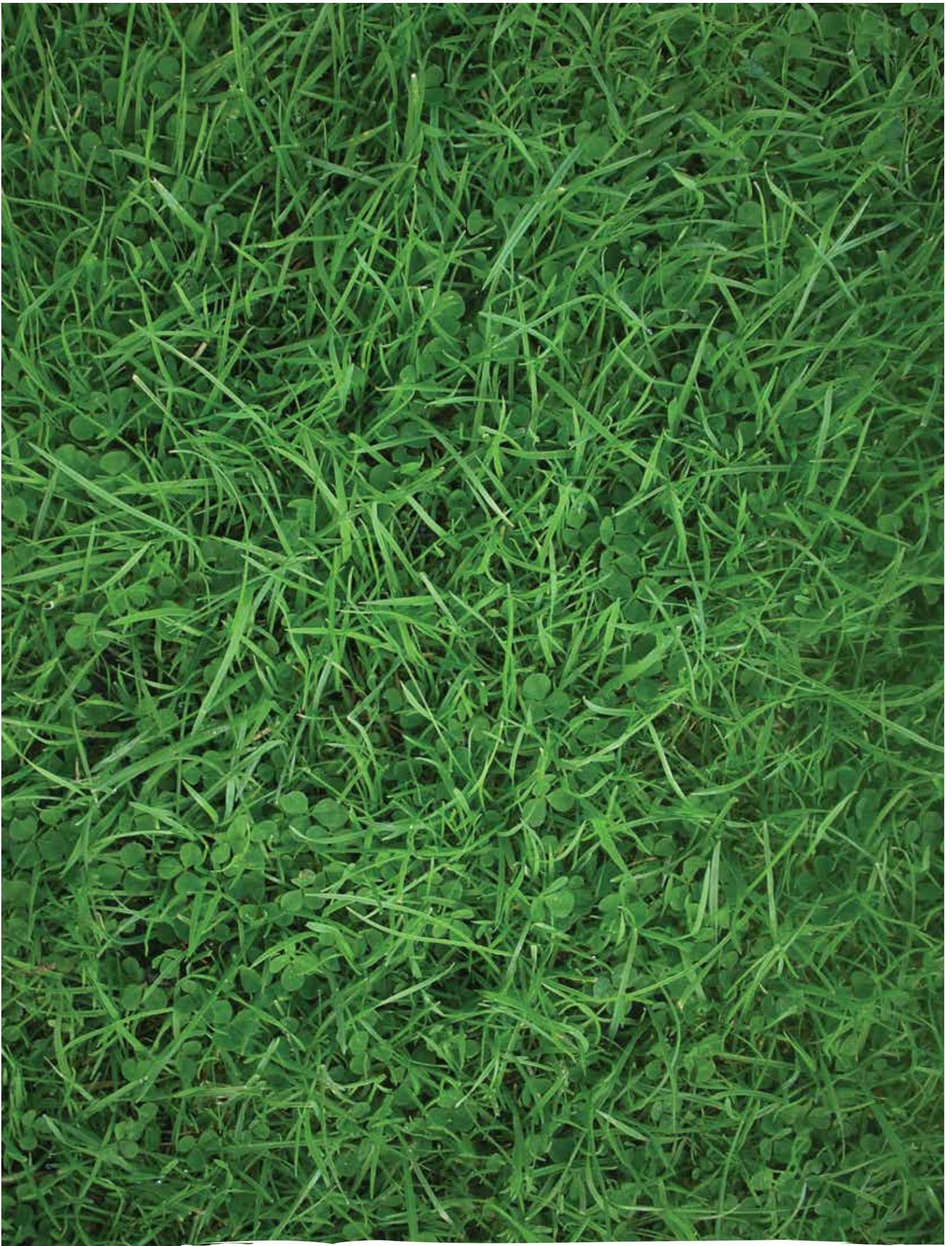




A VISION FOR BRITISH LAMB PRODUCTION





OUR VISION

Sheep farming has played an important role in Britain since historical records began. From pre-industrial times when sheep were an essential part of a pastoral society, producing meat, milk at times, and wool and skins, to a more industrial era when much of our wealth was based on wool and textiles.

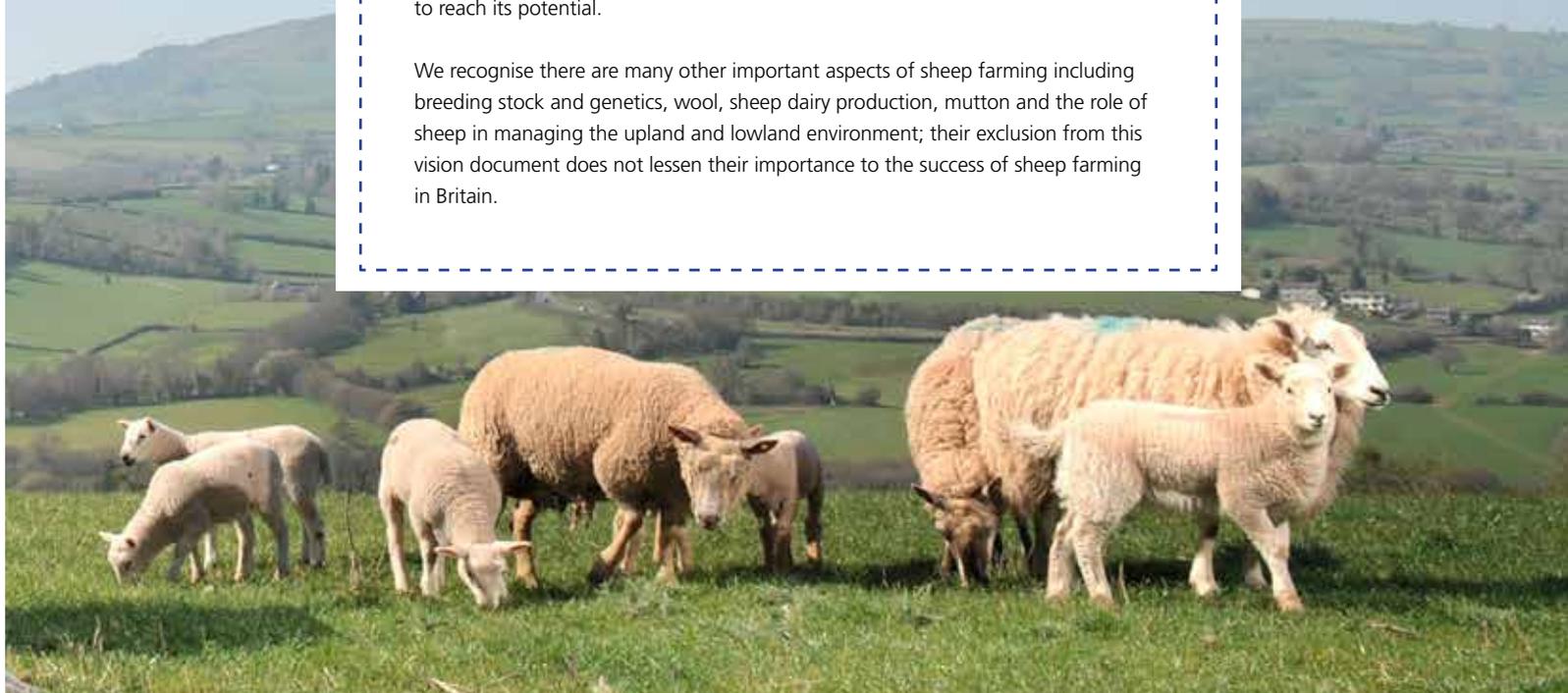
Sheep meat in the form of lamb is now the primary output of value from our sheep flock and its place in the market has emerged as a premium and high quality product renowned around the world.

It was estimated in 2011 that the sheep sector employed more than 33,000 people on farm and over 111,000 people in allied industries in England alone, with a net benefit to the economy of £465.9m per year. It is a productive and valuable industry.

We believe sheep farming in Britain has the potential to expand from its current position, delivering economic, environmental and social benefits, and playing a stronger role in British farming.

This shared NFU and NSA vision for lamb production in Britain sets out the case for the positive future of our industry and identifies key areas of work needed in order to reach its potential.

We recognise there are many other important aspects of sheep farming including breeding stock and genetics, wool, sheep dairy production, mutton and the role of sheep in managing the upland and lowland environment; their exclusion from this vision document does not lessen their importance to the success of sheep farming in Britain.



STRENGTHS

- Relatively developed and prosperous domestic markets
- Established experience and infrastructure for large scale sheep farming
- Technically proficient industry and workforce
- Good landscape and climate for growing grass
- Good support services for technical advice and marketing
- Likely reduced competition on home market from other nations
- Range of market opportunities as well as competition provided by both live auctions and direct selling
- Appetite for lamb from all cultures and religions
- Low set up capital costs makes the industry attractive for new entrants

WEAKNESSES

- Successful 'top 20%' but poor returns for the remainder
- Low investment
- Volatile market
- Falling demand and aging consumer market
- Key market for third country imports
- Slow to adopt new and best practice approaches
- Poor feedback loops to allow producers to improve performance
- Animal health challenges which reduce efficiency and productivity
- Outdated or inappropriate controls increasing costs

ANALYSING THE PROSPECTS FOR THE BRITISH LAMB PRODUCTION

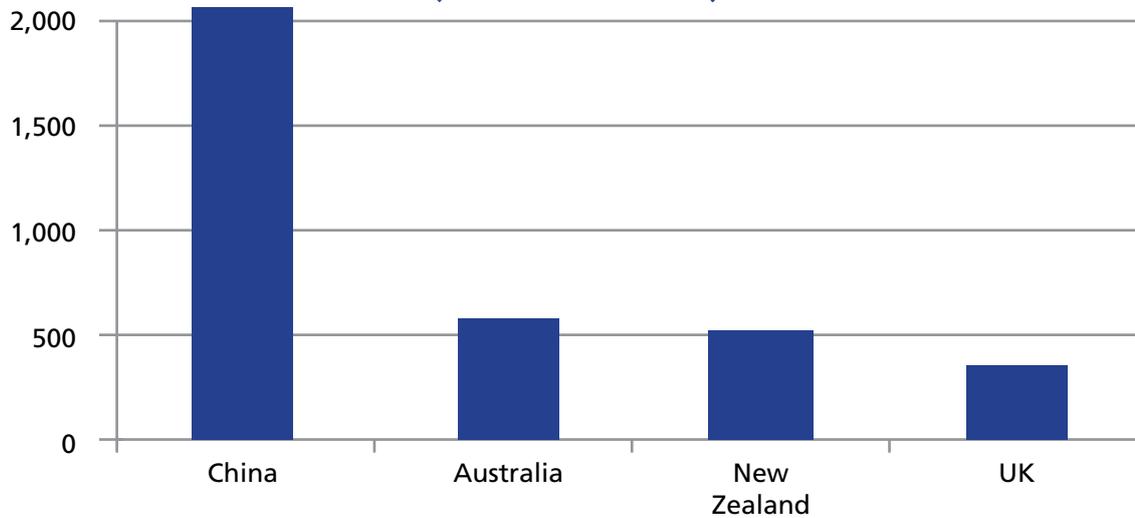
OPPORTUNITIES

- Established export markets and potential for growth on new markets
- Growing awareness of global food security needs
- Potential to grow demand in lamb meat in the UK from a younger demographic
- Scope for increased provenance labelling
- Could improve information feedback loops and make better use of the latest technology
- Get more value from the product including promoting new butchery, presentation, and cooking and techniques to increase shelf life
- Reduce market volatility by improved pricing mechanisms and transparency
- Create a more consistent product

THREATS

- Exotic animal disease outbreak which would curtail exports
- Seasonal variations can lead to product inconsistency
- Being priced out of the market by cheaper imported product or substitution
- Land management challenges, sheep farming succession, and future CAP and agri-environment changes both in upland and lowland areas
- Land use competition including from other agricultural crops as well as solar, biomass crops and rewilding efforts

KEY PLAYERS IN WORLD LAMB PRODUCTION (‘000 TONNES PER ANNUM)



The UK exports approximately 36 per cent of annual production with France taking more than half of the lamb we export. However, the phenomenal growth in demand from Asia is one of the reasons why UK sheep meat exports to Hong Kong increased by more than 230 per cent in the first half of 2013 to push it to our second biggest market after France.

An increasing world population and an increasing appetite for lambs have been felt by all of the biggest world lamb traders. New Zealand in particular has seen a dramatic increase in the volume of lamb demanded by China and the price received for that lamb. It is not unreasonable to forecast that China's purchasing power will mean traders within EU countries who have traditionally imported a lot of Australian and New Zealand lamb (including the UK) will not be able to secure the high volumes or low prices seen in the past.

The UK sheep industry is in a solid position to take advantage of global opportunities. We have market access to 69 countries and territories for lamb and all farmers and processors are required to invest in funding the activities of levy collecting promotional bodies to open up more markets. Principle targets are China, Saudi Arabia, USA, Japan and South Africa.

EU demand: Maintaining existing non-EU markets and opening up new ones is essential, given that the EU has forecast a potential fall in lamb consumption in its member states of 16 per cent over the next 10 years. Consumers in the EU are eating less lamb per capita, the age profile of consumers is increasing and lamb is under intense competition from lower priced meat, such as chicken. EU promotional campaigns are needed and it is positive that the European Commission, under pressure from member states, has amended rules to allow funding for generic promotion of lamb to consumers.

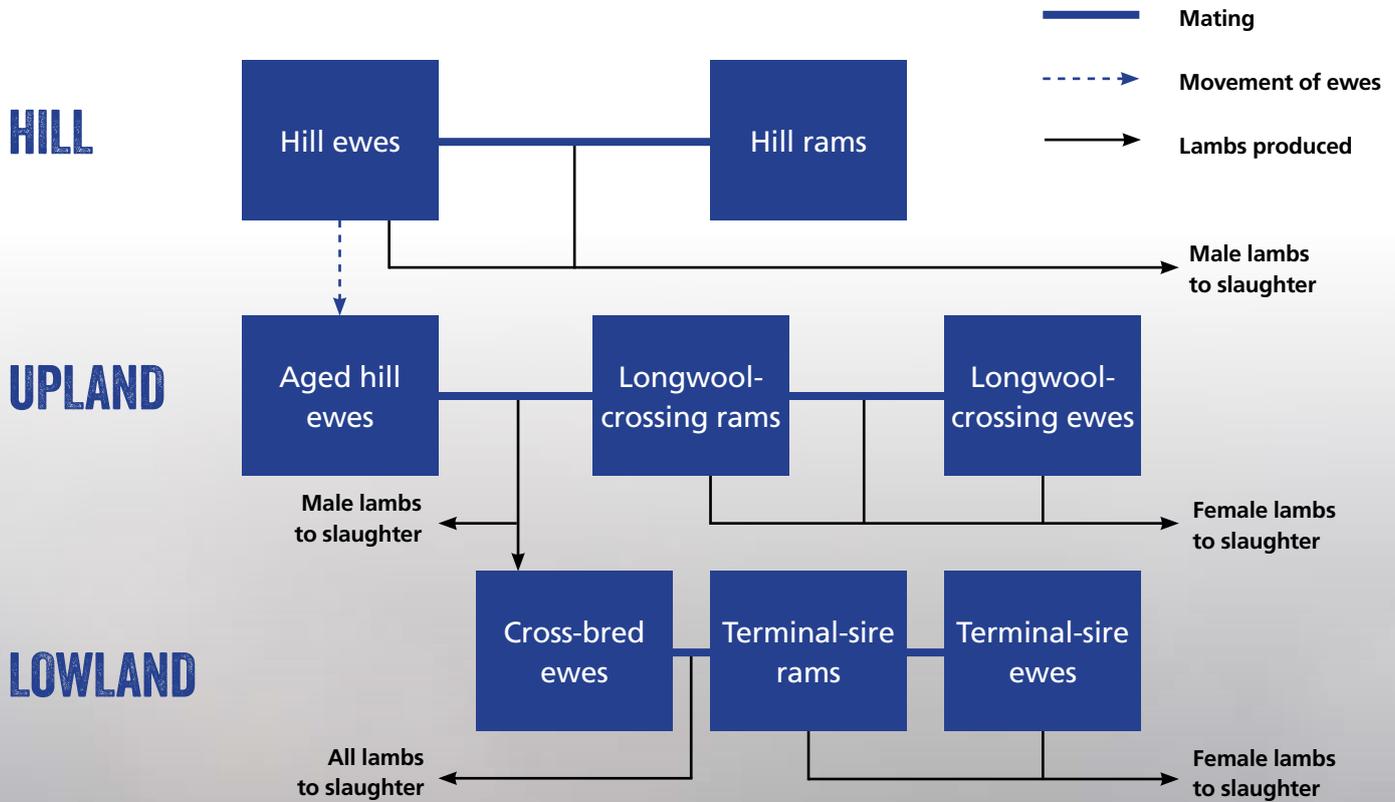
UK demand: Although we are in a strong position to export lamb to a growing world population, it must be remembered that the majority of UK lamb is still consumed at home and this remains a key market.

Domestic consumption of lamb decreased by nearly two thirds in the two decades from 1990 and the falling trend seems to be continuing with annual consumption decreasing from 7.5kg per person to 1.9kg. The price per kilogram of lamb has more than doubled in the same time, which has offset the volume losses to an extent. However, this rise is out of pace with other meats, meaning that lamb is now viewed by UK customers as an expensive choice and many consumers have been conditioned to look for price promotions, which can then impact on market volatility.

We must find ways to increase home consumption of lamb, demonstrating the value of home produced lamb to the UK consumer while delivering on both price and eating quality. Due to the cost of production of UK lamb it is essential we invest in processing techniques to allow retailers to market products at an acceptable price point and that the consumer continues to appreciate lamb as a tasty, tender, and nutritious choice.

Red meat has been associated over recent years with cancer, heart disease and obesity, as well as being targeted by the environmental lobby who promote less or no meat diets as a way to reduce climate change. A huge amount of misinformation has been disseminated as a result of this and it is important that the sheep sector continues to base all its promotional work in fact and also finds way to rebut some of the received wisdom currently held by the media and consumers.

THE UK STRATIFIED SHEEP SYSTEM



2 PRODUCTION SYSTEMS

British lamb is a high quality, nutrient dense and delicious food. It is unique in that it can be produced by utilising a forage-based diet from land that would not otherwise be able to grow a food crop, or it can build fertility in an arable rotation. In the UK, grass makes up the majority of a lamb's diet and often takes place in the less productive areas of the country where the land is too wet, too high or of too poor quality soil for the production of cereals and vegetables. Without the UK sheep industry, large areas of the country would be unable to contribute to food production.

The UK breeding flock stands at approximately 15 million with around 90 different breeds and crosses used, all contributing to the diverse nature of the industry. This diversity has evolved organically, alongside the wide range of topography and climate found through the UK, breeders' interests and with demands on the national flock for food production, wool, milk and conservation.

The commercial sheep industry is based on a stratified or three-tier system, dependant on selection of stock to suit a particular altitude, grazing and production system.

The first tier is the **Hills** and **Mountains** of Scotland, Wales and Northern England, which is the habitat of breeds such as

Scottish Blackface, Swaledale and Welsh Mountain. Mountain and hill breeds tend to have one lamb per season and generally only breed for four seasons. At the end of their economic breeding life on the hill they are transferred as draft ewes to the milder climate of lower areas where they are crossed with long wool breeds. The female offspring of the mountain and hill breeds are retained as pure breeds for breeding stock. The male lambs and any surplus females are sold to upland/lowland farms to be finished or reared for meat production.

The second tier relates to **Upland** areas, which are found in many parts of the UK. There are again specific breeds found here, such as the Border Leicester and Bluefaced Leicester. The older draft mountain ewes are crossed with these longwool breeds to produce a wide variation of half-bred breeding female or Mules. The resulting ewe lambs are sold to the lowlands to be crossed with a lowland breed.

The final tier is the **Lowland** areas of the UK where the cross-breeds from the uplands are bred with lowland terminal sires to produce prime lambs for slaughter.

This stratified system makes economic sense because it utilises the natural resources of British topography, matching breed characteristics to the environment. It also makes biological sense because it makes use of hybrid vigour, meaning progeny inherit the best qualities from both parents.

Whilst stratification is a successful production system and forms the backbone of UK sheep production, there are also



many sheep farmers who operate closed flocks. The principle of this system is to implement a breeding policy that allows breeding stock to be retained alongside other livestock that are sold.

Pure-breeding is the mating of rams and ewes of the same breed. The goal of purebred sheep production is to provide superior genetics to be used in the commercial sheep industry. The majority of pure breeders register the pedigree of their animals with a breed society or association. Some also use recognised performance recording, sire referencing schemes and Estimated Breeding Values (EBVs) to guide their sheep breeding programme and show the potential of using their progeny as the basis for commercial flocks.

Along with the stratified breeding structure, the lamb production industry in the UK makes extensive use of trade between farms to finish lambs for market. Farmers can trade partly-finished store animals both directly with each other and also through the extensive network of livestock markets that operate in the UK. Trading of store lambs makes good use of the land resource and feed availability on different farms and also allows greater specialisation in animal husbandry.

The trade through livestock markets for store animals is strong and livestock markets are also used widely by producers to market finished stock with around 60 per cent of finished lambs sold at auction. The 111 sites in Great Britain that sell finished lambs have an average throughput of more than 69,000 head per year, with half the lambs going through one of 23 large markets.

The UK has a diverse range in the scale of sheep abattoirs too, with 162 sites in England alone. However, there has been a great deal of consolidation in the processing sector and more than 75 per cent of the annual kill now passes through just 20 high-throughput sites, owned by a small number of large businesses.

Stock for these businesses is sourced directly from farms, through livestock markets or via marketing agents and producer cooperative groups. The diversity of these arrangements ensures a wide variety of marketing channels for the producer, which can help to deal with the volatility in the industry, rebalance power in between a large number of small sellers and a small number of large buyers, and help to ensure a fair price is set which relates to the true picture of supply and demand in the market.

This richly diverse farming structure is a clear benefit to an industry so closely related to the land and our natural resources, and we believe such diversity should be recognised and supported. The genetic resources we have available have been used in the most effective and commonsense way for centuries, but now we increasingly have ways to measure and record traits in order to raise the efficiency and health of our flock whilst maintaining its diversity. Similarly the diversity of our markets adds competition and spreads risks – our industry should be striving to use modern technology and information at the same time as optimising choice and competition in our markets.



3 SUPPLY CHAIN EFFICIENCY

To take advantage of the marketing opportunities that exist we need a resilient and sustainable flock in the UK. This means producers must be able to make a fair return from the market that reflects their investment and the risk they have taken to produce lamb for the food chain.

Despite the improvement in prices in recent years, the majority of sheep producers would struggle to make a positive return on investment if EU payments (direct farm payments, agri-environment schemes and rural development funding) were excluded from the business. With the prospect of EU funding reducing in the future and tighter requirements being introduced to qualify, improving the return from the market is ever more important for the producer.

The direction of the global market, the weather and some input costs remain largely out of the control of producers. However, farmers can influence most other factors that have a bearing on the bottom line, including physical performance and fixed and variable costs. Businesses that perform to the best of their ability in these areas should be in a better position to manage the impacts of the volatility from factors outside their control.

Data published in winter 2013 by the UK levy bodies showed that although returns improved compared to previous years and the top third of producers are making money, results for the average performing businesses continue to be mixed. Increasing the value and volume of output from our existing UK flock through improved management and reducing physical and economic losses should be a priority for the industry. We believe this can be achieved in a number of ways as detailed on the next page.

Farm efficiency and carbon footprint: Lamb producers are actively working to reduce the carbon footprint of their product with an increasing number participating in programmes which collect, analyse and benchmark their flock's performance. It is well recognised that the most effective approach to reducing emissions per unit of product is to improve efficiency of production, with EBLEX studies showing that flocks with higher growth rates and lambs per ewe have lower carbon footprints per kilogram of meat.

There is always scope for more improvement as the range in costs of production from EBLEX would suggest, but British farmers are addressing the efficiency challenge in grassland management, flock health and more informed breeding decisions. In addition to this approach, the role of grazing animals in maintaining soil carbon storage should be recognised. Where the impact of grassland and woodland management on a whole farm basis is taken into account, it has been suggested that certain lamb production systems can be carbon neutral.

It is vitally important that the framework for estimating the carbon footprint of farms is consistent between production systems and countries. It is equally important to include carbon storage in soils and vegetation in estimates, in order to enable farmers to manage all the carbon flows in their farming systems.



SUGGESTED SUPPLY CHAIN EFFICIENCIES

- Greater uptake of tools throughout the supply chain to measure efficiency and identify areas that require focus. Tools and information to do this are available from levy bodies and other partners in the supply chain and these, coupled with better use of advice and partnership working, would allow for the implement of the latest science and research in feeding, breeding and management, and enable collaboration between farmers to reduce the costs of production. An example is the use of EBVs and other performance recording tools to aid stock selection, but greater uptake needs to be encouraged of such technology both on-farm and further up the chain.
- To enable producers to better meet market requirements, a uniform specification for dressing and weighing carcasses in processing facilities should be encouraged and the hot/cold rebate be changed to reflect the latest scientific evidence. There should also be more transparency in the weighing of liveweight lambs, giving a fairer comparison on a nationwide basis. Lambs that farmers produce should be valued to a standard methodology across the industry to enable a fair price to be determined and reported to the competent authority.
- Advice and skills provided by levy bodies should be better utilised to increase understanding among producers of various markets and differing specifications, and improve lamb selection on farm and carcase grading in abattoirs. Producers need to understand that very plain, over-finished and over-weight lambs all contribute to reducing farm gate prices. More could also be done to ensure lambs sent to auction markets are directed to the appropriate ring to be sold as stores or finished, as store lambs sold through the finished ring reduce the SQQ.
- Improved feedback from abattoirs (quantity, quality and format) is an important part of increasing the number of lambs meeting market specification, and this must also take into account the large volume of animals traded through auction markets before they reach the processor.
- The accuracy of price reporting mechanisms to farmers also needs to be improved. Reporting of prices, and reporting them on the same day where possible, must be a priority for abattoirs and auction markets. Price reporting generally needs to take account of more deadweight prices and the daily SQQ needs to more clearly reflect the quality on offer.



4 SHEEP HEALTH AND WELFARE

Exotic disease: The loss of our export markets through an exotic animal disease outbreak such as foot-and-mouth could impact farm gate prices overnight by an estimated £12.50 per lamb, destroying any hope of profitability.

Our reliance on export markets means we must ensure we have adequate safeguards against exotic disease outbreaks and a good surveillance system. We are fortunate enough to have world leading scientific research establishments carrying out animal disease surveillance on our doorstep, but in many cases, border controls are inadequate to protect against exotic disease entering the country. We aspire to have national border controls as robust and effective as those of our competing export nations, such as New Zealand.

In the event of an exotic disease outbreak we must have clear, effective and well-rehearsed control plans which deal quickly with the incident, mechanisms to limit regional impacts and structures to support the re-opening of export markets as quickly as possible.

The controls we have against farm-to-farm spread must also work with the character and make up of sheep movements and modern sheep holdings. The current regime of mandatory individual identification of sheep for exotic disease control purposes is not practical or pragmatic and does not deliver any real benefit over a robust batch identification and movement system. We will continue to work to simplify the current sheep traceability system for farmers in a way that does not compromise our control against exotic disease but helps to reduce the burden of reduce tape and addresses the risk of major cross compliance penalties for minor, unintentional breaches of the regulation.

The Government must also move faster to simplify the UK holdings and movements system. Proposals to increase the limit for sheep holdings to a 10-mile radius from the main

premises is positive and so is the fact that the Government wishes to include an ability to associate temporary land to avoid the administrative burden of movement reporting and managing the six-day standstill on local land movements. This reflects the modern face of sheep farming and the diverse and fragmented makeup of holdings which are often farmed on a variety of land tenures.

Endemic disease: While the outbreak of an exotic disease would have an instant impact on the sheep sector, we must continue to battle against the insidious impact endemic diseases can have on sheep welfare and production efficiency.

Endemic disease also has the potential to affect our ability to open new export markets and satisfy existing ones. Therefore the Rural Development Programme should be used to provide funding for farmers to incentivise good health and disease management. This should apply to all endemic disease but specifically drive a nationwide sheep scab control programme, with the aim of eradication in the longer-term.

The financial benefits of tackling sheep scab are clear but we need a coordinated approach to tackle it across the country. The UK sheep industry reached a point in the past where sheep scab was nearly defeated and we can do this again, taking it one step further to finish the job off properly.

To assist with the control of all endemic disease, we should encourage the obtaining and sharing of information between trading farmers relating to health status and previous veterinary treatments. This will avoid the spread of disease and parasites and in particular slow the spread of drug-resistant parasites. Additionally we should adopt effective quarantine management and treatment when bringing sheep onto farms.

TSEs: Regulations and structures relating to specific sheep diseases should be linked to the severity of risk they pose to both human health and food production efficiency. These should evolve as understanding of diseases develops. It is therefore essential that the EU immediately reassesses the outdated Transmissible Spongiform Encephalopathy (TSE) controls in Europe.



TSE controls were introduced as a result of BSE in cattle and vCJD in humans and, while they may have been a proportionate response at the time, we believe this regulation is no longer proportionate or evidence based. BSE controls in cattle have been gradually reduced in line with the evidence of risk but the controls in sheep have not followed, despite the fact there is no proven link between classical TSEs in sheep and vCJD in humans, no evidence to show atypical scrapie can be transmitted to humans, and no single case of BSE found within a commercial flock of sheep.

TSE controls devalue some carcasses by as much as 50 per cent and cost the sheep industry an estimated £23.5m each year. It is vital the policy is revisited and the lack of evidence recognised.

We believe TSE controls for sheep should be relaxed right across Europe and the practice of carcass splitting ended. As an immediate temporary measure, an acceptable alternative would be for the 12-month age limit for carcass splitting to be interpreted as being the end of June following the year of birth, rather than when the first visible permanent incisor erupts in an individual animal.

Having the present stringent control system to completely remove SRM in small ruminants is not proportionate to the scientific evidence of risk and sends out the wrong signals to other countries considering trade with the EU.

Welfare: All farmers know that unless the welfare of their stock is satisfied they will not perform to the best of their genetic potential. The UK has robust welfare standards on husbandry, handling, transport and slaughter, laid down in regulation and audited by Government inspectors and voluntary industry schemes such as Red Tractor Assurance.

Nevertheless, the farming industry is continually under pressure from groups who feel UK sheep farmers do not do enough to safeguard the health and welfare of animals.

Farmers run businesses and any increase in the standards or requirements must be driven by the market with either appropriate market incentives or even application and auditing across all supply chains in all countries. Changes must also be in line with other countries that we compete with in global markets.

Pressure on the sheep industry to stop practices such as long distance or overseas transport on a unilateral UK basis would deny the UK access to important markets, increase the costs of production for our farmers and in some cases contravene EU law.

The current demand for non-stun religious slaughter risks undermining the trust and confidence in high welfare conditions – but it is essential this trade is not picked up by other supplying countries instead, or even driven underground into illegal and uncontrolled situations.

Care should be taken not to unintentionally increase demand for non-stun slaughter, either by indulging in sound bite politics or forcing through a labelling scheme that does not reflect the complexity of the situation.

As long as legal, democratically agreed standards are in place and applied to safeguard animal welfare, it should be decision of the farmer to satisfy those legitimate markets.



5 NEW ENTRANTS

One of the strongest indicators of the success of the sheep industry is the new entrants that it attracts. Without a healthy injection of young people and new entrants choosing sheep farming as a career or a business pathway the industry would have little future. There is evidence that more young people are choosing college and university courses in agriculture and sheep specifically, and anecdotally there are plenty of young and new entrants showing interest and attending events and industry activities.

Additionally the calibre of people entering the industry appears very high, often with good academic qualifications as well as practical skills and with a positive and open attitude. This provides a good building block for the future of our industry but one that has to be underpinned by a realistic opportunity to develop a viable and satisfying career or business.

The exciting range of career options in sheep farming and related industries need to be actively communicated for

young people to understand and explore. While new and enthusiastic entrants are essential at a farm level the industry is also dependant on them coming into allied activities such as veterinary practice, research and development, and meat processing, product development and sales. There are clearly career opportunities relating to sheep that align closely with, for example, practical and physical science, IT, environmental, farm management and food science interests.

Once decided on as a career, it is crucial that future generations are provided with the learning skills and tools to allow them to become a successful part of a thriving and exciting industry. Agricultural universities, colleges and trainers should take every step to keep up to date with best practice information and to provide students with the contacts and skills to ensure they leave their education equipped to a high level and able to continue to access best practice technical information.

The physical nature of sheep farming means that there are always opportunities for younger people, and traditionally sheep farming has often offered a route into farming for new entrants due to its lower capital cost requirements and less need for a permanent base. Sheep farming continues to provide an achievable first step on the farming ladder.



CONCLUSIONS

Our shared vision for the sheep industry is of a sector with great prospects, driven by a growing global demand for a high value and high quality, free range product.

The UK has the infrastructure, the skills and the natural resources to efficiently and sustainably supply this growing global demand for lamb, in harmony with maintaining a beautiful landscape and rich biodiversity that characterises our country.

We must listen carefully to our customers and respond to take advantage of opportunities and changing trends, to add value to our foundation farm assurance programmes and make use of additional certification, provenance, and identification schemes.

We must increase our efforts to grow our markets worldwide, with industry levy bodies and the Government coordinating efforts to build value and reputation across the globe. To develop markets fully it is vital to ensure any bureaucratic barriers in the EU that make it more difficult to secure markets are addressed.

We should recognise the value of our domestic market for lamb and should continue efforts to promote UK lamb as a quality product that is mainly grass-fed, has high welfare outcomes and is inextricably linked with positive environmental management. Positive health messages are also important and we must reverse the trend where red meat takes the blame for everything from climate change to heart disease.

New butchery techniques, new products and innovative branding should all be part of the work to maintain and further grow our important domestic market. This includes sales through supermarket chains, wholesalers and the catering trade, along with direct and local sales.

The UK sheep sector has unrivalled diversity and we must recognise and harness this, protecting our valuable genetic pool while also measuring and exploiting traits to raise the efficiency and health of our national flock. Diversity should also be harnessed to provide consumers with choice and premium brands.

We must strive to address the damaging effects of price volatility of lamb and look at ways to move away from being a commodity traded on a spot market. Marketing transparency must improve and farmers must be afforded more risk management tools. It is well understood that different markets have different specifications, but consistently meeting those markets relies on better communication, increased understanding and clearer direction. We must address

shortfalls in how supply chain information is fed back to producers, so everyone receives the information they need in a format that is transparent and easily comparable across different selling options.

We can increase the value and volume of output from the national flock and there are many new and innovative techniques that could be introduced at farm level to help achieve this, such as improved grazing, smarter use of animal health products and improved breeding practices. It is widely recognised that the use of superior genetics through Estimated Breeding Values could be a real boost to the sheep industry. All parts of the supply chain will benefit from adoption of such tools and it is in everyone's interest to use the best scientific techniques to drive things forward.

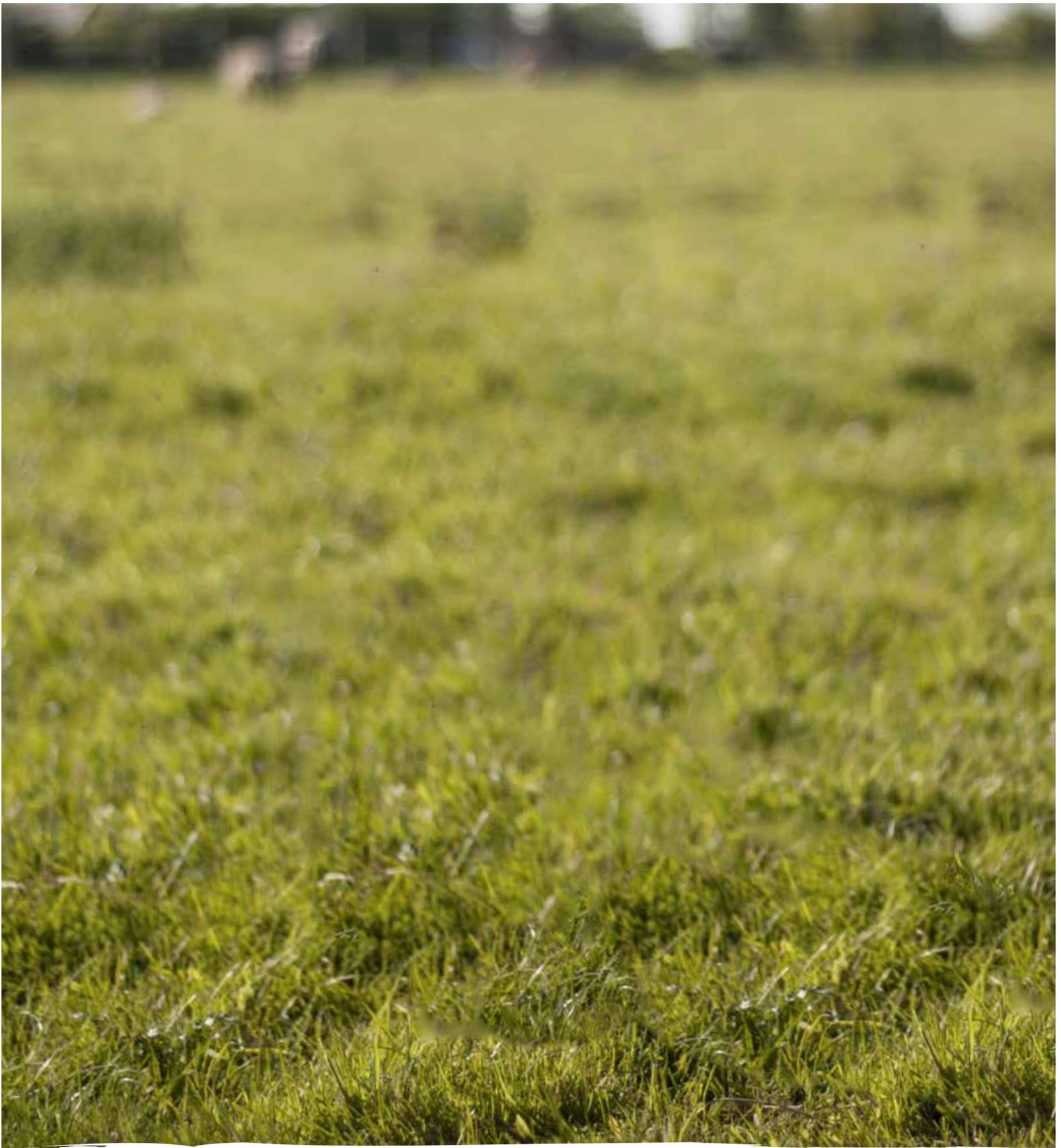
Improving the health and welfare, and protecting the health status of the national sheep flock must always be a priority, whether by preventing the incursion of exotic diseases or working to tackle animal health issues that impact on welfare, add costs and reduce the efficiency of our industry. The future of the Rural Development Programme must target practical support towards the sheep industry to achieve this.

It is vital we have good surveillance and stringent control plans in the event of a disease outbreak, to protect our export and domestic markets, but these must also be workable in peacetime. We will continue to push for simplification of sheep identification rules, creating a less burdensome and more risk-based system for producers.

We must also recognise and address situations where cumbersome regulation prevents us fulfilling our full potential, such as out-of-date TSE rules negatively impacting the perception of the UK lamb in overseas markets. We operate in a world market and the system we operate in must be comparable to our competitors right across the globe, be it identification and traceability or health and welfare standards.

The UK sheep sector has a huge amount to offer new and young entrants. It also relies on that fresh blood coming through and we should promote careers in lamb production and its allied industries as being rewarding and challenging. Equipping future producers with the tools and information they need will ensure many of the problems outlined in this report will be met head-on by a knowledgeable and skilled next generation.

Our sheep industry has a bright future with plenty of opportunities but also plenty of work to do to realise them. The NFU and NSA will continue to actively work, together where it is the interests of the industry, to promote the views of our members and to lead the sector to achieve the ambitions set out in this report.



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