

Summary of the hearing with the Meat and Livestock Commission on 11 October 2006

About the Meat and Livestock Commission

1. The Meat and Livestock Commission (MLC) is an executive non-departmental public body created by the 1967 Agriculture Act. It has a statutory remit to improve the efficiency and competitive position of the red meat industry and to maintain and stimulate markets at home and abroad, with a focus on cattle, sheep and pigs, with due regard for the consumer. It is funded by a statutory levy on each cow, sheep or pig slaughtered at a British abattoir. The MLC has a federal structure comprising four constituent bodies: British Pig Executive; Hybu Cig Cymru/Meat Promotion Wales; English Beef and Lamb Executive; and Quality Meat Scotland. The board of Commissioners of MLC, who are appointed by ministers, comprises the following: the producer chairs of MLC's four constituent bodies; two representatives of the processing sector; a representative of the retail sector; a consumer representative; and three independents (including the Chairman).
2. The MLC also ensures that it represents the interests of the industry effectively through its arrangements for appointments to the boards of its four constituent bodies. For example, seven of the ten members of the British Pig Executive board are nominated by the National Pig Association, and three are nominated by the processing sector.

Market conditions

3. The MLC told us that, in general, livestock producers were price takers and that even efficient beef and sheep producers were unable to cover their costs with their market returns, especially since production-linked subsidies had been eliminated as a result of reform of the Common Agriculture Policy. The pig sector, which did not benefit from such subsidies under the CAP, had seen a reduction of nearly 50 per cent in the breeding herd over the last six or seven years.
4. The MLC considered that the prevalence of retailers' own-brand meat might distort competition and that some of the buying behaviour of retailers resulted in extreme downward price pressure on suppliers. 'Farm gate' prices for beef were about 20 per cent lower than before the export ban on UK beef was imposed in 1996. Sheep meat was faring slightly better, with the top third of producers able to make a profit, whereas only about 5 per cent of beef producers were currently making a profit. The MLC believed that, although consumers might benefit in the short term from lower retail prices, ultimately this would not be in their long-term interest as the UK livestock sector would be uncompetitive, would not be able to invest and innovate, and would contract. In turn, the industry would be in a weak position to contribute to the Government's sustainability objectives.

Developments in the retail market

5. The MLC noted growing consumer interest in local, organic and premium products. However, it also pointed out that a large majority of retail sales were own brand—between 75 and 95 per cent in the case of red meat, depending on the product. Therefore, despite consumer preferences for local products, the MLC considered that this would not necessarily result in higher prices for local producers. The MLC noted that it was a legal requirement (related to the BSE crisis) to label beef with the country of origin, and that it was common practice for other meats as well, but that this did not

always happen, despite the Food Standards Agency's best practice guidelines on the origin labelling of meat.

6. The MLC reported that the penetration of imported meat (whether beef, sheep meat or pig meat) continued to rise and that UK production was not sufficient to meet UK demand. About 70 per cent of beef was home-produced and 30 per cent imported, about two-thirds of lamb was home-produced and one-third imported and about 80 per cent of fresh pork was home-produced and 20 per cent imported. For bacon and ham, which together were larger volume markets than fresh pork, only 25 per cent was home-produced and 75 per cent was imported.
7. The MLC noted that in 1999, the UK had changed its welfare laws on the keeping of pigs, 13 years in advance of similar requirements being imposed at the European Union level. The MLC estimated that 70 per cent of all pork imported to the UK would be illegal to produce in the UK on animal welfare grounds. Many retailers have committed to selling—where they were compelled to import—only products that met UK welfare requirements, but the commitment was limited to own-label products. Therefore, according to the MLC, there had been a rapid growth in 'tertiary brands' that did not carry the retailer's brand name and that were frequently used to sell imported products deriving from farming systems which would be illegal in the UK. In many cases retailers proactively specified that these products be packaged under a tertiary brand label in order to avoid compromising their own-label pledge to purchase only UK welfare-equivalent meat.

Own-label products

8. The MLC considered that the sizeable proportion of own-label products being sold conferred the role of gate keeper on the large retailers, and that it was likely to be difficult to persuade them to stock a new brand of fresh meat. The MLC noted that the proportion of own-label products sold in the UK was higher than elsewhere in Europe, and therefore, despite the retail market being more concentrated in some other European countries, retailers had greater power in the UK.
9. The MLC stated that, from the suppliers' point of view, producing own-label products meant that suppliers had no brand equity, and that retailers could easily switch between suppliers.

The supply chain

10. According to the MLC, livestock producers sold either to a local abattoir or at an auction market. The abattoir would slaughter the animals and sell them on to a wholesale market. From the wholesale market, products would be sold to secondary wholesale markets or to independent retailers.
11. The MLC stated that, in the pig industry, sales through auction markets had largely disappeared. Instead, farmers sold directly to abattoirs which also functioned as wholesalers and, in many cases, as packers.
12. The MLC stated that prices paid by abattoirs to farmers for livestock were set either on a weekly basis, or using a formula related to the weekly average market price. The market price was determined by telephone trading by purchasers at the abattoirs, through discussions with individual farmers or groups of farmers. The MLC noted that it collected information on the prices paid by abattoirs to farmers.

13. The MLC noted that abattoirs might source livestock from anywhere in the UK, and that the 8-hour limit on livestock transport allowed animals to be moved across the country. As a result, the MLC considered that there was, in general, a national market for the supply of livestock to UK abattoirs.
14. The MLC noted that, in relation to cattle and sheep, while more animals were sold through auction markets than in the pig sector, direct 'deadweight' sales to abattoirs was now the main marketing route. Some abattoirs were slaughtering for the independent butchery trade. However, most retail sales were still through the multiple retailers.

Relationships between abattoirs and retailers

15. The MLC stated that abattoirs now tended to have direct relationships with the retailers that delivered ready-packed meat products straight to retailers' central distribution facilities. Most abattoirs only dealt with one supermarket and most supermarkets only dealt with either one or two suppliers for each product category. The MLC considered that there was pressure from the large retailers for a level of exclusivity between the abattoir/processor and the retailer.
16. The MLC noted that the top four retailers accounted for about 60 per cent of red meat sales whereas there were about 290 abattoirs in the UK, with between 20 and 25 of these accounting for about 70 per cent of volume. The MLC argued that, because the retail sector was more concentrated than the abattoir/meat processing sector, the balance of power was in favour of the large retailers in their relationships with these suppliers. Producers had a reasonable choice of abattoir to which they could sell their livestock, but abattoirs had a reduced choice of retailers to which they could sell their meat products.
17. The MLC considered that increases in consumer demand on the retail side of the market did not translate to higher prices paid by retailers to abattoirs/processors. The MLC stated that it was almost impossible for abattoirs/processors to negotiate price increases in response to increased demand or changes in the cost of production. The MLC stated that abattoirs had complained to it about their relationships with the supermarkets. The MLC noted that there was evidence that the level of investment in the abattoir sector had diminished. It also pointed out that the great majority of processing companies were privately owned rather than publicly quoted, because of the low levels of return. The MLC noted that Waitrose was considered to have good relationships with, and to pay reasonable prices to, its abattoir suppliers, and that exclusivity between retailers and abattoirs/processors was not necessarily a problem if reasonable prices were paid. Exclusivity between retailers and abattoir suppliers could also result in positive relationships involving farmers in more integrated supply chains, if the retailer so wished. However, such integrated chains were rare.
18. The MLC did not consider that vertical integration, with large retailers sometimes processing products at their warehouses or in one case owning an abattoir, posed any particular problems. In such cases, retailers might end up buying directly from farmers. The MLC considered that the key element was the behaviour of retailers in their purchasing relationships.
19. The MLC stated that its work indicated that a typical (net) margin in the abattoir sector was anywhere from a negative figure to a maximum figure of about 1 to 1.5 per cent. The MLC noted that retailers' gross margins, as reported to it, had increased over recent years and were now around 40 per cent for own label, and might be slightly higher for tertiary brands, whilst processors' margins had fallen.

20. The MLC stated that, although imported meat was purchased by the processors/packers rather than directly by the retailers, the processors' decision to purchase imported meat was driven by retailer requirements for deep-cut price promotions which could only be met by importing meat. As an example, the MLC noted that Cranswick Country Foods, a supplier of British pork to Sainsbury's, also used its own name as a tertiary brand for meat from other countries, as available. The MLC stated that meat under the Cranswick Country Foods brand was always sold on special offer and was typically priced up to 30 per cent lower than UK produced meat. The MLC noted that more than 50 per cent of pre-packed bacon rashers were sold on special offers of some sort, that retailers competed head-to-head with each other on special offers, and that it was very difficult for British products to be used in those sorts of price promotions.
21. The MLC noted that, whilst the large retailers needed meat suppliers to keep their shelves stocked and to satisfy consumer demand, the meat itself could be obtained from anywhere in the world, given that the necessary food safety standards could be satisfied for meat produced outside the UK as well as within the UK. The MLC did not consider that the large retailers' interest in maintaining the supply of meat on their shelves necessarily translated into an interest in maintaining viable domestic production capacity.

The supermarket code of practice

22. The MLC noted that it had been told about the existence of retrospective discounts, contributions to retailers' promotions and 'fines' for suppliers, for example for labelling errors, with no discussion. The MLC stated that suppliers felt they had to pay up or business would be lost.
23. The MLC noted that the effective functioning of the supermarket code of practice relied on individual supply chain issues being identified, and that there was a very poor record of suppliers doing this. The MLC considered that suppliers were very concerned about confidentiality and the risk to their business of reporting problems. The MLC stated that industry operators were hesitant about providing too much detail about some of the problems they encountered as this might lead to the complainant being identified very easily.