** But what I am saying is once you go automated, that information will
automatically be available; you will not have to manually override the system to answer that
question.

Mr Parsons: No, it would not put batch numbers on the invoice, if I am picking you up correctly.

1505 **Mr Baker:** Yes, the SAGE system is a standard accounting system. I am sure you are familiar
with it –

Mr Robertshaw: Yes, that is why I am asking.

1510 **Mr Baker:** What we have effectively got is what I would describe as a manual journal process
to journal data out of the core operation system into the accounting system. That is not an unusual
situation in many businesses, and I am just looking at can there be more integration to feed the
accounting system, but the traceability is there operationally, in terms of the animals, and we are
not going to be taking that data into the accounting system.

1515 **Q325. Mr Robertshaw:** A wild card, just for fun at the end, from my perspective: the loss of
derogation came about because of matters way outside of our control; we all know that. We are
in a different world now. Are there any elements that you guys consider could be reviewed and
looked at again, in terms of ...? Do we simply accept the history of that whole process because we
were part of the EU? Does the new environment we are in give us any new opportunities to rethink
some of that?

1520 **Mr Baker:** That is a very broad but pertinent question, Mr Robertshaw, and I think from an Isle
of Man Meats point of view, if I can answer that, really we will operate within the parameters that
are set for us within wider agricultural policy. I think the DEFA Minister would be the appropriate
1525 person to talk about that particular policy direction, but if I were speculating I would suggest that
the consequences of trying to re-impose derogation on the Island – (**Mr Robertshaw:** Partial.)
Partial. I think we have to accept that there would be consequences the other way. I think the Isle
of Man often can see an opportunity but does not necessarily want the consequences of that
opportunity.

1530 What actually is derogation? It is all about free movement of goods and services and people
within a wider entity. I find it very difficult to see that the UK would be comfortable with the Isle
of Man preventing a fair flow of goods and services into the Island but at the same time wanting
free access to the UK markets. I just do not see that that would stand any kind of reasonableness
test, and I think if you look on a wider platform it would be the same thing. So, I think it is an
academic subject, but it is one that I am sure any future DEFA Minister would wish to look at.

1535 Of course, policy should adapt as circumstances change, but there are a number of people in
the local farming community who have consistently said that we should go back to derogation.
They are very much in the minority, but they tend to have quite a profile as individuals. The view
particularly from the younger and more progressive elements in the farming community is that
everybody has to operate in a competitive market and we need to adapt our business models to
do that.

1540

Mr Robertshaw: I think it needed to be asked anyway. That is me finished.

1545 **Q326. The Chairman:** I suppose my only ... and it ties in with that question. Obviously, the
subvention is of a reasonably significant amount for an arm's-length company of Government,
and I just wonder what your comment would be around the fact that quite a significant proportion
of that meat is then being sold into the UK markets, so we are not seeing the tangible benefit of
that really high-quality product on the Island. I would just be interested to know your thoughts.

1550 **Mr Baker:** I would implore the people of the Isle of Man to eat more beef and more lamb
because it is great, but I suspect, particularly with your health context, Mrs Barber, you would be
saying it is not a very balanced diet to be eating red meat all the time.

1555 Our number-one objective would be to grow the local market. We are working really closely
with our retail distribution and wholesale partners on the Island to do that, but there is a limit to
how much red meat could be consumed by the people of the Isle of Man, particularly on the lamb
side, which is the point you made earlier, Phil.

1560 **Mr Parsons:** Yes, especially as they all want the same cut at the same time. We have two
customers who, if I were to supply them with everything they require of these two certain cuts, I
would probably have to do about 400 cattle a week, and then we would have all the imbalance of
everything else – which, as I explained to you before, was my commodity, which is a part of the
imbalance, the trim and everything else that we would have to sell.

1565 **Q327. The Chairman:** Okay. That is quite interesting, actually, because I notice that in the
MNFU submission – which is on their website – to this Committee, they talked about the fact that
essentially, if you look at local production versus consumption, we would be 140% self-sufficient
in lamb and 89% self-sufficient in beef, based on current consumption. But one assumes that is
not taking into account those differences in cuts.

1570 I do not know whether you would be able to provide any analysis to the Committee after this
that gives us a little bit better understanding that is not captured within the NFU submission. If
you could, we would be grateful for anything you have.

Mr Baker: We will certainly reflect on that. I am sure that the people at the MNFU would be happy as well to elaborate on that if you were to ask them. When we write to you on the other matter that you asked us about, we will try and explain as best we can about that.

1575 Some of the thinking around what you have just touched on is underpinning where we are trying to go with the business next, so the mince and diced product lines are areas of growth which would allow us to use more of the product that is currently being exported, using it on Island by effectively making it into a product that local consumers would buy, and substitute imports. But obviously the needs of our customer base require us to operate differently around those things, 1580 so most minced and diced product is bought pre-packaged in suitable containers and with the suitable gas envelopment around the product to preserve its shelf life, which we are all familiar with from the shelves in the supermarkets. In order to deliver that sort of product, we need to invest in the business and we are on with doing that.

1585 One final comment I would make about the exporting is many businesses on the Isle of Man are lauded for how much exporting they do and bringing revenue back to the Island by exporting their product or service, so it is not all negative. I think we are looking at it as if exporting is a bad thing, but actually it is bringing cash back into the Island from other jurisdictions. I shall leave you with that thought. It is a fairly nuanced conversation, I think, around some of this.

1590 **Mr Parsons:** If I can just add that, based on your comments, we are actually working with one supermarket now where you cannot get lamb mince on the Island, but they only want legs, so we are actually working with them, where they are going to take the whole animal, and then we are going to sit down and make sure that we can give them everything that they want out of it. Small steps: they are going to start with 100-150 a week, but they want to grow on that because they 1595 see the need for a product, Manx lamb legs, which we do not do because we cannot move the trim away, so they are quite prepared to take the whole lot as a process.

The Chairman: Everyone happy?

I would like to thank you for your time today, and the Committee will now sit in private.

1600

Mr Baker: Thank you.

The Committee sat in private at 12.37 p.m.