

**EXPLANATORY MEMORANDUM TO
THE BEEF AND VEAL LABELLING REGULATIONS 2008**

2008 No. 3252

1. This explanatory memorandum has been prepared by the Department for Environment, Food and Rural Affairs and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

2.1 This instrument will:-

- continue to enforce the existing EU legislation currently enforced by The Beef Labelling (Enforcement) (England) Regulations 2000 (SI 3047/2000) and The Beef Labelling (Enforcement) (England) (Amendment) Regulations 2002 (SI 2315/2002), both of which are revoked and replaced by these Regulations;
- enforce new EU provisions on labelling veal contained in Council Regulation (EC) No. 1234/2007 and Commission Regulation (EC) No. 566/2008.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None.

4. Legislative Context

4.1 This instrument is being made using the powers under the European Communities Act 1972 and has been the subject of consultation with interested stakeholders as required by Article 9 of Regulation (EC) No.178/2002 of the European Parliament and of the Council laying down the general principles of food law, establishing the European Food Safety Authority and laying down procedures in matters of food safety.

4.2 It will incorporate the enforcement of the existing provisions for the EU beef labelling rules contained in Title II of Regulation (EC) No.1760/2000 in a single instrument.

4.3 A proposal to set new rules for the marketing of the meat of bovine animals aged 12 months or less was originally introduced in 2006. This was subsequently adopted as Council Regulation (EC) No. 700/2007 and then incorporated into Council Regulation (EC) No.1234/2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products (Single CMO Regulation) with effect from 1 July 2008 as a result of the amendments contained in Council Regulation (EC) (No). 361/2008. The Commission implementing rules were subsequently laid down in Commission Regulation (EC) No. 566/2008.

4.4 A Transposition Note is attached at Annex 1.

4.5 The proposal for Council legislation on the marketing of the meat of bovine animals aged 12 months or less was considered by the EU Scrutiny Committees in both 2006 and again in 2007 when it was being incorporated into the Single CMO. On both occasions it was classified as not legally or politically important and cleared from scrutiny.

5. Territorial Extent and Application

5.1 This instrument applies to England only.

5.2 Similar instruments are being made in Scotland, Wales and Northern Ireland.

6. European Convention on Human Rights

6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

7.1 The instrument implements the Government's obligation to introduce measures to enforce this EU legislation in relation to Beef and Veal Labelling. The changes to the EU legislation are not legally or politically of high importance.

7.2 The rules on the marketing of the meat of bovine animals aged 12 months or less are, however, new and came into effect under EU legislation from 1 July 2008. They are directly applicable and are intended to protect consumers from misleading or confusing sales descriptions for meat from bovine animals aged 12 months or less so that they can make a clear distinction between veal from animals aged 8 months or less and meat from animals aged 8-12 months, sometimes described as rosé veal. The effect is to make operators label the meat at each stage of production and marketing with the statutory defined descriptions for each category as laid down individually for each Member State. The instrument implements the Government's obligation to introduce measures to enforce this new EU legislation.

7.3 The UK has decided to call meat from animals aged 8 months or less 'veal' and from animals aged more than 8 months but not more than 12 months 'beef', with the option of adding supplementary information under the existing provisions of the Beef Labelling Scheme (BLS). Defra consulted the industry widely when the Council legislation was originally proposed back in 2006. In the older category, because there is more meat sold as beef from fast growing young bulls on cereal based feeding systems than there currently is from rosé veal production systems, it was decided to opt for 'beef' as the UK's 8 – 12 month description. There is the option under the EU legislation to apply to the Commission for the latter description to be changed in the future if the UK industry as a whole decided that this was desirable.

7.4 Only a small part of the farming sector is affected as very few farmers produce veal in the UK and those that do produce it under welfare friendly rosé veal systems. Similarly the production of young bull beef at less than 12 months of age or less is a very small proportion of total young bull production. However one unavoidable consequence of the legislation is that veal producers will no longer be able to use the term "rosé" and must find alternative supplementary terms to describe the production system when marketing their product.

8. Consultation outcome

8.1 A wide range of stakeholders representing the full range of the market chain from producers to retailers were consulted on the draft instrument. The consultation took place between 1 and 29 July 2008. A shortened consultation took place as the new EU rules on the marketing of the meat of young bovine animals were not published until the second half of June, despite coming into force from 1 July 2008.

8.2 There were only five responses to the consultation exercise, with only the one from LACORS commenting on the detail of the draft instrument. These comments have been incorporated into the Regulations where appropriate. Two of the five responses expressed concern about the new labelling descriptors. A more detailed analysis of the consultation outcome is

included in the final Impact Assessment. There is limited leeway to change the scope of the instrument as it enforces EU legislation which is directly applicable so that not all suggested changes could be incorporated.

9. Guidance

9.1 A detailed guidance note explaining how the new EU provisions on the marketing of meat of bovine animals aged 12 months or less will operate is being provided by Defra. It is being placed on the Defra website as well as that of the Rural Payments Agency (RPA) who are responsible for the implementation of the EU Beef and Veal Labelling Scheme. It will be available to users, stakeholders and enforcement agencies.

10. Impact

10.1 There is no impact on charities or voluntary bodies. The new EU rules will have the most immediate effect on the veal industry in the UK, who will no longer be able to market their product as “veal” from animals of 8 months of age or more. Overall, however, the measure may not affect the UK to any great extent as the market for veal and young bull beef from animals of 12 months or less is very small.

10.2 No significant impact on the public sector is anticipated.

10.3 An Impact Assessment is attached to this memorandum.

11. Regulating small business

11.1 The legislation applies to small business.

11.2 The EU legislation applies to all businesses and there is no scope for a different approach to small business.

12. Monitoring and review

12.1 The impact of the policy will be reviewed in the UK in 2010.

13. Contact

Mike Roper at the Department for Environment, Food and Rural Affairs: Tel 020 7238 3150 or e-mail: Mike.Roper@defra.gsi.gov.uk can answer any queries regarding the instrument.

Transposition of the EU Beef and Veal Labelling Rules

The Beef and Veal Labelling Regulations 2008

1. This Transposition Note has been prepared by the Department for Environment, Food and Rural Affairs (“Defra”) to show how the main elements of EU Beef and Veal Labelling Rules have been transposed in England, including the new rules on the marketing of the meat of bovine animals aged 12 months or less.
2. These EU rules are laid down in the following legislation:-
 - Title II of Regulation (EC) No. 1760/2000 of the European Parliament and of the Council establishing a system for the identification and registration of bovine animals and regarding the labelling of beef and beef products,
 - Commission Regulation (EC) No. 1825/2000 laying down detailed rules for the application of Regulation (EC) No 1760/2000,
 - Article 113b of, and Annex X1a to, Council Regulation (EC) No. 1234/2007 establishing a common organisation of agricultural products and on specific provisions for certain agricultural products,
 - Commission Regulation (EC) No. 566/2008 laying down detailed rules for the application of Council Regulation (EC) No.1234/2007 as regards the marketing of the meat of bovine animals aged 12 months or less.
3. This Note has been published to accompany the Beef and Veal Labelling Regulations 2008 which are being laid before Parliament in December 2008. The Regulations also revoke The Beef Labelling (Enforcement) (England) Regulations 2000 (SI 3047/2000) and The Beef Labelling (Enforcement) (England) (Amendment) Regulations 2002 (SI 2315/2002).
4. The Government is required to introduce measures to enforce new EU legislation on the marketing of the meat of bovine animals aged 12 months or less. It is taking the opportunity to incorporate the existing enforcement provisions for the EU Beef Labelling legislation in a single instrument.

Means of transposition of the main elements of the EU legislation on Beef and Veal Labelling.

The following summary sets out how the main elements of EU Beef and Veal labelling legislation have been transposed by the Regulations.

REGULATION 3 specifies the enforcement authorities in respect of these Regulations.

Responsibility for retail supply rests with local authorities. Otherwise they are enforced by local authorities, a port health authority and the Secretary of State.

REGULATION 4 lists the obligatory EU labelling and associated requirements which have been made offences in cases of non-compliance as follows:-

Regulation (EC) No. 1760/2000 of the European Parliament and the Council

- (i) Article 11 (requirement to label);
- (ii) Article 13(1) (general rules);
- (iii) Article 13(2) (indications on the label);
- (iv) Article 13(5) (additional information on the label);

- (v) Article 14 (labelling of minced beef);
- (vi) Article 15 (beef from third countries);
- (vii) Article 16(4) (voluntary labelling);
- (viii) Article 17(1) (voluntary labelling of beef from third countries);

Commission Regulation (EC) No. 1825/2000 laying down detailed rules for the application of Regulation 1760/2000

- (ix) Article 1 (traceability)
- (x) Article 2 (labelling);
- (xi) Article 4 (size and composition of a group);
- (xii) Article 5(2) (minced beef);
- (xiii) Article 6(3) (beef in small retail packages);
- (xiv) Article 7 (access to premises and records);

Council Regulation (EC) No. 1234/2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products as the provisions relate to the marketing of the meat of bovine animals aged 12 months or less

- (xv) Article 113b (marketing of the meat of bovine animals aged 12 months or less);
- (xvi) paragraph II of Annex XIa (classification at the slaughterhouse);
- (xvii) paragraph III of Annex XIa (sales descriptions);
- (xviii) Paragraph IV of Annex XIa (compulsory information on the label);
- (xix) paragraph V of Annex XIa (optional information on the label);
- (xx) paragraph VI of Annex XIa (recording);
- (xxi) paragraph VIII of Annex XIa (meat from third countries);

Commission Regulation (EC) No. 566/2008 laying down detailed rules for the application of Council Regulation (EC) No.1234/07 as regards the marketing of the meat of bovine animals aged 12 months or less

- (xxii) Article 4(1) (compulsory information on the label);
- (xxiii) Article 4(2) (indication of age);
- (xxiv) Article 5 (recording information).

REGULATION 5 (Enforcement Notices), **REGULATION 6** (Powers of Entry), **REGULATION 7** (Powers of authorised officers), **REGULATION 8** (Obstruction) and **REGULATION 9** (Offences by bodies corporate).

These Regulations provide further detail on the manner and means of enforcement of these Regulations.

REGULATION 10

This sets out the level of penalty for those found guilty of an offence under the Regulations.

Summary: Intervention & Options

Department /Agency:	Title: Impact Assessment of BEEF AND VEAL LABELLING	
Stage : Final	Version:	Date: November 2008
Related Publications:		

Available to view or download at:

Contact for enquiries: Mike Roper

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What is the problem under consideration? Why is government intervention necessary?

To protect consumers from misleading or confusing sales descriptions for meat from bovine animals aged 12 months or less so that they can make a clear distinction between meat from animals 8 months or less and that from animals aged 8-12 months. This is essentially a concern for the continental market rather than the UK one where the market is limited; very few farmers in the UK produce veal. The Government is required to introduce measures to enforce EU legislation which is directly applicable from 1 July 2008.

What are the policy objectives and the intended effects?

To provide clear descriptions for bovine meat aged 12 months or less and in particular to clarify the distinction between meat in the above two age categories for business and consumers. To allow UK industry to adapt its business with minimum change and consumers to make an informed choice. The effect is to make operators label the meat at each stage of production and marketing with the statutory defined descriptions for each category as laid down individually for each Member State, replacing the current more flexible commercial but in some cases less clear descriptions.

What policy options have been considered? Please justify any preferred option.

The UK voted against these proposals, as adopted, having argued for greater flexibility for descriptions based on production systems and not solely on the age of the animal. The UK has decided to call meat from animals aged 8 months or less 'veal' and from animals aged more than 8 months but not more than 12 months 'beef' with the option of adding supplementary information under the provisions of the Beef Labelling Scheme (BLS). The arrangements are intended to provide flexibility to allow UK industry to adapt to the new rules with minimum change.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The policy impact will be reviewed in the UK in 2010. An option exists in the EU Regulation to change the designated UK descriptor for the 8-12 month age category if so justified.

Ministerial Sign-off For final proposal Impact Assessment

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

Jane KennedyDate: 17th December 2008

Summary: Analysis & Evidence

Policy Option: Responsibility sharing	Description: BEEF AND VEAL LABELLING
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups' Enforcement costs for competent authority (£12.2k); costs for beef/veal operators of beef and veal labelling and verification of voluntary labelling where necessary (£24.9k, avg. annual)
	One-off (Transition) Yrs	
	£ 0	
	Average Annual Cost (excluding one-off)	
£ 37.1k	Total Cost (PV)	£ 0.58m (over 20y)

Other key non-monetised costs by 'main affected groups'

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups'
	One-off Yrs	
	£ 0	
	Average Annual Benefit (excluding one-off)	
£ zero	Total Benefit (PV)	£

Other key non-monetised benefits by 'main affected groups'

The proposal is intended to increase transparency in the marketing of meat of animals aged 12 months or less and provide better information for consumers and trade.

Key Assumptions/Sensitivities/Risks Majority of meat from cattle aged between 8 & 12 months is produced as cereal fed young bull beef rather than rose veal- balance could change in future. Renewed interest in rearing calves to slaughter weights of 8-12 months could create sensitivities by restrictions on product name/use of term veal.

Price Base	Time Period	Net Benefit Range (NPV) £ -.58m to -.92m (over20yr)	NET BENEFIT (NPV Best estimate) £ -0.586m (over 20 yrs.)
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What is the geographic coverage of the policy/option?		UK	
On what date will the policy be implemented?		1 July 2008	
Which organisation(s) will enforce the policy?		RPA	
What is the total annual cost of enforcement for these organisations?		£ 12.2k	
Does enforcement comply with Hampton principles?		Yes	
Will implementation go beyond minimum EU requirements?		No	
What is the value of the proposed offsetting measure per year?		£	
What is the value of changes in greenhouse gas emissions?		£	
Will the proposal have a significant impact on competition?		No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium 8,477
Are any of these organisations exempt?	No	No	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)
 Increase £ 5,181 Decrease £ 0 Net £ 5.2k (approx.)

Key: Annual costs and benefits: Constant Prices (Net) Present Value

EXECUTIVE SUMMARY

BACKGROUND

Prior to 2006, the Commission had been trying for some years to introduce an agreed definition of veal but due to wide differences in age criteria (under 6 to 18 months) used by Member States had been unable to do so. A proposal was therefore introduced in 2006 (subsequently adopted as Council Regulation (EC) No. 700/2007 and then incorporated into Council Regulation (EC) No. 1234/2007 as amended with effect from 1 July 2008) to introduce harmonised treatment for the marketing of meat of bovine animals in this category, whilst as far as possible allowing Member States to continue to use their domestic definitions. It is intended to increase transparency in the marketing of meat of animals aged 12 months or less, and is designed to improve the functioning of the single market and provide better information for consumers and trade.

Council Regulation (EC) No. 1234/2007 as amended introduces new compulsory labelling for meat, including offal, of bovine animals aged 12 months or less, divided into two sub-categories, namely, meat from animals aged 8 months or less (Category V) and meat from animals aged over 8 months but not more than 12 months (Category Z). With effect from 1 July 2008, all bovine animals aged 12 months or less must be appropriately classified on slaughter by the operators, and it will only be possible to market the meat under the sales description laid down for the two categories for each Member State. Prior to this legislation no statutory descriptions existed for this type of bovine meat and industry have been able to use appropriate commercial descriptions, and it has been possible to use the term 'veal' to describe meat from bovine animals slaughtered at over 8 months.

The problem is essentially a continental European one where consumers like to make a clear distinction between so called 'white veal' or 'rosé veal' or young beef from older calves. In the UK, where there is a limited market for veal due to historic animal welfare concerns and the systems which have been developed produce a clearly defined welfare friendly 'rosé veal' product up to 10 months of age, the scope for consumer confusion is very limited. During the EU negotiations, the UK argued unsuccessfully for greater flexibility based on production systems and not solely on the age of the animal.

Rationale for Government Intervention

Council Regulation (EC) No.1234/2007 as amended and the EU Commission implementing rules (Commission Regulation (EC) 566/2008) are directly applicable and therefore the UK must adopt appropriate domestic measures to enforce the provisions. The UK intends to enforce the provisions as flexibly as is possible to meet the requirements of the EU legislation.

The approach

The UK has exercised the opportunity provided to choose the descriptive labels for the two categories of bovine product covered by Regulation (EC) No.1234/2007 as amended. Following a consultation exercise on the EU proposal in 2006, we have chosen the descriptor 'veal' for meat from animals slaughtered aged 8 months or less with the option (provided under EU legislation) to add supplementary wording under the rules of the voluntary Beef Labelling Scheme (BLS). Meat from 8-12 months animals must be called 'beef' with the option of adding other descriptions of beef allowed under the BLS. It is intended that this degree of flexibility will allow the industry to adapt its business to the EU legislation as flexibly as possible.

Who will be affected?

Those in the EU involved in the production, slaughter, trade, sale (both wholesale and retail, including supermarkets) and purchase of meat of bovine animals aged 12 months or less will be affected by the new measure. Third country exporting countries and importers will also be affected as meat imported from third countries will also have to be marketed in the Community in accordance with these rules. Under the legislation, on slaughter, all bovine animals must be classified by the operators into one of the two categories according to age. It will only be possible to market the meat in question under the sales descriptions for the two age categories laid down in Council Regulation (EC) No.1234/2007 for each Member State. At each stage of production and marketing the operators must label the meat with the age at slaughter and the appropriate sales description in the specific way laid down in the Council and Commission legislation. Records must be kept at all stages to allow verification of the category.

This will have the most immediate effect on the industry in Britain and Northern Ireland, who will no longer be able to use the description 'veal' for meat from bovine animals slaughtered aged more than 8 months but not more than 12 months.

Only a small part of the farming sector will, however, be affected as very few farmers produce veal in the UK.

Retailers may think it appropriate to re-market their products if it is necessary to introduce new sales descriptions.

Consumers should benefit from clearer and more transparent labelling, although it is possible this may cause some a little initial confusion. In the longer term, the market position may become clearer to the overall advantage of producers, although the time frame and actual extent is indeterminate and unquantifiable at the present time.

Overall the measure may not, however, affect the UK to any great extent as the market for veal/young beef is very small. The average number of cattle in the 9-12 month age group slaughtered in Britain in 2003 and 2004 was approximately 18,900 head per year (Source: CTS by BCMS). At present very few farms produce 'veal' as described prior to the implementation of the new legislation.

Developing policy in partnership with stakeholders

A consultation letter was sent out to farmers, meat trade organisations and retailers when the proposal for a Council Regulation laying down rules on the marketing of the meat of bovine animals was first received in 2006 seeking their views. As a result of responses received the UK argued strongly, as described above, for a derogation to allow more flexibility in marketing meat according to production system rather than age but was turned down firmly by the EU Commission. The UK voted against the proposed Regulation at the Council but was outvoted by other Member States. Since then Defra has liaised closely with affected industry bodies and individual businesses to ensure that the measure imposes the minimum regulatory burden compatible with the requirements of the Regulation. Defra held a stakeholder meeting with interested trade organisations in March 2008. A four week consultation exercise has been undertaken before making the domestic enforcement legislation in England. Separate domestic legislation is being made in Scotland, Northern Ireland and Wales with appropriate consultation arrangements.

Council Regulation (EC) No. 1234/2007 provides that the sales descriptors laid down for the 8-12 month category may be amended in future by Commission legislation although it is expected that this process would take an extended period of time.

Enforcement

The EU legislation requires Member States to carry out official checks in accordance with the provisions of horizontal EU legislation on official controls. In the UK monitoring compliance with these new provisions will be carried out on a similar basis to the system used for checking compliance with the Beef Labelling Regulations. It is envisaged that inspections at the slaughterhouses/cutting plants will be made by the Rural Payments Agency (RPA) in England and Wales; in Scotland these inspections will be carried out by the Scottish Government's Meat and Livestock Inspectors and in Northern Ireland by DARD inspectors. It is envisaged that checks at the retail level will be carried out in the UK by Trading Standards Officers (or in some parts of the UK by Environmental Health Officers).

As regards imports, the EU implementing legislation puts responsibility on the competent authority designated by a third country or an independent third-party body to approve and control an identification and registration system. It is envisaged that normal checks on imports into the UK will be made by Port Health Authorities along similar lines to the current Beef Labelling Scheme.

The UK is planning to enforce the new provisions contained in Council Regulation (EC) No.1234/2007 as flexibly as possible to ensure compliance with the EU legislation.

Economic impact

A. Benefits to stakeholders

The ultimate objective of the EU Regulation is to increase transparency in the marketing of the meat of animals aged twelve months or less and provide better information and clarity at the point of sale for consumers across the EU. The direct benefits to the stakeholders in the UK of implementing the measure are not immediately obvious as, due to the nature of production systems, the scope for consumer confusion has always been limited.

B. Costs to stakeholders

Background Analysis

The Veal/Young Beef Market in Britain

NB The term 'veal' referred to below is the commercial term used before 1 July 2008 and not related to the age of the animal (when describing the situation prior to 1 July 2008).

The average number of cattle in the 8-12 month age group slaughtered in Britain in 2003 and 2004 was approximately 18,900 head per year. (Source: CTS by BCMS). Most of these, however, would not normally be regarded or classed as veal but would rather be reared for young bull beef, being assigned to slaughter at around 11 months. Looking at the general background to calf production, it is apparent that veal output constitutes only a relatively small proportion of the overall total prime beef market. It is difficult at this stage to be very definite about the impact of the new regulation on the potential market for veal and young beef and the costs arising directly from it. The future of the market is considered in Annex A.

It is worthwhile looking at the scale of the market for veal in England. Calves in the 8-12 month age group that are not designated for slaughter as young bull beef would at present be assigned to the veal market. These taken together with those under 8 months old constitute the total number slaughtered as veal. They are estimated as amounting normally to between 2,000 and 3,000 head per annum. It can be readily seen that compared with the total number of home-fed cattle, averaging 2.42 million per annum in the period 2002-06, the veal market is extremely small. Nevertheless, it is fully recognised that for those producers specialising in this

niche market, factors that can affect the profitability of operations are very significant to them. The UK veal industry is very small with very few farmers producing veal.¹

¹ UK VEAL INDUSTRY (ADAS, March 2005) p. 1.

The detailed costings arising from this measure are provided in the following table. These are based on some basic assumptions, among the more important of which are those relating to the potential growth of the industry, which in turn arise from the foregoing analysis. However it is impossible to take even a five year view on this matter with any degree of certainty. One specific area of uncertainty is the scale of the marketing costs that veal suppliers might have to incur to explain to consumers the effects of the regulatory changes. Precise costs of marketing are very difficult to quantify. More information on this was sought on this as part of the consultation exercise but was not forthcoming. It might be possible to consider this aspect further as part of the review in 2010. Northern Ireland producers would face a particularly complicated advertising challenge, because their output product will be categorised and described differently in two of their closest markets, viz. Britain and the Republic of Ireland.

The costings in the table below have been calculated on the following basis:-

- the administration costs relate to the administrative costs for the industry. The source for the estimates used is Price Waterhouse Cooper Admin Burdens assessment for the Beef Labelling Enforcement Regulations 2002 (2005).
- the labelling verification costs are the cost of verification which relates to inspection procedures by independent verifiers in relation to the Beef Labelling Scheme (BLS) and will be paid for by the producer applicant.
- the inspection costs relate to the inspections carried out by RPA in the abattoirs/cutting plants in England and Wales. There will be a small additional cost for inspections in the rest of the UK.
- the marketing costs relate to the cost to industry of producing new labels and literature explaining the new requirements to consumers and suppliers.
- for the purpose of calculating the NPV, a 20 year period is deemed appropriate in this case because the industry has indicated that they envisage a clear potential for expansion of domestic production (Please see “Beyond Calf Exports - Stakeholder Forum, Report on Conclusions & Recommendations”, January 2008). This developmental potential is examined in greater detail in Annex A below). To the extent that large-scale developments actually materialise, some of it will be likely to involve a substantially increased investment in buildings, plant and machinery, etc. Hence entrepreneurs, in making such investment, will need to have due regard to the cost structure they will face over the life of the investment.
- the main factors explained in the preceding bullet-point provide the framework for the specification of the scenarios that have been estimated (below). On the basis of the industry’s plans, a core assumption has been made that domestic UK production (utilising welfare-sensitive systems) could be increased threefold. This threefold increase has been assumed because of the expected increase in the market for meat from animals aged 8-12 months from a small base (see Annex A. The first scenario applies this scale of expansion to the baseline situation in the UK as outlined in the ADAS report: The UK Veal Market; March 2005). The second scenario looks at the international dimension arising from the substantially integrated nature of the UK and Irish beef markets. The focus is directed at the potential development opportunities and problems confronting prospective veal producers in Northern Ireland operating in these markets. On the basis of input provided by DARDNI, an assumption was made for this second

scenario that an additional two suppliers would operate from Northern Ireland. It was assumed also that designation of two separate product labels in the UK and Republic of Ireland would generate the need for additional advertising involving increased marketing costs.

Current Situation regarding the UK Veal Market

UK Consumption 3,000 t	Current Self-sufficiency : Domestic Supplies 360 t	12%	Domestic Producers 4
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Future Projections

Central estimate

Scenario 1 : 3 fold increase in :

Domestic supplies.	1,080 t	12
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£

Years 1 & 2

	Per Business	Total
Admin. costs		
Framing complaints & appeals	17.55	
Statutory labelling for 3 rd parties	2.73	
Cooperating with audits/inspections	431.76	
Subtotal	452.04	5,425
Labelling Scheme verification	500.00	6,000
Additional Marketing costs	7,500.00	90,000
Inspection costs (487 businesses liable to inspection)	25.00	12,175

Additional Marketing costs (total) dynamic profile after Year 2

Year 3	Year 4	Year 5
£60,000	£30,000	0

<u>Total Costs to Industry</u>				
£				
Year 1	Year 2	Year 3	Year 4	Year 5 & following
113,600	113,600	83,600	53,600	23,600

NPV* -586,638

* Discounting at 3.5% over 20 year period.

<u>Elevated estimate</u>	
	Domestic Producers
	6
Scenario 2 : Higher marketing costs & 3 fold increase in :	
	18
Domestic supplies. 1,080 t	

£		
Years 1 & 2	Per Business	Total
Admin. costs		
Framing complaints & appeals	17.55	
Statutory labelling for 3 rd parties	2.73	
Cooperating with audits/inspections	431.76	
Subtotal	452.04	8,137
Labelling Scheme verification	500.00	9,000

Additional Marketing costs per business	10,000.00	180,000
Inspection costs (487 businesses liable to inspection)	25.00	12,175
Total Costs	10,977.04	209,312

NB: An assumption has been made that associated additional marketing costs are reduced to 0 after 4 years.

<u>Additional Marketing costs (total) dynamic profile after Year 2</u>		
Year 3	Year 4	Year 5
£120,000	£60,000	0

<u>Total Costs to Industry</u>				
£				
Year 1	Year 2	Year 3	Year 4	Year 5 & following
209,312	209,312	149,312	89,312	29,312

NPV -919,055

Discounting at 3.5% over 20 year period.

Benefits to taxpayers:

None currently obvious.

Costs to taxpayers

None currently identified. The costs of verification which are related to inspection procedures by independent verifiers in relation to the voluntary Beef Labelling Scheme are/will be paid for by the producer applicant.

Specific Impact Tests

Competition Assessment & Small Firms Impact Test

In terms of competition, the new regulations do not appear to involve any major restriction on competition. Suppliers will be able to enter the market place quite freely. Nonetheless, there might be an indirect inhibition arising from the costs associated with the verification of the new labelling requirements. Given the paucity of existing domestic suppliers which would suggest current pressures on profitability, the additional costs for breaking into the veal market that this measure will entail might tend to further inhibit new entrants.

Small non-specialised enterprises which were seeking diversification outlets would tend to experience a disproportionate effect from these costs.

Unintended Consequences

Small non-specialised enterprises could also be adversely affected if it transpired that the legislation were to seriously complicate the processing requirements of calves for veal to such an extent that some abattoirs were to decide to restrict their handling of this particular category of cattle in future or possibly instead buy them at a sizeable discount causing a potential risk of disruption to the market. Any such consequences would have the most direct effects on the rural areas where the enterprises are situated.

Consultation outcome

A wide range of stakeholders representing the full extent of the market chain from producers to retailers were consulted on these Regulations. There were only five responses to the consultation exercise. Only Lacors commented on the text of the draft Regulations. Their comments regarding a more accurate description of the local government structure responsible for enforcement have been reflected.

Two of the other responses expressed concern about the labelling descriptors for the two age categories for meat from bovine animals of 12 months or less. The first wanted a change to the descriptor chosen by the UK for the 8-12 month category (Category Z) from 'beef' to 'rosé veal' – as in the Irish Republic. The second argued for the need to allow the term 'rosé' under the supplementary labelling arrangements in the existing Beef Labelling Scheme.

The UK's decision on the descriptor for the older category ('beef') represents the overall views from an earlier consultation. Since this latest consultation, advice has been received from the Commission that the term 'rosé veal' can *only* be used in the way the Member States have decided in Annex XIa of the EU Regulation. The UK has decided to use the term 'beef' to apply to Category Z animals to reflect the majority of production (fast growing young bulls finished at 12 months or less) in this age category. In the Commission's view this does not leave us free to then add the term 'rosé' as a supplementary description to 'veal' for animals under 8 months as they believe this could lead to confusion amongst consumers across the single market who might expect such meat to come from older animals over 8 months of age. Operators may, however, apply to use other supplementary descriptions which, for example, refer to the manner in which the calves are reared in relation to their feeding and housing conditions in order to produce welfare friendly veal or beef. Defra have therefore raised the concerns of consultees with the Commission on this issue in the hope of using a more flexible approach to interpretation of the Council Regulation to reflect existing production systems in the UK but without success to date.

Legal Aid

The Proposal does not create new criminal sanctions or civil penalties.

Sustainable Development

The Proposal will not have an effect on sustainable development.

Carbon Impact Assessment

The Proposal will have no effect on carbon emissions.

Other Environmental Issues

The measure has no implications in relation to climate change, waste management, landscapes, water and floods, habitat and wildlife or noise pollution.

Health Impact Assessment

The Proposal will not directly impact on health or well being and will not result in health inequalities.

Race /Disability/Gender

There are no limitations on meeting the requirements of the Proposal on the grounds of race, disability or gender. The Proposal does not impose any restriction or involve any requirement which a person of a particular racial background, disability or gender would find difficult to comply with. Conditions apply equally to all individuals and businesses involved in the activities covered by the Proposal.

Human Rights

The Proposal is consistent with the Human Rights Act 1998.

Rural Proofing

There is no identified impact on rural communities at this stage.

Implementation

The EU rules on the marketing of bovine animals aged 12 months or less are directly applicable and come into effect from 1 July 2008.

Evaluation

The impact of the policy will be reviewed in 2010. There is an option in Council Regulation (EC) No.1234/2007 to change the designated UK descriptor for the 8-12 month category should the need arise in the future.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No

Future Market Situation

NB The term 'veal' as used below is commercial term used before 1 July 2008 and not related to the age of the animal (where used to describe the situation prior to 1 July 2008).

Looking ahead one must consider any dynamic influences that might affect the size of the veal market over the foreseeable future. Developments in other parts of the beef market will have effects on each of its components. Regarding the overall background in bovine meat, the MLC has forecasted a decline in beef & veal production in the intermediate term and perhaps more importantly a continued decline in prime cattle numbers. (Outlook for UK Beef Sector, MLC, January 2008). This might, other things being equal, generate a tendency to carry forward more calves to maturation.

On the other hand there is an initiative to encourage altering the destination of calves from the live export trade to Continental EU countries towards attempting to develop a larger veal or young bull beef market in Britain. Proposals to support the development of economically viable outlets for the domestic rearing and finishing of male dairy calves, such as the Holstein breed, are currently being examined. Representatives of a range of producer and supermarket retail interests are discussing how such a development could be fostered. In 2007 approximately 62,000 live calves (62,068) were exported, a figure which would probably have been higher except for the fact that in the last quarter of the year the trade was curtailed because of a ban on exports due to outbreaks of FMD. In the previous year, although restrictions applied up to May, the annual total amounted to 73,512. ADAS estimated that around 570,000 Holstein-Friesian bull calves were produced in the UK in 2006 (Beyond Calf Exports – Stakeholders Forum report, p.11). According to a Compassion in World Farming report (2007) around 218,000 were killed at birth (Compassion in World Farming, UK Calf Transport and Veal Rearing, 2007).

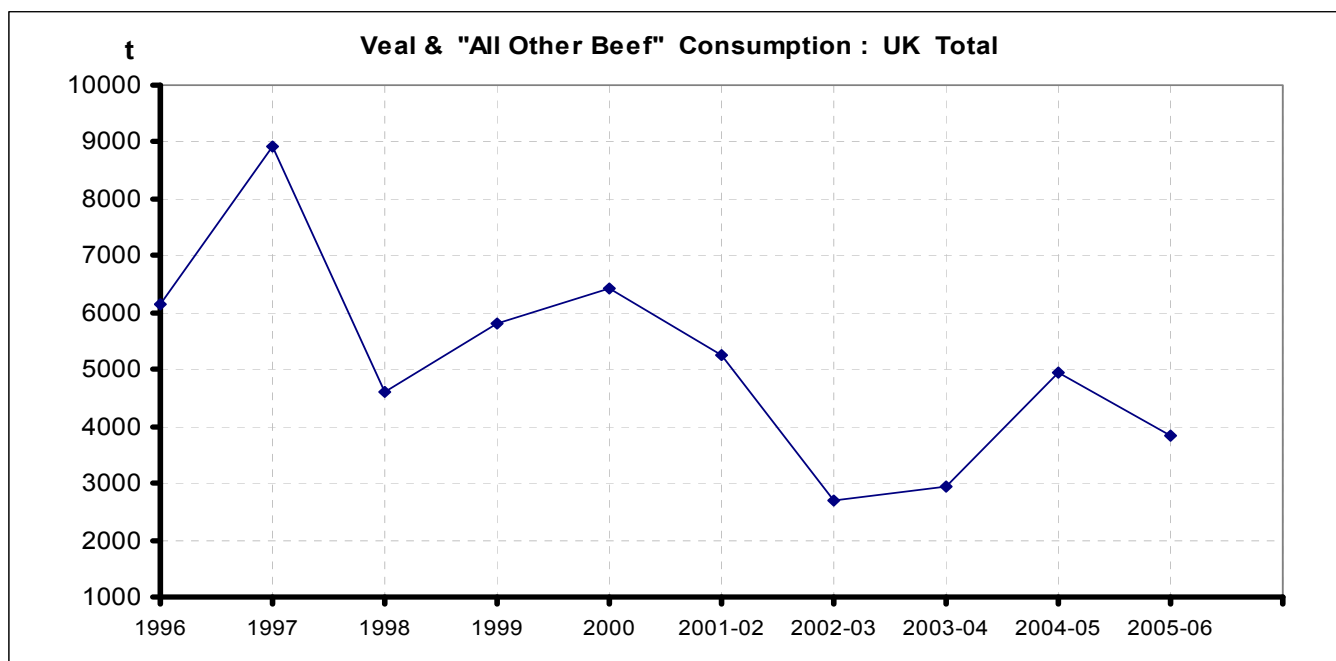
It is very difficult to determine at this early stage how many of the latter or those exported live could realistically be reared to an older calf age on farm. The average number of cattle slaughtered in Britain in the 9-12 month age group in 2003 and 2004 was 18,925 head per year (Source: CTS by BCMS). Hence in making forward projections it would seem appropriate to take the lower end of the range of the potential cohort that the CIWF report identified. Therefore a moderately optimistic scenario would amount to around 150,000 head. (Stakeholders Forum report, pp.11-12). Taking the average carcass weight of a young dairy bull, which is between 260 and 275 kgs, this would generate an increased young bull beef output of between 39,000 and 41,250 t. The nature of the absorption problem becomes apparent when one considers that present UK veal consumption amounts to around 3,000 t. One critical issue for supply chain stakeholders is to determine to which sub-segment of the market any such augmented supply should be channelled. A very significant factor for prospective domestic suppliers is that this market is currently dominated, i.e. close to 90%, by imports, mostly from the Netherlands and France. Thus even on the most conservative assumptions regarding output expansion, for a viable market outlet to be established and sustained producers would either have to confront intense competition on the existing domestic market or have to substantially enlarge that market base (or do both).

In order to assess the likely prospects of expansion of domestic supplies, one must consider the question why such supplies currently form such a small proportion of the home market. Their main competitors are Dutch producers who have a substantially different production system. In the Netherlands calf stocking rates are normally higher, viz. 1.8 square metres per calf

compared with 3.0 sq. metres in Britain. (ADAS, p.9). Unlike the British production system under which calves have access to clean straw, in Holland straw is not often used because of the high cost and the difficulties in the disposal of the bedding (ibid). Also whereas in the British production system calves are loose-housed in small groups, 10-20 per pen, in the Netherlands calves are often reared in individual slatted stalls for eight weeks and are then reared in groups of 5/6 calves in a pen. Insofar as it is possible to compare welfare standards, for the foregoing reasons it would appear that in general the British system maintains a relatively higher standard than in the Netherlands (ibid). However the Dutch veal production is more profitable than that of Britain (ibid), where very small margins have been estimated. A slaughter premium subsidy of £34/head was available before January 2005, but without this premium a very low net margin remains (in 2005 a net margin per calf of £4 was calculated) (ADAS, p.7). Assuming that such circumstances still pertain, it would appear that the underlying domestic supply-side conditions are not particularly favourable for a major reversal of existing market shares.

Another possible hypothetical opportunity for increasing domestic supplies might arise in a situation of an expanding market. If there were a rapidly increasing consumers' demand tending to outstrip supply, the unsatisfied demand would in theory provide market openings for home-produced veal. However there is little evidence that such a situation currently exists or would be likely to arise in the foreseeable future, without a major change in consumers' preferences. Examining what relevant data are available, consumption figures in the Expenditure and Food Survey do not distinguish between "All Other Beef" (i.e. minor), categories and veal. However even taking this combined grouping, the consumption levels were very low, particularly when compared with some Continental EU counties. In France veal consumption was 5.5 kg per head and 4.7 kg per head in Belgium (ADAS), whilst in the UK in 1996-97 the average intake per person per annum was 128.25 grams; in 2000-01 the average was 98.3 g, whilst in 2004-06 the average was down to 73g. The small increase in population over this decade was not sufficient to outweigh this per capita decline. Please see Graph 1 below.

Graph 1



The corresponding average figures for total national consumption (of "All other beef & veal") are: for 1996-97: 7,523 t; for 2000-01: 5,847 t; and for 2004-06: 4,386 t. Apart from the relatively low levels, it is clear from these data that consumption was not showing any long-term rising tendency.