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Dear Consultee

Consultation on food supply chain quality schemes and branding

I am writing to invite views on the scope, use and financing of quality schemes and branding on Agriculture and Horticulture Development Board sector products. The responses will help inform the decision of AHDB and its Sector Boards on this matter.

The attached consultation provides a background briefing on the subject area and asks seven questions on which we seek views.

All responses should be sent to: guy.attenborough@ahdb.org.uk

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Responses are requested by: 31 October 2008
Late responses will not be considered.

Electronic copy of the consultation: A pdf file of this consultation document along with a list of consultees can be downloaded from the AHDB website at www.ahdb.org.uk/publications/consultation.aspx

Publication of responses: When the consultation ends we intend to publish a list of the respondees and their responses on the AHDB website. If you do not want your response – including your name and contact details – to be publicly available, please say so clearly in writing when you send in your response to the consultation, and please also explain why you need to keep details confidential. It is important to note that members of the public may ask for a copy of responses under freedom of information legislation. We will take your reasons for confidentiality into account when considering any such requests however, we cannot promise to be able to keep those details confidential.

Analysis of responses: An analysis of responses will be reviewed by an independent AHDB Board member acting as ‘scrutineer’ prior to the matter being considered by the AHDB Board at its meeting on 17 November 2008.

Yours faithfully



JOHN BRIDGE
Chairman

Agriculture and Horticulture Development Board Consultation on Food Supply Chain Quality Schemes and Branding

The Purpose of this consultation

1. The purpose of this consultation is to determine industry views on the scope, use and financing of quality schemes and branding on AHDB sector products.

About The Agriculture and Horticulture Development Board (AHDB)

2. AHDB became operational on 1 April 2008 to undertake the activities of the British Potato Council, the Home Grown Cereals Authority, the Horticulture Development Council, the Meat and Livestock Commission and the Milk Development Council.
3. It provides services to levy payers in:
 - the beef and lamb sector in England;
 - the pig-meat sector in England;
 - the dairy sector in Great Britain;
 - the cereal and oilseeds sector in the United Kingdom;
 - the horticulture sector in Great Britain;
 - the potato sector in Great Britain.
4. AHDB's work is largely focussed in the areas of research and development, knowledge transfer, marketing and market intelligence. (Further detail on AHDB is available at www.ahdb.org.uk)

Process of Evaluation

5. As one of its first exercises, the Board considered all activities of the newly formed AHDB in order to understand whether there were any opportunities to collaborate better across the AHDB sectors. Reviews of the business planning process identified among other areas that all AHDB sector organisations conducted some marketing work, some much more than others. The range was:
 - All sectors collected market research and provided feedback to levy payers
 - Most sectors made claims about certain qualities of their products
 - Some sectors had objectives to increase market share
 - Some sectors had objectives to increase consumption per capita

- Two sectors had well-formed differentiation strategies based on their own quality marks which meet EU regulations
6. As a generality, levy payers expect their products to be promoted and when asked, consumers express a preference for products that are local, in season, British or in some way a better eating experience. ***However, EU law underpinned by EU guidelines dictates how sectors can invest levy payers' money in the marketing and promotion of agricultural produce (state aid rules see Appendix 1). These guidelines are designed to ensure that state investment is not used to distort the single European market. As a result, reference to country of origin can only be made as a secondary message underpinning a primary communication about quality, which is why some sectors support and invest in quality schemes. All levy-funded quality schemes need to be approved by Defra and subsequently notified to the EU Commission.***
 7. As part of the AHDB planning process, the Board formed a sub-group to investigate whether there were any overlaps or common objectives, including the use of a cross-sector quality scheme, that could be introduced to improve marketing activity across the six AHDB sectors. The sub-group considered the range of current activities, interviewed stakeholders, considered the implications of state aid rules, received presentations from interested parties and reported its findings to the Board in March 2008. The Board agreed to engage branding consultants to consider whether it was feasible to introduce a common framework for marketing across all sectors.
 8. Following a tendering process an organisation called Corporate Edge was appointed to advise on whether a common framework for marketing could be executed effectively.
 9. After a further period of engagement with stakeholders and a desktop review of existing research, Corporate Edge gave its feedback to the Board of AHDB on 1 September 2008. Its advice was as follows:
 - There was a case for the marketing and promotion of AHDB products and the standards of production underpinning them.
 - Quality and origin were significant secondary purchase decisions for many consumers.
 - The case in some sectors was stronger than others, particularly where there was high penetration by products of lower quality and therefore greater opportunity to differentiate within the rules. This was confirmed by feedback from AHDB sectors.

- There needed to be clear and unambiguous communication of the standards employed.
- Consumers' understanding of labelling was confused and they would welcome more clarity.
- Any further activity should be complementary to higher tier welfare and environmental schemes and to retailer/food manufacturer brands and labelling.

About Quality Schemes

10. A parallel work-stream has been evaluating the nature, scope and specification necessary in a quality scheme, should AHDB and its sectors decide to invest in such an activity. The level of the quality standards within a scheme would need to be assessed and approved by Defra before levy payers' money could be invested, to comply with EU state aid guidelines for the agricultural sector. The benchmark for evaluation by Defra is the definition of "food quality" included in the EU Rural Development Regulation.
11. There are already two sectors of AHDB, specifically the English beef and sheep sector and the English pig sector, that invest in EU approved quality schemes for the purposes of marketing and promotion (see Appendices 2 and 3).
12. There is a further quality scheme, operating across the food industry including all AHDB sectors, managed by Assured Food Standards (AFS) and labelled with The Red Tractor Logo (RTL). This has widespread penetration with multiple retailers and is increasing its share with branded food manufacturers, in total the scheme covers £7.5 billion of products in the retail and the food service markets (see Appendix 4).
13. On-pack presence of the AHDB beef/lamb and pig sector marks (referred to in paragraph 11) at retail is either limited because of the supply chain uptake of the RTL scheme or is often jointly branded with the RTL.
14. The development and maintenance of standards within the RTL scheme is self-financing however, an increased uptake within the food supply chain has been financed to date through money from Defra's Agriculture Development Scheme and an initial contribution from the food industry, which has now come to an end. The original funding was provided to pump-prime activity with the intention of future investment being taken up by the food industry – a point confirmed in the Policy Commission on the Future of Farming and Food. Without a

continuation of the funding to promote its uptake, police its use and build consumer awareness, support for the scheme and on-pack presence may decline. This could ultimately result in the loss of a cross-sector quality scheme for industry to use to differentiate its quality products.

15. Investment in the RTL would be more cost-effective than creating and building a new scheme to the levels of uptake enjoyed by the RTL scheme. Any levy investment in the RTL scheme would require the RTL standards to be approved by Defra but preliminary feedback has indicated this is likely to be achieved. ***Investment of levy payers' money in the RTL scheme would mean that EU guidelines for promotion would need to be observed by all parties participating in the scheme throughout the supply chain even where private funds were invested (i.e. every organisation participating in the RTL scheme and using the RTL logo).***
16. Research through the AHDB Marketing Sub-group indicated that multiple retailers wanted to see a consolidation and rationalisation of quality marks and logos. This view is reinforced by other third-party research showing consumers are confused by too many marks and logos.

The Consultation

17. AHDB now wishes to explore formally the views of its industry stakeholders against a range of questions, which will help inform the final decision of AHDB and its Sector Boards.
18. AHDB wishes to establish whether its industry sectors support the introduction of a single quality framework across all sectors to underpin its promotional messages around the quality of its products. The framework will also be flexible enough to allow specific levels of investment at AHDB sector organisation level that is consistent with the needs of a sector.
19. If the industry supports the introduction of a single quality framework, should AHDB build a new infrastructure or adopt the RTL platform that already exists and obtain Defra and EU approval for it. This will of course introduce state aid rules for all promotional activities.

20. Some AHDB sector organisations may want to invest significant sums behind a differentiation strategy while others may have more modest objectives for particular products or market segments. If financially supported, the combined spend should deliver more critical mass and a more integrated and coherent message for AHDB products across sectors.

21. An implicit understanding though is that if levy investment in a scheme is supported, part of it will need to be an underpinning investment of approximately £0.5m per annum to promote its uptake, police its use and build consumer awareness.

Question 1

Should AHDB invest levy payers money to promote the quality and standards of its sectors products?

Question 2

Does there need to be a rationalisation of existing quality marks?

Question 3

Should AHDB invest levy funds to promote uptake within the industry, police the proper use of a mark and build consumer awareness about the quality and standards of all sector products? (The cost of this is estimated to be about £0.5m. per annum to AHDB and would be apportioned back to AHDB sector organisations).

Question 4

If levy payer money was to be invested, should AHDB;

- a) Create a new scheme?**
- b) Adopt the RTL scheme as it is now? or**
- c) Integrate existing standards in the beef and sheep sector into the RTL scheme? (Note: pig sector standards already integrated)**

Question 5

In your sector, which products or market segments do you believe would most benefit from the promotion of quality characteristics (either general quality characteristics common to your sector and other sectors or ones specific to your sector)? Would you support levy payers' money being invested in this promotion?

Question 6

If in your view, no products in your sector would benefit from promoting such a scheme (beyond a baseline investment outlined in paragraph 21), would you accept other AHDB sectors working together at a sector level on such a scheme through AHDB?

Question 7

Do you support levy-funded investment even though this will mean that EU guidelines for promotion would need to be observed by all parties participating in the scheme throughout the supply chain even where private funds were invested?

Appendix 1

State Aid rules on Advertising

1. EU law requires any scheme for advertising agricultural products using state money to be approved by the European Commission in advance. AHDB levy is considered to be state money, and its use is covered by 'state aid' rules.
2. Those rules are in complex Guidelines which are interpreted and applied by the Commission. State-aided advertising of quality schemes and of quality products complying with the standards of such schemes will be approved once the Commission is satisfied that all the rules are met.

Notification

3. Any new advertising scheme and all significant changes to approved schemes must be notified to the Commission by the government. A large campaign within an approved scheme must be specifically notified.
4. The notification documentation must deal with all aspects covered by the Guidelines. Examples of proposed advertising must be submitted. The Commission will scrutinise the notification thoroughly. It has two months to respond, and will ask questions on every point where it is not completely satisfied. The two months' clock starts again when it receives a response. Approval can take six months or more.

Sensitive Areas

5. While all aspects of the Guidelines must be covered, the Commission pays particular attention to those where there is most likely to be distortion of the market. All other labelling and advertising regulations must be satisfied.

Origin

6. The rules allow the origin of quality agricultural products to be included in advertising, but only as a secondary message to the quality message. They do not allow any mention of origin in the advertising of products that do not satisfy 'food quality' criteria. Defra can evaluate a British scheme and recognise the products as quality products. All products within a recognised scheme must be quality products, if the state aid rules are to be met.
7. Defra has recognised quality schemes in the BPEX and EBLEX sectors, and the Commission has approved advertising schemes based on that recognition. The quality marks used include secondary origin messages.

Operating aid

8. The rules prohibit the provision of operating aid, i.e. the state must not pay a cost that should properly be paid by the operator(s) concerned. Therefore the rules do not allow the use of state money to advertise particular products, brands or suppliers.

Non-compliance

9. The Commission can require any state aid used to advertise agricultural products outside an approved scheme to be repaid by the beneficiaries, usually the producers, with interest.

Appendix 2

BPEX Quality Standard Mark

Background

The British Meat Quality Standard Mark (QSM) was launched in 1999 as a device to communicate the differentiated high welfare legislation introduced in the UK relative to EU pig welfare legislation. The QSM was promoted to both consumers and the trade and is carried by all the major retailers and is their default sourcing criteria for British pig meat. The scheme is approved by the EU as a quality standard scheme and also approved under State Aids Regulations.

Scheme Membership Criteria

The QSM scheme covers fresh pork, bacon, ham and sausages.

For fresh pork to carry the QSM logo it must be produced in accordance with the following assurance schemes:

- Feed - Universal Feed Assurance Scheme (UFAS)
- Farm – Assured British Pigs (ABP) or Genesis Pig Assurance
- Transport – Assured British Pigs (ABP)/Assured British Meat (ABM) Transport standard
- Slaughter and Processing – British Meat Processors Association (BMPA) Standard

Additional assurance scheme standards apply for bacon, ham and sausage products delivered through the BMPA Charter Mark Schemes for bacon, ham and sausages. The standards focus on product quality attributes including ingredients, manufacture and processing techniques and organoleptic (taste) analysis.

UK legislation forms the baseline for each scheme. However a number of the standards within each scheme are significantly above minimum legislative requirement such as the prohibition of castration, maximum carcass weights and minimum pig meat content in processed products. All schemes are available to any business operating in the EU.

Participants in the production of QSM pork and pork products are required to be members of the associated scheme for that element of the supply chain. Each scheme is independently audited to EN45011 standards.

In addition to at least one independent audit per annum, pig farms participating in the scheme are also subject to quarterly inspection by specialist pig veterinarians who are members of the Pig Veterinary Society.

Membership

Current membership is c. 1600 farm businesses and 45 abattoirs and processing establishments responsible for c. 92% of pork and pork products in England.

Scheme Management

The QSM is owned by BPEX Limited. The component schemes making up the QSM are owned by the following organisations:

- Feed - Universal Feed Assurance Scheme (UFAS)
- Farm – Assured British Pigs (ABP) or Genesis Pig Assurance
- Transport – Assured British Pigs (ABP)/Assured British Meat (ABM) Transport standard
- Slaughter and Processing – British Meat Processors Association (BMPA) Standard

Standards for each of the above scheme are audited by a number of independent certification bodies accredited to EN45012.

Scheme Logos

There are three variants of the QSM Logo:

Pork



Bacon



Ham



Each of these logos may feature either the Union Jack, an alternative national emblem where the product is born, reared and processed in that country or the EU flag where various stages of the production chain occurred in different member states.

Appendix 3

EBLEX Quality Standard Mark Scheme for beef and lamb (QSMS)

Background

The QSMS was launched to the trade in September 2004 and to the consumer in March 2005, to allow time to recruit members and have availability of QSM product. Prior to this the scheme was approved by the EU as a quality standard scheme and also approved under State Aids Regulations.

Scheme membership criteria

The scheme requires that participants are members of an existing recognised assurance scheme, independently audited to EN45011 standards and that all beef and lamb carrying the QSM has been produced and processed through an assured supply chain including farm, livestock transport, auction mart, abattoir and cutting plant. Retail outlets do not need to be assured but must be able to demonstrate traceability. The base line assurance requirements are AFS Red Tractor Standards or above.

In addition to an assured supply chain the scheme lays down standards relating to eating quality covering age, sex, maturation, and compositional standards for mince and burgers.

Membership

Current registered membership is around 2800 businesses including retailers and wholesale distributors to retail and foodservice, all major abattoirs and processors and in excess of 1700 independent butchers. Foodservice group membership is increasing with over 1000 foodservice outlets in the scheme. In total a potential 10,000 outlets are registered to use the QSM at point of sale or consumption.

Scheme management

The QSM scheme is managed by the Trade Marketing Manager and administered independently by an agency to ensure all matters relating to the scheme are in one place and available at any time for external scrutiny. Members are audited by an external agency on behalf of EBLEX for the eating quality requirements of the scheme which are additional to the audit requirements for general qualifying assurance scheme membership. These audits are done where possible at the same time to avoid duplication and intrusion. The number of audits undertaken is in line with LACORS recommendations. The scheme also operates a Group Voluntary Beef Labelling Scheme to allow users to make claims such as “English”, “farm assured” and “independently inspected from farm to plate”

Scheme Logos

The QSM logos have both English and British variants which allows for the movement of livestock. As required by the EU the logos can bear the flag of any Member State.



Appendix 4



Assured Food Standards Red Tractor Logo scheme

Overview

The Red Tractor logo (RTL) scheme establishes quality standards for different areas of food production. Food that meets the criteria can be labelled with the Red Tractor logo on retail packs or at point of sale. The logo provides differentiation of quality assured product and a vehicle for consumer communication.

The overall objective is to encourage producers to operate to proper standards by giving added consumer value for their efforts.

History

Farm assurance schemes were developed by the supply chain in every sector of production during the 1990s. The different sector schemes operated independently until 2000 when the schemes in poultry meat, beef, pork, lamb, fruit and vegetables, crops and dairying came together in Assured Food Standards (AFS). A key objective of this amalgamation was to support the new Red Tractor logo as a single mark for quality production, avoiding consumer confusion from multiple logos and claims.

AFS is a not for profit company established by trade bodies across the food chain to manage this activity independently on their behalf.

Standards & Integrity

Stakeholder committees maintain the technical standards and the criteria for the use of Red Tractor logo. RTL can only be used if the food is 'assured' at every critical step of the supply chain. For example for meat products the assured chain must include feed supplies, farms, transport, markets (where applicable), abattoirs and cutting plants. Similar whole chain requirements apply to cereal based products and fruit and vegetables. The requirements are a combination of AFS' own standards or those of other reputable trade bodies including AIC and BRC.

Standards are detailed and comprehensive and will cover food safety, animal welfare, traceability and elements of environmental protection. Compliance is assessed by regular independent certification accredited to EN45011. Standards are transparent and can be found on the website.

Pork and pork products labelled with RTL must also meet the organoleptic and compositional standards in the Charter Mark scheme. RTL should only appear on these products with the Pork QSM.

RTL can only be used under licence from AFS. The licence provides AFS with a right to audit and the company manages a comprehensive integrity programme to ensure proper use.

Participation

The majority of UK farm production comes from farms in the RTL schemes. It will vary by commodity between at least 65% to approaching 95%. There are an estimated 70,000 RTL assured farmers.

Red Tractor Logo

The logo has been heavily adopted across a wide product range by retailers and processors and there is now growing interest from commercial and public sector food service. The RTL appears on an estimated £7.5 billion worth of food every year at retail sales value. This has grown 50% in 2 years.

Research indicates consumer recognition at around 40% but can rise above 50% amongst shoppers who use outlets with greater RTL coverage and after promotional activity. Research also indicates that more communications activity creates more interest in RTL and greater demand for products.

The RTL scheme uses PR to generate coverage in consumer magazines, national and local press and also benefits from exposure in advertising and other promotions by adopters of the RTL.

Whilst the RTL is primarily a quality kitemark it also includes as a secondary indication evidence of the farm origin of the product in the form of the flag device.