

**QUALITY MEAT SCOTLAND**  
**CORPORATE & BUSINESS PLAN**

**2017/18 – 2019/20**

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## Chairman's Foreword

The three year Corporate and Business Plan for Quality Meat Scotland (QMS), prepared in line with the requirements for a public body, is presented below.

This Corporate Plan sets out Quality Meat Scotland's strategic ambitions on behalf of the Scottish red meat industry for the period 2017/18 to 2019/20. It is also published on the QMS website [www.qmscotland.co.uk](http://www.qmscotland.co.uk)

The board members of QMS are appointed by Scottish Ministers for their knowledge of the different sectors of the Scottish red meat industry as well as experience in a range of areas including marketing and corporate governance. The board members are listed on page 32.

The board has set strategic priorities for the organisation to assist businesses operating in the Scottish red meat industry to improve their efficiency, sustainability and profitability. These priorities have been agreed by the board, following full consideration of the operating environment and the challenges and opportunities which exist in the Scottish red meat industry.

The overall strategy set by the board is *to shape a sustainable and prospering red meat industry in Scotland*. This strategy is aligned with the Scottish Government's economic strategy of *increasing sustainable economic growth*.

The QMS Chief Executive is responsible for ensuring the organisation's day-to-day activities are delivered in line with the overall strategy and specific strategies, from which clear objectives and supporting activities are established. QMS works closely with the industry and liaises regularly with representatives of the different sectors to ensure our activities meet the needs of beef, lamb and pork businesses.

One of the challenges QMS faces is reduced levy income. QMS is annually missing out on over £1.5 million of levy income which is collected out with Scotland as a result of Scottish livestock being slaughtered in England or Wales.

In late 2015 the three GB red meat levy boards submitted a briefing document to Ministers in England, Scotland and Wales outlining an alternative option for the distribution of red meat levy income.

This alternative, developed jointly by the three organisations, would take into consideration the scale of economic activity undertaken by the red meat industry in each country, rather than only where the animal is slaughtered. It is important that arrangements are put in place to deliver long overdue progress in this area.

During 2016 three strong, highly targeted marketing and public relations campaigns behind the Scotch Beef PGI, Scotch Lamb PGI and Specially Selected Pork brands were executed.

A range of excellent industry development activities were also delivered and the focus of these activities is very much on "farmer-to-farmer" communication of ideas and opportunities to improve profitability and reduce waste. During the year a network of nine new monitor farms was established by QMS, working in partnership with AHDB Cereals & Oilseeds, as part of a major project funded by the Scottish

Government. A pig monitor farm was also established, funded jointly by QMS and Opportunity North East (ONE).

The red meat industry contributes around £2.43 billion\* to Scotland's economy annually and despite concerns about challenges, such as the uncertainty about the impact of Brexit and reduced support payments for farmers, there remain many reasons to be positive about the future of the Scottish red meat industry.

The global appetite for high quality red meat is projected to increase considerably and Scotland is well-placed to meet this demand. We have a top quality product and a compelling message in terms of what differentiates our brand, as well as a strong positive message on the contribution our industry makes to Scotland's environmental, economic and social sustainability. Indeed, our industry supports around 15,000 businesses and 50,000 jobs.

Also key to meeting future consumer demand is the quality assurance behind the Scotch Beef PGI, Scotch Lamb PGI and Specially Selected Pork labels, the priority given to animal health and welfare and our natural, grass-based cattle and sheep production systems.

The strategies set by our Board (see page 25) will ensure QMS continues to deliver a very substantial, relevant and vibrant programme of activities which support the sustainable growth of Scotland's red meat industry. These strategies have laid the foundations for a comprehensive, measurable range of activities for QMS staff to deliver.

**Jim McLaren**  
**Chairman**

*\* Source: Moxey Report "Assessment of the Economic Contribution of Scotland's Red Meat Supply Chain"*

## **1 Context**

### **1.1 Structure**

QMS is established, under the Quality Meat Scotland Order 2008, as a Non Departmental Public Body (NDPB). Its constitution is set out in Schedule 2 of the Order.

### **1.2 Remit**

The powers and functions of QMS as set out in the Order are as follows:  
The purpose of QMS is to increase efficiency or productivity in the red meat sector, improve marketing in the red meat sector, improve or develop services that the red meat sector provides or could provide to the community and improve the ways in which the red meat sector contributes to sustainable development.

QMS has responsibility for a range of functions relating to the development and promotion of the Scottish red meat industry, the scope of these functions is set out in Schedule 1 of the Order.

QMS' activities on behalf of levy payers are funded through income derived from statutory levy and collected by QMS. The quality assurance schemes are self-funding from fees.

### **1.3 Board and corporate governance**

All Board members are non-executive and appointed by Scottish Ministers for a term not exceeding four years. The appointments are made in line with the Code of Practice issued by the Commissioner for Ethical Standards in Public Life in Scotland.

The Board has corporate responsibility for ensuring that QMS achieves the Scottish Ministers' overall aim of using the statutory levy for the benefit of Scottish levy payers. The Board oversees the efficient and effective use of staff and other resources by QMS in accordance with the principles of best value.

A robust system of financial monitoring and performance review is in place. Apart from regular meetings of the Board, this includes an independent Audit & Risk Management Committee consisting of three Board members and the appointment of independent internal auditors. As a public body the external audit function comes under the scrutiny of Audit Scotland. A risk register is regularly reviewed by the Board and policies are in place governing the use of reserves and the application of public procurement rules. QMS has a Management Statement and Financial Memorandum which sets out the relationship between QMS and the Scottish Government.

QMS recognises the importance of good governance standards in the public sector and bases its approach on six principles as follows:

- focussing on the organisation's purpose and on outcomes for levy payers specifically and others generally;
- performing effectively in clearly defined functions and roles;
- providing effective corporate governance for the whole organisation and ensuring principles of value for money are embedded into procedures;
- taking informed transparent decisions and managing risk;
- developing the capacity and capability of the governing body to be effective;
- engaging with levy payers and other stakeholders to ensure good accountability.

#### **1.4 Industry engagement**

A network of engagement is in place to help the organisation take account of the views of levy payers, and so that levy payers are aware of the activities that are being delivered on their behalf. This includes:

- attendance by invitation to meetings of the NFU Scotland Livestock and Pig Committees and by invitation to NFUS regional and branch meetings;
- attendance by invitation at meetings of the Executive of the Scottish Association of Meat Wholesalers;
- attendance by invitation to meet with the President and Chief Executive of the Scottish Federation of Meat Traders Associations;
- levy payer involvement in the review of assurance standards by participating in standard setting committees which advise the Board;
- regular meetings of the QMS Scottish Cattle Industry Group
- regular meetings of the QMS Scottish Sheep Industry Group
- regular meetings of the QMS Pig Industry Group Scotland
- specific Marketing Strategy Group meetings for beef, lamb and pork which receive input from producer and processor representatives;
- facilitation of an Independent Retailers Marketing Strategy Group
- periodic attendance (at least once annually) at meetings of other livestock industry representative organisations;
- participation at national industry events;
- various weekly or monthly press columns;
- publication of an Annual Review which sets out the breadth and depth of QMS activities for industry stakeholders
- a weekly e-newsletter to over 5000 industry contacts
- a quarterly business improvement magazine (Livestock+) distributed to over 10,000 farming businesses
- active development of social media with over 14,000 followers on Facebook and Twitter.

#### **1.5 Time window**

This Plan considers a three-year time window for the financial years 2017/18-2019/20.

## **2 Review of the Industry Operating Environment**

In shaping this Corporate Plan consideration has been given to a wide range of factors in the industry operating environment. These factors can be considered in the following categories: legal, political, environmental, economic, sociological and technical.

### **2.1 Legal factors**

Membership of the Scottish non-departmental government body community places requirements on many QMS corporate activities including board recruitment, freedom of information, records management and financial discipline which influence the structure of corporate services activities. Furthermore, legislation covering state aids, EU funds and treatment of para fiscal levies impact on the running, funding and management of projects.

The wider red meat industry is impacted by several legal frameworks including:

- The Common Agricultural Policy and Rural Development Programmes;
- Land management and climate change;
- Food safety, food authenticity and animal welfare;
- Employment and taxation

QMS' Enterprise profitability studies<sup>1</sup> and the Scottish results from the European Commission's Farm Accounts Data Network<sup>2</sup> show that without support payments from the Common Agricultural Policy (CAP), most cattle and sheep enterprises would struggle to be profitable. The legal framework for the implementation of the latest reform of the CAP as applied in Scotland is in place and the Scottish government is working hard to implement the changes. Over the lifespan of this plan, the distribution of support payments will change due to convergence towards a common area payment for a land type from an historic level that reflected activity levels. As this process reaches its conclusion there remains an expectation of a significant rebalancing of support payments away from intensive livestock producers. A sharp reduction in payments may lead to changes in business profitability levels and increase the risk of a reducing livestock population and changing enterprise mixes on farms. However, it will force producers to adapt their businesses in order to increase market incomes and drive production efficiencies.

Alongside the CAP is the legal framework for the implementation of the Scottish Rural Development Programme (SRDP). It is important that the red meat industry is involved in discussions to secure the maximum level of funding for initiatives to encourage quality livestock production and innovation through, for example, knowledge transfer. Similarly securing SRDP funding is key for several Beef 2020 and Scottish Sheep Sector Review recommendations including the desire to improve access to practical farm data on animal genetics and animal performance.

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<sup>1</sup> Cattle and sheep enterprise profitability 2015 edition - QMS (2016)

<sup>2</sup> Economic Report on Scottish Agriculture 2015 - An official statistics publication for Scotland (2016)

The SRDP also has potential to support investment in the processing sector in respect of capital investment and new product development through the Food Processing, Marketing and Co-Operation (FPMC) scheme.

The Climate Change (Scotland) Act 2009 not only sets out ambitious targets for greenhouse gas emissions but also called for a Land Use Strategy to be laid before Parliament. Both the Act and the Strategy remain key components of Scotland's response initially to the European Union's 2020 framework for climate and energy policies and currently for the European Union's EU 2030 framework for climate and energy policies agreed in October 2014. The latter sets a target for an emissions reduction of at least 40% from 1990 levels by 2030, binding on Member States. In July 2016 the European Commission published a proposal for binding reductions from 2012-2030 which is expected to gain approval in early 2017. This sets the reduction target for agriculture at 30% from 2005 levels and a higher rate of 43% for the industrial and power sectors.

The Scottish Government's publication of its draft climate change plan in January 2017 which details a number of policies and proposed policies in respect of achieving Low Carbon Scotland targets<sup>3</sup> continues to set challenging targets for greenhouse gas (GHG) emissions from Scottish agriculture. Although the Scottish agriculture and related land use sector is estimated to have reduced emissions by 25% between 1990 and 2014, pressure remains on the sector to make further reductions<sup>4</sup>. Nevertheless, the latest estimates imply that agriculture has already met the 2020 target set for it by the Scottish Climate Change Delivery Plan published in 2009.

The publication of the Land Use Strategy 2016-2021 continues to have among its objectives: land based businesses working with nature to contribute more to Scotland's prosperity; and responsible stewardship of Scotland's natural resources to deliver more benefits to Scotland's people. Consequently, the policy has potential to impact on the way livestock farmers manage their businesses through for example woodland creation objectives, river basin and flood risk management plans and actions taken to reduce land based greenhouse gas emissions.

The objectives set for afforestation and the prioritising of land suitable for afforestation away from highly productive arable land and carbon rich soils will lead to significant land use conflicts on land well suited to grassland production and livestock rearing and present a challenge to the cattle and sheep sectors in the medium term.

The requirements of the Waste (Scotland) Regulations 2012 are now well established and has increased the use of food waste in renewable energy and composting with consequences for the economy, the environment and the suitability or otherwise of such composts as a fertiliser on grazing land. QMS continually reviews the science associated with the use of compost and by-products from renewable energy as a soil improver and the associated risks to livestock and meat safety. In publishing its Circular Economy Strategy in 2016 the Scottish government is seeking to make a commitment to reduce food waste by one third by 2025. In this regard, QMS continues to support Zero Waste Scotland's Love Food Hate Waste campaign. The 2012 Regulations and the circular economy strategy draw consumers' attention to

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<sup>3</sup> Draft Climate Change Plan to meet the emissions reduction targets 2013-2027

<sup>4</sup> Scottish Greenhouse Gas Emissions 2014. : Scottish Government 2016

the level of food waste they produce and over time may impact on consumer behaviour and the type of product purchased, for example boneless cuts, and pack size with implications for the type of livestock required by processors.

Food safety is at the heart of any food production system. The legal framework ranges from actions to secure animal welfare (for example BVD and TB control measures) through measures to secure safe food to labelling requirements. In respect to food safety, demands are made on all food business operators, including farms, to ensure food safety to the next link in the chain through for example the delivery of food chain information for clean livestock.

The developing food labelling legislation highlights the significance of food authenticity in the market place. The legislation is designed to avoid misleading the consumer and is a benefit to Scotland and its strong PGI brands; although the labelling requirements for PGI are slightly different. The legislation has particular resonance to the added value sector where authenticity of ingredients has been an issue in the past. QMS will work closely with Food Standards Scotland, Local Authorities and others to communicate the details of this issue.

The EU continues to revise and expand the regulatory controls that impact on livestock farming and red meat processing. Examples include EU regulations on; product labelling with respect to meat used as an ingredient, country of origin labelling for fresh pork, sheepmeat and poultry, amending BSE and TSE control measures, managing the welfare of animals at time of slaughter and the introduction of Electronic Identification (EID) to the ovine sector, some of which create an added cost for the industry. It is important that the industry and Government work together to minimise the burden of these compliance costs while gathering the maximum benefit.

Measures introduced to control TSE through EU regulations 999/2001 and 1069/2009 continue to add cost to the supply chain. The level of impact can be influenced by a Member States' or regions' BSE status. The United Kingdom is considered to be a country with a controlled BSE risk. The absence of a BSE case in indigenous cattle under 11 years old is one of the criteria for reclassifying a region (or country) as having negligible BSE risk and efforts are underway to achieve this status for Scotland which would result in cost savings to the industry.

The Scottish Government maintains its opposition to the cultivation of GM crops. European Union legislation has been changed to enable Member States, and regions within them, to ban the cultivation of GM crops, even where the European Food Safety Authority (EFSA) has cleared their use. This has resulted in the Scottish Government pledging to maintain the ban on the cultivation of GM crops in Scotland.

The 'National Living Wage' introduced in April 2016 raised the hourly wage of a worker aged 25 or over by 7.5% to £7.20. Government policy is for the living wage to continue rising towards 60% of median earnings by 2020/21 (estimated to be £9.35 per hour), contingent on continued economic growth. The Low Pay Commission will recommend to the Government each year on how the NLW should be adjusted towards its 2020 target. This has the potential to affect a significant number of businesses in the Scottish red meat supply chain over the lifetime of this corporate plan.

## 2.2 Political factors

The Scottish referendum of 2014 maintained Scotland's position within the Union. In its aftermath, additional powers were devolved to the Scottish Parliament under the Scotland Act 2016, and the subsequent changes in legislation are starting to be implemented. These changes will inevitably impact on the strategic decision making of the Scottish red meat industry over the life of this plan.

In June 2016 the UK voted to leave the European Union (EU) despite a significant majority for 'Remain' in Scotland. The time frame for exit remains confused and dependent upon the UK triggering negotiations by using Article 50 of the Lisbon Treaty. The process of negotiating a withdrawal from the EU creates uncertainty for the red meat supply chain, and QMS, in respect of a number of core considerations in respect of business planning. These include:

- EU grant aid
- The future shape of agricultural and rural policy.
- Market access and trade constraints to and from the European Union and globally.
- Access to migrant labour, particularly for the slaughter and meat processing sector.
- Exchange rate movements

Ahead of the 2016 Scottish Parliament election, the SNP had stated that only a considerable shift in public opinion within Scotland and/or a 'material change in circumstances' could lead to a second referendum on Scottish independence. Leaving the EU meets the latter of these conditions, the Scottish Government have published a new Referendum Bill for consultation. It remains unclear how the Scottish Government intends to proceed, but the uncertainty created by the potential of a second independence referendum adds to the complexity of external influences on making decisions over medium and long term business plans. As a consequence, significant changes to plans are likely to be postponed until these issues are resolved.

Food and drink remains a core plank of the Scottish Government's economic and public health strategy. In terms of economic development, Food and Drink is recognised in the Scottish Government's economic strategy as a key growth sector. The Scottish Government works in partnership with Scotland Food and Drink and its partners including QMS to support the continued growth of Scotland's food and drink sector both at home and abroad.

The Scottish Government continues to support an agenda of healthy eating. Within its discussion document "Becoming a good food nation" the Government lays out an agenda for food in the public sector, a children's food policy, local food and good food choices. Resulting from this discussion paper the Food Commission was established in 2015 to advocate the importance of good food to Scotland's health wellbeing, environment and quality of life. The Scottish Government has also launched a "Supporting Healthy Choices" framework to encourage healthier diets and launched an "Eat Better Feel Better" campaign in 2015. QMS continues to work closely with Government, its agencies, Scotland Food and Drink and other bodies to ensure the priorities of the red meat sector are to the fore in these initiatives and others.

In June 2015, the Scottish Government launched a discussion document on the "Future of Scottish Agriculture", noting that Scotland's food and drink industry is reliant on a strong agricultural base<sup>5</sup>. The Government's vision is one of an agriculture industry that is both economically and environmentally sustainable while being a significant provider of public goods to the Scottish population, including for example; the mosaic of agricultural landscapes, farmland bio-diversity, water quality and quantity, soil functionality and carbon storage, flood plain management and cultural events like regional agricultural shows.

After the 2014 EU Commission was appointed, one main focus of the Agriculture Commissioner has been to reduce the regulatory burden on farmers and simplify complex CAP rules where possible. Some simplification has taken place but significant change will have to wait for the mid-term update of the CAP, which will not take place until 2017 or 2018, and/or developments associated with Brexit.

Nevertheless, and irrespective of the timing of the UK's exit from the EU, a review and change to the operation of LFASS, will take place and be implemented in 2018. This raises the potential of further regional redistribution of support within Scotland and/or reduced budget with consequent implications for short to medium term business planning.

In terms of the climate change debate, concerns over livestock emissions may have unintended consequences for livestock production in Scotland, the balance of trade and conflicts between Scotland's emissions targets and global emissions targets could result in redistribution of livestock production away from Scotland to countries with less ambitious emissions targets. An economically sustainable Scottish industry requires livestock numbers to be at least maintained. Consequently, it will be important for the Scottish industry to target reduced emissions per kilo of production and to gain the acceptance from governments and other institutions that this should be the principal measure for emissions mitigation in the agricultural sector.

The climate change debate is developing into a wider sustainability debate. In this regard, the EU action plan for the Circular Economy was published in December 2015. This plan requires Member States to work, among other things, towards reducing food waste and increasing resource-use efficiency.

The wider debate on the integrated management of land, water and living resources that promote conservation and sustainable use in an equitable way is at the heart of the definition of ecosystems services. Researching the role of ecosystems services is one of three themes in Scottish Government's 2016-2021 research portfolio and will increasingly inform the shaping of policy on Land Use Strategy.

The role that GM technologies<sup>6</sup> can play in meeting the global demand for food and fuel has been highlighted but political and consumer uncertainty over risk continues to be an issue. With highly divergent views on the efficacy of GM crops amongst Member States leading to deadlock, the European Commission has made an attempt to delegate decisions on GM crops to Member States and regions within them. While cultivation of GM crops has now been incorporated into EU legislation in 2015, there is still an ongoing debate over the importation of livestock feed containing GMOs.

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<sup>5</sup> The Future of Scottish Agriculture: A Discussion Document – The Scottish Government (2015)

<sup>6</sup> See for example foresight report "The future of food and farming: challenges and choices for global sustainability (2011) the Government Office for Social Science, London

The Scottish Government urges that any proposals for importing GM materials for their use in food and feed be considered only after the most rigorous analysis, adopting a precautionary approach. The EU Commission has proposed that Member States make their own decision on whether to permit the import of these products. However, MEPs are concerned that this would distort the single market, potentially leading to border controls, and have voted against Commission proposals. If the importation of feed containing GMOs were to be restricted, it would potentially raise production costs, particularly for pig producers, given that they rely heavily on rations containing soya, most of which is imported from the Americas where GM soya is highly prevalent.

The Scottish Government introduced a new food body for Scotland during 2015 – Food Standards Scotland (FSS). QMS is co-operating with this body and others in the Scottish Government Food Education Partnership in achieving common aims in respect of education on the importance of a balanced diet; effective and proportionate regulation of food business operators; and gaining export approval for third countries.

QMS is fully aware that it will become increasingly important to foster collaboration with other parties, for example Scotland Food and Drink, Scottish Development International (SDI), and sectorial bodies promoting complementary products in target export markets, to achieve best value from limited resources. Pressures on public funding are, however, likely to affect the extent to which these agencies are able to offer financial support to industry led initiatives to sustain a prospering Scottish red meat industry. In particular, already limited support from Defra may be further restricted once departmental spending cuts already planned are introduced and trade negotiations over Brexit gain momentum.

In a global context, the continuing discussions over world trade and the desire to reduce or remove non-tariff barriers to trade have the potential to impact on the Scottish industry's competitiveness. The World Trade Organisation appears to have accepted that a comprehensive agreement in the Doha Round is not possible and is now seeking incremental gains. As a consequence, there has been an increased push towards bilateral trade deals and regional trade deals. In this regard the EU is moving slowly towards full ratification of a trade deal with Canada (CETA).

Negotiations between the EU and US over the Transatlantic Trade and Investment Partnership (TTIP) are ongoing. The timeframe for an agreement with the US is uncertain and the outcome of the Presidential Election in November 2016 may have consequences. The European Commission continues to hold bilateral talks with a number of other nations or groups of nations, most notably Mercosur, China and Japan. Within trade discussions, it is recognised that agriculture is a sensitive area, so any reductions and eliminations of tariffs are likely to be phased in over a prolonged period of time. European authorities recognise the particular sensitivity of suckler beef production to increased access to the EU market of beef from third countries<sup>7</sup>. The EU Commission is due to publish an economic impact assessment of all its outstanding trade agreements by the end of 2016. It is thought that this analysis will be used to frame future trade talks; for example, if this analysis was to

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<sup>7</sup> See for example ppp.55 of "Risks and Opportunities for the EU Agri-food Sector in a Possible EU-US Trade Agreement" European Parliament 2014:

demonstrate a positive impact then it will make the EU more open to striking agreements in the future by providing supportive evidence.

Continuing efforts by industry supported by the UK government to gain market access for beef, lamb and pork into third countries is a welcome step forward that could open up new market outlets for Scotch Beef, Scotch Lamb and Specially Selected Pork in for example, China, the Philippines, Japan and the USA.

Though here it should be noted that gaining export health certification can be time consuming, and pressure on staffing levels within Defra due to other negotiations may result in increasing delays. Pressure on local authority budgets may also impact consumer confidence in the provenance of their meat if staffing levels in trading standards are cut back.

In the most recent OECD-FAO Agricultural Outlook<sup>8</sup> global meat consumption was projected to grow by 12.5% between 2016 and 2025, with a 12% expansion in red meat. However, 82% of the expected growth in meat consumption and 86% of the growth in red meat consumption are expected to occur in developing countries in, for example, Asia and Africa. It is therefore important that the Scottish red meat industry, through cooperation with the Scottish and UK Governments, is in a position to benefit from these opportunities and those created by other nations and trading blocs agreeing changes in trading and market access regulations.

The fact that due to legislative requirements levy is collected at the point of slaughter means that livestock born, reared and finished in one part of the UK and slaughtered in another is a loss of levy to the country (England, Scotland and Wales) where the main economic activity has taken place. QMS will continue to explore ways of repatriating levy to the best advantage of Scottish levy payers.

Proposed changes to tax credits have the potential to lower spending power to a considerable number of UK households from the 2016/17 financial year. A vote in the House of Lords has resulted in the government having to adjust the policy and mitigate some of the losses faced by households with low paid workers. Nevertheless, the Institute for Fiscal Studies has warned that a higher minimum wage is unlikely to fully offset the cuts to benefits, and even following a revision, the policy is likely to still have a significant impact on spending power<sup>9</sup>.

### **2.3 Environmental factors**

The Scottish livestock industry has always been impacted by the climate, both locally and internationally, in respect of production efficiencies and in the marketplace both for inputs and outputs. Climate variation can quickly impact on animal and crop productivity and quality with commensurate impacts on market prices and input use and cost. The livestock producer is continually seeking to mitigate the climate risks and adapt production systems to changes in the climate. In the light of forecasts of the degree of climate change already in the system, these activities will not diminish.

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<sup>8</sup> OECD-FAO Agricultural Outlook 2016-2025

<sup>9</sup>[http://www.ifs.org.uk/uploads/publications/budgets/Budgets%202015/Summer/Hood\\_distributinal\\_analysis.pdf](http://www.ifs.org.uk/uploads/publications/budgets/Budgets%202015/Summer/Hood_distributinal_analysis.pdf)

Despite agriculture being one of the few industry sectors to meet its 2014<sup>10</sup> target from the Climate Change Delivery Plan, the industry will increasingly be called on to address the challenge of reducing these emissions further. Fortunately, many mitigation measures have positive impacts on enterprise profitability. The challenge for the industry remains one of sustainable intensification leading to increased stock numbers to meet the growing global demand for meat while minimising environmental and climate impact.

Extensive livestock production systems based on permanent pasture, organic and low inorganic fertiliser use and minimal tillage may provide low carbon-equivalent production systems. Extensive mixed livestock production may also have much to offer as a land management system that supports biodiversity, preserves fragile landscapes and provides ecosystem services which may attract a public good payment.

Some 75% of Scotland's agricultural area is recorded as grassland over five years old or as rough grazing and the use of this resource is at the heart of Scottish ruminant livestock production. It is important that the role of grazed permanent pasture in greenhouse gas management through carbon sequestration, carbon storage in soil and landscape biodiversity creation and maintenance is fully understood and presented in the context of a Scottish, UK and Global situation.

Work is underway to improve the understanding of carbon sequestration and carbon storage in permanent pastures, peat moorlands and mountain grazings.

It is important that the ruminant livestock sector is fully engaged in this debate over carbon management and carbon storage in well managed permanent grassland, peat moorland and mountain grazings, ecosystems management and business and environmental sustainability. QMS influences the debate by providing evidence and analysis of the Scottish context.

Nevertheless, there remains a risk that the reputation of the Scottish red meat industry for the natural and environmental properties of its produce is overtaken at the global level by some of our competitors.

Not all of Scotland's red meat is derived from extensive farming regions. Pig production and some cattle and sheep finishing enterprises are more intensive in nature. Their high levels of technical efficiency mean that they can be very carbon efficient per kilogramme of meat produced but produce significant emissions per business or per unit of land area and are looked on critically by some in the sustainable farming systems debate. It is therefore important that the Scottish red meat industry is engaged in the developing debate on sustainable intensification and that the strengths of these more intensive businesses are communicated more widely.

Many retailers are increasingly seeking to work with suppliers to reduce their impact on the environment<sup>11</sup> and incorporate sustainability credentials in their company and

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<sup>10</sup> See Scottish Greenhouse Gas Emissions 2014: An Official Statistics Publication for Scotland (June 2016)

<sup>11</sup> See for example "Tesco <https://realfood.tesco.com/our-food/tesco-farming.html>Sainsbury's 20x20 Sustainability plan <http://view.ceros.com/msl/sustainability-plan/p/1> <http://www.j-sainsbury.co.uk/responsibility/our-sustainability-plan/our-commitments>

product promotion<sup>12</sup>. This global agenda will grow in relevance for the Scottish red meat industry. Indeed, the world's largest beef processor (JBS) has responded to these pressures by addressing sustainable beef production in Brazil<sup>13</sup> further illustrating the challenge the Scottish industry faces.

While much discussion has centred on climate change and greenhouse gas reduction, the debate has moved onto a wider spectrum by broadening the debate to one of environmental, economic and ethical sustainability and work is underway to try and formulate metrics that can be used to demonstrate sustainability. Examples include the work of the Sustainable Agricultural Initiative<sup>14</sup> and the Global Roundtable for Sustainable Beef<sup>15</sup> to develop principles and practices that can be used internationally to demonstrate sustainability credentials.

In recent years' intensive livestock producers have faced competition from the renewable energy industry for arable crop and arable crop by-product that can be used for energy generation. Currently, this pressure has diminished as global oil prices have fallen below \$50 per barrel making biofuel production less attractive. Nevertheless, there remains potential for competition over land and crop use to grow in the future.

## **2.4 Economic factors**

Following a strong 2014, when the UK economy expanded by 3.1%, the pace of GDP growth slowed to 2.2% in 2015. Moving into 2016 and this has been maintained with the economy estimated to be 2.3% larger than a year earlier during Q3. The quarterly rate of growth exceeded expectations in Q3, coming in at 0.5%. This came despite the economic shock of the Brexit vote in late June, which reportedly led to a contraction in activity during July.

Looking at the first estimate of GDP growth for Q3 2016 shows that the economy was underpinned by consumer spending with the category of services including retail, foodservice and accommodation rising by 2.2% on the quarter and by 4% year-on-year. This in turn is likely to reflect rising real wages, as inflation has remained low, averaging 0.7% in Q3, while earnings growth has been running at 2-2.5% this year. While consumer confidence surveys have indicated that consumers are more pessimistic about the general economy, they are themselves, on average, feeling relatively well off. In the October 2016 survey there was a significant net positive balance answering that 'now is a good time to spend'. As well as current finances, this may reflect expectations that inflation is about to lift. When the fall in the sterling exchange rate begins to pass through supply chains in 2017 there is an expectation that inflation will rise sharply. Given that consumer spending has been the engine of growth for the UK economy in recent years, this poses a significant risk to disposable incomes.

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<sup>12</sup> See for example: McDonalds Restaurants  
[http://www.aboutmcdonalds.com/mcd/sustainability/signature\\_programs/beef-sustainability.html](http://www.aboutmcdonalds.com/mcd/sustainability/signature_programs/beef-sustainability.html)

<sup>13</sup> <http://jbsglobal.co.uk/about-us.html>  
<http://www.jbs.com.br/en/sustainable-livestock>

<sup>14</sup> Principles of Sustainable beef farming; Sustainable Agricultural initiative 2013  
<http://www.saiplatform.org/activities/working-groups/beef>

Principles and practices Dairy 2015 Sustainable Agricultural Initiative 2015  
<sup>15</sup> GRSB Principles and criteria for sustainable beef; GRSB 2014

However, it should be noted that during Q3, the manufacturing and construction sectors continued to disappoint. Manufacturing, which includes meat processing, contracted by 1% on the quarter and was only up 0.4% on the year, while construction output fell by 1.4% on the quarter and by 0.2% year-on-year. Both sectors reported significant impacts in the immediate aftermath of the Brexit vote, due mainly to uncertainty over future trading relationships and future investment in large projects. As a result, investment plans that had been on hold pending the Brexit vote are likely to have remained on a 'wait and see' basis.

With the general rate of economic growth remaining in positive territory, the labour market has continued to normalise. A large number of indicators have converged back to their pre-2008 recession levels, while others are getting close and some are in even better position. The employment rate for people aged 16-64 in the June to August period reached a record high of 74.5%, while the UK unemployment rate remained at an 11-year low of 4.9%. At this level, unemployment is estimated to be around its equilibrium rate. To fill skills gaps and to help support an ageing population the UK has imported workers from other countries.

Whereas between 2013 and 2015, the upturn in household consumption and consumer spending had largely been centred on household items and leisure, 2016 has seen a resurgence of food sales. Indeed, during Q3 2016, sales volumes in predominantly food stores are estimated to have risen by 4.3%, compared to a 3.9% gain for predominantly non-food stores. In part this was down to lower prices, with cash spending rising by a slower 2.3% and 2.5% respectively. Lower shop prices reflect a prolonged period of global commodity price deflation and intense competition in the retail sector. This competitive pressure has come from the large multiple retailers attempting to maintain market share while the challenger discount supermarkets try to gain a larger foothold. As a consequence, profit margins for suppliers are likely to have been squeezed heavily. Specialist high street butchers may also have felt knock on effects from this competition. However, how much longer supermarket competition can continue to shelter UK consumers from rising food prices must be open to question given the sharp rise in the cost of imported foodstuffs and other commodities in recent months.

In respect to red meat sales, the evidence presented by Kantar Worldpanel suggests that there have been significant challenges. In the twelve weeks to October 9 2016, beef sales volumes are reported to have fallen by 1.5% year-on-year despite lower retail prices. Meanwhile, lamb volumes fell by 11.5% and pork by 8.5%. While some of the declines for lamb and pork may have been influenced by a general tightness of supply relative to 12 months before, and slightly higher retail prices on the lamb side, the results are nevertheless disappointing and may be a signal of changing consumer traits.

In Europe, after the weak growth rates of 2013 and 2014, economic activity picked up in 2015 with Euro Area GDP ending the year 2% larger than a year earlier. Although GDP growth has slowed since, quarterly growth rates of 0.3% in both Q2 and Q3 saw GDP run 1.6% higher than year earlier levels. Private sector surveys have remained positive in 2016, indicating that order books have been growing at both manufacturing firms and in the service sector.

Since this has led to the build-up of backlogs, firms have had to take on additional staff. However, job creation has happened at a slower pace in 2016, matching the

growth in the working age population, and the sustained fall in the Euro Area unemployment rate between 2013 and 2015 has stalled. Indeed, the unemployment rate stabilised at 10.1% over the summer months; though this was down from 10.7% in August 2015. The Spanish and Dutch labour markets have continued to make progress this year, but the situation has deteriorated in France. Meanwhile, unemployment has been broadly flat in Italy and Germany.

Like in the UK, low rates of inflation and rising wages across the Euro Area have led to increased household disposable income which has fed through to higher consumer spending. However, in contrast to the UK, retail sales volume growth has been stronger in the non-food categories than in the one containing food, showing respective annual gains of around 2% and 1% during the summer months.

Further afield, the large emerging economies of Brazil, China and Russia have remained weak in 2016 and the International Monetary Fund estimates that global GDP growth was slower in the first half of 2016 than it had been 12 months before. However, the prospects have become brighter for 2017 as commodity prices have strengthened. Indeed, both Brazil and Russia are expected to exit from recession next year and world trade is forecast to grow at a faster pace. After a weaker than expected first half of 2016, the US economy performed well in Q3 2016 and is forecast to firm again next year.

In addition to the impact of overall economic performance on consumer spending and demand for red meat, the other main economic impact is through exchange rate fluctuations. Indeed, with significant volumes of red meat traded between countries, changes in exchange rates can lead on to significant impacts on prices and profit margins. For example, a weakening exchange rate tends to raise profit margins. Since an exporter tends to sell at a fixed price in the foreign currency, if the home currency was to weaken during this period then the sale receipts would convert back into more home currency than at the time when the contract was agreed. In turn, this would allow some upwards movement in the price the exporter is willing to pay to the meat producer. Even if trade volumes fail to increase, currency movements can lead to shifts in bargaining power and adjustments in wholesale prices.

If the currency rebalancing was to look more prolonged, then once contracts have been adjusted, it would be easier for the exporter to compete on price. Fortunately for the Scottish red meat industry, the sterling exchange rate weakened against the euro in the first half of 2016, rising from around €1=72p in December 2015 to 79p on the day of the EU referendum. As soon as the UK voted to leave the EU, sterling fell further, reaching 85p by mid-July. Sterling then declined to 90p in October as the Prime Minister indicated that the UK would leave the single market and attempt to agree a free trade agreement with the EU in order to control immigration.

For imports currency movements will have had the opposite impact this year, meaning that Euro Area red meat exporters to the UK will have found it harder to price competitively in the UK without lowering their euro terms returns. As a result, it is likely that UK processors will have found it easier to compete with imports, again potentially pushing up the price that they are willing to pay the farmer. With the New Zealand dollar also strengthening against sterling, by around one-third year-on-year in late October, there is likely to have been upwards pressure on the price of lamb imported to the UK.

Currency volatility can also have an impact on production costs in the red meat sector with many global commodities priced in US dollars. In October 2016, sterling was around 20% weaker against the US dollar than 12 months before. As a result, this has pushed up the sterling prices of some imported commodities such as soyameal and fuel, raising producer and processor input costs.

An additional impact of the exchange rate on the Scottish red meat industry is through its influence on CAP payments. Each year the exchange rate to determine the conversion of support payments into sterling is set based on the rate in September. This year it was set at 0.85228 compared with £0.73129 in 2015, meaning that an average support payment of around €32,000 will be worth £27,272 in 2016 compared with only £23,401 last year; an increase of 16.5%. Current exchange rates also offset some of the impacts of the redistribution of CAP payments resulting from the current CAP which is set to reduce Euro payment levels to intensive beef producing farms from 2016 onwards.

Although monetary policy prospects will have been less of a driver of exchange rate movements this year, they will have still had some impact. Indeed, in the run up to the EU referendum, the expectation that UK monetary policy would remain on hold pending the result, and the expectation that uncertainty will have held back investment and hence economic growth in the first half of 2016, pushed back previous expectations for an interest rate increase. The vote to leave the EU then led to an expectation that UK interest rates would fall and remain lower for longer; and this will have been factored into the value of sterling. This cut in interest rates materialised in August, backed up by additional measures to keep credit flowing to the real economy. These were an expansion of asset purchases, including the purchase of corporate bonds, and the introduction of the Term Funding Scheme. The latter of these was aimed at helping banks to pass on the interest rate cut. In July, the Bank had already given approval for banks to drawdown from 'rainy day' reserves, freeing up £150bn of potential lending.

In the Euro Area, the European Central Bank (ECB) lowered two of its three main interest rates in March 2016. In recent years, such a move would tend to have seen sterling rise in value against the euro; but not this year. Since then ECB monetary policy has been on hold and is likely to remain so for the foreseeable future. In March 2017, the ECB's monthly asset purchase programme is due to end. At the current time, it is expected to be renewed, but if higher inflationary expectations lead to a reduction in the monthly volume of bond-buying, there could be a rise in the euro.

Another way that monetary policy affects the red meat industry is through its impact on the banking sector. The loose monetary stance in the UK has kept interest rates low, helping firms to borrow at attractive rates. In addition, according to the Bank of England's Credit Conditions Report for Q3 2016, the UK interest rate cut in August 2016 has fed into lower interest rates on floating-rate bank loans. Furthermore, rates on new lending have fallen in line with Bank Rate. The availability of credit for small and medium-sized enterprises, which will include Scottish red meat producers and processors, is reported to have improved in 2016 to its highest level in many years. This may support investment within the Scottish red meat supply chain.

The June 2016 Scottish agricultural census showed that total cattle numbers were down by 10% on 2006 and sheep numbers around 11% lower; though sheep

numbers have increased 4% since 2013. The fall in slaughter stock numbers in recent years means that processors have to carry fixed costs over a lower output which, combined with resistance from customers to higher wholesale prices, means that they too continue to operate on minimal margins, limiting their ability to make capital investments in plant and equipment.

The significant decline in numbers will also be of concern to firms of auctioneers operating livestock auctions in Scotland whose business model relies on animal throughput.

Latest published annual reports and accounts from the processing sector clearly show the narrow margins faced by processors in the current economic climate with earnings before interest, tax, depreciation and amortisation for many of these businesses in Scotland being less than 2%. Businesses running on thin margins require sufficient volumes and price competitiveness to sustain production. Price volatility for both their main input of livestock and for finished meat and livestock products in recent years will be of significant concern to Scottish red meat processors.

One way of coping with volatility of raw material prices is to use contracts with suppliers as this can generate greater certainty within the business model. Examples of vertical integration exist within the Scottish salmon sector which may offer insights of best practice. However, a consequence of such a move is the potential impact it has on existing business models and service businesses, like auction companies, that play an important role in the current supply chain.

Over the period of this corporate plan, it is therefore important to, at a minimum; maintain livestock numbers and desirable to increase them in Scotland in order to:

- sustain the viability of Scottish auction markets,
- sustain the viability of Scottish abattoirs,
- maintain the visibility of Scotch Beef, Scotch Lamb and Specially Selected Pork product at point of retail,
- maximise the listing of Scotch Beef, Scotch Lamb and Specially Selected Pork branded product on retail shelves, and
- secure employment in rural and local communities and throughout the supply chain.

Since the closure of the pig slaughtering facilities at Broxburn in the autumn of 2012, Scottish pig slaughter capacity has been running at less than half of previous levels. However, additional capacity came on stream at Brechin Abattoir in the first quarter of 2016. The completion of this project increases the proportion of the Scottish pig output that can be slaughtered in Scotland, raising the volume of product potentially able to carry the Specially Selected Pork label. The June 2016 census provided some evidence that producers have reacted by increasing the Scottish pig population by 10% since 2013, but it still remains 30% lower than a decade ago.

While considerable quantities of lamb are currently slaughtered outside of Scotland, existing plants are not working to capacity but equally, given their customer base and business mix, are unlikely to significantly add to their throughputs. To increase lamb slaughtering in Scotland will need considerable inward investment to either

maximise existing capacity or secure new companies entering the Scottish marketplace and building new facilities.

Scottish cattle abattoirs have sufficient capacity to handle current levels of Scottish production and indeed could handle more stock if it was available. The June 2016 census pointed to a stabilisation in the beef herd while an increase in the number of cattle under one year of age was supported by higher productivity. These additional supplies should reach Scottish abattoirs in 2017. Calf registrations for the first 8 months of 2016 were little changed on the year suggesting growth in prime cattle volumes will stabilise in 2018.

To secure the future of livestock slaughtering in Scotland requires support and encouragement from agricultural policy measures to secure profitable farm enterprises and thus secure current, and hopefully increased, volumes of livestock production in Scotland.

Multiple retailers have highlighted that the number of moves an animal makes is accounted for in their product specifications. This specification has created some confusion among producers who consider a move to mean a movement recorded through the cattle tracing system. In practice it is considered by multiple retailers to mean the number of owners of the animal rather than the number of moves registered against an animal which include moves between holdings that may or may not include a change of ownership. This confusion over multiple retailer specification illustrates the requirement for improved clarity in communication throughout the supply chain in the securing of livestock supplies.

The Scottish livestock industry has a high reputation for the health status of its stock and it is important that this high health status is maintained through high levels of bio-security and disease free accreditation. Bio-security, with regard to both indigenous and exotic disease, and the risk of some exotic diseases becoming endemic in the UK can impact on trade movements within and outside of Scotland. Breakdowns in health status elsewhere in the UK invariably impact on the Scottish meat and livestock trade.

## **2.5 Sociological factors**

Livestock production is dominated by small family businesses with a profile of an aging workforce/business proprietor. Consequently, the sector faces the dual challenge of renewing the skilled workforce and giving new entrants the opportunity to enter the sector. In the meantime, an aging workforce/business proprietor is often characterised by being risk averse in respect of business expansion or adoption of new technologies.

The processing sector similarly recognises as an on-going challenge the recruiting of a skilled workforce and consequently continues to have a high dependency on migrant Eastern European labour. High street butchers similarly face the challenge of attracting suitable skilled staff to their businesses. The development of skills training initiatives have potential to benefit the meat processing and specialist retail sectors and QMS continues to work with Skills Development Scotland and other agencies/public bodies to identify ways to increase access to vocational training in and recruitment into the production, processing and specialist retail sectors.

In respect of the consumer market for red meat a number of sociological and demographic factors influence the market place. A continuing trend towards an older population, smaller households, and prepared foods with reduced cooking times have created challenges in portion size and delivery.

There have been a number of shifts in consumer attitudes towards meat in recent years. Consumers are becoming more flexitarian<sup>16</sup> buying a more diverse range of proteins and limiting purchases of red meat. In their purchasing behaviour; meat is increasingly being seen as an ingredient rather than the central point of a meal. Furthermore, shoppers are becoming more savvy, using social media to compare prices, buying food more often, from a wider range of outlets and in smaller amounts. This is leading to a shift away from minced and diced products which can be bought in bulk and stored in the freezer, towards cuts for more immediate consumption leading to a decrease in portion size and overall meat consumption. This growing preference for smaller meat portions coupled with unit pricing and specific price points influencing consumer buying behaviour will have consequences for carcass size, particularly of cattle. In addition, consumers have gained international experience and are replacing traditional meals with recipes from overseas.

Evolving consumer trends are also affecting the way food is purchased with busy lifestyles leading to greater use of the foodservice sector. A reduction in time spent preparing foods is also having an impact on sales of roasting joints. The prevalence of cooking in the media may also be raising awareness of alternative cuts. The aim for the Scottish red meat industry in this changing context is to stimulate greater differentiation in the marketplace and create opportunities for high quality Scottish produce to attract a sustainable consumer base.

Another feature of the consumer market is a drive towards value for money. This has been reflected in the change in market shares in the GB retail market. The discount retailers have been gaining business from the large multiple retailers, forcing them to lower prices in order to compete. A consequence has been that the discounters now have a customer base with similar demographics to those of the large multiple retailers. Therefore, this shift may not necessarily limit the growth in the market for high quality premium Scotch Beef, Scotch Lamb and Specially Selected Pork, as long as perceptions of product quality are upheld.

A major challenge for the red meat supply chain is managing producer and retail expectations. In particular, those of retailers who, in trying to establish a point of difference in a competitive retail environment, are increasingly demanding product that, and use processors who, demonstrate sustainability credentials (for example verified reductions in carbon footprint, energy use, water use and waste) without sufficient price reward.

In terms of quality, a number of selling points, or product differentiation points, are emerging. Consumer interest in product provenance (knowing where ingredients come from) and product assurance has risen. In general, current research shows the Scottish consumer is more trusting than those in England, Wales and Ireland. Nevertheless, those in England and Wales are more trusting of Scotch Beef and

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<sup>16</sup> See for example <https://theflexitarian.co.uk/the-flexitarian-diet/> (accessed 1 December 2016)

Scotch Lamb than they are of many other labels because of the quality and tradition associated with Scotch product.

There is also continuing consumer interest in locally produced items both in terms of proximity to the consumer but also at a national level where an increasing number of UK consumers say they would prefer to buy British produce or indeed local food.

This development creates both threats and opportunities for the Scotch red meat sector where some 75% of Scottish abattoir production is sold to customers outside Scotland.

Among those consumers seeking higher quality, taste is a further consideration, with an expectation that Scotch will deliver.

Consumers remain health conscious and media coverage of health stories, often conflicting, is enhancing this awareness. A potential risk to the industry is that reports, such as that published in October 2015 by the IARC<sup>17</sup>, that while recognising the importance of protein in the diet encourage consumers to substitute red meat with other sources of protein.

Encouraging an improved diet remains a core element of Scotland's food policy and it is important for the industry to be working, with government and others, to educate and reassure consumers about the nutritional benefits of red meat in a balanced diet. QMS acted in this manner in the aftermath of the IARC report and this report highlights the continuing need for QMS' health and education activities.

Although consumer awareness of, or interest in, greenhouse gases, climate change and world population growth has diminished over the period of economic downturn, these issues are being used to promote a campaign for limiting meat consumption in developed western economies and to promote vegetarianism. It is important that the industry continues to defend the industry's position in respect of climate and water sustainability arguments.

However, it is widely recognised that a growing world population will create significant global demand for red meat<sup>18 19</sup> and opportunities for the Scottish red meat industry, although the rate of growth may slow as population and economic growth in developing countries slows.

## **2.6 Technical factors**

The development and adoption of technology in animal breeding and husbandry, grassland management, automation of abattoir processes and information and communication technology provides a means of increasing the efficiency of the red meat supply chain.

The challenge for the industry is the rate of uptake of proven techniques that improve business efficiency to the benefit of financial returns and greenhouse gas

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<sup>17</sup> The International Agency for Research on Cancer – part of the World Health Organisation (WHO)

<sup>18</sup> "Foresight – the future of food and farming: Challenges and choices for global sustainability"  
Government Office of Science London 2011

<sup>19</sup> Meat OECD-FAO Agricultural Outlook 2016-2025 <http://www.oecd.org/site/oeecd-faoagriculturaloutlook/meat.htm> accessed 1 November 2016

emissions. For example, whole farm nutrient management, GPS and soil mapping have potential to improve the efficiency of fertiliser use leading to additional benefits to both water quality and carbon emissions. DNA technology can not only be used to prove animal provenance and meat integrity but also offers scope to support decisions on selecting breeding animals best suited to production systems and market requirements over carcase quality.

The Scotch Potential Eligibility Cattle Checker (SPECC) is an example of a technological advancement that integrates datasets. This programme will allow cattle buyers to ensure provenance, underpinning the transparency and accuracy of traceability. It may also further strengthen consumer confidence in the Scotch Beef brand.

In addition, it demonstrates how the use of integrated datasets can deliver valuable information to the sector and may prove a model for further integration of data sets to provide feedback to producers as called for by the Beef 2020 report and the Scottish Sheep Sector review. QMS will continue to work towards demonstrating the benefits from such feedback and encouraging the adoption of production enhancing technologies and information streams.

The emergence of exotic diseases for example incursions into the UK of Blue Tongue serotype 8 in 2007 and Schmallenberg in 2012 and the continued circulation of Blue Tongue serotype 8 in France in 2016 highlight the disease risks that may be associated with climate change. In addition, the growth in the incidence of endemic diseases, some associated with climate, emphasise the importance of the need for accurate and easily accessible veterinary surveillance data and livestock movement information to aid animal management through an early warning system.

Developments in electronic identification already in place, or proposed, offer significant scope to improve the speed and accuracy of livestock traceability. Development of a single database for cattle, sheep and pigs within Scotland offer the prospect of significant gains in the efficiency of delivering information on animal traceability for producers, processors and government at a time of disease incursion.

The continued drive to renewable energy sources and developments in second generation bio-fuels derived from food industry by-products may lead to added value for currently low value or zero value waste products from the meat processing sector. However, similar developments in other food and drink sectors, for example the increased use by distillers of their by-products for energy generation, has led to significant changes in the availability, and cost, of by-products for animal feed in some parts of the country. Current changes in the way in which Government supports renewable energy, for example reduced feed in tariff (FIT) rates on new developments, limits on supported bio-mass and on-shore wind capacity is however, changing the market for renewable energy. These changes may affect capital availability for primary agricultural projects and the market for industrial by-products with dual animal feed or renewable energy use.

Continued developments in robotics and the use of Video Imaging Analysis (VIA) to evaluate carcase yield, offer the potential for improved efficiencies on processing lines. Information and communication technology including VIA and the developing Scottish livestock traceability systems provide an opportunity to capture and return a

wider range of information on carcase quality and animal health to primary producers to better inform production decisions.

Advances in the science of manipulation of rumen fermentation may lead to benefits for the livestock industry through improved diet formulation, rumen efficiency and reduced greenhouse gas emissions.

Technical advancement in the Scottish livestock sector requires continued commitment to Research and Development both on farm and in Research Institutes and Universities. Scotland is fortunate to have several world-leading Research Institutes and Universities working in the area of animal science and the Scottish Government's annual commitment to R&D in animal science is over £9.13m.

Technical advancement also requires research knowledge to be transferred, shared and adopted by as wide an audience as possible. The challenge of achieving widespread adoption of scientific research and technological advancements in a conservative industry is readily accepted by QMS who will continue to work towards this objective through the use of monitor farms, knowledge exchange and other collaborative initiatives. These actions will also seek to encourage and facilitate peer-led innovation and change by increasing involvement and participation in activities that will lead to sustainable economic growth.

### **3 Strategic Focus**

#### **3.1 Overall strategy**

To shape a sustainable and prospering red meat industry in Scotland

#### **3.2 Specific strategies**

QMS will achieve the overall strategy by:

1. Working with the livestock production, processing industries and Governments to develop and build markets by promoting the SB, SL and SSP brands
2. Working with the livestock production and processing industries to recognise and understand changing market requirements
3. Defining and satisfying customer expectations and assisting the industry to inform consumers
4. Creating confidence which promotes industry investment in its future
5. Increasing and supporting the uptake of innovative and proven solutions to improve industry efficiencies
6. Promoting economic, environmental and social sustainability
7. Developing partnerships and where relevant leveraging additional resources

Footnote – We define the red meat industry as those parts which are involved in the Scottish assurance chain - animal feed suppliers; cattle, sheep and pig producers; livestock markets; hauliers and primary processors.

#### **3.3 Critical Success Factors**

Critical success factors for the organisation are:

1. Enhanced awareness of, demand for and value of the Scotch Beef, Scotch Lamb and Specially Selected Pork brands
2. Deliver industry benefits from QMS initiatives
3. Quality assurance schemes are practical and relevant for scheme members, underpin our brands and reinforce consumer trust
4. Retain public and governments support for red meat production and consumption
5. Maximise multiplier effect of statutory levy
6. Retain industry and stakeholder confidence in QMS
7. Satisfy Scottish Government requirements in operating as a Non-Departmental Public Body

These are the key areas where “things must go right” for the organisation to flourish. If the outcomes in these areas are less than adequate, the organisation’s efforts for the period will be less than desired.

### **3.4 Measurement of Progress in Achieving Strategies**

As set out in 3.1 and 3.2, the organisation has an overall strategy and seven specific strategies developed and agreed by the Board of QMS. Underpinning these strategies are objectives for the separate departments at QMS through which the work of the organisation is delivered.

These objectives are further supported by a list of activities and performance measures which are specified in a detailed management plan.

The Chief Executive reviews the list of activities and measures of progress on a regular basis with individual managers and the Board reviews a written progress report at each Board meeting.

The Scottish Government attends Board meetings and in this way is kept fully up to date with the progress and performance of the organisation.

## **4 QMS and the Scottish Government's National Performance Framework**

### **4.1 General**

As a result of its activities on behalf of the industry QMS contributes to the Scottish Government's primary purpose of 'increasing sustainable economic growth' and to the five strategic objectives and relevant national targets. For reference, the purposes of QMS as set out in the Quality Meat Scotland Order 2008 are:

- to increase efficiency or productivity in the red meat sector
- improve marketing in the red meat sector
- improve or develop services that the red meat sector provides or could provide to the community
- improve the ways in which the red meat sector contributes to sustainable development.

### **4.2 National Performance Framework Strategic Objectives**

QMS' work on behalf of the industry contributes to all five of the Government's Strategic Objectives. QMS' main contribution is to the wealthier, smarter and greener objectives. Some work is also undertaken which contributes to the healthier objective and the safer and stronger objective.

Wealthier & Fairer – the overall objective of QMS is to shape a sustainable and prospering Scottish red meat industry. The farming and processing of red meat in Scotland contributes around 0.7% of the Scottish GDP.

Smarter – QMS develops and manages the delivery of a range of industry programmes which are specifically designed to transfer knowledge and increase the uptake of new ideas which help to improve efficiency and drive innovation in red meat production.

Greener – QMS continues to engage with Government and the industry to enhance the environmental sustainability of red meat production.

Healthier – QMS contributes to the Government’s strategic objective of a healthier Scotland through promoting the benefits of eating red meat as part of a healthy, balanced diet. For example, work already undertaken and future work will contribute to the Obesity Routemap.

Safer & Stronger – through its work in shaping a sustainable and prospering Scottish red meat industry, QMS is helping to ensure long-term food security for Scotland.

### **4.3 National Performance Framework National Outcomes**

There are 16 National Outcomes as follows:

- 1 We live in a Scotland that is the most attractive place for doing business in Europe
- 2 We realise our full economic potential with more and better employment opportunities for our people
- 3 We are better educated, more skilled and more successful, renowned for our research and innovation
- 4 Our young people are successful learners, confident individuals, effective contributors and responsible citizens
- 5 Our children have the best start in life and are ready to succeed
- 6 We live longer, healthier lives
- 7 We have tackled the significant inequalities in Scottish society
- 8 We have improved the life chances for children, young people and families at risk
- 9 We live our lives safe from crime, disorder and danger
- 10 We live in well-designed, sustainable places where we are able to access the amenities and services we need
- 11 We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others
- 12 We value and enjoy our built and natural environment and protect it and enhance it for future generations
- 13 We take pride in strong, fair and inclusive national identity
- 14 We reduce the local and global environmental impact of our consumption and production
- 15 Our people are able to maintain their independence as they get older and are able to access appropriate support when they need it
- 16 Our public services are high quality, continually improving, efficient and responsive to local peoples’ needs

### **4.4 QMS’ Contribution to the National Outcomes**

QMS, through its stakeholders, contributes to six of the 16 National Outcomes.

*We realise our full economic potential with more and better employment opportunities for our people* (National Outcome 2) - Farming and primary processing of red meat contribute approximately £2.4bn of output and £700m of value added to Scotland’s economy annually. QMS brands of Scotch Beef PGI, Scotch Lamb PGI and Specially Selected Pork add value to the industry and enhance Scotland’s reputation as a land of food and drink. The red meat industry is a significant contributor to Scotland’s food exports. The rearing of beef cattle, sheep and pigs; the primary red

meat processing sector; and their principal suppliers (including auction markets and vets) provide employment for approximately 30,400 people in Scotland. In addition, primary red meat production and processing supports approximately 2,300 jobs in other sectors of the Scottish economy, such as construction and financial services.

*We are better educated, more skilled and more successful, renowned for our research and innovation* (National Outcome 3) – by developing and managing the delivery of a range of industry programmes specifically designed to transfer knowledge and increase the uptake of new ideas to help improve efficiency and drive innovation, for example, the Monitor Farms programme.

*We live longer, healthier lives* (National Outcome 6) – through our work with consumers of all ages on the importance of red meat in a healthy diet and lifestyle. QMS delivers a range of health and education activities from school visits to a school meat vouchers scheme and a healthy living bursary. A range of support materials is also produced and we work closely with National Diet Resources UK. QMS also works with partners such as the Royal Highland Education Trust on events and farm visits.

*We value and enjoy our built and natural environment and protect it and enhance it for future generations* (National Outcome 12) – our farmer stakeholders understand the land and act as custodians of the countryside significantly enhancing its biodiversity and encouraging visits to the outdoors.

*We reduce the local and global environmental impact of our consumption and production* (National Outcome 14) – through developing our understanding of the effects of climate change and reducing our ecological footprint. For example, waste reduction measures such as encouraging sourcing and purchasing of Scottish red meat products rather than imported products. Also, by providing support to the industry to improve carcase yield through increased sales of 5<sup>th</sup> quarter products. Finally, knowledge transfer activities which result in better breeding policies and healthier livestock increase production efficiency and, therefore, reduce the environmental impact of production.

*Our public services are high quality, continually improving, efficient and responsive to local peoples' needs* (National Outcome 16) – for example QMS engages in several activities designed to deliver continuous improvement in the red meat production chain. QMS also produces annual benchmarking data on cattle and sheep enterprise profitability in Scotland which is widely used by farmers and their advisors as a continuous improvement tool for increased efficiency.

#### **4.5 Measuring Progress in the National Performance Framework**

The organisation currently has an overall strategy and seven specific strategies. Objectives for the implementation of these strategies are set and these objectives are further supported by a list of activities and performance measures which are specified in a detailed management plan.

The Board considers a written progress report in advance of each Board meeting and the Scottish Government attends Board meetings and in this way is continually kept up to date. with the performance of the organisation.

## **5 QMS and Programme for Government Themes**

In late 2014, the then new First Minister, Nicola Sturgeon announced a range of plans to be introduced over the next year to help to create a fairer and more prosperous society. QMS recognises the importance of this aim. Sustainable economic growth is key to the future development of the red meat industry in Scotland and all of QMS' activities relate to this theme. The promotion of fairness and reducing inequality is a theme which resonates well with QMS as an organisation (see Section 9).

Involvement and participation is another theme which fits well with QMS' activities on behalf of the industry. QMS is highly engaged with its range of stakeholders (see Section 1.4) and in particular our knowledge transfer/exchange activities continued to increase during the 16/17 financial year. Marketing campaigns now utilise social media and have created opportunities for increasing numbers of consumers to engage more directly with the Scotch Beef, Scotch Lamb and Specially Selected Pork brands.

## **6 Review of Past Performance**

Each year QMS lays before Parliament its Annual Report & Accounts giving a comprehensive review of its activities for the past year. In the interests of efficiency this review is not included in this Corporate & Business Plan.

## **7 Statement on Information & Communications Technology**

Quality Meat Scotland (QMS) is a knowledge-based organisation and is focussed on interpreting information and developing knowledge for levy payers and other stakeholders. An effective in-house Information and Communications Technology (ICT) strategy is integral to the successful working of QMS.

QMS will operate an in-house ICT system which provides sufficient resources to help provide the industry with accurate and timely information. All of QMS' in-house systems and networks will be effectively protected from accidental or malicious disruption.

QMS will provide employees with opportunities to acquire the skills to collate, store and deliver information in accordance with the organisation's needs and national regulations. In order to carry out these tasks suitable hardware and software will be provided to optimise communication links with target audiences.

In order to preserve the integrity of its ICT systems, QMS will ensure that suitable support is available to users in order to minimise the effects of a system shutdown.

QMS participates in the Assurance Framework for Scottish Government IT and Digital Projects.

## 8 Statement on Public Bodies Climate Change Duties

In recognition of its responsibilities under the Climate Change (Scotland) Act 2009 QMS will take appropriate steps to mitigate, adapt and act in a sustainable manner. QMS will participate in Scottish public sector sustainability reporting.

In its work with stakeholders to improve business sustainability, QMS will continue to promote awareness of mitigation and adaptation strategies and the adoption of best practice to secure carbon reducing production efficiencies across the supply chain.

## 9 Statement on Equality

Quality Meat Scotland aims to be an equal opportunity employer. Appointments to Quality Meat Scotland and internal promotions will be made solely on the individual employee's ability, skill, competence and potential.

Our policy is not to discriminate on any grounds including race, colour, nationality or ethnic or national origin, religion or beliefs, gender, gender reassignment, sexual orientation, pregnancy and maternity, marriage or civil partnership, age, responsibility for dependants, HIV status or disability.

## 10 Levy Rates for 2017/18

	Cattle	Calves (up to 68kgs)	Sheep	Pigs
Producer	£4.20	£0.07	£0.60	£1.02
Processor	£1.30	£0.07	£0.20	£0.24
Total	£5.50	£0.14	£0.80	£1.26

## 11 3 Year Forecast Income and Expenditure 2017/18-2019/20

	Proposed Budget 2017/18 £	Estimate 2018/19 £	Change on Prv Year %	Estimate 2019/20 £	Change on Prv Year %
<b>INCOME</b>					
Levy (1)	3,954,500	4,129,325	4%	4,129,325	0%
Assurance Schemes fees	1,546,678	1,569,878	1.5%	1,593,427	1.5%
Grant income (2)	406,685	362,999	(11%)	362,999	0%
Brands Strengthening	112,000	0	(100%)	0	0%
Other income	15,500	15,500	0%	15,500	0%
Bank Interest	13,000	13,000	0%	13,000	0%
	<b>6,048,363</b>	<b>6,090,702</b>	<b>1%</b>	<b>6,114,251</b>	<b>0%</b>
<b>EXTERNAL SPEND</b>					
Fees for Assurance schemes	1,416,508	1,437,755	1.5%	1,459,321	1.5%
Brands Integrity funded by levy/schemes	47,958	47,637	(0.7%)	47,144	(1.0%)
Brands Integrity - Brands Strengthening	112,000	0	(100.0%)	0	0.0%
	<b>1,576,465</b>	<b>1,485,392</b>	<b>(5.8%)</b>	<b>1,506,466</b>	<b>1.4%</b>
Marketing - funded by levy	1,533,666	1,523,386	(1%)	1,507,640	(1%)
Marketing - grants	32,683	0	(100%)	0	0%
Marketing - other income	15,500	15,500	0%	15,500	0%
	<b>1,581,849</b>	<b>1,538,886</b>	<b>(3%)</b>	<b>1,523,140</b>	<b>(1%)</b>
Communications - funded by levy	430,692	427,805	(1%)	423,383	(1%)
	<b>430,692</b>	<b>427,805</b>	<b>(1%)</b>	<b>423,383</b>	<b>(1%)</b>
Industry Development - funded by levy	538,969	535,356	(1%)	529,822	(1%)
Industry Development - grants	374,002	362,999	(3%)	362,999	0%
	<b>912,971</b>	<b>898,355</b>	<b>(2%)</b>	<b>892,821</b>	<b>(1%)</b>
Economics Services - funded by levy	162,550	161,460	(1%)	159,792	(1%)
<b>TOTAL EXTERNAL SPEND</b>	<b>4,664,527</b>	<b>4,511,899</b>	<b>(3%)</b>	<b>4,505,601</b>	<b>(0%)</b>
<b>STAFF COSTS</b>	999,962	1,019,961	2%	1,040,360	2%
<b>TRAVEL AND SUBSISTENCE</b>	67,050	68,391	2%	69,759	2%
<b>BOARD AND EXECUTIVE COSTS</b>	233,740	238,415	2%	243,183	2%
<b>PROPERTY COSTS</b>	77,477	79,027	2%	80,607	2%
<b>OFFICE COSTS</b>	171,297	173,010	1%	174,740	1%
<b>TOTAL INTERNAL SPEND</b>	<b>1,549,526</b>	<b>1,578,804</b>	<b>2%</b>	<b>1,608,650</b>	<b>2%</b>
<b>TOTAL EXPENDITURE</b>	<b>6,214,053</b>	<b>6,090,702</b>	<b>(2%)</b>	<b>6,114,251</b>	<b>0%</b>
<b>NET SURPLUS /(DEFICIT)</b>	<b>(165,690)</b>	<b>0</b>		<b>0</b>	

(1) Assumes no increase in levy rates

(2) Budget excludes grants applied for but not awarded.

## **12 Board Membership**

Jim McLaren, Chairman	Reappointed April 2015
Ronnie Eunson	Reappointed September 2016
Julie Fitzpatrick	Appointed April 2014
Jock Gibson	Appointed April 2015
Scott Henderson	Appointed April 2015
Sarah Mackie	Appointed April 2014
Alan McNaughton	Reappointed April 2014
George Milne	Appointed April 2014
Kate Rowell	Appointed April 2015
John Scott	Reappointed April 2015
Philip Sleigh	Appointed April 2014
Louise Welsh	Reappointed September 2016

Quality Meat Scotland

February 2017