



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

Date: 8/21/2007

GAIN Report Number: UK7020

United Kingdom

Agricultural Situation

UK Foot & Mouth Disease – recovery timetable, the economic impact and who pays?

2007

Approved by:

Debra Henke

U.S. Mission to the EU

Prepared by:

Steve R. Knight

Report Highlights:

With the UK's Foot & Mouth Disease (FMD) outbreak seemingly under control, the agricultural sector's focus is now turning towards getting back to normal as soon as possible and minimizing the economic impact. Subject to no new confirmed FMD cases, a likely timetable for this return to pre-FMD trading conditions is beginning to take shape. In a related development, with the investigation into the source of the disease now focusing on the Pirbright laboratory, the farming sector is reported to be taking legal advice for possible legal claims.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
London [UK1]
[UK]

UK hopes are rising that the Foot and Mouth Disease (FMD) outbreak in the county of Surrey, south of London, is now under control. There have been just two confirmed cases, the first on August 3, 2007 and the second a few days later on August 6. The subsequent two weeks have seen a number of suspected cases but all have tested negative and any subsequent Temporary Control Zones lifted. The self-imposed national movement ban for susceptible animals put in place on August 3 is slowly being eased. Also, the self-imposed export ban on all animal products has been lifted but EU and many third country import restrictions remain in place. With each new day and no more confirmed cases, the situation is looking increasingly positive but the UK Government is rightly calling for continued vigilance on the part of farmers and other keepers of susceptible animals. Inevitably, the agricultural community's attention is now turning to the economic impact of the outbreak, a timetable for resumption of normal trading activity both within the UK and overseas, and any possible sources of compensation.

Following on from the floods of June and July (see UK GAIN7016), the albeit small outbreak of FMD in southern England has put further financial pressure on the UK agricultural sector. That said, like the floods, while there are certainly ramifications for the UK, it is important that they be put in context.

In 2001, the UK experienced its worst animal disease outbreak since records began. A total of 2,030 cases of FMD were confirmed in Great Britain between February and September that year. Some 6 million animals were culled. Of this total, 4.9 million were sheep (around 20 percent of the total population), 0.7 million were cattle (5 percent) and 0.4 million were pigs (5 percent). The costs to agriculture, the food chain and the wider UK economy (including tourism) have been estimated at some GBP 9 (USD 18) billion, about 1 percent of UK Gross Domestic Product at the time.

This year's outbreak has thus far been limited to just 2 confirmed cases in the county of Surrey. Two weeks since the second case was confirmed, UK hopes are now rising that no further cases will be reported and the cull will be limited to the 579 animals killed so far. Although on a different scale to 2001, there will still be financial ramifications for the UK.

In 2001, the scale of the outbreak meant that a disproportionate percentage of the total cost was felt in two areas; by the UK Government in containing, eradicating and cleaning up after the disease and compensating those directly affected; and by the broader economy as a whole, particularly tourism. These two areas dwarfed the third, the consequential losses for the agricultural sector.

In 2007, the headline figure will be much, much smaller and the size of the outbreak means that the costs to the UK Government and the broader economy will therefore be much lower. However, there will still be consequential losses for the agricultural sector and, as a proportion of the total cost, these can be expected to be higher.

The sources of the consequential losses for the UK's agricultural sector are two fold - the domestic animal movement restrictions and the EU and third country export restrictions.

As far as the domestic animal movement restrictions are concerned, these effectively brought the UK meat supply chain to a halt on August 3. With some animal movements now permitted under license, those in the ancillary agricultural chain, such as abattoirs, are slowly returning to business. The more time that passes without any more confirmed cases, the more the UK Government will ease back these restrictions and the less the daily losses will be. However, the earliest date that normal animal movements could resume is September 10, pending the completion of all cleansing and disinfection of the affected premises. Any

further confirmed FMD cases would push this date back. The actual costs associated with this disruption to the domestic supply chain are very difficult to ascertain but are surely significant.

For exports, the resumption of normal intra-EU trade is subject to a positive decision at the Standing Committee on Food Chain and Animal Health (SCoFCAH) in Brussels. Their next meeting will be on August 23. At this meeting, there will be a discussion of the EU's export ban on UK meat and meat-based products and, if the situation remains as is, the UK Government will be pushing to discuss a timetable for lifting the ban. For third country trade, if there are no further confirmed FMD cases, the UK should regain its FMD-free status from the World Organization for Animal Health (OIE) in early November. The UK Government will then press third countries to lift any remaining FMD-related trade restrictions, regionalized or otherwise, that they might have in place. Unlike the supply chain losses, trade losses are more transparent. The UK exports around BPS 1.8 (USD 3.6) million of FMD susceptible animal and animal products each day, mostly to the EU.

According to trade sources, the current main area of concern for the UK is the lamb market. Following the spring lambing season, around 30 percent of lambs slaughtered between August and October are exported. With this trade effectively halted, UK export markets are turning to other competitor suppliers. Not only does this mean that there is a supply glut on the domestic market but also means that UK exporters will need to regain markets once trade restarts. This has been reflected in downward price pressure on the domestic lamb market. For the other meat sectors, the timing and short-lived nature of the FMD outbreak is proving less problematic and prices have remained resilient. Of course, as with the supply chain, any further confirmed FMD cases would extend the aforementioned timeline and significantly increase these costs.

One final point worthy of note is the relevance of the source of the disease. In 2001, the source of the disease was never definitively identified and the agricultural sector had no option but to absorb the consequential losses. The source of the 2007 outbreak has yet to be identified but the UK Government's interim epidemiology report concludes that it is very likely that the source of infection is the Pirbright site where Merial Animal Health Ltd and the Institute for Animal Health are located (see UK GAIN7019). According to the National Farmers Union (NFU), they have retained the services of a law firm to carry out some preliminary investigation work on behalf of NFU members who have suffered losses as a result of the FMD outbreak. This will involve taking advice on potential grounds for a legal claim in the event that it is confirmed that the FMD virus came from one of the sites at Pirbright.