4. Where did the economic consequences of BSE finally fall?

4.1 There remains the question of who ultimately suffered the economic consequences of the BSE epidemic. We know that the taxpayer bore the cost of the BSE-related expenses in the public sector.

4.2 When we turn our attention to the private sector, we know through our discussion in the previous chapter that the actors in every commercial sector of the beef and cattle industry were faced with additional costs to bring their businesses into compliance with new government Regulations made in response to the emergence of BSE. Furthermore, some businesses lost some of their product line or had to pay to dispose of by-products that they once used to sell to others.

4.3 However, depending on the circumstances, additional costs might be passed back to a supplier by way of insisting on lower prices for inputs, or passed forward to buyers by way of higher prices for outputs. In other instances, a business might be forced to absorb the costs out of existing profits.

4.4 Ultimately, the question is not where the additional expenses arose but where they settled. This question becomes far more difficult to answer because a large number of factors, other than BSE, may have impacted on the financial health of the various segments of this industry.

4.5 These other factors included privatisation of smaller slaughterhouses previously operated by local authorities, and consolidation within farming, slaughtering, rendering, meat-packing and retailing. Consolidation went so far as to produce monopoly conditions in the rendering industry.\(^{176}\) This period also saw significant moves towards vertical integration among slaughterhouses, meat-packing houses and large food retailers and the decline of the high street butcher.

4.6 Factors largely external to the industry impacted on it as well. EU Directives, price supports and subsidies, quotas, compensation schemes and changes in consumer preferences also make it difficult to attribute specific economic events to BSE.

Consumers

4.7 Perhaps the most significant of these other factors was the diminishing demand for beef. As Figure 4.1 below shows, per capita consumption of beef declined steadily throughout the period under examination, although it is impossible to determine to what extent BSE contributed to this decline. Likewise the retail price

\(^{176}\) Monopolies and Mergers Commission, Animal Waste: A report on the supply of animal waste in England and Wales and in Scotland, 1993 (M4 tab 3)
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for beef, when measured in real prices rather than cash prices, declined during the period. As Figure 4.2 below shows, beef prices, expressed in cash terms, increased more slowly than the Retail Price Index (RPI) for all items.

Figure 4.1: UK beef consumption per head, 1986–97

![Figure 4.1: UK beef consumption per head, 1986–97](image)

Source: M.I.G Yearbooks (M44A tab 8)

Figure 4.2: The RPI for beef, food and all items, 1987–97

![Figure 4.2: The RPI for beef, food and all items, 1987–97](image)

Source: Office for National Statistics
This chart is based on quarterly figures and all indexes are based to 100 in January 1987.

4.8 Since the decline in demand for beef cannot be assuredly attributed, in whole or part, to BSE, neither can the relative decline in retail beef prices be credited to it. However, it does appear that we can safely conclude that the increased costs associated with BSE in the beef and cattle industry were not passed on to consumers.

4.9 Having concluded that consumers did not absorb the increased costs of production due to BSE, these costs must have been absorbed by one or more of the commercial actors in the chain of production.

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177 Real prices take inflation into consideration so that costs and purchasing power in different years can be compared. Cash prices are not adjusted for inflation. Thus, when looking at the price of beef, in cash terms the price rose but in real terms the price of beef was declining.
Farmers

4.10 We know that farmers were largely cushioned from the direct impact of BSE – the death of cattle due to the disease – by the various compensation schemes.

4.11 However, farmers also incurred some increased costs which were not offset by compensation. Feed prices increased marginally when more expensive protein sources were used in compound feeds instead of MBM.178 Farmers were no longer able to sell fallen cattle to knackers and instead either had to pay the knacker to remove the fallen cattle or incur extra labour expense in burying the animal on the farm.179 We know, too, that a two-tier market emerged in which farmers whose herds had been affected by BSE sometimes obtained less than the price paid for cattle from BSE-free herds. Although none of these additional costs was substantial, all of them can be attributed to BSE.

4.12 The question then is, was the farmer able to pass these additional costs on by way of demanding a higher price for cattle in the market? As Figure 4.3 below demonstrates, the price for cattle did not even track the retail price for beef. In other words, the price that the farmer was receiving for cattle in the market declined when compared with both the overall cost of living and the price of beef in shops.

4.13 What seems certain when looking at these figures is that farmers were not able to pass on their additional costs to the slaughterhouses by commanding higher prices for cattle. What is less clear is why the market price of cattle dropped relative to the Retail Price Index. This may simply be a function of the drop in demand for beef that may have been due to general market trends, or in reaction to BSE, or both. It would be expected that, even in the absence of BSE, a significant drop in the demand for beef would result in a drop in the price that farmers received for their cattle, at least until supply adjusted to demand.180

4.14 The decrease in the market price of cattle may also indicate that slaughterhouses were passing their additional BSE-related costs back to farmers, by buying at lower prices, rather than absorbing the increased costs or passing them on

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178 T61 pp. 33–4
179 S137 Rudman paras 18–19
180 This ignores the Intervention Buying mechanism of the EU. There was no intervention buying during the period in question although it may have had a psychological impact on the cattle market.
to consumers. To the extent that the price of cattle failed to keep pace even with the Retail Price Index for beef, it would lend support to the view that at least some, if not all, of the additional BSE-related costs incurred by slaughterhouses were being passed back to the farmers.

### Slaughterhouses and meat-packers

4.15 We discussed in Chapter 3 how slaughterhouses incurred certain quantifiable additional costs when the SBO ban was introduced, as a result of the special handling required for SBO materials. They also incurred certain quantifiable losses through having to pay, after the introduction of the ban, for the disposal of certain waste by-products that they had previously been able to sell to renderers, head boners and MRM producers. These additional expenses were clearly attributable to BSE.

4.16 It is also clear that slaughterhouses would have felt the impact of the decline in demand for beef. Since the fixed costs of slaughterhouses are high relative to their unit costs, a decline in volume of throughput would have had a significant impact, and probably accelerated the ongoing trend towards consolidation in the industry. However, for reasons previously discussed, it is less than obvious that the decline in demand for beef can necessarily be attributed to BSE.

4.17 Since, in cash terms, the price of cattle was rising more slowly than the retail price of beef, it would appear that the slaughterhouses were able to pass back to the farmers some, if not all, of the costs that they incurred in responding to BSE, by buying at lower prices.

### Renderers

4.18 BSE had a dramatic impact on renderers. The SBO bans affected their operations and costs by separating their processes into SBO and non-SBO batching. The various feed bans incrementally reduced and, ultimately, virtually eliminated their MBM product line, which they had been selling to feedmills.

4.19 It appears, however, that to a large extent this industry was able to reinvent itself. Before BSE, renderers would purchase otherwise unusable slaughter by-products from slaughterhouses, head boners, knackers and butchers, and would produce and sell tallow and MBM. Ten years on they had become waste disposal firms that charged slaughterhouses and knackers for removing animal wastes from their premises, while retaining their market for tallow.

4.20 It thus appears that, transitional costs aside, renderers were able to transfer their increased running costs and the losses which they suffered from the elimination of their MBM product line to slaughterhouses and other generators of animal waste.
Businesses which were severely affected

4.21 Knackers were less able to adapt to the changes which occurred after the SBO bans. As with slaughterhouses, much of what knackers had formerly sold to renderers or kennels they now had to pay to have removed from their premises. Although it appears that they attempted to pass these increased costs and losses back to farmers, they were largely unsuccessful in doing so. Many farmers turned to alternative disposal methods such as on-farm burial.\textsuperscript{181}

4.22 With the introduction of the human SBO ban in 1989, head boners were put in a difficult position. They were paying slaughterhouses for heads and, in a labour-intensive operation, removing low-value meat scraps and then having to pay renderers to take away the useless remainder. BSE also seems to have affected the demand for the meat that they produced.

4.23 The reduction in demand for head meat and the increase in slaughterhouses performing their own head-boning had a detrimental impact on the business of specialist head-boning plants, and this was made worse by the further restrictions introduced in 1995.

Businesses which were largely unaffected

4.24 There were a number of businesses that had some connection with the beef and cattle industry but which the BSE epidemic affected little or not at all.

4.25 The pet food industry was already using very little in the way of beef products. Very early on it switched to alternative protein sources with no significant impact on its processing costs.

4.26 Both the medical and cosmetics industries had been using small amounts of beef by-products in their own products. They switched to foreign suppliers. This change of source for these commodities resulted in no appreciable increased costs.\textsuperscript{182}

4.27 After the imposition of the ruminant feed ban, feedmills and compounders could no longer market feed containing MBM. However, before the ban was imposed they were given some opportunity to run down their inventory, and they were able to incorporate their remaining stocks into feed for non-ruminants.

4.28 It also appears that feedmills were able to pass on the additional costs to farmers when they were required to switch from MBM to alternative concentrated protein sources.

\textsuperscript{181} YB91/2.20/1.1
\textsuperscript{182} S608 Wright para 8
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Businesses which benefited

4.29 There may have been some sectors and parts of the economy that actually benefited from the BSE epidemic.183 There is evidence of growing demand for poultry and to a lesser extent pigmeat over the period 1986–96. In so far as this demand was boosted by a fall in demand for beef brought about by BSE consumer concerns, then there will have been a positive substitution effect in these sectors – particularly for farmers. However, we are unable to quantify to what extent there were any substitution effects in other related sectors and businesses.

4.30 The growth in additional requirements for quality systems and inspection may have led to some positive economic benefits among firms supplying such services. However, we are unable to quantify these effects.

Summary

4.31 It would appear that the main effect of BSE during this period was to accelerate existing trends. The demand for beef had been declining throughout the developed world. BSE may have contributed to the rate of decline but it certainly did not cause it.

4.32 Long before BSE emerged, there was overcapacity in the slaughtering and rendering industries, and rationalisation and consolidation was overdue. The emergence of BSE may have brought forward the date but the changes in these industries cannot fairly be attributed to BSE.

4.33 The heightened inspection and health standards which were introduced in this period in the UK may, at first blush, seem attributable to BSE. But here, too, long-term trends towards improvements in meat hygiene practices meant that most of these heightened standards (and their associated administrative costs) would eventually have been introduced even in the absence of the disease.

4.34 In summary, the economic impact of BSE during the period to 20 March 1996 was not insignificant. There were real costs associated with it, especially for farmers and slaughterhouse-related industries, but these were minor in relation to the economy of the UK as a whole and each of the industry sectors. The taxpayer, through additional public expenditure costs of £288 million (in cash terms), faced perhaps the most significant economic cost of BSE over this period. Otherwise, BSE accelerated rather than caused the changes in the beef and cattle industries. The real crunch for this economic sector came after 20 March 1996, which is beyond the Inquiry’s terms of reference.

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183 See DTZ Pieda Consulting report, M11 tab 2 Section 6 p. 15 for a discussion of substitution effects