



Potential Administrative Cost Implications for Scotland's Red Meat Sector Exports when Trading with the European Union under World Trade Organisation Rules



AGRICULTURE, ENVIRONMENT AND MARINE

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Executive Summary

Estimated Additional Costs

- It is estimated that the additional, non-tariff costs per EU order will be between £216 and £276. This could apply to a full articulated lorry-load, or a single box, making it disproportionately more expensive to send smaller orders to the EU. Transport costs also vary, depending on the scale of the order - larger orders will attract more competitive prices than sending a single pallet.
- The majority of this additional expense results from the cost of employing a vet to inspect the order prior to shipping, which is estimated at between £140 - £200 per order. The additional £76 covers additional time taken to process an order (£11) and the cost of a Common Veterinary Entry Document (estimated at £65), to allow the order to enter the EU destination country.
- Many small producers send smaller orders to customers in the EU, which makes the additional cost per order proportionately higher. This could potentially price their products out of the market, making business to the EU unviable and ultimately deterring smaller businesses from exporting there.

Red Meat Exports

- Around 7.5% of Scottish red meat sales (including 5th quarter) are sold to customers in the EU. Other export markets of significance are in Asia, whilst the UK domestic market is the primary outlet, accounting for almost 91% of sales.
- Exports provide premium product sales opportunities, assisting processors with carcass balance and in spreading their commercial risk beyond the home market. Typically, the cost of exporting is greater than selling in Scotland or the wider UK market.
- The export market is highly competitive and any additional costs involved with exporting to the EU post-Brexit may put sales to these markets at risk. For existing throughput, exporters are anticipating that they will have to absorb the additional administrative, trading, vet and transport costs, which is likely to reduce profitability. For new business, there is the potential to build costs into the trading arrangements, though this may make the product too expensive.
- Scotland's lamb sector is under greater threat than beef, as its reliance on exports is greater than for beef, i.e. 26% of total lamb sales are exported,

versus 6% for beef. A greater proportion of lamb products are also exported to the EU.

- Customer feedback highlights that some EU customers are looking at other EU supply options, with some already sourcing lamb from other countries such as Spain. Doing business with other EU operators will be easier, quicker and less expensive than doing business with UK operators.
- There may be disruption to supplies of 5th quarter product to Europe and for those who use the port of Rotterdam for the groupage of 5th quarter material for onward travel to Asian markets.

International Trade

- The UK currently benefits from the Trade Agreements that the EU negotiates. The lack of new trade agreements negotiated to date by the UK will delay the development of new opportunities in new markets.
- Industry hopes that new country trade agreements may open up alternative market opportunities beyond the EU. Some exporters have been taking advantage of Quality Meat Scotland's trade development activities to assess these opportunities, whilst others have been independently visiting potential customers in new markets. Other markets beyond the EU offer opportunities for the Scottish red meat industry, particularly in Asia and North America.
- The UK government has announced, in addition to import tariffs, Tariff Rate Quotas (TRQs) on beef being imported into the UK. This new proposed post-Brexit tonnage is less than the current volume imported, providing an opportunity to develop sales of Scotch Beef domestically. Feedback from industry suggests that there should be more marketing support to help raise awareness in the UK. Market insight also suggests that there is a growth opportunity in the domestic market to increase on-shelf presence both in Scotland and in the wider UK market.
- New Zealand is currently not fulfilling all of its sheep meat import quota to the EU, due to increasingly attractive opportunities in Asia and North America. This offers sales potential for Scotch Lamb to the EU, providing excessive tariffs can be avoided. Within the EU, the Halal market continues to grow and this is a market that Scotland does not currently supply. In order to do so, it would have to address, sensitively, issues surrounding changes to abattoir procedures.

UK Imports – BEEF	Current Situation	Post-Brexit
Tariff Free (0%)	340,000 tonnes	230,000 tonnes
Tariff Free (0%) Northern/Southern Ireland arrangement	n/a	30,000 tonnes
Reduced Tariff under pre-arranged EU quotas	40,000 tonnes	55,000 tonnes
Total Imports	380,000 tonnes	315,000 tonnes
Possible volumes subject to new UK import tariffs (current situation – Post Brexit position)		75,000 tonnes

- Scottish red meat exporters are currently operating on a ‘business as usual’ basis until the terms of any Brexit deal becomes clear. If/when this happens, they will determine what strategies and plans to adopt.
- The uncertainty over the Geographic Indicator scheme and how it will be supported presents a reputational risk to the Scotch Beef and Scotch Lamb brands.

The Scottish Red Meat Supply Chain

- There is concern that the shortage of vets in Scotland will affect their availability in-plant to approve Export Health Certificates. The new Certification Support Officers (CSOs) may help, although there is limited information regarding the new service and whether it will be approved by the EU.
- Lack of skilled labour may affect the longer-term operations and sustainability of meat plants. The sector will require to find new ways to attract workers and to automate more processing tasks where economically viable.
- Haulage is a two-way process and more expensive imports may mean less EU product is brought into the UK. As a result, total revenues may reduce, leading to higher shipping costs for the industry in the UK, particularly for those exporting.
- Most of the Scottish red meat exported to the EU travels via the Channel Tunnel and Calais. There is currently no Border Inspection Post (BIP) at Calais, although one is being constructed. These developments could mean that a lot of the UK exports to the EU could be channelled through the new facilities placing a high demand on the new infrastructure. The processing time at the BIPs is currently unquantified. In the early post-Brexit stages,

there is a risk that severe delays in the processing of lorries could have a knock-on effect on orders arriving on time at their end customer destinations.

- The farming sector is an important stakeholder in the red meat supply chain and the uncertainty that surrounds Brexit is having an effect on farmers too, as animal numbers continue to decline.

Recommendations

This report makes a number of recommendations to help the industry mitigate against the impact that Brexit may have on the Scottish red meat supply chain. It is hoped that these recommendations will be explored with the industry and key stakeholders, who will help prioritise which should be taken forward in the short to medium terms. The suggested lead partners for each action have been highlighted in bold.

- The red meat industry needs to collaborate to determine how vet costs can be reduced, to ensure that orders remain competitive.

Organisations Responsible: **SAOS**, SAMW, FSS

- Consider the establishment of a red meat transport liaison working group including transport industry representatives and exporters, to explore opportunities for collaboration, as well as establish efficient routes to market. This group should also consider whether a sealed container system could be implemented to save time at the BIP.

Organisations Responsible: **SAOS**

- Businesses have highlighted the need for more support to help them understand the new tariffs and paperwork. Information, workshops and 1:1 support would be beneficial as soon as possible, once the timings of Brexit are known, to help businesses navigate the processes and look at the opportunities for new market development. Clear and detailed information should be made available on appropriate Public Sector and Trade Organisations' websites and communications materials to explain the potential procedures and costs involved in exporting to the EU post-Brexit.

Organisations Responsible: **QMS**, APHA, SDI, SAMW

- It will be critical to ensure that the new administrative procedures are developed, launched and implemented competently, to minimise dispatch times and costs and ensure there are no risks associated with the paperwork that may lead to the load being rejected at the BIP. Staff within the Agencies will also need to be fully trained in the procedures to be able to provide accurate guidance to companies.

Organisations Responsible: APHA, **QMS**, SDI,

- There is a need to communicate with industry regarding the role of the CSOs, how industry should interact with them and how they will support vets.
Organisation Responsible: **FSS**, Scottish Government
- The changes to the administrative procedures and processes provides an opportunity to review the provision of export certification, with a view to maximising efficiency and reducing costs, while ensuring compliance with safety and quality assurance standards. Examine how technology can reduce costs – e.g. remote inspections via on-site cameras. This would also reduce the burden on an overstretched veterinary service.
Organisations Responsible: **SAMW**, Scottish Government, FSS
- Further research is required to understand how a collaborative approach to exporting might help the industry develop new commercial opportunities. The extent and nature of any collaboration would be determined by the needs of those businesses who wished to collaborate, but could examine routes to market, identify current blockages, examine new customer market opportunities and marketing activities.
Organisations Responsible: **SAOS**, QMS
- Market Development work to encourage 100% coverage of Scotch Beef and Lamb in UK multiple retailers, to explore further opportunities in foodservice, as well as investigating the public procurement route.
Organisations Responsible: **Scotland Food & Drink**, QMS
- A co-ordinated UK market approach needs to be undertaken around the marketing of Scotch Lamb to encourage more domestic consumers to buy this protein. This needs to include the retailers and major foodservice companies.
Organisations Responsible: **QMS**, Scotland Food & Drink
- An investigation of the Halal lamb opportunity should be undertaken, looking at the potential and risks of this market for the Scottish red meat supply chain
Organisations Responsible: **SAOS**, QMS, SAMW, SDI
- Innovation work needs to be defined and developed to drive efficiency and productivity on-farm and throughout the supply chain. This could include, for example: the improvement of efficiency and adherence to specification on-farm to reduce waste in the chain; the tracking of lorries and loads using sensors to understand the journey times and implications of the new EU borders; the sharing of market insight to highlight market performance, competitor activities, and opportunities both in retail and foodservice markets

in the UK and international markets; and investigating how ScotEID data could benefit the processing sector.

Organisations Responsible: **SAOS**, QMS, SDI, CENSIS, SMAS

- Extend the shelf-life of red meat products through enhanced hygiene and production processes, to guarantee the offering remains competitive and resilient to lengthening transit times.

Organisations Responsible: **SAMW**, Make Innovation Happen (MIH)

- Employ a proactive recruitment strategy to ensure there are sufficient key staff to allow operations to continue and support all parts of the red meat supply chain. Consider economically viable automation opportunities.

Organisations Responsible: **SAMW**, Skills Development Scotland, LANTRA, SMAS

- Establish a working group to maximise the value and opportunities from 5th quarter products and remove blockages from the supply chain.

Organisations Responsible: **SAOS**, SAMW

1. Introduction

1.1 Background

As a member state of the EU, the UK benefits from free trade with other EU members. This means that businesses can sell food and drink goods to other EU members without tariffs, intra-area administration, or fiscal trade barriers, such as time and charges for customs checks.

Should the UK leave the EU Customs Union and not agree a Free Trade Agreement (FTA), then, under World Trade Organisation (WTO) rules, goods from the UK will face the EU's full common external tariffs, custom checks and other non-tariff and regulatory barriers. These barriers could include the cost of:

- vets' time for certification
- development of new document and invoicing procedures
- changes to Quality Assurance/Quality Control procedures
- changes to labelling, packaging and new plant approval regulations

While some research has been done to assess the potential impact of tariff barriers on UK trade in open markets (e.g. Food and Agricultural Policy Research Institute analysis), to date, no research has been carried out to investigate the impact of non-tariff and regulatory barriers on Scotland's red meat sector.

Any new trading arrangements will put supply chains under new pressures. The time taken to get product from processor to customer is likely to increase as new processes and procedures are developed, implemented and adhered to. These are also likely to add costs in terms of time and resource in addition to the product tariffs.

The Scottish red meat sector, comprising beef, lamb and pork, contributed over £891 million in 2017 towards the Scottish economy. It is a key part of the Scottish food and drink industry, supporting 50,000 direct and indirect jobs and making a significant contribution towards the achievement of Ambition 2030 growth targets.

The contribution of cattle and sheep to total agricultural output is larger in Scotland compared to England (see Table 1 in Appendix 4). The difference is even greater when compared to the EU. A hard Brexit that jeopardises the market access of Scotland's beef and sheep industry to European markets will have a greater impact in Scotland when compared to the rest of the UK.

Scotland's exports of red meat (beef, lamb, pig meat and offal) are around £84m (9% of total red meat sales), with the EU market accounting for ~90% of those

sales. France, Benelux, Italy and the Nordics are Scotland's biggest red meat customers¹.

In proportional terms, Scottish lamb is more dependent on export markets than Scottish beef:

- Beef exports = £39m or 6% of total beef sales
- Lamb exports = £36m or 26% of total lamb sales

Scotch Beef Protected Geographical Indication (PGI) and Scotch Lamb PGI have helped the sector establish strong markets and consumer demand in Europe. In a competitive market, it is important that Scotland's red meat sector remains accessible and affordable to consumers in the EU. A significant reduction in red meat export sales, will affect not only the red meat industry, but will have a wider impact on the Scottish food and drink sector and the achievement of the Ambition 2030 growth targets.

Given the significance of the EU market to this sector, the Scottish Government has commissioned research to understand the implications for the sector should UK trade move from an EU Customs Union arrangement to a WTO arrangement. The research findings should assist the Scottish Government to engage more effectively with the UK Government on these issues, as well as inform future policy development and engagement with the industry.

1.2 The Study

The main objectives for the research review are to:

- Identify and outline current non-tariff and regulatory barriers faced by Scotland's red meat sector when exporting to the EU
- Highlight how these differ from the barriers faced by non-EU red meat trade
- Compare and contrast the current non-tariff and regulatory barriers faced by Scotland's red meat sector with those that could be faced if trade were subject to WTO trade arrangements
- Establish key stakeholders' concerns and investigate the measures they are putting in place to mitigate potential additional administrative costs
- Provide recommendations for Scottish Government and the industry to help them prepare for, mitigate, or minimise these potential barriers and costs

In a time of rapid change and uncertainty around Brexit, it was sometimes difficult for stakeholders to say what they felt the impact on their businesses was likely to be and what they were doing to mitigate it. Many said they were continuing on a "business as usual" basis, until the situation becomes clearer. A variety of methods were used, however, to capture relevant information, practice and opinion, to collect useful insight.

¹ Source: The Scottish Red Meat Industry Profile 2018 – QMS Processor Survey

- desk research covering a variety of online resources and reports
- a review of international competitors: New Zealand (selected because they have existing trade arrangements and quota with the EU) and the USA (as they currently access EU trade through the Hilton Quota, which means they compete with other importers for a share of this quota). A structured questionnaire was used to collect feedback (Appendix 2).
- an initial focus group was convened in December 2018 in Edinburgh with key stakeholders in the Scottish red meat industry to map out the existing red meat supply chain. This included representatives from Scottish Government, QMS and SAMW, along with members of the SAOS team, all of whom were felt to have experience and knowledge of both the Scottish red meat supply chain and red meat exports. The purpose was to map existing knowledge, identify any knowledge gaps and identify where those knowledge gaps could be filled. Smaller group discussions with practitioners who could fill those gaps were held after the initial focus group meeting and throughout the duration of the project.
- wide consultation was then undertaken (face to face and telephone interviews) with key stakeholders and business owners to understand the potential impact of Brexit on the Scottish red meat supply chain and what measures might be helpful in mitigating this impact. Interviews with processors were undertaken using a structured questionnaire. *(see Appendix 1 for list of organisations consulted and Appendix 2 for the questionnaire used for meat processors)*

2. Supply Chain to the EU – Current

2.1 Administration and Processes

Within the EU Customs Union, all member states enjoy free movement of goods amongst each other. There are no customs checks, unless national controls are necessary to manage a public health risk. The result is that exports of red meat from Scotland into the EU (including Switzerland, Liechtenstein, Norway and Iceland) are straightforward. From a Scottish perspective, red meat exports cover cattle, sheep, pigs, 5th quarter and germplasm (breeding livestock, semen and embryos) products.

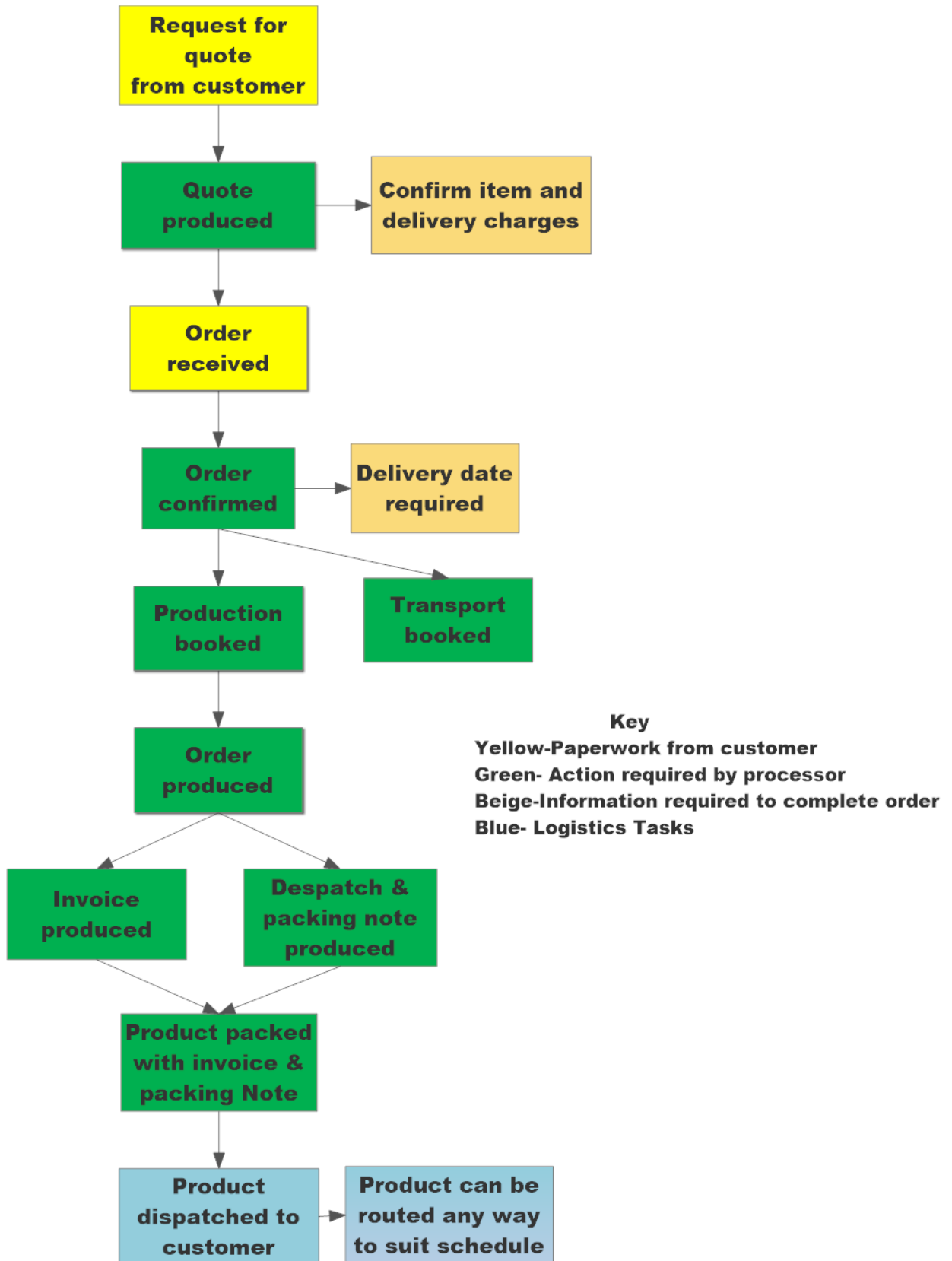
When a processor receives an order from a customer based in the EU, the process is uncomplicated and the order can be fulfilled relatively quickly (next day delivery is common). Some processors will export a full container lorry load of meat, whilst others will use a haulier, who will consolidate several orders to either one, or multi-locations, which is termed groupage. There are relatively few transport companies in Scotland shipping red meat to Europe, however, and margins are slim. Several processing businesses will use their own lorries.

Products for human consumption can be transported within the EU without an Export Health Certificate (EHC), but they must be accompanied by a Commercial Document. This should include details of the contents of the consignment, the consignor and consignee. Companies may use an invoice, as long as the required information is on it. (*see example at Appendix 3*)

The same process is used for Animal Bi-Products (ABiP). Some shipments of ABiPs must be authorised by the competent authority in the destination country, however, before they can be transported to the customer.

A summary of the current order and purchasing process is shown in the diagram overleaf.

Figure 1: Order and Purchasing Process – Current



2.2 Non-EU Countries – Current WTO Third Country to EU Deals

Existing WTO third country operators deal with the EU as follows:

2.2.1 New Zealand

New Zealand is a key lamb exporter to the EU and has an agreed quota. In recent years it has not been utilising its full quota, as other markets have become more financially attractive.

Due to the seasonality of the lamb sector, New Zealand exporters have 6-month supply contracts with their European customers. Their lamb is processed and vacuum-packed for sea shipment to Europe, spending 7 weeks on the water.

The Quota Certificate, which accompanies the consignment, confirms the origin of the product and is issued at the time of production. It is cross-referenced with the exporter's quota allocation, to ensure that quota is not exceeded. New Zealand has a veterinary agreement with the EU, whereby 2% of product arriving will be randomly checked.

2.2.2 USA

The EU is a relatively small export market for the US, however ongoing trade negotiations between the two countries and the proposed UK/USA trade discussions may see this change in the future. For US beef, access to the EU is mainly through the High-Quality Beef Quota (also known as the Hilton quota). The US Department of Agriculture (USDA) Food Safety and Inspection Service (FSIS) is the public health agency responsible for ensuring the safety of meat and other animal-based food products and it administers the Export Health Certificates.

Red meat is exported by refrigerated sea container as vacuum packed sub-primal, primal, and trimmings, with some retail-ready product, though this is a small volume. There are no seasonal variations, as most shipments arrive in the EU at the beginning of each quota quarter.

US Exporters must have the relevant commercial documents, including the Bill of Lading, Export Health Certificate and quota Certificate of Authenticity (COA) for shipments. The FSIS inspection occurs either at the meat plant or at the cold store before leaving for the port. A customs inspection may occur if a random check is flagged for that specific container.

The inspections on arrival at the key destinations in Europe – Netherlands, Germany, UK and Belgium – vary, depending on the BIP. Should a shipment be rejected on arrival, the most common reason relates to issues with the EHC documentation. The product will either be destroyed or sent back to the US.

Some of the bigger issues to face US exporters to the EU are the rapid subscription of the zero-duty quota by other countries meaning the quota is quickly used up as well as the different interpretations between different BIPs when clearing product. The sanitary and phytosanitary requirements are also seen as a barrier to trade.

3. Administration and Processes – Post-Brexit

There is consensus from red meat exporters and those involved in the supply chain that doing business with the EU post-Brexit will cost more. There are direct financial impacts which can be defined and determined, such as the cost associated with the EHC and the tariffs that will be applied. Indirect costs are more challenging to identify, but nonetheless can have a significant impact. Whilst the fixed costs apply to any business whatever their size, the indirect costs are more variable and likely to be more damaging to small businesses.

Larger processors are likely to have a dedicated resource to undertake the various tasks and absorb the additional administrative costs. In a smaller business, with fewer employees, the impact of the new processes will add a disproportionate amount of cost to exporting.

The major change will be the need to provide an EHC for every customer shipment. It is anticipated that the number of certificates will increase post Brexit assuming that all business with EU customers is maintained.

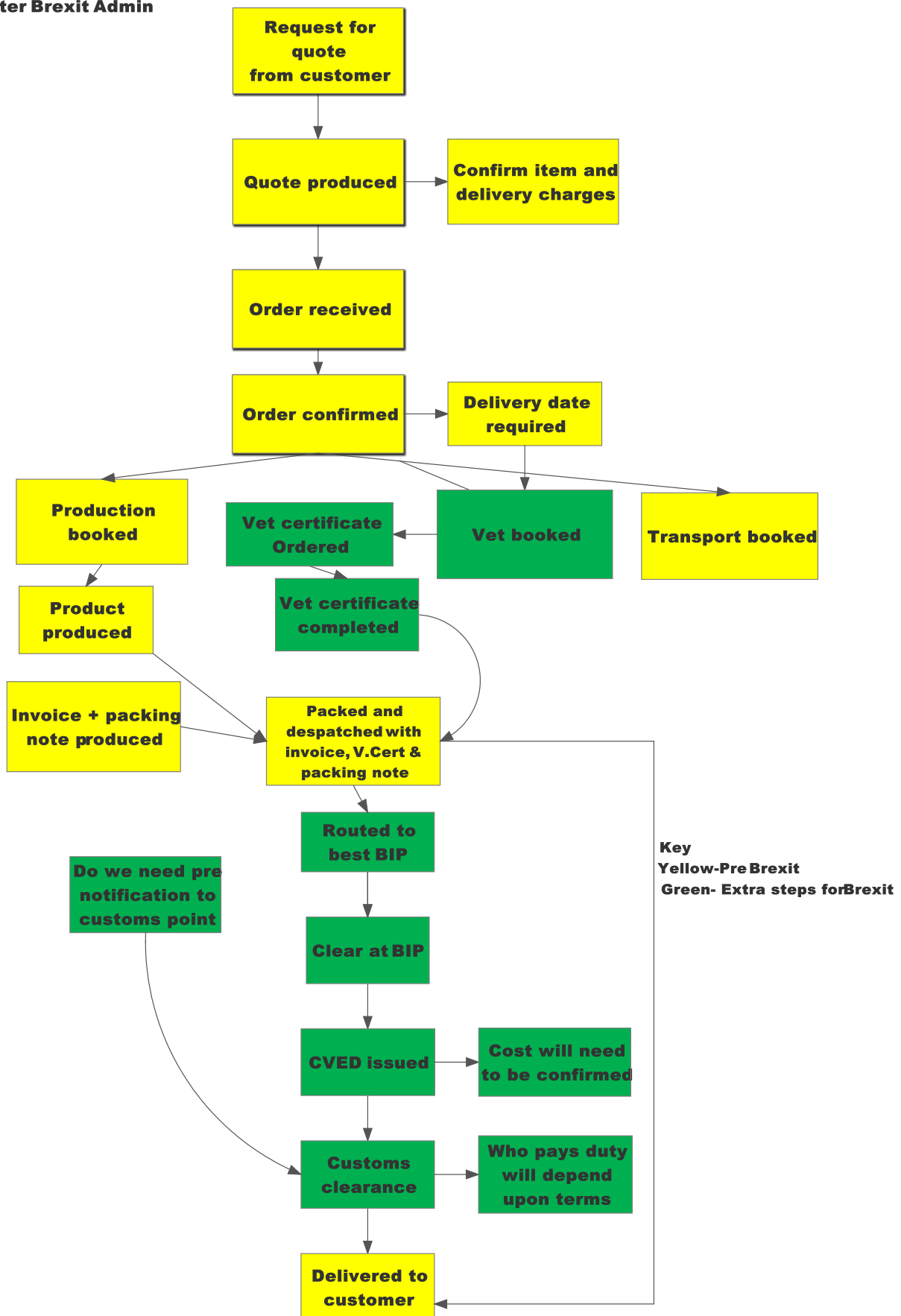
Each EHC will also need to be authorised by a vet before the order can be dispatched. The authoriser will need to be booked in advance to be present at the plant in time to support the departure of the order. According to industry feedback, the additional costs for the origination of the EHC alone, could become a deterrent to exporting.

A new online process is being developed by the UK Animal and Plant Health Agency (APHA) that will be used to request the EHC and is expected to speed up the process. Once that is established, it is estimated that using the APHA online portal to apply for a certificate should take around 15 minutes.

A summary of the order and purchasing process post-Brexit is shown in the diagram overleaf.

Figure 2: Order and Purchasing Process - Post-Brexit

After Brexit Admin



A summary comparison of the order and purchasing process pre and post-Brexit is shown in the table below.

Table 1: Pre and Post-Brexit Order Processing Actions Summary

Admin Task	Current	Brexit	What are the implications or different actions needed post Brexit?	Who by?
Respond to Order Enquiry	√	√		Sales Team
Seek Transport Quote	√	√	Anticipated volumes of traffic to be processed at the Calais BIP from the Channel Tunnel may encourage hauliers to look at other route options via ferry operators	Operations Team/Haulage Company
Determine Pricing	√	√	Import tariffs will need to be confirmed and added to invoicing and official documents for travel, depending on the trading terms agreed between supplier and customer	Sales Team, with Accounting input
Prepare Quote	√	√	New estimates on journey time will require to be built into order lead times, taking into account new consignment approvals and border inspections	Sales Team with Accounting input
Send Quote	√	√		Sales Team
Receive Order	√	√		Sales Team
Confirm Production	√	√		Sales Team with Production Manager
Confirm Transport	√	√	There will be a need to work closely with the hauliers to ensure availability of transport to satisfy orders, taking into account the longer lead times to the EU	Operations Team with transport provider
Order Packaging	√	√		Operations Team
Acknowledge Order	√	√	Need to ensure commodity codes are correct for different meat cuts and that correct tariff is applied	Sales Team
Book Production Slot	√	√	Once the order is confirmed between the exporter and the customer, the order is planned into the production plan.	Production Manager

Order Health Certificate	X	√	Once the order is confirmed and the purchase order received from the customer, an application will be made using the APHA online system to order the health certificate. This will be carried out by admin support in the meat processing companies	Operations Team
Book Vet/CSO	X	√	Once production is confirmed and planned and transport has been organised, the vet will then be booked to finalise the Export Health Certificate. A Purchase Order will be raised to pay for the vet	Operations Team
Produce Invoice	√	√	Any new trading terms, duty and import tariffs will need to be detailed on this. This may require amendments to be made to the format and layout of the invoice	Finance Team
Finalise Health Certificate	X	√	Plan time for vet visit to finalise and authorise shipment	Production Manager
Advise Agent or Importer	X	√	The Importer will help manage the goods into the EU and is responsible for sending the EHC to the BIP in good time.	Operations Team
Organise Duty Payment if Required	X	√	Duty may need to be paid, depending on the trading terms	Finance Team
Complete Paperwork and Dispatch Goods	√	√	A single Commercial Document must accompany the goods.	Operations Team
Border Inspection	X	√	Goods will need to be processed at a BIP on arrival in the EU	Driver
Potential Time To Deal with Delays	X	√	Delays at the BIP could also create knock on time delays if the trucker is carrying several customer orders, if the driver exceeds his maximum driving time as well as the return journey.	Driver/Transport Company
Tracking of Shipment and Troubleshooting	Limited	√	Time and resource cost unknown at present	Sales and Operations Teams

3.1 Summary of Key Issues for Industry

The following table highlights the key issues that will impact trade with the EU following Brexit.

Table 2: Post-Brexit WTO Status – Key Issues

Future Status	Export Certification	Border Controls
<p>At the time of writing, the detail of when Brexit will take place and the trade implications are unknown</p> <p>The UK's listed status application has been agreed by EU Member States after it achieved the animal health and biosecurity assurances required for a third country to export live animals and animal products. National listed status is the EU's classification for non-member states</p> <p>A Competent Authority is an organisation that has the legally delegated or invested authority, or power to perform a designated function, normally monitoring compliance with the national statutes and regulations</p> <p>Within the UK, all establishments handling, and processing meat and meat products</p>	<p>Following Brexit, each shipment of meat, or meat-based product, will need an export certificate before it can be dispatched to the customer</p> <p>Individual countries may also have specific requirements in terms of the types of documentation needed</p> <p>The export certificate needs to be issued by the APHA and authorised by a vet on the processor's premises</p>	<p>Meat and livestock from the UK will also be subject to veterinary checks on arrival in the EU. The EU deems animal products as presenting a high level of risk and imposes more stringent import requirements</p> <p>Meat products will need to be channeled via border controls (BIPs), requiring additional paperwork to support the shipments</p> <p>Scottish processors will be required to provide a range of documents and declarations to comply with the Single Administrative Document, the passport required for exporters to bring goods into the EU. These include:</p> <ul style="list-style-type: none"> • Certificate of Origin • Transit Permit (where a transit agreement does not exist between the third country and the EU)

<p>need to be approved by the Competent Authority</p> <p>It is anticipated that the Food Standards Agency (FSA) will take on the role of the Competent Authority for the UK</p>		<ul style="list-style-type: none"> • Commercial Invoice to show the calculation of tariffs and for customs declaration, security certificates, freight documentation • VAT certification • Customs valuation document • Paper import license • CVED (Common Veterinary Entry Document) <p><i>(more info on Border Controls in Appendix 5)</i></p>
Future Status Issues	Export Certification Issues	Border Control Issues
<p>Clarification is still required as to whether Food Standards Scotland (FSS) will take on this role)</p>	<p>Not enough vets to deal with a quadrupling of export health certificates</p> <p>A significant reliance on EU nationals – 14% of the 2,500 vets working in Scotland are EU graduates²</p> <p>Uncertainty around the role CSOs in assisting vets with export health certificates:</p> <ul style="list-style-type: none"> • Will they be accepted by the EU? 	<p>Uncertainty as to the level of product inspections that will take place at the BIP: a straightforward examination of paperwork may be required, or a more detailed inspection, encompassing both paperwork and physical cargo inspections</p> <p>Almost all the red meat exports from Scotland are moved to the EU via Eurotunnel and there are concerns that even short delays could</p>

² Source: Royal College of Veterinary Surgeons research

- | | | |
|--|--|--|
| | <ul style="list-style-type: none">• How many will be employed in Scotland?• Where will they be based?• What will it cost to hire them? | <p>have a damaging impact on fresh meat reaching the customer on time</p> <p>Time delays add cost and make the work more marginal, both for the transport company and the exporter</p> |
|--|--|--|

3.2 Additional Non-Tariff Costs

Currently, it is difficult to determine the extra cost of administration, as the exact process is not yet known and times needed for extra tasks are also unclear, but estimates have been calculated, based on the information available and the knowledge and experience of both the team and the meat exporters consulted during the research.

Assuming any new systems and processes are fully up and running and understood by everyone, it is estimated that the additional administrative tasks will add at least 50 minutes for each order – 40 minutes for administration and 10 additional minutes for calculating the duty and financial information. This covers the new tasks for each order, including requesting the health certificate via APHA, booking the vet, calculating and paying the duty, finalising and dispatching the health certificate and liaising with the importer.

A summary of these additional non-tariff costs is shown in Tables 3a and 3b overleaf.

Assumptions have been made that where tasks are undertaken by an administrative assistant, the rate used will be the Scottish Living Wage of £9 per hour (<https://scottishlivingwage.org>), equating to £0.75 per 5 minutes.

Tasks undertaken by a finance manager have been calculated at £30 per hour, equating to £2.50 per 5 mins (a figure arrived at as an average cost, based on the information received from processors and previous experience of the team).

External vet fees varied between £40.00 to £60.00 per hour. Hours billed included travel time and usually an additional fee for fuel. The feedback was that 3 hours would be a reasonable average, along with £20 for fuel. Working on this basis, the most expensive vet costs would be £200.00 and the least expensive £140.00, though this could of course vary, depending on location and travelling time.

The CEVD document is charged on a weight basis and estimated at £65 in this worked example.

The calculation shows that per shipment to the EU (which could range from a single box, to a pallet, or a full truck load), the additional non-tariff costs will be within a range of £216.00 to £276.00. Smaller processors would most likely be towards the high end of the range and larger processors towards the lower end.

Many small producers send smaller orders of approximately 100kg, which will make the cost considerably more proportionally expensive per order. This may price these products out of the market, and simply make export business to the EU unviable.

It is the unknown and unquantifiable costs that perhaps present a greater financial risk. These include the waiting times to access the BIP at Calais, the late arrival of an order which is rejected and needs to be disposed of, or sold to another customer at a lower cost, as well as the knock-on impact from the haulage industry of additional costs. Research undertaken by the European Livestock & Meat Trades Union (UECBV) highlights that a delayed driver at a border crossing with a refrigerated truck costs approximately £500 per day.

The higher costs do present a commercial risk to businesses in the Scottish red meat sector, as profitability will be reduced when operating in these markets. This may deter some from continuing to do business with customers in the EU, whilst others will try to absorb the costs to maintain and protect their sales and customer relationships.

Table 3a: Estimated Costs of Additional Administrative Tasks Post-Brexit (based on vet at £40.00 per hour for 3 hours and £20.00 expenses)

Task	Current Status	No Deal Brexit	Internal Admin £	External Fees £	Cost £
Respond to Enquiry	√	√			
Seek Transport Quote	√	√			
Determine Pricing	√	√			
Categorise Cuts	√	√			
Prepare Quote	√	√			
Send Quote with Delivery Schedule	√	√			
Receive Order	√	√			
Confirm Production Dates	√	√			
Confirm Transport Arrangements	√	√			
Order Packaging	√	√			
Acknowledge Order	√	√			
Book Production Slot	√	√			
Book Transport	√	√			
Order Health Certificate	X	√	0.75		
Book Vet	X	√	0.75	140.00	
Produce Product	√	√			
Produce Packing Note	√	√			
Produce Invoice	√	√	5.00		
Finalise Health Certificate	X	√	0.75		
Send Health Certificate to BIP	X	√	0.75		
Confirm Arrival of Health Certificate Before Product Shipment	X	√	0.75		
Advise Customs of Shipment in Advance (may be required)	X	√	0.75		
Organise Duty Payment (may be required)	X	√	0.75		
Advise Importer	X	√	0.75		
Ship Product	√	√			
Pay Fee for CVED document	X	√		65	
Deliver Product to Customer	√	√			
TOTAL ADDITIONAL COSTS			£11.00	£205.00	£216.00

Table 3b: Estimated Costs of Additional Administrative Tasks Post-Brexit (based on vet at £60.00 per hour for 3 hours and £20.00 expenses)

Task	Current Status	No Deal Brexit	Internal Admin £	External Fees £	Cost £
Respond to Enquiry	√	√			
Seek Transport Quote	√	√			
Determine Pricing	√	√			
Categorise Cuts	√	√			
Prepare Quote	√	√			
Send Quote with Delivery Schedule	√	√			
Receive Order	√	√			
Confirm Production Dates	√	√			
Confirm Transport Arrangements	√	√			
Order Packaging	√	√			
Acknowledge Order	√	√			
Book Production Slot	√	√			
Book Transport	√	√			
Order Health Certificate	X	√	0.75		
Book Vet	X	√	0.75	200.00	
Produce Product	√	√			
Produce Packing Note	√	√			
Produce Invoice	√	√	5.00		
Finalise Health Certificate	X	√	0.75		
Send Health Certificate to BIP	X	√	0.75		
Confirm Arrival of Health Certificate Before Product Shipment	X	√	0.75		
Advise Customs of Shipment in Advance (may be required)	X	√	0.75		
Organise Duty Payment (may be required)	X	√	0.75		
Advise Importer	X	√	0.75		
Ship Product	√	√			
Pay Fee for CVED document	X	√		65	
Deliver Product to Customer	√	√			
TOTAL ADDITIONAL COSTS			£11.00	£265.00	£276.00

4. Supply Chain Routes and Timings

4.1 Current situation

The large processors based in Scotland operate their own abattoirs and manage their own supply chains and routes to market. They each have different customers in different markets across the EU, many of which are long standing relationships developed and nurtured over several years.

Red meat products are commonly transported by road to the South of England and into the EU via the Channel Tunnel. Most of the lorries travelling to the EU from Scotland will also backhaul products to the UK on their return journey, making the transport costs more efficient overall.

The journey time from Eurocentral to Rungis in Paris via the Channel Tunnel, for example, takes around 11-12 hours and a maximum of 24 hours to reach Southern Europe. To ensure products reach the market as freshly and as quickly as possible, many loads travel overnight.

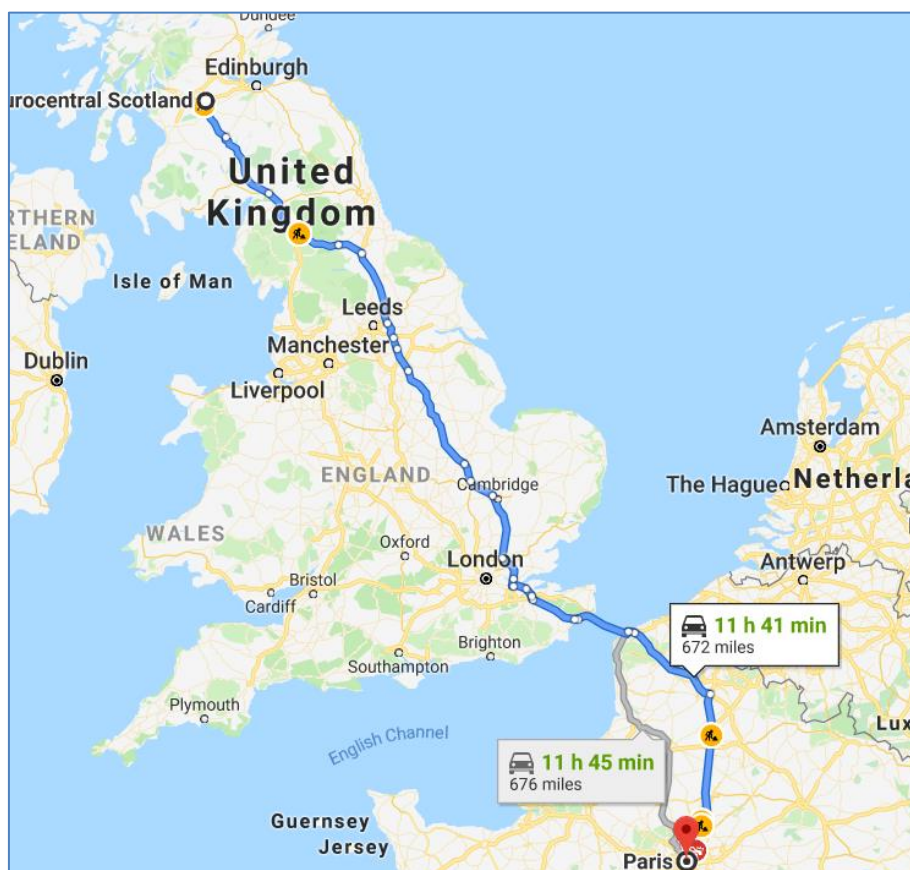


Figure 3: Route and time from Eurocentral to Rungis via Channel Tunnel

A typical journey time could be broken down as follows, assuming a pre-embarkation waiting time of 15mins, though that can be variable.

Eurocentral to EuroTunnel	449mins
Wait & embark	15mins
Tunnel crossing	35mins
Disembark	15mins
Calais to Rungis	201mins
	715mins
Transit Time	11 hours 55 Minutes

4.2 Supply Chain Routes and Timings – Post-Brexit

If customs and veterinary checks are imposed, waiting times for the freight carriers transporting goods to the EU from Scotland will increase, which will result in increased transportation costs both in terms of labour and running costs.

Increased journey times may also affect the availability of lorries in Scotland, which could lead to order disruption for customers in both domestic and export markets.

Transport operators are concerned about the impact on backhauling. Most of the lorries that travel to Europe with red meat deliveries return full of other goods for delivery in the UK. This provides another income stream for the transport companies and help keeps the outward movement of goods cost-efficient. Like export tariffs, any import tariffs are likely to disrupt trade and have a negative impact in this area. There could be higher freight charges for the red meat businesses using third party logistic providers if there is more uncertainty around backhauling opportunities.

Transport operators are in the process of obtaining the necessary permits to drive in Europe and identifying agents who will be able to assist with paperwork. Industry has raised concerns, however, that the permits may be in short supply. With several BIPs strategically placed at ports in northern Europe, there is an alternative to the Channel Tunnel route, using ferry operations. Travelling by sea to a different EU entry location than Calais may be viable for some businesses, depending on the end destination for delivery. *(Appendix 6 details the sea crossing options between the UK and Europe).*

Some of these northern European ports are investing in additional resource to manage an increase in business. *(Appendix 5 provides more detail on the Border Inspection Posts).*

A change from road to sea makes the route more vulnerable to the weather, which can cause cancellations and delays. The journey by sea also takes longer and there is less flexibility. A typical journey using ferry operations to cross the English Channel will add ~2 hours to the journey, not allowing for delays. Severe delays would increase the risk of fresh meat products being rejected at the BIP, or by the customer, leading to spoilage costs for the Scottish exporter if the meat products cannot be re-directed or used. Such rejection could also impact on the supplier/customer relationship.

The journey time from Eurocentral to Paris via the shortest ferry route, for example, takes around 14 hours.



Figure 4: Route and Timings Eurocentral to Paris via the shortest ferry route

A breakdown is noted below and shows a total journey time of 13 hours and fifty eight minutes. The total time may vary, however, depending on when the lorry arrives at Dover and how long it has to wait before the ferry departs. Using this route, exporters need to be aware of the maximum hours limits for drivers and try to plan to avoid the lorry needing to park up for a set period mid-route to Dover.

Eurocentral to Dover	457mins
Wait & embark	45mins
Ferry crossing	90mins

Disembark	45mins
Calais to Rungis	201mins
	838mins
Transit Time	13 hours 58 Minutes

The transport companies have been preparing for Brexit, including an analysis of alternative shipping routes and the associated challenges, to understand what alternatives exist to the Channel Tunnel.

4.3 Other European Border Crossing Timing Examples³

Sweden and Norway – the border between the two countries is cited as being one of the most technologically advanced in the world, where lorries only need to stop once. At the main crossing at Svinesund, estimates suggest that there are ~1,300 lorries every day (less than a 10th of the numbers that pass through Dover). The average waiting time is 20 minutes, which includes 10 minutes waiting time, 3-6 minutes handling time and the time spent coming off the road to complete the process.

Turkey and Bulgaria - Bulgaria is in the EU and Turkey has a Customs Union with the EU for most manufactured goods. The border between the two countries is 167 miles long, served by 3 crossings and queues of lorries are normal. A report prepared for the European Commission in 2014 suggested a waiting time of about 3 hours, however, drivers say that it can be up to 20 hours.

Switzerland and France – the International Road Transport Union reports that the average waiting times at this border can range from 20 minutes to 2 hours if full inspections have to be carried out.

These concerns, and the other, very real non-tariff barriers and challenges facing Scottish red meat exporters, will add a significant burden to the sector post-Brexit. Some can be mitigated, but others will be driven by the established requirements of the EU, if a no deal scenario is the end result. The industry and Public Sector need to be vigilant and alert to the potential damage that could occur, not simply from the obvious tariff implications but from the practicalities of dealing with new and considerable administrative, logistical and resource-hungry practices.

³ See <https://www.bbc.co.uk/news/uk-44054594> ; <https://www.bbc.co.uk/news/technology-41412561>

5. Processor and Supply Chain Feedback

5.1 Processor Feedback

Five companies were interviewed by telephone, comprising both large and small processors of beef and lamb. The companies interviewed were assured that their individual responses would remain confidential and that their feedback would be amalgamated (Questions can be found in Appendix 2).

The percentage of turnover relating to exports in the processing businesses ranged from 4 - 20%. One respondent noted that they do very little export business as they focus solely on the UK.

The main export markets for Scottish processors within Europe are: Italy, France, Spain, Germany, Belgium, Holland, Portugal, Czech Rep, Poland, Ireland, Sweden and Denmark. Outside Europe, current export markets include Switzerland, Norway, Canada, South Africa, the Philippines and Hong Kong. 5th quarter products are being sold to EU agents (Irish Casings, being the main agent) for onward sale into Canada and Japan.

Some of the larger processors export the full range of beef and lamb cuts, lamb carcasses, and 5th quarter products along with hides and skins. Others do a range of cuts, such as bone-in loins, ribs, steaks. Seasonality can affect what customers order as can local supply of premium beef. In some instances, exporters let their customers know what they have available for ordering and they can then order what suits their needs.

When asked how products were transported to export markets, Scottish processors primarily use road transport for EU markets – full roll-on roll-off trailers, their own lorries, third party hauliers or consolidators – with products travelling via the Channel Tunnel or ferry to EU ports. Products for non-EU markets are shipped by sea container, if frozen, or by air for samples and small volumes.

The processors interviewed mentioned that post-Brexit disruption will have the greatest impact on Scottish lamb sales, as they are more heavily dependent on export markets than beef. Irish beef is seen as a potential threat to the Scottish red meat industry, as it will continue to operate without import tariffs. One business reported that it had already lost an export customer due to the uncertainty surrounding Brexit and others said that some of their EU customers have intimated they are now looking for alternative suppliers within the EU. The ongoing uncertainty makes planning challenging and no one is making any long-term commitments.

One of the biggest challenges reported was staff recruitment. It is already considered difficult and is likely to become significantly harder when the UK leaves the EU. There is a concern that the £30k salary threshold post-Brexit for immigrant workers will disadvantage the meat industry, as it will be difficult to recruit skilled workers. A further challenge is that tariffs and the additional costs may make exporting too expensive and uncompetitive, in which case there is likely to be more focus on the UK market. This, in turn, could lead to red meat over-supply in the UK, as home demand, particularly for lamb, may not match the lost export sales.

The added bureaucracy will add time and delay the processing of orders and the continuing uncertainty surrounding Brexit is seen as a major factor hampering planning and growth.

All the businesses interviewed are trying to explore new markets beyond the EU including Canada, USA, Singapore, Japan, Hong Kong, & Macau.

In terms of support and assistance, businesses indicated that they need clear guidance on what's happening and how, as soon as the information is available, as there are still so many unknowns, it makes it very difficult for them to plan.

Vet costs are expensive and can cost more than the profit made on small orders. There needs to be collaboration across the food industry to reduce these costs. The Government can also help by ensuring that new markets are opened for trade from the UK.

5.2 Stakeholder Feedback Risks, Solutions and Market Opportunities

This feedback was collected from interviews with those operating in the Scottish red meat supply chain (*see consultee list in Appendix 1*) and identifies both the risks and opportunities arising from Brexit. The findings are summarised in table 4 overleaf.

Scotland exports significantly less red meat-related products, both in terms of value and volume, to the EU than to England and Wales, but it is still an important market and change to the current UK/EU trading relationship will have a direct and indirect impact on the industry post-Brexit. The European market allows processors to have an alternative to the UK multiples, which have strong negotiating positions due to the amount they purchase. Without the option to export product, the processors would be in a weaker negotiating position with their UK customers. Post-Brexit, doing business with other EU operators will be easier, quicker and less expensive than doing business with UK operators.

The potential for low-cost imported meat to be sold in the UK from both the EU and outwith the EU adds further pressures to the market as well as uncertainty for Scotland's red meat industry. Post-Brexit, the Scottish industry will not have the same protection through tariffs as it currently has as part of the EU. Potential low tariff imports could allow red meat to enter the UK market and push down market prices.

Farmers are also finding it very difficult to plan for the future. Cattle numbers have been declining and feedback suggests that some farmers are unwilling to invest in this climate of uncertainty.

Table 4 Risk	Industry Feedback	Suggested Solutions
Continued Access to EU Markets	<p>There are two clear views from industry on future access to EU markets:</p> <p>Optimistic stakeholders think that existing EU customers will still want to purchase Scotch Beef and Lamb because of good customer/exporter relationships and their appreciation of the product quality. However, there is a perception that these customers will not want to pay more for the product.</p> <p>Others are worried that the new processes and associated timelines will make trade more difficult and expensive and this will deter both existing and new buyers from buying Scotch beef and Lamb.</p>	<p>Provide more in-market support, in both UK and EU markets, that can be readily accessed by Scottish exporters. This should be put in place now, rather than waiting for the impact of Brexit.</p>
Impact on Lamb Sales and Supply Chain	<p>The lamb supply chain is more reliant on the EU marketplace than beef and those involved in the export of lambs to the EU are worried that the export tariffs and new administration costs will make Scotch Lamb too expensive for some customers, putting existing sales at risk. Feedback indicates that some customers are already looking for alternative supply options from other countries within the EU, e.g. Spain. They</p>	<p>Government should prioritise opening up new markets to trade from the UK.</p> <p>In-market support teams could help identify opportunities for lamb products in new markets. Also find opportunities for frozen products, to help with shelf-life issues and longer transit times.</p>

	<p>are unsure how Brexit will impact their deliveries and future business from the UK.</p> <p>There is a general concern that there is not enough potential new demand for Scotch Lamb in the UK to replace trade lost to EU countries if that decreases significantly post-Brexit.</p>	<p>We understand that subsidising export tariffs is illegal under WTO rules; nevertheless, other compliant methods to support companies exporting to new countries should be sought.</p>
Increased Costs to Export	<p>The industry knows that it will cost more to export to the EU post-Brexit, although the extent of the extra costs cannot yet be determined. Higher costs will impact on profitability. As well as the additional administrative costs, tariffs will need to be integrated into trading arrangements, with a general expectation that it will be the exporter who will need to absorb these costs, rather than the customer.</p> <p>Exporters dealing with smaller consignments are concerned that the extra costs may make the product too expensive for some EU customers and orders might be lost – this will have a negative impact on their business income and running costs if this volume cannot be replaced.</p>	<p>Government can help to minimise the additional administrative cost burden by simplifying processes and ensuring procedures and costs are standardised across the country. Currently, this is not the case with Export Health Certificates for example.</p> <p>Government should explore ways to utilise technology to reduce costs – e.g. for remote veterinary inspections via on-site cameras. This would also reduce the burden on an overstretched veterinary service.</p>
Increased time to deliver EU customer orders	<p>One of the biggest concerns voiced by industry is the time that it will take for lorries to clear Border Inspection Post's (BIPs). The additional waiting time lengthens the journey, impacting on product quality and shelf-life.</p>	<p>Government should ensure there are sufficient staff available at BIPs to handle all the extra processing and forms that will be required to minimise delays.</p>

	<p>A further concern is that the order may be rejected by the customer if it is late due to delays at a BIP. The product would then either need to be disposed of (at a cost) or quickly sold to another customer at a much lower, potentially loss-making price. Late arrivals will also impact the customer/exporter relationship.</p>	
Administration	<p>There is uncertainty around the tariffs that will be applied to EU export orders following Brexit, the new processes that will need to be followed and the new paperwork that will need to be completed. New markets out with the EU also present a similar challenge.</p> <p>Businesses will also need to know about packaging, labelling, retail, foodservice and consumer market insight, as well as customer information.</p>	<p>Government should ensure that businesses (and all staff handling export-related forms) have clear guidance on what the new requirements and processes are for each market; what forms require to be completed; when these should be completed and who they should be sent to; clear timescales on how the completed forms will be handled; clear and standardised costs. Transparency and consistency are vital.</p> <p>Sector support organisations and public sector agencies should then work together with QMS to provide support to businesses in the short and longer terms to ensure that they understand what is required.</p>
EU/Non-EU Red Meat Imports	<p>There is a concern that Irish imports, which will not attract a tariff, could undercut Scotch Beef pricing, thereby damaging sales in the UK.</p> <p>Some perceive an additional risk that imports from countries such as Poland may increase, also</p>	<p>Additional marketing support is needed to promote the benefits of “buying local” in the UK marketplace and the USPs and quality of Scotch Beef and Lamb in export markets.</p>

	<p>impacting on Scotch Beef sales (Polish beef is competitively priced).</p>	<p>In-market specialists would be helpful in supporting businesses to find new customers and added value opportunities.</p>
<p>Vets – cost, lack of availability and delays</p>	<p>There is a concern that post-Brexit, an Export Health Certificate will be required for each EU customer order and that this will require a vet to be on-site to approve the certificate.</p> <p>This may impact in two ways: firstly, more certificate approval will add cost; secondly, a shortage of vets may disrupt the operational availability of correctly certified finished product and delay subsequent transport. Key transport and customer delivery schedules may be disrupted.</p> <p>Industry is not aware of the new Certification Support Officers, nor their role in being able to assist vets and approve Export Health Certificates.</p>	<p>Do vets need to be on-site? Is there an opportunity to look at new technology to enable remote veterinary inspections? Will the EU accept the use of Certification Support Officers?</p> <p>Short term communication is necessary to inform the industry about the role of the new Certification Support Officers and their role in assisting vets. This may help to allay some of the concerns around the availability of vets.</p>
<p>Lack of Workers</p>	<p>Businesses expressed fears that post-Brexit, less EU workers will want to work in the UK/Scotland. The red meat industry already finds it difficult to recruit indigenous workers and there is a risk that processors will not be able to fill important operational jobs with EU nationals. A shortage of staff will have a significant impact on meat processing operations.</p>	<p>Government should make it as easy and welcoming as possible for EU workers to stay working in the UK and Scotland.</p>

Displacement of Current EU Sales by EU Competitors	<p>Scotch Beef and Lamb sales may be displaced by product from other EU countries, as it will be easier for the customer to do business with exporters based in EU countries – no risks involved with late deliveries or increased costs.</p>	<p>See above re in-market support.</p>
UK Storage Facilities	<p>Feedback from stakeholders within the industry consistently highlights the lack of cold storage and meat warehousing capacity in the UK. This information is in line with that from other food sectors, such as vegetables, where there is a similar challenge in obtaining freezer storage capacity.</p> <p>In the initial period following Brexit, it is expected that storage facilities close to the ports will be operating at full capacity.</p>	<p>Investigate investment support for an expansion in chilled and frozen warehousing storage capacity. A scheme such as the FPMC grant scheme would be ideal for such a development.</p>
Impact on 5th Quarter Exports	<p>Fifth Quarter and Animal By-Products play an important role in carcass balance and revenue generation for the Scottish meat processing sector. If these sources of revenue are closed off, or reduced, the supply chain will be less competitive and additional costs may be incurred for disposal. Whilst tariffs do not currently apply to these products, there are several issues of concern. They include:</p> <ul style="list-style-type: none"> • Additional transit time adding cost to low value items which are sold into the EU, such as hearts, livers and ox cheeks – there is a danger that they will become uncompetitive • Shelf-life concerns for fresh 5th quarter items sold into the EU 	<p>SAMW could convene a 5th Quarter Sub-Group to ensure relevant issues are convened.</p>

	<ul style="list-style-type: none"> • As yet unknown changes to labelling and certification requirements • Accessing new commercial opportunities with reduced negotiating power. In exiting the EU, the UK will have to negotiate its own trade deals and there is still uncertainty about how this might be achieved 	
Rendered Products	<p>Industry is concerned about market access and additional costs for rendered protein meal, currently sold via agents into Asia, but groupaged via Rotterdam to manage transport costs. Access to Rotterdam may be disrupted, as any imports from Scotland/UK will now need to pass through the BIP.</p>	<p>Need to build in additional lead times for sending orders to customers.</p>
Transport	<p>Like the processors, the transport operators are concerned that there will be long waiting times at the BIP in Calais. Deliveries will take longer and will be more expensive (longer driver time). The transport companies are unsure how the process will be managed.</p> <p>If exports of Scottish red meat to the EU fall, this will affect the Scottish road haulage industry. Due to the specialist and complex nature of red meat transport, operators will have to re-evaluate their business models, as even a short disruption in a just-in-time supply chain is likely to cause significant challenges. In the longer term, and if the loss of business is permanent, the only option</p>	<p>To help save time at the BIPs, loads could be inspected and then sealed before departure to make the BIP process quicker, with supporting paperwork to endorse this. This would require agreement with the EU, which if implemented, could help reduce the anticipated lengthy waiting times that are causing the industry concerns.</p> <p>Consider establishing a red meat transport working liaison group with industry.</p>

	<p>will be to find new customers or undertake radical restructuring.</p> <p>A further issue for transport is the impact on backhauling, as most of the trucks that go into Europe with red meat deliveries come back laden with other goods for delivery in Great Britain. This provides another income stream for the hauliers and helps to keep the outward movement of goods cost-efficient. Like export tariffs, any import tariffs might also disrupt the backhauling business.</p>	
<p>Market Opportunities</p>	<p>Industry Feedback</p>	
<p>UK Market Development</p>	<p>Whilst most Scotch Beef and Lamb sales are sold in the UK rather than in export markets, there is still an opportunity to increase the market share of both brands. Industry is keen to develop more outlets for UK sales, as it remains the easiest market to access and the most cost-effective to do business in.</p> <p>UK marketing activity, led by QMS, has been successful in the past in raising awareness and helping to drive sales. There is an opportunity to upweight the marketing support for both brands following Brexit, as well as working with customers to seek out new opportunities on behalf of the industry.</p> <p>There is also an opportunity within Scotland to develop more outlets for Scotch Beef and Lamb. The NFUS Beef Watch survey carried out in Scottish stores during March 2019, identified that 61% of the beef in-store was either labelled as Scottish or Scotch Beef PGI. AHDB Beef and Lamb Watch in January 2019 also highlights that there are still opportunities for home-grown beef and lamb facings on shelves to increase.</p>	

<p>Opening New Markets</p>	<p>Exporters are already exploring new markets, stimulated both by QMS/Defra activities and their own market development strategies.</p> <p>As a member of the EU, the UK can utilise ~40 trade agreements which the EU has negotiated with more than 70 countries. To date, 10 continuity trading agreements have been agreed.</p> <p>Whilst this is a reserved matter, and there is limited scope for either the Scottish Government or QMS to influence these activities, there is an opportunity for the industry to collaborate and work together to identify priority markets and market opportunities. This will maximise the chances that supply chains to these markets can operate efficiently and that barriers to trade are minimised, to help drive new export sales.</p> <p>The work should build on existing efforts that are being developed in Canada (for lamb and beef) and in Hong Kong and Singapore (for lamb). Emerging opportunities are being considered in new markets such as Asia, including China and India.</p>
<p>Halal Lamb</p>	<p>Locating new lamb markets will be key post-Brexit and there is a growing market opportunity for Halal lamb, which needs to be explored further. Not only are there significant opportunities around UK domestic consumption, but the Muslim population in Europe is set to grow from 6% in 2010 to 8% in 2030 (15.4 million consumers). France has one of the biggest Muslim populations in Europe and is already the UK's biggest lamb export market.</p>
<p>Domestic Consumption of Lamb</p>	<p>There is a real concern by exporters that sales of lamb will be most affected following Brexit, and a new home will need to be found for lost EU export sales. There is room to increase the penetration of lamb in the UK market. Currently, just over 50% of the population eats lamb at least once a year, versus 86% for beef. In Scotland, consumption of lamb is half that of the UK, with YouGov research carried out by QMS revealing that over a third of Scottish adults (38%) never eat lamb for dinner mid-week.</p> <p>A concerted and long-term UK-wide marketing campaign is needed to encourage more British and Scottish consumers to eat lamb. This needs to be executed in conjunction with retailers and</p>

	those involved in the foodservice sectors to ensure that demand is pulled through the supply chain.
QMS Market Support	The effort undertaken by QMS in Europe will continue post-Brexit, with additional consumer and trade activities to support existing and new opportunities. These activities will be re-evaluated once there is a clearer understanding of when and how Brexit will be implemented. Industry recommends that work in European markets should be increased now to help protect existing business.
5th Quarter	Feedback from processors suggests that demand for 5 th quarter products is growing, with export sales worth £1.9m, mainly to markets in the EU, Africa and Asia. There are some in the industry who also believe that Brexit will allow the Scottish trade to maximise new opportunities in this specific sector, as EU regulations will no longer apply. This will provide more flexibility to trade, particularly in the Far East or Africa.

6. Summary

At the time of writing there is still no certainty as to when and how Brexit will take place with the 31st October now the focal point for leaving the EU without a deal. Should this happen the UK will revert to dealing with the EU under WTO rules. This will mean that tariffs and new trading conditions will be applied which in the case of the red meat sector means a higher cost of goods to the customer as well as new certification requirements, both which could hamper and restrict the sales of Scotch beef and Scotch lamb in the EU.

Until there is clear direction on the implications of Brexit the Scottish red meat supply chain is operating business as usual with some business contingency planning being undertaken behind closed doors. The uncertainty is also influencing the wider supply chain with a reluctance to invest in both capital and on farm which will have an impact on the longer-term development of the sector.

The initial days and months following Brexit will present new challenges for the supply chain as it learns to navigate the new processes needed to do business with EU countries. There will be new regulations to be understood and new paperwork to complete which will take longer and cost more. New barriers to trade will be encountered in the journey to market with the introduction of the Border Inspection Posts, unquantified waiting times as well as the risk of existing customers sourcing beef and lamb from other EU customers where it will be easier and quicker than doing business with their current UK based suppliers.

New market development will be critical to help the Scottish red meat supply chain remain efficient and competitive. There are opportunities to grow the share of Scotch beef in the home market both in retail and foodservice and to increase the marketing of lamb to encourage more Scottish and UK consumers to buy. The opening of more international markets will also help, but this needs to be expedited to help in the short term as well as ensuring market development support is available to exporters to help them identify and develop new market opportunities.

It is also critical that the sector works together proactively to ensure that both existing and new customers in the EU and beyond know that the Scottish red meat industry remains open for business. Leadership in the sector will be key to this approach and this will mean important roles for QMS, SDI and Scotland Food & Drink in helping to realise new market opportunities.

Scotch beef and Scotch lamb are world-renowned products that must remain on the plates of consumers across the world to help the industry sustainably grow and through this growth support the many farms, families and jobs involved in the red meat supply chain in Scotland.

Appendix 1: Project Consultee List

Kepak/McIntosh Donald
P R Duff
Meat New Zealand
A K Stoddart
Campbells Prime Meat
Eardley International Transport
ANM Group
Institute of Appraisers and Auctioneers
ABP
Bradford Hides Ltd
John Scott Meat
Scottish Association of Meat Wholesalers
Italian Importer
HSBC
Dundas Chemicals
Dunbia
Millers of Speyside
Rungis, France
Scotbeef
Quality Meat Scotland
United States Meat Export Federation
Fidelis
Food Standards Scotland

Appendix 2: Interview Questions

International Competitors Questions

Product details

What notice do you get for your order?

What does a typical delivery shipment contain, e.g. a container load of half carcasses, or a container load of boxed primals, or pallets of steaks and other cuts, pallets or retail ready packed product?

What is the typical net weight of a shipment?

How many shipments to you undertake per year?

Is there any seasonal impact

What packaging is used?

What storage conditions are necessary during transport?

Customer details

How would you classify your customer, e.g. agent, supermarket, meat wholesaler, other?

Is the product further processed in your target market, or is it customer ready?

Admin

What approvals/standards are necessary in order to allow you to export into the EU and how are they audited/inspected?

What are the pre-booking procedures that need to be followed?

If there is an agreed volume for quota-free exports, how is the quota allocated to you in your country?

What documentation do you need to provide with the load?

What customs inspections are undertaken before a load leaves your country, if any?

What customs inspections are undertaken at the destination country?

How straightforward is the inspection process, e.g. what is the rate of failure, how long does it take, what happens if part of a load is rejected, what are the potential reasons for rejection?

What, if any freight insurance, do you purchase?

Transport

How would you describe the journey of the order and the necessary infrastructure, e.g. lorry to departure port, storage at departure port, ship, storage at destination port, lorry to customer?

How do you manage the logistics?

Other

What are the two or three issues which cause most problems?

How do you reduce the rate of reoccurrence?

What barriers prevent you from doing more trade?

Do you pay any import tariffs?

If you don't, but had to, what impact would this have on trade?

What additional costs have to be added to products that are exported?

How competitive is the market, e.g. would you still be competitive if you had to add 5% to your costs?

What, if any, infrastructure do you have in your target market, e.g. employ sales people, rent/own cold store, use an agent who looks after logistics in target country?

Processor Interview Questions

1. How much of your business is exported?
2. Which markets do you export to?
3. What products/cuts do you export?
4. How do you transport your products to market?
5. Are you aware of the impact leaving the EU might have on the Scottish red meat industry?
6. How will Brexit impact your business?
7. Are you putting any contingency plans in place to deal with the potential impact on your business?
8. Are you considering entering any new markets?
9. Is there anything the Scottish Government, QMS or any other body could do to help, should our trading status change with the EU?

Appendix 3: Example of a Commercial Document (Invoice)

COMMERCIAL INVOICE						
Date			Invoice No			
Exporter Address City/State/ZIP Code Country Phone/Fax Contact Person			Consignee Address City/State/ZIP Code Country Phone/Fax Contact Person			
Tax ID No (EIN)	Total Gross Weight	Transportation		Tax ID No (EIN)	Terms of Sale:	
Other	Total # of Pieces	AWB/BL #		Currency		
Commodity Description	HS	Country of Manufacture	Qty	UOM	Unit Price	Total Amount
These commodities, technologies, or softwares were exported from the United States in accordance with export administration regulations. Diversion contrary to United States law prohibited. We certify that this commercial invoice is true and correct.			Subtotal			
			Freight Cost			
			Insurance Cost			
			Total Invoice Value			
I/we hereby certify that the information on this invoice is true and correct and that the contents of this shipment are as stated above.						
Name:		Signature:			Date:	

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Appendix 4: Scottish Red Meat Industry Exports

1. The contribution of cattle and sheep to total agricultural output is larger in Scotland compared to England (see Table 1). The difference is even greater when compared to the EU. A hard Brexit that jeopardises the market access of Scotland's beef and sheep industry to European markets will have a greater impact in Scotland compared to the rest of the UK.

Table 1. Contribution to Agricultural Output (%) in 2017

	Scotland	UK	EU
Cattle	26.4	15.1	8.5
Sheep	8.4	6.1	1.4
Pigs	3.6	5.3	9.2

Source: Scottish Government (2018), Eurostat (2018)

2. Excluding 5th quarter products, sales of beef and lamb are made up as follows:
 - 91% is sold in the UK (25% in Scotland worth £190m and 66% worth £506m in the rest of the UK)
 - 9% (worth £73 million is exported).

Table 2 below highlights the value of red meat sales in sterling (£) alongside the corresponding percentage of total sales. No data was available for pig meat exports.

Table 2. Value of Scottish Red Meat Sales for UK and Export

	Scotland	Rest of the UK	Total UK	Exports	Total
Beef sales	£167m	£432m	£599m	£39m	£638m
% of total sales	27%	67%	94%	6%	
Tonnes				7,100t	
Lamb sales	£23m	£74m	£97m	£34m	£131m
% of total sales	18%	56%	74%	26%	
Total beef & lamb sales	£190m	£506m	£696m	£73m	£769m
5th quarter sales				£9m	
Tonnes				4,300t	
Skin/hide sales				£2m	

Source: QMS Processors Survey 2018 (excludes 5th quarter)

3. Sales of Scottish red meat products are predominantly made in the UK. They are undertaken through a variety of channels⁴. The main ones include:

⁴ QMS Processors Survey 2018

- Sales of beef to multiple retailers valued at £329m, this equates to 55% of total UK beef sales
 - Sales of beef to the food manufacturing sector valued at £132m, this equates to 22% of total UK beef sales
 - Sales of lamb to multiple retailers valued at £61m, this equates to 63% of total UK lamb sales
 - Sales of lamb to wholesale customers valued at £34m, this equates to 35% of total UK lamb sales
4. In addition to sales of meat products, it is estimated that one third of the lambs reared in Scotland are transported south of the border for finishing and slaughtering. These animals cannot be marketed as Scotch or Scottish.
 5. Export sales out with the UK total £84m (this includes sales of 5th quarter products, skins/hides). In proportional terms, Scottish lamb is more dependent on export markets (26% of sales) than Scottish Beef (6% of sales). Scotch Beef and Scotch Lamb both have Protected Geographic Indicator (PGI) status making them iconic premium brands in both UK and export markets.
 6. Export markets have a role to play for the sector providing market diversity and opportunities for processors to maximize carcass balance.
 7. In 2017 around 7.5%⁵ of total red meat sales were exported to the EU. Table 3 quantifies the sales of PGI and non PGI Scottish beef to a number of EU and other countries.

Table 3: Scottish Beef Exports (£'s millions) 2017

	Scotch Beef PGI	Non-Scotch	Beef 5 th Quarter	Total
Total EU	24.1	14.4	5	44.5
France	5.6	4.0	2.1	11.7
Italy	7.3	1.2	0.2	8.7
Netherlands	3.8	1.5	0.1	5.4
Belgium/Luxembourg	2.8	0.8	0.3	3.9
Nordics	1.2	2.2	0.1	3.5
Spain/Portugal	0.8	0.2	0.1	1.1
Austria/Germany	0.9	0.1	0.1	1.1
Poland/Baltic	0.3	0	0.8	1.1
Other EU	1.5	4.3	1.5	7.3
Non-EU	0.4	0.3	3.8	4.5
Norway/Switzerland	0.2	0.2	0	0.4
Hong Kong/Macau	0.1	0.1	3.7	3.9

⁵ Source: QMS Brexit Briefing Paper 2017.

Other	0.1	0.1	0.1	0.3
Totals	24.5	14.7	8.8	48

Source: QMS Processor Survey 2018

8. The EU is the most important market for beef exports accounting for around 93% of total export sales, valued at £44.5m. France is the biggest single export market with £11.7m of sales in 2017. Scotch beef PGI accounts for 51% of beef exports with Italy the most important market for this category. 5th quarter products are traded in the EU and in other markets, including Asia and Africa. Price information for beef sales is detailed in table 4 below:

Table 4: Price Information

Markets	Average price achieved per tonne
Export sales of Non-Scotch Beef	£4,700
Export sales of PGI Scotch Beef	£6,100
Austria/Germany	£10,900
Nordics	£13,100
Luxenberg	£13,200
Switzerland/Norway	£18,400

Source: QMS Red Meat Industry Profile 2018 (2017 figures)

9. For lamb, 26% of total sales valued at £34m are exported. Most Scottish product is destined for the EU, where France is the largest customer. Exports to new markets, particularly in Asia, are increasing and the market to Japan has recently opened.
10. Scottish red meat exports are dispatched in a variety of fresh or frozen formats. Fresh product can either be marketed as whole carcasses (for butchers or wholesale), or product that has already been processed and is ready for retail sale.
11. Fifth quarter products⁶ play an important role in maximising carcass utilisation and reducing waste. They are sold both in domestic and export markets, with total sales estimated at £33m. They are sold both in domestic and export markets and with total sales estimated at £33m. In 2017, 5th quarter exports mostly originated from cattle/beef.⁷

⁶ 5th quarter products are non-carcass meat residuals of the slaughtering process, that include both edible and inedible products that in general have a lower commercial value than carcass meat (before or after processing) or represent a disposal cost.

⁷ QMS Processor Survey 2018

12. Feedback from industry during the project research indicated that EU customers will still want to purchase Scottish/Scotch Beef and Lamb post-Brexit. However, the market is competitive, and customers will not wish to pay more than going market rates. Any additional costs that may arise and which cannot be absorbed by Scottish processors will have to be passed along the supply chain. This will deter existing buyers and reduce the ability to find new ones.
13. It is probable that exporters will face the potential of making less money from exports to the EU and this could discourage them from exporting. If they wish to maintain throughput, they will have to find new markets, either in the UK, or in other export destinations.

Appendix 5: EU Border Inspection Posts

1. The French Government has announced that it plans to assign 580 customs and veterinary control staff to the key regions and will spend €50 million expanding its port infrastructure and parking at Border Inspection Posts (BIPs). These are being expanded (or constructed) in Cherbourg, Calais and at the Channel Tunnel. This infrastructure development may include roads, car parking, control areas and equipment to deal with delays caused by customs checks.
2. A BIP is currently under construction at Calais. It has been reported that this inspection post is for horses and other large animals. Land for a temporary inspection post to involve both customs and sanitary checks has been secured at the Transmark fuel stop in Calais.
3. These plans for Calais mean that transport companies will still be able to use the Channel Tunnel. However, due to the anticipated volume of lorries whose paperwork will need to be checked, it is anticipated that transport companies will need to build in an allowance of extra time to clear the BIP. The fact that Calais is making provision for an export declaration area to cater for up to 200 HGV's begins to highlight the scale of the task.
4. The Netherlands has said it will deploy additional customs officials and 145 vets at the Port of Rotterdam.
5. Ireland is making provision for customs controls, additional vets and additional officials for export certification.
6. In Northern Europe generally, there are BIPs at Dunkirk, Le Havre, Rotterdam, Zbrugge and Hamburg – all which can be accessed by ferry from England.
NB: any re-routing from the current crossings, however, will add time and cost to the route to market.
7. Almost all the red meat exports from Scotland are currently moved to the EU via Eurotunnel and there are concerns that even short delays may have a damaging effect on fresh meat reaching the customer on time. Time delays add cost and make the work more marginal both for the transport company and the exporter.
8. Costs for a full trucker to travel from the North of Scotland to central France costs in the region of £3,000 and to Northern Italy the price would be £3,500. Understanding the costs of transportation helps to illustrate the costs involved in BIP delays.

Appendix 6: Sea Crossings Between the UK and Europe

Departure Port	Arrival Port	Country	Operator	Crossing Time (hours)	Daily Sailings Frequency	Note	BIP	Note 2
Dover	Calais	France	DFDS/P&O	2	15		No	Not yet
Dover	Dunkirk	France	DFDS/P&O	2	12		Yes	
Harwich	Hook of Holland	Netherlands	Stena	9	3		Yes	Rotterdam
Harwich	Hook of Holland	Netherlands	Stena	7	3		Yes	Rotterdam
Holyhead	Dublin	Ireland	Irish Ferries	2-4	6		Yes	
Hull	Zeebrugge	Belgium	P&O	13	1		Yes	
Hull	Rotterdam	Netherlands					Yes	
Immingham	Esbjerg	Denmark	DFDS	18	1	Not Thurs	Yes	
Immingham	Cuxhaven	Germany	DFDS	20	1	Not Thurs	Yes	
Immingham	Rotterdam	Netherlands	DFDS	12-16	1 or 2	A Day	Yes	
Immingham	Brevik	Norway	DFDS	45	2	A Week	No	
Immingham	Göteborg	Sweden	DFDS	27	1	A Week	Yes	
Liverpool	Dublin	Ireland	P&O/Seatruck	8	5-7	A Day	Yes	
Liverpool	Belfast	N Ireland	Stena	8	1		Yes	
Newcastle	Limuidin	Netherlands	DFDS	16	1		Yes	
Newhaven	Dieppe	France	DFDS	4	3		No	
Plymouth	Roscoff	France	Brittany	8-12	1		No	
Plymouth	Santander	Spain	Brittany	20	1	A Week	No	
Poole	Cherbourg	France	Brittany	5-9	1 or 2	A Day	No	
Portsmouth	Caen	France	Brittany	6	3	A week	No	
Portsmouth	Cherbourg	France	Brittany	4	1	A Day	No	
Portsmouth	Le Havre	France	Brittany	1	1 or 2	A Day	Yes	
Portsmouth	St Malo	France	Brittany	11	4	A Week	No	
Portsmouth	Bilbao	Spain	Brittany	24-32	3	A Week	Yes	
Portsmouth	Santander	Spain	Brittany	24-29	4	A Week	No	
Tilbury	Zeebrugge	Belgium	P&O/Finlines	9	2	A Day	Yes	
Tilbury	Bilbao	Spain	Finlines	63	1	A Week	Yes	

Appendix 7: Beef and Lamb Imports & Tariffs

Beef Imports and Tariffs

1. Around 70% of the UK's beef imports come from Ireland, with other importers of note including the Netherlands, Poland, Brazil and Botswana. Imports are an important part of managing the seasonal supply of meat in the UK as well as ensuring the supply chains remain effective and competitive.
2. In March 2019, the UK Government published the import tariffs and quotas that would be applied to beef imports following Brexit, including tariff-free trade between the Republic of Ireland and Northern Ireland. The detail is summarized in the table below.

UK Imports - BEEF	Current Situation	Post-Brexit
Tariff Free (0%)	340,000 tonnes	230,000 tonnes
Tariff Free (0%) Northern/Southern Ireland arrangement	n/a	30,000 tonnes
Reduced Tariff under pre-arranged EU quotas	40,000 tonnes	55,000 tonnes
Total Imports	380,000 tonnes	315,000 tonnes
Volumes Subject to new UK import tariffs (current situation – Post Brexit position)		75,000 tonnes

3. Analysis carried out by HIS Maritime, HMRC and AHDB, highlights that approximately 75,000 tonnes of beef imports will be subject to the new UK full tariffs.
4. Irish Trade Statistics report that in 2018, 50% of beef exported from Ireland went to the UK (around 270,000 tonnes), making the Irish the dominant importer into the UK. With historically higher market values, the UK is an important market for Irish beef, however the introduction of import quotas and tariffs could have a negative impact on Irish beef exports.

5. The new import tariff regime may dissuade current, or potential importers, from doing business in the UK. This presents an opportunity for Scotch Beef processors to seek out new market opportunities in the domestic market.

Sheep Meat Imports and Tariffs

6. The UK imports around a third of the sheep meat it consumes, with the dominant supplier being New Zealand, followed by Australia. In 2018, the UK imported 80,000 tonnes of sheep meat with the majority coming from New Zealand.
7. The UK will not be reducing the sheep meat import tariff from the current EU level following Brexit, meaning there is likely to be little change to the amount of sheep meat imported from non-EU countries to the UK following Brexit.
8. Following Brexit, the UK will see some pre-existing 0% rate quotas being split with the EU including the deals with New Zealand and Australia. In recent years New Zealand has not fully utilized its EU quotas due to other market opportunities and inability to supply lamb volume to satisfy the market demand for the product.
9. New Zealand exporters deal directly with their customers and will have an importer, or an employee, working on their behalf in key markets. The UK is a particularly important market and most exporters will have staff based in the UK to lead customer discussions and negotiations.
10. There are two key organisations who help the New Zealand red meat industry to develop their overseas markets - the New Zealand Meat Board and Beef and Lamb New Zealand.
11. The New Zealand Meat Board exists to help the meat sector achieve optimal returns on beef and sheep exports to international quota markets and one of its key functions is to operate the quota management systems.
12. There are two categories of quota recipients: 'Qualifying Companies' and 'New Entrants'. Ninety-eight per cent of the quota is allocated as General Quota Allowance to Qualifying Companies and is allocated based on these companies' production histories for the preceding three production seasons. The remaining two per cent is available as Reserved Quota Allowance to New Entrants, who can apply for quota for a period of three years, after which they become a Qualifying Company.

13. Beef and Lamb New Zealand (B&LNZ) is a farmer-owned, industry organisation representing New Zealand's sheep and beef farmers. They invest farmer levies in programmes that are aimed at growing the sheep and beef industry. It is funded by headage based levies for sheep and cattle. Abattoirs collect the levy on B&LNZ's behalf. B&LNZ must ask farmers if they want to continue paying the levy every 6 years.
14. B&LNZ has four strategic priorities including unlocking market potential, facilitating trade access, including Free Trade Agreements, minimising the impact of Brexit, reducing non-tariff barriers and creating international alliances to enhance opportunities for trade.
15. Removing non-tariff barriers (NTB) which restrict trade and outstanding tariffs is also a priority. NTBs are often invisible and can include quotas, embargoes, sanctions and levies. These can be costlier than tariffs alone and can have significant commercial consequences. They have been estimated to have cost the beef sector more than NZ\$1 billion/annum (£520m) in the Asia Pacific region alone.
16. B&LNZ have a team of people based in the EU (Brussels) whose role it is to develop their business (including progressing negotiations) in this region including the UK.

Appendix 8: Acronyms

APHA	Animal and Plant Health Agency
ABiP	Animal Bi-Product
AHDB	Agriculture and Horticulture Development Board
BiP	Border Inspection Post
B&LNZ	Beef and Lamb New Zealand
CSO	Certification Support Officer
COA	Certificate of Authenticity
CVED	Common Veterinary Entry Document
DEFRA	Department for Environment, Food and Rural Affairs
EHC	Export Health Certificate
EU	European Union
FSS	Food Standards Scotland
FSA	Food Standards Agency
FSIS	Food Safety & Inspection Service
FPMC	Food Processing, Marketing and Co-operation Grant Scheme
FTA	Free Trade Agreement
HMRC	Her Majesty's Revenue and Customs
Non-EU	Non- European Union
NFUS	National Farmers Union of Scotland
NTB	Non-Tariff Barriers
PGI	Protected Geographic Indicator
QMS	Quality Meat Scotland
SAOS	Scottish Agricultural & Organisational Society
SDI	Scottish Development International
SAMW	Scottish Association of Meat Wholesalers
SMAS	Scottish Manufacturing Advisory Service
USDA	United States Department of Agriculture
UECBV	European Livestock & Meat Trades Union
USP	Unique Selling Proposition
UK	United Kingdom
VCert	Veterinary Certificate
VAT	Value Added Tax
WTO	World Trade Organisation



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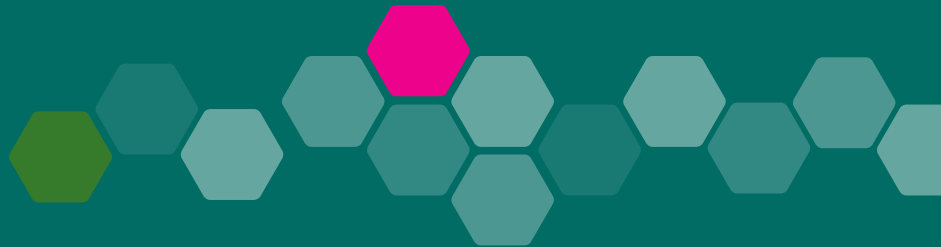
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