1. Introduction

Scope of this economic survey

1.1 In April 2000 the Government estimated that the total net cost of the BSE crisis to the Exchequer will be £3.7 billion by the end of the 2001/02 financial year. How much of that £3.7 billion was incurred during the period with which the Inquiry is concerned? This volume seeks to answer that question by examining the economic impact of BSE up to 20 March 1996, the cut-off point in the Inquiry’s terms of reference. We look at the impact on the public and private sectors respectively, and assess where the economic consequences finally fell. A major economic concern was the loss of export markets, and accordingly this volume describes the framework regulating international trade and the BSE-related measures which affected exports.

1.2 Economic concerns naturally had an influence on both government and industry in their response to BSE. The main sector of the economy affected by the disease was the beef and cattle sector. Before 20 March 1996 this sector represented 0.5 per cent of Gross Domestic Product. It included thousands of small and medium-sized businesses and employed an estimated 130,000 people.

1.3 With hindsight, however, it is clear that BSE had a relatively marginal economic impact in the UK during the period to 20 March 1996. The main impact occurred in the years that followed. This is demonstrated in Figure 1.1 which, by way of example, shows the dramatic rise in expenditure on compensation after the adoption, in April 1996, of the scheme to slaughter cattle over 30 months old.

Figure 1.1: BSE compensation scheme expenditure, 1988/89–1996/97, at cash prices

Source: MAFF (OM01 tab 26) and the National Audit Office (M11 tab 28 p. 60)
Note: The 1996/97 figure only includes the Over Thirty Months Scheme (OTMS) expenditure, which was the only compensation scheme directly related to BSE at the time.

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1 Total expenditure is estimated to be £4.2 billion, of which other European Union Member States will have contributed £487 million, or 11.6 per cent: House of Commons Hansard, 13 April 2000 (M7A tab 36)
2 M11 tab 2 (DTZ Pieda Consulting, Economic Impact of BSE on the UK Economy, Manchester, 1998: Executive Summary, para. 4)
3 M11 tab 2 (Economic Impact of BSE on the UK Economy: Executive Summary, para. 4)
4 The BSE compensation schemes in the years prior to the introduction of the Over Thirty Months Scheme (1988 to April 1996) are discussed in further detail in paragraphs 2.48ff.
1.4 Likewise, the complete collapse of the beef and cattle export market, at one point worth £720 million a year, came in the aftermath of the European Commission Decision of 27 March 1996, which banned the export of UK beef and cattle.5

1.5 Thus the economic impact of BSE before 20 March 1996 pales in comparison to what happened after that date. It is nevertheless right to recognise that the public expenditure and financial impact attributable to BSE before 20 March 1996 was not insignificant.

1.6 Chapter 2 of this volume examines the impact on public sector expenditure through an analysis of the costs incurred by the Ministry of Agriculture, Fisheries and Food (MAFF), the Department of Health (DH) and other government bodies in responding to the emergence of BSE. It discusses compensation schemes introduced by the Government; research expenditure on BSE and related diseases by the UK Government, the Wellcome Trust and the European Union; and other BSE-related expenses.

1.7 Chapter 3 focuses on the impact of BSE on the private sector and begins with an overall analysis of the beef and cattle industry followed by separate consideration of each sector.

1.8 Chapter 4 addresses the question of who, ultimately, bore the economic cost of BSE during the period under consideration in this Report. The financial impact on the families of vCJD patients, however, is not addressed here, but in vol. 8: Variant CJD.

1.9 In Chapter 5 we discuss the role of beef and cattle exports in the UK economy as well as the regulatory framework governing this trade, both under UK law and with reference to international institutions. We go on to consider in Chapters 6 and 7 how BSE actually impacted on UK trade, both within and outside the European Union (EU).6

**Terminology**

1.10 Throughout this volume expenditure is shown in ‘cash terms’ (or ‘cash prices’), except where otherwise stated. This means that the levels of expenditure have not been adjusted for inflation, and are the actual amounts spent on or allocated to particular programmes or schemes at the time. Where expenditure is shown in ‘real terms’, it means it has been adjusted for inflation, and represents the real purchasing power available from that expenditure taking into account general price rises.

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5 L4 tab 7 (Commission Decision 96/239/EC of 27 March 1996). See Table 5.1

6 The European Union (EU) came into existence on 1 November 1993 as a result of the Maastricht Treaty. It incorporated but did not replace the European Community. Throughout the volumes of this Report, the term EU is generally used for consistency's sake (even if sometimes chronologically incorrect), except where specific reference is made to the functions conferred by the European Community Treaty or to its legal effect.