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COST AND RESPONSIBILITY SHARING BETWEEN GOVERNMENT AND INDUSTRY FOR ANIMAL HEALTH

Cost and responsibility sharing for animal health has been on the agenda at national, European and regional levels for many years. This paper examines the rationale put forward by the Department for Environment, Food and Rural Affairs, current opinion within Europe and the farming industry and finally considers alternative models for cost and responsibility sharing.

SUMMARY OF KEY POINTS

- Cost and responsibility sharing for animal health as a means of addressing future outbreaks of exotic disease is currently being explored by Defra.
- The Joint Working Group set up in 2005 concluded that “a joint industry and government approach to sharing costs and responsibilities is the right approach”.
- Defra launched a consultation on responsibility and cost sharing stating that the overriding objective was to achieve better management of animal disease so that overall risks and costs would be reduced.
- Defra reported an overall consensus of support for the principles outlined in the consultation. Issues surrounding affordability and the need to ensure a joint approach to decision making and policy development were noted.
- The Ulster Farmers Union and other bodies in the UK have expressed their dissatisfaction with the policy noting that legislation to be introduced by Defra would allow for cost sharing to be implemented without joint responsibility being achieved. Unions have stated that the industry is not in the position to take on additional costs and that it should be recognised that the industry already shares costs with the government.
- Current research undertaken at the European level has also indicated the benefits of introducing a harmonised approach to cost and responsibility sharing and this has been stated in the draft Community Health and Welfare Policy 2007-2013.
- Many different models are available to share the costs of animal disease and some well established systems are in place. Models vary from simple levy arrangements to insurance based systems and bank guarantee systems.

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COST AND RESPONSIBILITY SHARING

INTRODUCTION

Cost and responsibility sharing has been on the national and European agenda for some years. At present the Department for Environment, Food and Rural Affairs (DEFRA) has been working towards developing policy so that cost and responsibility of animal health is shared between Government and Industry. The logic behind such policy emanates from conclusions of the Anderson Inquiry which asserted that "on narrow economic grounds, it is difficult to see why costs as substantial as those of the 2001 foot and mouth epidemic should be met by people not engaged in agriculture". It went on to acknowledge that "it is neither possible not acceptable that the farming industry should bear the full costs associated with control".[1]

This report has been prepared for the Committee for Agriculture and Rural Development and considers the work undertaken to date by DEFRA, highlighting the recommendations and rationale behind a cost and responsibility sharing scheme. Furthermore, it examines recent European thinking, current opinion within the industry and explores a range of cost-sharing systems found in other countries.

DEPARTMENT FOR ENVIRONMENT, FOOD AND RURAL AFFAIRS (DEFRA)

Joint Working Group

The Joint (Industry/Government) Working Group on Sharing Responsibilities and Costs of Animal Disease met between December 2005 and October 2006 with a specific remit to address future outbreaks of exotic disease.

The Working Group's final report identified a number of key themes and recommendations, the key conclusion being that "a joint industry and government approach to sharing costs and responsibilities for exotic animal disease is the right approach". [2]

It went on to add that any approach development should be based on:[3]

- A genuine partnership agreement;
- A new statutory body for sharing responsibilities and costs of animal disease with both industry and government representation;
- Shared responsibility to extend to all aspects of the development and delivery of exotic animal disease control policies, including policy in respect of handling disease outbreaks, provided that both government and industry can

[1] Foot and Mouth Disease 2001: Lessons to be learned Inquiry Report. (Chairman, Dr Ian Anderson CBE) 22.07.02. HC 888, found in DEFRA Consultation, Responsibility and Cost Sharing for animal health and welfare: principles, December 2006, pg 5
[2] Full report can be accessed at: Sharing Responsibilities and Costs of Exotic Animal Diseases, July 206
[3] Joint (Industry/Government) Working Group Report on Sharing Responsibilities and Costs of Exotic Animal Disease, July 2006, pg 4.

provide the necessary accountability to discharge their responsibilities effectively;

- Ensuring that there is appropriate accountability to Parliament and the wider public interest and that the formal and legal responsibilities of the Chief Veterinary Officer are protected;
- Industry acknowledging its increased role and its commitment to the partnership and providing representatives who can make binding policy and financial commitments on its behalf;
- A Statutory body having a formal role in discussions with the European Commission on animal health issues relating exotic diseases; and
- Preventing the incursion and spread of exotic animal diseases as well as minimising the costs associated with those diseases and their control.

In addition to this, the working group which had a remit to address England's situation only, considered it important that there should be a common approach to sharing responsibilities and cost sharing across Great Britain and preferably the UK as a whole.[4]

The approach considered was based on a principle whereby the 'beneficiary pays' and contributions from all beneficiaries would be expected into any cost sharing arrangement. Preliminary analysis by the Working Group noted the following groups for inclusion: auction markets, slaughterhouses, processing and cutting plants, food service and food retailers.

Furthermore, it was considered essential that agreement be reached on the categorisation of disease to help determine responsibilities and share of the costs to be met by government and industry. Different diseases would warrant different costs mechanisms for levy collection. Further consideration is needed however, on this matter.

Specifically, with regards to sharing responsibilities and costs, the following conclusions and recommendations were identified.[5]

Sharing Responsibilities for Managing Exotic Disease Risks

- A new statutory body, with industry and government representation, should be established for sharing responsibilities and costs for exotic and animal disease between government and industry;
- The shared responsibility should extend to all aspects of the development and delivery of exotic animal disease control policies, including policy in respect of handling disease outbreaks;
- Government must be able to accommodate this change of approach to a formal partnership;
- Industry will need to acknowledge its increased role and its commitment to the partnership;
- The main focus of the partnership body must be preventing exotic animal diseases and minimising costs associated with them and their control; and
- Devolved administrations and industry colleagues in Northern Ireland, Scotland and Wales must be engaged as soon as possible in the debate.

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[4] Joint (Industry/Government) Working Group Report on Sharing Responsibilities and Costs of Exotic Animal Disease, July 2006, pg 5.
[5] Joint (Industry/Government) Working Group Report on Sharing Responsibilities and Costs of Exotic Animal Disease, July 2006, pg 6-7

Sharing the cost for Managing Exotic Disease

- Any cost sharing arrangement needs to be affordable and equitable to all partners;
- Industry resources and public resources must be used effectively and efficiently to reduce the risk of a disease outbreak and control and eradication of an outbreak;
- Direct costs can be a relatively small part of the total costs of eradication in a large outbreak;
- It should be recognised that farmers already meet a large part of the total cost of an exotic disease outbreaks and this should be taken into account in determining equitable cost sharing arrangements;
- No hard and fast rule can be drawn between consequential loss and direct loss for farmers and there needs to be clear definitions of what costs will be covered by future arrangements;
- The scope of a cost sharing agreement should not include consequential costs. However, there is a need to encourage and provide incentives to private insurers to cover these costs;
- There needs to be further work done on disease categorisation to help determine responsibilities and the share of costs between government and industry for different diseases
- In negotiations in the EU, the government' objective should be to ensure that contributions from the EC Veterinary Fund recognise both the government's and industry's contribution to expenditure;
- Further consideration should be given to the issue of prospective funding of a disease levy; and
- There ought, in principle, to be a cap on industry contribution to any cost sharing agreement.

Consultation

In December 2006, The Department for Food and Rural Affairs (DEFRA), launched a consultation on Responsibility and Cost Sharing for Animal Health and Welfare.[6]

A number of principles were presented for consultation including the sharing of responsibility and costs between industry and government.[7] The overriding objective for this was to achieve better management of animal disease risks so that overall risks and costs are reduced.[8] The following 10 principles were identified.

1. Preserving public safety and maintaining confidence both nationally and internationally in UK food production

2. Preserving the principles of the AHWS, especially that prevention is better than cure

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[6] DEFRA, Consultation on responsibility and cost sharing for animal health and welfare: principles, December 2006

[7] DEFRA, Consultation on responsibility and cost sharing for animal health and welfare: principles, December 2006, pg 6

[8] DEFRA, Consultation on responsibility and cost sharing for animal health and welfare: principles, December 2006, pg 4

3. Maintaining and improving capability to deliver policies

4. Sharing responsibilities so that achievement of animal health and welfare outcome is effective and efficient

5. Sharing costs only where the activity provides a clear benefit or service to industry, taking into account affordability and the impact on competitiveness

6. Focus on cost sharing where it is most likely to reduce disease risk

7. Responsibilities should be shared at lease where costs are shared

8. Accountability for both industry and government

9. Regulatory burden should be reduced and measures simplified

10. Consistency with EC and national developments

The rationale asserted was that sharing responsibilities between government and industry would improve policy making and delivery hence ensuring that those who are best placed to manage risk are placed at the centre of the decision making process.

It noted that the system would be based on the beneficiary pays principle and where discrete groups can be identified as gaining from that service, they should bear the cost of providing that service. Furthermore, cost sharing could be used as a positive mechanism for promoting positive behaviour change within livestock industries.

A summary of responses to the consultation produced by DEFRA, cited that there was a strong feeling in the industry that this should not simply be an exercise to pass costs onto the industry to save taxpayers money and that if a true partnership were to develop, it should be based on a greater equitable say on policy development and share of responsibility.[9] It was also noted that most respondents welcomed the consultation as a positive step forward and agreed in general with the principle of responsibility and cost sharing.[10]

CURRENT DEVELOPMENTS AND INDUSTRY OPINION

It has been indicated that DEFRA are intent on introducing legislation in November 2007 that would allow for cost sharing to be introduced. These plans have been criticised by the Ulster Farmers Union (UFU) stating that there will be no deal on animal health cost-sharing proposals unless farmers are given proper input into animal health policy making.[11] UFU maintains that the current government timetable is not acceptable without responsibility sharing structures for policy development being in place.

The National Farmers Union (NFU) Scotland, has also hit out declaring that it is wrong to transfer costs for disease prevention onto the industry when the government is not doing enough to protect Britain from imported diseases.[12]

Furthermore, the Tennant's Farmers Association has rejected the Government's plans stating that the consultation is based on the wrong assumption. It should be

[9] DEFRA, Summary of Responses to Consultation on Responsibility and Cost Sharing for Animal Health and Welfare: Principles.
[10] DEFRA, Summary of Responses to Consultation on Responsibility and Cost Sharing for Animal Health and Welfare: Principles.
[11] Irish News, UFU locks horns with Defra on health cost, July 3 2007.
[12] Aberdeen Press and Journal, Anger as politicians look at health levy on livestock, December 12th 2006.

noted that in reality considerable costs are already shared between government and industry.[13]

The Farmers Union of Wales called for plans to be scrapped, adding that the industry is unable to cope with extra costs.

EUROPE

Under current arrangements in Europe, in the event of an exotic disease outbreak, the EC will meet part of the direct costs of eradicating the disease from the EC Veterinary Fund.

The EC has recently published findings of a feasibility study on cost sharing schemes in order to inform the Community Animal Health Policy 2007-2013.

The feasibility study findings concluded that:

"Developing an EU Framework for harmonised cost sharing schemes is a feasible option. A system of harmonised schemes for the sharing of responsibilities and costs of epidemic livestock diseases could contribute to preventing major financial risks in Member States' and Community budgets, enhancing the welfare of operators and providing incentives for prevention. Whether these benefits can be achieved in practice depends on the details of the operational principles that have to be defined at EU level and on their implementation at member state level."[14]

The draft Community Animal Health and Welfare Policy has been published for consultation by the Member States. One of the key messages emerging is the development of bio-security through the introduction of a harmonised framework for cost and responsibility sharing. A key element of such a framework would be the introduction of a disease classification and prioritisation system. This would allow for greater focus on those diseases which have high 'EU relevance' in terms of the need for coordinated action, due to their potential impact on human health and economic impact.[15]

COST SHARING SYSTEMS IN OTHER COUNTRIES

Research was conducted into cost sharing models by the Joint (Industry/Government) Working Group in 2006.[16] The following section has been summarised from this report and demonstrates the diversity in cost and responsibility sharing models.

Ireland[17] - Levy system

Ireland has been operating an animal disease levy system in respect of dairy cattle and cattle slaughtered or exported live, since the creation of the Bovine Diseases Act in 1979. The money collected is used to contribute towards the compensation costs for the TB and Brucellosis Eradication Schemes. The rates of levies are determined on the basis of contributing c. 50% towards the compensation costs. The rest of the

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[13] Western Daily Press, Tenants say 'no' over cost-sharing, June 9th 2007.
[14] Evaluation of the CAHP: Final Report – Pre-feasibility study on cost-sharing schemes
[15] DG SANCO, draft A new animal health strategy for the European Union 2007-2013, 2007.
[16] Joint (Industry/Government) Working Group on Animal Disease Cost Sharing, Cost sharing systems in other countries, Doc JIGWG 06
[17] Joint (Industry/Government) Working Group on Animal Disease Cost Sharing, Cost sharing systems in other countries, Doc JIGWG 06

compensation costs, testing, equipment purchases and other costs are paid by the Irish Department of Agriculture and Food (DAF). DAF also seeks partial re-imbursement each year form the EC.

The levy is collected in the following ways:-

a) the milk levy is payable when the milk is received for processing, creameries or dairy producers. The rate due is paid per gallon received for processing. The relevant company receiving the milk pays the levy, on a monthly basis, to DAF.

b) The bovine levy is payable in respect of (i) bovines slaughtered and (ii) bovines exported live from Ireland. Meat plants pay the levy on a monthly basis to DAF for each animal slaughtered in domestic abattoirs. Officials also collect the levies for any bovine exported live.

The companies paying the levy are entitled to recoup the money paid in levy to the government from their suppliers, by deducting it from the price paid for the milk or animal.

Ireland, On-farm Market Valuation Scheme compensation arrangements provide for a refund to the farmer of Bovine Disease levies for all reactors slaughter as part of his/her compensation payment.

Denmark[18] - Levy based with investments used to meet costs

Production-based levies in Denmark are well developed. They aim to meet common challenges of the future which cannot be met by the farmer alone and in particular levies focus on disease prevention rather than controlling outbreaks.

Levy funds raised contribute to a range of investments including research and development, prevention and education and consultancy.

Levies are collected in accordance with Danish law after recommendations are made by the agricultural sector. A production levy foundation has been established for each sector and each has its own board. The Ministry for Food, Agriculture and Fisheries supervise the administration for each board.

For the pig sector, a levy is collected for each pig produced, slaughtered or exported live. The slaughterhouse collects the levy for each pig (deducted from the price paid by the farmer per pig). The slaughterhouses report the number of slaughtered pigs to the Pigs Production Foundation and transfer the appropriate amount of money to the Foundation. In the case of exports, the exporters must report the number of exported pigs to the foundation and transfer accordingly. Violations are punished by fines.

Netherlands[19] - Industry Funded

The Netherlands animal health fund in effect in wholly funded by the industry. The Dutch government believes that disease control is an integral part of livestock production, and therefore the costs of animal disease control should be borne by the producer.

[18] Joint (Industry/Government) Working Group on Animal Disease Cost Sharing, Doc JIWG 06.
[19] Joint (Industry/Government) Working Group on Animal Disease Cost Sharing, Doc JIWG 06.

All industry sectors are required to raise some funds in advance of an outbreak by means of a ‘peace time’ levy. Under the agreement, Commodity Boards, which have legal status and associated powers, have had to provide a bank guarantee to ensure payment of their obligations, that is the maximum contributions if the Fund is called upon. The Commodity Boards would subsequently raise the money from the various sectors to repay the banks. The Boards collect the levies from slaughterhouses and exporters, who in turn raise contributions from farmers.

Capital requirement for the fund is agreed between industry and Government for multi-annual periods. If the maximum contributions from the industry sectors are not sufficient to cover costs of disease outbreaks, Government would underwrite the fund, but would recover its money subsequently.

The fund pays for the costs of measures imposed by Government to control animal diseases. The diseases covered by the fund include OIE List A diseases, OIE List B diseases which pose risk to human health like BSE, Bovine TB and brucellosis. Diseases however, which are considered endemic in a flock, are not covered by the fund and left to the industry to deal with.

The fund does not pay compensation for consequential losses. Farmers make their own decisions about risk, and in particular, whether to take out insurance to cover themselves against losses.

Germany[20] – 50%/50% cost sharing through levy

A statutory compensation scheme refunds the value of livestock and subsequent culling and rendering costs for notifiable diseases such as BSE or swine fever. Other costs such as private veterinary fees, disinfection etc. are ineligible. The Scheme is administered by the Lander (and is financed 50% through Government and 50% through industry through species-specific levy. Levy rates are fixed annually according to need and funds raised are ring fenced by species.

Most Lander have an Animal Disease fund (TSK) for administering the scheme. The TSK are governed by a managing board, half of which are from the industry, the other half from the Land Minister, private and official vets etc. the Board decides the annual working plan and spending budget while ultimate control lies with the relevant ministry. The TSK sets levy rates, determines compensation rates and pays renderers.

Spain[21] - *Private Insurance Option*

The Spanish National Agricultural Insurance Agency (ENESA) is an executive agency of the Spanish Ministry of Agriculture, Fisheries and Food. It makes available insurance products to crop, cattle keepers and aquaculture farmers. Take up is voluntary.

Animal disease insurance products are provided by the private sector but are subsidised by the state by some 37-43%. The premium applied varies accordingly to the prevalence of the disease in the province in question and the farm’s health rating.

[20] Joint (Industry/Government) Working Group on Animal Disease Cost Sharing, Doc JIWG 06.
[21] Joint (Industry/Government) Working Group on Animal Disease Cost Sharing, Doc JIWG 06.

Compensation paid to the farmer is completely independent to any central government aid paid out as part of the eradication campaign. Where the farmer is paid compensation by the insurance company, the amount already paid to the farmer by the Government must be deducted from the insurance payouts.

Australia[22] – Responsibility and cost varies according to category

Cost sharing agreement for emergency animal disease control in March 2002. There are four categories of disease which require varying proportions of contributions to costs.

Category 1 – known as disease which is not endemic e.g. rabies – funded entirely by Government

Category 2 – variant diseases e.g. BSE, FMD, Brucellosis – 80% Government / 20% industry

Category 3 – Serious infection or unknown or uncertain cause which could be new or not on categorised list e.g 50% government/50% industry

Category 4 – Severe outbreak of known endemic e.g sheep scab – Government 20%/Industry 80%

Costs cover additional salaries and wages, operating costs, capital costs incurred by parties responding to the disease and compensation to affected owners. Consequential losses are not covered.

[22] Joint (Industry/Government) Working Group on Animal Disease Cost Sharing, Doc JIWG 06.

APPENDIX 1 – SELECTED PRESS COVERAGE

Irish News

July 3, 2007 Tuesday

SECTION: Pg. 48

LENGTH: 416 words

HEADLINE: Agri Business - UFU locks horns with Defra on health cost

BYLINE: Staff Reporter

BODY:

The Ulster Farmers Union (UFU) has joined its counterparts in Britain by rejecting the scheduled introduction of the UK-wide **animal health cost-sharing** scheme.

The Department of Environment, Food and Rural Affairs (Defra) is planning to introduce **animal health cost sharing** in November.

According to Defra, the aim of sharing **animal health** and welfare responsibilities between the agriculture industry and government is to achieve better management of animal disease risks so that the overall risks and costs are reduced.

The London-based department believes that through the sharing of responsibilities, industry will be able to take greater responsibility for its own decisions and will have greater ownership of the risks.

In addition, it says responsibility sharing will provide opportunities for improved regulation and a reduction in the regulatory burden in future.

But the UFU and several of the farming unions in England, Scotland and Wales have rejected the government's timetable for the introduction of **animal health cost-sharing.**

The unions are being supported by the devolved administrations in Northern Ireland, Scotland and Wales.

They maintain the current government timetable is not acceptable without responsibility sharing for **animal health** policy development and operation.

Speaking following last week's meeting in London between agriculture industry representatives and Defra officials, UFU president Kenneth Sharkey indicated that agreement with government ahead of November looked unlikely.

"We have consistently and repeatedly told Defra since the outset of this process that there could be no deal on **animal health cost-sharing** proposals unless farmers were given a proper input into **animal health** policy making - it is now clear that this view is supported by the devolved administrations," Mr Sharkey said.

"Despite the understanding that we thought we had from government that this was likely to happen, it emerged recently that Defra were intent on introducing legislation in November which would enable **cost-sharing** to be introduced without responsibility sharing.

"This simply cannot happen."

Mr Sharkey said if that British government wanted the industry to help cover **animal health** and welfare costs then it could not expect farmers to make financial contributions without having an equal say in the development and operation of policy.

"We now want to meet with Defra soon to fully convey our position and directly discuss this very important issue with them," Mr Sharkey said.

LOAD-DATE: July 3, 2007

Irish News

June 26, 2007 Tuesday

SECTION: Pg. 42

LENGTH: 449 words

HEADLINE: Agri Business - UFU to raise **animal health** issue in talks

BYLINE: Staff Reporter

BODY:

The Ulster Farmers' Union is to attend talks with Britain's Department for Environment, Food and Rural Affairs tomorrow to discuss government proposals that would see Northern Ireland farmers contribute to **animal health** costs.

Union president Kenneth Sharkey said there could be "no deal" on **animal health cost-sharing** proposals unless farmers were given a proper input into **animal health** policy making.

"This is a vital meeting with Defra as negotiations have reached an important stage," Mr Sharkey said.

"Defra's proposals so far during this process would result in farmers contributing to the costs of **animal health** control but without any say in **animal health** policy. This is simply not acceptable to the industry.

"Just look at the government's reluctance to deal effectively with bovine TB. How could we sign up to sharing the cost of TB when there is no effective strategy in place to deal with it and we are being given no say in future changes to policy?

"Defra are currently not proposing a partnership approach with the industry. But this must be tabled - otherwise, agreement will not be reached.

"I will not ask farmers to bear another financial burden if it won't deliver benefits to the industry."

The UFU said it would also reiterate to Defra that farmers in the north already contributed significantly to disease control in terms of time, such as herd testing, and direct costs.

The farming body also said that new recommendations for environmental governance in the north must not result in extra red tape and costs for the farming industry.

It highlighted its surprise that the authors of a report to the new environment minister had failed to estimate the cost of the latest proposals.

The report to Michelle Gildernew includes recommendations for the creation of a new environmental protection agency.

Mr Sharkey said future environmental governance must avoid bureaucracy and additional costs to businesses.

"The farming community is committed to environmental protection already, with 13,000 farmers participating in countryside management programmes with Dard," he said.

"In recent years farmers have also planted over half a million native trees in Northern Ireland, which is enhancing our local environment.

"This positive approach should be built upon, rather than wasting resources looking at new structures."

The UFU said farmers had a genuine concern that creating a completely new institution to deliver environmental governance could be costly and bureaucratic.

It said it had evidence environmental inspection charges for farmers elsewhere in Ireland and Britain - where independent environmental protection agencies already operate - were considerably higher than in the north.

LOAD-DATE: June 26, 2007

Cornish Guardian

June 13, 2007 Wednesday

SECTION: Pg. 5

LENGTH: 214 words

HEADLINE: Farm **cost sharing** plans slammed

BODY:

The Tenant Farmers Association used the Royal Cornwall Show to reject plans put forward by DEFRA for greater sharing of the responsibility and costs of **animal health** and welfare policy between the Government and farmers.

Speaking at the show, TFA national chairman Reg Haydon said: "The consultation document starts with completely the wrong assumption that costs are not already shared between the Government and the industry.

"The costs of complying with regulations, regular testing, under-compensation for animals taken for disease control purposes and consequential loss are all borne by the industry but do not appear to be recognised by DEFRA.

"Any policy must start from the reality that there is already significant **cost sharing** between Government and industry and that applying further costs on the industry is not justified."

The aims of the new policy are to reduce disease risk and regulatory burden, although the TFA says that the real reason for the proposals is to reduce the cost of disease control for the Government.

Mr Haydon said: "The Government's wish to package a cost saving exercise in terms of benefits to **animal health** and welfare is inappropriate. The TFA rejects the Government's fundamental premise that the industry should pay more for disease control costs."

LOAD-DATE: June 14, 2007

Western Daily Press

June 9, 2007 Saturday

SECTION: Pg. 67

LENGTH: 322 words

HEADLINE: Tenants say 'no' over **cost-sharing**

BODY:

Leaders of Britain's tenant farmers have firmly rejected Government plans to shoulder the industry with part of the costs of animal disease control.

The Tenant Farmers' Association says farmers are already paying enough for disease monitoring and treatment.

Chairman Reg Haydon said a Defra consultation document on the issue started with completely the wrong assumption.

"The costs of complying with regulations, regular testing, under-compensation for animals taken for disease control purposes and consequential loss are all borne by the industry but do not appear to be recognised by Defra," he said at the Cornwall Show.

"Any policy must start from the reality that there is already significant **cost-sharing** between Government and industry and that applying further costs on the industry is not justified."

The stated aims of the new policy are to reduce disease risk and regulatory burden. But farmers say the real reason for the proposals is to reduce the cost of disease control faced by the Exchequer. That, they say, is manifestly unfair while lax controls at ports of entry leave Britain dangerously exposed to new **animal health** epidemics.

Mr Haydon said the farming industry was also becoming weary of the clichéd use by the Government of the term "partnership" when it came to **animal health** issues.

"There has been very little evidence of 'partnership' to date," he said.

"With bovine TB, the biggest **animal health** issue facing the South West and the wider country at the moment, the introduction of pre-movement testing, the use of tabular valuations and the non-implementation of a cull of TB affected badgers are all evidence that the Government's rhetoric on 'partnership' is not transferred into action.

"The Government is naive if it thinks that TB will not cast a large shadow over its future policy on **animal health.**

"The TFA's position is clear - take the necessary action on TB and then we can talk about future policy."

Aberdeen Press and Journal

December 12, 2006 Tuesday

SECTION: Pg. 18

LENGTH: 879 words

HEADLINE: Anger as politicians look at health levy on livestock

BYLINE: Joe Watson

BODY:

Moves to transfer some of the costs and responsibilities for Britain's **animal health** and welfare regime from Government on to the farming industry were denounced last night.

NFU Scotland hit out as the devolved administrations in Edinburgh, Cardiff, Belfast and Westminster launched separate consultations on the principles of responsibility and **cost sharing.**

The Scottish Executive is convinced of the merits of opening up a debate on a thorny issue for which UK ministers are on the record as saying farmers should stump up for.

Scottish ministers have been more circumspect, saying the sharing of costs needs to be considered on their merits as well as against a background of whether the industry can afford it.

The executive was again yesterday unable to say exactly what costs could be shared out or the responsibilities that might be given over to the industry.

Details on these will come after the principles of **cost sharing** can, if ever, be agreed.

At the moment the Government spends about £2billion annually on the State Veterinary Service, disease surveillance, **animal health** and welfare research, BSE testing and compensation for diseases such as bovine TB and brucellosis.

In addition it would pick up all the costs of controlling any outbreak of exotic disease such as foot and mouth, swine fever or bird flu.

A report over the summer suggested a compulsory levy on all livestock to build a compensation fund for any future disease outbreak.

A senior executive spokesman yesterday repeated the Government view that involving the farming sector would give it a greater voice in the decision-making process.

He also spoke about developing a new partnership between Government and the industry that should enhance "the sustainability of the livestock sector".

That partnership would help ensure better use of scarce resources.

But the issues here are partly the result of UK Government bungling and the fiasco over delays to subsidy payments to English farmers that has cost an extra £250million.

This has led to the budgets of various agencies responsible for overseeing **animal health** and welfare, including the State Veterinary Service, being cut.

The spokesman said the partnership would allow better management of clinical diseases in livestock that would, in itself, reduce costs on industry. Any move would also be coupled with incentives to encourage farmers to tackle endemic diseases in their livestock.

Whatever the outcome of the initiative, the spokesman said any new regime had to retain the principle for protecting public health and ensuring consumer confidence in the livestock sector.

He added: "This is something that we need to hit head on - the principle of **cost sharing** and responsibilities. This is not a question of Government stopping. It is a question of us working together and finding more effective ways of doing it."

But NFU Scotland said it was wrong for Government to even think about transferring responsibility and the cost of disease prevention on to industry when it maintained it was still not doing enough to protect Britain from importing diseases like foot and mouth which in 2001 cost the UK economy £8billion. The spokesman, however, refuted the union's claims, saying there had been considerable improvements in the seizures of illegal imports.

UK Animal Welfare Minister Ben Bradshaw said: "This consultation is not a Government presentation of detailed options, or proposals. It is about defining a new relationship between Government and the livestock industry. The detail of how that relationship will work needs to be developed in partnership.

"The focus of this announcement is responsibility sharing. I want to see the farming industry increasingly take ownership of **animal health** and welfare issues. I want see them sharing the financial burden and I want the industry driven less by regulation and more focused on making its own decisions and managing its own risks."

But NFU chief executive Andy Robertson said while the organisation would continue to work with the executive to improve **animal health** and welfare, the UK Government had to show a willingness to tackle the big issues facing the farming industry before farmers would even consider **cost-sharing** with the Department of Environment, Food and Rural Affairs.

Mr Robertson expressed concern the initiative was being driven by a Treasury desire to cut Defra spending, rather than a genuine wish to forge a partnership with industry. He said: "The industry simply can't afford to be on the receiving end of a cost-cutting exercise.

"While Defra may be talking of partnership, unless we get concrete commitments on the big issues such as reducing red tape, the Scottish industry has nothing to gain from assisting the UK Government with its costs."

Europe is also contemplating moves to share costs and responsibility with the farming industry, but its proposals are still at an early stage.

The executive spokesman said the UK consultation would put Britain in the lead position to influence European policy, although that claim remains open to considerable question, especially as the farming lobby in other parts of Europe continues to have considerable political sway.

The consultation can be found on the website at www.scot land.gov.uk/publications

LOAD-DATE: December 13, 2006

APPENDIX 2 – COST-SHARING MODELS

Joint (Industry/Government) Working Group on Animal Disease Cost Sharing

Cost sharing systems in other countries

Introduction

1. This paper is tabled for information and discussion at the next meeting. **(Action for next meeting.)**

2. There are several international models that either socialise the costs of dealing with animal disease [within the farming community] or, as in the case of the Australian Government, 'engage' their livestock industry via an enforceable contract.

3. Outlined below is an examination of the systems used in other countries including Member States (MS) of Europe.

<u>Denmark</u>

4. Production-based levies in Denmark are well developed; they aim to meet common challenges of the future for the agriculture sector which cannot be met by the farmer alone. In particular, levies focus on disease prevention rather than controlling outbreaks (and any associated compensation):

5. Levy funds raised contribute to investments in:

- Research and development (40 per cent)
- Prevention and control of diseases (14 per cent)
- Promotion of products (27 per cent)
- Education and consultancy (13 per cent)
- Fund administration (6 per cent)

6. Levies are collected in accordance with Danish law after recommendations are made by the agricultural sector. This approach ensures that all farmers pay the levies and is consistent with European Community Guidelines for state aids in the agriculture sector. Production levy foundations have been established to administer the levies – one for each sector (including livestock, horses, fur animals, crops and Christmas trees). Each has its own board, including members of the agricultural sector, consumer, labour, and research representatives. The Ministry of Food, Agriculture and Fisheries supervise the administration of each board, and approve regulations, membership of boards, budgets and accounts. These

are notified to the European Commission to ensure compliance with state aid rules.

7. In the pig sector, for example, a levy is collected for each pig produced, slaughtered or exported live. The slaughterhouse collects the levy from each pig (deducted from the price paid to the farmer per pig). The slaughterhouses then report the number of slaughtered pigs to the Pig Production Foundation (located at Danish Bacon and Meat Council) and transfer the appropriate amount of money to the Foundation. In the case of exports, exporters must report the number of exported pigs to the Foundation and transfer the money accordingly. Violations are punished by fines.

Netherlands

8. The Netherlands Animal Health Fund was established in the mid 1990s by agreement between the Dutch Government and the Commodity Boards representing the livestock sectors: (i) dairy produce, (ii) livestock and meat and (iii) poultry and eggs. The Fund is, in effect, wholly funded by industry. The Dutch Government believes that disease control is an integral part of livestock production and, therefore, the costs of animal disease control should be borne by the producer.

9. All industry sectors are required to raise some funds in advance of an outbreak by means of a 'peace time' levy. This is used to fund surveillance and monitoring. Under the agreement the Commodity Boards, which have legal status and associated powers, have had to provide a bank guarantee to ensure payment of their obligations, that is the maximum contributions – if the Fund is called upon. The Commodity Boards would subsequently raise money from the various sectors to repay the banks. The Boards collect the levies from slaughterhouses and exporters, who in turn raise contributions from farmers. Hobby farmers are exempt from the levy.

10. The capital requirement for the Fund is agreed between industry and Government for multi-annual periods. In July 2000 the Government and industry entered into an agreement under which the livestock sector committed itself to pay €467,390,000, if required, into the Fund in the period up to January 2005. The maximum contributions per industry sector were €226,890,100 for cows, €226,890,100 for pigs, €11,344,500 for poultry and €2,265,300 for sheep and goats.

11. This agreement was renegotiated in 2004 for a further 5 years until January 2009. The current industry caps in € m are:

Cows	85
Pig	125
Poultry	30
Sheep and goats	5.6
Total	245.6

12. The reduction in these caps from the 1999 - 2004 cap was negotiated on the understanding that the Dutch livestock industry would adopt a regime of vaccination in the event of future outbreaks, FMD or Newcastle disease. This reduction also stems from the undertaking from industry that funds would be accessed immediately through the bank guarantee.

13. If the maximum contributions from the industry sectors are not sufficient to cover the costs of disease outbreaks Government would underwrite the fund, but would recover its money subsequently. This is usually done by deduction from the EC budget reimbursement (under Council Decision 90/424 on expenditure in the veterinary field) with the balance put back into the Fund.

14. The Fund pays for the costs of measures imposed by Government to control animal diseases. The diseases covered by the Fund are OIE List A diseases and some OIE List B endemic diseases which pose a risk to human health, like BSE, Bovine TB and brucellosis. However, a disease like salmonella is considered too endemic in the flock and not capable of eradication – and it is, therefore, left to industry to deal with it. Administrative costs, incurred in dealing with disease outbreaks, are covered by the Fund. The Fund also pays for compensation for animals which are slaughtered for welfare reasons, for example, where problems arise on farms which are subject to movement restrictions.

15. The Fund does not pay compensation for consequential losses. Farmers make their own decisions about this risk and, in particular, whether to take out insurance to cover themselves against such losses.

<u>Germany</u>

16. In Germany's federal system of Government cost-sharing for animal health is well developed. A statutory compensation scheme refunds the value of livestock and subsequent culling and rendering costs for notifiable diseases such as BSE or swine fever. Other costs, such as private veterinary fees, cleansing and disinfection and consequential losses are ineligible. The scheme is administered by the Lander and is financed 50 per cent by Government and 50 per cent by industry through a species-specific levy. Levy rates are fixed annually according to need, and funds (including the reserve) raised are ring-fenced by species.

17. Most Lander have an Animal Diseases Fund (TSK) for administering the scheme. The TSK are governed by a managing board half of which are from the agriculture industry, the other half from the Land Ministry, private and official vets etc. The board decides the annual working plan and the spending of the budget while the ultimate control lies with the relevant ministry. The TSK sets the levy rates, determines compensation rates and pays renderers.

18. In Bavaria, for example, the 2004 levy rates per animal (figures for 2002 in brackets) stand at €4.3 (€4.8) for cattle, €1.4 (€1.0) for sheep and €1.2 (€1.5) for pigs. Levies for sheep increased slightly because of the

occurrence of Scrapie cases in Bavaria and fell for cattle because of the decrease of BSE cases. Most TSKs are required to maintain a reserve. In Bavaria the reserve was increased from €25 million in 2002 to €30 million in 2004. The reserve is calculated according to the number of animals multiplied by a fixed rate for each animal species of currently €6.5 for cattle, €2.0 for sheep and €1.5 for pigs.

19. The TSK also operate their own additional schemes for prevention and eradication which are funded fully by levies on farmers such as the BHV1 (Bovine Herpes Virus) eradication scheme in Bavaria.

Spain

20. The Spanish National Agricultural Insurance Agency (ENESA) is an executive agency of the Spanish Ministry of Agriculture, Fisheries and Food. ENESA makes available insurance products to crop, cattle keepers and aquaculture farmers – the range of insurable risks and production yields are set out in its Annual Agricultural Insurances Plan. ENESA also acts as arbiter in all disputes and all stakeholders are represented on ENESA.

21. Animal disease insurance products are provided by the private sector but are subsidised by the state – by some 37 per cent to 43 per cent. ENESA will set subsidy levels for insurance premiums. All crop production may be insured on a voluntary basis. Farmers can either take out insurance individually or as part of a co-operative or other professional body.

22. ENESA works closely with AGROSEGURO which is a pool of sixty private insurance companies which participate in a system of co-insurance, with underwriting risk based on equity shares. AGROSEGURO is responsible for day-to-day running of the programme, i.e. commercialisation of policies, fixing premium rates which vary from region to region, collecting premiums, assessing losses, paying claims. The State is further involved through CCS which is a public enterprise under the control of the Ministry of Economics, operating as re-insurer. Re-insurance by CCS is compulsory.

23. Notifiable diseases: in 1999 additional coverage was added to ENESA's cattle insurance to provide compensation payments to farmers for any animals slaughtered following officially declared outbreaks of brucellosis, bovine tuberculosis, Enzootic Bovine Leucosis (EBL) or Contagious Bovine pleuro-pneumonia (the last two diseases are covered even though there have been no recent cases in Spain).

24. The premium applied varies according to the prevalence of the disease in the province in question (Spain's 17 autonomous regions, each with their own regional Ministry of Agriculture and animal health authorities, are further divided into provinces) and the farm's health rating.

25. BSE: as a result of the 2001 outbreak a new product was developed to cover all insured animals – i.e. whether an outbreak is declared on the individual farm or if an animal tests positive on an uninsured farm and forces

the sacrifice of an insured animal. The compensation paid to the farmer is completely independent to any central Government aid paid out as part of any eradication campaign. The BSE coverage option has only been available for four years but take-up is currently at 15 per cent.

26. Summary of key features of the Spanish animal disease insurance scheme:

(a). it is voluntary
(b) insurance only covers bovine species, ie cattle and dairy herds
(c) premiums are subsidised by the Spanish government to extent of between 37-43 per cent
(d) diseases covered:-

    (i) Bovine brucellosis
    (ii) Bovine tuberculosis
    (iii) Enzootic bovine leukosis
    (iv) Haemorrhagic septicaemia
    (v) Infectious bovine rhinotracheitis/infectious pustular vulvovaginitis
    (vi) Bovine spongiform encephalopathy
    (vii) Contagious bovine pleuropneumonia
    (viii) Anthrax

(e) Compensation for animal slaughter at the time of an outbreak is paid for by government at a fixed rate per head of livestock
(f) Where the farmer is paid compensation by the insurance company, the amount already paid to the farmer by the government is deducted from any insurance payouts
(g) The compensation rate is determined by the government using a range of market information sources and includes value of the animal, age, breed and other factors.
(h) policies are provided by private insurance companies [to farmers]
(i) an intermediary body, AGROSEGURO, monitors the scheme, determines the level of insurance subsidies, imposes governance rules and generally provides a liaison role between the government and the insurance companies.
(j) Disease clean up is paid for entirely by the government.
(k) In terms of certification, insurance companies monitor [are responsible] for the on-farm inspection of animal biosecurity undertaken by the farmer.

<u>France</u>

27. The French Government pays compensation for slaughter of animals in the case of FMD. Private 'peer groups' of farmers, established in the early 1950's, and recognised by French law as animal health bodies, set farm disease standards and disease freedom accreditation. Farmer membership of the animal health group costs between £1.40 and £3.50 per livestock unit (€2 and €5 per livestock unit). Only FMD is covered for compensation for

consequential losses. Funds for compensation are taken from accumulated farmers' contributions.

28. Annual membership of the FMD compensation fund costs a farmer £0.25 (€0.33) per livestock unit. The Government compensates farmers if animals are destroyed where they have TB or other regulated disease. The Government pays 55 per cent of the value of the animal to a limit of £160 (€229). Top-up compensation over and above the Government payment can be paid to the farmer by the animal health body from membership fees.

29. Other exotic disease may be covered under a disaster fund arrangement.

Ireland

30. Ireland has been operating an animal disease levy system in respect of dairy cattle and cattle slaughtered or exported live, since the creation of their Bovine Diseases (Levies) Act in 1979. The money collected is used to contribute towards the compensation costs for the TB and BR Eradication Schemes. The rates of levies are determined on the basis of contributing circa 50 per cent towards the compensation costs. The rest of the compensation costs, testing, equipment purchases and other costs are paid by the Irish Department of Agriculture and Food (DAF). DAF also seeks partial re-imbursement each year from the EC.

31. The levy is collected in the following ways:-

(a) The milk levy is payable when the milk is received for processing by creameries or dairy producers. The rate due, applicable from 1st January 2004, is 0.75 cent per gallon of milk received for processing. (This is equivalent to 0.164977 cent per litre) The relevant company receiving the milk pays the levy, on a monthly basis, directly to DAF.

(b) The bovine levy is payable in respect of (i) bovines slaughtered, and (ii) bovines exported live from Ireland. Meat plants pay the levy on a monthly basis to the Department of Agriculture for each animal slaughtered. Department officials collect the levy due for bovines that are slaughtered in domestic abattoirs. The officials also collect the levies for any bovine exported live. The levy due, again applicable from 1st January 2004, is €3.80 per animal.

32. The companies paying the levy are entitled to recoup the money paid in levy to the Government from their suppliers, by deducting it from the price paid for the milk or animal.

33. Ireland On-Farm Market Valuation Scheme compensation arrangements provide for a refund to the farmer of Bovine Diseases Levies for all reactors slaughtered as part of his/her compensation payment.

Australia

34. Australia launched a cost-sharing agreement for emergency animal disease control in March 2002. The agreement was negotiated and signed by Government and industry. The agreement covers new and exotic diseases and some endemic diseases. There are four categories of disease which require varying proportions of contributions to costs:

- Category 1 – known disease which is not endemic e.g. rabies - funded entirely by collective Governments
- Category 2 – variant diseases e.g. BSE, FMD, brucellosis - 80% Government / 20 per cent industry
- Category 3 – serious infectious or unknown or uncertain cause which could be new or not on categorised list e.g. classical swine fever, AI, bovine TB – 50 per cent Government / 50 per cent industry
- Category 4 – severe outbreak of known endemic e.g. sheep scab – Governments 20 per cent / 80per cent industry

35. Any change to the categorisation of a disease needs to be agreed by Government and industry through a consultative committee. This process and any other changes to the agreement is facilitated by Animal Health Australia. Costs cover additional salaries and wages, operating costs, capital costs incurred by parties responding to the disease and compensation to affected owners. Consequential losses are not covered.

36. Ultimate accountability for cost-sharing resides with the parties who have signed the cost-sharing agreement via the Emergency Animal Disease National Management Group (NMG). This high-level group is made up of signatories and it takes decisions on policy and resource allocation issues during an emergency animal disease response. It is advised by a technical group made up of Government Chief Veterinary Officers and technical representatives from industry.

37. Each state or territory has an emergency plan, prepared with advice from the technical group, and this plan forms the basis for the response to a disease outbreak – the plan will contain an indicative budget.

38. Cost-sharing commences once the NMG accepts the proposed plan and all parties have agreed (on a consensus basis) to cost share. Costs to be shared are back-dated to the first notification of the disease or an earlier date if agreed. Cost sharing ends when the disease is contained or eradicated (often the 'Proof of Freedom Phase').

39. Costs of responding will depend on the nature and circumstances of the disease outbreak but the maximum liability of cost-sharing for industry is one per cent of the gross value of production of the industries involved. In the event of an outbreak, NMG will work out the upper limit – it could be less than one per cent. However, if NMG believes that the cost of a particular response will exceed the agreed limit it will determine what approach to take. Once the

agreed liability limit is reached there will still be partnership working between Government and industry over continuing a response.

40. The Commonwealth of Australia underwrites the livestock industry share of costs. In most cases sectors have decided to fund repayment by putting in place a levy which can be activated at the time of a disease outbreak, though some have chosen to accumulate a contingency fund.

50. Managing expenditure for all parties is carried out by Animal Health Australia. It reports actual and committed expenditure to NMG and coordinates claims and advises on the liabilities of different parties.

51. NMG is required to carry out an independent efficiency audit to ensure the plan is implemented efficiently and cost-effectively. National standards of performance are being developed to ensure an even approach across states and territories.

New Zealand

52. The New Zealand Government has overall responsibility for the funding of biosecurity and, in particular, border management, surveillance and incursions. However, it is recommended that a 'cascading decision rule' process be adopted on future funding arrangements for services for which Government is responsible :

- Costs should be recovered from the users of each service, or those whose actions caused the need for the service or function to be provided, where this is practical and cost-effective;
- Otherwise the funds required should be raised through the imposition of levies on those who benefit from the provision of the service or function, where they are an identifiable individual or class of individuals and where the cost of doing so is reasonable;
- Otherwise taxpayer funding should be used.

53. Legislation under Part V of the Biosecurity Act 1993 (s.90) allows the imposition of levies and several other funding options as part of a pest management strategy. This legislation was designed to allow interested industry groups to develop and fund pest management strategies themselves. It provides for cost sharing and the giving of statutory powers to stakeholders to implement the management strategy.

54. Currently there are pest management strategies in place for TB and American Foulbrood, with one for Varroa shortly to be finalised.

55. For all exotic diseases the Government picks up the primary response costs. The Biosecurity Strategy 2003 does discuss the possibility of stakeholder partnerships but as yet these mechanisms have not been worked through. A cost sharing mechanism (similar to that in Australia) has been considered and rejected by industry at this time.

56. The Biosecurity Strategy also sets out the various plans to respond to incursions of diseases and pests.

57. In terms of cost sharing, a working group examined partnerships between industry and Government in 2004 where cost sharing was raised but not finalised. In December 2004 a draft NZ Animal Disease Response Policy was tabled to Chief Executive Officers in industry and Biosecurity New Zealand and the New Zealand Food Safety Authority. Industry is seeking funding to further this work in 2005. While there is no contribution (cost sharing) from industry in New Zealand, the current arrangements do provide for compensation of livestock producers by Government. Compensation is provided to the extent that a producer is no worse off than he or she was before the disease outbreak, where there is compulsory animal destruction.

58. At this stage there is no insurance market in New Zealand in respect of risks associated with exotic disease in livestock.

<u>United States Of America</u>

59. The United States Department of Agriculture (USDA) does not have cost sharing arrangement/agreements with industry. The Animal and Plant Health Inspection Service (APHIS) of the USDA has no specific regulation that establishes guidelines for cost sharing with industry. However, under US Federal Regulations, costs may be shared with States during a disease response.

60. The USDA will pay up to 50 per cent indemnity for diseased or exposed animals to the States. The USDA will also pay up to 100 per cent indemnity for poultry with Highly Pathenogenic Avian Influenza. It is unclear whether industry contributes to the costs of the individual States. Under the Animal Health Protection Act of 2002, the Secretary of USDA has powers to declare an emergency and extraordinary emergency during an animal disease event. Under an extraordinary emergency, the Secretary can pay up to 100 per cent indemnity for animals taken and for cleaning and disinfection. USDA cannot offer compensation for lost income or debt due to loss of cash flow.

Conclusion

61. It is clear that there are many differing models available to share the costs of animal disease and some of the Member States of the Community have well-established systems in place. Models vary from a simple levy arrangement through an insurance-based system to a bank guarantee system.

JIGWG Secretariat
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