

The British Conundrum

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Conundrum - a hard or difficult question - a riddle, dictionary definition

I have been asked to talk about the present situation in the United Kingdom in relation to the beef industry and the industry response to the BSE events. We must accept that the onset of BSE set in train an unprecedented and traumatic series of situations for the British industry of a scale which has not been seen before in any industry.

The meat industry has a major role to play in the economy of the United Kingdom with a value at point of sale of around £14 billion. From the farmer producer through the slaughtering, distribution and retail sectors some 450,000 are employed. The industry can be split into four main sectors which are:

Farmers: Producing the livestock which is the raw material for the industry. Some 100,000 are involved in beef production, nearly 100,000 in sheepmeat, and some 16,000 in pigmeat production. The pigmeat and poultry sectors are relatively intensive and are able to produce product at significantly lower price per unit volume than beef and sheepmeat sectors which are in general more extensive.

Abattoirs: Approximately 450 abattoirs slaughter to produce carcass meat for the market. These are declining in number as the distribution chain changes and the supermarkets take a greater share of the retail market. Currently, their market is only within the UK in the beef sector although prior to the export ban nearly 30% of their production was exported. Figures for 1997 suggest that 16% of pigmeat production and 34% of sheepmeat production was exported. In 1995, the last full year before the beef export ban, exports of meat and meat products contributed over £1 billion (1.7 billion dollars) to United Kingdom exports.

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Reciprocal Meat Conference Proceedings, Volume 51, 1998.

Wholesalers / Traders: This sector serves a distribution function and is of declining importance as the concentration within the abattoir sector has allowed abattoirs to achieve a size compatible with running a distribution service. Traders and wholesalers operate in a more opportunistic manner buying and selling to maximise margins. Unlike the abattoir sector they tend to buy and sell in more of a global market aiming to source their product from the most advantageous supply.

Point of Sale: This sector includes the large multiples such as Tesco and Sainsbury, traditional retail butchers and the various catering outlets such as institutional, fast food, and restaurants. This sector is the interface with the consumer and significantly provides signals on evolving consumer preferences.

Although meat consumption in total has remained relatively static in the UK, there have been significant changes in the type of meat eaten with a decline of over 30% in beef, relatively static pork and lamb, and a large increase in poultry consumption. With the decline in abattoir numbers and the switch of retail meat purchases from the butcher to the supermarket, there has been a quite dramatic change in the distribution of meat and meat products mainly over the last decade.

Table 1. Meat Consumption in the UK 1980 - 1998 (000 tonnes)

	1980/85 Ave	1995	1996	1997	1998 (Forecast)
Beef	1101	895	739	850	876
Sheepmeat	412	359	369	353	370
Pigmeat	1203	1180	1245	1305	1330
Poultry	825	1581	1643	1619	1653

Totals 3541 4015 3996 4127 4229

Table 2. Meat Production in the UK 1980 - 1998 (000 tonnes)

	1980/85 Ave	1995	1996	1997 (forecast)	1998
Beef (*)	1076	974	712	694	686
Sheepmeat	280	359	345	322	367
Pigmeat	923	978	1029	1117	1152
Poultry	805	1510	1559	1627	1656
Totals	3084	3821	3645	3760	3861

(*) production figures for 1996 and 1997 do not include those cattle slaughtered under the OTMS and the selective cull.

Table 2 shows meat production in the UK for the period 1980 to 1998.

Over this period the decline in beef consumption and production can clearly be seen together with the increases in pigmeat and poultry.

Overall meat consumption has increased by 18% over the period but the relatively expensive meats, beef and sheepmeat, now only take 29% of the market compared to 43% in the early 1980's. The cheaper meats have increased their market share from 57% to 71% over the same period.

Table 3 illustrates the changing structure of the meat industry in the United Kingdom.

Table 3. Butchers and Abattoir numbers

	1972	1984	1995	1998
Butchers	33000	18000	11500	10000
Abattoirs	1600	1000	500	450

Table 4. Source of Household Purchases.

	Butchers	Super markets	Other Retail	Co-ops	Freezer Centres
Beef					
1984	59.2	24.5	5.6	3.8	4.8
1995	28.7	59.2	5.5	1.8	3.9
1997	23.7	67.	4.9	1.5	2.5
Pork					
1984	51.7	28.4	8.1	4.4	5.1
1995	27.4	61.9	4.9	1.7	3.2
1997	23.1	67.8	5.4	1.0	2.7
Lamb					
1984	57.7	26.3	4.6	4.9	4.4
1995	34.6	49.7	7.2	1.8	5.3
1997	30.9	56.0	7.1	1.1	4.9

The previous table illustrates the changing source of household purchases which are estimated to account for

approximately 50% of total consumption with the balance currently being around 25% catering and 25% manufacturing or further processing.

It can be seen from Table 2 that in the period 1984 to 1995 the market share of the independent butchers and the supermarkets changed significantly. Whereas in 1984 the butchers had between 50% and 60% of the market and the supermarkets had between 25% and 30% by 1997 the butchers only had between 24% and 31% and the supermarkets had secured between 56% and 68% of household purchases.

Concurrent with the changing purchasing preferences over this period was the need for the adoption of higher standards of construction and more vigorous hygiene standards with the rigours of the EU single market. This resulted in heavy capital investment by the abattoir sector as upgrading took place. To finance these costs, many plants increased capacity with the consequence that the industry built a large excess capacity into itself.

The EU provided new markets for the industry which absorbed the surplus beef created by a declining domestic market and for lamb resulting from the increase in production encouraged by relatively generous market support mechanisms. The combined effects of surplus capacity and a more demanding market has ensured excessive competition in the sector which has kept prices and net margins low.

In addition to changing lifestyles, other factors affect meat consumption which we all discuss ad nauseam. A greater awareness of apparent health issues have resulted in changing quantities and styles of meat eating. The BSE crisis, which has developed over the last ten years, is forcing the red meat industry to re-evaluate itself. In order to survive it needs to adapt rapidly to a changing market place and to be far more flexible than its traditional systems have encouraged.

BSE

BSE is one of a group of transmissible spongiform encephalopathies. Scrapie in sheep and CJD in man are of the same group. It was first identified in 1986 by scientists at the Central Veterinary Laboratory after examining cattle heads. Following the discovery of vacuolation in the brain they noticed the similarity with scrapie in sheep which had been known for over 200 years and was widespread in sheep flocks in many countries. This disease in sheep had not been connected with CJD, a similar disease in humans, over the long period in which it had been investigated. In those countries where the incidence of CJD is recorded, there is approximately one case per million of population per annum. The UK demonstrates a similar incidence to date with no appreciable increase in rate, notwithstanding the reported cases of new variant CJD (nvCJD).

The disease had not been thought to cross the species barrier and its precise method of transmission was not clearly known. This disease had not previously been known in cattle

and it was predicted that transmission had occurred following a change in the processing of animal by-products into ingredients for cattle feed (and other animals).

It is generally thought that the transmission agent is a protein (prion or PrP) which caused irreversible change in the brain and nervous tissue of the recipient bovine causing functional collapse and ultimately death. A characteristic of these diseases is that they have a long incubation period.

The public health worry was that if the disease had jumped the species barrier from sheep to cattle through the food chain then there was a risk of it making another leap into humans through the food chain.

How did the BSE/CJD crisis happen?

The feeding of animal protein to livestock has been normal practise for many years. The method of extraction of fats from the by-product material was until the early 1980's the use of petroleum based solvents at the relatively high temperature of 160C. With the increase in costs of these solvents an alternative process was widely adopted which involved a processing temperature of 120C.

It is thought that as the prion agent is both solvent sensitive and resistant to high temperature that the combination of no solvent and lower temperatures allowed the prion to survive the newer processes and hence pass from sheep through the food chain to cattle.

The measures taken by the government to protect public health from an as yet unproven risk have included the slaughter of some 170,000 cattle infected with BSE.

What measures have been taken to resolve the crisis?

Since the identification of the disease in 1986, and with the increasing concern for public health, a considerable number of measures have been taken both to protect the public from a potential risk and to support the beef industry.

- November 1986 BSE identified
- April 1988 Southwood Committee formed to advise Government.
- July 1988 Ruminant feed ban introduced
- August 1988 Slaughter policy introduced for all cattle suspected of having BSE.
- February 1989 Tyrol Committee formed (which became SEAC) to advise Government on research and recommend action.
- November 1989 Specified Bovine Offal ban was introduced removing potentially infected material from the human food chain.
- November 1994 Further material identified as potentially infected and removed as SBO from all cattle.

- August 1995 Whole skull of cattle classified as SBO.
- December 1995 Bovine vertebral column banned for use for mechanically recovered meat (MRM).
- March 1996 Meat from cattle over 30 months must be deboned with trimmings disposed off as SBO.
- 25th March 1996 EU ban on exports of beef.
- 28th March 1996 Temporary ban on beef and products from cattle over 30 months of age. SBO controls extended to include heads and lymph glands.

Subsequent legislation permanently banned the sale of all meat from cattle over 30 months of age and recently of all bone in beef.

What are the implications for the meat industry?

There are two main consequences of the BSE / CJD event:

- Loss of the export market for the beef sector (nearly 30% and growing).
- A reduction of the size of the domestic market (initially about 20% but forecast for 1998 at about 6% or 7%).

An additional problem is the present strong £ sterling which is making the UK market more attractive to other supplies. This is resulting in oversupply which is significantly reducing producer returns and could reduce longer term economic production levels. It is perhaps debatable that the BSE / CJD crisis has merely hastened a trend that was already taking place.

In relation to the various sectors there are differing effects:

- Beef producers are suffering from lower returns.
- Flexible retailers are altering their offering mix and there is no long term effect.
- Traditional retailers are seeing their market share eroded further.
- Traders can change sourcing and maintain business levels.
- The slaughtering sector is suffering from loss of throughput and reduced markets.

To some extent the public seems to be suffering from ' health risk fatigue ' and consumption has recovered about half of the initial loss with low prices helping consumption to recover.

The financial implications will be most serious for large single species plants in the beef sector which have made significant capital investment following supply chain

changes and are facing restricted markets, reduced demand, and rising borrowing charges. Forecasts are that reducing liquidity could force 30% to 50% of slaughterhouses to close over the medium term. Large single species companies which have been heavily reliant on export markets to maintain throughput and are unable to diversify into other product areas will find it increasingly difficult to survive. Even when the export ban is lifted the supply shortage will prevent recovery.

The BSE / CJD events are likely to have precipitated a major rationalisation of the UK meat industry.

The United Kingdom Marketing Response

In common with most developed markets over the last two decades, the UK has seen a long term decline in per capita beef consumption. Total meat consumption has remained either static or increased slightly. Pork and poultry have benefited at the expense of beef.

The reasons for these changing consumption trends have been and are the subject of continuous debate and research in all our markets include the following amongst many factors:

- higher disposable incomes
- more single households
- wider product offerings
- a greater proportion of women working
- changing lifestyles
- the vegetarian lobby
- the fat issue
- healthy eating movements
- and many others

Whilst all these factors are common in our markets, the UK has had to face one additional factor to a greater degree than other markets - the BSE event!

Prior to the discovery of BSE, the UK was following several main strands for its promotional activity through the promotional activities of the industry funded Meat and Livestock Commission.

- developing products to add variety to the traditional forms of presentation.
- promoting the traditional meat eating pleasures
- starting a rational message campaign for opinion formers.
- working with the educational establishment to keep the tradition of meat eating amongst children.

During the last decade, MLC also actively pursued research to improve the eating quality of the three red meats. This resulted in the development and introduction of the 'Blueprint' protocols for beef, lamb, and pork. These protocols showed that with stress reduction and by controlling and improving processing and maturation techniques, a consistently better eating product could be offered to the consumer on a more consistent basis. Similar systems to produce a consistent and better eating product have been introduced by all the major supermarkets. During the evo-

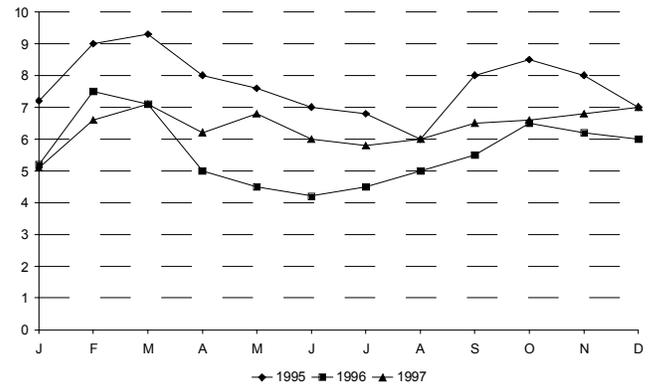
lution of the BSE outbreak, a series of announcements provided a drip feed of negative statements regarding beef and to some extent perhaps other meats by association .

In March 1996, after ten years of statements that there was no link between BSE and Creutzfeldt-Jacob disease, the government announced that there could be a link between the two following cases of CJD in younger people. This variant of CJD became known as new variant CJD or nvCJD for short. The immediate effect was a catastrophic drop in beef consumption of initially over 30%. In the middle of perhaps the all time record for negative 'media noise' about a single food product there was one very important event. The Sainsbury food chain cut all its beef prices by 50% to clear stocks. This resulted in, at the height of the crisis, a stampede to buy beef. Interestingly consumer research reported comments changing from 'I'm never going to buy beef again' to 'at these prices, beef has got to be safe'.

Follow up consumer research showed that the sale of roasting joints and steaks fairly rapidly recovered to near pre-crisis levels. The main product area to suffer a longer term decline was minced beef and beefburgers. Consumer research indicated that if there was some sort of quality guarantee associated with minced beef, then customers would buy even at a price premium against unmarked product.

The British Meat Quality Standard for Minced Beef was launched in June 1996, supported by £2 million of PR and advertising activity. Following this, beef sales rose by an

Minced Beef (ground beef) monthly sales ('000 tonnes)

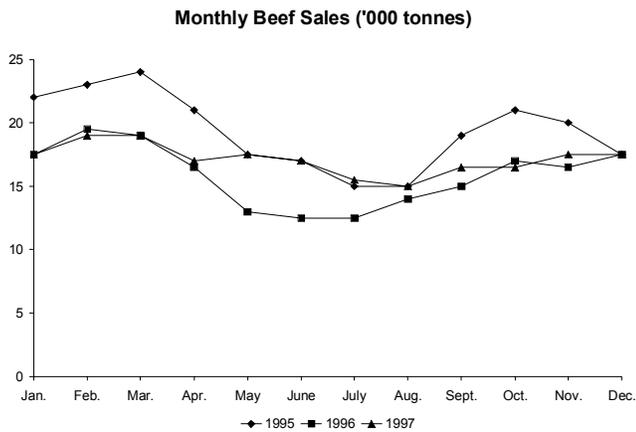


estimated £40 million. This quality initiative has been followed by similar guarantee for beefburgers.

To integrate many product assurance and traceability schemes in existence a new initiative 'Assured British Meat' was launched earlier this year. This provides the opportunity for consistent accreditation standards to help rebuild consumer confidence in meat and meat products.

In parallel with assurance activity, the promotional activity has continued to develop the emotional and rational messages.

The drop in beef consumption was some 20% in 1996 and had recovered to only a decline of some 7/8 % by the end of 1997.



I would like to conclude by showing you the television material used in the 'Recipe for Love' campaign. This of course is supported by various additional media and 'point of sale' material.

Sources

Official UK Govt. Statistics
Meat and Livestock Commission of Great Britain
Audits of Great Britain