

# UK Meat and Dairy Retail Distribution and Supply Networks

A Study of the Current and Potential Markets  
for Welfare-friendly Foodstuffs

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# PREFACE

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Animal welfare is of considerable importance to European consumers. Nowadays food quality is not only determined by the overall nature and safety of the end-product but also by the perceived welfare status of the animals from which the food is produced. The fact that improving the animal's welfare can positively affect product quality, pathology and disease resistance also has a direct bearing on food quality and safety

The Welfare Quality project is about the integration of animal welfare in the food quality chain: from public concerns to improved welfare and transparent quality. The project aims to accommodate societal concerns and market demands, to develop reliable on-farm monitoring systems, product information systems, and practical species-specific strategies to improve animal welfare. Throughout this Integrated Project, effort is focused on three main species and their products: cattle (beef and dairy), pigs, and poultry (broiler chickens and laying hens).

The research programme is designed to develop European standards for on-farm welfare assessment and product information systems as well as practical strategies for improving animal welfare. The standards for on-farm welfare assessment and information systems will be based upon consumer demands, the marketing requirements of retailers and stringent scientific validation. The key is to link informed animal product consumption to animal husbandry practices on the farm. The project therefore adopts a 'fork to farm' rather than the traditional 'farm to fork' approach. Welfare Quality will make significant contributions to the societal sustainability of European agriculture.

This publication is the final report produced by the UK team of the retailing work package 1.2 in subproject 1. Previous Welfare Quality Reports presented the first two reports produced by this team. Subproject 1 investigates societal attitudes and practices as they impact upon animal welfare and assesses to what extent new welfare strategies might be achievable in practice. It has three main work packages concerned with consumers, retailers and producers, respectively. Each work package investigates how these groups view welfare considerations and determines how they might be persuaded to adopt more rigorous welfare standards. Work package 1.2 evaluates the current and potential market for welfare-friendly animal based products, welfare label characteristics, and inspection systems.

This report is the published form of sub-deliverable 1.2.3. This UK report is one of six studies across European countries (Norway, Sweden, the Netherlands, UK, France and Italy) carried out between 2004 and 2007. The cross-comparative report is also available as Welfare Quality Report no. 7 (Roe and Higgin 2008).

Chapter 1 of this report consists of a brief introduction to this report. Chapter 2 describes the methodology on which the research findings are based. Chapter 3 discusses different meanings of animal welfare in preparation for the different nuances at work in the retail industry that emerges in the overview of retailing practices. Chapter 4 offers a thorough and detailed discussion, with examples, of the four primary techniques at work in creating and maintaining a market for welfare-friendlier food products in the food retail market. These are: brand management, creating spaces for product innovation, limitations to supply and demand and communicating animal welfare to consumers. Chapter 5 gives a detailed description of ten distribution and supply networks for ten different products that carried animal welfare claims. The five product sectors (chicken, egg, beef, dairy, pork) are covered and each of the major UK retailers. Chapter 6 offers a very brief introduction about how animal welfare features in the catering supply chain. Chapter 7 is an overview of the regulatory history for farm animal welfare and describes the current position and how it supports the creation of a market for welfare-friendlier foodstuff. Chapter 8 indicates some positions in the attitudes between actors in the agro-food network. Chapter 9 offers some brief, succinct conclusions from this study.

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# INTRODUCTION

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This report is the first ever in-depth study of how the food retail market operates for animals (pigs, cattle and chickens) produced to improved welfare standards. It provides a unique overview of commercial practices of farmers, abattoirs, wholesalers, manufacturers, regulators, industry bodies and retailers who have developed or continue to develop products that require that animals have lived on farms that have been assessed to meet certain animal welfare criteria.

The research involved in-depth interviews with up to 60 representatives involved in the distribution and retailing of welfare-friendly foodstuffs, including abattoirs, wholesalers, manufacturers, regulators, industry bodies, and retailers to attain comprehensive insight into how the market for products carrying welfare-claims has emerged. These interviews were conducted between December 2005 and December 2006. Consequently, commercial relationships between different parties in the market for animal welfare-friendlier products may well have changed since then. So the results presented here should be treated as a snapshot of what was going on during this period of time.



## 2

# METHODOLOGY

This report builds upon previous work carried out in which products carrying animal welfare-claims were identified, and work in which the non-retailer led labelling schemes were studied that featured on products that carried welfare-claims. These early sub-deliverables provided us with information that has been used to structure the methodology for this report. A sampling strategy based around 13 representative products was used to target the study of retail distribution networks. These products were identified during 1.2.2.1, and are to be studied in further detail here, because they fitted into a number of criteria. The criteria for selection were as follows: 1) each of the retail outlets were to be covered; 2) each of the five product categories (pork, beef, dairy, chicken and egg) needed to be covered; 3) the products were a representative cross-section of the types of products with welfare claims. These were predominately retailer own-label products (as these dominate fresh produce in UK) but also included two prominent ‘manufacturer’ branded products that were found across a number of different retailers.

TABLE 2.1 Sample products chosen for study in this report.

Retailers/ Manufacturers	Product	Quality Assurance labelled	Pork	Beef	Dairy	Chicken Egg
Morrisons	Morrisons organic whole milk	Soil Association			X	
Coop	Coop Cheshire cheese	Freedom Food			X	
Yeo Valley	Yeo Valley Yoghurt	Soil Association			X	
ASDA	ASDA 6 British free-range eggs	Freedom Food, Lion Quality				X
M&S	M&S Lasagne with free-range egg					X
M&S	M&S Aberdeen Angus beefburgers			X		
Organic supermarket	Pure Organic’s ‘For Georgia’s Sake’ beefburgers	Soil Association		X		
Waitrose	Waitrose free-range pork sausages	Assured Food Standards	X			
Sainsbury	Taste the Difference Olde English unsmoked back bacon	Assured Food Standards	X			
Duchy	Duchy dry-cured unsmoked streaky bacon		X			
Somerfield	Somerfield West Country corn- fed chicken legs	Freedom Food				X
Tesco	Free-range fresh chicken thighs	Assured Food Standards				X

We chose a ‘multi-sited’ methodology (Marcus 1995) to follow products that carry welfare-claims through a number of different sites of interesting order to understand the multiple meanings and practices that surround it. This methodology allows us to represent the product as understood, developed and mobilized by different actors in the retail distribution network.

For each product the following organizations within the retail distribution network was interviewed:

- the retailer that sold the product – ideally, this included both a food technologist and a buyer/marketer for the category;
- the manufacturer/processor/packer of the product;
- wholesaler if applicable;
- abattoir.<sup>1</sup>

Along with these specific supply chain interviews, other organizations were interviewed that allowed us to gain a wider understanding of the market. These were: food industry organizations, NGOs and key regulatory bodies. A semi-structured interview method was used.

The questions for the retailers tackled the following themes:

1. definition of animal welfare and company strategy;
2. perception of demand for animal welfare products;
3. approach to selling welfare-friendlier products;
4. how the supply chain works for manufacturer brand and own-brand label products.

The questions for the suppliers followed the following themes:

1. definition of animal welfare and company strategy;
2. perception of demand for animal welfare products;
3. why are claims for higher animal welfare used to sell this product?
4. what are the general animal welfare guidelines for suppliers from retailers?

The questions for the regulators followed the following themes:

1. definition of animal welfare;
2. what is their role?
3. how has the animal welfare regulation evolved – opinions?
4. how does current policy/legal frameworks aid or hinder development of better animal welfare?

These themes formed the basis of the topics covered across all countries.

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<sup>1</sup> In the majority of the product supply chains, many of these traditional roles have been integrated into competencies of one organization.

TABLE 2.2 The organizations interviewed for each product's retail distribution network.

Product	Organizations interviewed		
	Abattoir/Supply cooperative	Manufacturer/Processor/ Packer	Retailer
Morrison organic whole milk	OMSCo	Arla	<i>Morrisons declined to be interviewed</i>
Coop Cheshire cheese		Belton Cheesemakers	Coop
Yeo Valley Yoghurt	OMSCo	Yeo Valley Ltd.	
ASDA 6 British free-range eggs		Stonegate	ASDA
Meridian organic mayonnaise		<i>Meridian declined to be interviewed</i>	
M&S lasagne with free-range eggs	Scotbeef	Deans Food, Scotbeef*	M&S
M&S Aberdeen Angus beefburgers	Scotbeef	Scotbeef*	M&S
Pure Organic's 'For Georgia's sake' beefburgers	Welsh Hook	Pure Organics Ltd.	<i>Better Food Company declined to be interviewed</i>
Waitrose Free-range pork sausages	BQP/Dalehead	BQP/Dalehead*	Waitrose
Taste the Difference Olde English unsmoked back bacon		<i>ABP not available for interview</i>	Sainsbury's
Duchy dry cured unsmoked streaky bacon	Ensors Ltd	Denhay Farms Ltd., Duchy Originals	
Somerfield West Country corn fed chicken legs	Lloyd Maunder	Lloyd Maunder*	Somerfield
Free-range fresh chicken thighs	Two Sisters	Two Sisters*	Tesco

*Note:* Some organizations come under two categories, these are marked with \*.

We faced some difficulties in interviewing some organizations due to the reluctance of people to be interviewed or because some people were unobtainable. Moving down the list in Table 2.2, this problem occurred with Morrisons, ABP, Meridian and the Better Food Company Ltd. In the case of processed egg product, M&S ready meal containing free-range egg was used as the substitute product.

#### *Note about use of terms*

We adopt the use of the term 'network' as opposed to 'chain' to continually convey the commercial challenges of producing a whole animal and selling into markets for a range of products derived from this animal, not all of which can be sold as welfare friendly. The supply chain metaphor emphasizes a linear process from farm to shelf that conceals the commercial complexities that support selling any products as welfare friendly. As a consequence, we are not only interested in the supply of a product carrying an animal welfare claim but in the wider distribution of products from animals that have experienced tighter production standards that imply better animal welfare, many of which are downgraded or may not explicitly carry an animal welfare claim but are in fact necessary to ensure market access. This is discussed in greater detail in Chapter 4.

TABLE 2.3 Other organizations interviewed.

Retailers	Fresh and Wild, Chadwicks
Manufacturers/producer groups/ processors	Cambrian Hills, Dairy Crest, Livestock Marketing Ltd, Bowes of Norfolk, Helen Browning, Grampian Country Food Group
Industry bodies	British Poultry Council, British Retail Consortium, British Egg Industry Council, Meat and Livestock Council, British Pig Executive and Quality Meat Scotland
NGOs	Compassion in World Farming, Vegan Society, Freedom Food, Royal Society for the Prevention of Cruelty to Animals
Regulatory bodies	Department for the Environment, Farming and Rural Affairs, Farm Animal Welfare Council

## ANIMAL WELFARE DEFINITIONS

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The Department of Environment, Food and Rural Affairs (DEFRA) define four positions for understanding what animal welfare means: the abuse of animals; cruelty towards animals; duty of care towards animals in captivity; consumer understandings of animal welfare. Abuse, cruelty and duty of care are legally defined and enforced by (distinct) UK legislation. The prevention of abuse and cruelty towards animals ensures a minimum level of care for animals; this can be understood as constituting a public good. Although the legal notion of duty of care as a public good is contested internationally, it has been enshrined in UK legislation since 1968. The legislation on duty of care is based around the Five Freedoms:

- freedom from hunger and thirst;
- freedom from discomfort;
- freedom from fear and distress;
- freedom from pain, injury and disease;
- freedom to express normal behaviour.

Most of the legislation stipulates basic minimum requirements for access to resources (food, water, space, etc.) and livestock health. It was explained to us that consumers' understanding of animal welfare as a merit good is driven by consumer interest in the fifth freedom – freedom to express normal behaviour.

The Food Safety Act of the early 1990s led to a corresponding shift in responsibility towards the market to demonstrate 'due diligence' in ensuring that the food presented to consumers complied with legislation. Duty of care (as well as absence of cruelty and abuse), as enshrined in the law, was absorbed by the industry through the development of quality/farm assurance schemes and codes of practice, which qualify and guarantee compliance on animal welfare. These schemes have become the means whereby retailers and other market actors publicly display their 'due diligence'. These schemes therefore are central to the different definitions of animal welfare we find in the market.

In the UK, the basic assurance scheme 'Assured Food Standards' (AFS) was set up by the industry to provide a generic assurance scheme that guarantees legal compliance. Over the last decade, it has built on the legal definition of animal welfare in order to meet consumer (or civil society) expectations for farm animal welfare. To some extent we have seen these expectations been taken further by 'higher level' schemes such as the RSPCA's Freedom Food Scheme and the various organic production schemes. For more information see Roe et al. (2006).

It should be stressed that animal welfare, as defined by both the law and assurance schemes, is a contested domain. As mentioned earlier, legislation concentrates on animal health and the provision of resources, as echoed by AFS schemes. The organic movement, and to a lesser extent Freedom Food, place a greater emphasis on the fifth freedom – the freedom to express normal behaviour. The ‘higher’ welfare claims of Freedom Food or organic schemes are not just the result of raising the legal minimum requirements but because they promote an alternative production system that allows for ‘normal behaviour’. Much of the controversy around farm animal welfare revolves around the often contradictory attempts to incorporate the five freedoms.

The ongoing *ambiguity over the meaning of animal welfare*, however, has not stopped it being commercially advantageous to market products that carry welfare claims.

When we examine the various positions of retailer interest in and meanings of animal welfare, we can distinguish *two levels of commercial concern* for farm animal welfare. These commercial concerns manifest themselves negatively in terms of the management of risk and brand, and positively through brand and product differentiation. In both cases qualification is sought from external bodies when defining animal welfare policies.

The two levels of commercial concern for animal welfare we identify are found along a continuum of *animal welfare as a process* within a variety of commercial interests. These positions illustrate how animal welfare is deployed through different commercial objectives. One retailer may embrace all levels as they target different products to different types of consumers.

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### 3.1 FARM ANIMAL WELFARE AS PART OF BRAND INTEGRITY

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This is in effect the most straightforward position on animal welfare, deriving directly from ‘due diligence’ concerns and brand management. Retailers are keen to source only from production systems that are ‘acceptable’. What is ‘acceptable’ varies with each retailer: at the more ‘reactive’ end of the spectrum, there is concern only to source legal meat products. The legality is usually assured only through international schemes, such as EurepGap, which assure to baseline European standards. In the middle of the spectrum lies Assured Food Standards or an equivalent, and at the ‘proactive’ end is either a higher welfare scheme or the retailer’s own scheme. This also varies within each retailer, whether a meat product is fresh or highly processed.

Here the concern is for an unambiguous definition of animal welfare that sets a clear cut-off line for sourcing policy. It is here that we identify retailers who are interested in outcome-based measures that potentially could measure welfare more reliably and thus provide a better assurance policy.

Those retailers occupying the ‘reactive’ end of the spectrum, concerned only with animal welfare when it has the potential to seriously damage their brand. They are often dismissive of ‘higher’ welfare positions. For example, they dispute whether what is offered in so-called ‘free-range’ systems for pigs and chickens are actually in the best interests of the animals. They also denounce industry-generated terms such as ‘outdoor reared’ which have no legislative backing and which can be misinterpreted by consumers, and additionally give a lot of leeway to producers who can use this marketing term having proven that some period of the animal’s life has been spent outdoors. They do not attribute much meaning to consumer understanding of animal welfare and see no need to communicate about animal welfare to their consumer base, thus it is a legally justifiable position on animal welfare that they seek.

Animal welfare is:

‘a facet in a multifaceted communication with the customer. Do I want to spend my time talking about animal welfare to my customers? No. When they ask me the questions do I need to have an answer? Yes.’ (Medium-sized, value/broad church retailer)

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### 3.2 ANIMAL WELFARE AS INTEGRAL TO ‘QUALITY’

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This position builds on the previous one. Quality assurance schemes are used as more than an indication of ‘due diligence’ and become central to retailers’ efforts to meet the demands of their consumer base. Animal welfare becomes integral to the ‘quality’ package of certain products and ranges. This is communicated in some cases with logos of ‘higher’ quality assurance schemes and packaging blurb highlighting the welfare credentials of the product and the retailer. The large ‘broad church’ retailers rely extensively on quality assurance schemes for qualifying the quality and animal welfare credentials of their products. So if their basic, value ranges are ‘good’ (enough), then the ranges will move through ‘better’ and ‘best’. The smaller ‘top end’ retailers have developed, in different ways, their own bespoke distribution and supply networks. This has enabled them to develop their own definitions of animal welfare through codes of practice that map closely on to consumer perceptions of good animal welfare. In practice this means an emphasis on more extensive systems. The concern about animal welfare standards in recent years is seen in part as a criticism of intensive farming methods; attempts to improve animal welfare can not be seen in isolation from this. Thus animal welfare is very much a commercial concern for these retailers, but it is always bundled into a wider set of consumer concerns such as improved eating quality and ecologically sustainable, less-intensive agricultural systems.

‘It is all about eating quality, because the other thing to say is you can have all this fancy animal welfare, but if it doesn’t taste good there is no point in having it. So it

has to be the whole package. Animal welfare is a contributory factor to good eating meat.’ (Small-sized, quality retailer)

For food processors, the meaning and definition of animal welfare in their commercial strategy is closely related to the two retailer positions. The most noticeable point of difference is how the animal species at the centre of their production system can work in different ways to promote innovation or take the contrary approach and deem animal welfare unnecessary. Predominantly, this variation in approach is down to differences in how the species welfare problems are more-widely perceived, which relate to common preconceptions about how the animals are living. For example, we will compare the commitments and interest in animal welfare between an egg processor, a dairy processor and a pork processor. These processors are broadly representative of different commercial concerns by one of the leading product processors at a national or international scale.

The large dairy processors state they rarely address animal welfare per se in the form of a policy or as a consumer communication strategy, because they in effect ride on the misunderstanding about the realities of housing cows vis-à-vis the perception that cows live out in fields. Thus, animal welfare is only ever an interest in terms of ensuring compliance with the basic assurance schemes. The organic dairy processors see animal welfare as part of an ecological package and do not see it as a stand-alone marketing claim. Pork processors in the UK have needed to make themselves commercially competitive with foreign imports through shouting about welfare credentials, since it is what distinguishes British pork from many foreign counterparts. Consequently, the industry has developed the term ‘outdoor reared’ and ‘free-range’ to market a point of difference on welfare grounds and on, or the development of an extensive, less-intensive production system. However, these terms are in no way definitive; these meanings are formed through interpretations of the general public and have not been legally defined (unlike in the poultry industry).

‘Well the only difference is those pigs that everybody sees outdoors they don't realise that the majority of those pigs will come indoors after either 3, sorry, after 4 or 12 weeks. So if they were to stay outdoors for their whole life I think that it is as organic as most people would want them to be’. (BPEX)

The *flexibility of these definitions* is helpful to the industry because it can be argue then that there is a point of difference from wholly intensively reared pigs, while still being able to benefit from many of the commercial advantages of having housed pigs for much of the time. It is also acknowledged that changing systems of production may not bring real change to the welfare of animals if management of the animals is not improved. The marketing of animal welfare is short-sighted in terms of guaranteeing improvements. The poultry industry enjoys the potential for innovation within a market that is increasingly segmented along animal welfare lines (barn eggs, free-range eggs, woodland eggs, organic eggs).

Thus, put quite simply animal welfare is a marketing tool and is a constantly evolving *space for innovation*. Consequently, it would be unhelpful if it were tethered too hard and

fast to a particular interpretation as that would preclude against innovation. The perception of animal welfare versus the reality of what is scientifically proven to be better for the animals will perhaps never map onto each other. Hence, there is an ongoing, continual complexity between the marketing of animal welfare and the practices of good animal welfare. However, retailers are in an awkward position claiming to know what good animal welfare is because they are expected to have commercial interests at the centre of their interests and not those of the animals; consequently they use trusted external bodies to negotiate their position on animal welfare. Thus, NGOs such as the RSPCA or Compassion in World Farming are important mediators between the general public and the retailers in giving reassurance that retailers have the interests of the animal at heart and not solely a commercial interest. What we have discussed and will go on to discuss is that these two interests are not contradictory; there are clear commercial aims in developing the market for animal welfare-friendly foodstuffs.



# 4

## OVERVIEW OF RETAILING PRACTICES FOR ANIMAL-FRIENDLY FOOD PRODUCTS

The breadth and diversity of UK food retailing illustrates a number of different approaches to how animal welfare is given value and meaning within the food retail market. Table 4.1 gives a brief overview of the market positions and brand properties of the major retailers to provide some background to inform the following detailed discussion of four retail strategies that shape activities witnessed in the UK market.

TABLE 4.1 Retail brand values, product range, store size and market share.

Retailer	Brand values	Assurance Schemes	Size of UK Product range* Market	Store size
Somerfield	Convenience	AFS all except Sense range. Organic range and FF products (chicken, eggs)	Makes 5.4% 4 tiers in own-label, plus branded	Small-medium
Sainsbury's	Broad church	AFS on all ranges, organic range and some FF products (eggs, chicken)	16.3% 4 tiers in own-label (value, standard, taste the difference, organic), plus branded	Small-large
Morrisons	Value/broad church	Much not labelled AFS; does carry some FF products (eggs, chicken).	11.1% 4 tiers in own-label, plus branded	Medium-large
ASDA	Value/broad church	AFS on all ranges, plus organic and FF on eggs	16.6% 4 tiers in own-label, plus branded	Large
Tesco	Value/broad church	AFS on all ranges, plus organic and FF on eggs and some other products	30.6% 4 tiers in own-label, plus branded	Small-large
M&S	Quality, convenience	M&S select farm scheme or QA equivalent	4.1% Two tier – conventional and organic. All own brand	Small
Waitrose	Quality	Waitrose codes of practice which incorporates AFS and FF on some products	5.3% Three tier and branded	Medium
Coop	Ethical and convenience	AFS minimum, some FF	6% Four tier and branded	Small (mainly)-large
Fresh 'n' Wild	Organic	Organic	? All branded	5 stores nationwide

Notes: Share of supermarket retail, February 2006; \* Four tier means: value, standard, best and organic.

The dominance and control the supermarkets exert in the present day agri-food system in the UK has been widely documented. And with this growing dominance has come increasing scrutiny of their practices and their products, creating what Friedman (2004) calls their ‘ethical complex’. As noted earlier in Chapter 3, the 1990 Food Safety Act placed a heavy burden on supermarkets to ensure the safety and quality of their food.

‘This increasing responsibility of retailers with respect to food safety risk contributed to changes in procurement and sales practices in the fresh food sector....Atomized production structures and weak producer brands expose retailers to significant risk, vis-à-vis both government and consumers...[This led retailers to] become involved far more in the choice of production systems used by their suppliers, in particular via the imposition of private standards related to production practices:....codes of good agricultural practice [GAPs] and farm assurance schemes.’ (Codron et al., 2005, p. 271)

And it is precisely because of the supermarkets’ buying power, their position as ‘gatekeeper’ to the consumer, that they were able to implement the necessary restructuring of their retail distribution and supply networks to comply with their ‘due diligence’ responsibilities. Suppliers and producers either had to comply with retailers’ Codes of Practice and Audits or find another route to market. Retailers have been key market drivers in developing standards in the area of farm animal welfare in the UK.

In order to understand retailing practices for welfare-friendly food products, we need to approach animal welfare as a *marketing* term, used by retailers to protect and differentiate their brand and the products they offer. Section 4.1 will focus on brand management – this is split into the related areas of brand protection and quality construction as outlined briefly in Sections 3.1 and 3.2. Section 4.2 will focus on retailer–distribution–supply network relations and strategies that form the ‘back story’ to how ‘quality’ is constructed. Section 4.3 looks at the limitations in supply and demand that contextualize the current and potential market for animal welfare-friendly products while Section 4.4 looks at the techniques retailers and other actors use to communicate farm animal welfare issues to consumers.

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## 4.1 BRAND MANAGEMENT

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‘A link was established between those brands [own label], the retailers’ corporate image, and consumer trust in the retailers’ reputation such that the retailer became a guarantee of quality and consistency. Reciprocally, innovation in retailer branding became a key element in further enhancement of the retailer’s consumer image.’ (Wrigley and Lowe, 1998, p. 62)

Here Wrigley and Lowe outline the importance of *brand*, at the level of both the product and the retailers' corporate image, to retailing practices. We focus here on three inter-related aspects of this brand management.

#### 4.1.1 BRAND PROTECTION AND 'DUE DILIGENCE'

This is in effect the most straightforward position on animal welfare, deriving directly from 'due diligence' concerns and brand management, and requires having some control over the 'quality' of their distribution and supply networks, especially for own label ranges that are closer to the brand. In practice, this means setting Codes of Good Agricultural Practice and requiring membership to quality assurance schemes from their suppliers that set 'acceptable' standards.

The retailer demands for quality assurance (at whichever level) have been very important market drivers for the development of schemes both in the UK (for more details, see Roe et al., 2006) and internationally. UK retailers were instrumental, along with Royal Ahold of the Netherlands, in setting up EurepGap.

What is 'acceptable' varies with each retailer along a spectrum of concern for animal welfare standards. At the 'bottom', there is concern only to source legal meat products but, for the UK retailers we interviewed, even at this level, compliance with European standards is assured through international schemes such as EurepGap.<sup>2</sup> In the 'middle', suppliers would have to be members of Assured Food Standards or an equivalent. At the 'top', the retailer would only source from suppliers assured to either a 'higher' welfare scheme or the retailer's own scheme (see Section 4.2).

The requirements of the top four UK retailers, who would all fall into the 'middle' bracket outlined above, have led export-orientated sectors in Europe and globally to develop 'UK contract' production systems and schemes that will fulfil their buying requirements. These quality assurance schemes underwrite the quality of the imported produce, helping to persuade sceptical consumers. In the summer of 2006, ASDA were found to be stocking Brazilian beef 'un-assured' by the NFU, who, rather deftly, brewed up a media storm resulting in ASDA publicly apologizing (whilst blaming the maverick actions of a junior buyer) (BBC News 2006).

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<sup>2</sup> Originally covering only fruit and vegetables, this scheme has been extended to livestock among other areas, and requires above EU standards for production.

#### 4.1.2 CATEGORY ASSORTMENT

In short, farm animal welfare standards form an integral part of the ‘quality and consistency’ expected of retailers by consumers. However, this quality and consistency not only varies between retailers but within individual retailer’s assortments. We will briefly outline two important factors that underpin this variation.

##### *Fresh versus Processed Meat*

Sourcing policies for fresh meat are more comprehensive with regard to animal welfare standards in all retailers interviewed than in processed meat products. This is for three main reasons.

First, animal welfare is seen as less of an issue for consumers the further away the product is from the animal itself. The further processed the meat product, e.g. chicken on pizza, the less information about the meat is conveyed to the consumer about the production system and even country of origin.

Second, supply chains for fresh produce tend to be more integrated, with each retailer having only one or two, or possibly three, suppliers responsible for supplying each category. The greater range of processed products (in all categories) mean that retail distribution and supply networks are much more fragmented, with many more suppliers supplying products using many ingredients, which makes controlling the quality of the whole product a much more difficult task. This is particularly the case with ‘continental’ meats, with retailers sourcing from large European manufacturers, which makes it hard for them to demand higher, culturally specific requirements on farm animal welfare:

‘[W]hen you start going out to Italy, Spain, Poland, which has been in the press this weekend, it is difficult because the culture is so different and we are sometimes just this tiny customer. Or even the British retailers are still a tiny customer wanting these standards when 95% of the world either doesn’t care or it isn’t important to their customer so it is difficult.’ (Medium-sized, value/quality/broad church retailer)

And third, manufacturer and tertiary labels have a much larger market share of processed meat products.

##### *Own Label versus Manufacturer/Tertiary Brands*

Retailers’ responsibility and accountability for ensuring the quality and consistency of the products they offer is greater for own label ranges. Own label ranges comply with the standards retailers deem acceptable. In this quote, a ‘quality’ retailer is talking about Danish bacon produced to ‘UK contract’ specifications:

‘There is some work going on, on bacon, because I’ve made the decision that unless we can improve the standards, the UK contract standards aren’t good enough for [our] own label now. So if we can’t improve those standards, then I will switch it to a brand. I will still offer Danish Bacon but I won’t put [our] name to it.’ (Small-sized quality retailer)

This enables retailers to still offer a range of products to meet a range of purchasing habits without endangering their brand. In contrast, M&S only sell own label products, which means they do not have this luxury. All their products have to conform to their ‘welfare friendliness’, so certain product lines, such as Foie Gras, are not stocked.

‘In terms of retail, I have talked about M&S being 100% own brand. What does make it difficult is that there are certain products that we choose categorically that we won’t sell: pâté de foie gras, frogs legs. We won’t sell rabbits, but other retailers might do but not under their own brand – they will use a brand of convenience to be able to sell that product so that’s where it becomes difficult, you know?’ (M&S)

#### 4.1.3 PRODUCT DIFFERENTIATION AND OWN LABEL RANGES

Retailer own label ranges began life in the 1980s and have grown from strength to strength as retailers have become ‘increasingly drawn into making significant investment in product specification, development, packaging and quality testing and the developmental role of the retailers’ own food technologists became ever more critical’ (Wrigley and Lowe, 1998, p. 62). This has been fuelled in part by their increasingly sophisticated information systems, which provide them extremely valuable market data on consumer buying habits and trends. Retailers have been pivotal in turning the agri-food industry into a ‘consumer-led’ market.

On the shelf, this has been manifested in the establishment and diversification of the retailers’ own label ranges. These now take the form of ‘good, better, best’ (or value, standard and finest) tiers. The value tier tends to be industry-standard, no-frills offerings and, depending on the retailer, more likely to be imported. In the fresh sector, value ranges tend to use the cheapest cuts. The standard range again tends to be industry standard, with additional ‘bolt-ons’ for some supermarkets. These tend to use the more premium cuts, with more information conveyed about the quality of the product (logos, package descriptions).

As an example, we will use Tesco outdoor-reared pork fillet (see Figure 4.1). This product has both the Red Tractor logo, telling the consumer this pork has come from an Assured Food Standards audited farm and slaughterhouse, and the Quality Pork Standard logo, which is the assurance scheme ran by the British Pig Executive (BPEX), which concentrates on eating quality and consistency (i.e. mainly post-slaughter practices). These

logos help convey the quality of the product also conveyed in the description on the package:

‘One of our farmers, Rob Kennerley. Rob and his family are the third farming generation on their 400 acre mixed farm in Shropshire. *They have 500 outdoor sows*, using home grown cereals and legumes to feed their pigs. Straw from their wheat is used for bedding and then returned to the land in the form of organic manure. *Rob and his family ensure that their pigs meet the high welfare standards Tesco’s require*’ (emphasis added)



FIGURE 4.1 Tesco Fresh British Pork Fillet (left).

FIGURE 4.2 Sainsbury’s Taste the Difference West Country Boneless Chicken Fillets (right).

As well as proclaiming their proximity to ‘their’ farmers and the environmentally friendly credentials of their production methods, this text highlights the farm animal welfare credentials of the Tesco’s brand.

The best ranges, such as Tesco’s Finest, Sainsbury’s Taste the Difference, Somerfield’s So good, ASDA’s Extra Special, to name but a few, are all about product quality. Whether this ‘quality’ includes higher animal welfare standards depends on the retailer and on the category. For Tesco, the Finest fresh products ensure that there are production standards in place backing up the product, so that Finest does mean higher farm animal welfare standards. Within chicken, for example, it usually incorporates either free-range or indoor Freedom Food production systems. As an example, Sainsbury’s Taste the Difference West Country Boneless Chicken Fillets is accompanied by (see Figure 4.2):

‘The Devonshire Red™ is a slow growing chicken that has been specially selected for our West Country Free-range Chicken. They are reared using traditional farming methods on small West Country, family run farms. They have access to tree-planted fields, which encourages them to roam and show natural foraging behaviour such as scratching, preening and dust bathing. This allows the chicken to live a fuller, more

active and enriched life. The combination of the traditional breed, West Country Free-range farming methods and their natural diet produces tasty, succulent meat rich in flavour.’

Here we have a good example of ‘quality bundling’ – animal welfare-friendly production, taste, tradition, the West Country and a speciality breed are all used to communicate to the consumer the quality of this product and why it is worth spending extra money on it. Although this is Sainsbury’s own label chicken, some of its qualities are ‘sub-brands’ of their supplier, Lloyd Maunder: the ‘Devonshire Red™’ breed and the ‘West Country’ label. Here we begin to see how suppliers differentiate themselves from their competitors and provide unique selling points to retailers to offer their consumers. This introduces the concept of partnership so important to market innovation around farm animal welfare. We will return to in Section 4.2.

Another example of this is Coop’s Freedom Food-labelled Cheshire cheese (part of their regional cheese range), made by Belton Cheesemakers. Belton’s decision to use Freedom Food standards was based on wanting to position their cheeses at the top-end of the market. Their higher quality product therefore required top-quality, fresh, traceable milk from farmers who could work within an audited system:

‘Producing top quality cheese and you can only do that with top quality milk, we persuaded our farmers to produce milk for cheese-making rather than white water. We call it white water – so fat, protein relationships and so we’ve got a lot of farms now which have got NMR’s (New Milk Records)<sup>3</sup> Swiss Browns, Guernsey, Short Horn... but at the same time we wanted an animal welfare system which would... encompass everything right.’ (Belton Farms)

Belton do not get any commercial benefits from being Freedom Food but they believe that being Freedom Food does help them maintain their business with Coop by providing a quality product, whether through taste, animal welfare or traditional, hand-made manufacturing techniques. Anyone of these quality attributes could be marketed to consumers, and different retailers may choose to draw upon different elements of quality in their quality own-brand ranges. However, animal welfare is not used for marketing purposes on the other cheeses produced by Belton on sale in other retail stores. With the bulk of Belton’s cheese being sold without any welfare claims, it is evident that animal welfare is not a central approach to the market differentiation of cheese.

While all three products come from animals that have been reared to Freedom Food standards, only Coop’s Cheshire cheese produced by Belton has the Freedom Food logo on the packaging.<sup>4</sup> There exists an interesting tension between what the retailer brand and the independent schemes which qualify the brand and individual products.

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<sup>3</sup> NMR is the leading supplier of milk recording services in the UK, providing management information on an individual cow’s performance in terms of milk quality, yield and fertility.

<sup>4</sup> At the time of the audit, Sainsbury’s Taste the Difference chicken did not carry the Freedom Food logo but the above quote by Freedom Food indicates that they may be reviewing this policy.

‘We’ve been having this ongoing debate with Sainsbury’s, which is to say we believe that for certain retailers the Freedom Food/RSPCA logo adds value to your product. The majority of retailers are saying “what we want to do is take all these bloody logos off because we don’t want them”. [But] that’s not the case, because what we have proved to Sainsbury over the last month through various focus groups and researches, that if you add, if you have Sainsbury equals 100%, their view was Sainsbury plus RSPCA Freedom Food added 87%, well, we proved to them it means 110% or 120%. So if that logo can actually add value in terms of the guarantee of animal welfare, which to be honest not one consumer that we did any research with felt that Sainsbury meant animal welfare, RSPCA certainly meant animal welfare, consumers are so cynical about retailers.’ (Freedom Food)

In a sense, there is a balance between retailers being keen to keep the ‘added value’ of good farm animal welfare standards and using independent organizations to add legitimacy to those claims (and thereby losing a little of its ‘value’ as well as the definition/flexibility of the term).

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#### 4.2. GENERATING SPACES FOR INNOVATION: GENERIC, FLEXIBLE COST-DRIVEN SOURCING TO BESPOKE, DIFFERENTIATED, QUALITY-DRIVEN

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UK food retailers are amongst the most sophisticated in the world, and the demands they place on their suppliers, particularly their suppliers of own label products, render the British food manufacturing industry one of the most efficient and innovative in the world. The implementation of Efficient Consumer Response (ECR) and Category Management (CM) heralds the dawn of a new era in which value creation is the priority, with supermarkets and food manufacturers working together to exploit the diverse opportunities that exist in a cosmopolitan marketplace in which (relatively) affluent and increasingly diligent consumers are running out of time to purchase, prepare, cook and consume their food (Fearne and Dedman, 1999, p. 1).

Retailers actively seek relationships between themselves and suppliers that enable them to easily innovate within the market. The form these ‘vertical partnerships’ take varies between retailers and the different cultures of supplier/buyer relations (as described in Chapter 3). The development of these partnerships has been central to the varying degrees with which retailers have embraced the market for animal welfare-friendly products. The ability to make welfare-claims requires a guarantee that the product has been produced through welfare-friendlier production systems. We will focus on two positions on the spectrum, outlined above on the degree to which animal welfare standards are integral to the retailer brand.

At the ‘proactive’ side of the spectrum, there is the Waitrose bespoke supply networks. Their supply strategy is all about ‘long-termism’ and ‘bespoke’ supply networks delivering high quality products under the Waitrose brand, some of which have taken 15–20 years to develop. Although more expensive than most of their competitors, Waitrose have successfully differentiated their products in terms of quality, especially in the meat and fish categories, where they have gained high trust and loyalty from consumers. Waitrose’s innovative distribution and supply networks are the result of working directly with suppliers and producers:

‘You’ve got a scenario where, because of Waitrose’s long-term interests in their supply chain, you are in a position to invest in differentiation and work along with the long-term solutions. We look, for instance, into bringing in a new breed between testing it and providing 100% for the shelf so that Waitrose could then market it. This took four years. But if you don’t have a long-term view of a supply chain you couldn’t do that. Most of the UK retailers would not see that as a investment that they were prepared to make, and probably thus haven’t made the progress in some of their quality aspects that Waitrose have.’ (BQP)

In 1983, they started to develop a ‘Farmhouse’ brand and standard, for pork. It meant the implementation of straw-bedded, no farrowing crates, no antibiotic growth promoters. Today this is their basic pork offer and includes now also outdoor farrowing as a requirement. This model is replicated in other species-specific distribution and supply networks in Waitrose, i.e. there is farmhouse chicken, farmhouse pork, farmhouse lamb. In addition, they have introduced free-range pork as their higher standard offer, part of their ‘Select Farm’ range, which is a variation on the organic scheme, but is not organic. It is clear that animal welfare was at the centre of designing these production schemes, although it had to be carefully managed within commercial compromises – for example, the Farmhouse broiler chickens have natural light and ventilation, lower stocking density and are on straw, but are not free-ranging outdoors. Waitrose have not wanted to use any external sub-brand to act as a guarantee on their standards, preferring instead to develop their own standard. Consequently, they have refused to use either the BPEX quality British pork label or the RSPCA Freedom Food label even though they qualify for the schemes on many products. Waitrose believe their brand says ‘high welfare and locally sourced’ BPEX.

In contrast, ASDA is the leading ‘value’ retailer in the UK and sit in the ‘middle’ of the spectrum with regard to farm animal welfare.

‘I’m sure we lead on value because we are a value retailer. And value is a continuum between price and quality, and it’s our job to make sure that we have products right the way along that continuum. So yes, I have got some very high quality products; yes, I have some very basic products, but I am able to deliver. Well, I have products which are probably considered the cheapest on this market, so we have lines which are quite clearly out there to compete with Aldi and Lidl.’ (Medium-sized, value/broad church retailer)

ASDA compete both with the discounters and with the mainstream broad-church retailers, offering the standard three tiers of ‘good, better, best’ and an organic range. But the ‘quality’ aspect of their value has, compared to Tesco and Sainsbury’s, been ignored in their marketing strategy (whether in adverts, in store, or on product lines), and this includes their marketing of animal welfare. This is illustrated by the fact that they do not label their own label fresh meat products with welfare claims in contrast to Waitrose.

‘Waitrose have to use their descriptions on their products to give people a reason not come to us.’ (Medium-sized, value/broad church retailer)

ASDA source own label meat from suppliers that produce to assured food standards. The standards are generic within the UK supply base and globally there is growing export supply base producing to AFS-equivalent standards. This gives them great flexibility to source from wherever. So, despite being the leading retailer in terms of offering ‘value’ they still seek standards above the legal minimum, substantially in line with other major multiples, including Tesco and Sainsbury’s. Although their sourcing policy is to only source from ‘higher’ welfare production systems, they choose not to broadcast the fact, because they say their customers would ‘just expect it to be dealt with and it is dealt with’. In discussion, they questioned whether one can differentiate products through welfare for two reasons. First, because adding costs to a production system has to be a cost that the consumer is going to value and pay for, and ASDA are unsure whether this is the case with farm animal welfare. Second, they are uncertain as to whether a welfare-input, resource-based approach can currently guarantee improvements for the animals and, therefore, form a valid basis for welfare claims.

‘I’m quite happy with the production system – you know, weaning them outdoors. Weaning them inside with big airy barns and lots of straw is great but that really isn’t very catchy. It would be indefensible for us to put something like that system together, call it free range and employ that in the market, and it wouldn’t be anything.’ (Medium-sized, value/broad church retailer)

ASDA see farm animal welfare more as an issue of brand protection (avoiding potential negative publicity) rather than brand promotion. The results of the retail audit in November 2004, which found only four products carrying welfare claims in their stores, one of the lowest counts, make sense within this context.

Although ASDA do not see the point in labelling products with welfare claims, they have developed select farm schemes with their suppliers – for example, in milk. They have a group of dairy farmers who supply exclusively to ASDA, through their dairy supplier Arla. The benefits of this for ASDA are that it guarantees their own supply base, it is good for the farmers, it is an efficient and adaptable distribution and supply network, and it gives them a point of difference with their competitors. Although they currently do not use their select farm scheme to differentiate production in terms of animal welfare standards, it does provide a differentiated distribution and supply network that could be used to incorporate and market higher animal welfare standards.

Within this spectrum, we see a range of initiatives that are influential in the market for welfare-friendly products. Tesco, the largest supermarket chain in the UK has a list of suppliers that have been agriculturally approved or in other words meet Tesco's Codes of Practices. Uniquely, they have an agricultural management team overseeing this process; this is a consequence of the size of their operations.

'[We use the] farm assurance scheme... we feel is most robust in that area and then we have Tesco's standards on top of that in certain areas, particularly in transport and slaughter where we can implement those standards easier. And then we have aspirational standards within those Codes of Practice, which suppliers don't have to comply with but they are like blue-sky kind of areas, where we are all working to move the industry on... If you take red meat – so beef, lamb and pork – we have a farm assurance scheme. We feel it is best in that area as the farm standard, because the industry is so much more fragmented that it is very hard for us to actually implement our own standard at the farm level. So we use the farm assurance scheme as the farm standards, and then we have our own standards for transport and slaughter. For more integrated supply chains like poultry, we have our own, we use the ACP (Assured Chicken Production) scheme for chicken at farm level plus some add-ons that we feel our customers require of us or that their expectations are that we are meeting those standards. So some of the farm standards are slightly higher than ACP, and then our own standards again for transport and slaughter'. (Tesco)

Tesco here highlight the difference between more 'fragmented' supply chains where generic quality assurance schemes are used to ensure standards but which mean little added value 'Tesconess', and more 'integrated' supply chains where production standards can be differentiated.

This is echoed by Sainsbury's. They have their own 'Core Standards' but have to use generic quality assessment schemes to monitor them for several reasons, including levels of integration and costs.

'Our current Codes of Practice are basically aspirational: 'this is where we want you to be'. The actual day-to-day, 'are you meeting Sainsbury's farm assurance requirements?', at the moment is through a farm assurance scheme. We want to make the step change, but actually you can't in our current system of monitoring compliance. You can't really make a step change against our competitors if we are with farm assurance schemes.' (Sainsbury's)

They would like to follow the example of Waitrose's bespoke supply network, but as they explain, 'they [Waitrose] don't have to buy in the volumes that we do, so that is the real obstacle for us'.

Following Foord et al. (1998), 'we suggest that the emphasis on interactive, flexible and stable supply *networks* was a key retailing strategy', which underpinned retailer competition in terms of brand and assortment differentiation. Innovations in farm animal welfare can be seen as competitive, 'networked achievement[s]', negotiated between

retailers, suppliers, farmers, certification bodies and the animals themselves, in response to demand from consumers, civil society and government.

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### 4.3 LIMITATIONS TO SUPPLY AND DEMAND

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The agri-food system is an idiosyncratic sector within our modern industrial economy. Even in the most intensive systems, farmers work with living organisms and ‘natural’ cycles of development, disease etc. that distort any simple picture of supply and demand economics. To quote OMSCo:

‘Milk doesn’t come from factories it comes out of a cow. You can’t just turn the taps on. It’s that lack of understanding of what is a relatively inflexible supply chain.’

There are many limitations to both supply and demand that are particular to the meat industry and indeed particular to specific sectors. We will review some of the major limitations to the growth in both supply and demand in the current and potential market for welfare-friendly meat products.

#### 4.3.1 LIMITATIONS TO GROWTH IN SUPPLY

##### *Legislative Restrictions*

These do not apply to restrictions on higher welfare systems per se but rather to the areas of conflict between the growth in extensive systems (especially in laying hens, broiler chickens and pigs) and environmental legislation and planning regulation. To quote the *Ranger*:

‘There is growing evidence that expansion in the free-range sector is being held back by local authorities as planners increasingly show the red card to proposed new units.’ (*The Ranger*, 2006)

Although somewhat alarmist, the article does draw attention to the trials of getting any new free-range unit approved by the local council, with local residents views, impact on local traffic, landscape and environment all taken into consideration. Both Deans Food and Stonegate say this is a considerable barrier to increasing supply in the short term and potentially in the longer term. Environmental restrictions concerning management of waste products as well as biosecurity have also had an impact. Here one large integrated pork

producer comments on some of the difficulties facing the expansion of extensive pig farming:

‘We need to have land available to keep outdoor pigs, and other EU regimes which are not directed at pigs could have an indirect effect on pigs as well: attitudes to having pigs on farm, and even such things as the IPPC [Integrated Pollution and Prevention Controls]. It doesn’t affect us directly, but it will affect our farmers who might say ‘well, thresholds there mean I have got to invest X so I will cut back rather than expand’. (BQP)

### *Lack of Capital for Investment in Growth*

Producers in the UK survive on very low margins. There is little appetite and means for investment in new production systems in a still relatively risky market. This is mirrored by lender’s reluctance to invest in (mainly small- and medium-scale) agriculture. Some suppliers and packers get round this by providing competitive loans for producers either to start up extensive production or expand their current business. This is the case particularly in egg production, with Stonegate and Deans Food providing this service.

Significant investment is generally linked to high growth forecasts. These forecasts are inherently unreliable. The organic milk market went from a state of undersupply throughout the late 1990s, to oversupply by 2000 and a farm-gate price crash in 2001. High growth forecasts by retailers, coupled with high farm-gate organic milk prices and government subsidies to encourage conversion to organic farming, persuaded many dairy farmers to turn organic in 1999 and 2000. This led to a sudden flood of organic milk in 2001, which was met with a lower than expected demand. This resulted in a drop of around 10p per litre of farm-gate prices and many farmers either going bust or opting out of organic production. Hence, steadily increasing demand has been met by a reasonably flat increase in supply, resulting in an under-supplied market. In contrast, free-range production has expanded continually in the last 10 years to meet ever-expanding demand.

Retailers have to balance sourcing products at the lowest possible price while maintaining supply networks that are financially sustainable and innovative. There is a notable difference in this compromise between the different retailers in the UK.

## 4.3.2 LIMITATIONS TO DEMAND

*Disassemblage and Carcass Balance*

The meat industry differs from most other industries because it does not assemble products but disassembles carcasses to make different products. Thus supply does not easily translate into demand. Some parts of the carcass may be in much higher demand than the rest of the carcass, producing an imbalance. For example, there may be a shortage of white chicken meat but a surplus of dark meat, which cannot be profitably met by just increasing production.

Much of the innovation within the distribution and supply networks is in this area of carcass balance. Tackling carcass balance amounts to stimulating demand for unwanted cuts through innovation in marketing and processing, or to increasing opportunities for utilization of the carcass with the globalization of the food industry, or to exporting unpopular cuts to a home in another country where different cultural practices exist. In other words, this process is about identifying a commercial home for as many parts of the carcass as possible in order to get the maximum financial return. The development in the manufacturing of animal products has enabled the manufacturing industry to squeeze out profit margins through the skill with which they handle the balance of the carcass. Thus in some way deflecting the price pressures they endure from the retailers.

*Example: chicken*

‘When you’re selling [brown or white meat] into that market, you need to find a home for the other parts, and probably our biggest difference in costs of production between ourselves and Thailand is the fact that they can actually sell everything in that chicken [...] What we have to do is we have to try to persuade the consumer in all sorts of different ways and formats to buy into the dark meat. And that’s, you know, one of the biggest marketing challenges within chicken. (Chicken processor)

‘Different ways and formats’ have been the site of a processing revolution that has seen massive growth in further processed products, such as ready meals for both retailers and the food service sector using dark meat. In addition there is a seasonality to the problems surrounding brown meat. During the barbecue season, there is not a problem with dark meat, whereas there is a problem during the rest of the year (40 weeks).

There is also a market in exporting small bits and pieces of dark meat, such as legs and feet, and this can improve the costs of production dramatically. Without doing this, it actually costs to dispose of these products properly. There are tight environmental controls that have come in as a result of BSE, which has meant that the disposal of products is huge in the UK in comparison to other countries. Anecdotally, the walkie-talkies (the beaks and feet) are sold in South Africa to be cooked up; the beaks are used for children who are

teething and the feet are used for stock. In a UK retailer, however, these products would not be acceptable on the shelf. Consequently, there is a lot of export of chicken feet from the UK to China and other places.

For birds that are produced under special production systems, such as free range or organic, there is still the issue of carcass balance. It is more difficult to balance the carcass for these birds.

‘We can’t get a dark-meat sale within the traditional route, because the traditional slow-growing breeds that we use tend to be quite yellower in colour and also the shape of the bird is very, very different to a conventional bird. So if we end up having to sell into wholesale, it’s often very, very difficult to sell.’ (Chicken processor)

‘Organic in particular, because what you’re looking for in wholesale is uniformity, and you don’t necessarily get that within free range and organic. However, what we do get is better dark meat sales in free range and organics because, as I said before, you have got [AB] consumers who are possibly more willing to experiment, who will use their thighs for curry, etc.’ (Chicken processor)

For the higher quality birds, the biggest proportion is still sold as whole. However, there is a growing market for portions of higher quality birds and thus an increasing pressure to balance the carcass in order to generate better returns on production.

### *Retailer and Carcass Balance*

Apart from Morrisons, who own their own processing facilities, no retailer literally buys whole carcasses, the issue being the degree of responsibility they hold to help balance the carcass with their supplier(s). Waitrose, for example, tend to have one ‘category’ captain or sole supplier responsible for the assortment in each category. Their concern with carcass balance has just as much to do with making the most of a higher quality product supply, as it is to do with demonstrating a responsibility to the farmer (for more details, see Chapter 3). Again, it can make these decisions because of its smaller size and its high involvement in the management of the distribution and supply networks between farmer and store. In contrast, the majority of other retailers are buying packaged meat from a number of suppliers, and they do not take the responsibility for finding ways to market the less popular parts of the carcass as welfare friendly or to down-grade them to other meat qualities. Here the ‘costs’ are the responsibility of the supplier.

### *All or Nothing: Innovation within Brand and Category Management*

Retailers, whether in developing new product ranges or changing sourcing policies for their categories or entire assortments, have to be able to source enough of the product to

roll out their innovation. The large volumes required present a problem in a market in general under-supply (for added-value primary products). Without significant investment, supply cannot match demand. Here we see the difference between those retailers that are proactive in their approach to farm animal welfare and are willing to invest in the long term for future commercial advantage and those that are not.

An example of this is the increasing interest in sourcing free-range liquid egg to use within cooked products, at least in the ‘best’ product ranges but in some cases for all products. M&S have guaranteed that all their products only use free-range eggs.

The supply for liquid free-range egg is currently quite limited in the UK; there is currently no surplus. Deans Food sell liquid free-range egg to Northern Food who make M&S food and to McDonald’s for all their egg-based products, such as mayonnaise. The difficulty in increasing supply in free-range liquid eggs is explained by Deans Food:

‘When you suddenly say, “right, instead of buying cage liquid egg, I am going to buy free-range liquid egg”, there aren’t enough free-range seconds to satisfy the market – that’s already being used. So what you actually have to do is you have to go free-range first quality. And of course then the price jump is quite high, because you’re going from something that is based on second-quality caged to based on first-quality free range, and that’s a big hurdle for them to get over. And certainly in M&S that was one of the primary reasons it took them so long to convert to all free range.’  
(Deans Food)

This has prompted some ‘me too’ or ‘mimicking’ action from other retailers – for example, Waitrose want to follow M&S and take a similar line in their own label ranges. Tesco has made their vegetarian ranges to contain only free-range egg. The first move by M&S means that other retailers have had extra difficulty and costs converting to free-range eggs for processed products, as the market is in such a state of under-supply and most of supply is contracted to M&S.

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#### 4.4 TECHNIQUES FOR COMMUNICATING ANIMAL WELFARE TO CONSUMERS: ON PRODUCTS, MAGAZINES, EXPLICIT/IMPLICIT MARKETING AND ON AXIS OF QUALITY

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During the course of the research we have picked up numerous pamphlets, retailer magazines, weekend newspaper magazines, adverts in daily newspapers, NGO posters, announcements of NGO award programmes to praise improvements in animal welfare, undercover TV reports/programmes. All of these are communicating about farm animal welfare in some way and raising its profile. There is a difference in tone and content



FIGURE 4.3 Somerfield magazine, February 2006, p. 60.

between these sources of information, but their variety illustrates the fact that animal welfare is an issue in the UK, which is discussed through a number of channels.

Previously, we have looked at the communication of animal welfare only on food packaging, however other devices exist (Roe and Marsden, 2007).

#### 4.4.1 EDUCATING ABOUT FOOD LABELING

A number of organizations are actively involved in trying to educate people what to look for on packaging. For example, Somerfield in their free magazine have an article about two labels associated with quality assurance schemes, the 'Assured food standards' label and the 'Lion quality egg mark' (Figure 4.3). Interestingly, despite the Freedom Food label featuring on the products photographed it is not discussed or mentioned in any way in this feature.



FIGURE 4.4 CIWF (2005) (left).

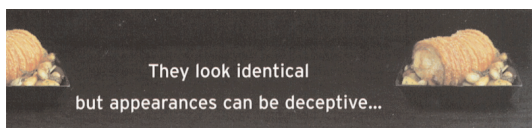


FIGURE 4.5 Soil Association (2005) (right).

NGOs are also involved in education about food labelling. Compassion in World Farming have published a small ‘Compassionate Shopper’s guide’ (Figure 4.4). This is sent out to members of CIWF or given away to people at promotional events. The information offers guidelines about the labels and marketing expressions that are used on food packaging to help people understand how the choices they make as consumers impact on production standards. This NGO focuses much of their campaigning on promoting ethical consumption and retailing practices; as their focus is solely on farm animals, this is an effective approach.

The quality assurance schemes themselves are also involved in educating consumers about animal welfare. The quality assurance schemes and industry bodies work to communicate directly with consumers to both raise public awareness of what they stand for, and also for commercial aims. For example, Figure 4.5 is the front cover of a pamphlet produced by the Soil Association in 2005 explaining why they think animal welfare is embraced by their organic hen–egg production system. They outline how welfare comes first for Soil Association birds, why poultry standards matter, what chickens want, and what the Soil Association has done, and what the consumer can do.

BPEX, the statutory industry body that promotes British pork has also ran a number of high-profile advertising campaigns in 2005 to encourage UK consumers to recognize the difference between UK pig welfare standards and those from other countries. The campaign aims to make consumers aware of the Quality Pork Standard label that is used on pork packaging from British pigs where a higher standard of welfare is legislated. This standard is focused more on post-slaughter processes to ensure a consistent, high quality product than farm assurance although it does encompass the AFS standard. Interestingly, their marketing campaign centres on the differential between animal welfare standards



the difference is that one of these pork joints is produced by welfare practices which are legal in Britain and one isn't.

In Britain to keep pregnant sows in cages that about six inches to move backwards or so they are unable to turn around. However this legal across most of Europe\*. 58% of pork, bacon and sausages consumed in the UK is imported two thirds of this comes from farms which free movement of pregnant sows in a way is illegal in Britain.

All pork which carries the Quality Standard Mark (QSM) has been produced using welfare standards equivalent to those which ARE legal in Britain. The extra costs of welfare required to meet the UK standard means that this pork cannot compete with the cheaper imports that do not meet QSM Standards.

\*Stalls and Tethers are banned in Sweden



QSM is your guarantee that the pork, bacon, ham and sausages you buy are produced to welfare and production standards that would be legal in Britain.

Carrying the QSM are independently audited and reliability through all stages of production. Although consumers believe that imported meat should be to standards that are equivalent to those in the UK, supermarkets are continuing to buy cheaper pork that meet these standards. These retailers will only meet these standards if they believe their customers about pig welfare and production standards than to buy cheap pork.

If you want to support Quality Standard Mark pork, bacon, ham and sausages make your feelings clear:

- Fill in and post the pre-paid postcard below to register your support. This will help us to demonstrate to the supermarkets that you care about the welfare of pigs and want them to sell Quality Standard Pork.
- Or visit [www.lookforthemark.co.uk/yoursay](http://www.lookforthemark.co.uk/yoursay) to register your support and for more information.

FIGURE 4.6 BPEX pamphlet (2005) (left).



On many farms across the world pigs are fed meat and bone meal which partly consists of offal, bones and other animal parts. Pig meal must be fed to the meat and bone meal derived from their own mother. However, by buying pork, bacon or ham carrying the Quality Standard Mark, you can be sure that you are not supporting this practice. Vegetable based feed is just 1 of the standards audited by independent inspectors. LOOK AFTER THE FARMERS WHO LOOK AFTER THEIR PIGS. MEAT AND BONE MEAL DERIVED FROM SWINE, SHEEP, CATTLE, WILDLIFE AND OTHER ANIMALS.

POST CARD  
Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
Postcode: \_\_\_\_\_  
Tel: \_\_\_\_\_  
E-mail: \_\_\_\_\_  
Occupation: \_\_\_\_\_  
Signature: \_\_\_\_\_

FIGURE 4.7 BPEX magazine advert (2005) (right).

from UK and imported pork. These adverts have appeared in the popular press (Figures 4.6 and 4.7), and also as stand alone leaflets, tucked inside the pages of newspapers.

#### 4.4.2 GIVING MORE OF THE ‘QUALITY’ STORY

The other major approach to the communication of animal welfare is through providing additional information about how special the products are that are found in the store. There may be leaflet stands near particular products for shoppers to help themselves to, or features may appear in the retailer’s own magazine for shoppers. The Somerfield magazine already mentioned is free; whereas the Waitrose magazine has to be bought or is free for customers who have a John Lewis store-card. Two examples of this are given below.

Figure 4.8 presents an example of promotional material found in a Fresh ‘n’ Wild store. It is one of a number of small cards that provides a story about some of the suppliers to Fresh ‘n’ Wild. Although this one does not talk directly about animal welfare, it suggests that the cows who make Manor Farm milk are well cared for and are treated with special care because they are organic cattle. Manor Farm is not a member of one of the large organic milk co-operatives like OMSCo and thus has a more select market. This all contributes to the making of a brand of organic milk that is that little bit more special.



### Our supplier's story

**Will and Pam Best** Manor Farm,  
Organic Milk Producer, Godmanstone, Dorset

"The quality of our cows' fodder is paramount, so we 'fix' nitrogen naturally by growing alfalfa for silage. We also plant herbs like chicory and salad burnett into the grass for our animals to feed on. This way we're able to access different levels of soil nutrients and do away with dietary supplements."

We've been farming here in the Cerne Valley, Dorset for 35 years. We have a herd of cows and a flock of sheep, and grow a variety of arable crops, including wheat for bread and thatching straw. When we started out, Will, my husband, and I farmed 'conventionally', but became increasingly concerned about the effects of using artificial fertilisers and pesticides. In those days, the pesticide company reps would have you believe they knew more about farming than you did, and a lot of things just didn't make any sense.



FIGURE 4.8 Card found in Fresh & Wild store in Bristol, 2005.

Figure 4.9 is the front cover of a Waitrose pamphlet that gives a lot of detail about the Waitrose production system for pork meat. As previously discussed in this report (see Section 3.2), Waitrose have designed their own 'bespoke' production system, which, although audited to QAS-AFS, FF and Soil Association, do not put their labels on the packaging. These pamphlets are their way of demonstrating through text and images why their pork meat is special.

#### 4.4.3 PRICE PROMOTION

Price Promotion is a popular way for retailers to attract attention to products. Stonegate and ASDA have been heavily promoting free-range eggs; placing features in the ASDA



FIGURE 4.9 The cover of a Waitrose pamphlet.

magazine and putting up shelf markers with information on ‘ASDA’s producers’ and the free-range conditions on farms. But, most importantly, they have used price promotions:

*‘Have there been specific price promotions on free range?’*

Yes.

*And that has been going on for a while?’*

Well, ASDA have really only been into promotions again for the last probably six months. Before then, it was anathema that you ran a promotion, because the theory was all the money that you invested in promotions should be in the price anyway, which worked for them for years but they’ve got to a point now where their growth has stalled. And they have realized that actually British consumers like a bargain and, you know, even though they have done the price job. People know ASDA for being cheap. They’ve got to start getting a bit of interest in the stores and that’s going to be through promotions. But yes, we have a policy now that when there are promotions on the egg category they are on free range, because it’s the best way of highlighting the price offer and getting people into it to realize that the product is there’. (Egg processor)

ASDA price promotions on free-range eggs sparked controversy as free-range has historically avoided being drawn into competition on price between retailers.



# DETAILED ANALYSIS OF RETAIL DISTRIBUTION AND SUPPLY NETWORKS

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This section discusses a selection of products and what we discovered about how the supply network works of product from animals raised to higher welfare standards. Thus, we identify how products from animals raised to higher welfare standards become labelled on the supermarket shelf with animal welfare claims, or how a product that carries no label can still carry a value in the market because it originated from higher-welfare animals. The diagrams and accompanying description help to explain what occurs and the specific challenges that different sectors face in taking part in the market for welfare-friendlier foodstuffs. It also includes insight into the different types of commercial relationships that exist within supply chains of welfare-friendly foodstuffs between farmers, processors and retailers. Two pork-based products, two egg products, two beef products, two chicken products and two dairy products will be discussed. The major retailers – ASDA, M&S, Morrisons, Waitrose, Sainsbury’s, Tesco and Somerfield – feature in the product narratives.

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## 5.1 DUCHY DRY CURED SMOKED BACK BACON

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The Duchy brand was originally set up by HRH the Prince of Wales to market products from his Highgrove Estate. The brand is now worth £45 million and is growing by 30% per year. Duchy moved into meat products in 1993 with sausages from pigs farmed at Highgrove and surrounding farms. Duchy do not own manufacturing facilities but rather contract out the manufacturing of their products.

‘[W]hat we do is we develop the recipe and we own the recipe and our recipes and we do all the selling and the marketing. But we never actually take the title to the goods. So once we get a listing in a supermarket, they place the order on the manufacturer. They do the day to day stuff but anything to do with the pricing, recipes, promotions, we do that.’ (Duchy)

In terms of Duchy bacon, Duchy manage the production side. Organic pigs are grown on Richard Hazel's farm and slaughtered at Ensors abattoir in Gloucestershire. They are audited to Soil Association standards. They also buy, where possible, organic pigs from Dalehead. But they are at the 'bottom of the pile' in a situation of chronic undersupply. Free-range pigs are procured from either Dalehead or Cranswick. Both of these integrated pork suppliers grow a set number of pigs (negotiated in advance) to Duchy specifications (organic specifications minus organic feed, but feed is still non-GM). The main barriers to supply are the limited number of especially organic pigs and the problems of selling the carcass in balance to derive a sustainable return. The range of further-processed products on Duchy's books means that they are quite successful in balancing the carcass, but with increased volumes this is an ever-present problem and, consequently, is the site of much innovation.

'At the moment, the free-range pig is completely used but, of course, if we grow more for the bacon and sausages then we have got the leg issue. So we do have potential listings on more hams with sort of Tesco's that they are talking about later in the year, so it's getting the timing right as well. We will get there, it sort of goes like lurch, lurch, lurch.' (Duchy)

Denhays buy the parts of carcass from either Ensors (organic: loin and belly) and Dalehead or Cranswick (organic: loin and belly; free-range: loin) and process them in accordance to the Duchy recipe, package the product (designed by Duchy) and sell it to the retailers. Denhay also manufacture bacon under their own brand. The raw product comes from 'outdoor-reared' pigs, produced to Freedom Food standards by Bowes of Norfolk but is not labelled as such. This is sold in Waitrose and Morrisons. Their bacon was in ASDA but Denhay withdrew it because they were selling it at a cheaper price than other retailers, which would lead these other retailers to demand lower prices so they could match ASDA.

Duchy negotiated with both Dalehead and Waitrose for placement within the bacon category, shelf-position, sales, retail price and promotions. In their own words, they are a 'grown-up brand' and are expected to do what grown-up brands do. They are having a hard time with Waitrose, as they work to justify their place within the pork category.



*Note:* '[M]ade from organic pigs reared outdoors as part of the traditional cycle of mixed farming, helping to build and sustain the natural fertility of the soil. The pigs enjoy an organic diet, the highest welfare standards and a healthy, outdoor lifestyle on organic land. They have warm shelters with dawn bedding and cooling mud baths in the summer. Naturally reared and naturally fed. The pigs are reared without the routine use of drugs or antibiotics. Duchy also sell organic unsmoked back bacon and free-range smoked and unsmoked back bacon, and free-range streaky bacon.'

FIGURE 5.1 Duchy dry cured smoked back bacon.

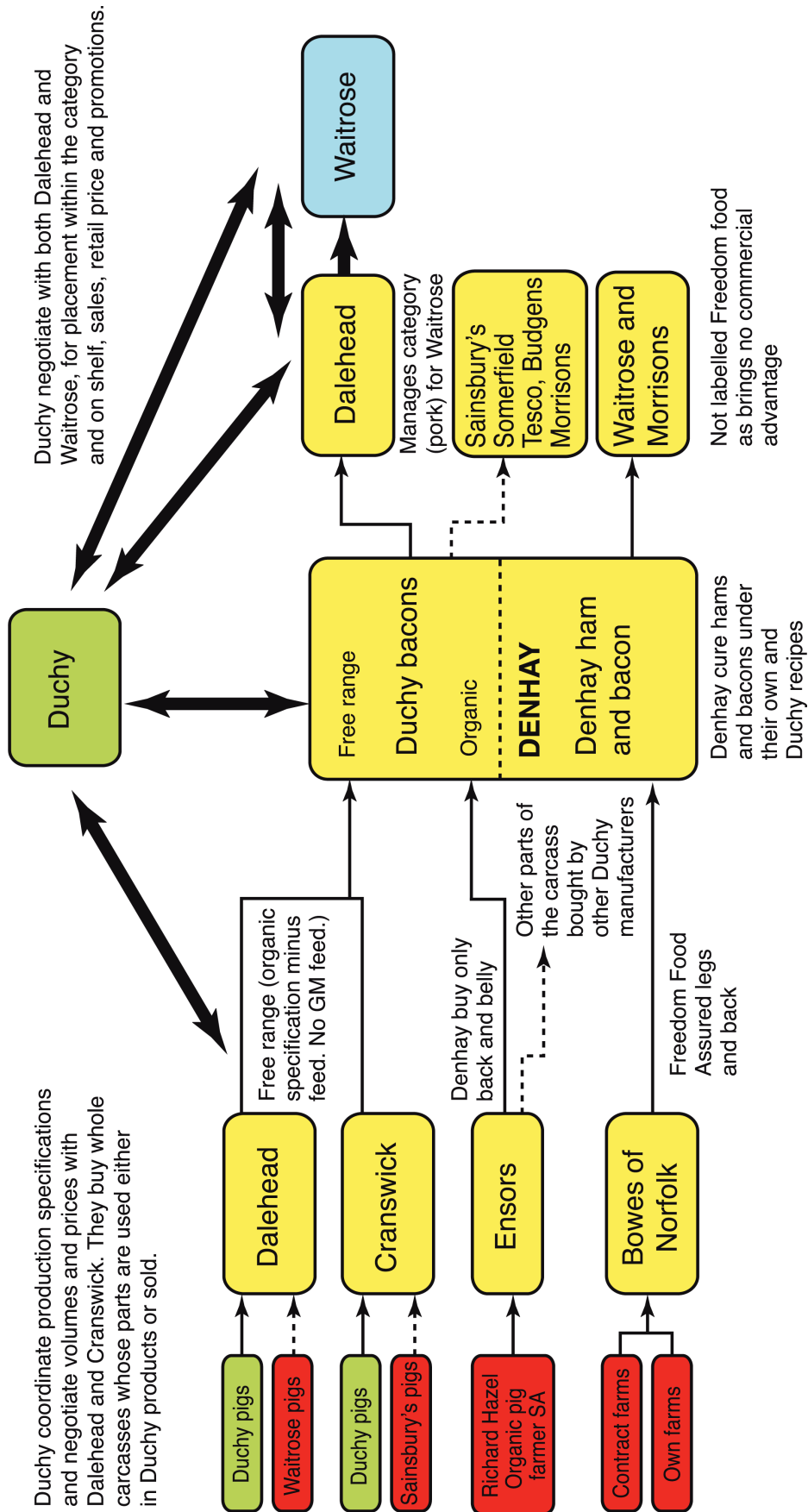


FIGURE 5.2 Duchy Bacon retail distribution and supply network.

The Duchy brand has earned high recognition amongst consumers, and their products, although at the top end of the market, continue to sell very well. Animal welfare is at the heart of the 'quality' product that Duchy market.

'It's telling the story about your food and where it comes from and how we look after our animals. I think people want to know. We are rung up a lot and asked sort of questions about [animal welfare]. I was rung up the other day by somebody saying, "how do you transport your animals around and abroad", and I said, "well we don't, we don't transport any animals abroad". I think she was after this live versus dead issue. But people are very concerned about these issues and they do want to know. It stems from the founding philosophy: the Prince connecting people back to the farm so actually understanding how their animals are reared, whether it was free-range or outdoor. Actually, where it is from, I think, is a very important message for us to get across, but also then understanding how it is produced, you know, premium ingredients and bringing it right to your plate.' (Duchy)

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## 5.2 WAITROSE PORK LOIN

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BQP have been a farming operation since the late 1970s, developing an outdoor-based breeding system. Having trouble finding any higher returns from abattoirs for their carcasses, they bought their own abattoir in the 1990s, in an attempt to 'get closer to the customer' and market their products effectively. In 2000, they merged with Dalehead, the pig processing company, which had central retail packing facilities for both M&S and Waitrose. They are the biggest integrated pork supplier in the UK.

'Until the Dalehead link, we really probably weren't, well, we certainly weren't making the best of what we were doing on the farm.' (BQP)

Waitrose and Dalehead have been 'partners in some shape or form' for the last 20 years, but 2003 marked a new era in their relationship. Dalehead ended its role as suppliers to M&S and became Category Manager for pork for Waitrose and their sole own-label pork supplier, with all the carcasses coming from BQP farms.

Dalehead are part of Flagship foods, which merged with Danish Crown and their UK subsidiary, Tulip Ltd. They now trade under Tulip Ltd. (see <<http://www.danishcrown.dk/page2685.asp>>, accessed October 2006).

BQP have 170 own farms, and 220 farms that are contracted to supply BQP. They produce one third and two thirds of the output, respectively. BQP supply stock, feed, haulage, veterinary and QA input and technical assistance. They have a dedicated pig slaughtering



FIGURE 5.3 Waitrose Pork Loin.

*Note:* ‘Specially selected Waitrose free-range pork... The gently rolling countryside of North Norfolk, its climate and free draining soil is perfectly suited to rearing pigs outside all year round. The Hampshire breed produces pigs that thrive in the outdoors and are allowed to roam and root freely... Roger Newton supplies Waitrose with English free-range pigs from his farm in Norfolk. Pigs are kept in small family groups and fed on a balanced cereal diet with vitamins and minerals. Warm shelters and dawn bedding protect them from winter, mud baths keep them cool in summer. Care, commitment and high standards of animal welfare ensure succulent tender bacon.’

plant that includes secondary processing, two further processing plants and a retail packing plant.

In conjunction with Waitrose, BQP/Dalehead reviewed its on-farm requirements (Codes of Good Agricultural Practice, GAPs), including their animal welfare components for pigs. Their category has been rationalized into three tiers: BLEP/LINK, free range and organic. For each line they have specific breeds/crosses they use that are deemed to be best adapted to the particular production conditions. BQP have an in-house vet and they monitor the performance of their farms closely, and each farm is audited under AFS and Freedom Food.

Their basic offer — ‘Farmhouse’ pork, established as early as 1983 — became BLEP, Basic Level Entry Product. The requirements include that the pigs are ‘outdoor bred, outdoor farrowed, and then they come indoors for fattening’, no growth promoters are used, specific herd plans are applied, and the pigs have access to dawn, etc.

‘Free-range’ pigs are outdoors throughout their lives until slaughter, and their production system also includes no use of growth promoters, the application of specific herd plans, access to dawn, and the pigs are from a traditional breed exclusive to Waitrose – the ‘Hampshire’; their pigs are grown in two counties. This allows Waitrose to market specifically their ‘bespoke’ supply chain on the product packaging, as shown in Figure 5.3.

‘Organic’ pork is reared to Soil Association standards: bred, weaned and finished on single farms; weaned at six weeks (two weeks later than BLEP and free range) and of specific crossbreeds suited to an organic, free-range production system.

Over the last 20 years, Waitrose have developed a retail distribution network that is built on a ‘tripartite’ relationship between producers, processors and its buying and technical team – a ‘vertical partnership’ (Foord et al., 1998; Wrigley and Lowe, 2002; Fearne and Dedman, 1999). This ‘bespoke’ network allows for innovation and differentiation at all three levels:

‘You’ve got a scenario where because of Waitrose’s long-term interests in their supply chain you are in a position to invest in differentiation and work along with

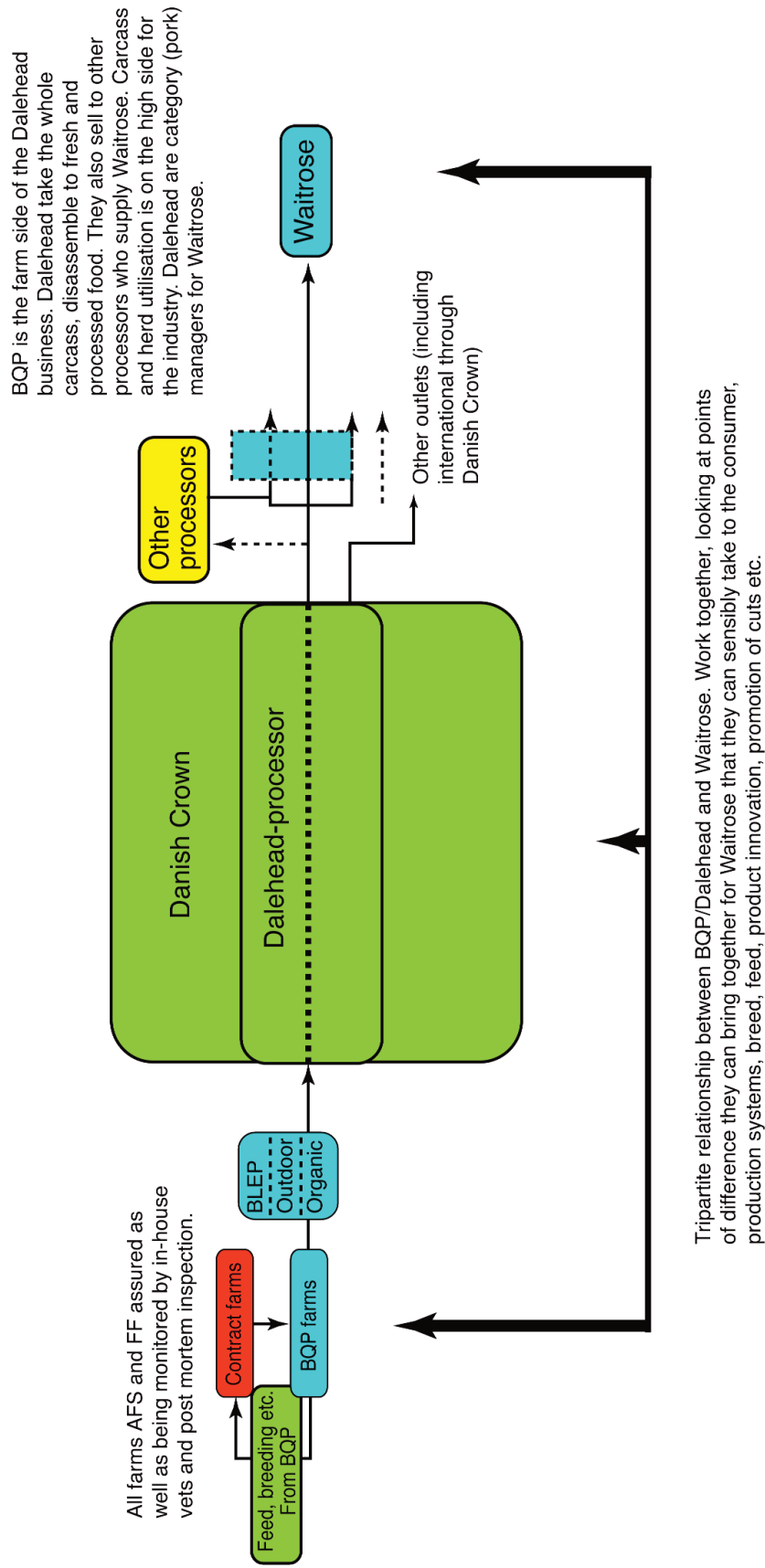


FIGURE 5.4 Waitrose Pork Loin distribution and supply network.

them in long-term solutions. For instance, between bringing in a new breed, testing it and providing 100% product on the shelf so that Waitrose could then market it, it took four years. But if you don't have a long-term view of a supply chain, you couldn't do that. Most of the UK retailers would not see that as an investment that they were prepared to make and probably thus haven't made the progress in some of their quality aspects that Waitrose have.' (BQP)

In terms of farm animal welfare, this means that producers, BQP/Dalehead and Waitrose have been able to develop a production system that has 'high' animal welfare and quality credentials, which are a real point of difference with the more 'generic' pork on offer at other retailers.

'So we are always working with them in terms of looking at points of difference we can bring together for them that they can sensibly take to the consumer.' (BQP)

This 'commonsense commercial compromise' (according to a Waitrose head buyer) aims at producing a higher quality product that is sustainable, that includes animal welfare improvements as a marketable difference, whose extra costs the consumer is willing to pay for. A key part of keeping costs down is herd and carcass utilization. The former refers to the percentage of the BQP herd that hit quality and carcass specifications and, therefore, the percentage of carcasses that can go into the 'quality' stream with higher returns (i.e. being sold as 'Waitrose pork'). Dalehead both process and supply to other processors raw materials for a large range of different products whose quality requirements vary – i.e. fresh cuts of pork would come from only 'high quality' carcasses (fat content, etc.), whereas pies and sausages would use meat from a range of carcasses (except of course condemned carcasses). Therefore, most BQP carcasses find a home at Waitrose. The latter refers to the proportion of the carcass that actually finds a way into Waitrose products (or other 'premium' products, such as Duchy) and thus are sold at a premium. Innovation in further processing means that less popular cuts retain their Waitrose premium (and gain value) with further processing. The acquisition of Dalehead by Tulip Foods Ltd. has meant that Dalehead have been able to use the Danish Crown global food network to export parts of the carcasses to countries where they have more value.

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### 5.3 STONEGATE – SUPPLIERS OF FREE-RANGE EGGS TO ASDA, WAITROSE AND OTHERS

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Our research focused on Stonegate as major suppliers to ASDA in England. The following distribution network reflects their overall structure and practices.

5.3.1 STONEGATE DISTRIBUTION NETWORK

Stonegate are the second biggest actor behind Deans Foods in the UK egg market, occupying 25–27% of the market.<sup>5</sup> Waitrose and ASDA constitute 60% of their business – a customer base which means they overtrade in free-range and organic. They also supply Somerfield, Sainsburys and Morrisons. Processed (liquid) egg represents around 30% of their business and food service is around 5–10%, but it is an area they do not focus on greatly due to its propensity for commodity trading in eggs.

‘It would be wrong to say that our strategy is driven by animal welfare, but it certainly is our strategy to nurture and drive sales of free-range and welfare-friendly products. We work very deliberately with those retail customers who have good sales in this sector, or wish to drive them. These customers would match our ambitions. We wish to be less reliant on cage produced eggs, which will increasingly

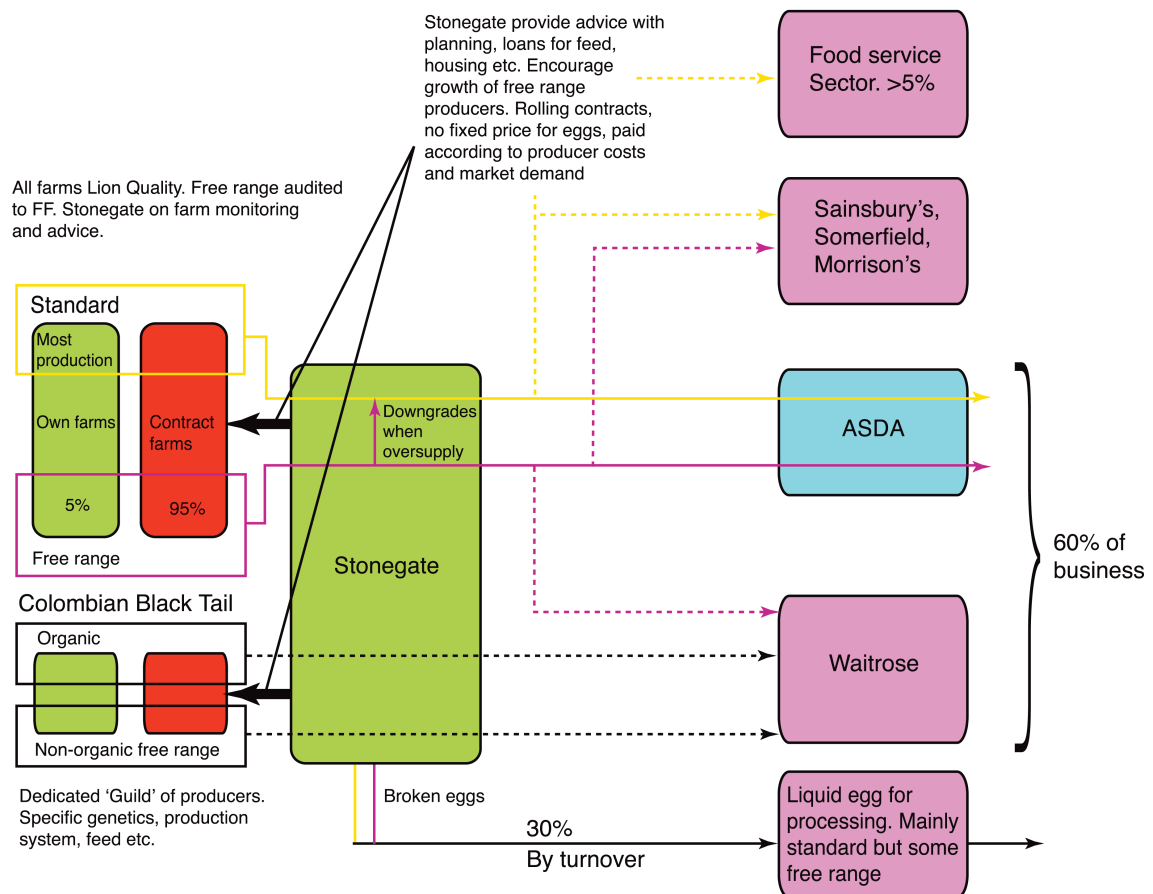


FIGURE 5.5 Stonegate free-range eggs retail distribution and supply network.

<sup>5</sup> In June 2006, Stonegate announced their merger with Dean's to become Noble Foods, which is now by far the biggest player on the market with around 60% of the market. They say this will lead to substantial savings in distribution and packing which can free up capital that can be passed on to farmers for them to invest in the upgrade and expansion of 'added value' production units.

become a traded commodity, where returns are high risk and difficult to forecast. Free range should allow us to deliver more consistent revenues and returns.’ (Stonegate)

Stonegate run their own farms and also have around 250 farms that supply to them. Farms owned by Stonegate produce most caged eggs; in contrast, free-range and organic eggs are predominantly produced on contracted farms. Stonegate encourage new farmers to come ‘on board’ and the expansion of existing contract farmers to meet market demand by providing advice with planning, feed, housing, etc. One of the biggest barriers to an expanding production of free-range eggs is land and planning restrictions. Costs of producing free-range eggs are also noticeably higher than caged. In caged production, genetic improvements and efficiencies of scale have historically played some part in counteracting inflationary pressures (increases in the price of labour and energy). This will not be the case going forwards, however, as there is currently little investment in large efficient units, due mainly to uncertainties about how cage eggs will be produced in the EU. In free-range production, legislative and land restrictions limit efficiencies of scale; on their own genetic improvements do not cover inflationary pressures.

Stonegate use rolling contracts, with no fixed price for eggs. Farmers are paid according to producer costs and market demand, where price is used as a crude market management tool. All supplying farms are audited to Lion Quality, and free-range farms are audited to Freedom Food standards. All second grade and broken eggs go into liquid egg. There is a market for free-range liquid egg, and future growth is anticipated here.

Although ASDA do not currently have a dedicated flock base, the equivalent volume of around 80 farms produce ASDA free-range eggs audited to Freedom Food standards. By value, free-range eggs account for 36% of ASDA’s sales, compared to cage produced at 41%. Barn and organic are 17% and 5% respectively (TNS 52 weeks to 28th January 07). On the shelf prices vary greatly. For one medium egg: cage starts at 6.7 p., barn, 14.3 p. (both sold as minimum weight), free-range 14.6 p. and organic 24.2 p. (prices correct as of 12th February 2007).

ASDA free-range eggs carry the Lion Quality logo and clearly state ‘laid by hens free to roam on British farms in the fresh air from dusk to dawn’, on the top of the pack. At the time of the market audit (11/2004), they also carried the Freedom Food logo. This has



Notes: \* ‘These eggs come from hens reared on farms approved by the RSPCA Freedom Food scheme. The hens must have the ability to perch, preen, nest, forage and have access to the outdoors during daylight hours.’ \*\* This photograph is old and does not represent the current ASDA range of ASDA packs.

FIGURE 5.6 ASDA free-range eggs.

now been removed from packaging as it was considered to add little value, with low consumer recognition and loyalty.

In order to increase the growth of the market, Stonegate and ASDA have been heavily promoting the benefits of free-range eggs: placing features in ASDA magazine and putting up shelf markers with information on ‘ASDA’s producers’ and free-range conditions on farms. ASDA has implemented volume-driving promotions on free range.

*‘Have there been specific price promotions on free range?’*

Yes.

*And that has been going on for a while?*

Until only fairly recently, ASDA had a ‘no promotions’ trading philosophy. The theory was that monies invested in promotion were instead invested into consistent, lower, retail pricing. Over the last six months this has changed, and we have run a number of price promotions on eggs. Where we have good availability, we would try and undertake price promotions on free range. In the long run it raises awareness for those who would not normally search out free range’. (Stonegate)

The higher margins on free-range eggs for retailers, suppliers and farmers are in a sense reliant on a ‘value’ product. In the UK, this means caged. Within the UK market, this is the commodity product that all retailers compete on for lowest price offer. Free-range eggs have been seen as a differentiated product, with retailer buyers focused on differentiating their product in terms of quality not price. The egg industry is keen to keep a full range of ‘choice’ for the consumer, and maintain margins on free range.

Stonegate also produce the Colombian Blacktail egg for Waitrose; it follows a very different distribution network. Select producers, who form a ‘guild’, grow a specific breed of layer (Colombian Blacktail – developed from older breeds) within specific requirements, which allow Waitrose to differentiate their product in terms of farming methods and ethics (including animal welfare and a fair deal for farmers).

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## 5.4 DEANS FOOD AND M&S PROCESSED EGG

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Deans Food is the leading integrated egg marketing company in the UK.<sup>6</sup> Their business is split into four operating divisions: shell egg, egg products (further processing), feed milling, and hen processing (slaughter and processing of end-of-lay hens). Deans Foods have their own farms and contract farms:

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<sup>6</sup> In June 2006, Stonegate announced their merger with Dean’s to become Noble Foods, which is now by far the biggest player on the market with around 60-70% of the market.

‘Thirty per cent of our eggs are produced on farms that we own, 70% are from farms on contract to us. We have company farms of all the different production types – cage, free range, barn and organic – as we also do on our contract supply side, but as the egg market is changing the vast majority of our contracted supply base will be free-range or organic producers.’ (Deans Food)

As the free-range and organic markets are set to expand, most of the growth will be met by growth in contract farm numbers and size. As well as using the sectors attractiveness (in terms of returns) for outside capital from farms looking to diversify, it also makes sense in terms of land use and environmental impact to have free-range production co-grazing with other species. Having said this, Deans Foods have recently invested in their own farms to increase organic production. All the farms (both contract and own farms) are audited to Lion Quality. Organic, free-range and barn production systems are also audited to Freedom Food. And organic production systems are also of course audited to either Soil Association or Organic Farmers and Growers.<sup>7</sup> In total, they have around 13.5 million hens supplying into them at any one time. In addition to this, some farms are dedicated for producing shell eggs for particular retailers and have to conform to particular retailer’s codes of practice. For example, M&S shell eggs are produced on 72 farms – this includes specifications on top of Freedom Food and legal requirements that include no GM diet, vegetarian feed, and range enrichment. Producers are placed on a rolling 12 month contract; prices paid reflect the current costs of production and market demand:

‘If you talk at farm level, ex-farm cage costs in round figures around 40 p. a dozen, barn ex-farm in the mid-50s, free range in the mid-60s, and organic 95–100 p. (OF&G, 117 p. for SA).’ (Deans Food)

### *Shell Egg*

Deans Foods have around 40% of the market share of retail shell eggs. They supply all the major retailers except Waitrose and ASDA on all tiers from caged to organic, in the same proportions to the retail egg market as a whole:

‘Taking the 52-week figure by volume, I think it’s about 55% cage now with the rest being non-cage. The non-cage sector comprises organic at 3.6%, free range at 34.6% and barn at 6.4%.’ (Deans Food)

M&S only buy medium and large size eggs from Deans Food, the small size eggs going to other retailers or for hard-boiling. These are not labelled as Freedom Food in M&S (although they do carry the Lion stamp), as they do not feel it adds any value to the M&S brand and the product itself. The small eggs may be labelled Freedom Food in the other retailers.

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<sup>7</sup> In effect segmenting the organic category: Soil Association production leading to higher costs [+17-20p per dozen] and therefore higher price to the consumers.

Deans Food also sells shell egg to the food service sector, in times of surplus.

### *Processed Egg*

M&S changed their shell egg category to include only free-range and organic offers in 1997, but it was only in 2003 that free-range eggs were used in all their products. This was for two main reasons. The first being the relatively low volume of free-range production meant that the volume of second quality eggs (those with cracks, blemishes, etc. that traditionally go for breaking and into liquid egg) were not enough to meet the demand for free-range liquid egg. So first quality has to be used, which drives the price up. As free-range production has increased in size, the volume of second quality eggs has risen, thereby making prices more affordable. With M&S taking most of the free-range liquid egg on the market (as well as importing in liquid egg to meet their demand); this leaves other retailers in a difficult position in trying to roll out free-range, further processed products. The second reason is that processors using liquid egg do not have the infrastructure to deal with separate standard and free-range lines:

‘It’s not just a question of paying them more money. To those suppliers it’s a question of handling products because you have got a relatively short shelf-life product like pasteurized liquid egg, and a lot of the suppliers would not only supply Waitrose. So you are supplying Tesco with a silo full of this egg and Waitrose with a silo full of our egg. So suddenly your inventory of fresh egg goes up and the utilization of it then falls to you so you end up with a lot of wastage. They have got to overcome some of those issues.’ (Stonegate)

Deans Food supplies the majority of M&S free-range liquid egg requirements. In contrast to their shell eggs, free-range liquid egg does not come exclusively from select farms (which would make the product exorbitantly expensive). Deans Food sell the liquid egg onto other manufacturers supplying into M&S. Manufacturers supplying into M&S have a list of approved liquid egg suppliers. Therefore, they can remain competitive in their sourcing. Secondary processing has become an increasingly important part of the market, with suppliers keen to add value to their product.



FIGURE 5.7 M&S lasagne.

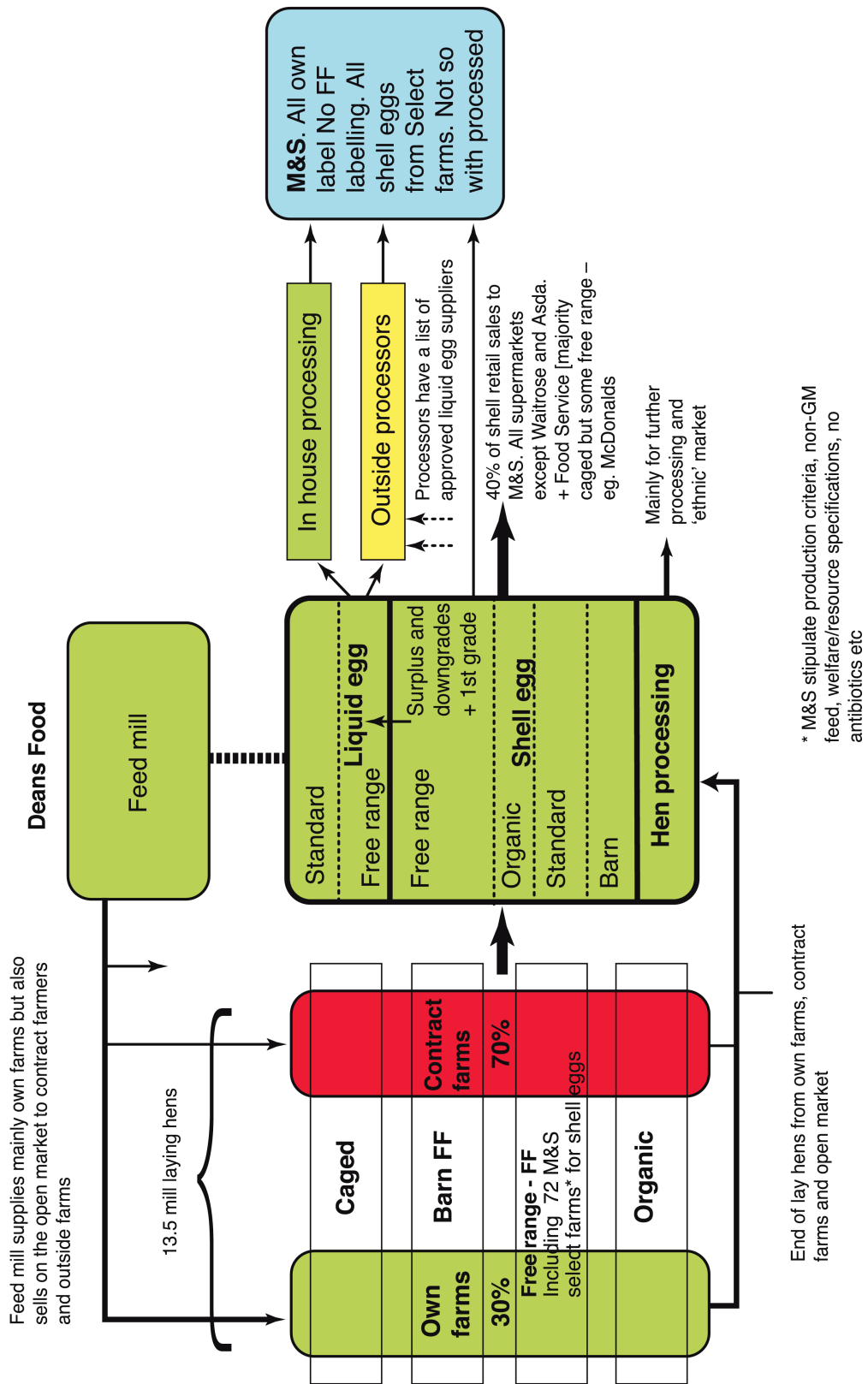


FIGURE 5.8 M&S Processed Egg distribution and supply network.

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## 5.5 M&S ABERDEEN ANGUS – SCOTBEEF

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Scotbeef are Marks and Spencer's largest beef supplier in the UK and have been supplying to M&S for over 40 years. They slaughter around 1,600 cattle a week and 0.5 million lambs a year. They procure their cattle from recognized farms, which are farm assured with either QMS or AFS certification and comply to the Marks and Spencer's Select Farms assurance scheme and Scotbeef's own identification system known as BeefTrack™.

'In the late 1980s we were challenged to look at the eating consistency of our beef. With M&S, we started a two-year project sampling 20–30 sirloins per week from different animals. The farms where the cattle were procured from were audited and records kept on animal feed regimes and farm management systems. At slaughter, the carcasses were identified and the following criteria were measured and recorded on an extensive database: animal breed, carcass conformation, carcass weight, transport, lairage rest, temperature control, maturation, and online (abattoir) processing. We implemented a system – BeefTrack – where we could identify and track the animals (and farms) through the process, which was unique to the industry at that time. The data from the project formed the framework of Marks and Spencer's Beef Specification. In 1995, the Beef Specification was developed further with the launch of Marks and Spencer's own Farm Assurance Standards known as "Select Farm". Farms are audited to animal welfare codes of practices and legislation, for example stockmanship, animal feeding, animal health, environment, housing systems and other farm systems as well as other specified criteria, for example feeding had to be forage-based and natural and in 1999 it had to be derived from non-genetically modified ingredients. Farms had to maintain comprehensive veterinary records and health plans, which had not been required before in such detail. Select Farms work alongside Scotbeef's identification/Beeftrack system.'

At the time, in 1995, when Select Farms was launched, there was no functioning national assurance scheme, so the data from the Beeftrack system was used to define and audit the M&S Select Farms assurance scheme, which was obligatory. This data allowed Scotbeef and M&S to select relevant farm and abattoir criteria that ensured consistently high quality



*Note:* 'Meet one of our farmers... Sandy Fryers from Angus says, "Our Aberdeen Angus cattle are born and reared on our estate at the foothills of the Angus Glens. Our aim is to ensure that the highest animal welfare standards are achieved".'

FIGURE 5.9 M&S Aberdeen Angus - ScotBeef.

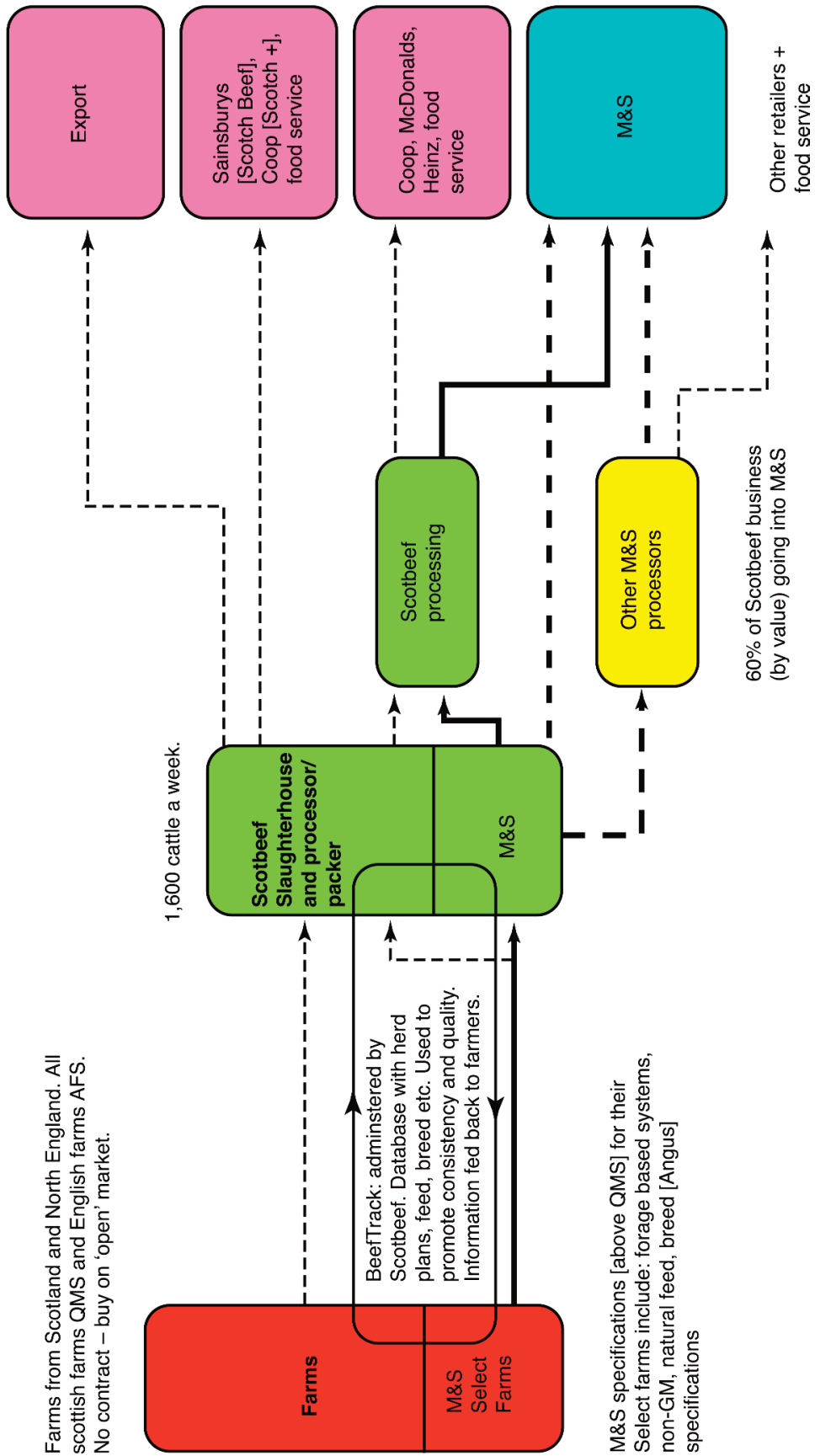


FIGURE 5.10 M&S Aberdeen Angus Beef distribution and supply network.

end-product. These included specific beef breeds reared in suckler herds, forage-based, natural diet and high levels of welfare and health practices.

The Beeftrack system allows Scotbeef to manage customer expectations. It is:

‘now used for two things. One is to make sure that we know what is going on the farm, so that if we are able to answer honestly and factually any questions asked regarding the source and management of our livestock. The other one is so that we can lead our producers in the direction that we think things are moving towards.’  
(Scotbeef)

It ensures the integrity and consistency of the primary product and also functions as a communication tool between retailers, Scotbeef and producers, which allows for innovation and accountability in production systems, processing and marketing.

‘One of the big differences between us and the rest of the industry in Scotland is that we don’t slaughter to sell the meat; we slaughter to put retail packs on the counter so we’re much more integrated.’ (Scotbeef)

ScotBeef sell retail packs to their customers. It is up to them to balance the carcass and this is an area of intense innovation. As well as primary processing, Scotbeef have two further sites for secondary processing. This allows them to utilize both the unpopular cuts and add value to the carcass.

‘Yes, I think it would be fairly obvious that the more you process it yourself the more you are taking a share of the added value. And if you’re selling it to somebody else to process it then you’re missing out on something. And that’s exactly why we developed the next stage on to try and retain that profitability within our business rather somebody else taking it.’ (Scotbeef)

In addition to M&S, Scotbeef supply fresh cuts to Sainsbury’s, Coop and food service outlets, and they process products to McDonalds and Heinz and food service outlets. They also supply other manufacturers with primary product (they are an approved supplier for manufacturers supplying into M&S).

Scotbeef also have a healthy export market due to the high regard Scotch beef holds internationally. The lifting of the Over Thirty Months rules and export restrictions will significantly expand this market, which will buoy up the domestic market.

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## 5.6 SOMERFIELD SO GOOD<sup>8</sup> WEST COUNTRY CORN FED CHICKEN

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Lloyd Maunder has been supplying chicken since 1898. They were at the forefront of the industrialization of the sector in the 1950s and 1960s. In 1996, they developed their first free-range chicken offer, based on the French Label Rouge scheme. To begin with, they used standard breeds but consequently developed their own breed – the Devonshire – which has been trademarked. This is billed as a slow-growing breed as opposed to a standard breed grown slowly. Since then their range has grown to include three ‘higher welfare’ offers.

- The Devonshire Bronze was developed in collaboration with Freedom Food. It is indoor reared with an enriched environment (bales of hay, hanging distractive toys, etc.), lower stocking density and corn fed, giving the final chicken product a distinctive yellow colour.
- Devonshire Red is the free-range offer. As well as conforming to legal (EU) specifications for free-range production, the ranges have some woodland cover, there is a maximum number of houses per farm to ensure good stockmanship, and all farms have a bio-diversity plan.
- Devonshire Gold is the organic offer. All farms have Soil Association certification.

Lloyd Maunder have their own farms but the majority of production comes from contract farmers. All farms are AFS assured. Standard production still accounts for a little less than 50% of Lloyd Maunder’s business.

Devonshire Bronze and the Freedom Food barn specifications were developed to provide an offer between standard and free range.

‘They are barn chicken. The rationale for going with barn chicken was price. Essentially we have standards for indoor chicken, for barn-reared chicken, as we do



*Note:* ‘This Devonshire Bronze™ Chicken has been reared on farms approved under the Freedom Food RSPCA Monitored Scheme. Fed on a corn based diet for a golden colour and delicate flavour... So enjoy.’

FIGURE 5.11 Somerfield So Good West Country corn fed chicken.

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<sup>8</sup> So Good range has been rebranded as Best Ever as of February 2007

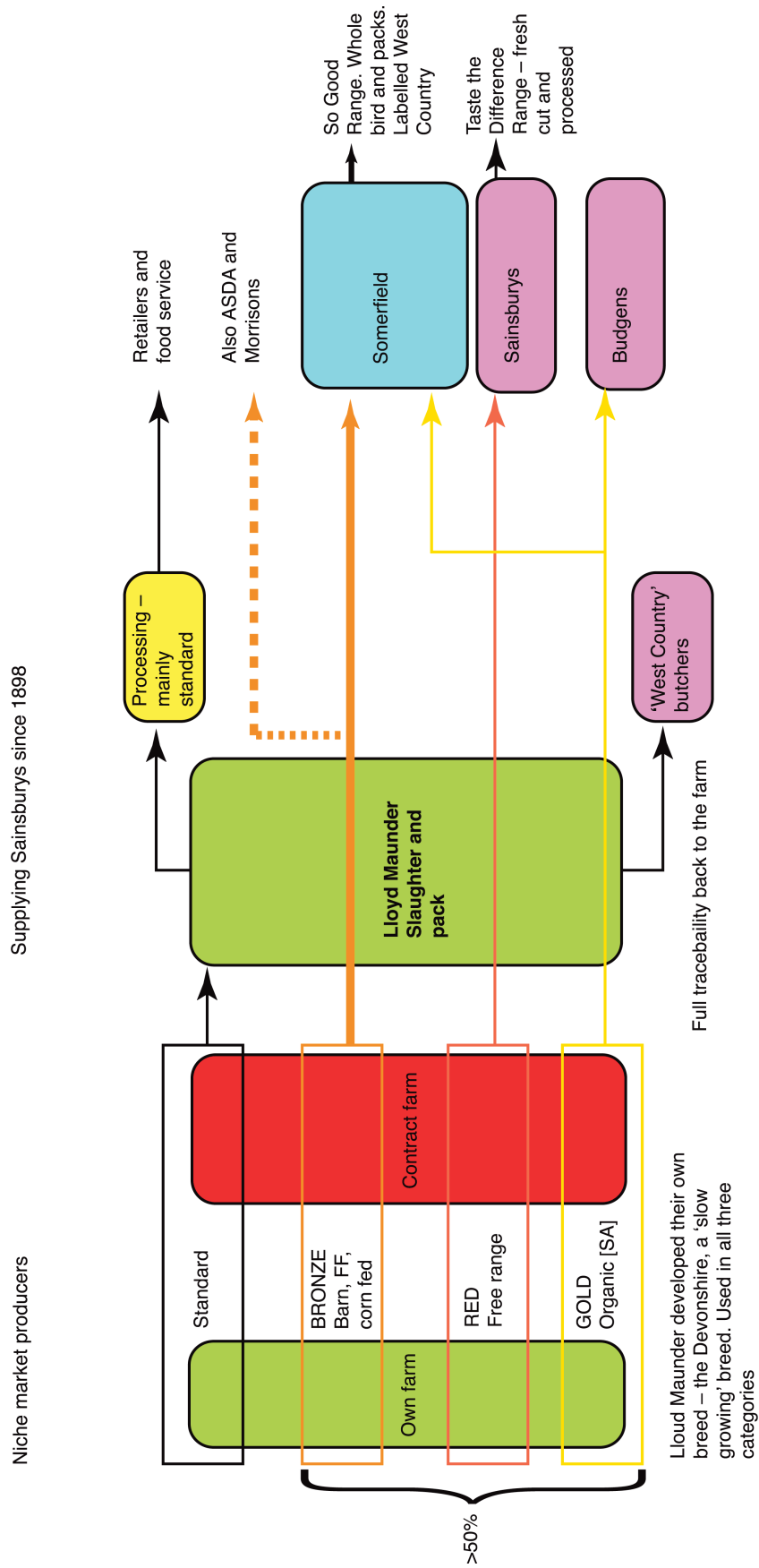


FIGURE 5.12 Lloyd Maunder distribution and supply network.

for free-range chicken. The issue was really to look at a gap analysis and say you have standard chicken, you have organic chicken, you have free-range chicken. Now if we go for a free-range/organically type option, which is going to cost 8, 9, 10, 11 quid versus £2.50 down here it's a hell of a jump for people to move to there. So we specifically went for a barn option. That can be for a whole bird something like 75 p. to £1 more, and we believe that those people within that standard group would be willing to take a £1 leap rather than not even consider doing it. So that was specifically why we've gone for that which is to try and say you don't have to spend a fortune on welfare to make a difference.' (Freedom Food)

This attempt to add a further tier to the three established tiers is beginning to pay off, with Lloyd Maunder Freedom Food chicken currently being sold in Somerfield, ASDA and Morrisons. In Somerfield, this offer is in the 'better' tier – its 'So Good' range.

'We deliberately didn't set the same standards (Eurepgap), So in terms of our So Good range on that chicken product, we had a really serious think about do we have to go outdoor? And took a view that, in fact, it was so cost prohibitive that, in fact, it would not be worth developing those ranges to go in there and...

*You thought it was best to go for the corn fed?*

To go corn-fed, indoor-reared Freedom Food.' (Somerfield)

The Bronze's corn feed gives it a distinctive colour and taste, which is intrinsic to its attractiveness:

'Because if you don't do corn fed then you are in danger of it just being another label on something. And they think you're just spinning it up here. It's the same chicken with a different label on. Whereas if it looks different and it's fed on something different then it has more impact and it's more believable and that's been great.' Freedom Food

Although Lloyd Maunder only supply to retailers under retailer own labels, they have managed to have a sub-brand. In Somerfield, the Bronze is labelled West Country, and package alludes to the Devonshire breed. This is the same in Sainsbury's Taste the Difference range (which uses Devonshire Red) and in Morrisons and ASDA. This allows them a partial presence on the market that marks out their difference from competitors' offers.

Lloyd Maunder also have processing facilities and their own chain of butchers – West Country Family Butchers. This allows them to balance their carcasses a little more effectively, but there is still little dark meat being sold at a premium. This is especially true of the Bronze and Gold lines – the Red is balanced by going into an extended Taste the Difference line.

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## 5.7 TESCO FINEST FREE-RANGE CHICKEN

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Two Sisters is an integrated chicken supplier, whose principle retail customers are Tesco and M&S. They produce the whole chicken range – standard, Willow Farm, free-range, Finest and organic. They compete directly with Moy Park, who have a similar place in the market.

Tesco have an agricultural team that agriculturally approves all suppliers of both fresh and processed produce. It is audited by a third party to Tesco Livestock Codes of Practice which are based on legislation and farm assurance scheme standards (as a minimum) with further requirements in areas where Tesco customers expect standards to go beyond the legal baseline – for example, stocking density, biosecurity, medicine usage, journey times, lairage and slaughter standards. Free range is audited to the Freedom Food scheme, while organic is certified to the UK Government (DEFRA) baseline by any one of the DEFRA approved organic certification bodies.

Two Sisters produce free-range, Finest (which is a free-range bird fed a corn rich diet) and organic chickens for Tesco and M&S. Both free-range and Finest birds are raised to Freedom Food standards. Finest birds are of a selected slow-growing breed. Tesco have a list of farms allocated by Two Sisters that supply them. The Two Sisters customer base works well by supplying a major player such as Tesco and a smaller retailer such as M&S.

‘Two Sisters only really supply us and M&S in terms of their speciality in terms of free-range, organic and Finest... that’s the way we tend to work. Our partnership suppliers generally have two customers.’ (Tesco)

Two sisters have their own secondary processing facilities that supply Tesco and M&S amongst others. Standard and Finest have the most secondary processed products in their range, which provides some outlet for dark meat. Free range and organic is very much focused on whole birds and white meat cuts. As the volume of free range and organic increases, the imbalance of carcass utilization will become more of an issue:



*Note:* Free-range specialist breed, grown on selected farms with trees and shelter to encourage ranging.

FIGURE 5.13 Tesco Finest Free-range Chicken.

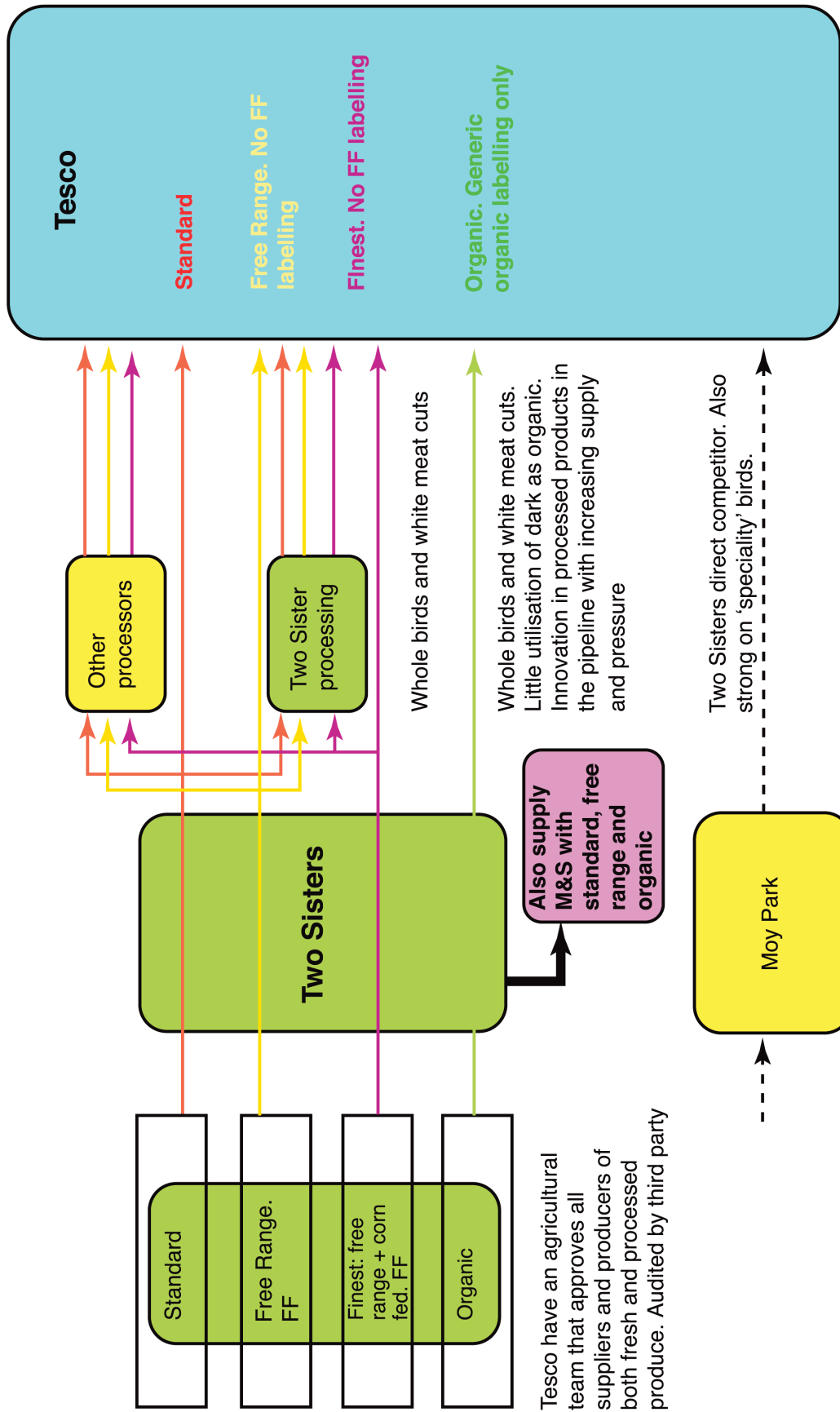


FIGURE 5.14 Tesco Free-range supply chain.

‘In terms of what we can do with that imbalance, because organic is only in the last year to two years really started taking off, we don’t have an equivalent organic ready meal and we don’t have an equivalent organic barbecue either, we don’t have an equivalent organic budget line, so there is not the outlet to get rid of the imbalance on dark meat. As organics continues to grow I’m sure that will come, and we have already started having the conversations but that doesn’t help in terms of now. So if you take standard, for example, they can always take thighs and drums and they can go into barbecue packs. Now in organics, we don’t do that because it has never been big enough to do so.’ (Two Sisters)

Neither the free-range lines nor Finest are labelled with the Freedom Food logo.

‘We took a decision that it was important to maintain the Freedom Food standards within our free-range and Finest chicken supply base and to ensure that independent inspections to the Freedom Food EN45011 accredited scheme was in place. We do not, however, label these products with the Freedom Food logo, as we do not believe that the logo adds any value for our customers. This is based on the fact that we believe our own branding and labelling is recognized and trusted by our customers, and further logos just add complication and confusion.’ (Tesco)

Tesco consider Freedom Food accreditation as adding value by bolstering the brand ‘behind the scenes’. Explicit animal welfare claims on the packaging are made.

Likewise on their organic line, the certification body that the product is inspected to is labelled using UK5 (Soil Association), UK2 (Organic Farmers and Growers) or UK3 (Organic Food Federation) code, which has little impact or awareness amongst consumers. As each of their suppliers uses different certification bodies, it makes no sense putting their logos on packaging. The organic status of the product is highlighted by the ‘Tesco Organic’ logo.

The Red Tractor logo (British Farm Standard) is also found on all fresh chicken.

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## 5.8 YEO VALLEY YOGHURT

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Yeo Valley Farms (Production) Ltd started as part of a diversification plan adopted by a dairy farmer in Somerset (along with a pick-your-own fruit operation and clotted cream served in tea rooms). As one of the early players in the developing market for organic, Yeo Valley grew initially supplying yoghurt for retailers’ own brands. The Yeo Valley brand of organic yoghurt was founded in 1994:

‘The reason we got into organic is that we could... at this stage post-rationalize and say we had this business plan and we studied the market which was not the case... What happened was about four organic farmers in the South-West came to us and, in 1994, the milk marketing board was broken up and so suddenly there was this great scramble for farmers to try and find a home for their milk... “We’ve got this milk would you have a go at doing something with it?” Because we were supplying into Tesco with their own label, we said to Tesco, “look we are going to make some organic natural yoghurt would you put it on your shelves?” And that’s how we got it in. So we did the reverse of what small businesses often would do which would start at the local shop with an organic brand, because we had an inroad... We had a route in. And because we were making it on the back of our other business, we costed it, so effectively we were making no money on it but it got the brand Yeo Valley invented.’ (Yeo Valley)

A group of four organic dairy farmers were the founders of what has developed into OMSCo – the Organic Milk Suppliers Cooperative – the largest supplier of organic milk in the UK, whose members are mainly distributed in the southern half of the UK. The above quote highlights the two main parts to Yeo Valley Ltd, which supplies 22% of all the yoghurt on the UK market.

One part of the company supplies retailer own-brand yoghurt to all the major retailers. This uses milk from Yeo Valley’s own farms (two herds, 400 heads), which accounts for 25% of milk used. The farms are NADFAS assured. The other 75% comes from Andrew Warren Trust/Coombe farms, based near Crewkerne. This cooperative is the group of producers who supply into Dairy Crest for Waitrose own-label milk. They are audited to Freedom Food certification as well as Waitrose own codes of practice. Yet, because their own farms are not Freedom Food accredited, none of their products can be Freedom Food certified. The yoghurt-making process also uses a small amount of dried milk. Yeo Valley supply yoghurt for retailers’ premium lines – Finest, Taste the Difference, etc. – following their specifications/recipes.

The other part of Yeo Valley is the organic own-brand yoghurt started in 1994, which is found in all the major retailers. As Yeo Valley and the organic milk market as a whole has grown, so have OMSCo. They now supply around 60–65% of organic milk in the UK. All members of OMSCo are certified either to Soil Association or Organic Farmers and



*Note:* Outside of the product: ‘We make it with milk from cows that graze on clover-rich, organic grass. Inside of the package: Our yoghurt is made with organic milk from cows that feed on luscious pastures rich in clover. They enjoy a relaxed life, where the routine use of antibiotics is prohibited and where natural remedies are used. Our farmers benefit from a fair price as established members of OMSCo. As a result we are certified by the Soil Association as a producer of fine, organic food, having reached strict and rigorous animal welfare and environmental standards.’

FIGURE 5.15 Yeo Valley Yoghurt.

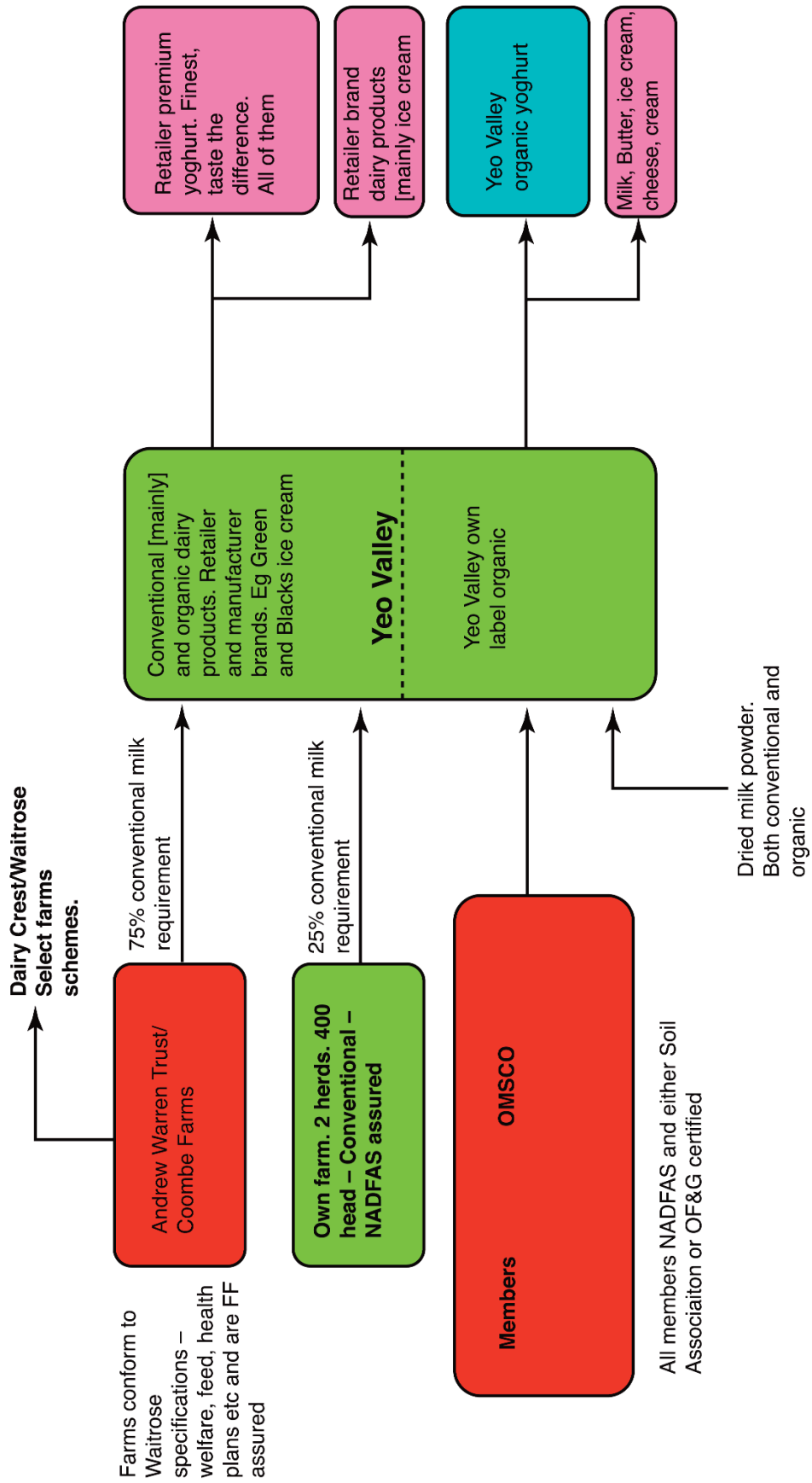


FIGURE 5.16 Yeo Valley Yoghurt distribution and supply network.

Growers. OMSCo also run cell counts and bacta scans on all incoming milk that can be traced to individual farms. High cell counts often indicate high levels of mastitis in the herd, which are fed back to the farmer. There are no specific farms supplying milk into Yeo Valley, although logistically it tends to come from farmers in the South West. As the demand for organic liquid milk varies through the week, Yeo Valley try to level it accordingly:

‘We do a bit of milk balancing, if you like, because in liquid milk, i.e. the poly bottles, the big spike of demand from consumers is Saturday, obviously weekend shopping. So what the dairies want is a load of milk in on Wednesday, Thursday, Friday, to go into that spike. With yoghurt it’s not such a problem. So what we do is we don’t take much milk in those three days and we take a load of milk in at the weekend, so we do a bit of sloshing backwards and forwards, we sort of balance the supply and demand spike for OMSCo a bit.’ (Yeo Valley)

The organic milk market has gone through something of a rollercoaster ride in the last decade. With steadily rising sales in the late 1990s, high prices and confident forecasts by the retailers (in particular Sainsbury’s), many dairy farmers were encouraged to convert to organic in 1999–2000. As the conversion process takes two years, in 2001–2002 there was a sudden upsurge in supply, without a corresponding increase in demand, which meant farm-gate prices falling from around 29 p. per litre to 19–19.5 p. This meant many farmers abandoned organic production as it was not financially sustainable at these low prices. As demand has risen it has outstripped a stagnant supply base – the market for organic milk is currently in under-supply. OMSCo laid the blame for this partly on the short term-ism of the retailers:

‘The market is in under-supply, and it’s going to stay that way... And clearly supply is not increasing because milk prices are not enough to cover expansion costs, and yet demand for growth is very strong. So the majority of our conversation is ‘you know this is what we told you would happen’. But it doesn’t take away the pain though, to a certain extent now we are behind the curve... Their attitude is ‘right, we’ll pay more now’. But it doesn’t work like that. Milk doesn’t come from factories, it comes out of a cow. You can’t just turn the taps on. It’s that lack of understanding of what is a relatively inflexible supply chain. The question is can we get back ahead of the curve. But we are in a situation now where there are no new entrants for the next three years who can contribute, so supply has got to come from existing farmers. So let’s see what happens.’ (OMSCo)

In September 2006, OMSCo called a moratorium on new members, for fear that a glut of new entrants might lead to oversupply. Yeo Valley, on the other hand, have very different relations with OMSCo:

‘The key thing that we have done over the last few years is we have contracted ahead and we have had a five-year rolling contract, so we have effectively got the milk we need contracted ahead. What that is doing is leaving a hole for other people, but if

they couldn't get off their arse to provide a contract then tough really. Our view is we took the pains.' (Yeo Valley)

In the midst of the price crash of 2000–2001, Yeo Valley stayed at the 'headline' price of 26 p. Although they lost an estimated £2.5 million over two years, it meant that their supply was assured and sustainable and, in the long term, has meant they have a stable supply base that has met their growing demand.

Yeo Valley have also diversified into other dairy products: liquid milk, cream, ice cream (trading under their own-label – Rocombe – Green and Blacks, retailer own-labels), butter and cheese. This has meant, for both conventional and organic, that they have been able to use the 'whole' milk, and add value to as much of it as possible.

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## 5.9 COOP CHESHIRE CHEESE

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Belton Cheese has produced Cheshire Cheese since 1850, and became a limited company in 1970.

When the Milk Marketing Board was disbanded in 1994 (Vesting Day) Belton Cheese purchased milk from first Milk Marque and then Dairy Farmers of Britain.

The milk supply situation became completely untenable with Belton's business aims. Belton required fresh daily collected milk, traceable, with high proteins and fat to produce top quality cheese. They also required milk at the right times of the year to satisfy their customers' requirements for short shelf-life territorials, particularly in the autumn and at Christmas periods. The farmer co-ops refused all of Belton's requests and they decided to buy direct from local farmers. Belton decided from day one that they wanted good quality milk produced on local farms, which had high welfare standards, with total traceability for feeds fed to the animals, and what was used on the farms.



*Note:* Freedom Food logo.

FIGURE 5.17 Coop Cheshire cheese.

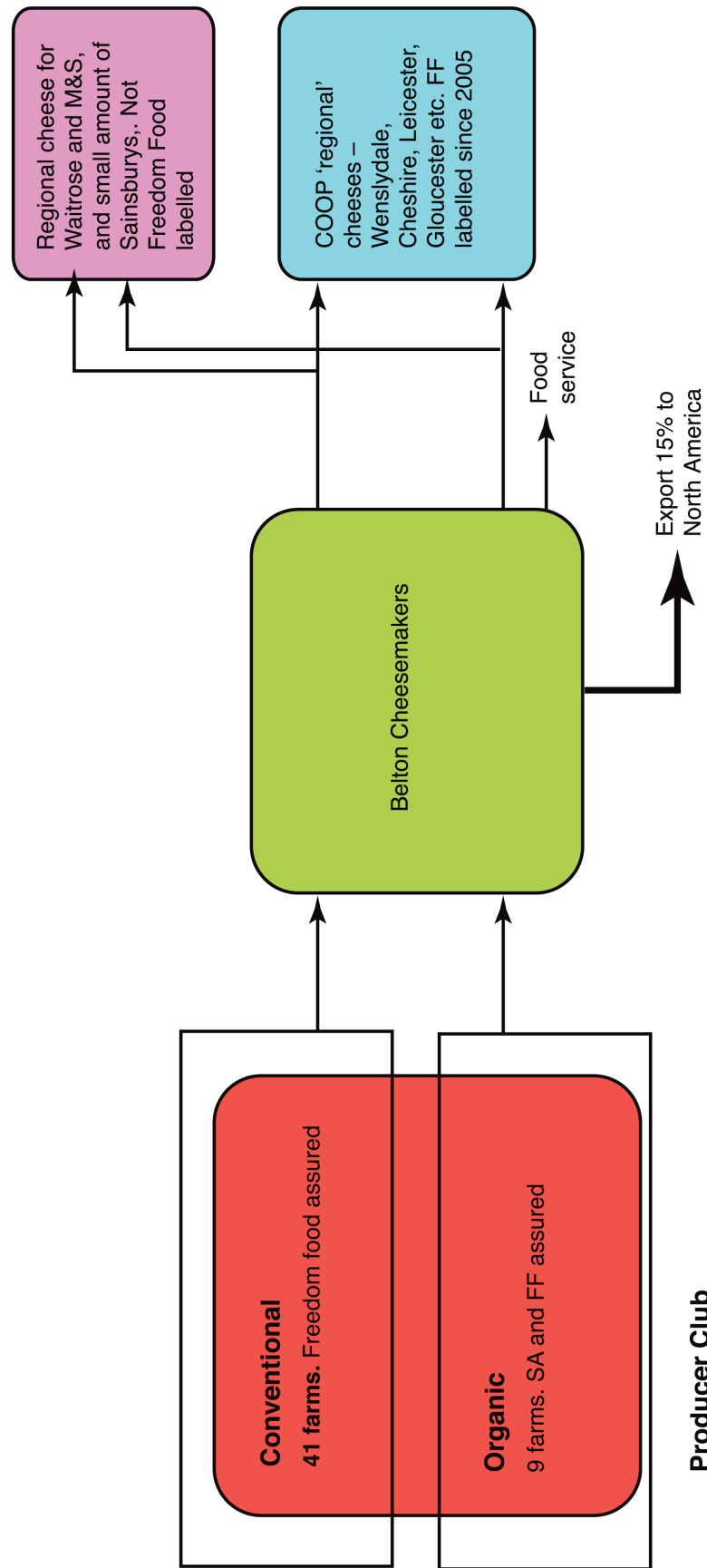


FIGURE 5.18 Coop Cheshire cheese supply and distribution network.

For the animal welfare issue, they turned to RSPCA Freedom Food, who regularly inspect farms, for both their organic and conventional milk producers.

Belton Cheese now has 60 farms supplying milk, of which 12 are organic.

Belton Cheese is now a major supplier of English territorial cheese to all the major supermarkets, including Coop, Marks & Spencer and Waitrose. Coop is the only supermarket group who actively put the Freedom Food logo on the label. Since 2005, Coop policy has been to have as many Freedom Food assured products in their ranges as possible. Coop did not see Freedom Food accreditation as a prerequisite to trading with Belton. Indeed, they only labelled the cheese as Freedom Food in 2003 when they had been supplying them for well over 5 years. Belton have also managed to sub-brand the Belton name in M&S and Waitrose.

Belton also supply a small amount of cheese to the food service industry and have a fairly large export business (15% of their output), which is mainly imported to the US and Canada.

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## 5.10 FOR GEORGIA'S SAKE BEEFBURGERS

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'For Georgia's Sake' was set up by George and Pauline Stiles with an aim to providing a healthy, additive free convenient food for children.

'This whole question about the true cost of food is not just how our children are being damaged, but also this pressure on growth, on the reproduction methods of animals and intensive farming. So it was very much that they had only said take the additives out, and I just felt that by definition there are a lot of things on our packaging that is not listed; it's ingredients and yet they're there but because they're not considered as foods we don't see the labels. (Pure Organics)



*Note:* 'Animals are reared with a real concern for their welfare. They are fed an organic diet without the routine use of antibiotics.'

FIGURE 5.19 For Georgia's Sake beef burgers.

Their products were initially aimed at the 'wholefood' market, supplying distributors to small independents with a range of products. The meat used is certified to Soil Association from Welsh Hook farms. The organicness of the products fits into the 'free from' credentials of the product (no GM, animal welfare). They then began supplying into Tesco as own-label frozen organic beef burgers, meatballs and mince, amongst other products.

Pure Organics Ltd buy forequarters from Welshhook, which helps balance the sale of their carcasses – forequarters are notoriously hard to sell at an organic premium. Welsh Hook have their own farms and also buy cattle from Pembrokeshire farms. They tend to use Welsh Black cattle. Welshhook have their butchery, and provide box schemes in London and also supply into high catering.

Pure Organics also supply into food services, with clients such as Spirit Breweries and a possible listing with Brake Brothers. They also supply public catering services – hospitals (Great Ormond Street) and schools (Hertfordshire schools). Their position in public catering was in part on the back of the Tesco contract, with high volumes going through the factory ensuring low costs. With their recent troubled times with Tesco, these efficiencies of scale are somewhat threatened and thus their ability to attract catering contracts, which are usually very focused on costs.

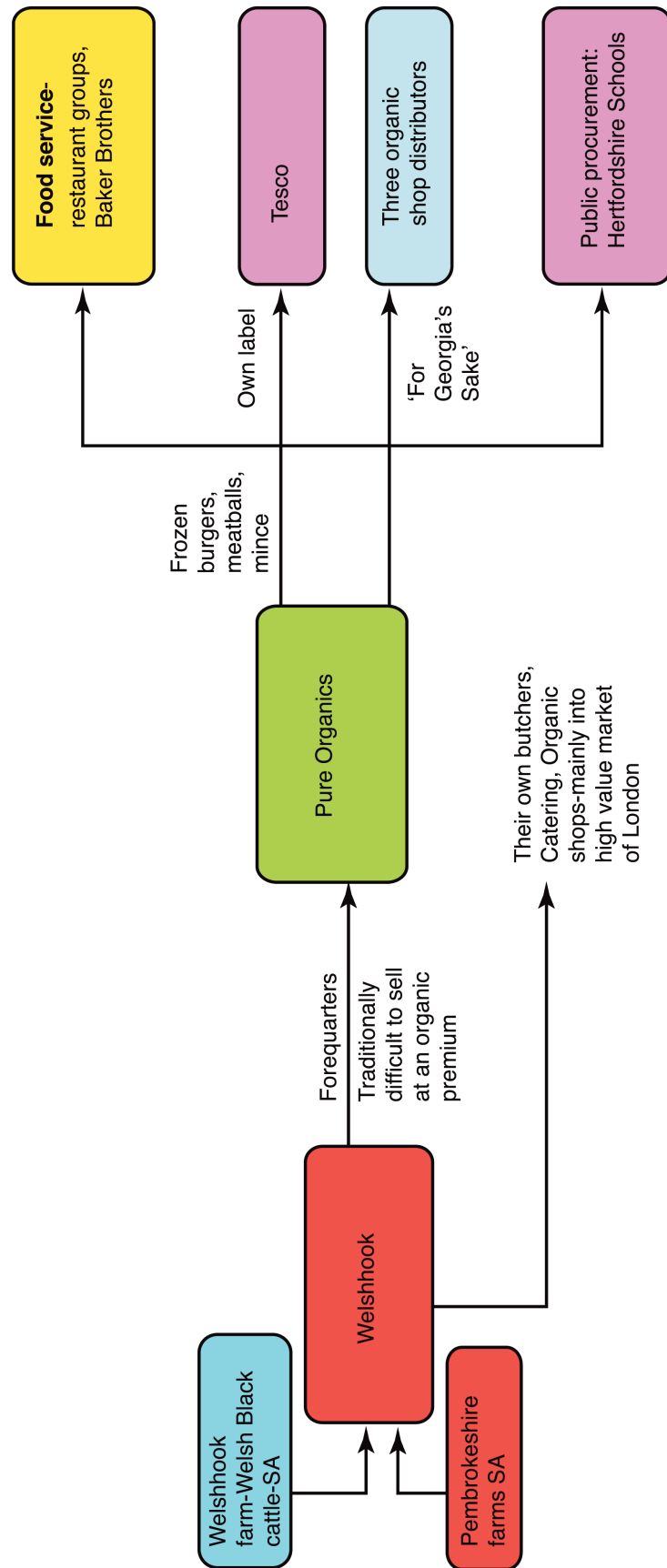


FIGURE 5.20 For Georgia's Sake beef burgers distribution and supply network.

## 6

# CATERING FOOD DISTRIBUTION AND SUPPLY NETWORKS

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The food service sector is steadily growing, accounting for more and more of food consumption – up to about 40% in 2006. It is a very different world from the retailing sector, characterized by many more actors, less traceability, and intense competition on price. Food safety is still paramount but because companies and brands are far less ‘visible’ and labelling laws are far less strict, other ‘quality’ criteria that have become entrenched in the retail sector have little salience in these supply networks. This is partly due to the fact that consumers’ expectations and behaviour differ from one context to the other.

‘There is also a big issue which is a slightly more difficult one. It is this whole issue of when people leave their houses on a Saturday night to go out to have a meal, they tend to leave their ethical values in some situations tucked up on the sofa. How many people are going to walk out of a restaurant because it’s not free-range chicken or the mayonnaise in their prawn cocktail hasn’t come from a free-range egg? They sort of don’t think in same way.’ (Freedom Food)

Although it varies with each sector, there is, on average, a far higher ratio of imported to domestic produce in these supply networks. Most innovation has been concerned with processing/convenience products.

*‘How do you see the differences between the kind of the retail supply chains and the catering supply chains? Is it...’*

Well, catering supply chains don’t even come on the Richter scale in terms of caring, particularly about anything on sourcing. The more processed a product is, the less sourcing appears to come up on the agenda.’ (BQP)

The concern with UK producers and processors is that as more and more food is consumed outside the home, cheaper imports will come to dominate. Though there is some movement towards transparent sourcing in the food service providers.

‘Last night, the sales team were so excited, and they are these young guys, really switched on... They are really excited about doing something different, being able to offer something different. And they are really excited that as a sales team they have been able to change direct level... Usually they say we’d like these products, and they get told no we haven’t got space, and then suddenly they’ve got a couple of people high level who have said we want these products; we want to set ourselves

apart and offer more choice. So I think there's a huge opportunity there.' (Pure Organics)

The organizations that have really been pushing farm animal welfare are those with the high visibility brands, such as McDonald's, Starbucks, Pret A Manger, which have a dedicated, quality-assured supply network.

'Food service is the most difficult area to predict, at the moment it's about about 95% caged, 5% alternatives.

*Right, who is making up that alternative market?*

In the alternatives, it's down to McDonald's, in the UK only sell free-range eggs, only use free-range eggs, and that's right across the piece in McDonald's. So even the eggs used in Big Mac sauce are free range, and they take shell egg from us, which they use to cook the Egg McMuffin in the restaurants. And then they take a liquid egg product which they use to cook all the other things, scramble, and whatever else they do.' (Deans Food)

Public procurement has seen a recent, limited (mainly due to budget and other priorities) move towards local, healthy food. While it may include organic, this drive is not really concerned with animal welfare as such.

A detailed WQ study of the catering industries relationship to farm animal welfare is currently underway. Results will be published in 2009.

# REGULATION

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## 7.1 PUBLIC REGULATION OF FARM ANIMAL WELFARE

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### 7.1.1 LEGISLATION

As presented earlier, UK law conceives and protects the welfare of animals (including farm animals) in three ways: abuse of animals, cruelty towards animals, and duty of care towards animals in captivity. Abuse covers gratuitous violence – dog-fighting, bull-baiting, etc. – which was first outlawed with the 1850 Cruelty to Animals Act. This has now been amended twice with the concept of cruelty – unnecessary suffering and pain – being incorporated into the legislation. The duty of care comes out of the Government’s 1965 Brambell Report of 1965, itself a response to growing public unease and media attention, in particular after the publication of Ruth Harrison’s book *Animal Machines* in 1964. This book provided the first initial publicity into the impact of intensive livestock husbandry on animal welfare.

‘The Brambell Report said that... the government should have powers to make laws about animal welfare, should have powers of entry to go and check it, and also should develop a Farm Animal Welfare Council [set up in 1967] and we should also invest in animal welfare science.’ (DEFRA)

The Brambell report defined what was meant by the concept of ‘care’. This was refined subsequently by FAWC (Farm Animal Welfare Council) into the Five Freedoms (outlined earlier). The concept of duty of care was taken up by Europe.

‘Brambell [said] what care was. The Council of Europe put it into legal terms and then it went back to the EU and became a directive in 1968, a general welfare directive, and then we then incorporated it into UK law. Well, we had it in UK law as the Agricultural Miscellaneous Provisions Act of 1968, and then it became the Welfare of Farmed Animals Regulation 2000.’ (DEFRA)

As well as passing these Acts, the government set up Codes of Practice. These evolved from the Council of Europe’s recommendations on the keeping of livestock (some of which is Community Law), as well as incorporating UK specific recommendations. These codes relate what the law says and what is expected in order to comply with these laws.

‘The status of the code is interesting because it’s a statutory code, which is agreed by parliament, but the text of the code is not law but can be used as evidence to support non compliance. So it’s almost law.’ (DEFRA)

Changes in UK law are, in general, a response to changes at the Council of Europe and EU levels. The UK Government takes in the interests of the industry, public concerns and pressure groups and negotiates at European level.

*‘What do you see the role of the government is in terms of animal welfare legislation?’*

Well largely nowadays of course [it] is not so much the government as Brussels because certainly in our area almost everything emanates from Brussels – it is not national legislation. The only role the government... well not the only, the role the government therefore has is when measures are going through Brussels is what lobbying do they do? What do they want? What do they want to see in those measures? Obviously, we are only one member state now out of 25 but we will talk to industry and find out what do industry want and why do they want it and so on.’

Having said this, the UK has chosen in the past to ‘gold plate’ EU legislation, so that the UK takes a ‘stricter’ view of implementing the legislation. In implementing the 1991 Pig Welfare rules, the UK decided to ban sow stalls and tethers with an eight-year phase-out of existing systems. The deadline coincided with a slump in the value farm gate pig prices to as low as 16–17 p. a kilo (this was part of historically cyclic pig industry), and major pig health problems (Swine Fever in 2000, Foot and Mouth Disease in 2000–2001 and then Postweaning Multisystemic Wasting Syndrome). The combination of higher costs of production due to the ban (higher management costs and lower productivity), low prices and major disease epidemics seriously dented the competitiveness of the UK pig industry. In the seven years since the ban, the UK pig herd has reduced by 40%, with many farmers leaving pig production. The result has been that imports from countries where sow stalls and tethers are still used have grown dramatically. In the words of BPEX:

‘So we had a double whammy... We are on a global marketplace and there is a perception that we have got a different set of rules that we have got to play by.’ (BPEX)

The UK government has been less willing to ‘gold plate’ EU law although since, it continues to do so on one or two issues (beak trimming in broiler and layer hens). The alternative to ‘gold plating’ has been to encourage farmers to adopt good agricultural practices (GAP). Thus to really understand how animal welfare is regulated in the UK, we must look beyond the law.

### 7.1.2 GOOD AGRICULTURAL PRACTICES (GAPs) AND CODES OF PRACTICES

In the UK, the Government has published Codes of Practices to ensure ‘best practice’ in the management and handling of animals. They are used to clarify legal requirements and suggest best practice procedures for their implementation. UK retailers also publish Codes of Practices; these set out their ‘blue sky’ ambitions for improving animal welfare and may overlap with government Codes of Recommendations, or they may be tighter depending on the ambitions of the retailer. It is clear that Codes of Practice used in this way reach towards a higher level of animal welfare than is stipulated legally, and should be understood as a significant mechanism for general increase in animal welfare standards across farms.

To illustrate the influence of Codes of Practices on improving animal welfare, one spokesperson for the RSPCA in the UK stated: ‘If all the codes of practices became legal requirements then the standard of animal welfare would increase over night’.

The UK Animal Health and Animal Welfare Strategy published in 2005 is the current Government approach towards working on existing codes of practices for farm animal welfare and towards increasing farmer compliance. The strategy actually covers a broad range of animals, including horses, fish, farm animals, exotic animals, and companion animals. There are implementation committees operating in England, Scotland and Wales, which are working to understand how the strategy can be implemented.

The document outlines why the government intervenes in the area of animal health and animal welfare. There are four reasons.

1. To protect human health against ‘zoonotic’ diseases.
2. To protect and promote the welfare of animals. Society cares about the welfare of animals as sentient creatures. It is government’s role to establish levels of welfare on behalf of society and enforce those standards.
3. To protect the interests of the wider economy, environment and society.
4. International trade.

The reading of animal welfare contained within the document, with exception to the expression of the Five Freedoms as aspirations, is predominantly around animal health readings of animal welfare. The promotion of best practice is pushed in a number of areas (Box 7.1).

It states that the responsibility of animal owners is to recognize signs of illness or disease. The document does not attribute responsibility to animal owners to recognize when the animal, herd or flock is experiencing poor mental health.

To illustrate the approach to improving animal welfare consistent with the strategy approach, we will discuss Veterinary Health plans.

BOX 7.1 Extract from UK Animal Health and Welfare Strategy (2005).

- Identification of risks of introduction and spread of disease and infections.
- Early recognition of disease.
- Prioritising measures to control any existing problems and manage risks, including the responsible use of medicines.
- Significant health and welfare benefits may be realized through simple and inexpensive modifications to housing and husbandry systems, including:
  - preventing the introduction of endemic diseases or zoonoses and thus improving the productivity of the overall herd or flock; and
  - slowing or minimizing the spread of disease from one farm to another during an exotic disease outbreak.

#### *Veterinary (or Animal) Health Plans*

Veterinary (or animal) health plans are something currently not legislated for but are contained within Codes of Recommendations and are also enforced through the audits of farm assurance schemes. Health planning includes the recording of any health problem on the farm, the identification of main health problems and the creation of a strategy to improve the situation (Veissier et al., 2008). As the Scottish Executive (2002) Recommendations for the Welfare of Livestock says:

‘An animal health plan can be created to reduce the risk of introducing disease and to recognise, treat and control existing conditions. The prevention and control of disease should not be left to chance. The local vet will be able to advise on the biosecurity measures most appropriate for your herd/flock health plan. Such a plan should be updated annually.’

Or as the UK Organic Farming Standard states:

Health plans ensure the development of a pattern of health building and disease control measures appropriate to the particular circumstances of the individual farm and allow for the evolution of a farming system progressively less dependent on allopathic veterinary medicinal products.

The animal health and welfare strategy committees will work towards getting greater compliance to have an animal health plan. Within a UK context, measures such as animal health plans are already integrated into farm assurance schemes and retailer codes of practice. What is part of Codes of Recommendations at a government level becomes mandatory under farm assurance schemes.

### 7.1.3 INSPECTION

As DEFRA discussed earlier, the Agricultural Miscellaneous Provisions Act 1968 gave the government the right of entry to agricultural land, and the right to inspect and enforce the conditions of the Act and Codes of Practices. The State Veterinary Service (SVS) took up the inspectorate role. Inspections can be carried for a number of reasons:

- Random visits: SVS do a number of random visits to farms a year.
- Elected visits: if a SVS vet is on farm, he/she can elect to do a welfare inspection. Any new production system in an area gets a visit from the SVS.
- Complaints: SVS follow up complaints by members of the public, NGOs, DEFRA staff, etc.

Non-compliance is rated on a scale of A through to D.

‘We have ended up with four categories, which we call A, B, C and D. A is if you fully comply with the law plus the code. B, you fully comply with the law but not the code. C, you don’t comply with law... OK, you don’t comply with the law and you are not doing anything. But despite the fact that you haven’t complied with the law, your animals are perfectly well because there are lots of bits in the law. And D, we have unnecessary pain and unnecessary distress so then we look at the 11 criteria which we have which are listed which are things like feed and water, environment, records, disease treatment and so on for each of these 11.’ (DEFRA)

DEFRA only prosecute if a farm is rated D.

### 7.1.4 FARM ANIMAL WELFARE COUNCIL (FAWC)

The FAWC remit is to keep under review the welfare of farm animals on agricultural land, at market, in transit, and at the place of slaughter and to advise government and the devolved administrations of any legislative or other changes that may be necessary. It is purely an advisory body. It has no executive function, and it is an independent body whose members are appointed by Ministers and serve typically for six years.

The FAWC has been very influential in guiding farm animal welfare legislation in the last 30 years. Its reports are regarded highly in both political and commercial worlds. It produces reports that are relevant for moving forward improvements in farm animal welfare. Recent examples include the report on Welfare Labelling (2006), the Report on Farm Assurance Schemes (2005).

## 7.1.5 LABELLING

The other important area of competence for government is the effective labelling of goods. On the whole this is a EU competence, shown in regulations for organic denominations, rules for labelling of ‘free range’ and ‘barn’ in broiler and egg production. It is an area of controversy, especially amongst UK producers who feel they do not play on a level playing field within the EU, but this difference is not apparent to UK consumers.

*‘How do you see the role of legislation, with regard to the market?’*

I think legislation puts in a minimum floor and then once that floor is in place the economist would say that there should be a free market of goods supplied at different welfare characteristics and consumers provided they are given accurate information can make a choice.

*So that’s in a sense this kind of second arm of legislation.*

That is my personal view. That is how it should operate, and at the moment the market doesn’t operate efficiently or effectively because of lack of information.’  
(FAWC)

The EU is currently in the process of overhauling its labelling legislation in consultation with member countries and interests.

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## 7.2 PRIVATE REGULATION OR MARKET SELF-REGULATION

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‘Contemporary agri-food systems are increasingly pervaded by a plethora of private food safety and quality standards, however, that operate alongside regulatory systems and, and although not legally binding in the regulatory sense, can be de facto mandatory for suppliers. These private standards have evolved in response to regulatory developments and, more directly, consumer concerns, and as a means of competitive positioning in markets for high value agricultural and food products. As a result it is private rather than public standards that are becoming the predominant drivers of agri-food systems.’ (Henson and Reardon, 2005, p. 242)

According to authors such as Marsden et al. (2000) and Thankappan and Flynn (2006), the regulatory framework that governs risk (that is, minimum standards) in the food supply chain has moved from a ‘government-led corporatist regulatory and monitoring model, to a new phase dominated by supply chain management, and food standards strategies, designed and applied by the large multiple retailers’ (Thankappan and Flynn, 2006, p. 5). This is in a large part mediated by the passing of the Food Safety Act in 1990, which placed the burden of responsibility on retailers of food to prove that they ‘took all reasonable precautions and exercised all due diligence to avoid the commission of the

offence by himself or by a person under his control (Food Safety Act, 1990, ch. 16). This had the effect that retailers had to move to managing risk and ensuring integrity of quality along all their supply networks. In other words, they had to ensure the integrity of the products and all the networks they embodied, not just the presentability of their goods.

‘This increasing responsibility of retailers with respect to food safety risk contributed to changes in procurement and sales practices in the fresh food sector [including meat]. Atomized production structures and weak producer brands expose retailers to significant risk, vis-à-vis both government and consumers. Those risks led retailers to: 1) change over time new product line segmentation approaches; 2) develop consumer information campaigns based on new private labels; 3) become involved far more in the choice of production systems used by their suppliers, in particular via the imposition of private standards related to production practices:... codes of good agricultural practice [GAPs] and farm assurance schemes.’ (Codron et al., 2005, p. 271)

UK retailers moved to assure the quality of their supply networks in order to show due diligence and manage/protect their brand. The hegemony of the top eight multiples has made them very visible brands. In the early 1990s this led to a plethora of retailers’ Codes of Practice and Quality Assurance Schemes (QAS) and the consequence that some suppliers underwent five or six audits. This led to an ‘industry’ initiative to set up a QAS that fulfilled retailers’ basic requirements – Assured Food Standards (for more details, see Roe and Murdoch, 2006). UK retailers have been central in developing EurepGap (along with Royal Ahold), an EU wide QAS set up to establish and monitor minimum requirements for EU agricultural produce (that is, compliance with EU law). The majority of UK retailers have, on top of this, tried to incorporate UK standards into their technical requirements from EU and international suppliers. Using either non-UK schemes deemed ‘equivalent’ to UK schemes or using schemes such as AFS abroad, this has been carried out. The ‘equivalence’ of these schemes is a topic of debate amongst UK producers, but UK retailers have been important drivers for ‘higher welfare schemes’ outside of the UK, with the development of schemes such as UK contracts for pig producers in Denmark, the Netherlands and France.

Interestingly, there are already beginnings of a potential conflict between public and private regulation, between the public/EU standards and those that the retailers demand from their suppliers:

‘The Commission is starting to say “well that’s unfair” because you’re making it too difficult for some producers to be able to meet that. Now we can see exactly the same problem with animal welfare where the Commission says “We are the Commission, we set the base standard for legislation in Europe, we’ve looked at animal welfare and this is what we think. We don’t understand why you as retailers are then demanding higher animal welfare requirements from your producers and closing off the market for those who can’t meet it”.’ (BRC)

### 7.2.1 CIVIL SOCIETY

The role of civil society in policing and enforcing regulation (both public and private) should not be underestimated. The Royal Society for the Protection of Animals has been campaigning on behalf of animals since the reign of Queen Victoria. The RSPCA has been joined by a number of nationally and internationally active animal welfare NGOs – CIWF (Compassion in World Farming), WSPA (World Society for the Protection of Animals), VIVA (Vegetarians International Voice for Animals), HSA (Humane Slaughter Association) – each with particular interests and agendas pushing for change. Traditionally, this was targeted at changing public policy and enjoyed significant success – from the Cruelty Act of 1850, through to the Brambell report in 1965 and the UK gold-plating of pig welfare legislation in 1991. But in recent years the focus has turned to Brussels, the home of the European Parliament, with the creation of a broadly aligned lobbying group named Eurogroup for Animals representing national NGOs at an international level in discussions on international trade with corporate retailers as well as regulators. There is also a range of other NGOs, whose main aim is not to protect animal welfare, but who nevertheless are involved in welfare debates. For example, the NFU (National Farmers' Union) is active both in lobbying Westminster and Brussels and in policing retailers' sourcing policy – as can be seen by ASDA's red face at being 'caught' importing non-farm assured Brazilian beef (BBC News, 2006).

The visibility of retailer brands is the very means NGOs use as a point of leverage to encourage change. Negative publicity in the media is very much feared and NGOs exploit the media in a number of ways by providing fodder for 'undercover' reportage and publishing a league table of 'ethical' retailers and retailing initiatives – for example, the activities of CIWF and RSPCA. This not only influences retailers but consumers themselves. The recent Supermarket Secrets Dispatches programme is an excellent example of this, with consumers checking chicken legs for 'hock burns' (resulting from prolonged exposure of chickens to ammonia in their litter). Suppliers and retailers have responded by cutting the hock off the chicken carcass before it reaches the supermarket shelf.

In 2006, CIWF launched a new European-wide award scheme. CIWF's aim is to promote those retailers, for example, who have moved to free range, or even just cage-free around Easter time. CIWF want to be involved in publicizing moves to higher welfare eggs, not just via the European press but also through launching a dedicated web page designed to tell EU consumers which eggs or egg products to buy if they care about animal welfare. They will also profile other food products, including those that win or are shortlisted for an Award for Action.

## 8

# RETAILER ATTITUDES TO FARMERS, EACH OTHER, CONSUMERS

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### 8.1 CONSUMERS HAVE POOR UNDERSTANDING OF PRODUCTION SYSTEMS

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Retailers carry out a lot of their own research on consumers. A chicken processor comments here about what their research on consumers reveals.

‘What I find amazing is when we actually do research with consumers. Their version of what free-range is is effectively a lesser version of what Soil Association organic is, and they would consider free range, when you are showing them photographs, they would consider that to be intensive farming. But yet again you’ve also got this further layer of consumers, who believe that chickens are still kept in cages.’

‘Within the UK it is a complete fallacy... but it’s still there. So there are all these various different bizarre mindsets going on, and they really have no sense of the actual reality of chicken farming in the UK.’

Misunderstandings by consumers of what production systems entail is a frequent issue that retailers face when they choose to be explicit about marketing a production system.

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### 8.2 INNOVATING TO MAKE THE MOST OF THE GROWTH IN CONSUMERS WHO DO WANT TO KNOW

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‘And they either want to know about it, or they don’t want to know about it at all.’

Retailers find that there is a polarization of consumer opinion along divergent tendencies about being informed about food production. There is a feeling that:

‘the vast majority don’t want to know about it... and they don’t want to see chickens on front of packs. I’ve been to research groups where consumers talk about chicken

as though it's tofu – it hasn't actually come from an animal. Its just a piece of protein, that has been produced in the laboratory.' (Chicken processor)

'However, there is a significant growth again in consumers wanting to know more and wanting to feel good about themselves in terms of what they are eating.' (Chicken processor)

As a consequence of this growth, companies are focusing on this part of their market because it is an area with significant growth. The market for those that do not want to know is static.

For example, the chicken market is a mature commodity market where there are enormous pressures on price from the retailers onto the suppliers. The extract below from a major chicken manufacturer explains how they consider consumer motivations to different production systems.

'What's quite interesting is free range is far more motivational to consumers than organic and, actually, I have been in scenarios where consumers have said to me is "but this organic chicken, it is free range, isn't it?" As though you would have an intensively reared chicken that was just fed organic feed. So I think we all feel that there is a lot of knowledgeable consumers out there, but there is actually an awful lot who don't necessarily. They hang on to words like free range and they see that as a warm and positive concept that they want to hang onto. I would say for what we would describe as the ABC1 consumers welfare is key now in terms of chicken. But again, I would say [about] the vast majority of consumers who are buying into standard, there is an element of wanting there to be positiveness in welfare, but again it's this not really wanting to know. Yes, I would think even in the ABC1s, a certain amount of the people who fall under that category... It's a sort of vanity organics now and what is quite interesting is you look at organic sales and organic consumers and the big focus comes when people have had a baby.'

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### 8.3 SUPPLIERS AND RETAILERS: DEDICATION TO IMPLEMENTING STANDARDS

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For suppliers, the key areas of concern when communicating with retailers are to show a dedication to implementing high standards and to have all farms meeting specifications. For a major chicken processor, it is a sackable offence if product is delivered to a retailer that does not meet the correct specifications. The responsibility of the site manager and every agricultural manager is to ensure specifications are met. The relationship between suppliers and retailers is examined in detail in Box 8.1.

## BOX 8.1 Delimiting several broad areas of interaction.

1. Pricing control: For example, large retailers may expect lower prices and/or quantity discounts, whereas suppliers simply cannot afford to not sell to a large customer base. While control over who sets final retail prices is significant, it often varies between products and different national contexts. While the general trend has been to increased retailer control in this area, for some products manufacturers will not allow retailers to discount beyond certain levels, and in some countries—such as Japan—strong manufacturers are able to impose suggested retail prices. In some retail systems, middlemen such as wholesalers may have pricing power.
2. Inventory control and just-in-time (JIT) production systems: Depending on the relative power of the retailer and manufacturer, the retailer may be able to demand JIT delivery, or may have to pay extra to receive it. Other mechanisms may include consignment shipments, where the goods remain the property of the supplier until they are sold, and demands about shipment sizes and customized packaging.
3. Operations control: Strong retailers may impose a wide range of operational requirements on suppliers through manipulating shelf space allocation and the number of competing product lines that they choose to offer. Many retailers are increasingly making demands in terms of quality, specifying exactly what they want, and when and how it is produced.
4. Channel structure control: Power is also manifested in retail supply networks through the extent to which different firms are able to shape channel structure. There are three inter-connected elements here. First, such control may concern ownership of the supply network. Both large retailers and manufacturers may seek to pursue strategies of vertical integration or disintegration (e.g. manufacturers opening up their own retail outlets). Second, it may concern seeking to shape the length and breadth of the networks (e.g. retailers missing out wholesalers to bargain direct with manufacturers, and retailers seeking multiple suppliers for particular products). Third, there is a geographical component, in the sense that firms may seek to shape how these organizational forms are structured in different regions and/or countries.
5. Information control: Finally, power can also be derived from information about what is occurring at all or many points on the supply network. Most importantly, powerful members of supply networks can exert pressure on other firms to use Electronic Data Interchange (EDI) and inventory management systems.

Source: Munson et al. in Coe and Hess (2005).

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## 8.4 SUPERMARKETS AND FARMERS

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‘If you talk about supermarkets, we sat with farmers last night and they said it’s all a myth isn’t it that customers know what they want and you are telling them as a supermarket what they want. I said there’s an element of that because you can put a fairly average range of products in front of a customer and depending on what their expectations are they could think its fantastic. Actually it might be pretty average.’  
(Waitrose)

## 8.5 NGOS ON CONSUMERS AND RETAILERS

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There is a general cynicism towards retailers by consumers. NGOs draw on this attitude when they campaign to encourage consumers to buy more welfare-friendly products.

# CONCLUSION: THE CURRENT AND POTENTIAL MARKETS FOR WELFARE-FRIENDLY FOODSTUFFS IN THE UK

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## 9.1. GENERAL PICTURE OF THE RETAIL MARKET

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The agro-food industry has moved from a supply-led towards a demand-led industry. The main drivers have been the rise of the supermarket dominance of the market and the resulting increase in power to shape supply, and government regulation that has encouraged supermarkets to self-regulate quality in supply networks. The top four supermarkets (Tesco, ASDA, Sainsbury's and Morrisons) control around 70% of the UK grocery market.

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## 9.2 FARM ANIMAL WELFARE AS PART OF RETAILERS' COMMERCIAL INTEREST

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Retailers compete to attract consumers into their stores. They do this by both meeting consumer needs, and also constructing those needs. There are three types of consumers identifiable that coexist but that are played upon at different times depending on the shopping experience. These are: the neo-classical consumer who is concerned with price; the reflective moral consumer who consciously considers the moral and ethical arguments about why one should or should not buy a product; and the emotional and affective consumer, who is swayed by feelings, by attractive packaging, by location of a product in store to add the product to the basket in a less conscious fashion. This third consumer position is often given as an explanation of why one gets to the check-out with products one never intended to buy. These three understandings are useful ways to think through the consumer, and are three ways of understanding how retailers market their products to consumers and indeed are active in consistently reforming these three consumers.

### 9.2.1 AREAS OF COMPETITION

#### *Brand*

In practice, this covers all aspects of retailing: in-store experience, media coverage, advertising, assortment and quality of products, public relations and CSR. In the UK, we have seen a lot of activity with regards to farm animal welfare within retailers' public relations/CSR reports. This has been pursued with varying degrees of proactiveness and coherence with other aspects of retailing (especially products on shelf).

### 9.2.2 ASSORTMENT

Animal welfare has come to be used both explicitly (free range) and implicitly (organic) to differentiate and market categories, ranges and products. The degree to which this is the case varies, both between and within retailers, and between sectors/categories. This can be attributed in part to historical particularities of supply and demand within each sector. It is therefore hard to generalize across all sectors.

Animal welfare has become an established means to differentiate tiers in some sectors common to all supermarkets – explicitly in barn and free-range eggs and chicken (some development in bran, Freedom Food chicken and outdoor reared/free-range pork) and implicitly within the organic tiers in all supermarkets. With the possible exception of free-range eggs in some stores, higher animal welfare standards are marketed alongside other 'quality' attributes to differentiate them from the 'standard' offer, and equivalent offers from other retailers.

So although 'generic' higher welfare products have become an established part of some sectors, we are seeing a general move towards more differentiated welfare claims as part of a differentiated 'quality' package. Waitrose (and M&S) is the retailer that has taken this retailing strategy furthest in the current market but the majority of the other retailers including the big three are following.

The move towards 'bespoke', quality/value-added supply networks is based on greater vertical cooperation between actors in supply networks, which, in theory, allows for more investment and innovation including in the area of farm animal welfare.

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### 9.3 INTERACTION BETWEEN MARKET SELF-REGULATION AND GOVERNMENT REGULATION

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Interaction between government regulation and the market is complex, this varies with competencies and between sectors.

#### 9.3.1 PRODUCTION STANDARDS

The UK government follows EU legislation, but it has ‘gold-plated’ the implementation of legislation for UK farming. The ban on sow stalls and tethering is a well-known example of this gold-plating for pig legislation. This is often argued to have unfairly disadvantaged UK pig producers vis-à-vis their European competitors. But it has also driven the development of ‘added value’ pig production systems (Freedom Food, outdoor bred, outdoor reared, and free range). UK retailers, whilst not sourcing all their pig meat from the UK have driven up standards in Denmark, the Netherlands and France (‘UK contract’ production systems).

#### 9.3.2 LABELLING

Labelling is an EU competency and one that is extensively reviewed in the present period. Many welfare organizations, including FAWC, see clear and informative labelling as a key factor in promoting the market for higher welfare-friendly food products. The example of free-range eggs is cited in support of this argument.

Free-range development in the egg sector began life as market initiatives, developed and marketed according to individual actor’s definitions, which coalesced into industry consensus. Free-range egg production has been formalized into law by the EU, so that all eggs labelled free range must come from production systems with certain minimum standards. This tightening of labelling laws has also increased the market for free-range eggs as consumers recognize and trust products with greater confidence.

#### 9.4 TENSIONS BETWEEN DEFINITIONS OF ANIMAL WELFARE

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Animal welfare, when used explicitly by retailers tends to focus on naturalistic and extensive notions of welfare – for example, straw-bedding and free range. Even if standards (both industry and retailer) specify much more, retailers find it difficult, unrealistic or counterproductive to convey a more complex picture.

Retailers wary of generic standards for animal welfare want space to innovate and differentiate. ‘Consumer’ understanding of animal welfare, and therefore retailer interest in new production standards, may be at odds with the industry’s more ‘health’ focused definition of animal welfare.

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# APPENDICES

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## 1 QUESTIONNAIRE TO RETAILERS

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### 1.1 DEFINITIONS AND COMPANY STRATEGY

Is concern for animal welfare an important part of your overall corporate responsibility and image? Is concern for animal welfare something that you use to distinguish your company from your competitors?

If yes, what is your company's strategy with respect to animal welfare (or what commitments does your company make)? To what extent does your strategy differ from your competitors? (proactive versus reactive). Does the animal welfare commitment involve manufactured brands, own brands?

What aspects of animal welfare is your company particularly concerned with? (e.g. transport of live animals, battery hens and so on)

Is it something that your company actively seeks to support through its practices relating both to the acquisition of animal products and their sale?

How relevant is animal welfare to the sale of animal products in your company?

We have noticed a number of animal products in your store that make explicit reference to animal welfare. How is your store assortment decided upon? Who decides which animal welfare products are sold instore? (company strategy, local store owners, response to consumer demand) Why do you sell them? Is it anything to do with the fact that they are animal welfare friendly or are there a variety of reasons?

### 1.2 PERCEPTION OF DEMAND

Particular types of consumer are more likely to buy animal welfare-friendly products than other types of consumers. If so, which types? Why do you think this is? Is it simply a question of different concerns, or different willingness/ability to pay? Does this vary geographically? If so, how?

What sort of customers do you wish to target specifically?

Which are your most popular animal welfare-friendly products that consumers buy in your store? Which brands? Which product type? (e.g. chicken, pork, beef)

Over the last year or so, has consumer preference for these products altered the overall balance of products in this product range? Perhaps undermining others, competing with other brands, which has led to a restructuring of the market for these products.

Obviously there are a lot of issues that consumers are now concerned with: health, product quality, where food comes from, traceability, fair trade and so on. Where do you think concern for animal welfare comes in all this? Is it a leading concern, a lesser concern, or where do you think your consumers place it?

Do you feel, as a retailer, under any pressure from consumer groups, animal welfare organizations or your own customers: either to stock more products making reference to animal welfare, or to do more to promote animal welfare in supply chains, or to take products that are considered to be produced in a non-animal welfare-friendly way off the shelves?

Have you worked with such organizations or bodies in responding to their concerns?

Do products that indicate they come from animal welfare-friendly production generally cost more? Is the difference in price solely due to the fact that they are animal welfare friendly or are there other considerations in the pricing of these products? Are your consumers (or some of them) really willing to pay more for products that are animal welfare friendly?

Do you think, as a retailer, you have a role in making such products available to your clients in order to raise concern for animal welfare and educate consumers? Or do you feel rather that your role is to respond to your clients concerns by supplying them with products that refer explicitly to animal welfare because this is what they want?

Specifically for animal welfare, who do you think is responsible in the chain: you (retail), farmers, consumers or government?

### 1.3 SELLING WELFARE-FRIENDLY PRODUCTS

Are animal welfare-friendly products a major factor in your profit/sales margins? What pricing strategy is used?

How is the price determined (both the price paid to the supplier as the consumer price)? Who is involved and who decides? Does your company use category captains (suppliers) that control the shelf and hence determine the strategy and price setting of welfare products?

Does your company have specific price promotions for animal welfare products?

Why/why not? Is the promotion strategy centrally or locally determined?

Do some animal products (product category (beef, pork, etc.) or one specific type of product) have more potential to being sold as welfare friendly than others, if so which (and why)?

Use prompts at this point: use products identified in the store from each of the five categories (one chicken, one beef, one pork, one dairy, one eggs – where available).

If we take this product (show example of manufacturer-label product), do you see it as being an animal welfare-friendly product or is that not an important component of the product, in terms of what your clients are looking for?

If we take your own store labelled products (show example of own-label product), can you tell us a little about the way animal welfare is addressed?

What, for example, do the various references on the packaging mean in terms of animal welfare?

What messages are you trying to convey with the package information, the presentation of the product and any images that might be on the label. What were the choices behind putting these particular bits of information or images on the packaging (legal requirements, traceability as well as selling)? What information would you not put on (e.g. slaughter conditions)?

Do you make explicit reference to animal welfare in the display of products (e.g. on meat counters, organic food displays, free-range egg displays and so on)? Do you have any policy regarding the display of such products (specified shelf space, distinct stands and so on)? Distinguish between own and industrial brands.

Do the meat products available at your in-store butcher's counter make any mention of animal welfare?

If we divide up the welfare-friendly products you sell into three categories:

- the products that are produced and packaged by food companies (give example with welfare-friendly indication on label);
- the meat products you sell in the in-store butcher's section;
- the products you sell under your own company label (give example with welfare-friendly indication on label).

Which of the three is the most important in terms of the sale of welfare-friendly products? As before, do you think animal welfare is a reason people buy these products?

Is animal welfare shelf-space likely to increase or decrease in next five years? Why?

Is it enough to say that a product is animal welfare friendly for it to sell, or does that message have to be packaged up with other quality attributes relating to the environment, health, territory and so on. How do you combine these different elements in your own supermarket labelling schemes (show example if possible)?

Do you think there should be:

- either some sort of generic animal welfare-friendly labeling scheme (like, say, for organic production);
- or do you think consumers prefer to see animal welfare as a component of quality products;
- or do you think higher animal welfare standards should be imposed and enforced on all animal products, so that there will no longer be any need to draw attention to it. (Should this be organized nationally or at a European level? By government or by industry (e.g. EurepGap?)

If you would like to see a generic welfare label, how might it look (welfare tick, like vegetarian, traffic lights). If such a system was adopted, do you think it would have an impact upon the sale of animal products that were not sold under the scheme?

Does the promotion of your sign (Coop, Carrefour, etc.) on TV, newspapers, etc. include the animal welfare commitment? Yes/No. Why?

#### 1.4 SUPPLY CHAINS

With regards to your supply chains in general, is animal welfare an issue for any/most of your suppliers? Do you expect your animal product suppliers to be providing products that have been produced in an animal welfare-friendly way? Is this something you pay attention to? Does it have any effect upon the price you pay for supplies?

Has the growing amount of EU regulation on welfare regulation had an impact on your supply chains?

Do you buy in a lot of organic animal product (%)? If so, do you (and your consumers) think this is intrinsically more animal welfare-friendly than non-organic products? Do you market it as such?

*Manufacturer's Labels*

Some (or may be all) of the products that explicitly refer to animal welfare you buy from manufacturers (give example). Is the fact that they are animal welfare friendly an important reason why you buy these products for sale in your supermarket or are there other more important reasons? (e.g. brand known and appreciated by the consumer, low price, etc.). Do you seek out products that mention animal welfare or does that aspect come simply as part of a product label?

If you impose animal welfare standards to some suppliers and you don't have an explicit animal welfare own label, why is this? Are you waiting for a better economic situation, a more sensitive consumer? Or do you buy animal welfare products because they are easily produced and are no longer a high cost production thanks to the recent EU policies?

*Own Brand Labels*

Other welfare-friendly products are sold under your own supermarket label or are available at your in-store butcher's counter (if this is the case). Can you tell us about the supply chain for these? Do you establish the conditions of animal welfare directly with the farmers or do you buy from cooperatives, wholesalers or abattoirs who set the welfare conditions for their suppliers?

- If the former, do you operate a farm assurance scheme or product assurance scheme? How are the conditions for these negotiated — is it directly by company staff or do you go through farmer/producer organizations? What are the specific animal welfare conditions and how did your company decide upon them? Do you monitor them? Have they changed in recent years? If so, why and how?
- If the latter, do you intervene in the setting of these conditions, or the monitoring of compliance? Do you work through an external assurance or labelling scheme. Do you only buy animal products that are issued from such a scheme (can you give examples)?

If the welfare of animals is a concern when you purchase animal product supplies, what are the specific aspects of welfare that you look for? How have you chosen these aspects? Is this informed by science, by popular concerns, by expressed consumer demands (or all three)?

How does the organization and operation of animal product supply chains in general affect your ability to market products that specifically mention animal welfare quality? Does the general supply chain structure inhibit or facilitate this?

How would you like to see your animal welfare supply chains develop? What is infringing on this?

Finally, do you think that animal welfare is a genuine element in market segmentation. Do products labelled as animal welfare friendly sell within a distinct niche and is there the potential for this to grow? Or, alternatively, as animal welfare standards in general improve, do you think that this will be less and less important over the next five years as a way of differentiating products?

Thank you.

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## 2 GUIDELINES FOR INTERVIEWS WITH SUPPLIERS

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Following the retail audit, products were identified that had explicit reference to animal welfare friendliness on their packaging. The question then is:

Why are claims for higher animal welfare being used to sell this product?

This cannot be answered by solely asking retailers about the market for animal welfare-friendly foodstuffs. By going down the chain, using, for example, the products that appear on the audit, we gain an idea of the different dynamics and pressures that operate at different levels of the supply chain. All of which are important in determining how animal welfare at the farm level is translated and marketed to consumers.

By interviewing manufacturers/processors/wholesalers/abattoirs, it allows us to gain an understanding of the roles these supply chain actors have played in the current market for animal welfare-friendly products, its history, the role they have played in pushing for higher/lower levels of legislation (market interests, etc.) and their current role vis-à-vis animal welfare in the meat/dairy/egg industries.

We have found it quite easy to adapt the retailer interview to suit the interviews with suppliers. There are obviously some questions that do not need to be asked but generally the format is similar. Here is a general outline of questions for supply chain companies.

### *General Guidelines for Suppliers*

- History of the company.
- Importance of animal welfare for the company, marketing of brand(s), etc.
- How does this manifest itself within relationships with producers, slaughterhouses, and production standards?

- How does a focus on animal welfare differentiate the company and its products within the wider market and its relations with retailers? (marketing strategies, pricing and premiums, pressures from retailers and consumers)
- How does animal welfare fit in with other concerns: quality, traceability, sustainability?
- Whose responsibility is animal welfare? Should it be dictated by statutory legislation or independent (segmentable) standards?
- Future of market for animal welfare-friendly products as well as wider 'quality' products, such as organic.

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### 3 GUIDELINES FOR INTERVIEWS WITH REGULATORS

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#### *Who to Interview?*

People in the broad domains of: animal health, food quality, animal welfare:

- public regulators (those who implement, those who enforce);
- those involved in strategy and policy development (including agencies outside government, e.g. the Farm Animal Welfare Council in the UK).

#### *Why Interview?*

There are some obvious agencies that are not included in the three work packages; the aim is to fill in these gaps through carrying out five strategic interviews.

#### *What Do We Want to Know? Questions Related to Retail and Supply-chain Sector*

1. Definition of animal welfare – how it is constructed as an area of policy interventionism (food safety, welfare, environment...)?
2. Role and understanding of their role (role with respect to wider food chain, EU and social demand, retailers, public regulation/private regulation).
3. Recent evolution of policy and regulatory change/development.
4. How does current policy/legal frameworks aid or hinder development of animal welfare?
5. (Big) Issues (animal welfare scheme, trade issues, labels, BSE and so on).

How do they see themselves with respect to other countries?

As an example of the role of legislation and regulation, the Food Safety Act in the UK introduced the concept of 'due diligence defence'. This has had a major impact on retailer activity in domain of animal welfare. As a result, most retail trade associations, e.g. British Retail Consortium, have food law departments. These can be include these in the research?

In Brussels:

- Eurogroup for Animal Welfare;
- European Food Animal Welfare Association.

*What We Should Know Following the Interviews*

- The history of farm animal welfare policy in each country.
- The regulatory history.
- Regulatory roles and procedure.

This would entail (for example, in the UK) talking to the Advertising Standards Agency, the Farm Animal Welfare Council, the Food Standards Agency, British Retail Consortium, Department for Rural and Environment Affairs.





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