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**REPORT FROM THE COMMISSION TO THE COUNCIL**

**on the application of a Council Decision authorising the UK to permit the Isle of Man authorities to apply a system of special import licences to sheep meat, beef and veal**

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#### **INTRODUCTION**

This report is drawn up under Article 2 of Council Decision 82/530/EEC. This Decision authorises the United Kingdom to permit the Isle of Man Government to apply a system of special import licences to products of the sheep meat and beef and veal sectors falling within the following subheadings of the combined nomenclature: 0102 10, 0102 90 05 to 0102 90 79, 0104, 0201, 0202, 0204, 0206 10 95 and 0206 29 91. This system is to be applied in such a way as to ensure equality of treatment for all products from whatever the source and for all importers of meat, while maintaining as far as possible the traditional patterns of trade, and taking the Community rules on animal health into account.

#### **BACKGROUND**

The Isle of Man, which is situated in the Irish Sea is not part of the United Kingdom but is an internally self-governing dependency of the British Crown. The Isle of Man is not a member of the EU but has a special relationship, which is set out in Protocol 3 of the Treaty of Accession. Under this special relationship the Isle of Man accepts the free movement of goods but does not contribute to Community funds nor can it draw on such funds. The Island is financially autonomous and its support measures for agriculture are funded by the Isle of Man government from local taxation.

The Island's traditional industries are agriculture, fisheries and tourism. The pattern of tourism experienced in the 1960's and 1970's has declined but a flourishing financial sector has developed in recent years.

The agricultural industry on the Isle of Man has traditionally been based on mixed farming. The majority of the land is devoted to livestock production however.

The disadvantages of the high cost of sea transport as well as the small scale of the industries are common to other small islands. Given that at certain times of year the ferry service may be suspended because of weather conditions makes the market particularly vulnerable.

#### **MARKET SITUATION**

Beef production was relatively stable following the accession of the UK to the European Economic Community in 1973, the annual average being 2 320 t in the period 1973-1981. This stability was maintained during the first six years following the commencement of the application of the Council Decision. In the period 1982-1987 the annual average production was 2 208 t. Production declined slightly in the period 1988-1995 when the annual average was 1 931 t. However, since 1995, in the wake of the BSE crisis production has declined by around 20%.

Sheep meat production was stable in the period 1973-1981, averaging 930 t per year. Since 1982 it steadily increased, reaching its highest level of 1 445 t in 1991. Production has decreased since that time. The annual average in the period 1992-1998 was 1 293 t.

Exports of beef averaged 980 t per year in the period 1973-1981 and 1 080 in the period 1982-1994. Since that time exports have declined to around 750 t per year. Concerning sheep meat, exports averaged 350 t per year in 1973-1981, rising in the period from 1982-1999 to 765 t. In 1996 sheep exports exceeded beef exports for the first time.

Imports of both beef and lamb were negligible up to 1978. They rose in the period 1979-1982, reaching an annual average of 485 t (410 t beef and 75 t lamb). They fell in the period 1983-1990 to 267 t (beef 247 t and sheep 20 t). From 1991 imports decreased further in both sectors with beef averaging 112 t per year and sheep meat reduced to a negligible quantity. In 1995, 1996, 1998 and 1999 there were no imports at all of sheep meat.

Meat consumption in the Isle of Man has steadily declined since 1973. Lamb has decreased from 695 t to 408 t in 1998. Beef reached a high point in 1979 at 1 714 t but decreased slowly thereafter, reaching 988 t in 1998.

The marketing of meat and livestock is carried out by the Isle of Man Fatstock Marketing Association (FMA). The FMA has to take all stock offered to it by contracted producers. The FMA is the tenant of the only slaughterhouse on the island, which was built in 1995 to EU export standards.

The retail sector for meat consists of around 20 independent butchers' shops and four main supermarkets. A fifth supermarket is due to open in 2000. The construction of the new slaughterhouse and changes in its management has had beneficial results. The slaughterhouse and the farmers who supply the basic product have responded to the needs of the local market through improvements in the quality of carcasses and by raising standards of butchery and packing of meat.

The introduction of a label for Manx origin meat has also been successful by raising the awareness of consumers to the local product. Despite having a price 15% higher than on the mainland sales of high value beef cuts have increased.

## **OPERATION OF THE LICENSING SYSTEM**

Prior to 1982 the importation of meat into the Isle of Man was controlled under licence granted by the Island authorities and was also subject to veterinary controls. Licences, subject to conditions, were issued for beef imports throughout the year, but licences for lamb imports were restricted to the March to July period.

Since the implementation of Council Decision No 82/530/EEC a system of twin licences was introduced covering agricultural marketing and animal health. This covers imports from Member States as well as third countries.

In 1996, 53 licences were issued, in 1997, 70, in 1998, 48 and in 1999, up to the month of October 55 were issued. Apart from a small consignment of New Zealand lamb in 1997 (1,1 t) all licences were for beef imports. In 1996 a total of 5 applications for licences were refused on the grounds of adequate domestic supply or as being outside the traditional pattern of trade. In 1995, 1997, 1998 and 1999 no applications for licences were refused.

The purpose of the licence system is to regulate the flow of imports in order not to destabilise domestic production. There are occasions when producers on the Island are not able to produce the right quality or a sufficient quantity of meat at a particular time. Traditionally production was of a seasonal nature, the bulk of production taking place during late summer and the autumn. As the traditional tourist trade was concentrated in the summer it was necessary to import extra supplies to fulfil the increased demand. The changing pattern of tourism and the development of the financial sector have meant that demand for higher quality produce has grown and become less seasonal. In response to these developments beef production in particular is becoming spread throughout the year.

## **CONCLUSIONS**

Unrestricted imports could have serious consequences for production on the Island. Even though it may be successful at present agricultural production is in a vulnerable situation. A relatively small but untimely import consignment could seriously destabilise the delicate balance of the market. The slaughterhouse is dependent on a certain level of throughput to be economically viable and if imports were to replace domestic production its existence would be put into doubt. If the slaughterhouse were to close the livestock sector would be entirely dependent on live exports. A decline in the livestock sectors would have an effect on other sectors, given the interdependent nature of the agricultural economy. Arable production for animal feed would suffer for example.

Objections to the licensing system have generally come from retailers who have complained of difficulties in obtaining local supplies. By responding to the needs of the local market through improvements in quality the viability of the beef and sheep sectors has increased. As the retailers are now satisfied with the locally produced meat the traditional objections to the system have lessened.

In the light of eighteen years experience of operating the licence system within the framework of Decision 82/530/EEC, the Commission considers that it has enabled the Manx authorities to regulate and maintain meat supplies to the Island. Moreover, and perhaps more importantly, the licensing system has ensured a basic stability upon which the domestic livestock producers have been able to develop a successful sector. The safety net offered by the system provides a level of security for the survival of the agricultural economy as a whole.

The Commission proposes therefore that the Decision be maintained and made applicable up to 31 December 2005. The Commission further proposes that it should submit to the Council before 31 July 2005 a further report on the application of the Decision together with proposals in order to enable the Council to take appropriate measures if required.