

Bullish Prospects

A vision for the beef industry



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We believe that livestock farmers in the UK produce some of the best beef in the world while delivering a whole host of public goods. They also manage the landscape of much of the most attractive and environmentally sensitive areas of our countryside and are the economic backbone of many rural communities.

Prospects for the beef industry are positive. World population is predicted to increase along with demand for red meat, especially from the developing economies in the Far East.

As a strong grass growing nation, the UK beef industry is ideally placed to respond to these bullish market signals. British farmers have the ability to sustainably increase production to meet the growing global demand. We produce a quality product in a welfare conscious and environmentally responsible manner.

Despite recent price rises and a better medium term outlook, there are still challenges ahead for the beef industry. Whether in the economics of production, the changing face of regulation, the management of animal health and welfare standards or the continued stewardship of the natural environment.

The NFU livestock board and beef group membership recognise that the NFU has a key role in setting out the challenges and the opportunities ahead. We have compiled this report to outline the opportunities and challenges ahead and to stimulate debate on how the cattle industry, beef supply chain, government and other bodies could address these issues.

This document is not intended as a blueprint for the development of the industry. There can be no one all-encompassing strategy for such a diverse sector. Nor will it answer every question, there are still many unknowns.

What is certain is that UK livestock farmers will continue to demonstrate diversity and resourcefulness in responding to the challenges ahead.



Charles Sercombe
NFU Livestock Board Chairman



Andy Foot
NFU Beef Group Chairman



The factors which will shape the overall future of the UK livestock industry will largely be outside the control of individual farmers. Global market demands, efficiency pressure in the face of supplier and customer consolidation, animal health challenges and environmental policy drivers will all play a role in driving the direction of the sector.

It's impossible to predict precisely what form these challenges will take, but realistic forecasts can be made on the following:

1. The world population will increase with the United Nations estimating that we will need to feed an extra 761 million people between 2010 and 2020¹.
2. Global demand for beef will rise along with per capita consumption of beef growing. OECD-FAO forecasts indicate a 5% increase in per capita beef consumption to 2020, with world consumption rising by 14% and that of developing countries by 18%².
3. All else being equal, prices should remain firm when compared to historic levels. Current supplies of beef are tight on world markets, driving price. Restoring the depleted supply base to respond to these firm prices will take some time and against robust demand forecasts, should keep prices buoyant in the medium term.
4. Trade liberalisation means that export opportunities will continue to open. Beef exports more than doubled between 2006 and 2011 with EU countries taking the vast majority of UK beef. However, exports to third countries also present strong opportunities as well as having the potential to boost the value of the fifth quarter.
5. Domestic red meat consumption will be tested through price pressure, lifestyle changes and campaigns from NGOs and consumer groups on diet and the sustainability of production.
6. Farm input costs will remain challenging. Despite better returns of late, key farm costs have risen over the last few years and are expected to remain cyclically high for the foreseeable future.
7. The sector faces a continual squeeze between high costs and consumer demands for affordable meat. Regrettably, the majority of beef producers still use support payments to bridge the income gap.
8. Levels of support will decline and CAP payments will come with more obligations relating to the environment, production systems and traceability.
9. New cattle diseases will arise and existing animal health issues will continue to put pressure on farm margins. Exotic disease surveillance and successful endemic disease eradication programmes will be fundamental to securing a healthy future for UK beef production.

Our vision is of a profitable, market driven, internationally competitive and sustainable beef industry in the UK which is attractive for the next generation to build a career in. An industry that is equipped to meet the challenges and take advantages of the opportunities the future will present.

We currently have a large, relatively affluent market on the doorstep, high standards of animal welfare, environmentally sustainable production systems and a processing industry able to meet the challenge of increased demand. To continue to grasp the opportunities, the UK beef industry needs to stay competitive and this will take coordination and confidence.

How do we achieve this vision?

Our vision will only be achieved by all players taking a long term view and investing in the future of the industry. A strong and healthy UK beef production base, able to meet customer demand, benefits everyone in the supply chain along with government and the general public.

In order to stimulate debate in the future, we have outlined what we think must be priorities for all stakeholders in the industry and we intend to review these periodically to assess what has changed and what still needs to be done.

We believe the opportunities are out there to be taken at every step of the supply chain The NFU is keen to tackle the challenges that lie ahead along with partners throughout the industry on behalf of our farmer members.



NFU

- Champion beef production and livestock farming
- Work to eradicate bovine TB from England and Wales and help to focus efforts to address production related diseases
- Fight for a CAP reform in the best interests of the livestock farmer
- Ensure that the livestock industry does not pick up the bill for government cuts

Farmers

- Continue to focus on efficiencies improving farm management, increasing output per head and reducing carbon emissions
- Make full use of marketing, research and technical publications freely available and feed in requests for research to levy bodies
- Work with buyers to produce what the market requires whether in specification or quality

Processors

- Continue to innovate on domestic markets and enthusiastically explore export markets
- Work closely with supply base to provide the right signals to farmers in specification and quality while using technological developments to improve feedback to farmers
- Work with all parties in the chain, including producer marketing groups to reduce the inherent risk to the farmer and safeguard sustainable British supply

Retailers

- Increase British sourcing and work to build long term relationships with suppliers, not solely driven by the lowest price
- Recognise that demands on a fragmented supply chain not linked to genuine price incentives for increased standards are unrealistic and will meet with industry resistance
- Look at new ways of driving beef sales, not solely driven by price promotion, engaging with industry initiatives such as Great British Beef Week
- Ensure packaging is not misleading to consumers. Where it can clearly include the Red Tractor it should

Auction Marts

- Continue to provide flexibility to farmers to achieve a fair price for a variety of classes and levels of finish of livestock
- Help farmers to control the spread of TB by providing the best available information at sale

Food Service

- Ensure menu offer provides a choice that promotes and includes British beef
- Promote provenance including Red Tractor at point of sale

Red Tractor

- Explore better ways of demonstrating the value of farm assurance to the farmer
- Reassure the consumer that the scheme has integrity and value to them in their shopping decisions

Government and agencies

- Ensure that regulation and service provision is delivered in the most efficient way for government and business and examine how red tape can be cut faster
- Support industry in taking more responsibility for dealing with animal health issues
- Support British produce by ensuring that Government Buying Standards are adhered to across all departments

Animal Health & Welfare Board for England (AHWBE)

- Focus on improving operations, doing things better and more efficiently in a way that does not lead to a palpable drop in animal disease safeguards or industry being charged for official service delivery
- Make full use of the concept of earned recognition without compromising the integrity and purpose of farm assurance
- Support industry in the development of programmes to address production related diseases

Agriculture & Horticulture Development Board (AHDB)

- Work to promote our beef products, domestically and around the world
- Continue to help the trade open up new export markets
- Ensure a fair balance of near market research between the beef and sheep sectors and effectively disseminate this knowledge to farmers
- Work to help industry fully utilise future technological developments



To achieve this vision, everyone in the supply chain must recognise and address the challenges ahead in a way that drives the industry forward and leaves it in a stronger position. We believe there are several key elements that must be addressed for a brighter future:

1. **A competitive beef supply chain.** Everyone in the chain needs to achieve a fair return on their investment. The biggest challenge for farmers facing high input prices is to convert as much of that return into profit. As well as a fair slice, we also need to grow the pie. This will require a focus on consistency and quality, innovation in the processing and retail sectors, enthusiasm to boost exports and a move away from short term thinking.
2. **Animal health and welfare.** TB is one of the biggest challenges facing the cattle industry at present. It affects the free movement of livestock, costing farm businesses and government significant amounts of money, resulting in the premature slaughter of over 30,000 cattle every year. However there are many other health and welfare considerations which can affect production, and returns. Farmers, government, industry organisations along with the wider supply chain have a role to play in addressing these challenges.
3. **Consumer perception.** The beef industry has a positive tale to tell, becoming increasingly environmentally efficient with high standards of animal welfare in production systems. We produce a sought after product while also managing some of the most valued landscapes and environmentally sensitive habitats in the country. Ensuring these messages are heard is a challenge for all involved in livestock production. Decisions made in the supply chain must be science led and driven by the best interests of the animal, product and industry.
4. **Regulation.** Appropriate regulation and oversight can be a benefit to industry, demonstrating high standards of production, safeguarding the industry against disease and reassuring export markets. Many beef farmers run small businesses on small margins and regulation must be appropriate. Cuts in government budgets will increase the drive to transfer costs to industry. Government must work with industry to explore better and more efficient ways of regulation in the future, including the concept of earned recognition.
5. **Common Agricultural Policy.** The wider NFU vision for the CAP is of a regime that allows farmers to focus on the market while providing a buffer against volatility. A significant amount of the overall earnings for a livestock factor are still provided by the single payment and agri-environment payments. Any reform which reduces funding or increases the restrictions on farm activity will have a direct impact on the viability of beef farms across the country. The NFU is committed to working toward a simple and common CAP.

Successful resolution of these five points is fundamental to achieving the vision. Some of the solutions are in the hands of the NFU or farmers themselves, but many will require government intervention or the work of others in the chain, including AHDB. Where possible in this document we have set out what needs to change to inject the confidence and coordination necessary to address the challenges identified.

Producing for the market

The success of any business strategy first involves understanding your market. AHDB statistics state that the 935,000 tonnes of beef produced in the UK in 2011 was joined by 381,000 tonnes of imported product. Of this total, 1,142,000 tonnes was consumed in this country and 174,000 tonnes was exported, a figure which has grown year on year since 2006.

Despite the majority of production being consumed domestically, the main drivers of UK beef price over the last year have come from increased access to international markets, coupled with the decline in challenge from third countries on the back of a fall in cattle numbers. While imports to the UK have remained largely stable, making up less than a quarter of beef consumed, exports have risen substantially as world supplies of beef tightened, barriers put in place due to BSE concerns were gradually lifted and Sterling weakened.

The Netherlands are our largest export market, buying 39% of UK beef exports to the EU. AHDB figures show the Republic of Ireland is the next main export market for the UK, taking over a quarter of all UK beef exports to the EU, largely due to trade from Northern Ireland and the Anglo-Irish processing industry. Ireland is also the main beef importer into the UK, sending more product than all other countries combined. Most of the meat exported to Ireland and the Netherlands will be subject to further processing before being sold on to other countries. There should be more detailed investigations as to the final destination of these exports with a view to whether more value could be added in the UK.

Exports to third countries are substantially behind volumes sold into the EU, but are increasing. China and Russia present strong opportunities in the future along with many other countries which demand parts of the animal not consumed on home markets, acting to boost the overall carcass value.

In this area there is still much to be achieved. The support and coordination of the English Beef and Lamb Executive (EBLEX) to help plants take advantage of commercial opportunities for the fifth quarter in third countries would add more value into the entire chain. Work driven by EBLEX to assist export marketing across the UK processing industry has potential to add further value to cattle prices and should be fully supported by government departments.

The future volatility of exchange rates and susceptibility to Eurozone weakness in the next year are a risk to the sector and factors that aren't easy to address, posing questions on whether we should fully rely on an export-led strategy. Putting aside Eurozone failures, although favourable exchange rates have been pivotal in reducing exposure to imports and increasing the competitiveness of exports, it should be noted that even in periods where Sterling was strong, beef exports showed growth.

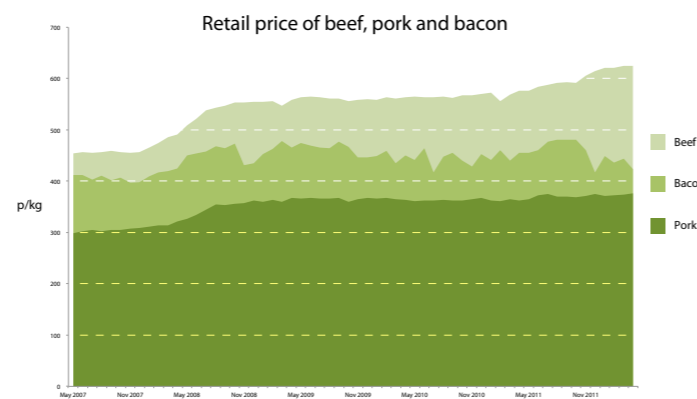
The EU is a valuable market and the threat of increased imports from third countries will be ever present. WTO trade liberalisation talks and bilateral negotiations such as the current Mercosur discussions could lead to more challenges from the rest of the world, which view the EU as a long term net importer of beef. Our consumers will also be challenged by importers to accept production practices used widely in the rest of the world but rejected in the EU, such as hormone treatments. Resistance to this will insulate domestic production, but with a growing population, these global pressures are unlikely to subside.

Balancing value and affordability

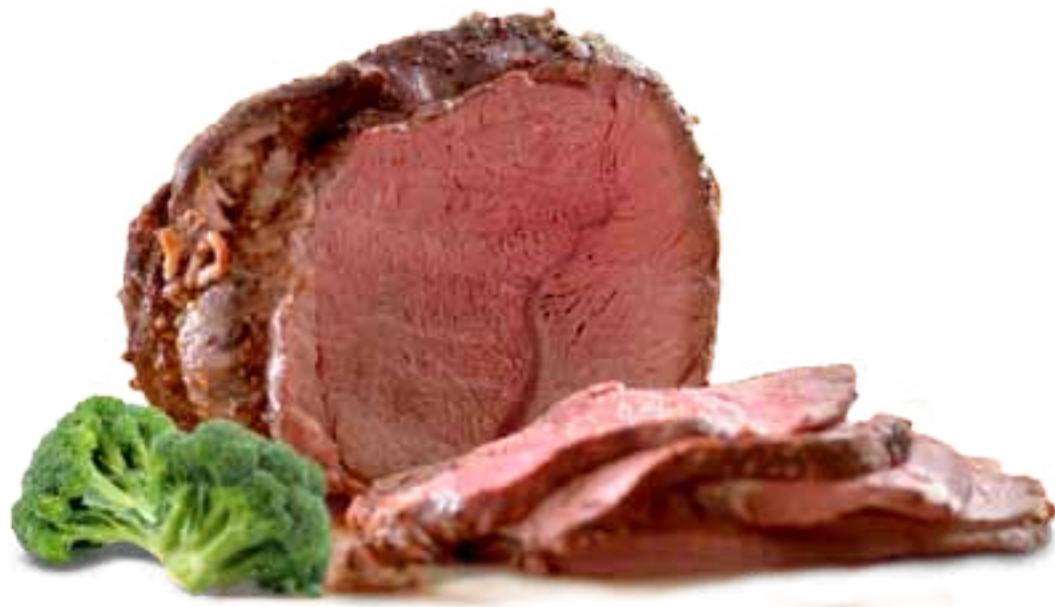
Although robust export markets are an important driver of price, volume is driven by domestic demand and the needs and wants of the UK consumer.

Quality and price are still the two most important factors for UK consumers when it comes to choosing meat. As would be expected, 59 per cent of shoppers in an IGD survey in February 2012³ responded that their biggest shopping priority is how much money they spend on their food. However even in a time of economic uncertainty, a third of shoppers still ranked quality above price.

Despite the rise in nominal output prices for beef, the real price, adjusted for inflation has actually fallen compared to historic levels in the early 1990's, making beef better value over time. However, when compared to alternative protein sources, beef has become less competitive, encouraging people to switch, especially in the current economic climate.



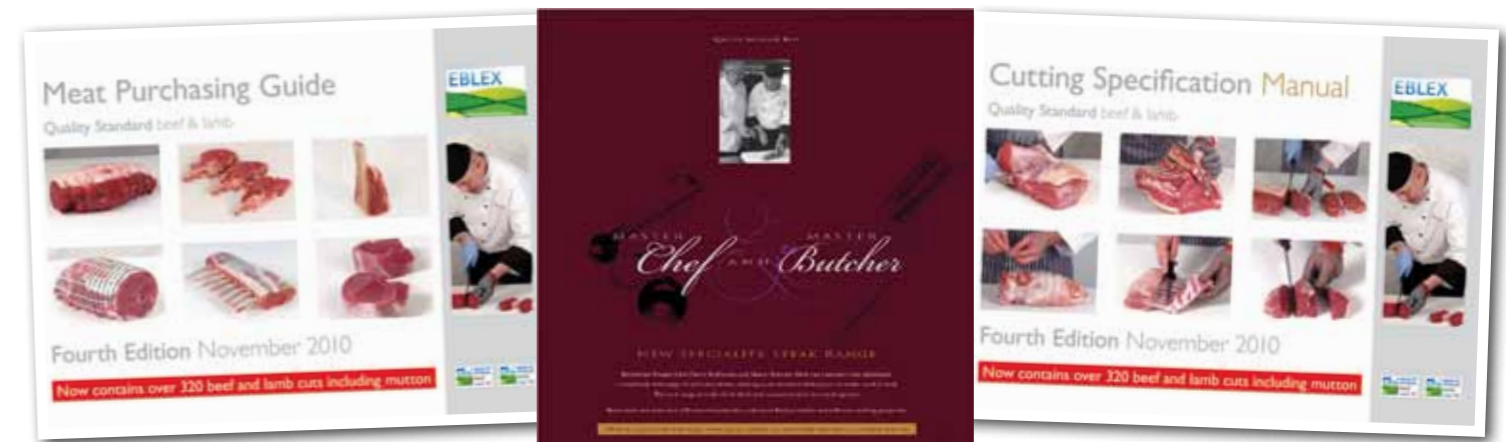
A strong retail price is not a challenge that can be swiftly tackled at a producer level. Supply will respond to price incentives, especially if these lead to better farm returns but this may take several years to build production capacity. At the moment, increases in the cost of production are eroding any improvement in returns seen from improved prices.



The decline in UK cattle numbers and the tight domestic supply situation has also been driven by the contraction in the dairy herd which supplies over 50 per cent of UK beef production. A further drop in dairy cow numbers would reduce both cow and prime cattle beef supply.

Addressing affordability will require processors to continue to innovate with new cuts of meat to achieve better quality, yield and balance from a carcass, presenting the meat at a more affordable price point. It will require retailers to develop long term strategies to improve sustainable supply, moving away from the traditional short term promotional practices of discounting to market through volume as both domestic and global supply is tight and no-one in the chain can afford to sacrifice margins to drive volume. Finally, it will require both food service companies and retailers to introduce and educate consumers on how to enjoy alternative beef products and recipes.

EBLEX have already done a significant volume of work with the supply chain in this area, developing the Meat Purchasing Guide and Cutting Specification Manual along with a host of speciality cutting guides and working to increase the value of all parts of the carcass. We would encourage all in the trade to make full use of this resource.



While beef may be challenged against other protein sources on price per kilo, Kantar data suggests that a purchase of beef directly leads on to a greater spend on associated products e.g. potatoes and other vegetables, Yorkshire puddings or their ingredients etc. than other types of meat and so the net benefit to the retailer is higher. This suggests that there is scope for cross promotions to assure the affordability of beef in shops.

The route to market

To bring us full circle, the UK still produces less beef than it consumes, and with a growing export market, long term beef consumption trends are not constraining the beef industry at this point, despite evidence that some consumers are challenged on price.

Beef prices are driven by global supply and demand so are rarely within the absolute control of the farmer who is generally a price taker. However, beef farmers have a wide array of marketing options and are not generally subject to the restrictive contracts seen in other sectors. Channels include selling liveweight or deadweight, the choice of processor or livestock market to supply and the contractual arrangement to supply under.

Collaborative arrangements between groups of farmers and with processors can provide collective bargaining power in negotiating input costs and output prices, improving returns for primary producers. Producer groups can also assist in logistics, management, insurance and sourcing as well as finding a market for the full range of livestock a farm will produce. Well run groups provide value to both farmer and processor and the NFU would like to see these arrangements thrive and play their part in efficiently communicating market requirements. We believe there are opportunities out there to benefit from further collaboration and the use of risk management tools such as forward contracts and hedging of inputs.

There are also good examples of innovative integrated supply chains in the beef industry where the producer is paid on margin basis, reducing the risk of poor returns and potential volatility for individual farmers. Although not for everyone, these schemes can be used to enhance security of income for the farmers involved and security of supply for the processor, retailer or food business. There are some examples of these initiatives working well, for all concerned and more of these schemes would be welcomed.

Both farmers and processors run on tight margins and there is scope to work together. We need an efficient, competitive processing industry, in touch with the primary producer, able to market products worldwide and invest in the future to process and add value to our raw product. Nevertheless, further consolidation of the processing and retail sector may lead to a limited choice of mainstream buyers for farmers and inequitable relationships developing, so any acquisitions must be carefully scrutinised.

Flying the flag

There is a great opportunity for all involved in the beef supply chain to market product on its inherent credentials. IGD figures⁴ show that demand for British and locally sourced products continues to grow. Buying from local or British producers has now become the most important ethical criteria for shoppers and more than four in ten shoppers state they are prepared to pay extra for locally produced foods, giving great scope for business growth.

Against this consumer demand, AHDB figures show that in 2010 only 46 per cent of beef sold as processed meat is British and just 27 per cent of foodservice beef is domestically sourced⁵.



Approximately 85 per cent of fresh and frozen beef bought at retail is British produced, but there is still a large disparity on sourcing policy between individual retailers as highlighted recently in the NFU Grocery Retailer CSR Review. The NFU has and will continue to actively engage with all retailers to promote the values of a British sourcing policy. The NFU

Farming Delivers campaign shows the benefits having a healthy and sustainable agricultural industry in the UK can bring.

We believe that stronger, equitable relationships between farmers and retailers have much to offer to businesses, investors and consumers. The recent public reaction over milk price cuts has shown that consumers and the media are concerned about the impact buying power can have on farmers and rural communities. The general public want to see retailers being responsible in dealings with the farmers who supply them and positive policies on British sourcing can enhance a company's reputation with the general public.

Processors and retailers who get closer to farmers can better communicate market signals, fostering innovation as well as improving the consistency and quality of their raw materials. They can also help identify opportunities to eliminate waste and drive efficiency.

Adopting strong UK sourcing policies provides greater assurances over security of supply, and the farmers who produce that supply. Our livestock farmers manage much of the most valued areas of the countryside. Our iconic countryside looks the way it does due to productive agriculture and the work of our farmers. By buying British, consumers can take a stake in how that countryside is managed in the future. The recent EBLEX report on Landscapes without Livestock⁶ graphically demonstrates the decline in wildlife and landscape value that would result from a decline in livestock numbers.



As the key point of contact with the majority of consumers, retailers have a major role in converting consumer awareness and desire to buy British into an action when they reach the supermarket shelf. As well as the support of the NFU and AHDB, positive initiatives such as Great British Beef Week should be supported by more farmers and retailers and the credentials of the Red Tractor brand should be promoted to act as a simple indicator to the consumer that the beef has been produced to sound standards and is of British origin.



Producing quality

Great eating quality must go hand in hand with the perception that people are spending more on a quality product. Quality is the responsibility of farmers, processors and vendors, but there are a host of factors which influence final eating quality of beef, some of which are in the hands of the consumer themselves.

The EBLEX Quality Standard Mark adds criteria to improve meat tenderness and succulence to the robust assurance credentials of the Red Tractor. The Mark aims to improve eating quality in a practical way that can be delivered by farmers and processors then communicated to the consumer by simple and effective on pack labelling across all retail outlets.

Despite this cross industry initiative, there are still opportunities for further research and development in the UK and we must also look at examples from other countries around the world to ensure quality is driven forward. There are interesting initiatives to explore in North America where the eating quality of beef is being incentivised by marble scoring and measuring carcass yield with a photographic image of the rib-eye.

There are several existing and developing supermarket specific initiatives which aim to improve the quality of beef in stores. Retailers must recognise that the beef industry has a tight supply situation at the moment and the free choice of a variety of market channels. Any demands made by retailers on farmers to deliver higher standards without additional price incentives will be difficult to impose on a fragmented supplier base. Increases in standards whether in animal welfare or factors relating to quality must be based on sound science, they must be realistic for producers to achieve and the must bring tangible benefits for all in the supply chain, including the animals.

Clear signals from the market, closer working relationships throughout the supply chain and a long term improvement in margins will increase industry confidence and help to stem the decline in the breeding herd. They would also provide incentives to develop the genetic base in the beef herd to focus on customer requirement, whether in domestic or export markets.

Alongside the potential for improvements in the quality and size of the beef herd, technical developments within the dairy industry such as increased use of sexed semen would mean fewer cows would need to be served to a dairy bull and the proportion of beef progeny could be increased. An improvement in the quality of beef cross animals and black and white cattle coming from the dairy herd could improve the quality of the overall beef and veal supply. This would be beneficial to the beef industry and should be an area of focus for AHDB.

An efficient production base

It is clear that confidence is not built on price but on profit. High output prices have been matched by equally high input costs rather than an increase in margins. Instinctively driving to increase production off the back of a high price will not necessarily improve the stability or sustainability of farm enterprises.

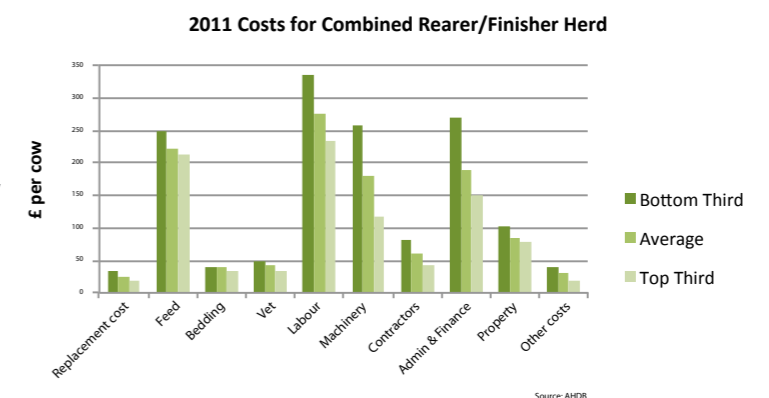
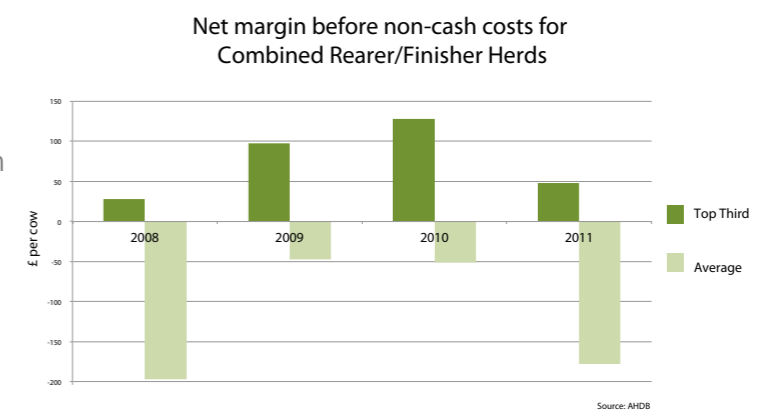
In recent years, AHDB figures have consistently shown a low level of profit on livestock farms which, when non-cash costs such as unpaid family labour are included, equates to a loss for most producers. This, combined with a host of other factors, has led to a decline in the beef herd.

Importantly, the figures highlight the massive range in production costs between units, both in terms of variable costs such as feed but also in fixed costs including labour and mechanisation.

EBLEX Business Pointers figures show that more efficient beef producers spend £124 per head less on machinery, including depreciation. Those with higher machinery costs also spend more on contractors, suggesting they may be over mechanised. If contractors are doing more of the work, then less machinery should be needed.

Variable costs can also be addressed with a focus on improving feed rations, assessing suppliers to take advantage of the best prices for purchased feed and increasing the production of home grown forage crops. Prevention is better than cure and by taking a strategic approach to animal health, farmers can work with their vet to improve the efficiency of production and get more value from their vet bills.

In the current period of robust market prices, farming businesses must take steps to improve their efficiency of production. Although greater efficiency can be achieved at any scale, there is further potential to spread fixed costs and make better use of resources by collaborating with other farming businesses.





DEFRA, AHDB and research organisations must continue to invest in and effectively communicate research on sound farm management and new farming techniques. Improving cow genetics as well as bull genetics and further advances in feed conversion rates should be classed as research priorities. Techniques such as genomic evaluation are becoming more commercially available and can be used to further improve beef genetics.

Farmers must continue to be open to new ways of doing things and evaluate their business performance. Using the latest management information as well as costing and benchmarking services would help boost efficiency.

Retailers and processors also have a key role to play and many arrangements already exist to bring farmers together to focus on their efficiency of output and the market requirements. As cattle prices increase, the equity to fund cattle numbers in primary production is increasingly hard to sustain. Recognition and assistance with this from the trade would produce cattle numbers in the chain.

When better communicating market requirements, any technological developments in grading and feedback such as video image analysis (VIA) must be made in consultation with farmers and the NFU. AHDB must be involved in determining and clearly communicating the calibration and standards of this equipment.

Cattle farmers have continuously had to adapt, modernise and improve their businesses over the last few decades, but more can be done to improve the market focus, efficiency and production in UK beef industry. We must be in a place to compete on a global market, satisfying the needs of the consumer and our regulatory system, structure of support payments and approach to animal health and husbandry must reflect these drivers.

We must also ensure our staff and the next generation have the skills, are trained and are in a position to build on this knowledge base.

Winning consumer support

Various surveys have shown that the most important ethical food issues for consumers centre on animal welfare; wholesome, additive; free food product origin and fairtrade. Studies have also highlighted that these desires do not always correlate with what is purchased at the checkout and continuing to understand how, when and why these buying decisions are taken will improve red meat marketing.

EBLEX and retailers should actively promote British beef to the consumer; ensuring beef is on the shopping list. This promotion should then be backed up with information in store which is clear, helpful, easy for shoppers to grasp in a limited time and aims to translate the intention to a purchase.



The issue of where our food comes from along with the choices that farmers and consumers make are complex and the information and statistics to base these decisions on can often be conflicting and contradictory. There are a host of lobby groups which target livestock production, campaigning on issues from animal welfare to greenhouse gas emissions to nutrition and human health scares.

In many of these cases, beef production in the UK has a positive story to tell, becoming increasingly efficient in terms of productivity and emissions, in addition to being more environmentally responsible. Both the NFU and AHDB have an important role in continually telling this story and providing the counterpoint to simplistic arguments over health or the environment and demonstrating the worth of beef farming to society.

Around 50 per cent of the farmed land in England is devoted to grazing livestock production. The total benefit that livestock farms provide to biodiversity is estimated by AHDB at £1.288 billion per year and the total landscape value benefit is estimated at £1.494 billion⁷.

There is a great deal of focus on the impact of livestock production on the environment and GHG emissions through the carbon footprinting of enterprises. The amount of carbon emitted is very closely linked to the efficiency of production. AHDB figures show that farms with a lower carbon footprint often have the highest gross margins per kilo and output per head improved by 5% between 1998 and 2008. Livestock farms have also more than halved their nitrogen, phosphate and potash applications to grassland since 1998⁸.

Reducing the amount of waste in the system by improving daily liveweight gains, achieving a high output per breeding unit and investing in systems and technology that use resources more efficiently will not only improve the environment but also the bottom line. Carried out in the right way, carbon

7. Testing the Water: The English Beef and Sheep Production Environmental Roadmap - Phase 2, EBLEX, December 2010
www.eblex.org.uk/documents/content/news/p_cp_testingthewater061210.pdf

8. Change in the Air: The English Beef and Sheep Production Roadmap - Phase 1, EBLEX, November 2009
www.eblex.org.uk/documents/content/publications/p_cp_changeintheairtheenglishbeefandsheepproductionroadmap.pdf

foot printing could be used as a tool for the farmer to analyse his business efficiency as well as a potential good news story for an industry demonstrating its environmental credentials. Footprinting work should take into account the ability of some livestock farms to sequester carbon alongside the contribution the sector can make to generate and export renewable energy.

As recognised by AHDB, further research into more efficient utilisation of grass and clover species, an improvement in grassland and nutrient management and continual improvement in beef genetics will improve the environmental credentials and profitability of beef farms even further.

Safeguarding animal health and welfare



Beef is produced in a variety of farming systems which all aim to look after the welfare of cattle and satisfy the five freedoms, as recognised by organisations including the Farm Animal Welfare Council committee and RSPCA.

Livestock produced in the UK have ready access to fresh water, an appropriate diet, shelter, sufficient space, a comfortable resting area and are generally kept in groups appropriate to their age, size and social status. Pain, injury or disease is addressed by preventative measures or rapid diagnosis and treatment.

There are a number of animal health conditions and diseases which can affect cattle. The ability of the farmer to control outbreaks of some exotic notifiable diseases such as foot and mouth disease is limited

and government must intervene to provide central control.

In these situations the control strategy must be robust and the whole industry must work together with urgency to eradicate the disease. Outside of outbreaks, government must implement tough border checks and the industry must remain vigilant and report suspicious symptoms for investigation. The health of our industry is dependent on maximising sales channels and export markets can be lost overnight due to a disease outbreak.

Bovine TB is the biggest single animal health issue facing the beef industry. DEFRA estimate the average cost of a TB breakdown to government and industry at around £30,000. The disease has cost the tax payer £500 million in the last



ten years and is set to top £1 billion in the next ten years⁹. The NFU continues to work with government to tackle TB and is the only organisation capable of organising, delivering and underwriting the coordinated wildlife control pilot in the way that government has demanded.

Alongside this work, the NFU is actively represented on several government and industry committees looking at livestock control measures to achieve

TB eradication from the cattle herd and commits significant resource into providing support for farmers dealing with the disease. Aside from TB, there are a number of other endemic, production related animal health problems that the cattle industry could coordinate action on to reduce economic loss and further improve animal welfare.

Bovine Viral Diarrhoea (BVD) has been identified by the Cattle Health and Welfare Group (CHAWG) and AHDB as a priority disease to focus on. A flexible and tailored countrywide programme delivered in partnership between vets and farmers would help to control and eradicate this disease from beef and dairy herds. We believe that the Animal Health and Welfare Board for England should look at prioritising RDPE funding to kick start and support these locally delivered programmes with a view to countrywide eradication of this disease.

Liver fluke is an animal health issue which can affect cattle performance and lead to carcass devaluation through condemned livers. There is also evidence it may be impacting on TB testing results. Farmers need rapid and accurate feedback from abattoirs and then to make use of the freely available information from AHDB on control strategies for fluke. Anthelmintic resistance in the beef industry is generally low, which is a good thing. Worms can still be a challenge though and best practice on grazing strategies to reduce worm burden as well as the use of wormers must be followed to stop any resistance building in the cattle herd.

Dealing with Johnes disease in the dairy herd would go a long way to addressing the condition in the beef herd, as would tackling digital dermatitis, which may have some parallels with contagious ovine digital dermatitis seen in sheep. More research should be undertaken on the link between digital dermatitis in sheep and cattle and CHAWG should look at any coordination its members could bring to addressing both Johnes and digital dermatitis in the beef and dairy herd.

Finally, respiratory conditions and calf mortality levels could be improved on the beef farm by focusing on appropriate building design and easy modifications to improve ventilation. An improvement in calf husbandry in the dairy herd such as ensuring access to early colostrum for every calf would improve both calf mortality rates and early stage growth.

Responsible Use of Medicines in Agriculture (RUMA) Alliance guidelines around responsible use of veterinary medicines should be recognised and accepted by all involved in cattle keeping and the NFU is well placed to drive the message forward.

Reducing the weight of regulation

The positive outlook for the UK beef industry is in large part dependant on the ability to export and this is directly linked with a robust system of traceability and disease control. A careful balance must be made between legislative burden and the need to control disease spread.

Regulation in any sector is there to safeguard businesses, the consumer and the wider environment and should not be seen solely as a burden. However, many farming businesses feel restrained by red tape and the NFU has fought for years to reduce this burden.

The recent Red Tape Taskforce Review has highlighted various areas where regulations could be amended or reviewed to achieve the same level of safeguarding whilst restricting businesses less.

The most obvious area of reform for the cattle industry is a review of movement controls, which have been developed piecemeal over the last decade. The six day standstill is a prominent candidate for a review as recognised by the Red Tape Taskforce which recommended that whole farm standstills are removed where approved separation facilities are used.

This is a proportionate step which would help farms to trade without compromising safeguards against the spread of disease. Other movement controls must be similarly reformed in a way that does not provide perverse incentives which encourage risky or unscrupulous behaviour to exploit the relaxation of restrictions.

Alongside the reform of current movement controls, technological developments and European Commission proposals for the standardisation and voluntary adoption of electronic cattle tagging systems could have the potential to deliver a host of benefits to cattle producers if carried out in the right way. Movement reporting could be faster and less time consuming and reading tags could become easier, with more management information from farm software being at the farmers' fingertips in the field.

Electronic identification in the place of paper passports could allow easier transfer of management information when an animal is traded or the feedback of information such as slaughter data to the breeder.

This information could give more confidence to a buyer at sale and could lead to faster genetic improvement of the suckler herd. There may also be scope to use technology to validate farm assurance retention periods, cutting down on paperwork at sale and giving increased confidence to buyers.

The changes prompted by this introduction could also provide an opportunity for government to work with industry to reform current databases to work to the benefit of industry and government. One key benefit would be the easy provision of information on individual TB testing history at sale to help reduce the spread and eradicate the disease. It is vitally important that government departments actively engage with industry and look at the bigger picture when designing systems for the future.

As government departments aim to reduce budgets by around 30 per cent in this parliamentary term, the cattle industry will be constantly faced with the threat of valuable programmes and initiatives being cancelled, or their costs passed onto industry.

The work of the Animal Health and Welfare Board for England could have a profound impact on the cattle industry especially with regard to the work currently being undertaken on disease surveillance, control and TB eradication. Recommendations made by the board must result in DEFRA and associated agencies doing things in new ways and ruthlessly focussing on where efficiency savings can be made. Both government and industry will have to become more familiar with the concepts of trust, earned recognition and proportionality.

Farmers bear a large part of the cost of any animal disease problem and as such have a vested interest in keeping disease levels low and controlling the spread of disease. Government must learn to trust farmers to deliver and delegate real responsibility. They must better target enforcement to focus on deliberate bad practice rather than minor administrative errors. This would reduce the costs of enforcement and help to control risky practices by a small minority of operators which may put the whole industry at risk.

To do this, DEFRA and its agencies must embrace the principle of earned recognition and use other risk indicators. Membership of farm assurance and other certification bodies demonstrates that farmers are regularly being inspected against defined levels of performance in areas including animal welfare, biosecurity and environmental impact.

DEFRA have a raft of other information on farm businesses which could provide risk indicators to reduce inspection frequency, such as movement patterns, numbers of replacement tags ordered, historic non-compliance and data from other inspection agencies. Government departments and agencies must make every effort to take these sources of evidence and use them to find new, more efficient and more streamlined ways to regulate the livestock sector.

Finally, government departments must ensure that cuts in budgets do not compromise our border security controls against exotic disease incursion. Prevention is better than cure and avoiding a future exotic disease outbreak by maintaining robust controls at all ports and airports will be money well spent.



Making the CAP fit for the beef sector

DEFRA figures show that financial support available through the CAP remains critical to the profitability of livestock producers. The contribution of agricultural activity to farm business income for the average livestock unit remains negative.



It is clear that the beef sector cannot rely on the same levels of support in future. This means that farmers will need to draw more returns from the market. This is not only a challenge to supply chain partners but also to farmers as well.

Currently, CAP payments still provide a financial lifeline to beef farmers, enabling them to generate a profit across their farm business. Changes in policy that directly impact the value of support payments or impact a farmer's ability to access these payments will disproportionately impact livestock farms when compared to other sectors.

The growing importance of EU and international trade to the beef sector also means that commonality is fundamentally important to the continued development of productive, market focused livestock farming in the UK.

A key area of discussion on CAP reform includes Article 14 measures which allow Member States the flexibility to move money between support Pillars. We have concerns that this may be applied by DEFRA at a national level to move money out of direct payments and would be extremely distorting across the EU. The NFU believes the budget for Pillar 1 and Pillar 2 should be established from the outset to prevent these distortions arising and this flexibility mechanism must be deleted.

Several member states, including some key export markets have not yet fully decoupled and many retain historic payment schemes. CAP reform proposals have included a provision for the continued use of coupled subsidies and many countries have expressed an interest in coupled payments for their beef sector to manage the transition to an area payment. The English industry has decoupled production and moved to an area based payment. The majority of farmers recognise that production linked subsidies can distort the market and do not ultimately stay in the hands of the farmer.

We believe that coupled support should be limited to 5% to avoid market distortion between member states. In England a strong Pillar 1 single payment, put into the hands of the livestock farmer is the only realistic way forward and that is why the NFU will continue to argue strongly against Article 14 flexibility which would remove more of that direct SPS payment.

Failure to support farmer businesses with a strong, simple, decoupled payment may lead to difficulty to compete on the domestic market against key importers and a more challenging prospect in attempting further growth in export markets.

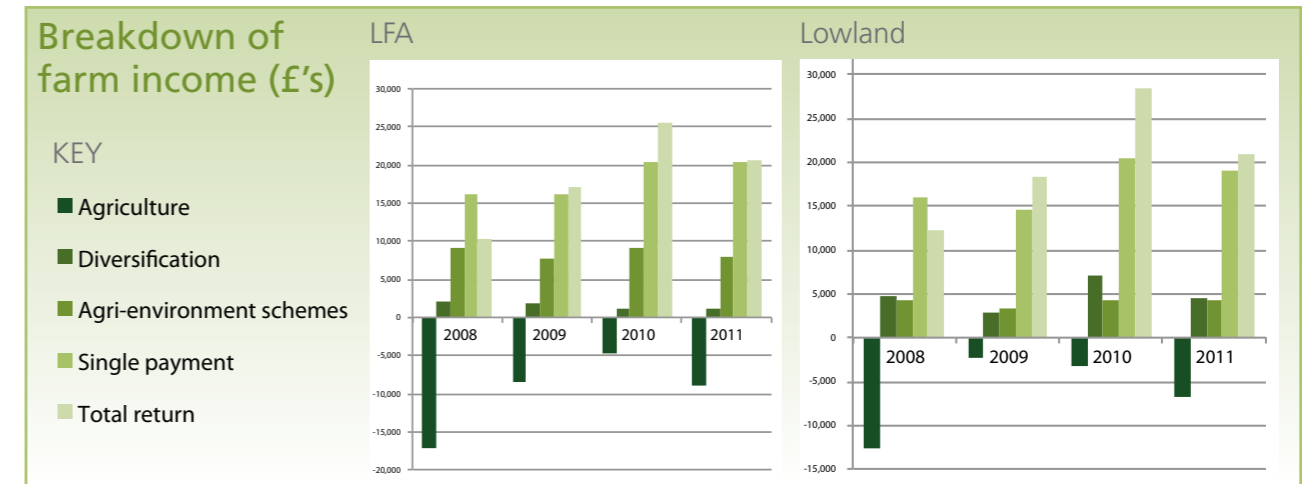
The mandatory greening element in the current CAP proposals is of great concern for beef farmers and will lead to less efficient use of land. If implemented as proposed, greening may lead to a change in land management or administration and a potential for a decrease in membership of agri-environment schemes.

These proposals must be modified. Any negative impact on the productive grassland area from greening would mean a lower livestock carrying capacity and reduce the ability of farmers to use their main asset to achieve returns from the market.

A large number of livestock farms are actively involved in protecting the environment, improving wildlife and managing habitats on their farms through the current agri-environment schemes. These schemes can also represent a significant proportion of farm income, especially in the uplands.

A partial movement of the requirements in ELS into the mandatory greening element brings up questions about future uptake of these schemes. This will be of great concern to beef farmers, as upland farmers are a key part of the production chain, producing breeding, store and finished animals. With over 17% of England classified as Less Favoured Area (LFA) we need to create a support and marketing environment that secures the future of the uplands as well if we are to meet our vision of growing the British livestock industry. In this period of uncertainty, break clauses for new applications are necessary to avoid farmers being tied into agreements which may compromise their enterprise.

The NFU continues to work in Europe to influence discussions on the future of the CAP. We are committed to working toward a simple and common support and regulatory regime which allows farmers to focus on the market while adequately rewarding them for delivering useful environmental benefits.



Conclusions

This paper was conceived to outline the future opportunities and challenges facing the industry. It is not a blue-print and does not provide all of the solutions. We intend to continue to actively work with all in the trade, other industry organisations and government to build on some of the themes and topics we have identified.

We have a positive vision of a profitable, market driven, internationally competitive and sustainable beef industry in the UK and we look forward to working with other industry partners to achieve this.



The NFU Livestock Board would like to thank the beef farmers and members of the NFU Beef Group who have provided a vital sounding board for this report over the last year. Thanks must also go to AHDB, especially EBLEX, who offered support and guidance in the creation of this document.

