

RURAL AFFAIRS AND ENVIRONMENT COMMITTEE

Wednesday 1 April 2009

Session 3

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RURAL AFFAIRS AND ENVIRONMENT COMMITTEE

10th Meeting 2009, Session 3

CONVENER

*Maureen Watt (North East Scotland) (SNP)

DEPUTY CONVENER

*John Scott (Ayr) (Con)

COMMITTEE MEMBERS

Karen Gillon (Clydesdale) (Lab)

*Liam McArthur (Orkney) (LD)

*Alasdair Morgan (South of Scotland) (SNP)

*Elaine Murray (Dumfries) (Lab)

*Peter Peacock (Highlands and Islands) (Lab)

*Bill Wilson (West of Scotland) (SNP)

COMMITTEE SUBSTITUTES

*Rhoda Grant (Highlands and Islands) (Lab)

Jamie Hepburn (Central Scotland) (SNP)

Jim Hume (South of Scotland) (LD)

Nanette Milne (North East Scotland) (Con)

*attended

THE FOLLOWING GAVE EVIDENCE:

Stuart Ashworth (Quality Meat Scotland)

Gavin Dick (Scottish Agricultural College)

Gordon McKen (Scottish Pig Producers Ltd)

Brian McMonagle (Vion Hall's)

Philip Sleigh (NFU Scotland)

Professor Christopher Wathes (Farm Animal Welfare Council)

CLERK TO THE COMMITTEE

Peter McGrath

SENIOR ASSISTANT CLERK

Roz Wheeler

LOCATION

Committee Room 6

Scottish Parliament

Rural Affairs and Environment Committee

Wednesday 1 April 2009

[THE CONVENER *opened the meeting at 10:00*]

Decision on Taking Business in Private

The Convener (Maureen Watt): Good morning. I welcome everyone to the 10th meeting this year of the Rural Affairs and Environment Committee. I ask everyone to turn off their mobile phones and pagers because they impact on the broadcasting system. Apologies have been received from Karen Gillon, who is a long-term absentee from the committee because she is on maternity leave. Rhoda Grant is substituting for her.

The main purpose of the public part of today's meeting is to take evidence on the pig industry. Later, the committee will consider in private its work programme and draft report on rural housing. Item 1 is therefore to consider whether to take agenda items 4 and 5 in private. Do we agree to take those items in private?

Members *indicated agreement.*

Subordinate Legislation

Financial Assistance for Environmental Purposes (Scotland) Order 2009 (SSI 2009/75)

Aquatic Animal Health (Scotland) Regulations 2009 (SSI 2009/85)

10:00

The Convener: Item 2 is subordinate legislation. We have two negative instruments to consider: the Financial Assistance for Environmental Purposes (Scotland) Order 2009 and the Aquatic Animal Health (Scotland) Regulations 2009. The Subordinate Legislation Committee has made recommendations on both instruments. The relevant extracts of its reports have been circulated to members as paper 3.

Nobody has raised any points on either of the instruments and no motions to annul have been lodged. Do members have any comments on the instruments?

Liam McArthur (Orkney) (LD): I have a point of clarification. I am not sure whether I am plumbing the depths of pedantry, but there is a reference in regulation 3 and elsewhere in SSI 2009/85 to work that is to be carried out by Fisheries Research Services in Aberdeen. I am conscious that the Government is launching marine Scotland today, bringing together the marine directorate, Fisheries Research Services and the Scottish Fisheries Protection Agency. For clarification, do the references need to be amended?

The Convener: We can send a letter to ask about that, because FRS is coming into marine Scotland.

Do members agree to the recommendations on the instruments?

Members *indicated agreement.*

Pig Industry

10:02

The Convener: The next item is evidence taking on the challenges facing the pig industry in Scotland, on which we agreed earlier in the year to hold a short inquiry. Today, we will hear evidence from two panels of witnesses. On 22 April we will hear from the Cabinet Secretary for Rural Affairs and the Environment. Background information on work that the committee has already carried out and written evidence that we have received has been circulated to members in paper 4.

I welcome the first panel of witnesses: Philip Sleigh is chair of the pigs working group in NFU Scotland; Gordon McKen is managing director of Scottish Pig Producers Ltd; and Brian McMonagle is managing director of Vion Hall's.

I will kick off with a question for all three panel members. Are you more optimistic or less optimistic about the industry than you were when you appeared before the committee in April 2008? Can you explain why? Who is going to kick off?

Gordon McKen (Scottish Pig Producers Ltd): I will start off. Sadly, I am less optimistic about the industry. Unfortunately, we have lost 8,000 or 10,000 sows over the past year, which is a significant chunk of our industry. That is history now. The current challenge is legislation on nitrate vulnerable zone slurry storage, which requires 26 weeks' worth of storage. That will require £5 million to £7 million of investment from producers.

That investment has to be made, but the real issue is a lack of confidence in our industry. If producers can get a derogation to spread slurry, they will have—if I can put it this way—a three-year window of opportunity. For units that have not invested in the past 10 years, the easy option—in fact, the sound business option—is to take the derogation for three years, not invest in the business and simply run things down. That was the view of quite a number of producers at a meeting that we had yesterday, and they came to that view partly because of the lack of clarity in the Scotland rural development programme on how to get the 40 per cent grant aid for slurry storage, which needs to be rectified.

We feel that, where such expenditure is mandatory, there should be a greater guarantee of grant aid. However, we also need to give producers the opportunity to invest more in, for example, new buildings and reversing lost sow numbers. After all, investment in slurry storage does not improve a unit's production efficiency, and sow numbers have fallen below critical mass. The review of the industry suggested that there should be a sow herd of 45,000, but we are

10,000 sows below that figure and facing greater challenges than we were this time last year.

Philip Sleigh (NFU Scotland): There is confidence in the industry, but it is shaky. There is also profitability, but it is on the back of 10 years of a turbulent marketplace. Also, the industry has had to deal with foot-and-mouth disease twice.

The lack of confidence might stem from the fact that although the Cabinet Secretary for Rural Affairs and the Environment responded to our requests for help last year by setting up a task force—of which I was a member and that worked with Scottish Government representatives on what we believed were plans that would really help the industry to get over last year's challenges—he decided in the end not to take up its recommendations. That really shook the industry's confidence, because we were looking for some assistance and guidance and some sign that we were a valued industry within the Scottish agricultural sector.

The pig industry tends to be invisible, because most of the units are small and hidden from view in the landscape. However, we play a large part and, unlike the cattle and sheep industries, which tend to be seasonal, we operate 12 months a year: we use haulage firms every day and the cereal farming industry relies on us a lot. If the pig industry were lost, it would be a real loss to the Scottish agricultural industry.

Brian McMonagle (Vion Hall's): When, last year, Vion Hall's acquired Grampian Country Foods, one of the big challenges that it faced was the fact that, because Grampian had not had the funds over the previous three or four years to carry out rationalisation, the business had far too much capacity. The site is very big and, at the moment, very much underutilised; indeed, we still have 50 per cent capacity going spare. That might have presented opportunities six or seven months ago when more pigs were coming to us.

I should point out that Vion Hall's handles not only pigs but turkeys and the whole shebang. However, where last year we killed 13,500 pigs, this year we killed 9,500. That represents a 30 per cent reduction in the number of pigs, which affects the site's viability and profitability. In addition, we are the only route to market for most of the north-east pig producers, and we are strategically placed and seen as a key player in the Vion group, but with pig numbers deteriorating, the debate is whether the cost of running Vion Hall's is viable in the long term. I need to secure a long-term supply of pigs, if not find an increased supply.

Vion is also analysing where it should invest money, and has set aside a pool of several hundred million pounds for restructuring the business. Although we are in a tendering process

to get additional business for Hall's, there is the risk that business could leave the company. In fact, Vion has shut one or two sites down south to take out capacity and has shut two or three abattoirs in Holland, which has taken out 20 per cent of capacity in that country.

Things are tough in the pig industry. There is capacity elsewhere, and if we cannot secure the pig supply and get some support for the investment plan, Hall's will find itself under a question mark. That would be of great concern to the local community. We employ 1,100 people full-time at Hall's in Broxburn and, on top of that, we have 300 to 500 agency staff. The Muirden pig farms, which also come under my control, employ 200 to 250 people. That is before you consider the jobs that the industry supports in transportation, such as in TDG. The industry has quite a big impact on the Scottish community.

At the Hall's site, there are about 275 to 300 jobs at a professional level, including commercial managers and information technology and financial employees. People assume that the skill level in the industry is not high, but as well as the 300 professional workers we have 200 butchers, whose unique skills are hard to find in the industry. Quite a big challenge faces the Hall's team, as well as Scottish farmers.

The Convener: Are you saying that there is 50 per cent overcapacity at Broxburn or in Vion as a whole?

Brian McMonagle: It would be hard to comment on the whole of Vion, but there is about 50 per cent overcapacity in Broxburn in the added-value products such as sausages, bacon and gammon joints. There is about 40 per cent overcapacity in the abattoir. In the rest of Vion, there is probably 30 to 40 per cent spare capacity in the UK. In the rest of Europe, 20 to 30 per cent capacity has been created this year by shutting abattoirs. We have plenty of facilities to kill pigs and process meat, but we have fewer animals coming to us. What should we do? Which sites should we keep in the long term and which sites should we close?

Alasdair Morgan (South of Scotland) (SNP): You talked about the Netherlands cutting abattoir capacity. What are the numbers there?

Brian McMonagle: They are down. Farmers throughout Europe have had a really tough time over the past two or three years. Throughout Europe, more and more have been getting out. Numbers are down in Spain, Germany and Holland. Pig numbers are getting tighter in Europe. If anything, you will find that most retailers are exploring avenues in eastern Europe and further afield for pig supply.

Alasdair Morgan: I am trying to explore whether this is a Scottish problem or a much wider problem.

Brian McMonagle: It is an industry issue at the moment. The grain price last year impacted on everyone, but I think that it has had most impact in Scotland, probably due to additional costs. At the moment, the UK is down 15 to 20 per cent; I am 30 per cent down in Scotland.

Gordon McKen: The European scene is important. The Dutch herd doubled in the 1970s, doubled again in the 1980s and doubled again in the early 1990s. We have had 34 years of a constant supply of product from Europe. For the first time, our retailers cannot get product so readily from Europe. The Danish herd is important, but it is reducing by 9 per cent this year, which is quite a shock. The product will not come from Europe in the way that it has come in the past, so food security is a real issue.

The new entrant countries, as we call them, that came in a number of years ago were looked upon as a possible threat. However, the Polish herd is down 20 per cent, and most of the herds in the new entrant countries are not a threat. No product is coming from them. For the first time in many years, the product from Europe is decreasing.

John Scott (Ayr) (Con): Is that because people are eating less pork, or is it because pork is being sourced from outwith Europe, for example the far east?

Brian McMonagle: United Kingdom pork numbers are probably up. There is no issue there. There has been a dramatic switch over the past five to 10 years. Reduced production in the UK has meant that supermarkets have had to source pork abroad, and they have increasingly gone to Europe. Over the past two or three years, they have moved into Poland and eastern Europe. This is the first year that all the retailers have faced a big challenge. Where do we go next? Demand for pork is increasing, but the big challenge over the next three or four years is where retailers get supplies from.

The Convener: Is price the sole reason for sourcing pork from outwith the UK?

Brian McMonagle: That has been the case in the past. Because of the cost of production, it has always been 10p to 15p per kilo cheaper to source European pork. At one point this year, the difference narrowed. The exchange rate meant that British pork was extremely competitive, but the cost of a British pig has shot up again because of the scarcity of pigs in the UK—British pork probably costs between 20p and 25p per kilo more than pork from Europe. The fact that British pigs are now scarce will force supermarkets to move

more of their British ranges to the European Union. That is what happened in the past.

10:15

The Convener: Is there not demand for British or Scottish bacon, which is very difficult to get?

Brian McMonagle: The problem is price sensitivity.

The Convener: Is there not a quality market?

Brian McMonagle: A year and a half ago, retailers were keen to push organic pork, outdoor-reared pork, freedom foods and free-range foods—those were the big in-words. People would pay a premium for those products.

The Convener: I am not just talking about that; I am talking about British or Scottish bacon. Why is it dead difficult to get? I think that there is a market for it, which is not being served.

Brian McMonagle: There is Scottish bacon, but I do not make money supplying it. We are debating whether to stop supplying it, because I kill a Scottish pig just for its back. There is no home for the rest of it—the legs, the shoulders and so on—so I lose money on that pig. The price that people would have to pay for Scottish bacon in order to support the cost of raising that pig would be uneconomical. It goes back to the issue of carcase balance.

Bill Wilson (West of Scotland) (SNP): You said that there is a shortage of pigs, but you have just said that you kill some pigs just for their backs and that there is no home for the legs or the other parts. If there is a shortage of pigmeat, why is there no home—that is the wrong word—for the other parts of the pig?

Brian McMonagle: There is a market problem. British consumers will not eat certain parts of a pig—they like loins, for example, which are sold in abundance. There is a complete lack of balance. When a pig is killed for a retailer, getting the balance right is all important. With some retailers, if the contract is right, it will be possible to sell legs and shoulders and make good money, but with other retailers, only 5 or 10 per cent of the pig is used, rather than 80 per cent of it. That is a big challenge.

There is also an issue with the consumer. The Jamie Oliver-type programmes that show people how to cook bellies and shoulders have helped a bit this year, but we have a long way to go with the British retailer and the British consumer before we get the overall balance right. There is demand for loins, but suppliers cannot make money on the rest of the pig. Once they have got themselves into a contract with a retailer, they have to supply the retailer or they will be fined, but they cannot

make money out of the pig, because the market has collapsed elsewhere.

Bill Wilson: If I understand correctly, there has been no decline in pork consumption in Europe, but there has been a decline in the supply of pork in western and eastern Europe, so would it not be possible to export to Europe the bits of the pig that the UK consumer does not want?

Brian McMonagle: It depends where the demand is. There is a 25p difference between the cost of British pig and the cost of European pig. This year, there is a global recession.

Bill Wilson: European pigs are 25p cheaper.

Brian McMonagle: Yes—they are 25p per kilo cheaper.

Now that there is a credit crunch, we have found that most retailers' top-tier products are struggling, because most people are moving down to mid-tier, if not value, products. It is a struggle for retailers to sell anything at a premium. Everything is price sensitive, and there are promotional deals everywhere. Supermarket prices have never been so cheap. Much of the produce has been imported in an effort to run big promotions.

Bill Wilson: There is an argument that part of the reason why our costs are higher is to do with welfare standards. To what degree is our inability to compete with the rest of Europe a result of higher food costs and to what degree is it a result of higher welfare costs?

Brian McMonagle: It is largely driven by the welfare standards that were introduced 10 years ago. Since then, there has been a price difference. Gordon McKen would probably be better placed to talk about the impact of that on the farmer.

Gordon McKen: When the welfare rules were tightened in the UK in 1999, the retailers changed their purchasing criteria virtually overnight by adopting EU welfare standards. There are UK welfare standards and EU welfare standards. Pork that is produced to EU welfare standards is cheaper, and that is what is used in promotions that move huge volumes. Welfare is a key issue when it comes to price. We have not gained in any way from the welfare measures that were introduced in Britain, which have helped to maintain a price difference. When retailers want to shift a high volume of product, they purchase pork that has been produced to EU welfare standards.

Philip Sleight: It is worth mentioning that what happened when the stall and tether ban came in in 1999 shows what will happen when the NVZ rules come in, when we will all have to build slurry stores. The implementation of that ban cost our industry many millions of pounds, which was spent on meeting new rules that were specific to the UK rather than on improving efficiency and output.

Instead of spending those millions on improving efficiency, putting up new buildings and making our industry fit for purpose for the future, we had to follow rules that were not being followed in the rest of Europe, which put us at a serious disadvantage. The NVZ rules will put us in the same position.

The proposed new European rules on integrated pollution prevention and control potentially will require us to spend money to comply with legislation that will not improve efficiency. That is dead money, as far as the business is concerned. The IPPC proposals present a big challenge for our industry, and we ask the committee for its support in pushing Europe back on the issue. The current IPPC rules are quite sufficient to enable us to manage our industry.

John Scott: The discussion about European rules and the global situation is interesting, but we must consider the industry in Scotland. I want to tease out what Gordon McKen said about critical mass, which is an issue in the sheep and cattle industries, too. Sow numbers are 10,000 below the critical mass level that the Scottish Agricultural Organisation Society study said could not be breached. You are still in business, but my big concern is that we will witness the end of the pig industry in Scotland. During the past six months, the pig sector's viability seems to have been based entirely on the pound's weakness against the euro, which is not a tenable business plan.

Gordon McKen: A huge chunk of the current lack of confidence comes from the absence of a pricing structure that allows processors, producers and retailers to operate profitably. That is probably the biggest failing, because it gives producers no confidence to invest in the future. It is an important issue, which we have raised many times with retailers, through Brian McMonagle.

A second reason for the lack of confidence is that, as Brian McMonagle said, Vion has not come out with a master plan and said, "Yes, we will definitely stay here." Will a producer in Aberdeenshire, Morayshire or anywhere else in Scotland who is thinking about spending £100,000 on a slurry store, which will require further building and total investment of £300,000 or £400,000, invest that money without everything being in place? I would not do so. That is where we are.

Philip Sleigh: I find myself in the unusual position of thanking Gordon Brown for being in power and making the exchange rate so advantageous for the pig industry.

Brian McMonagle: Action is needed now. The pig industry in Scotland is at a crucial point. The next three to six months will be crucial in relation to securing the future of the Vion Hall's site, which is intrinsically linked to all production in Scotland. The issue is not just pig numbers. The site is big,

and we carry out other processes there, which support it. We need to secure investment from Vion. Vion would probably be prepared to invest between £20 million and £30 million in the site if the options were right, but the company also has options in the Netherlands and down south, where the position on grants is more advantageous and pig numbers are greater. Vion's biggest concern is that there are not the pig numbers to sustain the site.

John Scott: Therefore it would be in the best interests of Vion and the industry if you secured forward contracts. We have reached a last-man-standing position. There are difficulties in sourcing product in Europe, too, because of the supermarkets. Are Vion and the supermarkets likely to enter into contracts that give the industry some security? Will the industry enter into such contracts, given the fluctuations in the market?

Brian McMonagle: I will be honest. I have been on the Hall's site for nearly two years and I have spent the past 18 months getting out of contracts, because it was all about Hall's site exposure and no one else. Gordon McKen probably understands that. We are trying to work with Gordon McKen to get into major retailers and create the link from farmer to retailer, but that will take time.

Retailers also want to know that producers will be there in the long term. Retailers say, "We're happy to look at this, Brian; let's sit down. We've had several meetings with a few producers, but what are your plans for Hall's, because we're not going to sign up to a supply chain that involves you if you're not going to be there."

John Scott: It is a catch-22 situation. The first thing that has to be established, therefore, is the industry base quantity of available pigs, and that has to be predicated on, at the very least, sorting out the situation with regard to the NVZs, the 40 per cent grant rate and the bid process. Is that right?

Gordon McKen: No. We undertake, with the industry, to enter agreements. We are closer to getting a long-term agreement that is tied to a retailer than we have ever been. We will engage in that, if given the opportunity. That is a great help with regard to confidence.

It would be good if we could take the 40 per cent grant rate for slurry storage a stage further and encourage other investment. In the next few weeks, we must consider what we can do to encourage that investment so that we can get guaranteed throughput for Brian McMonagle and increase production in Scotland.

Philip Sleigh: We need to give people in the pig industry confidence to expand and make long-term investments.

The Government in London has taken away capital allowances on new buildings. We live in hope of being able to write off capital allowances against tax. If we could do so, we would be encouraged to spend money on new buildings, which would deliver a double whammy, as that would give jobs to builders. The matter is out with your power, but it would be helpful if we had your support and that of your Westminster colleagues as we try to change the situation. The union has written to the Exchequer asking for the situation to be changed and the Exchequer has said no. However, as the economic crisis deepens, it might be more open to such ideas.

We are considering whether we could get a scheme through the SRDP whereby, if we had to borrow £100,000 to put up a new building, for example, we would get interest relief over a period of time. That would give us a bit of confidence.

Those ideas are small ideas on their own, but if we could join two or three of them together, they would help to give us the confidence to move forward and would give Hall's more confidence as well. Both parties have to build up confidence in each other—we have to know that Hall's is going to be there, and Hall's has to know that we are going to be here.

Bill Wilson: Does the capital allowance issue have any impact on the investment that is required in relation to nitrate vulnerable zones?

Philip Sleight: No, because any slurry store or associated equipment is classified as plant and equipment, which is listed as an annual expense.

Liam McArthur: Earlier, Philip Sleight suggested that the cabinet secretary's decision not to take forward four of the task force's six key recommendations knocked the confidence of the industry. The cabinet secretary argued that he wanted to focus on measures that would sustain the industry over the longer term. How do you think that the task force's recommendations with regard to the de minimis scheme and compensation would sustain confidence and help the industry over the long term?

Philip Sleight: If the task force had never been set up, our confidence would not be so shaky. However, the task force was set up by the cabinet secretary, and we discussed options in several meetings with Government officials. At no time were we told, "Don't waste your time going there; it'll never happen." We had confidence that we were going to achieve something for the industry.

At that time, we were in crisis because of the cost of feed and the fact that the foot-and-mouth outbreak had killed our cull sow market, as there were no exports. The alterations in the cereal market could be put down to the on-going market situation, but the lack of the cull sow market due to

foot-and-mouth was nothing to do with us—it could be argued that there was a UK Government decision not to spend money on that. The situation was therefore not our fault.

We were looking for recompense from the Government; we were looking for help. If the Government had done something—even going to Europe and asking for something, but not getting it—that would have been better than simply saying, "We are not interested."

When you are in crisis, you look for someone to hold out a hand and give you something to show that they are sympathetic to your position. The money that the cabinet secretary has given us—the £700,000 for the future—is nice, thank you very much. Having something in a plan for the years ahead is useful for any industry at any point, but for our industry it is more a case of dripping money into the pockets of the big farmers. I am pleased to have it, but it is not where we want to be.

10:30

Liam McArthur: You suggested that it would have been better for the Government not to convene the task force, given the approach that has been taken. What bearing will that have on the industry's relationship with ministers and officials in taking forward the initiatives that you have outlined?

Philip Sleight: It will probably make us slightly cautious when discussing future measures. We will possibly be more realistic about things. Last year, we expected something; this year, we will not. We will still be out there working for our industry. I believe in it. I believe and hope that it has a role for the future. We have to be part of the discussion; we have to try to get what we can. If the Government can do things that are helpful to the industry—things that will assist us in moving forward, whether by way of regulation or financial assistance—we will be there for the discussion. I hope that that is what happens. We want to find a way forward for our industry.

Peter Peacock (Highlands and Islands) (Lab): When you gave evidence last year, you spoke about the industry's cash flow problems, which were the result of high grain and feed prices and low market prices. At that time, the big slurry investments had not yet come on stream. What is the industry's current cash flow position? You said that the industry is profitable. Is there cash in the industry that could be invested but for the confidence question?

Philip Sleight: Most, if not all, pig farmers should be profitable at the moment. I am referring to fat pig production. We have to remember that we have taken a serious hit over the past 12 months,

as a result of which there is quite a large hole in the finances, which we are trying to fill. That is what is holding us back; it has shaken our confidence. We are making money—that is fine—but we have a lot to pay back.

Thus far, I have not heard of many people who are having serious problems with their banks, in terms of their bank loans. Agriculture is relatively relaxed about the issue. The banks continue to think of farming as a good investment. However, if I were to go to my bank and ask for extra money to invest in my business, particularly finance for a slurry store, I think that the bank would say, “That will cost you £100,000, but it will not make you worth £100,000 more.” That is the challenge as we go forward.

John Scott: I am not asking you to divulge your business interests, unless you want to, but what is the scale of overdrafts that we are talking about? I assume that we are not talking about sums like £1,000. I do not want to put figures into your mouth, but can you give us an idea of the scale of overdraft borrowing in the industry? That would give my colleagues an idea of the situation.

Philip Sleigh: Interestingly, my friends and colleagues and I do not discuss overdrafts. It is like MPs and their expenses. [*Laughter.*]

Alasdair Morgan: Ours are on the website.

Philip Sleigh: We work 400 sows; I take everything through to slaughter. If we put away three loads of pigs—as I would call it—every month, that is 630 pigs, which is a turnover of approximately £75,000 to £80,000 of income, of which £70,000 probably goes out again on expenses, including feed, labour and so forth. That is an idea of my monthly turnover. It is a large business as far as farming is concerned. That happens every month; it rolls on and on. When things are going well, the business ticks along very nicely, but when things go wrong, as they did last year, it ticks down very quickly, too.

Gordon McKen: John Scott may remember the ongours scheme of nine years ago. Loans were restructured, which took care of quite a lot of that. The rough figures involved were anything between £300,000 and £500,000.

John Scott: Would you say that that is an industry norm?

Gordon McKen: It is an industry norm. It is an intensive industry.

In response to Peter Peacock’s point, yes, there is a little bit of money available just now. However, as I said at the start, at the minute it is easy for people to take back some of the money that they have lost and not invest it. The trick is to get people out of the mindset that they will wind down their units in three years’ time. That is the real

challenge for us. Good, sound producers who have been doing the job for many years are now thinking in that way and, once a year or 18 months has gone by, we will probably not be able to persuade them to do otherwise. As Brian McMonagle said, this is a crucial time for us.

Peter Peacock: You have talked a lot about confidence and some of the things that Government can do, including at Westminster and in terms of European regulation being held rather than advanced. What could the Scottish Government do that would help specifically to increase confidence? You have touched on the role of the SRDP and all that kind of stuff. I take that as read. What can the Scottish Government be seen to be doing that would begin to give the industry the confidence that it needs? What specific actions would make you feel that the Government was backing you and wanted to support the industry?

Philip Sleigh: The cabinet secretary made a good point about new entrants into agriculture being a priority. We would ask the Government to expand that to include new entrants in relation to outdoor sows. There is a real opportunity for new entrants in outdoor sows. When I started pig farming, many years ago, I had an outdoor sow herd. However, to the best of my knowledge, in the north-east of Scotland, over the past 10 years, only one person went into pig farming. He was a young gentleman but he left the sector last year because he had just had enough. As with any industry, we need new blood coming in, refreshing the old blood such as me, which might be leaving. There is an opportunity to expand the new entrants scheme in the SRDP to prioritise new entrants into pig farming, so that their applications for help would be more likely to succeed.

Another option, which we have spoken about, is to classify as a national priority the meeting of any expense for improving the efficiency or expanding the productivity of a unit in order to get our pig herd back on a good footing. If that were a national target, it would mean that, when a guy applied for the grant—it costs a bit of money to get going and do the job—he would be much more confident of achieving success. If we stacked together all the little things like that, he would believe that the Scottish Government was behind him and wanted him in the sector. He would know that the funding existed to expand his business or make it more efficient. All that would help to bring the level of confidence back up.

Those are things that we think could be useful for the industry.

Brian McMonagle: I would look for as much support as possible. Next week, our chairman will start discussions with Europe, the Government down south and the Scottish Government about

the support that can be given to the Hall's site compared with the support that can be given to other sites, so that he can review the best investment strategy for Vion. The stronger the case for Vion Hall's, the better for the overall industry in Scotland.

Peter Peacock: Mr McMonagle, I think that you said earlier that there was more advantageous grant in the south. What does that refer to?

Brian McMonagle: I believe that plants in certain areas have grants of 30 to 35 per cent available to them. Unfortunately, at the moment, West Lothian is not a grant area. When Vion is considering investing £20 million to £30 million in its business—

Peter Peacock: So, there is no assistance.

Brian McMonagle: There is no assistance.

The Convener: Does that make reopening the Buckie plant an option?

Brian McMonagle: No. The pork part of the Hall's site would not make money without the rest of the site. We also do turkeys and poultry, sausages, sliced meat and added garnishes. That overall mass of business helps us to meet the overheads. If I had to cut back everything else and have just the abattoir, it would not pay.

John Scott: That is indicative of the whole livestock sector in Scotland, is it not?

Brian McMonagle: Yes.

John Scott: You are simply, regrettably, further down the road of losing critical mass. The cattle sector is getting there and the sheep sector is almost there, but the pig sector is most advanced in terms of losing critical mass.

Brian McMonagle: I agree, although we are hopefully a little bit ahead at the moment. Earlier, you discussed how business can be secured and how the decline can be stopped. Gordon McKen and I are having serious discussions with retailers to try to create links between them and the farmers who can supply them. The retailers are arranging contracts with the farmers through us. That will certainly be the situation once I manage to secure the farmer numbers to secure the Hall's business. Hall's is now willing to come to the table because the pig supply is beginning to get low. That creates confidence, although it could go elsewhere, because all it needs is to have British pigs.

There is a lot of regionality, but the key thing for most retailers is to have a British supply. If the Scottish market cannot provide that, they will link up with somebody else. We need to be first off the mark and ensure that we secure that business. We are getting close to doing that, but retailers need reassurance from us that Gordon McKen can

give them the numbers that they require and that I will be there in the long term to supply them.

Gordon McKen: The pig industry is in its current situation because of the circumstances of late 2007, foot-and-mouth disease, and cereal costs. Some good pig units and buildings are lying empty because producers are saying, "Well, Vion isn't making money, and I'm not really making money. If that's how little confidence there is in the industry, I'll stop."

However, the industry in Scotland, or what there is of it, is very efficient. It beats the UK averages. We sell a heavier carcass, and also a healthier carcass, given that we have done a lot of work on the health side. The quickest way of sorting out Brian McMonagle's problems is to expand the current units and make some serious changes to the SRDP that will prioritise assistance to the pig industry.

Alasdair Morgan: It seems to me that the industry is in an anomalous position. You say that we have an efficient industry, the exchange rate has improved immeasurably in your favour compared with the foreign competition, and the product is in short supply. Conventional economics would say that the price should go up and producers should be happy and doing well. However, we are not in that position. That is surprising, is it not?

Brian McMonagle: The Dutch and Danish operations are 10 times the size of ours. We can see that when we look at their processing plants. They almost have car parks feeding the supply into the factories because they have grown the industry over the past 10 years. Also, we face a challenge in getting rid of every bit of material. When I kill a pig, none of it goes to a store. The significant factor is the price that I get for different parts. Because the British consumer will buy a loin but will not buy the rest of it, I can sell my loins, but I then have to trade off all my other primals at an EU price, which is significantly lower. In addition, the cost of production is higher.

Gordon McKen: From the producer side, the euro today is worth 92p or 93p. A producer might invest £300,000 or £400,000, or commit to doing that, but if the euro has dropped to 80p or 85p in three or six months' time, we will be back to £1.05 or less. We do not have a payment structure in place that has anything to do with the cost of production. Again, it is a question of confidence on the part of producers. There is no guarantee that they will receive a certain price.

John Scott: So there is a breathing space at the moment.

Gordon McKen: Absolutely. It is mainly due to the exchange rate and partly due to supply.

Alasdair Morgan: That is an argument for being in the euro zone. I do not think that John Scott would want to go there.

The Convener: We will not get into that area of discussion.

Philip Sleigh: It is worth commenting that the sheep and cattle trade has boomed in the past year. That was much needed, I have to say, but those industries benefit from something that the pig industry does not have—an auction system. Some might say that that is a disadvantage, but I argue that it is an advantage for sellers because, as the product is in short supply, buyers push up the price through bidding. In the pig industry, 99.9 per cent of pigs are sold direct to the abattoir and there is no, or very little, bidding.

We undoubtedly suffer from pressure from supermarkets and other retailers on price. They say, “I know you want more, but you’re not getting it.” That is the feedback that comes to Brian McMonagle, Gordon McKen and me. If we had a bidding process in the pig industry, I am convinced that our price would be higher than it is at the moment. I agree with Alasdair Morgan that economics say that our price should be moving up quite rapidly, but that is not happening because of the retailers. Perhaps it would be increasing if we were not in a credit crunch. I am certain that Governments across Europe are asking their retailers to keep a lid on prices because the pressure is on Governments to keep inflation low. That situation has possibly come at the wrong time for our market.

10:45

Rhoda Grant (Highlands and Islands) (Lab): You mentioned some of the financial support that the task force talked about, such as the ongours scheme. Could any other issues that the task force discussed be pursued now?

Gordon McKen: In all honesty, the de minimis scheme would not be favourable at the minute because the industry is profitable, as we said. The foot-and-mouth disease compensation for the Scottish industry was not enough on its own. We would much prefer to encourage the investment that is badly needed for improving the industry’s efficiency and putting us ahead of world competition.

Rhoda Grant: Such as?

Gordon McKen: It has to be investment in new buildings. There was significant investment in outdoor pig production in the Scottish industry some 12 or 15 years ago. Extra money was paid for that system. However, as the years have gone by, the retailers have taken their money out of a system that is more expensive for the producer to

operate, so outdoor production has declined significantly. It is perhaps the most economic way to get into production, but the finishing of pigs is done in traditional finishing buildings, which should be a priority for investment by producers. If they invest now, they will be in the industry for the next 10 to 15 years.

Rhoda Grant: The task force asked for contributions for vaccination. I wonder whether you would still pursue that. What was your reaction to it?

Philip Sleigh: The problem with that is that it happened in England and we were hoping to match their scheme. The results are out for the scheme in England and the trial has finished, so it is unlikely that we would get approval now to do that here.

Rhoda Grant: So that has gone as well.

Philip Sleigh: Yes. There was an opportunity at a certain time to do things, but we have missed the opportunity. That is why we need to reappraise where we are and look for new opportunities to help one another move forward as an industry.

Rhoda Grant: Would that mean a stage 2 task force?

Philip Sleigh: I would be very nervous about that. *[Laughter.]* We would need to have a written agreement beforehand.

Gordon McKen: The difficulty was that the strategic review had already been announced and we knew that it would happen later in the year. The task force was announced after that, which created expectation. It was a difficulty, and a great pity, that one came before the other. As Philip Sleigh said, a negative situation was created.

John Scott: What are you doing on updating? Are there further things that you think we should do? We intend to write a report on the inquiry, into which we would put what you say you need in order to help your industry.

Brian McMonagle: Things have moved on. As Gordon McKen said, the task force was initially about trying to give immediate, short-term support to keep people in the industry. The people who are in it just now are debating the long-term future over the next two to three years. What we can do now to stimulate growth is key, because I do not believe that the current level is sustainable in the long term. Hall’s has 9,500 pigs coming through, but we can do 14,000, which is what we did last year. We need to get back up to that level or to 11,000 or 12,000. If nothing happens to stimulate that, we will decline.

We need to get back into stimulating growth and not just propping things up. Businesses are making small returns, but they would invest if they

had the support to do so. If I could secure the long-term future of the Vion Hall's site and say that we are here for the long term, that would help the farmers a lot. If they could then get support for investment to grow their herds, that would help the industry overall and would be a nice joined-up plan. We could then link in many of the retailers, who we are trying to line up at the moment. That would give us a sustainable model. The investment that we have put in will probably give Hall's five to 10 years' security. It would be the same for the farmers, if they invested in their sites.

Gordon McKen: One major factor that has changed since last year is currency. Retail buyers are waiting for the euro to collapse—they will then go back and buy in the product. It has taken time to sink in that the product that has flowed from Europe for the past 30 years will not do so now. That will be a key area: we need to get that part right, and—during the next three years—get the producers out of the mindset of winding down their units.

The Convener: Has it been the case that producers are winding down, or have some actually gone out of business?

Gordon McKen: Oh yes—14 producers, which amounts to around 8,000 to 10,000 sows, have gone out of business. They are finished.

The Convener: Have those tended to be smaller businesses?

Gordon McKen: No, not at all. They were quite large businesses—we are talking about 500 or 1,400 sows.

Elaine Murray (Dumfries) (Lab): You touched on animal welfare issues earlier. Those have been an expense for Scottish producers, and yet it does not appear that the general public understand or appreciate the fact that there are far better welfare standards in the UK than in the rest of Europe.

I was at my local supermarket on Saturday, and noticed a two-for-a-fiver offer on pork. At first I did not pick it up, because I thought that it was Danish pork, but then I saw that there was also Scottish pork—the products were identically packaged. Until I looked at the packaging close up, I saw nothing that would inform the buyer that they were purchasing Scottish pork and that those pigs had been raised under far better welfare standards.

You mentioned the Jamie Oliver type of campaign—the Royal Society for the Prevention of Cruelty to Animals has been running the rooting for pigs campaign to highlight the better welfare standards in the UK. Could we do more to raise people's awareness about the issue? Many shoppers do not realise that there is a difference in standards. We should be proud of, and shout

about, the fact that standards are higher in the UK for intelligent—in my mind—animals such as pigs.

Brian McMonagle: We would bring that up at the task force in relation to the investigation into labelling. There are a lot of questions about the clarity of labelling. Some pork products have dual labelling, which means that they could be British or from the EU. In practice, one can almost guarantee that they will be from the EU, but if the labelling is dual, they are covered. We still have not seen the results of the report, which was part of the task force funding and was due out a few months ago.

Philip Sleight: If we ever do anything outside a supermarket to highlight the benefits of Scottish pork—or beef or lamb, whatever it is—to consumers, the store tells us that sales of the Scottish product go up by 25 or 35 per cent. We highlight the issues to consumers, and they go in and actively search for the product and buy it.

However, the problem is that during the four to six weeks afterwards, the sales go back down from 25 to 15 to 10 per cent—the effect wears off, and the consumers are less excited about the product. There is a real challenge as far as the supermarkets are concerned. As a cynic, I believe that the supermarkets do not want clear and concise labelling, because the consumer will start buying that product and demanding it, and the supermarkets will be forced to pay for it.

I believe that the supermarkets love to have the ability to stock pork chops with a bland label, because they can buy the pork from wherever they want and the consumer does not know the difference. We need legislation for clear labelling. The supermarkets could easily do it if they wanted to, but they do not want to because it would put them in a difficult position.

Peter Peacock: The witnesses who will appear before the committee as part of the next panel have indicated that it is not only the UK and the rest of Europe that supply the supermarkets here, but the American market, which has even lower welfare standards than Scotland or the EU. To pick up your final point about the supermarkets' obligation, I do not think that the words "morals" and "supermarkets" run very cleverly together. Should there be a much greater moral imperative to say, for example, that one should not take in animals from America that are brought up, treated and slaughtered in the way that they are? What is your view on that? Should we apply much more pressure to the supermarkets on the issue?

Gordon McKen: There is a limit on the tonnage of product that can come into the EU from the States. Any addition to that volume must be fought against, because certain products that are used in the American industry—such as medicants—are

banned completely in the EU. There should be no product coming in from the States.

Peter Peacock: What is the response from the supermarkets, if you have raised those matters with them?

Brian McMonagle: The supermarkets' response will be to give an offering to all their consumers. We are not prescriptive. We will offer feed and food—organic, basic standard, EU welfare and non-EU welfare. Consumers will make the moral choice themselves; we are not there to dictate to them.

Bill Wilson: But with the lack of labelling—

Brian McMonagle: We have examples of labels on products saying "Proud to serve Scotland." That does not mean that the product in there is Scottish. A lot more clarity is required in labelling.

John Scott: So you would agree with the point.

Brian McMonagle: Yes.

John Scott: At the moment, the additional costs because of the peripherality of the marketplace in Scotland and the welfare burden are making our product uncompetitive—notwithstanding the best intentions.

Brian McMonagle: Correct. You will find that most retailers want to have British product on the shelf, and they will have a range of it. The question is how far they commit to that. They know that it is more expensive, and that supply is declining. They have to find other outlets. Most of the promotional volume is from the EU. The challenge to most big retailers is where their future supply will come from. It might not be America, but there are plenty of other areas in which they can expand and develop as the EU expands.

Philip Sleigh: For many years, NFU Scotland has been working on a campaign on what we would classify as commingling. That relates to a point that was made earlier, about labels being exactly the same apart from the words "Product of the UK", "Product of Brazil" or whatever appearing in the small print. The consumer goes into the shop and sees a Scottish flag on the shelf, but the product could be shown, underneath, to be made from the produce of several different countries. That has been a real issue for us.

When we challenge the retailers on that issue, they say that it is not their policy or that a mistake must have been made at the store—they come up with stuff like that. There is also an issue with trading standards officers, who do not seem to challenge the stores; they can only make a challenge at the supermarket headquarters. Things do not seem to happen, and matters do not seem to get resolved.

John Scott: You are saying that all the Scottish flags on the shelves are meaningless, and that they mislead consumers. How have they got there in the first place? They are all over the place.

Philip Sleigh: I think that they are misleading. Sometimes the display is perfect, and stores do a really good job; sometimes, if we look again, we start to find Danepak bacon among all the Scottish flags. That should not be. Nowadays, the consumer seems to have less time to pick and choose. If the pack looks nice, they pick it up. They only realise when they get home. We have done that ourselves—looking in the fridge and saying, "Oops, someone's bought Danish bacon by mistake." Actually, it was quite good.

John Scott: So, that tartanisation is really just wallpaper.

Gordon McKen: Yes. The British standard mark and the QMS specially selected marks have provenance behind them. The other marks do not.

John Scott: Could you say that again, loud and clear?

Gordon McKen: The British standard mark and the specially selected pork mark have provenance behind them. The others do not.

Brian McMonagle: That brands everybody in the same way. Some supermarkets are better than others, and some stores are better than others. It might be a matter of putting in place legislation whereby people who try to flaunt the branding cannot do so. Some of them are very good, and they try their best. The market is very difficult, unfortunately, and there are websites for comparing every price point. It is not a fair playing field.

Bill Wilson: Would you be prepared to name the supermarkets that you think are good or bad?

Brian McMonagle: No. That would be suicide.

The Convener: On that note, I think that it is time to move on, unless members have any other pressing questions.

Liam McArthur: I was interested in Philip Sleigh's comment about having a national priority. It would be helpful for the committee to know whether that is an NFU collective view. As John Scott has indicated, there are issues around the livestock sector.

Philip Sleigh: We would definitely be supportive of that, yes.

The Convener: I thank the witnesses very much for giving evidence. If there is anything that you think we have not covered, please submit your further written comments to the clerks, and we will consider them when we draw up our report.

10:59

Meeting suspended.

11:01

On resuming—

The Convener: I welcome our second panel of witnesses. Professor Christopher Wathes is chairman of the Farm Animal Welfare Council, Stuart Ashworth is head of economic services at Quality Meat Scotland, and Gavin Dick is a Scottish Agricultural College rural business consultant. We move straight to questions from members.

Liam McArthur: I think that all the panel members were present during the previous evidence, in which there was considerable discussion of sustainability and critical mass. The SAC's "Outlook for 2009" states:

"The declining size of the Scottish herd raises difficult issues around the degree to which the industry will retain the critical mass required for processing."

What are the prospects for the industry? What will be critical in determining whether it has a viable future? I think that there was some confidence that it could have a viable future, but what—based on current trends—is likely to work against that?

Gavin Dick (Scottish Agricultural College): I think the previous witnesses doubted that most producers in the pig industry are making money at the moment, but the biggest issue for me is the confidence to move forward and increase pig numbers, which we need to do.

The Scottish pig industry is focused on the east coast. Unlike livestock producers in the west, pig producers have other farming options. They can stop producing pigs and instead grow cereals, vegetables or whatever. I do not believe that producers who are faced with spending a considerable amount of capital in the next few years that will not contribute to their profitability have the confidence to make a commitment on that at the moment. That is my concern. Things are made worse by the fact that producers have come through a prolonged period of low margins or losses, so they do not have cash reserves to spend money on something that will not give them a direct return. That takes us back to confidence in the ability to produce enough pigs in the future, which is the main concern.

Liam McArthur: The SAC has mentioned the number of people who have gone out of the industry even over the past 12 months. We also heard about it in the previous evidence. You have suggested that there are alternatives, given the location of many pig farms. Once a decision to move out of the industry has been made, is it relatively straightforward, given the right conditions

and the buttressing of confidence, to get back into it? I am thinking about investment costs and so on. Once you are out of the industry, are you out of it?

Gavin Dick: It is relatively simple to go out but much more difficult to get back in. Pig buildings deteriorate quite quickly if they are empty simply because of the nature of pig slurry—the ammonia is corrosive. In my experience, if pig buildings have been empty for more than 18 months, it takes a significant capital cost to bring them back into a useful state. It is not an industry that producers would find it easy to jump in and out of.

John Scott: I return to the idea that pig producers are making money. Stuart Ashworth's written submission suggested that they are really only breaking even at the moment. I want to pin the matter down. If producers are using the window that apparently exists because of the exchange rate and are making money, are they making sufficient money to recover the losses of the past years? I suspect that they are not.

Stuart Ashworth (Quality Meat Scotland): It is important to understand how much money is being made. Circumstances have changed over the past six months and there is a little bit more confidence in the industry that it is making money, but the average pig producer is only breaking even or making a marginal profit. We need to keep that in context: compared with the past 18 months that the industry has gone through, it is pleased with current circumstances. However—to pick up on John Scott's point and the one that Philip Sleight made earlier—it is not sufficiently profitable to rebuild the balance sheet, which has been severely eroded over the past 12 to 18 months, and have the confidence to reinvest.

One of the strengths of the industry in Scotland has been its strong working relationship with Grampian Country Foods. Some innovative things have been done through the supply chain because of that relationship, but the dependence on that one site is particularly critical. We are in a catch-22 situation: to continue its operations at Broxburn, Vion needs confidence that there are pigs in Scotland, but the producers need confidence that Vion will be there to put the pigs on to the holdings. The chain is integrated and each link in it is important. Although the producers' returns are improving, the processing sector is under considerable pressure at the moment.

Liam McArthur: We heard in the previous evidence that some of the continental operators had the advantage of scale, but you are saying that the reliance on Grampian Country Foods has worked against the producers' interest to some extent.

John Scott: It is about critical mass.

Stuart Ashworth: It is an interesting debate. The producers had, and still have, a good working relationship with the processor. Mention was made of the carcase weight in Scotland being heavier than it is in the UK as a whole. That is largely because the producers responded to a signal from the processor that there was a market opportunity for heavier pigs. They took that on board and worked collectively to make use of it. That is an example of how the pig industry responds quickly to market signals when it has the confidence to do so.

Peter Peacock: The word “confidence” has come up a huge amount today. We have reached the sad state of affairs in which people are even worried that another working group might further undermine confidence. That is pretty extraordinary, but we are where we are.

The previous panel of witnesses gave us perhaps a dozen items of action. None of them is huge in itself, but they might in aggregate make the necessary difference to confidence. In the light of that evidence and from their own insights, what critical measure do the witnesses suggest we and the Government should consider taking to help provide confidence? Is it the list of suggestions from the previous panel or is there something in addition to that?

Stuart Ashworth: We have heard a comprehensive list of challenges that the industry faces and the industry has proposed a good collection of actions that will help it. Those actions are all about confidence and a sense of the country wanting a pig industry. At one level, we need to see public authorities committed to Scottish agricultural produce in general, which has not yet been mentioned. Although there are challenges within that, if public authorities are committed to Scottish produce, that signals that the country values the industry. That is one way in which demand in the market can be influenced.

Others have been mentioned, such as movement on legislative issues—the NVZ regulations have been spoken about, but there are also the IPPC regulations. Those regulations are challenges for the industry in that they are legislation that it must comply with and it is difficult for the industry to see the benefit in the marketplace of its having made such investments. There is a distinction to be made between the investment that is required for a mandatory purpose and the investment that is required to drive a business forward. I therefore support what was said earlier about the need to consider using the SRDP or other mechanisms to provide the investment that is needed to support the industry in complying with the NVZ and IPPC regulations.

John Scott: Are you talking about public procurement and the Government suggesting that

hospital, local authority and prison contracts be awarded to Scottish producers to send a signal to the industry?

Stuart Ashworth: Yes, that is what I mean. A fine example of that is the work that Aberdeenshire Council has done to maximise use of local produce in its facilities. There are models of good practice, which are valuable in demonstrating to the whole sector that it is valued.

John Scott: That would have other benefits, too, in relation to the council's carbon footprint and the quality of the food, which would, at the very least, have been produced to higher welfare standards.

Stuart Ashworth: There would be other potential gains.

Gavin Dick: There are two issues with the measures to restore confidence. First, producers must be confident that there will be a market for their produce in the future. Secondly, they must be confident that any capital expenditure will be spent on improving the efficiency of their businesses. Pig production, in particular, is reliant on good technical efficiency. It is one of the factors that influence Stuart Ashworth's figures on profitability. There is a wide range of technical performance in the pig industry, relative to the beef, sheep or even arable sectors.

If producers have the confidence, they will invest in making their businesses and production systems more efficient. However, for that to happen, grant aid or compensatory funding should be easily accessible, although not necessarily mandatory, to enable producers to meet any mandatory capital expenditure that they have to undertake that will not be of any direct benefit to their businesses. That brings us back to the SRDP.

The Convener: What specifically are you talking about when you speak of making businesses more efficient? I would have thought that farmers, especially in the canny north-east, would already be trying to make their businesses as efficient as possible. Notwithstanding the capital investments that we are talking about in relation to NVZs, slurry storage and things like that, what specifically could pig farmers do to make their businesses more efficient?

11:15

Gavin Dick: Pig farmers could continually update buildings and ventilation and feeding systems, and make use of the most up-to-date genetics. All of those things involve spending money. Other things, such as the labour force, could be considered. It is difficult for pig producers to get good labour. Some of the environments in

which pig staff have to work are not ideal compared with other agricultural systems. We could encourage training among pig staff. There is no single solution; rather, a series of little additions or efficiencies will make an impact on businesses.

John Scott: The Government announced what it was prepared to do in October. Notwithstanding the things that it is not prepared to do, do you have any other suggestions about what it could do? We have asked that question, but the other witnesses—apart from Gavin Dick—may wish to say what else could be done now. As I said earlier, the point of the meeting is that the committee wants to produce a report with recommendations and suggestions to give to the Government. We are therefore seeking recommendations from you.

Professor Christopher Wathes (Farm Animal Welfare Council): I have a much longer-term horizon than just a few years or even a decade or so. I start from the premise that society must sleep easy at night without worrying about how it keeps its livestock, or about the impact of livestock production on the environment. It can do so only through educating people from childhood about the consequences of their purchasing decisions as consumers. The one element that was missing from the task force plan of action was concern with education and children so that they will behave responsibly when they are adults. You wanted a large headline, Mr Scott: there it is.

John Scott: I take your point, but given the current world food security situation—

Professor Wathes: I am concerned that the population of the globe is scheduled to expand from 6 billion to 9 billion by 2050—

John Scott: So am I.

Professor Wathes: It has been estimated that, by then, food supplies must double with the changing diet. Various consequences of agricultural food production need to be considered—not only the animal welfare consequences with which, of course, I am primarily concerned, but environmental impacts, impacts on the use of water and so on.

John Scott: I absolutely agree.

Professor Wathes: The committee may want to consider the Austrian Government's Tierzucht macht Schule—or animal welfare goes to school—initiative. In Austria, every child is now required to take part in, or learn about, farming and food production by making two visits a year to farms. Countries elsewhere in Europe are taking the agenda forward by educating children responsibly about the consequences of their decisions when they are adults—in fact, they are even educating them about the consequences of the decisions

that they take when they are younger, because they influence their parents' decisions, too.

John Scott: I agree that there is an absolute need for improved animal welfare.

Professor Wathes: I am not talking about just animal welfare. I am talking about environmental impacts, water use, energy, carbon footprints—the whole gamut.

John Scott: Absolutely, but I am afraid that there will be a mad scramble to produce food in any way possible in the very near future because there will not be enough to go round. People have come up with well-intentioned and fundamentally important ideas with the luxury of the common agricultural policy food excesses in the past 25 years. We have had the luxury of full bellies. If we are moving into times of food security issues and not full bellies, it is important that at the very least we have an industry in this country that can produce our own food. We are in big danger of losing that. It is bizarre that animal welfare is one of the reasons why we are in danger of losing it.

Alasdair Morgan: May I ask a question?

Professor Wathes: May I respond to what has been said?

The Convener: Perhaps Alasdair Morgan and then Elaine Murray can ask questions. Professor Wathes might then be able to answer in a more rounded context.

Alasdair Morgan: I want to follow up on something that we heard earlier. We heard that producers or processors have problems selling much of the beast, because there are preferences for certain cuts. Cuts that perhaps 100 years ago would have been popular are not being used. If food supply is going to be an issue, the first thing we must do is eat as much of the animal as possible rather than just the bits of it that we like. It strikes me that there is a job of education and marketing to be done in that regard. Is there scope for such an exercise?

Stuart Ashworth: That is an interesting challenge. The diversity of product on the shelf is a challenge for the processing industry, as is the fact that the United Kingdom is only about 60 per cent self-sufficient in pigmeat products. We have been talking about retailers, but let us not forget about the food service sector and public procurement. Industry and supermarkets can take bits of pigs from other parts of the globe to get a balance in the UK, and that creates challenges for our processors. A supermarket might come to a UK processor for loins while getting sausages, frankfurters and so on from alternative, probably European sources, and the opportunity for our guys to add value is reduced. We need to be

careful about how the retail balance is supplied and about the strength that supermarkets have.

Morrisons—I will name it—majority owns its slaughter capacity and is much more willing and able to balance what it puts on the shelf than other retailers, who simply say, “I’ll take a loin from John Scott and a belly from Elaine Murray”, and so on. Those retailers are trading, in effect, and are being driven by consumers’ willingness to pay.

That takes us back to Alasdair Morgan’s comments to the previous panel about supply and demand. It looks as though retail prices should move, but they are not doing so. Why? The element that we tend to forget is the consumer’s willingness to pay and ability to switch to a vast range of alternative products, whether we are talking about beef, lamb, pasta or fish. That willingness to pay is a new dimension, and processors can go only so far in paying producers if they cannot get the margin at the other end. As I said, there is a chain and everything is linked.

Professor Wathes: The gold plating—as it is described—of farm animal welfare legislation in Britain, in particular the 1999 ban on sow stalls and tethers for gestating sows, can be regarded as a strength, a weakness and an opportunity. I prefer to regard it as the last. The egg industry provides an excellent comparison with the pig industry. As a result of voluntary measures on labelling eggs according to method of production, which were ultimately reinforced by Europe-wide requirements on labelling, there has been a dramatic swing from battery-cage eggs to free-range eggs during the past 20 years, such that 50 per cent of the retail eggs on supermarket shelves come from free range hens or alternatives to the battery cage. That has happened in the absence of a ban on the battery cage, which will not take effect throughout the European Union until 2012.

The British pig industry, including the industry in Scotland, has had a wonderful opportunity during the 10 years since the 1999 ban to take other voluntary measures and to capitalise on its image and excellent practices in farm animal welfare. However, it has been unable to do so in the same way as the egg industry.

Elaine Murray: I am interested in the opportunity that you described. The previous panel told us that, although it should be possible to market Scottish and UK pork on the basis of the better welfare and environmental standards that are adhered to in its production, supermarkets’ actions make it difficult for consumers to make the choice.

There might be an issue about what consumers are prepared to pay for, but they are not getting the necessary information. Some supermarkets deliberately label produce to imply that it is

Scottish when it is not and mix products together so that the consumer finds it difficult to know whether they are buying British pork or pork from the EU.

We have to educate not just children—the pig industry could be gone by the time they grow up—but the consumers of today. We also have to take action to ensure that people can exercise choice. Do you have any views on what we could do to enable that?

Professor Wathes: Labelling of produce according to the welfare of the animals or to environmental impact—energy use, water use or whatever—is important to consumers in Britain who are concerned about such things. I do not think that we should be prescriptive as to what they should choose or what they must have, but we should provide a range of goods, from those that meet the legal minimum requirements agreed at EU level to those of a higher standard.

Labelling does not come within a single country’s competence—it has to be set at an EU level—but voluntary labelling can certainly be introduced. That is what happened with the egg producers, who were rather canny, or cunning, in being able eventually to make the rules on labelling mandatory in the EU. The pig industry could follow that example. Labelling does not have to be compulsory; there can be voluntary schemes, such as the freedom food or Fairtrade schemes.

Bill Wilson: Labelling seems to be increasingly central. Do the other two gentlemen want to comment on it?

Stuart Ashworth: The labelling issue goes wider than just pork. We are currently having a debate in Europe about country of origin labelling, which has a significant role to play in proving provenance and allowing consumer choice. There are examples of packaging that creates a spirit of Scottishness, to which the ADAS report refers, and some such packaging is misleading. There is scope within current trading standards to address that, but it is not a priority for the trading standards people.

There are two messages. One is to look at what is possible within the current legislation. It comes down to issues of staffing—as does everything else—capacity and the degree of success that you might have. The second message is on the wider issue of compulsory labelling. Country of origin labelling is a start, and we have good examples of voluntary labelling, such as freedom food and organic food. On the beef side, we have Jamie Oliver’s quality product, which is a 21 or 28-day-hung product, so there are examples of voluntary labelling.

When it comes to the mainstream of product, the supermarkets are being challenged to find sufficient product. You can see from their logistics system that it is convenient for them to label produce as being from Britain or the EU. They have a standard packaging model that they can use for British bacon, Dutch bacon, Danish bacon or whatever. It is an extremely challenging situation, but things are happening. I would like to see more happen, particularly in relation to country of origin labelling.

John Scott: How can we drive that forward? Does Quality Meat Scotland do it? What is the process?

Stuart Ashworth: On country of origin labelling, QMS has been pushing the elephant uphill for some considerable time, and we will continue to do so. We know that there is a debate in Europe on country of origin labelling, and I think that there is also a debate about having a standard organic label. There is a requirement for us all to get involved in those debates.

11:30

Bill Wilson: We have heard a lot of evidence about supermarkets' tendency to use misleading labelling or have misleading flags conveniently dotted around shelves. How significant a problem is that? If the Government were to push to ensure that less of that happened, would that make a big difference to pig producers?

Professor Wathes: I do not know whether it would make a big difference; I am not an expert in the implementation of legal requirements.

The quality of life of a farm animal is determined by three things: first, legislation, regulations and codes of practice, which Britain has implemented well in the past 50 years; secondly, things that happen on the farm, such as the choice of genetics, the development of husbandry systems and—absolutely paramount among them—the education and skills of the stockman, in relation to which Britain has led the world, with Scottish pig producers in particular having an excellent reputation for stockmanship; and, thirdly, the role of the concerned citizen and consumer, which is the unleashed power in the triangle of factors.

That last factor comes down to education and, therefore, it would be helpful if you were to have a conversation with your colleagues on the Education, Lifelong Learning and Culture Committee. The solution will not be found purely on the supply side, as producers will always have to compete with producers in Europe or elsewhere, who have a lower cost base; it must also come from the demand side. I have already given you the example of the battery egg—as you know, that system will be outlawed from 2012.

Stuart Ashworth: Over time, accurate labelling will help. As your first panel of witnesses said, we have a number of identities, such as Scotch pork, that have a provenance attached to them, and we will work hard to get that message into the consumer's vision. For that to happen, the branding has to be seen on the shelf but, because of the convenience of branding products as coming from the UK or the EU, we have some difficulty in persuading retailers to take on some of our branding. We have plenty of products that can carry the brand, but there are elements of the supply chain that, for other operational reasons, find it convenient to use a British or EU branding. It would be helpful if some pressure could be applied on that side to match the pressure that is being applied by the industry.

Professor Wathes: Farmers and retailers are businesses: they are concerned primarily with the return on their financial investment. Retailers are concerned with the distribution of profits or rewards back to shareholders, and a similar principle applies to farmers.

I am as concerned with the concerns of the concerned consumer as I am with the livelihood of farmers. You have to look at the supply side as well as the demand side. Ultimately, that will ensure that animals are reared to a satisfactory standard of welfare and with proper regard to other considerations, such as environmental impact.

The Convener: I accept what you said about the battery egg, but is there any evidence that consumers are prepared to pay higher prices for pigmeat that is produced to higher welfare standards? Is using the supermarket outlet a good example? Is there evidence, for example, that people who are concerned about welfare standards shop for such products at farmers markets, farmers gate shops or online?

Professor Wathes: I think that you should direct that question to others who are more concerned with the marketplace. It is a niche market but, as the growth in the RSPCA's freedom food scheme shows, it appeals to a certain sort of concerned consumer.

I would argue that, in a sense, the experiment has not been conducted yet, because there is insufficient information—not just labelling—at the point of sale to allow the concerned consumer to make a choice. Unless that information is there, how can you know whether the consumer will respond according to their conscience or the supplier will respond according to the market signals?

The Convener: Does QMS have anything to say about that?

Stuart Ashworth: As the professor has just said, there is an ability to create niches in the market to meet demand. Organic produce and freedom food are examples of brands that built up when consumers were feeling good about themselves, and they are now under pressure. With the best will in the world, farmers markets are niche operators. We need to get more of the mainstream operators involved and reward them for doing so.

As John Scott said, there is evidence that, when the going is good—when people have a sufficient amount of disposable income and discretionary spending—freedom food and organic produce are growth areas. I hope that, in the longer term, they will continue to grow but, at the moment, they are feeling the squeeze.

John Scott: Do you think that the numbers of concerned consumers are growing or reducing at this time of financial austerity? Earlier, Brian McMonagle suggested that the consumer wanted value and was buying from the value ranges. That suggests to me that the numbers of concerned consumers are diminishing rather than expanding.

Professor Wathes: Of course the consumer is concerned with maximising the benefits of his spend. We used to bait bears, but we in Britain and in other civilised countries no longer do so. I take on your point that, ultimately, people have to have full bellies. Perhaps there might be a need to change the composition of our diet so that meat is no longer at its centre and is instead more of a luxury dish that is consumed on special occasions.

I really think that there are minimum standards that we have to meet in order to sleep easily at night. The test that I would encourage us to use is whether the animal has had a life worth living from its point of view. That is better than the current test, which is whether the animal has suffered unnecessarily. In the main, I think that we in Britain can be proud that our animals have had a life worth living, up to and including the manner of their deaths.

John Scott: I associate myself with those sentiments.

The Convener: I thank the witnesses for coming along and giving us the benefit of their wisdom. If you have any points that have not been dealt with today, please raise them with us in writing.

11:38

Meeting continued in private until 12:27.

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