

## CHAPTER 6

### **Views submitted by other parties**

6.1. A number of organisations and persons gave us evidence and views on matters related to the reference. The topics covered ranged from general views on the past history, present state and possible future development of the rendering industry to specific comments on the alleged actions or policy of PDM. The following paragraphs indicate the main topics covered and summarise the principal comments made.

#### **The importance of the rendering industry's role**

6.2. Comments received from the Ministry of Agriculture, Fisheries and Food (MAFF),<sup>1</sup> the Department of the Environment (DoE), the Meat and Livestock Commission (MLC), associations representing various sections of the meat industry, and also from owners of individual abattoirs emphasised that the rendering industry provided an essential service to abattoirs in removing inedible by-products of slaughtering. As there was at present no alternative long-term method of disposal, most abattoirs, except the limited number which operated their own rendering plants, would, without this service, be forced to close, so disrupting meat production. The DoE also pointed out that this was not only a waste disposal service but one which provided a beneficial use of the by-products.

6.3. Representatives of the meat industry told us that it was concerned that adequate rendering capacity should be maintained nationally, with a reasonable regional distribution of rendering plants, and that the proceeds of the disposal of inedible by-products should make a worthwhile contribution to the value of livestock processed through abattoirs. The industry was therefore concerned by indications that the rate of closures of rendering plants arising from economic pressures might be increased by action initiated by local authorities on grounds of environmental pollution.

6.4. The Association of Metropolitan Authorities, while recognising that renderers were performing an essential service to the community, emphasised that the trade nevertheless required proper control measures which, although inherently expensive, were unavoidable if nuisance was to be abated or prevented.

#### **Present structure of the rendering industry following a decline in the number of rendering plants**

6.5. We received comments on the causes and effects of the increased degree of concentration that had occurred in the rendering industry over the past 10 to 20 years.

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<sup>1</sup> For information about the regulatory functions of Government departments in relation to the rendering industry, see Chapter 3.

6.6. The United Kingdom Renderers' Association (UKRA) attributed the increased concentration to a weakening in the competitive position of small and medium-sized renderers. A concentration of the supply of raw material in fewer sources (see Chapter 2) combined with strong competition for raw materials from rendering companies which had installed large-scale continuous plant had made it more difficult for small renderers to secure raw materials. Small renderers of edible fats had also had to compete with a rapidly growing demand for edible fat from the convenience food industry. All renderers had faced rising energy and labour costs, particularly since the early 1970s, and further pressure on costs had come from the growing local authority concern with the quality of the environment and the need to control odour and effluent emissions from rendering plants. The UKRA said that in terms of costs per tonne of throughput, expenditure on installations and operation of environmental control equipment was especially onerous for smaller firms.

6.7. The Association of British Abattoir Owners (ABAO) thought that the decline in the number of renderers had been due to several factors, including financial pressures and reduced throughputs at abattoirs, and action by local authorities which in some instances had led to Court proceedings and subsequent closure of plants. In consequence there were areas where only a limited number of renderers were available to remove waste from abattoirs. In such areas a renderer would be able to 'pick and choose' the abattoirs which he serviced, according to the type, quality and presentation of the waste being offered. This would present a difficulty for abattoirs, in particular those which had insufficient volume to justify separating their waste according to type and quality. Collectors could either refuse to provide a service for such abattoirs or offer it at a premium because they would prefer to collect material which was easier to handle and more profitable to the renderer.

6.8. The Bacon and Meat Manufacturers Association (BMMA) told us that approximately 25 years ago the industry was fragmented, competitive and at least cyclically profitable. Rendering was carried out within the meat processing industry itself by many medium and large abattoirs whilst smaller slaughterhouses were served by local and specialised waste collection plants. Rendered products were sold profitably to the provender trade and to manufacturers of glue and gelatine. Abattoir operators' profits from slaughterhouse waste had commonly paid for the costs of slaughtering, but this was no longer the case.

6.9. Factors contributing to this change included, in the BMMA's view, the fact (with some exceptions) that the slaughtering and meat processing industries had not maximised the value of waste by developing improved processes and uses other than rendering, coupled with a tendency for those industries to regard the development of animal by-product processing as a minor yet expensive activity best left to others.

6.10. Over the years, and especially since the 1973 energy crisis, there had been a marked concentration of rendering plants. Contributory factors included the attitude of the slaughtering and meat processing industries, already mentioned, and also:

- (a) the attitude of local authorities, often leading to the closure of plants with environmental problems. Such problems sometimes arose because housing development had been permitted around plants which had been purposely built in areas that, at the time, were non-urban; and
- (b) the decline that had occurred in the demand for bone glue and for gelatine.

6.11. The BMMA said that the concentration had led to large, sophisticated rendering plants but the rise in fuel oil prices had made them costly to operate. In particular, high transport costs made disposal of the principal slaughterhouse waste—large gut or ‘black offal’—a major problem. This material had a high water content and was bulky to transport. Each unit weighed 5 to 6 pounds and, when rendered produced about 0.5 pound of fat.

6.12. A number of companies interested in the merchanting and broking of rendered products commented on factors which, in their view, had contributed to the decline in the number of renderers. Among reasons suggested were:

- (a) a change in the method of supplying tallow from the use of drums to bulk carriage;
- (b) the introduction of stricter tallow specifications (as to colour, free fatty acid content, contamination by polythene etc) which some smaller renderers found it difficult or impracticable to achieve;
- (c) the sharp rise in energy prices in the early 1970s;
- (d) the perhaps over-ambitious investment by several renderers in larger capacity rendering plants, partly in order to combat the increased energy prices mentioned at (c) above, partly because of a misreading of temporarily high product prices in the early 1970s;
- (e) the disappointment of some purchasers in the performance, allegedly less successful than they had hoped, of some of the equipment acquired; and
- (f) financial and other circumstances which favoured the acquisition of smaller businesses by larger and more determined competitors.

6.13. One renderer told us that, although the amount of potentially renderable animal material might not have varied much from year to year, the amount which in practice was available to renderers had tended to decline over the last ten to fifteen years. This was, in his view, largely due to abattoirs seeking to increase their returns from animal material by separating out the most valuable components to be sold for other purposes such as pet food manufacture, use in the pharmaceutical industry or inclusion in convenience foods. The supply of bones to renderers had decreased in the past because of the prohibition in 1968 of imports of meat on the bone from Argentina, while at present there was a demand for emulsified bone to be used in food products for human consumption.

6.14. One merchanting company considered that contraction into a few large continuous plants had destroyed much of the industry’s flexibility, had made it necessary to transport raw materials over long distances (see also paragraphs 6.26 to 6.28) and had made the possibility of plant breakdowns a

potentially large-scale problem. The very high fixed operating costs and relatively low marginal costs meant that a high volume of throughput was constantly required: a little less raw material caused large losses, a little more meant profits grew rapidly. By contrast, a business with several batch cookers could relatively easily cope with reductions in raw material supplies by shutting down a cooker.

6.15. A meat wholesaler and processor expressed the view that the greater the concentration of the rendering industry, the greater was the potential threat to public health and the ability of the dominant renderers to affect livestock prices to producers and/or the cost of meat to consumers.

#### **Limited competition between renderers: views of abattoir owners**

6.16. Certain abattoir owners expressed views to us about the actual or potential lack of local competition between renderers and the implications for abattoirs.

6.17. One owner told us that the slaughtering industry was concerned by the monopoly situation and by the fact that a dominant renderer was able to enforce apparently unrealistic charges for the collection of animal by-products in the knowledge that slaughterers had little or no alternative means of disposal.

6.18. Another said that he had been charged for the collection of animal waste and as there was no other renderer in the area who was able to collect from his abattoir he felt at the mercy of one large rendering business and had considered the possibility of buying his own rendering plant.

6.19. A third told us that if it should happen that there was no longer competition between renderers in his area, he would probably join with several nearby abattoirs in an operation to carry out their own rendering.

6.20. A fourth abattoir owner told us that whereas it might once have been difficult to arrange collection of animal waste by a renderer other than PDM alternative collection and rendering services were now available. When PDM introduced a charge for collection this abattoir was able to change to another renderer. The abattoir maximised its earnings from by-products by separation of materials for sale to specialist users. Many abattoir owners failed to do this.

#### **Capacity of the rendering industry**

6.21. Views on whether or not there was surplus processing capacity in the rendering industry varied from region to region.

6.22. A renderer in the South-West of England said that, if PDM closed down, it would not be possible for the remaining renderers to cope with the whole normal regional supply of animal waste for any extended period, at any rate during the peak slaughtering season from June to December.

6.23. A renderer in the South-East believed, that if PDM's plants were closed, its competitors would have sufficient surplus capacity to cope. In this renderer's view the whole rendering trade was working below normal capacity.

6.24. A renderer in Scotland said that there was considerable over-capacity in the industry as both the abattoir and the rendering trades had in the past made incorrect projections of the expansion of the meat trade.

### **Vendors of businesses to PDM**

6.25. Although we received no unsolicited evidence from witnesses whose businesses had been acquired by PDM, we contacted persons who had been connected with six of the businesses purchased. In all but one case we were told that it had been the vendors who had approached PDM with a view to acquisition. In the case where PDM had made the approach it had been welcomed. Among the reasons given for the sales were difficulty in acquiring adequate supplies of raw material to keep the plants running profitably; pressure from environmental health authorities; lack of interest in the business by the children of the original owners; and difficulty in operating profitably given the pressure on product prices from prices in the market for competing commodities. The prices paid by PDM for the businesses were said to be fair and no complaint was raised about PDM's conduct before or in the course of the transactions.

### **Effects of increased transport distances**

6.26. The MLC and the ABAO told us that the transportation of waste over long distances had an adverse effect on the condition of the product. The longer the period between slaughter of the animal and processing of the by-products, the poorer would be the quality of the tallows, greaves and meals; also haulage of raw materials over a longer distance led to greater risk of vehicle breakdown and spillage of the materials.

6.27. On the other hand, one renderer said that a transport time of eight hours or so (adequate to cover the carriage of a bulk load of raw material over 200 miles using motorways) was not long enough, in his experience, to reduce the quality of the material seriously.

6.28. The Institution of Environmental Health Officers said that complaints from the public about unpleasant smells from rendering plants were in its experience often due to the material having to be transported over a long distance and not being fresh when it arrived at the rendering plant. Another reason for odour was 'bad housekeeping' on the part of the plant owner.

### **General observations about renderers, abattoirs and collectors**

6.29. One renderer told us that because the rendering industry had high fixed costs and operated in a market where output prices could be volatile, and because the amount of raw material available was comparatively static, renderers closely protected their sources of supply and constantly sought to increase their throughput by acquiring new sources. He expressed the view that a renderer with a strong position in some parts of the country might be able to encroach into new areas by offering higher prices there without affecting the cost of material in his main catchment area. Many small renderers had been vulnerable to differential pricing of this kind.

6.30. Another renderer told us that a main difficulty faced by the rendering industry was the unpredictability of the markets for the commodities which were substitutes for the industry's products. Sales and prices of rendered products were strongly influenced by changes in the availability and price of such commodities. He emphasised that it was important for renderers to keep a close watch on movements within the commodity markets.

6.31. The same renderer told us that, in his view, a very disadvantageous change had taken place, in the last ten years, in the way that abattoirs (which had in the period become larger and fewer) treated their fat. Formerly, the better grades of fat (caul fat, suet and the fat round the intestines) had been taken off and dealt with separately. Nowadays, however, especially when the price paid for animal waste was low, it did not always pay to have a man in the gut-room charged to keep the good fat separate. Thus, the fat would go into the offal container. One result was that renderers who processed the mixed material could not supply grade 1 and 2 tallows.

6.32. He also said that in his experience most collection firms were small, often two-man, businesses which collected from butchers' shops and boning-out plants. Some supplied more than one renderer and others dealt with only one renderer at a time. Where the waste arose a long distance from the rendering plant and from a number of relatively small suppliers, use of a collector who would aggregate the material at his depot could make the business worthwhile. An incidental benefit was that very wet material could lose some of the water content during aggregation and transfer to a larger vehicle and therefore would require less cooking. On the other hand, business tended to be more stable if done direct with the supplier. Collectors tried to play the market in seeking a better price and/or in threatening to switch and sometimes actually switching from one renderer to another.

6.33. The National Federation of Meat Traders which represents independent retail butchers in England and Wales had the impression that trade waste collectors operated in recognised geographical areas with little or no local competition. In the Federation's view this, together with the low volume of waste available, tended to lead to very low prices being offered for waste. The Federation would wish to see an improvement in competition between waste collectors and thought that any changes in the structure of the collection system which reduced competition would be undesirable.

#### **PDM's service**

6.34. We received several comments from trade associations and abattoir owners acknowledging the good, reliable service which PDM provided. One competitor of PDM who was in other respects critical told us that PDM gave excellent service.

6.35. An animal feed compounder was generally satisfied with the supply of rendered products and considered that over the last few years PDM had introduced a more competitive spirit into the rendering industry to the benefit of users of its end products. The compounder would not, however, be happy to see only one producer of rendered products in Great Britain.

## **PDM as a competitor**

6.36. A renderer told us that, in his collection area for raw materials, competition with PDM was real but not excessive. Although PDM had greater financial resources, the renderer was able to compete on service and had not experienced competition of a nature which he would consider to be against the public interest. He had, however, gained the impression that PDM employed a great variety of pricing practices when dealing with different suppliers.

## **Complaints about PDM**

6.37. We received a small number of complaints specifically, or by implication, about PDM, relating mainly to its alleged pricing practices. Most of these complaints, together with PDM's comments on them, are summarised in Appendix 6.1. The remainder were complaints concerning prices offered for gut-room contracts and are included in Chapter 8.

## **Possible future developments in or affecting the rendering industry**

6.38. One renderer thought it was possible, although not necessarily desirable, that abattoirs generally would continue to get bigger and fewer. If this was the case, he thought abattoirs would find it necessary to consider whether they should undertake their own rendering, which he envisaged as being on a large scale. Such developments would depend on planning permission and operating licences being granted.

6.39. Another renderer said that he did not foresee any long-term decline in the supply of animal waste in his area, although a few more abattoirs might close if their scale and mode of operation were not appropriate to modern marketing requirements.

6.40. The MLC told us that although it was likely that there would be an increase in the number of abattoirs with sufficient throughput to operate a rendering plant economically, other factors made it likely that few such abattoirs would invest in a plant. The MLC had been asked to initiate a research and development programme which would explore the scope for more initial processing at the abattoir, and this would concentrate at first on items suitable for use in pet foods and on edible fats. In addition, proposals would be examined for developing processes to yield energy (in the form of methane gas) and proteins for incorporation in fertilisers by on-site treatment of other materials now rendered. A successful outcome to this work could substantially affect the volume of waste available for renderers but it could be at least ten years before any significant impact was made.

6.41. The BMMA thought that further consideration should be given to improved utilisation of by-products, decentralisation of waste collection and the installation of compact low energy rendering systems which could be sited near the point of slaughter.

6.42. A renderer thought that the pressures on the rendering industry would result in further rationalisation of the industry and expressed the view that the best solution would be a zoning system for raw material, such as that which operated in other European countries.

6.43. One merchanting and broking business said that, in its view, the existence of the MMC inquiry had led to a certain restraint in the way in which business in the rendering industry was conducted and that certain expectations had been raised. Such factors apart, it would expect a further contraction of the industry, possibly leading to the virtual end of competition. The company thought that, aside from any special circumstances, there could be no profit-orientated rationale for putting expensive new investment into the rendering industry, given the likely efforts of local residents to have a factory closed, higher oil and transport costs, required expenditure on environmental protection, changes in eating habits affecting the demand for meat, and expected fierce competition for supplies.

6.44. Unilever told us that it was difficult to forecast the prospects of the rendering industry. Its product prices were essentially determined by the international markets for vegetable oils and fats, and for oil cakes and meals (see paragraphs 2.32 to 2.34). The prospects for future demand for tallow were reasonably hopeful, more so for fat-splitting than for soap manufacture. As for animal feed, the market for rendered products depended on formulations as well as on livestock numbers and the intensity with which farmers fed their livestock. There had recently been a tendency to include a higher percentage of tallow, as an energy factor, in feeds. Trends such as the increasing use of tapioca (recently sharply reversed) gave an opening for meat and bone meal as a protein supplement. The whole animal feed area was however subject to the uncertainty of EEC policy, highlighted by the sudden imposition of milk quotas in April 1984. This led to an immediate and severe reduction in sales of dairy compound feeds. There was nevertheless a reasonable chance that the balance between supply of rendered products and that of their close substitutes might be fairly well maintained over a longer period and that the prices of rendered products and those of substitutes would, broadly, maintain their existing relationship.

6.45. Given that the selling prices for rendered products were essentially market-determined, there was little that renderers could do to influence usage of their output in final products, or the prices they received, apart from improving yield or quality of their products by efficient processing. Similarly, the prices for the raw materials that could be offered to abattoirs were (allowing for the renderer's need to achieve an adequate processing margin) influenced by prices in the relevant international commodity markets. Installation of more efficient and modern plant could however lead not only to improved process economies in the production of the same grade of products as before, but might also lead to commanding a premium price for an improved product because the new process protected it in some way from the degradation which might have occurred when the former means of processing was in use.