
Steering Group on Meat Charging

Minutes of Meeting held on Friday 23 August 2013

Present:	Bill Stow	Chair
	Martin Evans (ME)	FSA Observer
	Mike Bailey (MB)	NFU Poultry Board
	Stephen Rossides (SR)	BMPA
	Ian Anderson (IA)	SAMW
	Norman Bagley (NB)	AIMS
	Richard Griffiths (RG)	BPC
	William Lloyd Williams	NFMFT
	Peter Hardwick (PH)	BPEX/EBLEX
	Gillian Gallagher (GG)	Ulster Farmers' Union
	Hazel Wright (HW)	Farmers Union of Wales
	Phelim O'Neill (PO)	Northern Ireland Meat Exporters Association
	Richard Collier (RC)	FSA Observer
	Gary Welsh (GW)	FSA Observer
	Suzanne Fred (SF)	Secretariat
Apologies:	Uel Morton	Quality Meat Scotland
	Phil Hadley	EBLEX
	Jeff Halliwell	FSA Board Member
	Karen Bellis	Women's Food & Farming
	Peter Coleman	Creedy Carver Ltd
	Mick Sloyan	BPEX/AHDB
	John Sleigh	National Farmers Union Scotland

1. Introduction

1.1 The Chair welcomed everyone to the meeting and gave a brief summary of his career history which included extensive experience of working and negotiating in the EU. He indicated the purpose of this first meeting was to gain an understanding of the Group's Members including what part of the industry each member represented, their views on the current system and what each Member perceived success might look like.

1.2 The Chair stated his independence and suggested he wished to oversee a partnership working relationship between Industry and the FSA. He advised that his role would be to facilitate, set direction and broker but not to come up with a solution.

1.3 The objectives of the Steering Group, as set out in the Terms of Reference, are to develop a reformed meat industry discount system by July 2014, that prevents inefficiency, supports improving compliance (within a de-regulatory remit); appropriately supports SMEs and provides a more balanced discount arrangement that removes distortions in the market and avoid anti-competitiveness. This allows the Steering Group just under a year to come up with a solution. The Chair stated that he is determined to work within that deadline.

1.4 FSA observers were invited to give a brief intro on where the FSA is with the NAO Efficiency Review recommendations and EU Regulation 882 respectively. RC explained that the changes proposed by the European Commission to EU Regulation 882 are in the process of being reviewed by Member States. It is expected that negotiations should conclude in 2015, followed by a 3 year period for implementation. It was noted that negotiations are progressing quite slowly and FSA anticipate that the overall process may take longer than expected.

1.5 Norman Bagley suggested that although it should not take 3 years for implementation of any changes to 882 to go through he did accept following an intervention from Richard Collier that as it would have to go through a formal EU process it may take more than the eighteen months or so hoped for. That said he was still concerned that the Steering Group would be putting something in place that will only be operative for a short period. Ian Anderson agreed that we could effectively be looking at a short term solution and MB added that his members do not want a 5 minute fix and that any system the Group develops should have longevity built within it.

1.6 Based on his experience of negotiating within the EU the Chair thought that some Member States would want to have a period of time before implementing any changes to 882, even with simple amendments. This would be even more the case if the Regulation applied to new areas of charging. The Chair concluded that it is imperative that any solution the Group come up with should be robust to different policy changes, and if EU proposals become more immediate these would need to be taken into account. SR concurred and added that 882 reforms encompass all Official Controls, not just meat; therefore negotiations were likely to be more complicated and lengthy. The Chair re-stated that the Group has a task to do and it should do so based on the current regulatory environment.

1.7 Martin Evans provided a brief update on the NAO Efficiency Review recommendations. He confirmed that an update paper highlighting initial FSA actions will go to the September Board followed by a more detailed action plan at the November Board.

2. Introductory Statements

2.1 Mike Bailey (representing the NFU) believes that the discount system as it stands is too complicated. Headage charging is fairer as you know exactly what the cost is per cattle. It is imperative that any solution keep smaller businesses running. He uses Plant Inspection Assistants (PIAs) in his factory and strongly believes that the rebate for using PIAs should not be removed and there should be more recognition for PIAs. He explained that poultry and red meat have different issues. Similarly, they should not be penalised for moving to micro biological outcome but instead recognised for it. Furthermore, he raised the issue of FSA not offering to sit down with FBOs to explain the invoice and work out how they could be more efficient or get a big rebate for using PIAs.

2.2 Norman Bagley believes that the role of the medium sized sector has increased significantly since Maclean in 2001 and latterly the Tierney Review. He strongly believes that the principle of headage is the system to move forward with and that it should be a target of this group to get back to a headage system. The discount system delivers neither flexibility nor efficiency and he would therefore like to see a system delivered within

a framework that is fairer, simpler and rewards efficiency. Commenting on Stephen Rossides remarks about the possibility of legal action against the discount system he said that there was also likely to be a challenge against the 18%-20% of total charges that make up "indirect costs" that FSA should not be including in the charges, as clarified by the proposed amendments to 882.

2.2.1 He claimed that Andrew Rhodes has stated publicly that if we do not fix the system the FSA will impose one on the industry. He believes that no operator has said no to FCR and in fact it is easy to move to FCR because the incentives are positive. Furthermore, it would not be an issue if it were not for the FSA's unwillingness to fully support outsourcing which is Government policy. There would not be progress by the industry on outsourcing whilst suspicion continued that FSA would reject any proposals. NB proposed a stratified headage charging system under which FBOs would pay less per unit as their volumes increased. This would encourage efficient use of resources. The headage rates could be set in such a way that reasonable full costs could be recovered. Norman Bagley also suggested that if FSA reduces its costs to around £30-£33m industry would be in a position to talk with the FSA about full cost recovery.

2.2.2 Norman Bagley also raised the issue of terms and conditions (T&C). He strongly believes that the fundamental problem of the delivery system is UNISON as they are against outsourcing and dictating the requirement of the business. He claimed that Jeff Rooker has said in the past that the role of the FSA is to protect T&Cs of its staff. He believes that contract MHIs are more flexible than employed MHIs and this is a big issue, along with both unworked time, and an inflexible business agreement system. He strongly believes that T&Cs is the game changer as without such reform the Steering Group is likely to come up with a system that the FSA is going to turn down. He recognised that the FSA has reduced its cost considerably. However, he feels that industry is paying for overheads twice; once for the contractors and once for the FSA.

[REDACTED]

2.2.3 [REDACTED]

2.2.4 In answer to a question from the Chair as to whether it is worth trying to find a solution NB said that with all things considered he agreed with SR that the discount system is worth addressing.

2.3 William Lloyd Williams (NFMFT) has a preference for headage rate. He would like to see cold inspection back on the table. He feels that throughput shows no balance between small and big plants and the FCR will only give rise to illegal operation. Small businesses feel very threatened and are in need of incentives to carry on operating legally as the current level of fines for operating illegally are a fraction of the cost associated with operating legally. To maximise efficiency the FSA should look at how they deploy resources effectively, targeting more risky areas.

2.4 Ian Anderson (SAMW) said that there was some rationale for the discount system if you go back to when it all started but over time things have moved on and the discount system has not changed. A future discount system has to treat all plants equitably. There is a steering group in Scotland looking at potential model(s). In Scotland the New Food

Body (NFB) proposal may take Scotland in a different direction. Whatever model the steering group come up with it will have to take account of what the removal of the discount will mean to FBOs. He believes that we need a simplified, transparent and relevant billing system and FBOs should be billed less frequently. Furthermore, given the industry's position on full cost recovery, it is illogical to consider discounts in isolation. IA then questioned the NAO recommendation that £9m worth of savings could be made.

2.4.1 The chair confirmed that it is not outside the steering group's remit to look at simplification issues. A member of the FSA's Better Regulation unit and a member of the Economics team will be joining the steering group to take away any work that will need to be done to help inform the steering group.

2.5 Stephen Rossides (BMPA) said that the current system is distorting and unfair. It arose from a historical system and has become outdated and unjust. He acknowledged that some of his member companies benefit from the current system. Hence any changes will pose challenges, since there are likely to be winners and losers both within the BMPA membership and across the industry. BMPA sees the discount system as one part of a bigger landscape that includes a range of interrelated issues (882, modernisation on meat inspections and new approaches to the delivery of inspections etc). Stephen Rossides has been given a clear mandate from his governing Council to seek a solution with an outcome that satisfies the industry and not the FSA internal agenda. The FSA have to also address the NAO efficiency review recommendations. BMPA favours time-based charging. SR thinks that operationally FSA is quite efficient but overheads are too high. He agreed that, whatever the wider issues, it is worth addressing the discount system in itself. He added that some of his members being charged full cost are very unhappy with the current situation and have considered taking legal action against the FSA over the inequity in the current discount system.

2.6 Richard Griffiths (BPC) said that 8 years ago industry/FSA were talking about this and how the current system was not fit for purpose then and it is still the case now. BPC members are quite concerned about what could be achieved in this Group because of the 882 negotiations in Europe. They are hoping that the work we will be doing will have some place in the bigger system. However, they do have concern that this process will not come up with anything meaningful though they are willing to work towards it having delved into it.

2.6.1 The issue that BPC members have come up against is fairness to all involved – large, small, geographical. They would like a system that is fair to everybody, open and does not disadvantage anyone. If the FSA moves to full cost recovery (FCR) the costs to producers will go up. There is an inbuilt suspicion that this work will lead to FCR.

2.7 Peter Hardwick (representing EBLEX and BPEX) reported that EBLEX/BPEX do not have a specific position on the discount system though they are interested in the outcome of any changes. In future they would like to be kept informed of developments to help inform their members but there isn't a need for them to attend future meetings.

2.8 Phelim O'Neill (Northern Ireland Meat Exporters Association) said that their Association have 7 large abattoir members, all around the same size. Their spread of subsidies is pretty similar at 20% of FCR of the present calculation. He suggested this

group is starting from the wrong place and that charging EU minima should be more than adequate to recover the costs of official controls in Northern Ireland.

2.9 Gillian Gallagher (UFU) reported that UFU are concerned about any additional costs to their members. They feel that FCR and the discount system are linked. They are opposed to FCR because of inefficiencies in the system (although she acknowledged that efficiencies have been made). She also stated that she would not want the discount reform to negatively impact her members.

2.10 Hazel Wright (FUW) agreed the system is in need of change. The FUW are not opposed to FCR in principle but would stress the need for fair proposals which resolve current FSA inefficiencies, whilst rewarding FBO efficiencies. She outlined that FUW would like an efficient, transparent, understandable, streamlined and fair system that has longevity and is fit for purpose. The Union stressed the need for proposals which ensure the long-term viability and sustainability of small and medium FBOs and those businesses which rely on them. The Union recognises the value of niche markets, local brands and the processing of small batches for such markets and would therefore seek to ensure that smaller FBOs are protected. There was also a need to minimise the distances travelled by animals and producers must therefore be protected from the closure of slaughterhouses. She added that it was imperative that any additional costs were not passed back to the primary producer.

2.11 The Chair concluded that for him the criteria for a successful system would be:

- a. Genuinely to work in partnership
- b. a system which is an incentive for greater efficiency by industry and the FSA and which is
- c. Simpler, fairer and support SMEs

2.11.1 The Chair hopes that the group would agree on the above. He acknowledged that there are an awful lot of issues outside the ToR going on that are inextricably linked. But he emphasised that the discount system could in his view be dealt with discretely and produce real benefits. He noted a variety of views on whether the discount system really needed sorting now but no-one had disputed that it was worth trying. In his view the NAO report made a powerful case for reform even if it didn't tackle the outsourcing issue. He clarified that he has no remit to raise money for the FSA but to come up with a system that we can work with now and can cope with all the things that has been raised in the meeting including 882.

2.11.2 RC advised the group of the following estimated cost, income and discount figures for industry official controls that the FSA is working with for the 2013/14 year:

£m	GB	Northern Ireland	UK
Cost	51.0	6.2	57.2
Income	(28.3)	(3.8)	(32.1)
Discount	22.7	2.4	25.1

2 Next Steps

3.1 The Chair would like the steering group to meet twice before the end of the year with the next meeting in late October. Before then he offered individual meeting with steering group members who would like to speak to him on a 1-2-1 basis. These meetings will hopefully take place before the end of September. After the second meeting the chair will have an idea as to whether we are likely to have a subgroup(s) for focussed discussion. He will take stock early next year and advise the FSA Board on the prospects for success.

4 A.O.B

4.1 Other issues that came up during the discussion were:

It was questioned by some stakeholders whether those Food Business Operators on the Cause for Concern (C4C) list should still receive a rebate/discount. Norman Bagley claimed that the system that put plants on the C4C list is flawed. Ian Anderson said that the audit system is perverse and that the working group currently looking at the fundamental review of audits needed to be given higher priority by the FSA.

TUPE: Richard Griffiths recognises that TUPE is a problem in relation to further take up of PIAs by the poultry slaughtering sector because FBOs would be required to employ the MHIs working in poultry slaughterhouses if they switched to a PIA system. He believes that the current discounts put the cost of FSA MHIs below the cost of employing PIAs which removes the commercial driver to change.

Actions:

- SF to email steering group members estimated cost, income and discount figures for industry official controls that the FSA is working with for the 2013/14 year
- SF to arrange 1-2-1s with individual members in September
- SF to arrange the next meeting of the Steering Group in late October/early November.