

**Confidential**

**QUALITY MEAT SCOTLAND**  
**Minutes of the Forty-sixth Meeting of the Board**  
**4 July, 2016 11.30am Rural Centre Boardroom, Ingliston**

**Present:**

J McLaren, Chairman  
R Eunson (by telconf)  
J Gibson (by teleconf)  
S Henderson  
A McNaughton (by teleconf)  
S Mackie (by teleconf)  
K Rowell  
J Scott (by teleconf)  
P Sleigh (by teleconf)  
L Welsh

**In Attendance:**

S Ashworth  
D Bell  
C McLaren (by teleconf)  
U Morton (Chief Executive)  
L Vernet

**Apologies**

J Fitzpatrick, G Milne, G Smith

**1 Chairman's introduction**

The Chairman noted the discussion would cover the potential effects of the EU exit on the Scottish red meat sector. The aim was to identify the main questions and areas that needed addressed.

**2 Roundtable contributions on the implications of the vote for the UK to leave the EU**

Cattle sector

- Beef prices have risen slightly
- Store sales are small scale at present therefore it is difficult to predict what might happen in this area
- There is uncertainty regarding Scotland's position in both Europe and the UK
- The Red Meat Industry Profile highlights the large percentage of Scottish product that is sold in the rest of the UK

Sheep sector

- Lamb prices have increased
- The export market is very important for Scottish lamb and there are concerns about demand for the product and also market access
- There is uncertainty regarding support payments
- The Scottish Sheep Sector Review will be published shortly and its recommendations are, more than ever, important for the future of the sheep sector
- Funding is required to deliver knowledge transfer activity. Should QMS consider increasing levy rates?
- A large number of cull ewes go to other parts of the UK. How will this market be affected if Scotland splits from the UK?

Cattle and sheep

- The main area of concern is support payments and uncertainty whether these will be forthcoming in future
- There is unlikely to be much inward investment over the next two or three years
- EU farm support e.g. Agri-environment climate scheme and Beef Efficiency Scheme – how will these be affected?

### Pig sector

- The weaker pound has improved pig prices but will make imported feed protein more expensive
- There have been confidential discussions regarding a Scotch Pork label and if Scotland is no longer in the EU can this label be progressed?
- It will be important to have access to China's export market for 5<sup>th</sup> quarter products when Britain leaves the EU
- Concern about the effect on the export market for cull sows to Germany
- IPPC regulations – will NFUS work to see if these can be made less onerous?

### Areas of Natural Constraint/organic/crofting and other issues

- Areas of natural constraint (ANC)– this is an important area for rural support and current arrangements will end in 2018. There is concern that future support may be directed to more productive areas. The EU exit will mean LFAs will no longer exist.
- Organic product attracts a premium in the marketplace and certification is based on EU regulation. It is assumed that UKAS will continue and therefore a big impact on organic produce is not envisaged other than imported organic produce becoming more expensive.
- The challenge for the crofting sector will be less support payments in future which may lead to more part-time farming
- Auction marts are regulated by UK legislation and there are not any changes expected in this respect. Stock numbers and value of store livestock is falling while costs continue to rise. Livestock markets will be affected if future support levels fall.
- Small scale processors have the continued challenges of supermarket dominance and regulatory burden.
- One major issue that may change is the government's position on GM farming especially in relation to talks on TTIP with US. How would the EU react to UK products if the UK signed up to TTIP?

### Large scale beef and lamb processing

- SAMW's main area of concern is livestock numbers
- There is also uncertainty about CAP support and arrangements to replace CAP.
- There is an opportunity for the UK and Scottish Government to simplify the new support system although the level of funding is not yet known
- There is a need to understand if PGI status will be affected and also who will fund promotional activity (EU or Scottish Government?)
- Uninterrupted market access is very important particularly for sheep meat
- Any reduction in trade barriers may result in beef imports from other countries e.g. South America
- The processing sector is very reliant on EU employees and any restrictions introduced regarding EU workers would be detrimental for this sector
- Detail is required on the timing of the exit and how long the process will take
- Will existing grants in the system continue after the exit e.g. marketing grants for processors?

### Red meat retailing

- Butcher retail prices will be affected by cattle and sheep price increases. This could lead to consumers looking for cheaper cuts or cheaper equivalents. If consumers seek cheaper prime cuts they may not purchase Scotch.
- There is concern lamb may become too expensive.
- The margin on pork added value products is good and any cost increases could be absorbed by the retailer.
- Other costs will also increase e.g. fuel. How will consumers respond to continuing price increases?
- The foodservice sector is likely to move to cheaper alternatives.

### Retail and foodservice

- Retailers continue to source local produce with local and Scottish given higher priority than British or non British. However, Scottish product is sometimes retailed as British. Two major retailers have stated they would have to pass on increased costs.
- There is some concern regarding consumer loyalty for the Scotch brand if product becomes more expensive.
- There is potential for lamb and pork prices to increase which could create issues for retailers.
- Exchange rates will benefit the export market, particularly foodservice.
- It will be difficult to persuade chefs to spend more on red meat if the Scotch and non Scotch price difference gets too far apart
- In the short term the EU exit will lead to higher food costs.

### Regulatory environment

- 90% of food law comes from the EU. Food Standards Scotland's (FSS) remit is to protect the interests of consumers and there may be an opportunity to consider if some of the food laws need changed. However it is unlikely laws would be changed to make Scotland different to others as this could affect the export market.
- As Scotland is not a Member State the Food Standards Agency would negotiate on behalf of FSS.
- If Scotland becomes independent from the rest of the UK how would FSS be funded?

### QMS the organisation

- How will consumers and retailers react to the EU logo "Enjoy, it's from Europe" being used in our beef campaign in London and the South East?
- QMS has just commenced year 2 of a two year EU funded promotional programme. Should we apply later this year for a further programme to take us to the likely exit date?
- What funding will there be for international trade development activity e.g. SIAL and Anuga?
- Protected Food Names including the Scotch Beef and Scotch Lamb PGIs are not currently protected under UK law.
- What will happen to State aid rules? Are there potential opportunities if they do not continue?
- Public procurement legislation will still exist
- Will funding stop part way through the KTIF programme?

- Will increased uncertainty lead to a lack of confidence, shrinkage of production and reduced levy? How do we mitigate this?
- Is there potential for the new political landscape to constrain joint working with other levy boards?
- If establishing new trade agreements is given higher priority this could squeeze funding of much needed industry development activities.
- On health and education the main concern is funding and the potential impact for other partners.
- There is some PR/reputation management concern about reactions to the Enjoy, it's from Europe logo and uncertainty regarding PGI status.
- There will be a need for leadership and clarity from QMS and others to minimise confusion in the red meat production chain.
- A "Business As Usual" message will be important at international events such as SIAL and also worth considering inbound press trips.
- The tendering process for the Assurance contract tender due to commence shortly will follow procurement rules and is not expected to be affected.

### 3 **Discussion on major policy and trade issues and actions arising for QMS and others**

Points noted during the discussion were:

- The EU exit could be a catalyst for the industry to have a good look at how it may need to change.
- A progress report on the top ten areas identified would be reported at future Board meetings. **Action: UM**
- QMS is a member of the PFN Association where discussions on PGI status have taken place. PGI status is guaranteed within the EU after the UK leaves. The issue for the PGI is that if Scotland leaves the EU the PGI will not be protected within the UK. To address this Defra needs to put legislation in place to recognise PGIs in the UK (including Scotland) to guarantee the brand. Defra has started drafting an SI for monitoring PFNs and it is not certain how quickly this will be progressed. QMS will write to the Defra Secretary of State and Scottish Government regarding the importance of obtaining Protected Food Name recognition for the PGIs. **Action: UM**
- Farming is an industry that relies heavily on people having confidence to engage and at present there are too many unknowns for this confidence to be robust.
- The processing sector employs a high percentage of EU nationals and needs to maintain access to this workforce.
- Another Scottish independence referendum could affect retail trade with England and also levy redistribution discussions.
- We must not underestimate the importance of the Scotch brands
- Processing standards in Europe are lower than in the UK. We need to be careful not to become uncompetitive by making it more difficult to achieve technical standards.
- At present there is no clarity on the exit process and how closely we will need to align to EU regulations.
- It is important for QMS to continue research to test reactions eg to the brands and the Enjoy, it's from Europe logo. It would also be useful to look at how target consumers voted. The Marketing department currently does not have financial resources to do this.

- It would be helpful to try to establish what the rest of Europe's view is on UK exports – will it be supportive? LV to discuss with Scotland Food & Drink. **Action: LV**
- There is uncertainty on the impact on business e.g. how will Tulip view Brechin?
- Care should be taken regarding communicating short term price increases as input costs have also increased.
- Knowledge transfer relies on R&D work being undertaken and there is concern about the impact on R&D funding in the UK, particularly agri-research.
- There is an opportunity for Scotland to develop its relationship with Europe.
- The industry is dependent on a limited number of markets.
- There is some concern that the beef premium may fall in the short term as some retailers in England may decide to label all beef as Red Tractor.
- We need clarity regarding export health certificates – will these need renegotiated or resubmitted? If so, the UK Government would have to progress this, and who would meet the costs?
- We need clarity on when agri policy will end – will this be two years after Article 50 is triggered?
- What will happen to legacy support programmes such as KTIF and BES?
- What will happen to LFAS and ANC?
- The current EU commissioners leave office on 31 Oct 19 – is this a potential exit date?
- What will replace the current CAP?
- If the UK withdraws from Europe does the EC Act fall over and if so, all the regulations that have been imposed in relation to that act will cease.
- How will the money not sent to the EU by the UK government be distributed?
- There are a number of questions relating to trade between the UK and Europe as well as trade between the UK and areas outside Europe. What will happen to EU Tariff Rate Quotas (TRQ)? What can the UK do/not do relating to WTO rules? Is there potential for the UK to negotiate a TRQ for Europe? If a deal can not be achieved export of lambs into Europe would be costly.
- QMS would contact other UK levy bodies to identify and discuss common issues. **Action: UM**

The Chairman thanked Board members for their contributions.

#### 4

#### **Date of Next Meeting**

The next Board meeting would be held on Thursday, 15 September at **9am** in the Rural Centre Boardroom and would be preceded by the Board Away Day and dinner with the Cabinet Secretary on Wednesday, 14 September.