The English pig industry

First Report of Session 2008–09

Report, together with formal minutes, oral and written evidence

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Environment, Food and Rural Affairs Committee

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Committee staff

The current staff of the Committee are Richard Cooke (Clerk), Nerys Welfoot (Second Clerk), Sarah Coe (Committee Specialist—Environment), Joanna Dodd (Inquiry Manager), Andy Boyd (Senior Committee Assistant), Briony Potts and Mandy Sullivan (Committee Assistants).

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Summary

The pig industry is highly competitive and is well known for being cyclical. The last ten years have seen a steady decline in the scale and productivity of the English pig industry and an increase in the pig meat imported into the UK to satisfy consumer demand. UK pigs cost more to produce than their EU counterparts, but the price received by farmers for their pigs does not appear to be sufficient to cover the rising costs of production or provide sufficient margins to enable investment in more efficient production methods. The lack of transparency in the supply chain leads farmers to form the view that they are not getting their fair share. The industry blames the high cost of production on the effects of disease outbreaks, high feed prices, burdensome environmental regulations and the high cost of the introduction of new welfare standards of housing for pigs in 1999. However, evidence to the Committee has questioned whether pig production is as efficient as it could be in the UK, whether carcase utilisation could be improved, and whether there is sufficient demand to support both producers and processors in the supply chain.

The UK Government assisted the pig industry with a one-off restructuring grant in 2000 but has said that it will not provide further funding to assist producers with the cost of high welfare housing or the cost of implementing environmental regulations. The Committee considers that, despite its reluctance to provide further grants for the industry, the Government has an important role to play in facilitating round table discussions to ensure better cooperation within the pig supply chain. These discussions could help the industry identify how it can help itself to improve its efficiency and productivity through health, welfare, research and marketing strategies. Defra must continue to advise other Government departments and public bodies on the welfare standards of farm assurance schemes in order to encourage them to adopt a more innovative approach in public sector procurement of pig meat. Defra must continue to liaise closely with the industry on its Health and Welfare Council and also continue to fund research into the pig-specific diseases which have severely impacted on the industry in recent years.

We believe that the Government should discuss with the Scottish administration the common issues facing both Scottish and English pig industries.

Pig producers are rightly proud of their high welfare standards, but we do not consider that they have successfully promoted to the consumer the justification for the higher cost of English pig meat. Retailers and catering suppliers are responsible for ensuring that labelling of pig meat products is clear and unambiguous, but producers, animal welfare groups such as the RSPCA, and Government, have a role in making certain that consumers understand the difference between the standards of welfare in the various methods of pig production and ensuring that pig meat produced in the UK is of a high welfare standard.
1 Introduction

Aims of the inquiry

1. The British pig industry comprises some 470,000 breeding sows producing just over nine million pigs a year equating to approximately 800,000 tonnes of bacon and pork for the food chain.\(^1\) England accounts for about 82% of the UK’s breeding pigs, Scotland 9.4% and Wales under 1%.\(^2\) Approximately 92% of pigs are kept on 1,400 modern commercial farms and the rest on some 10,000 small holdings and farms. The average pig herd size on a modern commercial farm is in the region of 500 breeding sows. In England, most herds are situated in the east of the country.

2. The pig meat supply chain consists of producers (farmers), the marketing of pigs from farm to abattoir, processors, sometimes specialist manufacturers and then retailers. Carcasses are broken down into prime cuts (e.g. pork chops and steaks) which are generally sold to retailers and cheaper cuts (e.g. legs, shoulders and bellies) which may be sent to food manufacturers or exported.

3. The consumption of bacon and ham in the UK has remained fairly constant over the past 10 years (between 400,000–500,000 tonnes per year), but the consumption of fresh pig meat and other processed pig meat has increased since 2001 from 700,000 to 900,000 tonnes.\(^3\) Despite this increase in demand, between 1997 and 2007 the size of the UK pig herd decreased by some 40%, although by 2006–7 the national herd size appeared more stable.\(^4\) The increase in demand has been met by an increase in imports, particularly from Denmark and the Netherlands.\(^5\) Over half the pork meat eaten in the UK is imported.\(^6\)

4. The pig industry is highly competitive and is known to be a cyclical one. Traditionally, producers would react to an increase in profitability by expanding their production. This would then lead to a fall in pig prices and producers contracting their businesses, eventually leading back to an increase in profits. However, it has been argued that the reduction in production of 36% between 1998 and 2007 is not simply a low point in the “pig cycle”, the term given to the regular fluctuation in the size of the national herd in response to market demand, but is indicative of a long-term erosion of the competitiveness of the industry.\(^7\)

5. On 17 July 2008, the Committee announced its inquiry to examine what was wrong with the pig industry in England. In particular it asked:

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\(^2\) Ev 68

\(^3\) Scottish Executive, *Pig Sector Task Force Report*, June 2008, p 3

\(^4\) Ev 70

\(^5\) Ev 69

\(^6\) Q 56

\(^7\) Ev 3
• Are present problems more than just a cyclical imbalance between supply and demand?

• Are domestic pig welfare standards a principal reason that English producers have problems competing with those outside the UK? Are there other reasons?

• What could supermarkets and the hospitality industry do to alleviate the pressure on the domestic pig industry?

• Can the Government do more to support the industry either directly or through its public procurement policies?

6. The Committee received 28 submissions. We took oral evidence from: British Pig Executive Ltd and National Pig Association; British Meat Processors Association; British Hospitality Association; Waitrose and British Retail Consortium; Rt Hon Jane Kennedy MP, Minister for Sustainable Food, Farming and Animal Health, and Duncan Prior, Policy Advisor, Livestock and Livestock Products, Department for Environment, Food and Rural Affairs. We also received an informal briefing from the Office of Fair Trading and the Competition Commission. We are grateful to all those who gave evidence to or assisted us with the inquiry.
2 Background

Key factors affecting the pig industry in the last 10 years

7. Pig farm incomes have fluctuated over the last 10 years due to the movements in pig meat and feed prices. According to the British Pig Executive (BPEX), the English pig sector subsidiary of the Agriculture and Horticulture Development Board, most English pig farmers are currently producing pigs at a loss of around £7 per finished pig, but in November 2007 this loss was as high as £25 per pig. Defra estimated that the average commercial farm had losses of £4,100 in the year ending February 2008. In 2007, farmers were being paid approximately £1.10 per kg for a pig that cost them £1.44 per kg to produce. Several farmers submitted evidence to the inquiry about their struggle to continue pig farming during the current perceived crisis in the industry. One pig farmer had given up farming altogether, another now relied on his arable farming to support the pig side of the business, and another relied on the poultry side of his business to support pig production.

8. Most submissions to the inquiry agreed that the reduction in production of 36% between 1998 and 2007 was due to more than a trough in the cycle. Many argued the decline in production was indicative of a long-term erosion of the competitiveness of the industry. The following series of events were identified as having contributed to the steady deterioration of the pig industry:

- The global slump in the pig meat prices in 1998 created a market where it is claimed that even the most efficient UK producers lost money;
- In 1999, the UK introduced a ban on tethers and close-confinement stalls for breeding sows. Pig World magazine estimated that the move from stalls to loose housing with straw cost the industry £323m. BPEX claimed that this added 6.4p per kilo to the ongoing cost of production (although this cost is disputed by animal welfare groups);

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8 Competition Commission, Final Report: Market investigation into the supply of groceries in the UK, Appendix 9.5, p 2
9 BPEX Ltd is a statutory body funded by a single levy with flexibility to use funds on a range of activities (within the constraints of State Aid rules). The levy is funded by producers and processors. BPEX Ltd has the task of increasing the competitiveness, efficiency and profitability of English pig levy payers and on driving demand for English pork and pig meat products in the UK and globally.
10 Ev 2
11 Ev 68
12 BPEX, The impact of feed costs on the British Pig Industry, September 2007, p 7
13 Ev 6, 109, 115
14 Ev 91
15 Ev 99
16 Ev 4
• Outbreaks of Classical Swine Fever (CSF) (2000) and Foot and Mouth Disease (FMD) (2001) hit the industry hard, leading to movement restrictions and the closure of export markets.\(^{17}\)

• Overcrowding of pigs due to the movement restrictions in 2000/2001 is thought to have triggered outbreaks of Post Weaning Multisystemic Wasting disease (PMWS), Porcine Dermatitis Nephropathy Syndrome (PDNS) and Porcine circovirus type 2 (PCV2).\(^{18}\)

• A further outbreak of FMD in 2007 led to export restrictions, often of the part of the carcase known as the “fifth quarter”,\(^{19}\) to both the EU and the valuable non-EU markets in China. BPEX told the Committee that the loss of non-EU markets due to exotic disease (disease that is not usually found in the UK) can take years to re-establish,\(^{20}\) and

• 2007 saw sharp increases in fuel prices and record increases in feed prices, which had a dramatic effect on the cost of pig production as feed represents more than 50% of the cost of producing a pig.\(^{21}\) However, the market returns for pig meat failed to keep pace with the increase in production costs, leading to losses for farmers.\(^{22}\)

9. The industry blamed these key factors for reducing profitability, which in turn led to reduced producer confidence and therefore reduced the level of reinvestment in production systems by pig producers.\(^{23}\) The following additional ongoing challenges were also considered to be critical to the health of the industry:

• Continued competition from cheaper imports within the EU. The English pig industry has lower, and less efficient, production than its EU counterparts and as a result, parts of the retail, hospitality and public sectors choose to buy the cheaper product from overseas producers.\(^{24}\)

• Food labelling of pig meat products has been described as ambiguous—consumers are not sure whether they are buying domestic pig meat.\(^{25}\) Labelling often does not tell the consumer whether the meat was raised to British standards of welfare. The industry believes that more accurate and helpful labelling would enable the consumer to make more informed choices about the pig meat they wish to eat.\(^{26}\)
• The financial and administrative burden placed on the producer by environmental regulations, in particular the Integrated Pollution Prevention and Control Directive (IPPC), Waste, and Nitrates Directives;\(^\text{27}\)

• The efficient use of all parts of a pig to ensure a decent price is called “carcase balance”—however, it has been suggested that the English pig industry fails to fully utilise the carcase to the same degree of efficiency as its EU counterparts;\(^\text{28}\)

• Pig industry supply chains have been described as “fragmented […] and generally adversarial”.\(^\text{29}\) With few exceptions, the producer is at arm’s length from the retailer and the lack of long-term contracts between producer, processor and retailer is blamed for unstable and opaque supply chains.

• The preparedness of the industry for the ongoing threat of exotic disease outbreaks.

**Previous Government financial support of the pig industry**

10. The pig sector does not, and has not ever, received assistance from the Common Agricultural Policy. The only support available has been through intervention in the market and aid for private storage.\(^\text{30}\) However, Rt. Hon Jane Kennedy MP, Minister of State for Farming and the Environment, told the Committee that the Department had a responsibility to “ensure a thriving agricultural industry across the UK”.\(^\text{31}\)

11. Limited government assistance was provided following the Prime Minister’s summit with industry representatives in response to an outbreak of CSF in 2000. The Pig Industry Restructuring Scheme, with a grant of £37 million over three years, was announced as part of the Action Plan for Farming on 30 March 2000. Its aim was to help pig producers reduce breeding capacity, reduce costs, overcome any competitive disadvantage and restore long term viability.\(^\text{32}\) There were two elements to the scheme, “Outgoers” and “Ongoers”. Outgoers offered aid to those who wished to cease pig production and either leave the agriculture industry completely or continue in another form of agricultural production. Ongoers offered aid in the form of an interest rebate on borrowing related to pig production and a business plan to producers who wished to restructure their business to become viable in the longer term. The scheme closed to applicants in 2001 and all payments have been made. In its submission to the inquiry, the Government said that it would not assist the industry again as it had in 2000/01, and that:

> [T]he pig sector’s long term sustainability will continue to depend on its ability to compete successfully upon market principles, involving performance, quality and welfare standards. […] Continued investments by the industry will be key, although

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\(^{27}\) Ev 7, 13, 30, 108, Qq 46–52  
\(^{28}\) Ev 4, 54, Qq 223–225,  
\(^{29}\) Ev 57  
\(^{30}\) Scottish Executive, *Pig Sector Task Force Report*, p 4  
\(^{31}\) Q 227  
\(^{32}\) Defra website information on the Pig Industry Restructuring Scheme, [www.defra.gov.uk/farm/livestock](http://www.defra.gov.uk/farm/livestock)  
\(^{33}\) Ev 70
the current priorities for many producers may be re-establishing profitability and clearing debts.34

**Previous Select Committee inquiry into the pig industry**

12. The Agriculture Committee, our predecessors before machinery of Government changes, looked at the pig industry in 1999 when the UK herd numbered about 8.1m pigs, with 780,000 breeding sows kept on approximately 14,000 farm holdings.35 At this time the figure represented a high point in the pig cycle. The Committee concluded that the introduction of the ban on stalls and tethers in the UK ahead of the rest of the EU would weaken the competitive position of the UK industry and that the relevant Government Department, then the Ministry of Agriculture, Fisheries and Food, should consider appropriate and limited compensation for the changes necessary.36 That Committee considered that the Government had been too quick to impose costs and burdens on UK agriculture without adequate consideration of the impact on its competitiveness and the financial implications of unilateral actions in the UK.37

13. The Agriculture Committee also concluded that processors, manufacturers and retailers made reasonable profits in a depressed and oversupplied market, whilst producers incurred heavy losses, and did not appear to take the long-term viability of the industry into account. The Committee recommended that retailers support the Government’s efforts to provide higher standards of animal welfare by not buying cheaper imports or by demanding that imports meet the same welfare standards as UK reared meat.38

14. In 1999 the Agriculture Committee predicted that the early introduction in the UK of the ban on stalls and tethers, together with the lack of sufficient support from the retail sector for UK welfare standards, would have a detrimental effect on the English pig industry. Our predecessor Committee’s fears appear to have been justified. Since 1999 the size of the English pig herd has reduced by 40%, production of English pig meat has decreased and imports of pig meat have risen rapidly. In the Minister’s own words, it is the Government’s responsibility to ensure a thriving agricultural industry, and yet Defra appears unable or unwilling to respond whilst the industry diminishes.

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34 Ev 70
36 Agriculture Committee, The UK Pig Industry, para 22
37 Agriculture Committee, The UK Pig Industry, para 25
38 Agriculture Committee, The UK Pig Industry, para 35
3 The current challenges facing the English pig industry

Feed prices

15. Many submissions argued that the recent dramatic increase in feed prices was the most significant factor in the current crisis in the industry. In the UK (and the rest of the EU) animal feed consists mainly of wheat, soya and some barley. Feed accounts for almost half the price of producing a pig, and the rising price of feed commodities during 2006–2008 (in particular soya and wheat) caused pig production costs to soar. Wheat almost doubled in price between March 2007 and March 2008 due to two successive poor harvests in many parts of the world and the growing demand from India and China for wheat. Soya production is falling as land is switched from soya to maize for biofuels. Defra’s submission said that the increase in global feed prices accounted for 2% of the decline in pig production in 2008 throughout the EU.

16. Defra reports that since March 2008 cereal prices, and hence feed costs, have started to fall and the department believes that prospects for the global 2008 harvest are generally favourable for both maize and wheat. If pig prices remain the same and cereal prices stabilise or continue to fall through to February 2009, then Defra predicts that there will be a partial recovery in profitability for the pig industry in 2008–2009.

17. Evidence to the Committee from farmers and BPEX suggested that during the recent increase in feed prices, the “farmgate prices”, the price paid to farmers, did not increase at the same rate as retail prices. BPEX told us:

Average retail prices of pork and pork products have increased substantially over the last year, by 179p per kg or 37% (at August 2008 on the previous year). Over the same period the average pig price paid to farmers has increased by only 27p per kg.

BPEX bases its retail figures on a weekly independent survey of retail prices in the four largest supermarkets which is carried out on behalf of BPEX.

18. BPEX believes that the net profit margins are not being shared through the whole supply chain and that farmer and abattoir returns could be increased to more sustainable levels without a huge increase in retail prices for the consumer. In 2007, farmers were being paid around £1.10 per kg for a pig that cost them £1.44 per kg to produce. BPEX
The English pig industry

estimated that abattoirs were also losing £4 for every pig slaughtered.\textsuperscript{48} Despite the fall in feed prices in early 2008, the figures provided by BPEX in September 2008 suggested that for every pig a farmer rears and sells, he is likely to lose £7.\textsuperscript{49} The Pigs Are Worth It campaign (run by BPEX) has asked for supermarkets to pay an extra 34p per kg for pigs to help preserve British pig farming. The campaign claims that, if passed on to shoppers without any additional margin added to the price, it would only mean between 7p and 17p on the pack price of typical pork products.\textsuperscript{50}

19. The British Retail Consortium (BRC) argued that during the time of rising feed prices, the producers had earned a larger proportion of the net profit than others in the supply chain. The BRC states that figures provided by the Office of National Statistics show that the average pig price paid to farmers had risen from 109.8p/kg in August 2007 to 137p/kg in August 2008 (an increase of 24.7%). BRC compared this to the increases over the same period of the retail price of bacon (7.4%) and pork loin (14.1%). BRC claim that this demonstrates that: “Retailers, through competition and promotion have kept the price increases to consumers to a minimum whilst not penalising farmers, a point that is demonstrated by the increase in their share of the final price”.\textsuperscript{51}

20. The Competition Commission looked at the increases in both farmgate and retail prices for pig meat in its report \textit{Market investigation into the supply of groceries in the UK}.\textsuperscript{52} The Commission found that grocery retailers had not appeared to have increased their share of the retail price for pig meat over the period of sharp increases in feed. However, the report concluded that farmers were bearing the cost of higher production costs due to the increases in feed prices:

During 2007 the pig meat industry has been experiencing high feed prices as a result of high cereal prices. Defra has estimated that in 2007 this has added approximately 20\% to the cost of production for the primary producer. In comparison, processor prices have only increased by 3\% and retail prices by 4\%. This has meant that the spread between the retail and the producer price has narrowed, but that primary producers are currently carrying more of the burden of increased production costs.\textsuperscript{52}

21. Defra states that it had supported measures taken by the European Commission to increase the supply of feed grains and reduce prices. These measures included:

[S]uspending the duty on imports of third country cereals, re-selling the remaining intervention (public) stocks of grain and removing the requirement for farmers to keep land out of production for the 2008 and 2009 harvests […] We also support further reductions in market support in the on-going CAP Healthcheck.\textsuperscript{53}

\textsuperscript{48} BPEX, \textit{The impact of feed costs on the British Pig Industry}, p 8
\textsuperscript{49} Ev 2
\textsuperscript{50} BPEX, \textit{The impact of feed costs on the British Pig Industry}, p 9
\textsuperscript{51} Ev 67
\textsuperscript{52} Competition Commission, \textit{Market investigation into the supply of groceries in the UK}, Appendix 9.5, p4
\textsuperscript{53} Ev 70–71
Defra states that, as a consequence of these measures, the production of EU cereals was forecast to be 16% higher than in 2007 and since the start of 2008, feed wheat prices had fallen by approximately 32%.

22. The British Meat Processors Association (BMPA) told the Committee that the Government could reduce the pressure on the pig industry from fluctuating feed prices by pressing for swifter action on the use of GM feed in the European Union. Mr Stewart Roberts, Chairman of the BMPA, questioned why it was possible to import products into the UK that had been fed on a diet of GM feed, but it was not possible to import GM feed to produce animals in the UK. The BMPA also urged the EU to take a science-based approach to the issue of non-ruminant meat and bone meal as an alternative protein source to grain for pigs. In its submission, Defra acknowledged the industry’s concern that feed imports were affected by delays in the EU approval regime for GM products, and stated that it had encouraged the European Commission to find ways of speeding-up the approval regime without compromising on safety.

23. However, concern was expressed by Friends of the Earth on the global environmental impact of the domestic pig industry and the sustainability of its use of soya from South America and its reliance on imported animal feeds. Waitrose and FARM (a national organisation promoting sustainable farming in the UK) suggested that there was a need to improve domestic food security by investigating alternative feeds and farming systems to reduce the risk of relying on imported feeds.

24. The recent increase in the price of animal feed had a severe impact on the cost of production for farmers, a burden that does not appear to be shared with retailers. The pig industry’s reliance on imported feed, particularly soya, is an issue that Defra should address, particularly in the light of the current weakness of sterling. Defra should establish a working party with the industry to identify useful research on feed sources that could be undertaken to aid the sustainability of the industry.

**Competitiveness**

25. Although the demand for fresh pork in the UK has increased, UK pig meat production fell from 1.155 million tonnes in 1998 to 0.739 million tonnes in 2007. There has been an increase in imports from the EU. Denmark, the Netherlands and Germany are the main
EU importers of pig meat to the UK.\textsuperscript{62} In 1998 the UK produced 84\% of the pig meat that it consumed; now more than half of the pig meat eaten in the UK is imported.\textsuperscript{63}

26. The need for imports to satisfy demand is exacerbated by the fact that British pigs cost more than their EU counterparts to produce. The BMPA said that the UK had the highest cost of production in the EU in 2006: 108.2p/kg compared with 91.3p for Denmark and 87.2p for the Netherlands.\textsuperscript{64} Defra noted that UK production costs are 12\% higher than the EU average.\textsuperscript{65} The average daily live weight of UK pigs was at the lower half of the EU league table and the annual number of pigs weaned per sow was 21.4 compared to 25.9 in Denmark and 25.1 in the Netherlands.\textsuperscript{66} BPEX pointed out that the latest figure for pigs weaned per sow had improved in recent years as a result of industry strategies (in 2004 pigs weaned per sow had been 18.84).\textsuperscript{67} BPEX's Pig Health and Welfare Council, its health and welfare strategy, and research and development strategy aimed to tackle the issues of the lower efficiency and productivity of the English pig industry.\textsuperscript{68}

27. The British Hospitality Association (BHA) claims that the UK is competitive with other EU countries in shoulder and belly pig meat, but pork loins and legs are 15–20\% more expensive. Back bacon, which is consumed in large amounts in the UK, and preferred by customers to streaky bacon, is far more expensive if sourced from the UK.\textsuperscript{69}

28. Farmers and BPEX blame higher welfare standards for the higher cost of production. The BMPA suggested that environmental regulations prevented pig units reaching their optimum production size and that they were also responsible for the difference in production costs. BPEX argued that EU producers did not seem to have the same pressure of legislation and inspections as their UK counterparts had.\textsuperscript{70} The issue of abattoirs being closer to farms on the continent than they are in the UK was raised by John Godfrey, a pig farmer.\textsuperscript{71}

29. According to Waitrose, some retailers, against the background of a ready supply of cheaper pig meat in the EU, have not been willing to increase prices paid to British producers to allow them to recover the costs of increased feed prices during recent years. Waitrose also noted that the UK had smaller processing factories than some other EU countries with large abattoir groups which also added to the costs of UK production.\textsuperscript{72} Mr Duncan Sinclair, Agricultural Manager with Waitrose told the Committee: “I think it is an
important consideration in terms of the economies of scale and the scale of the processing facilities and unit costs right through the whole process."  

30. The BMPA questioned whether there was room for both farmers and processors in an efficient pig industry. It thought that the UK had been slow to embrace the integration of farming and processing—an approach that appears to have been successful in other countries:

[T]here is not enough profit for the farmer and the processor and if we continue that argument forward effectively you cannot have the two sustaining alongside each other in the long term.

31. The Pig Veterinary Society suggested that the most effective response of pig farmers to the current problems they face is to:

(i) enlarge in scale, so that the size of slaughter agreements gives some bargaining power to the producer, (ii) purchase their own processing facilities, and (iii) develop niche markets with higher value-added returns. Progressive farmers will adopt one or all of these strategies and the PVS supports these trends—there is no value for our pigs or the industry in small, non-profitable farms battling into bankruptcy situations.

32. The BMPA told the Committee that in the past the UK had “world-class efficient pig production” through the use of genetics, but “what has happened is that much of the rest of the world has caught up with us.” The BMPA warned that unless the UK industry became more efficient, there would continue to be a commercial pressure on processors from retailers and caterers to source cheaper products from outside the UK.

33. How to improve the English pig industry’s competitiveness with its EU counterparts is at the heart of the problem and needs to be tackled head on by producers and processors. As part of its responsibility to ensure a healthy agricultural sector, Defra must work with the industry to identify specific actions that can be taken to improve efficiency and productivity through existing health and welfare strategies, including research into genetics and pig production systems. However, the pig industry must also consider the difficult question of whether integration of production and processing is necessary for it to compete with EU counterparts.

34. Evidence to the Committee identified several factors as affecting the competitiveness of the English pig industry. We examine these below.
Welfare standards

35. In 1999, the UK banned tethers and close-confinement stalls for breeding sows to improve pig welfare. The UK bans were introduced ahead of EU wide bans on tethers in 2006, and sow stalls expected in 2013 (keeping sows in close-confinement stalls for the first four weeks after service will still be allowed). In addition to welfare legislation affecting the whole industry, 92% of British pig production falls under a voluntary pig farm assurance scheme. Farms in the scheme are inspected every three months by a veterinarian and annually by an independent inspector. The scheme sets out standards on pig husbandry, welfare, traceability and food safety that exceed UK legislation (e.g. castration of male pigs is prohibited). Pig meat raised to the required levels of welfare under the scheme is awarded a Quality Assurance Standard mark. The UK is not alone in employing high welfare standards for pig production. Certain other EU Member States (Sweden, the Netherlands and Germany) have introduced national requirements that exceed the common minimum standards for pig welfare set by Council Directives 91/630/EEC and 2001/88/EC and Commission Directive 2001/93/EC. Some UK retailers have contractually bound producers in other EU countries, such as Denmark, to raise pigs destined for the UK market to UK welfare standards. BPEX told the Committee that as a result of their higher standards, UK farmers were paid more for pig meat than their EU counterparts, and in some cases supermarkets pay producers a premium for additional welfare standards, such as outdoor reared pig meat.

36. Defra states that in 1991, when the unilateral ban on stalls and tethers by 1 January 1999 was agreed to, the cost to the UK pig industry was estimated at about £9 million. However, Pig World estimates that the cost to the industry was approximately £323 million. Defra acknowledges that the initial cost of conversion may have caused some difficulties for the UK pig industry, but has no analyses of the current impact of the UK ban on close-confinement stalls and tethers for breeding sows on production costs. The Farm Animal Welfare Council, an independent advisory body, recently put the capital costs of feeding systems and buildings at £400 to £700 per sow. BPEX agree with this estimate. Most submissions from farmers, and others like Waitrose, agreed that the cost
of conversion to group housing has been difficult for them to bear. One farmer said that it cost £400,000 for her farm to meet the new legislation in 1999.  

37. In addition to the capital investment necessary to create larger sow accommodation (a doubling of space allowance per sow), additional straw storage and new feeding systems, farmers also incur ongoing higher operating costs from higher feed usage, additional labour, and reduced productivity as a result of less efficient feeding, reduced farrowing rates and smaller litter sizes. BPEX estimated that running a stall system is 15% cheaper than running a loose housing system, with the higher welfare standards adding 6.4p per kg deadweight to the cost of pig meat. BPEX also states that information from their Danish sources put the cost of Danish producers raising meat to UK welfare specifications, for export to the UK, at an additional 5–6p per kg. 

38. Some evidence to the Committee questioned the extent to which the higher welfare standards could be blamed for the ongoing higher costs of production compared to other EU countries. Compassion in World Farming claimed that moving from stalls to group housing adds just 2p per kg of pig meat. The RSPCA argued that studies had shown that, contrary to BPEX’s evidence, although there were initial capital costs for the farmers, there were no additional ongoing running costs from moving to group housing. The RSPCA noted that Sweden, which has higher national welfare standards than the UK in many areas (e.g. greater space allowances, and a ban on the use of farrowing crates), has lower costs of production than in the UK. BPEX claimed that the difference between Swedish and British production costs is only 2.4p/kg. Less than 1% of imported pig meat to the UK comes from Sweden. 

39. In addition to the statutory welfare standards, BPEX said that UK farmers do not castrate their pigs for welfare reasons. The lack of castration meant that male pigs are not taken to such great weights as they are in other EU countries, causing lower productivity. BPEX told the Committee that a ban on castration was high on the agenda in Europe. 

40. Whilst Defra noted the Farm Animal Welfare Council’s conclusions on the effect of high welfare standards on the cost of production, the Department considered that factors other than welfare have a significant role in relative costs—physical performance of the herd, feed costs, land and labour costs.
41. Some submissions have argued that after 2013 meat that does not meet EU welfare standards should be banned. In its submission, Defra said that:

WTO rules do not allow members to restrict trade in products based solely on the method of production (e.g. on animal welfare grounds) and the UK adheres to the principle that developing countries should be granted equal access to our markets without having processing standards imposed. Developing countries in particular fear that animal welfare production standards will be used as an excuse for protectionism.

42. BPEX raised with the Committee the issue of Government financial assistance for the cost of conversion to the use of open housing, and provided details of the assistance provided by Irish and French Governments to their farmers. In Ireland, this consisted of a 40% grant for capital investment in new or altering existing accommodation. There was a maximum grant per farm of €120,000. In France, the aid consisted of support of up to 20% of total eligible investment, with a ceiling of €15,000 per farm. Defra had told BPEX that it could not be done in the UK. When asked why UK farmers had not received similar help, Mr Duncan Prior, Policy Advisor, Livestock and Livestock Products, Defra, told the Committee that “this Government does not generally speaking feel that it has to use public money to pay people to meet their legal obligations.” In supplementary evidence to the Committee, the Minister said that it was unable to corroborate the information provided by BPEX, but that the Government did not favour the use of taxpayers money for the type of schemes BPEX had suggested were available in France and Ireland.

43. Whilst English pig farmers are rightly proud of their high welfare standards, there can be no doubt that the early introduction of a ban on stalls and tethers ahead of most of the EU, and without assistance from the Government, placed a heavy financial burden on the industry. Many farmers are still recovering from the capital cost of the outlay necessary to comply with the welfare standards. It appears that the analysis of the cost on businesses likely to be imposed by the animal welfare measures introduced in 1999 significantly underestimated the capital costs to the pig industry. The Government must accept that its decision to introduce welfare legislation many years ahead of most of the EU was a significant factor in driving many farms out of business. The decision has placed English producers at a serious disadvantage to their EU counterparts, as our predecessor the Agriculture Committee predicted in 1999.

44. BPEX has provided compelling evidence that the higher welfare standards of the English pig industry has increased the cost of producing a pig. However, although UK pig farmers receive a premium from retailers for producing higher welfare standard pigs, the farmgate prices do not appear to realistically reflect the increased ongoing

102 Ev 7, 94
103 Ev 70
104 Ev 31–32
105 Q 69 [Mr Nigel Penlington]
106 Q 260
107 Ev 81
production costs that UK farmers have to pay to support higher welfare production systems.

45. EU counterparts have been able to produce cheaper pig meat for the past ten years and as some of them are now receiving financial assistance to convert housing, English farmers are unlikely to compete on a level playing field even when the EU wide welfare standards are introduced in 2013. In future, when measures on animal welfare are imposed on the livestock industry, Defra must ensure that the Impact Assessment made of those measures takes into account the long and short term costs likely for livestock businesses.

46. BPEX and individual producers also raised the issue of the phasing out of the agricultural buildings allowance between 2008/09 to 2011/12 which was expected to exacerbate the cost to farmers of converting or replacing buildings at high cost to meet the statutory UK welfare standards. It was argued that housing for pigs, unlike other agricultural buildings, cannot be used for a variety of uses, and has to be replaced on a fairly regular basis (approximately every 15 years) due to the destructive nature of the animal.108

47. The Minister told the Committee that the decision to remove the allowance had been made by HM Treasury, and no representation had been made by Defra on behalf of the pig industry.109 Supplementary evidence from the Minister stated that Defra officials did not have specific discussions with the pig industry on this issue, but had discussions with the NFU on the new capital allowances. Defra officials have been working with HM Treasury and HM Revenue and Customs to ensure that official guidance reflects how the rules on plant and machinery capital allowances and the new Annual Investment Allowance apply to expenditure on slurry storage facilities.110

48. We were surprised to hear that Defra had not supported the pig industry in its request for the agricultural buildings allowance to be retained. We believe that there is a case for pig farmers to be awarded the allowance, based on the high rate of replacement necessary for pig housing. We ask the Government to reconsider this matter and report back to us on its decision.

**Retailers’ support for the pig industry**

49. The general consensus is that British farmers are proud of their high welfare standards and would not wish to return to the use of stalls or introduce castration. However, several submissions from farmers stated that they felt that the Government and retailers had pushed for the introduction of higher welfare standards in the 1990s, but have not been prepared since to support producers who have had to invest heavily in converting to the new standards.111 BPEX’s “Pork Watch” regularly surveys meat sold in the UK. It estimates that only 65% of pork, 22% of bacon, 10% of ham and 30% of sausage meat has the Quality
Standard Mark on it.\textsuperscript{112} Although some importers have introduced special “UK contracts” which are compatible with key aspects of British pig welfare legislation, BPEX estimates that 66% of imported pig meat has not been reared to UK statutory welfare standards and would be illegal if produced in this country.\textsuperscript{113}

50. The British Retail Consortium (BRC) argues that its members (the major UK supermarkets) only import pig meat from EU producers using equivalent welfare standards to the UK,\textsuperscript{114} (although ASDA told the Competition Commission during its study of pig meat supply chain profitability, that “in most instances” it used pig meat produced to UK standards.\textsuperscript{115}) The BRC estimates that if the rest of the retail and hospitality sector does not, then the overall proportion of imported pig meat that would not meet UK welfare standards would be approximately 50%.\textsuperscript{116}

51. In order to achieve a fair playing field for UK producers, BPEX has called for all UK retailers and food service companies to specify that they only buy pig products that meet the legal minimum standard for animal welfare in the UK.\textsuperscript{117} BPEX told the Committee that overseas producers had said that they could produce greater volumes of higher welfare-quality product, at a higher premium, but there was not the demand for it from retailers and food service companies in the UK.\textsuperscript{118} The British Hospitality Association and BRC argue that the consumer demand is for cheaper products, not higher-price meat produced to high welfare standards.\textsuperscript{119} BPEX believes that the lack of clear labelling of pig meat has resulted in a low level of awareness amongst consumers of the issue of animal welfare.\textsuperscript{120}

Food labelling

52. Several submissions to the inquiry raised the concern that there was a lack of a consistent approach on country of origin labelling.\textsuperscript{121} For example, the Food Labelling Regulations 1996 (as amended) require that food that is ready for delivery to the consumer or catering establishment be marked or labelled with:

\[
\text{[...]} \text{ particulars of the place of origin or provenance of the food if failure to give such particulars might mislead a purchaser to a material degree as to the true origin or provenance of the food.}\textsuperscript{122}
\]
53. However, section 36 of the Trade Descriptions Act 1968 states:

Goods are deemed to have been manufactured or produced in the country in which they last underwent a treatment or process resulting in a substantial change.\textsuperscript{123}

Turning pork into bacon, ham or pies could be deemed to be “substantial change”. Therefore, pork from pigs reared in the EU could be cured in the UK and labelled “British”. However, recent guidance issued by the Food Standards Agency (FSA) on country of origin labelling states that a substantial change would not cover slicing, cutting, mincing or packing.\textsuperscript{124} Similarly, the FSA advises that pork sausages made in Britain using pork from countries outside the UK should not be described as “British pork sausages”.\textsuperscript{125} It is the responsibility of Trading Standards Officers to ensure that food labelling rules are enforced at retail level and the consumer is not misled.\textsuperscript{126}

54. The Committee were shown an example of a pack of Tesco’s back bacon which was labelled as “Produce of BRITAIN”, but the small print showed the text “Produced using pork from the UK, Denmark, Holland or Sweden and packed in the UK”.\textsuperscript{127} The pack was from August 2006. The British Meat Processors Association said that retailers were able to offer the impression of loyalty to the UK pig industry without adding value to the UK supply chain,\textsuperscript{128} and said that unclear labelling was one of the “most damning things to our premium product.”\textsuperscript{129}

55. The issue of unclear labelling has been highlighted by the recent contamination of animal feed used to produce Irish pork. Newspaper reports suggested that supermarkets and consumers were unclear which pork products labelled “British” were in fact Irish and possibly contaminated, particularly those food items containing a mixture of ingredients.\textsuperscript{130} It was reported that two days after the contamination was announced on 6 December, several supermarkets had still not produced lists of affected products.\textsuperscript{131}

56. Currently, EU general labelling requirements for all foodstuffs are set out in Directive 2000/13/EC. On January 30, 2008, the Commission adopted a draft Regulation ensuring that a product’s essential nutritional information will be provided on its packaging in a legible and comprehensible manner.\textsuperscript{132} The proposal aims to clarify and tighten the rules on providing country of origin declarations, but does not extend the list of foods that require mandatory country of origin labelling. Where an origin declaration is provided and the origin of the primary ingredient(s) of a food differs from where the product has been made, the origin of those ingredient(s) should also be given, for example, “Made in the UK

\textsuperscript{123} Trade Descriptions Act 1968, section 36
\textsuperscript{124} Food Standards Agency, Country of Origin labelling guidance, October 2008, p 7
\textsuperscript{125} Food Standards Agency, Country of Origin labelling guidance, October 2008, p 8
\textsuperscript{126} Ev 82
\textsuperscript{127} Ev 102
\textsuperscript{128} Ev 38
\textsuperscript{129} Q 129
\textsuperscript{131} “Contaminated pork can be labelled British”, Daily Telegraph, 9 December 2008
\textsuperscript{132} European Commission proposal for a regulation, COM (2008) 40
The English pig industry

from Dutch Pork”. Defra considers that the regulation would be helpful and is working with the Food Standards Agency (which has produced recent guidance on both country of origin labelling and on clear food labelling) to support the new proposals.

57. Both BRC and the British Hospitality Association (BHA) argued that rather than country of origin, the number one factor affecting consumers’ choice was cost. The BRC said that research by the Institute of Grocery Distribution (IGD) had shown that country of origin and the “British” label were not enough on their own to convince the consumer to buy the product. Mr Andrew Opie, Food Policy Director of the BRC, told the Committee that “in the top five buying preferences for consumers country of origin was not one of those”.

58. BHA told the Committee that “British” food presented a good marketing opportunity for some restaurants to use provenance to attract customers, but it was not always possible for small cafés. It was particularly difficult if a meal contained several raw ingredients from different countries. Some catering companies were interested in animal welfare, and some such as Compass with its “Best of British” promotion, had had success in promoting meat in terms of welfare but the success had been limited by what the customer wanted to pay. BHA had agreed to join a Scottish Executive-sponsored working party to look at provenance labelling.

59. The Food Standards Agency states that better country of origin labelling is high on the list of consumers’ demands for change. Pig World magazine argued that surveys had shown that consumers would choose British pig meat over imported equivalents provided that the labelling is clear so that consumers can make their decision in 30 seconds or less, and the price differential is not too great.

60. BPEX told the Committee that whilst people may well put price high in the list of their considerations, it did not mean that it was the only thing consumers were interested in: “if you ask them […] ‘would you like your pork to be produced to the same legal standards as it is in this country?’ the answer is overwhelmingly yes, because they do not appreciate that it is not for a lot of imported product.” BPEX sent the Committee the results of the YouGov survey of May 2008 in which 40% of respondents said that they would be willing

134 Ev 69, 71, 82
135 Q 137 [Mr John Dyson], 191 [Mr Andrew Opie]
136 Institute of Grocery Distribution, Connecting Consumers with Farming and Farm Produce, 2005
137 Q 191
138 Q 134
139 Q 148
140 Qq 132–133
141 Q 166
143 Ev 100
144 Q 20
to pay between 1p and 10p extra for a pack of bacon to “help British farmers and support sustainable agriculture in the UK.”

61. In addition to the country of origin labelling on products, the Pork Quality Standard Mark was introduced in 1999 by BPEX to help consumers identify pork products (pork joints/bacon/ham) that conform to the UK’s welfare standards. Submissions to the Committee suggested that consumers were confused by both labelling and product displays mixing welfare and non-welfare products. Pig World magazine told the Committee:

When British bacon carrying the Quality Standard Mark was displayed in segregated blocks in ASDA stores for a test period in 2002, sales increased 3% by volume, 7% by value.


The aim is to facilitate the choice of consumers between products obtained with basic welfare standards or with higher standards. The Commission has been charged by the Council of Ministers to assess further the issue of animal welfare labelling and to submit a report to the Council in order to allow an in-depth debate on this subject.

63. The Minister told the Committee that there was not enough information currently on labels for consumers to understand the conditions under which the animal had been raised:

I think clearer and more effective labelling will allow purchasers in supermarkets to make it clear through what they buy that they want to support farmers who use better animal welfare production methods.”

[M]y experience as a consumer would be that there is not sufficient information on the labelling of food products, for example, to be able to judge from what you are reading what the welfare standards have been in the way that meat has been produced.

64. BRC said that supermarkets were responsible for clear labelling, and that its Members have strived to improve the clarity of labelling in recent years. Mr Opie told the Committee “what all good supermarkets do is help consumers make a choice. If you go into any major UK supermarket now, which we all do, you will see lots of products […]

145 Ev 29–30
146 Ev 100
147 Ev 70
148 Q 238
149 Q 248
150 Q 205
151 Q 200
very clearly labelled as British with “British”, with the Union Jack, with the BPEX quality mark”.\textsuperscript{152}

65. However, Mr Opie of the BRC told the Committee “I am not sure whether UK consumers would necessarily understand some of the animal welfare issues. I think they understand country of origin better than they would necessarily understand the nuances of animal welfare.”\textsuperscript{153}

66. BPEX admitted that it was difficult to communicate the issue of welfare standards in one label or symbol, but the industry had tried to do this through the use of the Quality Standard Mark.\textsuperscript{154} BPEX admitted that it had not succeeded in making sure that consumers fully understood the issue, and that it only had limited funds to communicate the message it wished to convey.\textsuperscript{155} It believed that the retail and hospitality sectors did not always adequately indicate the methods or systems used in the production of pig meat to allow consumers to make an informed choice.\textsuperscript{156} In this context, retailers were described as the “gatekeepers” to demand in the market place.\textsuperscript{157} Mr Mick Sloyan, Chief Executive of BPEX said:

\begin{quote}
I do really think that retailers cannot abdicate the responsibility in terms of the specifications that they have; nor food service companies; nor, dare I say it, government in terms of the specifications it uses to buy the products we have which we know are not universally specifying at least a legal minimum standard for UK product. There are a lot of people in the chain who all have a responsibility to communicate this. One thing I am very sure of though is that if consumers were fully aware that when they pick up a very cheap packet of bacon, for example, those standards of welfare were not just not the highest but would be illegal in this country, it would change consumption patterns, not for everybody—I fully accept that—but certainly for a significant proportion of the population.\textsuperscript{158}
\end{quote}

67. BPEX used fair trade bananas as an example of where retailers and food service companies provided information to the consumer on the benefits of fair trade and created a demand for the product as a result.\textsuperscript{159}

68. The British Meat Processors Association (BMPA) believed that processors ought to sit down around a table with producers and retailers to work out how to provide consumers with what they wanted, arguing that consumers wanted to know what the product was, what was in it and where it came from, but were confused about the different production

\begin{footnotes}
\item[152] Q 192
\item[153] Q 202
\item[154] Q 21
\item[155] Q 25
\item[156] Q 25
\item[157] Q 28
\item[158] Q 25
\item[159] Q 27
\end{footnotes}
The debate on labelling had become muddled and it was time to agree what they were trying to tell the consumer.\textsuperscript{161}

The FSA want to highlight the healthy side of the product or the unhealthy side of the product. The producers want to focus on the provenance. The retailers want to sell the product. It is their responsibility to see it move off the shelf and they are the ones who understand consumers better than we do. We have an input into that but at the end of the day, yes, it is in particular to educate consumers but we have almost got too many vested interests and in the end we do not get a decision and we carry on regardless with the same confusion on the pack.\textsuperscript{162}

69. The Minister agreed, when asked by the Committee, that there ought to be a greater effort from Defra to alert consumers to the differences between categories of labelling for pork.\textsuperscript{163}

70. BPEX are currently working with the RSPCA for legal definitions to describe and label pig meat as “free-range”, “outdoor” or “indoor”,\textsuperscript{164} similar to the description applied to eggs and poultry that it believed would be understood by the consumer.\textsuperscript{165} BPEX said that it hoped to have agreed that voluntary labelling code with the RSPCA by the end of the year.\textsuperscript{166} The RSPCA asked that the Government lobby for marketing terms legislation at European level for compulsory pig meat labelling, to help end the confusion for consumers over welfare standards.\textsuperscript{167}

71. It is the responsibility of retailers to ensure that the labelling on its products is clear and unambiguous, especially when retailers use the qualities of British meat as a marketing tool. The Government should support actively the European Commission’s proposals for clearer country of origin, and also welfare labelling. We are encouraged that the Minister believes that Defra and the Food Standards Agency could do more to promote understanding of the differences in labelling, and we note the recent publication of Food Standards Agency guidance on country of origin labelling. We ask that the Department do keep us informed on progress in this area. The pig industry is responsible for raising awareness amongst consumers of its high welfare standards, but the Government has a responsibility to ensure that consumers have access to clear product information through labelling. Defra must bring together the pig industry with the processing, retail, catering and hospitality industries to establish a strategy for the best way of informing the consumer of the choices available.

\textsuperscript{160} Q 111
\textsuperscript{161} Q 109
\textsuperscript{162} Q 112 [Mr Gerry Finley]
\textsuperscript{163} Q 247
\textsuperscript{164} The RSPCA’s draft definitions state that “free range” would mean outside in fields on soil with huts for shelter throughout life, “outdoor” would mean straw bedded indoor/covered area with access to outdoor enclosures (soil or other flooring) throughout life, and “premium indoor” would mean indoor, straw-based, free farrowing system throughout life.
\textsuperscript{165} Ev 107
\textsuperscript{166} Q 23
\textsuperscript{167} Ev 107
72. We are disappointed that such a high proportion of imported pig meat does not meet UK welfare standards. It is not possible from the information available to provide a definitive figure, but we believe that consumers would be shocked to hear that as much as 66% of imported pig meat might have been reared in conditions banned in this country. Whilst price might be the number one factor in consumers’ choice, consumers have the right to be properly informed of the country of origin and welfare standards when making their choice of product. The responsibility for this, until the Commission implements its welfare labelling scheme, lies with the whole supply chain.

Carcase balance

73. Several submissions described the importance of “carcase balance” or selling as much of the meat and by-products of the animal as possible to achieve maximum efficiency. BMPA described it as “a bit of a holy grail in the industry”. BPEX told the Committee:

“For us the issue is trying to maximise the value for each of those cuts, not just trying to find a home for them, if you like, and that falls into two areas. One is trying to add value to cuts that perhaps are a bit less popular, and one of the other very good examples of late is trying to encourage consumers to use belly pork.”

74. The BRC agreed that retailers had successfully attempted to promote cuts of pork that had been less popular historically. It gave the example of one retailer being so successful with its promotion of pork belly that their suppliers could not keep up with the demand. Mr Andrew Opie said that the downturn in the economy meant that consumers were actively seeking cheaper cuts: “that has been a great opportunity to supermarkets to bring both value and a better carcase balance into the equation.”

75. Mr Duncan Sinclair, Agricultural Manager, Waitrose told the Committee that Waitrose aimed to use as much as possible from a carcase as then pig meat used for sausage, ham, bacon, ready meals and ready-to-cook meals would all have the same provenance and quality as the pig meat used for fresh pork. The same principle was applied to beef and lamb. Waitrose estimated that the average level of carcase balance that it achieved on a weekly basis in the integrated Waitrose supply chain was 88%. BMPA said that a lack of clear labelling for high-welfare British meat across the food sector was responsible in part for carcase imbalance. BHA told the Committee that, whilst it was not mainstream catering, several restaurants were promoting the use of different parts of the pig.
77. The BRC commented on the ability of EU producers to carcase balance more effectively than the UK:

One of the other problems in the UK is competition from a large well established pig industry in Europe. This has led to strong price competition, especially in processed pork products. Competing countries have well structured, efficient industries, which have also been able to overcome the problems of carcase balancing faced by our producers. This competition over an extended period has meant they now have a substantial share of parts of the UK market.\[176\]

78. BPEX claimed that processors did not always maximise the use of domestic carcasses in bacon, ham and sausages and instead meat was imported for manufacture into those products displacing domestic meat.\[177\] Mr Opie of the BRC told the Committee: “whilst retailers can continue to promote some of the cuts which we traditionally have not eaten so much here […] ultimately the processors are best placed to try and help the whole industry in terms of maximising the carcase balance.”\[178\]

79. BMPA told the Committee that as many of the remaining products such as feet and tails had no substantive market in the UK, the industry was reliant on export to foreign markets—and had suffered accordingly when export restrictions were in place following outbreaks of FMD in 2001 and 2007.\[179\] BPEX confirmed this view, saying that the cost to the English pig industry of losing the Chinese market following the FMD outbreak in 2001 should not be underestimated. Defra had worked hard to reopen access to Chinese markets, but it took years to build up export markets again once they had been lost.\[180\] Defra had also provided funding for a DVD promoting less popular cuts of meat in the public sector and also a cook book of recipes using less popular cuts of meat produced by the Government Office for West Midlands and the Heart of England Fine Foods.\[181\]

80. Carcase balance remains an important issue for the industry to tackle as a way of increasing its competitiveness. We believe that producers, processors and retailers could have useful discussions on how to promote different cuts to the consumer and provide more efficient use of the whole carcase. Defra should have a significant role in working with the industry to develop markets for the whole carcase. Defra should continue to support literature which encourages the public sector to use recipes for less popular meat cuts.

**Regulatory Burden on the pig industry**

81. Several submissions from farmers, and also Waitrose and the BMPA, commented on the heavy burden of regulation on producers. In particular, the following regulations were considered particularly onerous to producers:

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176 Ev 54
177 Ev 4
178 Q 225
179 Ev 38
180 Q 80
181 Ev 71
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- IPPC (Integrated Prevention & Pollution Control) Directive
- Waste Directive
- Nitrates Directive.

82. We recently inquired into the implementation of the Nitrates Directive in England. Under Defra’s new Action Programme, farmers were asked to provide 26 weeks’ storage capacity for pig slurry and poultry manure and 22 weeks’ storage capacity for all other slurry. Both Environment Agency and NFU evidence questioned the rationale behind the different requirements for pig slurry and poultry manure, compared with other slurries. The Committee’s Report urged Defra to reconsider the necessity for longer storage times for pig slurry and poultry manure.\textsuperscript{182}

83. BPEX questioned why it was necessary for both Defra to interpret how the EU intended to implement the IPPC regulations, and then for the Environment Agency to interpret what Defra meant. The pig industry had been forced to employ a specialist to help producers understand IPPC and all its implications.\textsuperscript{183} John Godfrey, a pig farmer, said that the rules on how the Waste Directive and IPPC would be implemented appeared to be changing frequently which made it confusing for producers:

> Two or three years ago we were asked to register every premise we have for exception for the Waste Directive. We were told at that stage that it would be a once and for all registration and would not cost anything. We have done that. A consultation has now just come out to say, “No, we have changed our minds. We want you to register once every three years and it will cost you £50 per premise.”\textsuperscript{184}

84. Defra argued that “[R]egulation in livestock sectors, including pigs, is essential to protect public and animal health and welfare and the environment”, but acknowledged that the cost of meeting regulations was a concern for farmers in the present climate:

> Understandably, especially at the present time, pig operators are concerned about meeting regulatory costs such as the environmental controls under the Integrated Pollution Prevention and Control (IPPC) Directive, although the sector has had over 10 years since the IPPC Directive was agreed to come to terms with it and its costs.\textsuperscript{185}

85. Mr Godfrey, when told of Defra’s position, accepted that it had been 10 years since the IPPC had been agreed to, but said that as the rules and regulations were still being written, the farming sector had no idea what it was supposed to do.

> The regulations are changing all the time. We have no idea what we are supposed to do. We had one unit that was supposed to have ammonia emissions because there was a SSSI not far away and, fortunately for us, they decided that the ammonia emissions were not sufficient to put any restriction on that unit but I understand


\textsuperscript{183} Q 48

\textsuperscript{184} Q 46

\textsuperscript{185} Ev 69
there are other key units where that has been done. The Environment Agency has calculated the figures wrongly and they have had two or three shots at saying how much they have to reduce the emissions. The problem is that we do not know. Although this legislation was previewed ten years ago and we knew it was coming in, we do not know next year what we are going to have to do to comply because the rules have been changed.186

Mr Godfrey estimated that the IPPC had cost his farm so far over 500 hours of management time.187 His farm will be inspected twice a year and required to improve units to what are “the best available techniques”. He was sceptical whether the improvements would provide any benefit to the environment.188 Mr Duncan Prior, Policy Advisor, Livestock and Livestock Products, Defra, told us that implementation of the IPPC was being carried forward with very close working relationships between Defra, the Environment Agency and the industry,189 and that a joint working party between those parties had looked at whether IPPC annual inspections could be undertaken by third parties, for example assurance scheme inspectors who might already be on the farm, at a reduced cost for farmers.190

86. BPEX reported that other EU countries had provided financial support to farmers to meet the cost of implementing environmental regulations.191 Information from Interpig Group (a group of industry economists lead by BPEX) indicated that aid was provided in Northern Ireland, Scotland, Ireland, the Netherlands, Germany, Italy, Denmark, France and Belgium. The types of financial aid and assistance varied in each country.192 For example, in Belgium, if farmers replace existing pig housing with housing offering a 50% reduction in ammonia emissions, farmers can either apply for a 20% subsidy on the cost of construction, or if using his own capital, 3% of the interest of the whole cost.193

87. BPEX had been told by Defra that whilst other countries had been able to assist their farmers, it was not possible to do in the UK.194

88. It appears that once again UK pig farmers are placed at a disadvantage to their EU counterparts who are receiving financial aid through a variety of schemes to comply with environmental regulations. Defra must review the assistance provided by other EU countries and assess whether it is possible for the UK to provide similar assistance for its pig farmers and report back to the Committee on its decision. The Government must work with the Environment Agency and the industry to ensure that the IPPC, Waste and Nitrates Directives do not place an unfair unmanageable burden on the pig sector.

186 Q 46
187 Ev 7
188 Ibid.
189 Q 274
190 Q 279
191 Q 66
192 Ev 31–32
193 Ev 32
194 Q 69 [Mr Nigel Penlington]
Supply chains

89. Several submissions raised the issue of the poor efficiency and transparency of the supply chain having a deleterious effect on the industry. Waitrose identified the lack of long-term committed relationships as a key problem for the industry.

The English industry is in the main structured in a fragmented manner and is generally adversarial between producers, processors, retailers and manufacturers. Few examples exist of integrated supply chains (either partial or completely) where all the parties work together and add value for the benefit of all in the supply chain, thereby driving sales of English pig meat where profitability is respected and delivered for all the parties involved.195

90. BPEX agreed that the absence of effective contractual relationships between producer, processor and retailer has undermined the industry’s willingness to re-invest in more efficient production systems.196 There were very few cost of production contracts between producer and processor, as these tended to be unsustainable for the processor.197 Relationships between producer and retailer tended to be at arm’s length. The Minister reported that producers had told her that they felt a sense of powerlessness when dealing with the big grocery retailers,198 but she said that it was not the Government’s role to “dictate what should happen between producers and the retailers.”199

91. One farmer highlighted the problem of a lack of legally binding contracts between processor and retailers, with prices decided on the day of delivery. Retailers often relied on short-term buying initiatives which were not conducive to long-term stability of the supply chain.200 Another farmer noted that problems such as demand in the retail or processing sector were passed down to the producer, but problems such as the increase in feed costs had not had an impact on the other way up the chain.201 The Competition Commission also told us that costs incurred by retailers, such as shrinkage through shoplifting, were passed down the supply chain to the producer. BPEX claimed that consumers had seen prices increase by 90p but producers’ prices had only increased by 27p. It was not apparent where the difference in increase had gone.202 We were disappointed that the BMPA were unable or unwilling to provide us with an indication of the share of the pig meat retail price between the elements of the supply chain.203

92. John Godfrey, another farmer, asked that retailers be more involved in dialogue with producers to ensure the meat they were supplying better met the retailers’ requirements within longer term contracts.204 Pig farmer Leonard Goodier agreed that it would help if

195 Ev 57
196 Ev 3
197 Q 5
198 Q 236
199 Q 280
200 Ev 93
201 Ev 103
202 Q 41
203 Ev 47
204 Ev 7
processors and supermarkets got to know farmers and the issues facing the industry—in the same way that processors appeared to understand the costs of the poultry industry.205

93. BPEX told us that:

What we would dearly like—and if we managed it BPEX’s job would be almost complete—is a series of supply chains that run from producer, through the processor to the retailer, all of them understanding each other’s problems and mitigating the prices to all three parties through that.206

The British Meat Processor Association (BMPA) agreed that the industry needed to develop long term relationships between producers and processors, but that the UK chain had been slow to embrace the integration of farming and processing,207 but believed that there was a lack of interest in long term contracts between farmers and processors.208 BMPA said that there were no formal contracts between processors and retailers and that supply of meat was on the basis of a “gentleman’s agreement.”209 The processing industry felt that it was taking all the risk.210 It wished to see a commitment from the retailers in the form of a contract to enable processors to commit to their supply base.211

94. Waitrose has spent 10 years developing its own supply chain which it considers to be a model of best practice. During the time in which the industry has decreased in size this supply chain has continued to grow and develop, with the aim of being both transparent and mutually beneficial for all in the chain. The Waitrose supply chain, comprises BQP (a pig production company) coordinating the pig farmer supply base, Dalehead Foods processing the wide range of pig meat-based products and Waitrose as the retailer—marketing and selling the final products. Waitrose ensures the health of its supply chain by adhering to the following principles: a long term view on requirements; clear definitions of production standards for specific lines at retail level; sustainable prices for the farmers involved; and sustainable prices for the processor involved in both directions. The security of the supply chain gives processors and producers the confidence to invest in new production systems or processing facilities to add value or to lower cost. Within the chain there are structured farmer groups that meet regularly to discuss and advise on best practice, and there is communication both up and down the chain, enabling issues to be resolved to the mutual benefit of all in the chain.212 Waitrose also has a research facility looking at how to drive best practice in the sourcing of animal feed, with the aim of providing a more stable supply chain.213
95. Sainsbury’s submission stated that they were actively engaged with producers and processors to better understand the pressures they were facing and had set up a “Partnership in Livestock” scheme for pork. The British Retail Consortium believed that retailers had worked with the pig industry for a long time to promote and find new opportunities for English products and that when feed prices were high, retailers had increased prices paid to farmers whilst minimising the cost to the consumer.

96. BPEX believed that retailers were very concerned about potential action from the Office of Fair Trading (OFT) following the OFT’s action against supermarkets for discussing milk prices. The intention of the discussions had been to assist the milk producers, but resulted in fines of millions of pounds. Supermarkets appeared to believe that any discussion they may enter into with producer representatives placed them “in some sort of danger.”

97. Mr Opie of the BRC said that two or three of his members continued to have constructive dialogue with producer groups. He said that it was possible to do this if you “have a well scripted agenda before you go in and people should understand what they can and cannot talk about.” However, the first thing that many farming groups wanted to discuss was price.

98. In supplementary evidence to the Committee, BPEX gave details of the National Pig Association (NPA) meeting with OFT on 24 September 2007 at which the OFT gave guidance on what subjects should be avoided when producers met retailers:

[T]he Office advised […] that in any discussions with retailers, any discussion of retail competitors’ pricing intentions should be avoided. Whether deliberately or unwittingly, BPEX and NPA must not act as a channel for disclosing to any retailer their competitors’ pricing intentions. No reference should be made to the outcome of any discussion previously undertaken with the competitors of any chain. This would preserve the principle that competitive uncertainty and risk would not be reduced for any individual retailer and, thus, the competitive market would be maintained.

The OFT confirmed that objective information on cost of production increases could be communicated. Similarly, information that was historic and in the public domain (e.g. actual retail price increases which had occurred) could be communicated. It was acceptable to discuss supply chain issues on a chain-by-chain basis, and there were no objections to discrete supply chain issues being debated by participants in that chain.

As a result, BPEX believe that:

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214 Ev 111
215 Ev 55
216 Q 60 [Mr Mick Sloyan]
217 Q 216
218 Q 217
219 Q 220
220 Ev 33
It would be very helpful if the OFT were to issue clear and comprehensive public guidance. This would help to ensure that, whilst remaining safely within OFT rules, meaningful discussions can take place amongst actors in the supply chain in order to improve understanding, transparency, efficiency, and trust within, in this case, the pig supply chain.  

99. The OFT submission stated that there was “nothing, in itself, wrong with bilateral discussions between different parts of a supply chain. They may serve a useful and necessary function, benefiting consumers by encouraging greater efficiency. However […] if the object of discussions is to restrict the range or volume of products on the market or to artificially raise their prices then such discussions would be illegal under competition law.”  

100. The OFT does not generally provide specific guidance to individual sectors, and does not issue definitive lists of practices that are, or are not permissible under competition law. Providing specific guidance is considered to be prohibitively resource-intensive, particularly in the case of publishing an Opinion to aid business compliance in the application of UK or EU competition law where novel or unresolved questions are raised. The OFT does, however publish guidance for businesses and industry representatives in general to “assess their actions for compliance with all aspects of UK and EU competition law.” Guidance has also been published setting out examples of activities that may or may not be permitted and includes details on information sharing. The OFT told us that it also assists where it can by holding informal meetings with groups (such as BPEX and the NPA).

101. It is important that all links in the supply chain understand the issues each faces. The OFT must continue to provide clear guidance and advice to the businesses on the issues that can be discussed whilst avoiding breaking competition regulations. Defra must facilitate discussions of the supply chain in England, as it has been possible to do so in Scotland.

The Scottish Pig Sector Task Force

102. The Scottish pig industry faces most of the same recent challenges as the English pig industry, although it is much smaller in size and benefits from a more integrated supply chain. On 16 April, the Cabinet Secretary for Rural Affairs and the Environment in the Scottish Executive, Richard Lochhead, set up a task force to “consider actions to assist the pig sector and to determine which actions may be suitable for implementation provided resources are available and State Aids allow.” The Scottish Government invited the task force to discuss suggestions for action raised by the industry. These included: resurrecting the “Ongoers” scheme; funding trial vaccination; relaxing rules on the importation of GM feed; health initiatives; government insistence on procuring only Scottish produce in their contracts; an audit of standards, transparency and labelling of imported pork; improved

221 Ev 33
222 Ev 119
223 Ev 120
224 Scottish Executive, Pig Sector Task Force Report, p 1
food labelling; research funding; and placing a higher value on locally produced food. Richard Lochhead also asked the Farm Animal Welfare Council to report on welfare standards for pig meat imports to Scotland and wrote to all major retailers asking what they were doing to help ensure the long-term sustainability of the pig sector.

103. In May, Richard Lochhead organised a meeting bringing the hospitality, retail and wholesale sectors together with Scotland’s pig industry to discuss how the different sectors could work to ensure the future sustainability of the pig industry. The meeting was attended by representatives from the British Hospitality Association, Scottish Retail Consortium, major supermarkets, Scottish Association of Meat Wholesalers, Scottish Federation of Meat Traders, Scottish Pig Producers, NFU Scotland, Quality Meat Scotland, Office of Fair Trading and Campbell’s Prime Meats.

104. On 7 August 2008, the Task Force report was published and the Scottish Executive announced a £1m package to support the pig industry. Richard Lochhead said:

We are pledging £1 million to fund projects that will improve marketing, productivity and pig health to help achieve long-term sustainability for this vital sector […] This package is the first of its kind in Scotland for the pig sector and demonstrates the Scottish Government’s confidence in a sector that produces a top quality product and meets the highest welfare standards.

105. The £1 million package included the following elements:

- An immediate £200,000 to improve the marketing of pig meat products to consumers, to be drawn from resources already earmarked for the red meat sector following the foot and mouth outbreak in 2007;

- Around £100,000 to begin research into labelling and work to improve animal health (in particular, research into post-weaning multi-systemic syndrome), and

- Around £700,000 for future projects to be allocated in partnership with the industry, allowing the impact of new industry player Vion to be fully taken into account.

106. The package was described by the Scottish Executive as additional to other actions already underway or completed which included:

- A £30,000 strategic review into the pig sector to help develop market resilience;

- A £300,000 project to look at adding value to the fifth quarter in the red meat sector;

- Writing to all major retailers to ask what they are doing to help ensure the long-term sustainability of the pig sector;

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225 “Pig Industry Task Force”, Scottish Executive press release, 23 April 2008
226 “Meeting to discuss pig sector”, Scottish Executive press release, 15 May 2008
227 “£1 million for pig industry”, Scottish Executive press release, 7 August 2008
• Highlighting the difficulties facing the pig sector at the highest levels in the European Commission, and

• Hosting a meeting to bring the whole supply chain together for the first time—retailers, hospitality and wholesale sector with the pig industry—to discuss ways forward for the future sustainability of the pig sector.

107. On 22 October, Mr Lochhead announced the priorities for £700,000 of Scottish Government funding which had been announced in August. The four projects to be funded had been agreed with the industry. They were:

• A pig business network to improve benchmarking, collaboration and efficiencies across the supply chain;

• The appointment of a Pig Veterinary Adviser to offer practical on-farm advice on disease control and elimination;

• New guidance and one-to-one advice on slurry and waste management, and

• Research to develop a test for mycotoxin zearalenone, a feed contaminant affecting breeding and growth rates, in pig tissues.

108. Pig World suggested that the UK Government should set up a similar task force to examine the English pig industry. BPEX and BMPA also referred to the Northern Ireland Red Meat Task Force, which examined the sheep and beef industry in Northern Ireland, as a possible model for the Government to adopt for scrutiny of the English pig industry.

109. The Minister, told us on 27 October that she had not yet met Richard Lochhead or discussed the conclusions of the Pig Sector Task Force report with him. Although the pig industry had not asked for a similar round table meeting to discuss the problems facing the English industry, she would not be averse to such a proposal, but first she wished to read all the evidence and the Committee’s report before instigating that course of action. In a follow up letter to the Committee, the Minister stated that she had no intention of discussing the report with Mr Lochhead, but there is ongoing contact at official level between the Scottish Executive and Defra. Whilst the Minister said she was aware of the issues raised in the report, these were “matters for the Scottish Government to address.”

110. The Minister for Farming and the Environment must make it a priority to discuss the report of the Pig Sector Task Force with the Scottish Executive’s Cabinet Secretary.

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228 Ev 101
229 The Northern Ireland Red Meat Task Force (consisting of the Department of Agriculture and Rural Development, the Livestock and Meat Commission, Ulster Farmers’ Union, Northern Ireland Meat Exporters’ Association, Invest NI and the National Beef Association) was set up to develop a long-term strategy for the Northern Ireland beef and sheep meat industry. Its work involved a comprehensive investigation of all aspects of the Northern Ireland red meat chain to determine how a profitable and sustainable industry can be achieved. The research included all aspects of production, processing and marketing and a comprehensive involvement across all of the industry interests. It reported in October 2007.

230 Q 282
231 Qq 256, 259
232 Ev 82
for Rural Affairs and the Environment. The work of the Task Force has indicated that it is possible to organise fruitful discussions between retailers and producer groups to promote the sustainability of the industry. Whilst certain matters fall under competition law, we consider it important that retailers, processors and producers cooperate on issues such as labelling, carcase balance, the threat of disease and the regulatory burden faced by the pig industry. The English pig industry should not be at a disadvantage because other administrations are doing more to tackle the problems of their own pig industry than the rest of the UK. Defra can learn from the Scottish example of how to organise and facilitate such discussions.

**Public Sector Food Procurement Initiative**

111. The Public Sector Food Procurement Initiative (PSFPI) was launched in 2003 to encourage public bodies in England to use the £2 billion they spend on food and catering services to help deliver a world-class sustainable farming and food sector. Public procurement law regulates the purchasing by public sector bodies of contracts for goods, works or services. The law is designed to open up the EU’s public procurement market to competition and to promote the free movement of goods and services. It does not allow public bodies to give greater weight to locally produced food and drink when deciding to award contracts. However, there is some flexibility, and the objectives for PSFPI includes that public bodies should increase tenders from small and local producers, and that procurement should promote higher standards of animal welfare.\(^{233}\)

112. Defra created the model specification clause for procurement which covers farm assurance and organic standards to enable public bodies to specify Red Tractor or equivalent criteria as evidence that suppliers met these standards.\(^{234}\) Defra is also in the process of producing a model clause for the procurement of pork and bacon which it hopes to clear by the end of the year.\(^{235}\) Defra intends to give advice to other Government Departments on which farm assurance schemes already meet the required standards, e.g. those marketed under the Red Tractor, Linking Environment and Farming (LEAF), BPEX Quality Standard Mark and RSPCA Freedom Food labels. Under the procurement rules buyers must accept other evidence proving equivalence to these standards.\(^{236}\)

113. Defra told us that the then Meat and Livestock Commission and now the Agriculture and Horticulture Development Board have worked under the PSFPI to improve supplies of red meat into the public sector.\(^{237}\)

114. However, a recent report from BPEX and the National Pig Association questioned whether public sector procurement could do more to support the British pig industry.\(^{238}\) On average, in 2006–07, only 65% of pork and 25% of bacon procured by Government Departments was British. Several Departments (Ministry of Defence, Foreign and
Commonwealth Office, Department for Work and Pensions, Department for Children, Schools and Families and HM Prison Service) sourced all their bacon from abroad. 239

115. Several submissions to the inquiry argued that the Government could do more to encourage departments and local authorities to procure British pork, bacon and ham, or at least procure products that were raised in equivalent welfare standards. 240

116. Defra published its own report on public procurement on 26 November, Proportion of domestically produced food used by government departments and also supplied to hospitals and prisons under contracts negotiated by NHS Supply Chain and National Offender Management Service (previously HM Prison Service). 241 This confirmed BPEX’s earlier report that several departments and the National Offender Management Service procured all their bacon from abroad. Even Defra sourced only 75% of its bacon from the UK. 242 However, the figures for 2007–08 showed that overall, the average figures for the proportion procurement of British pork bought by departments had risen from 65% to 74%. The figure for British bacon had risen from 25% to 29%. 243

117. Before the publication of the Defra report the Minister, when questioned about the figures in the BPEX report, had told the Committee that in buying pig products of a high welfare standard: “the Government has to lead by example and show what can be done […] it is not perfect and we need to work harder at it but we are making progress.” 244 However, in supplementary evidence the Minister stated that cost constraints and the requirement among public bodies to achieve savings in their procurement of goods and services would remain the main barrier to progress. 245

118. We are surprised that Defra does not lead by example and procure as much of its bacon from British suppliers as it does its pork. We ask that Defra confirms whether or not the bacon it procures from outside the UK is raised to UK welfare standards. Defra should encourage all Government Departments and public sector organisations to buy pig meat which was raised using equivalent welfare standards to those in the UK and submit details to the Committee of how it intends to do this.

**Pig-specific diseases**

119. The pig industry has faced several serious outbreaks of disease in the past 10 years that has contributed to the situation it finds itself in today (FMD, PWMS, CSF, PDNS). BPEX

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239 BPEX and the National Pig Association, Is the Government buying British?, July 2008

240 Ev 5, 8, 96, 101, 107, 108, 111, 116

241 Department for Environment, Food and Rural Affairs, Proportion of domestically produced food used by government departments and also supplied to hospitals and prisons under contracts negotiated by NHS Supply Chain and National Offender Management Service (previously HM Prison Service), November 2008

242 Defra, Proportion of domestically produced food used by government departments and also supplied to hospitals and prisons under contracts negotiated by NHS Supply Chain and National Offender Management Service (previously HM Prison Service), p 10

243 Defra, Proportion of domestically produced food used by government departments and also supplied to hospitals and prisons under contracts negotiated by NHS Supply Chain and National Offender Management Service (previously HM Prison Service), p 11

244 Q 241

245 Ev 83
told us that it had taken four years to recover from the effects of the movement restrictions imposed during 2001 outbreak of FMD. Consequently, farmers were unable to afford to invest in their farming systems which became inefficient as a result.\textsuperscript{246} BPEX reported that the industry was taking steps itself to develop a disease control strategy. These include funding the take up of vaccine to tackle PWMS, participating in the Zoonoses National Control Plan, and working with industry to develop a pig health and welfare strategy.\textsuperscript{247} BPEX suggested that the Government provide support for pig health and disease eradication strategies through the Rural Development Programme for England.\textsuperscript{248}

120. In its submission, Defra detailed its contribution of £1.5million per annum towards the costs of a scanning surveillance programme to facilitate early detection of new pig disease threats and changes in disease trends, to facilitate prompt intervention when threats arise. BPEX are provided with the monthly reports on disease threats published by the Veterinary Laboratories Agency. Also, a Defra representative sits on the British Pig Health and Welfare Council subgroup which is developing the health and welfare strategy with the industry.\textsuperscript{249} Defra stated that the Government had invested approximately £38 million on pig-specific projects.\textsuperscript{250}

121. BPEX invests “substantial” funds into short-term applied research but needs Defra and BBSRC to continue to provide long-term research and development funding and support of collaborative research with the industry.\textsuperscript{251} BPEX asked that the Government work closely with the industry to identify research priorities to improve efficiency in the industry.\textsuperscript{252}

122. Defra should continue to contribute to the scanning surveillance programme and to participate in discussions with the British Pig Health and Welfare Council to identify what actions Defra should be taking to tackle pig-specific diseases. In addition to discussing long-term research priorities, the Council should also investigate ways in which the Rural Development Programme for England could be used to support disease control strategies.

**Conclusion**

123. Over the past 10 years the pig industry has faced serious challenges in addition to the usual peaks and troughs of the pig cycle. The industry should be praised for implementing the changes required of it by UK legislation, and for attempting to organise itself and inform the public of the high welfare standards of British pork. However, there is evidence that several outbreaks of disease, together with the implementation of burdensome legislation and unusually high global prices of animal
feed have left the industry either unwilling or unable to invest in the production systems necessary to improve efficiency in the face of overseas competition.

124. It is apparent that a portion of the retail industry has undermined the efforts of Government and the pig industry to introduce and implement desirable animal welfare legislation in the UK. Whilst pig farmers have strived to introduce open housing for pigs ahead of most of their EU counterparts at a significant cost to their businesses, some retailers and catering suppliers have continued to import pig meat that does not meet UK statutory welfare standards, which in some cases is labelled ambiguously so that consumers are ill-equipped to make informed choices. The price paid to English farmers for pig meat should properly reflect the cost of producing it to high welfare standards. Retailers should be more mindful of changes in productions costs affecting the industry in future and must be prepared to respond rapidly should producers be faced with the same scale of feed price increases as they were in 2006–07. Otherwise, the whole English pig supply chain is put at risk. In addition, the lack of transparency in the supply chain leads farmers to form the view that they are not getting a fair share.

125. The pig industry itself must ensure that consumers are aware of the difference in welfare standards between UK-reared meat and some imported pig meat, but the retailing and hospitality industry have a duty to label their products responsibly. The Government must support the Commission’s proposals for food labelling changes, and must make clear to the retail and hospitality industries that it expects food to be clearly and unambiguously labelled with country of origin and welfare standard labels.

126. Defra must ensure that government departments and other public bodies source their pork and bacon from suppliers employing high welfare methods of production. In this respect, Defra must lead by example.

127. More generally, Defra must use its leverage to bring together the key elements of the pig meat supply chain to address the problems that threaten the sustainability of the English pig meat industry. Defra must discuss with the industry what work it can usefully commission to ensure the future sustainability of the industry. With goodwill and encouragement, we believe many of these could be resolved. Defra must seriously consider, in discussion with the industry, whether England needs to set up its own Pig Sector Task Force to tackle the issues such as labelling, carcase balance, productivity and efficiency facing the entire supply chain.

128. A level playing field between English pig farmers and their EU counterparts is unlikely to develop in 2013 when the EU ban on stalls and tethers is brought into force as several EU countries are assisting their pig farmers financially to make the necessary changes. The Government must ensure that never again are UK farmers placed at such a disadvantage compared to their EU counterparts as a result of unilateral national action.
Conclusions and recommendations

Previous Select Committee inquiry into the English pig industry

1. In 1999 the Agriculture Committee predicted that the early introduction in the UK of the ban on stalls and tethers, together with the lack of sufficient support from the retail sector for UK welfare standards, would have a detrimental effect on the English pig industry. Our predecessor Committee’s fears appear to have been justified. Since 1999 the size of the English pig herd has reduced by 40%, production of English pig meat has decreased and imports of pig meat have risen rapidly. In the Minister’s own words, it is the Government’s responsibility to ensure a thriving agricultural industry, and yet Defra appears unable or unwilling to respond whilst the industry diminishes. (Paragraph 14)

Feed prices

2. The recent increase in the price of animal feed had a severe impact on the cost of production for farmers, a burden that does not appear to be shared with retailers. The pig industry’s reliance on imported feed, particularly soya, is an issue that Defra should address, particularly in the light of the current weakness of sterling. Defra should establish a working party with the industry to identify useful research on feed sources that could be undertaken to aid the sustainability of the industry. (Paragraph 24)

Competitiveness

3. How to improve the English pig industry’s competitiveness with its EU counterparts is at the heart of the problem and needs to be tackled head on by producers and processors. As part of its responsibility to ensure a healthy agricultural sector, Defra must work with the industry to identify specific actions that can be taken to improve efficiency and productivity through existing health and welfare strategies, including research into genetics and pig production systems. However, the pig industry must also consider the difficult question of whether integration of production and processing is necessary for it to compete with EU counterparts. (Paragraph 33)

Welfare standards

4. Whilst English pig farmers are rightly proud of their high welfare standards, there can be no doubt that the early introduction of a ban on stalls and tethers ahead of most of the EU, and without assistance from the Government, placed a heavy financial burden on the industry. Many farmers are still recovering from the capital cost of the outlay necessary to comply with the welfare standards. It appears that the analysis of the cost on businesses likely to be imposed by the animal welfare measures introduced in 1999 significantly underestimated the capital costs to the pig industry. The Government must accept that its decision to introduce welfare legislation many years ahead of most of the EU was a significant factor in driving many farms out of business. The decision has placed English producers at a serious
disadvantage to their EU counterparts, as our predecessor the Agriculture Committee predicted in 1999. (Paragraph 43)

5. BPEX has provided compelling evidence that the higher welfare standards of the English pig industry has increased the cost of producing a pig. However, although UK pig farmers receive a premium from retailers for producing higher welfare standard pigs, the farmgate prices do not appear to realistically reflect the increased ongoing production costs that UK farmers have to pay to support higher welfare production systems. (Paragraph 44)

6. EU counterparts have been able to produce cheaper pig meat for the past ten years and as some of them are now receiving financial assistance to convert housing, English farmers are unlikely to compete on a level playing field even when the EU wide welfare standards are introduced in 2013. In future, when measures on animal welfare are imposed on the livestock industry, Defra must ensure that the Impact Assessment made of those measures takes into account the long and short term costs likely for livestock businesses. (Paragraph 45)

7. We were surprised to hear that Defra had not supported the pig industry in its request for the agricultural buildings allowance to be retained. We believe that there is a case for pig farmers to be awarded the allowance, based on the high rate of replacement necessary for pig housing. We ask the Government to reconsider this matter and report back to us on its decision. (Paragraph 48)

Retailers’ support for the pig industry

8. It is the responsibility of retailers to ensure that the labelling on its products is clear and unambiguous, especially when retailers use the qualities of British meat as a marketing tool. The Government should support actively the European Commission’s proposals for clearer country of origin, and also welfare labelling. We are encouraged that the Minister believes that Defra and the Food Standards Agency could do more to promote understanding of the differences in labelling, and we note the recent publication of Food Standards Agency guidance on country of origin labelling. We ask that the Department do keep us informed on progress in this area. The pig industry is responsible for raising awareness amongst consumers of its high welfare standards, but the Government has a responsibility to ensure that consumers have access to clear product information through labelling. Defra must bring together the pig industry with the processing, retail, catering and hospitality industries to establish a strategy for the best way of informing the consumer of the choices available. (Paragraph 71)

9. We are disappointed that such a high proportion of imported pig meat does not meet UK welfare standards. It is not possible from the information available to provide a definitive figure, but we believe that consumers would be shocked to hear that as much as 66% of imported pig meat might have been reared in conditions banned in this country. Whilst price might be the number one factor in consumers’ choice, consumers have the right to be properly informed of the country of origin and welfare standards when making their choice of product. The responsibility for
this, until the Commission implements its welfare labelling scheme, lies with the whole supply chain. (Paragraph 72)

Carcase balance

10. Carcase balance remains an important issue for the industry to tackle as a way of increasing its competitiveness. We believe that producers, processors and retailers could have useful discussions on how to promote different cuts to the consumer and provide more efficient use of the whole carcase. Defra should have a significant role in working with the industry to develop markets for the whole carcase. Defra should continue to support literature which encourages the public sector to use recipes for less popular meat cuts. (Paragraph 80)

Regulatory Burden on the pig industry

11. It appears that once again UK pig farmers are placed at a disadvantage to their EU counterparts who are receiving financial aid through a variety of schemes to comply with environmental regulations. Defra must review the assistance provided by other EU countries and assess whether it is possible for the UK to provide similar assistance for its pig farmers and report back to the Committee on its decision. The Government must work with the Environment Agency and the industry to ensure that the IPPC, Waste and Nitrates Directives do not place an unfair unmanageable burden on the pig sector. (Paragraph 88)

Supply chains

12. It is important that all links in the supply chain understand the issues each faces. The OFT must continue to provide clear guidance and advice to the businesses on the issues that can be discussed whilst avoiding breaking competition regulations. Defra must facilitate discussions of the supply chain in England, as it has been possible to do so in Scotland. (Paragraph 101)

The Scottish Pig Sector Task Force

13. The Minister for Farming and the Environment must make it a priority to discuss the report of the Pig Sector Task Force with the Scottish Executive’s Cabinet Secretary for Rural Affairs and the Environment. The work of the Task Force has indicated that it is possible to organise fruitful discussions between retailers and producer groups to promote the sustainability of the industry. Whilst certain matters fall under competition law, we consider it important that retailers, processors and producers cooperate on issues such as labelling, carcase balance, the threat of disease and the regulatory burden faced by the pig industry. The English pig industry should not be at a disadvantage because other administrations are doing more to tackle the problems of their own pig industry than the rest of the UK. Defra can learn from the Scottish example of how to organise and facilitate such discussions. (Paragraph 110)
Public Sector Food Procurement Initiative

14. We are surprised that Defra does not lead by example and procure as much of its bacon from British suppliers as it does its pork. We ask that Defra confirms whether or not the bacon it procures from outside the UK is raised to UK welfare standards. Defra should encourage all Government Departments and public sector organisations to buy pig meat which was raised using equivalent welfare standards to those in the UK and submit details to the Committee of how it intends to do this. (Paragraph 118)

Pig-specific diseases

15. Defra should continue to contribute to the scanning surveillance programme and to participate in discussions with the British Pig Health and Welfare Council to identify what actions Defra should be taking to tackle pig-specific diseases. In addition to discussing long-term research priorities, the Council should also investigate ways in which the Rural Development Programme for England could be used to support disease control strategies. (Paragraph 122)

Conclusion

16. Over the past 10 years the pig industry has faced serious challenges in addition to the usual peaks and troughs of the pig cycle. The industry should be praised for implementing the changes required of it by UK legislation, and for attempting to organise itself and inform the public of the high welfare standards of British pork. However, there is evidence that several outbreaks of disease, together with the implementation of burdensome legislation and unusually high global prices of animal feed have left the industry either unwilling or unable to invest in the production systems necessary to improve efficiency in the face of overseas competition. (Paragraph 123)

17. It is apparent that a portion of the retail industry has undermined the efforts of Government and the pig industry to introduce and implement desirable animal welfare legislation in the UK. Whilst pig farmers have strived to introduce open housing for pigs ahead of most of their EU counterparts at a significant cost to their businesses, some retailers and catering suppliers have continued to import pig meat that does not meet UK statutory welfare standards, which in some cases is labelled ambiguously so that consumers are ill-equipped to make informed choices. The price paid to English farmers for pig meat should properly reflect the cost of producing it to high welfare standards. Retailers should be more mindful of changes in production costs affecting the industry in future and must be prepared to respond rapidly should producers be faced with the same scale of feed price increases as they were in 2006–07. Otherwise, the whole English pig supply chain is put at risk. In addition, the lack of transparency in the supply chain leads farmers to form the view that they are not getting a fair share. (Paragraph 124)

18. The pig industry itself must ensure that consumers are aware of the difference in welfare standards between UK-reared meat and some imported pig meat, but the retailing and hospitality industry have a duty to label their products responsibly. The
Government must support the Commission’s proposals for food labelling changes, and must make clear to the retail and hospitality industries that it expects food to be clearly and unambiguously labelled with country of origin and welfare standard labels. (Paragraph 125)

19. Defra must ensure that government departments and other public bodies source their pork and bacon from suppliers employing high welfare methods of production. In this respect, Defra must lead by example. (Paragraph 126)

20. More generally, Defra must use its leverage to bring together the key elements of the pig meat supply chain to address the problems that threaten the sustainability of the English pig meat industry. Defra must discuss with the industry what work it can usefully commission to ensure the future sustainability of the industry. With goodwill and encouragement, we believe many of these could be resolved. Defra must seriously consider, in discussion with the industry, whether England needs to set up its own Pig Sector Task Force to tackle the issues such as labelling, carcase balance, productivity and efficiency facing the entire supply chain. (Paragraph 127)

21. A level playing field between English pig farmers and their EU counterparts is unlikely to develop in 2013 when the EU ban on stalls and tethers is brought into force as several EU countries are assisting their pig farmers financially to make the necessary changes. The Government must ensure that never again are UK farmers placed at such a disadvantage compared to their EU counterparts as a result of unilateral national action. (Paragraph 128)
Formal Minutes

Monday 15 December 2008

Members present:

Mr Michael Jack, in the Chair
Mr David Drew          David Taylor
Miss Anne McIntosh      Mr Roger Williams
Dr Gavin Strang

Draft Report (*The English pig industry*), proposed by the Chairman, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 128 read and agreed to.

Summary agreed to.

*Resolved*, That the Report be the First Report of the Committee to the House.

*Ordered*, That the Chairman do make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No.134.

Written evidence was ordered to be reported to the House for printing with the Report.

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[Adjourned till Wednesday 14 January at 3.45 p.m.]
Witnesses

Monday 13 October 2008

Mr Stewart Houston, Chairman of the British Pig Executive Ltd and Chairman of the National Pig Association, Mr Richard Lister, Chairman of the National Pig Association Producer Group, Mr Mick Sloyan, Chief Executive of the British Pig Executive Ltd and Mr John Godfrey, farmer and member of the British Pig Executive Ltd

Mr Stuart Roberts, Director, British Meat Processors Association, Mr Gerry Finley, Site Director, Tulip Ltd and Mr Adrian Dowling, Chief Executive Officer, Bowes of Norfolk

Ev 13

Ev 40

Monday 27 October 2008

Mr John Dyson, Food and Technical Affairs Adviser, British Hospitality Association

Mr Andrew Opie, Food Policy Director, British Retail Consortium and Mr Duncan Sinclair, Agricultural Manager, Waitrose

Rt Hon Jane Kennedy MP, Minister for Farming and the Environment and Mr Duncan Prior, Policy Advisor, Livestock and Livestock Products, Department for Environment, Food and Rural Affairs

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Oral evidence

Taken before the Environment, Food and Rural Affairs Committee
(Environment, Food and Rural Affairs Sub-Committee)

on Monday 13 October 2008

Members present

Mr Michael Jack, in the Chair
Mr David Drew Miss Anne McIntosh
Mr James Gray David Taylor

Memorandum submitted by BPEX Ltd (Pigs 06)

BPEX Ltd is the English pig sector subsidiary of the Agriculture and Horticulture Development Board. BPEX Ltd focuses on increasing the competitiveness, efficiency and profitability of English pig levy payers, and on driving demand for English pork and pig meat products in the UK and globally.

BPEX Ltd welcomes the EFRA Select Committee’s important and timely inquiry into the English pig industry.

EXECUTIVE SUMMARY

1. Consumption of pig meat is robust. But over time the costs of high welfare production systems, disease problems, increased imports and retailer pressures have reduced profitability and damaged business confidence, leading to a lack of investment. As a result pork and bacon production has steadily declined. For much of the past year the rapid rise in feed costs has outstripped increases in producer prices. The fundamental problems facing the industry are not cyclical; they are due to chronic longer term problems, mainly on the supply side. The supply chain in most cases is not operating in a way that enables meaningful relationships, including long term contracts, that fairly shares net margins, builds confidence and ensures the long term viability of a sustainable domestic supply base.

2. Unilateral UK pig welfare legislation has imposed additional costs, and reduced price competitiveness. There are various calculations of these costs; industry sources suggest they may be in the order of 5–8p per kg dw, or around an average of up to 7% of production costs over the period 2002–06. Other contributory factors have also served to reduce competitiveness.

3. Supermarkets and the hospitality industry could help alleviate the pressures on the industry in the following ways:
   — help to improve supply chain transparency and efficiency, and encourage a more equitable and sustainable distribution of net margins throughout the supply chain;
   — within OFT rules, enter into meaningful discussions with others in the supply chain;
   — live up to Corporate Social Responsibility (CSR) promises on sourcing and labelling; and
   — improve labelling to remove potentially misleading claims and provide accurate consumer information.

4. There are a number of ways in which the Government could do more to support the industry, including the following:

   Public procurement:
   — encourage government departments and local authorities to commit to implementing PSFPI within 12 months;
   — require contractors supplying public catering services to commit to implementing PSFPI;
   — require that all pork and pork products comply to the BPEX Quality Standard Mark or Red Tractor or an equivalent standard that meets UK minimum legal requirements for pig welfare;
   — include high animal welfare standards in the new “Healthier Food Mark”; and
   — state country of origin and the assurance standard used on all menus, at the point of purchase, and on packaging.

   There is a range of other actions Government can take in respect of R&D, regulation, competition guidelines, support for industry competitiveness, and export development.

5. The industry itself has taken a number of initiatives to address the challenges it faces.
THE SELECT COMMITTEE’S QUESTIONS

1. What is wrong with the pig industry in England? Are present problems more than just a cyclical imbalance between supply and demand?

6. While consumption of British pork and pork products is robust, over a protracted period the domestic industry has faced severe and sustained challenges to its competitiveness and viability arising from the following main factors:
   - substantial investment in high animal welfare production systems—to meet unilateral UK welfare legislation that raises costs and reduces productivity;
   - exotic disease problems—national outbreaks such as Classical Swine Fever and FMD that affect national herd health status, disrupt marketing, damage exports, and stimulate imports;
   - endemic diseases—chronic on-farm conditions such as PMWS that reduce animal performance on individual farms;
   - increased imports—most produced to lower welfare standards than those in this country; and
   - strong retailer pressure on suppliers, and lack of transparency in the supply chain—that squeezes margins, distorts market information and leads to inefficiencies and higher costs.

7. These factors have reduced profitability, seriously damaged business confidence, and resulted in a lack of investment in production systems and a shortage of skilled labour. In turn, they have reduced optimum technical and financial performance. They have also led to increasing concentration at both the primary production and processing levels.

8. As a result, UK pig meat (pork and bacon) production fell from 1.155 million tonnes in 1998 to 0.739 million tonnes in 2007 (a fall of 36%) as both the breeding herd and productivity fell (there are expectations of a further substantial fall in the breeding herd during 2008 though, more recently, there are signs of a recovery in productivity).

9. In contrast, production across the EU increased over this period. The cost of producing pig meat in the UK is also higher than in many other EU countries (except Italy), largely due to lower productivity, lower carcase weights and relatively high fuel and energy costs in this country.

10. Over the past year, producer price increases have lagged behind sharp increases in production costs (notably of feed and fuel). At November 2007, producers were losing around £25 per finished pig. At August 2008, with higher prices and despite even higher production costs, this loss has fallen to around £7 per finished pig. At the present time, on average producers need a 6% increase in price to cover their direct production costs.

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1 Per capita consumption of pork and bacon in the UK increased from 21.1 kg per head in 1998 to a forecast 22.1 kg in 2008 (though this is still well below the EU average). In the 52 weeks ending 10 August 2008, volume purchases of pork and bacon at retail level were up by 4.1% and 2.0%, respectively on the same period in the previous year. The value of purchases was up by 7.8% and 4.2%, respectively.

2 Imports of pork and bacon increased by 47% from 2000 to 2007.

3 See BPEX annual industry confidence surveys, 2007 and 2008.

4 EU-15 production increased from 17.7 million tonnes in 1998 to 19 million tonnes in 2007, and EU-27 production increased from 22.1 to 22.9 million tonnes over the same period.

5 See BPEX report, “2006 Pig Cost of Production in Selected Countries”, December 2007. This is an annual report.
11. The fundamental problems facing the pig industry do not arise from imbalances between supply and demand and are not cyclical. They are mainly due to chronic longer term problems on the supply side—a steady erosion in the competitiveness of the industry and a failure of the supply chain to return prices that cover the production costs of high welfare and premium product systems and provide for much needed investment. Looking ahead, a continuing failure of business operators throughout the supply chain collectively to take a more strategic view of the marketplace may jeopardise the longer term viability of English production and its ability to meet the volume and quality requirements of British customers and consumers.

12. At the consumer level, survey and other evidence shows that British consumers are willing to pay more for high welfare pig meat. But the supply chain is not translating this willingness into corresponding producer prices, and instead is taking a short term view on sourcing and the distribution of margins within the chain. The absence of effective contractual relationships amongst parties in the chain has undermined the industry’s willingness to reinvest. In addition, there continue to be labelling practices at both retail and food service levels that do not provide sufficiently clear information to consumers as to origin and/or production method.
2. Are domestic pig welfare standards a principal reason that English producers have problems competing with those outside the UK? Are there other reasons?

13. Meeting unilateral domestic welfare standards that go beyond the requirements of EU legislation has imposed additional costs for British producers that producers in other countries do not face (unless British customers also require foreign suppliers to meet UK standards). English producers are therefore less competitive on purely cost grounds, unless the cost premium for high welfare pork and pork products can be passed to the consumer.

14. The main additional cost of meeting higher UK welfare legislation relates to the switch from sow stalls to group housing of sows in indoor systems. Key costs arise from capital investment in larger sow accommodation (a doubling of space allowance per sow), additional straw storage, and new feeding systems. In addition, such systems incur higher recurring operating costs in higher feed usage, additional labour, and reduced productivity as a result of less efficient feeding, reduced farrowing rates and smaller litter sizes.

15. The Farm Animal Welfare Council has estimated the capital cost of converting from stall systems to group housing systems at £400–£700 per sow. One study has indicated that increasing space allowances alone added 4.6p per kg carcase weight (cw) in fully slatted systems. A more recent study has shown that the across a range of indoor systems, the cost of a stall system is 15% less than a group housed sow system.

16. Data based on 10% of the English breeding indicates that for a typical 400 sow breeding unit, additional capital costs amount to around £440 per sow, or 1.6p per kg of meat produced, and additional operating costs to 6.4p per kg cw. Together, these additional costs represent a little over 7% of the costs of production during the period when these additional costs were being incurred.

17. Information from Danish industry sources suggests that the premium for the Danish industry to meet UK welfare specifications is 5–6p per kg dw.

18. BPEX has strongly supported the Quality Standard Mark for pork, bacon and ham that promotes the quality, health and animal welfare attributes of British pork and pork products in order to engender awareness amongst consumers and a willingness to pay for quality.

19. As indicated earlier, animal welfare is not the sole reason why English producers have problems in competing with others. Other contributory factors include: disease, cheap imports, inefficient supply chains, and lack of investment confidence.

3. What could supermarkets and the hospitality industry do to alleviate the pressure on the domestic pig industry?

20. Key challenges are to improve the transparency and efficiency of the supply chain, to establish meaningful long term contracts within the supply chain that build confidence, to recognise the impact of raw material price movements, and to better manage risks within the chain. Relationships between retailers and livestock farmers tend to be at arm's length. Most farmers sell into a supply chain where the processor is their immediate customer, and where they are more removed from retailers and, ultimately, consumers who lie further up the chain. There are a few examples of integrated pigmeat supply chains where retailers and producers interact directly with each other such as Waitrose, who have a dedicated supplier base, and Morrisons, who own their own abattoir.

21. Producer prices are collected and published on a weekly basis and retail prices. However, how net profit margins are shared through the supply chain is difficult to establish, particularly at the retailer/hospitality and abattoir/processor levels. Average retail prices of pork and pork products have increased substantially over the last year, by 179p per kg or 37% (at August 2008 on the previous year). Over the same period the average pig price paid to farmers has increased by only 27p per kg. This indicates that farmer and abattoir returns could be moved to a more sustainable level without further significant rises in retail prices.

22. Maximising ‘carcase balance’—selling as much of the meat and by-products of the animal at as high a value as possible—remains a challenge. Processors do not always maximise the use of domestic carcases in bacon, ham and sausages. Instead meat imported for manufacture into these products displaces domestic meat and forces its export as commodity meat.

23. In recent months OFT rulings on milk have hampered the pig industry’s ability to conduct meaningful supply chain discussions with retailers who have been extremely reluctant to enter into realistic dialogue on the effectiveness of existing supply chains and ways to address the lack of transparency in the pig meat market.

24. All major retailers and hospitality operators have CSR policies; some even have a specific policy on pigs. CSR statements are often high-minded in their intentions, and it is important that the practical implementation of these policies stands up to close scrutiny, particularly in regard to stocking policies or

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6 EU legislation allows sow stall systems until 2013, and beyond this date allows stalls for a period of four weeks after weaning. Under UK legislation, there is a complete ban on close confinement in individual stalls for non-lactating sows.

7 Letter from Professor Christopher Wathes, Chairman of FAWC, to Richard Lochhead MSP, 7 July 2008.


10 Mr J Godfrey, Lincolnshire pig producer.
labelling. The most responsible retailers are rigorous in putting into practice their commitments on pork by undertaking ethical sourcing, stocking Quality Standard Mark pork and pork products, and clearly labelling with accurate country of origin information in accordance with FSA best practice guidelines. The poorer performers make limited use of QSM, take low levels of British and apply potentially misleading labelling practices.

25. Labelling is a key area for improvement. Idiosyncrasies in the law allow imports of fresh pork to be processed into bacon and ham and to be termed “British”. This misleading practice needs to be ended. Similarly, some operators apply misleading labelling. For example “Wiltshire Cure” is a process for changing pork into bacon and ham. However Wiltshire cured bacon and ham may legally contain imported pork, contrary to the consumer’s reasonable impression that it is produced in southern England.

26. Of imported pork and pork products, BPEX research indicates that 70% would be illegal to produce in this country on welfare grounds. Labelling practices in both the retail and hospitality sectors do not always and/or adequately indicate the methods or systems used in production of pig meat to allow consumers to make an informed purchasing decision and, where they wish to do so, to actively select high welfare product at a fair price.

4. Can the Government do more to support the industry either directly or through its public procurement policies?

27. The PSFPI has been a very positive step in encouraging Government departments to introduce a range of quality parameters in food procurement. But there is still a wide differential between the best and the worst performing Government departments and local authorities. A recent joint report by the NPA and BPEX shows that across Government departments the proportion of British pork and bacon that is procured is low and highly variable.

28. We suggest five steps the Government could take to do more in respect of PSFPI:

   (i) Encourage every Whitehall Department and Local Authority to formally commit to implementing PSFPI within 12 months.

   (ii) Require every contractor supplying catering services to Government departments and to public bodies to commit to implementing PSFPI.

   (iii) Specify that “All pork and pork products must comply with the BPEX Quality Standard Mark or Red Tractor or an equivalent standard” in respect of UK pig welfare legislation. This should be a key performance indicator for all food supplied to the public sector.

   (iv) Include high animal welfare standards in the new “Healthier Food Mark”.

   (v) State country of origin and the assurance standard used on all menus, at the point of purchase, and on packaging.

29. Other steps the Government might take include the following:

   — Maintain or increase funding of long term R&D, and support of collaborative research with industry.

   — Implement rationalised, proportionate and risk-based regulation that takes into account existing industry assurance and auditing mechanisms.

   — Effective support for the competitiveness of the English pig industry (e.g. skills development and pig health and disease eradication strategies) through the Rural Development Programme for England.

   — Realise the Food Standards Agency’s aims of a more cost-effective Meat Hygiene Service.

   — Implement a responsibility and cost-sharing regime for animal health that ensures meaningful pig industry involvement in the activities of an independent non-ministerial department.

   — Encourage the EU authorities to improve the regulatory regime for GM animal feed ingredients.

   — Provide clear guidance to retailers on how they can conduct supply chain discussions in order to improve the operation of the supply chain, while complying with competition rules.

   — Invest in the Livestock Register Programme as a more effective industry database.

   — Maintain Government’s valuable support for the reestablishment and growth of exports of pig meat and products outside the EU.

   — Maintain effective border controls to prevent illegal imports of foodstuffs.

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13 While the levy bodies put substantial funds into strategic and short term applied research, the industry also needs Defra, BBSRC and industry co-funding to continue to fund long term projects. The principles and budgets of the valuable Defra LINK programmes need to be maintained and extended as they move to become Technology Strategy Boards, the BBSRC brief to have a greater industry focus needs to be realised, and the government needs to work closely with the AHDB and industry to set the research priorities to deliver collaborative tenders. Government/industry collaboration can deliver both efficiencies for the industry and address the public policy agenda for the environment, animal welfare and climate change.
— Clear and more streamline planning procedures.
— Continued support of the BPEX Pig Health Scheme.
— Reintroduction of capital allowances on agricultural buildings.

30. In summary, the Government has a vital role to play in ensuring an economic, policy, legislative, and regulatory framework that encourages business confidence on the part of the English industry so that it is willing to invest in the long term sustainable development of the industry that can also deliver wider public benefits and sustainability.

5. Industry Action

31. In closing, BPEX would like to highlight some of the steps the industry itself is taking to address the challenges it faces. These include: funding the take up of vaccine to tackle PWMS, establishing a BPEX knowledge transfer team, participating in the Zoonoses National Control Plan, and working with industry to develop, manage and deliver the pig assurance scheme, a pig health and welfare strategy, and a pig industry skills development strategy.

September 2008

Memorandum submitted by John Godfrey (Pigs 14)

EXECUTIVE SUMMARY

The pig industry is a vital part of English agriculture, providing employment for a large number of people and consuming a significant proportion of the output of arable farms. The manure and slurry produced is an important source of nutrients. In addition, the indigenous industry helps to reduce the balance of payments deficit and the nation’s carbon footprint. Government could greatly help the industry by reducing the regulatory burden, encouraging better labelling and helping pig producers to improve their efficiency. The two major problems the English pig industry now faces are lack of confidence and finance. The Government should take action to put confidence back in an industry where only the resilient, with good business management skills, have survived.

INTRODUCTION

1. My family owns Elsham Linc Ltd, based in North Lincolnshire, which owns/manages 6,500 indoor sows on several sites in Lincolnshire and Yorkshire from where we feed the progeny to 100kgs (approx 150,000 pigs/year) when they are sent to pig processors. In addition we operate our own feed mill supplying our own pig units. Without the support of our arable farming we would not have survived the severe financial crisis in recent years. I was pleased to hear that you are inquiring into the English pig industry and understand that you have asked for the answer to four questions, which I have endeavoured to answer.

What is wrong with the pig industry in England? Are present problems more than a cyclical imbalance between supply and demand?

2. I believe the major contraction of the English pig herd since 1998 is due to a combination of factors that started with the unilateral banning in the UK of stalls and tethers which added major costs at a time when the pig price in Europe was low and therefore English producers were having to find funds not only to finance their losses but also to pay for the huge capital costs of replacing buildings that had not seen out their useful lives. This destroyed the confidence of pig producers which was further hit by Classical Swine Fever in 2000 and Foot and Mouth Disease. The export restrictions imposed because of these diseases hit British producers particularly hard. Although we are not self sufficient in pig meat we have very little market for culled sows and offal and these find a ready market in Germany. The industry was also hit by specific pig diseases: PRRS, PMWS and PDNS. All these exacerbated an already fragile financial situation which, as a consequence, meant that very little money was spent on renewing and renovating pig buildings, which in turn meant that a once world-beating industry in terms of production efficiency fell behind its competitors. Banks were, and remain, very unwilling to lend to pig farmers. In addition to this, our two largest pig processors are now owned by European pig farmers; Tulip, including Dalehead and Adams, is Danish-owned; Grampian, now Vion, is Dutch-owned. These companies must look after their shareholders’ interests first.
Are domestic pig welfare standards a principal reason that English producers have problems competing with those outside the United Kingdom? Are there any other reasons?

3. I have partially answered these questions above, but I firmly believe that the imposition of the stall and tether ban started the decline in the UK industry. There is a danger that the EU is going down the same route and unless animal welfare is successfully green-boxed in the next round of world trade negotiations, we will export not just British, but European pig production to countries with different standards of pig keeping. Our negotiators must ensure that the EU can restrict imports of food products that have been produced to standards that would (for example from 2013 when stalls are partially banned in the rest of Europe) be illegal in the EU.

What could supermarkets and the hospitality industry do to alleviate pressure on the domestic pig industry?

4. The English pig industry is now no longer big enough to supply all the requirements of retailers and the food service industry, but both could help themselves, and the pig industry, by changing their policies to:

(a) State clearly on retail packs and menus the country of origin and not the country where the product has been packed/processed.

(b) Take account of the reduction in food miles gained by buying more English product.

(c) Secure their supply chain by agreeing long-term contracts based on a fixed price, or on a cost-plus basis.

(d) Be involved in more dialogue with their producers and the pig genetic suppliers to ensure that the meat they are buying better meets their requirements.

Can Government do more to support the industry, either directly or through the public procurement policy?

5. Where the Government could help the English pig industry is by reducing the amount of rules and regulations that have been imposed on the industry (a schedule of some of them is attached, together with a list of statutory bodies that can inspect, and those that charge). To help the committee understand the extent, expense and time-consuming nature of this legislation, I will detail just a few of the problems caused by the translation into English law of the IPPC, Waste and Nitrates Directives. There are many more examples of legislation that is stalling the English pig industry and will make it very difficult for the industry to recover from its present crisis.

6. IPPC (Integrated Prevention & Pollution Control). We have seven units that require permits. The initial fees were £23,317 and the annual fees are £16,702. If we had sent all the required documentation by paper (some was sent by disc) we would have sent the Environment Agency 7,000 sheets of paper. Because the Agency requires more information in subsequent years we are continuing to churn out paper in ever growing quantities. Our estimate so far is that it has cost us over 500 hours of management time—taking valuable time from managers that should have been spent improving our business. We are also going to be inspected by the Agency every six months and it will require us to “improve” our units to what they believe are “best available techniques”. This will mean major expenditure on items that will not increase our income or make any significant improvement to the environment. It appears that large housed pig units and poultry units have been singled out for major cost increases, which the greater majority of our competitors in Europe (because their units are smaller), and our competitors in the rest of the world, will not suffer. In addition our pig unit site details are in the public domain and so may become targets for raids by animal rights extremists.

7. Waste Directive. We have recently received a further consultation on waste exemptions where it is proposed that farmers will have to renew their registered exemptions every three years at a cost of £50 per site. If we re-register all our sites, this would cost £900. When we applied for our original exemptions two years ago, it was specifically stated that the registration would be free and that once we were registered we would not need to register again. Not only is this costing money, it is again taking up valuable management time.

8. NVZs (Nitrate Vulnerable Zones). One year ago we received consultation papers on The Protection of Waters against Pollution from Agriculture—Nitrates Directive, Partial Regulatory Impact Assessment on Proposals to revise NVZs Action Programme and extend NVZ coverage in England, Draft Code of Good Agricultural Practice to protect water, soil and air quality and The Protection of Waters against Pollution from Agriculture—Diffuse Sources in England. The total number of pages in these consultations was 334 and some of the proposals will have far reaching consequences for pig farmers in England. The Nitrates Directive is all based on a flawed premise that 50mg/l of nitrates in water is a sensible maximum tolerance. There is no evidence to support this limit. Having accepted the 50mg/l limit the proposals still designate areas that are below this limit. Closed periods for the spreading of manure and slurry on non sandy or shallow soil are not backed by science (even DEFRA’s figures show that this restriction will reduce nitrogen leaching by only 0.5-1.0%). In addition, with a closed period of 15 weeks there should not be a requirement to have 26 weeks’ storage. There are many other restrictions imposed even though the figures show that 75% of river waters and 25% of groundwaters are showing a 20-year decline in nitrate concentrations.
9. It was announced in last year’s budget that tax allowances on buildings were to be phased out over four years. Pigs are destructive animals and most pig buildings have a very short life. I believe that there is a strong argument for allowing prefabricated pig buildings to be written off against tax over a period of 10 years. This would encourage people to invest in improving the efficiency of their production.

10. In terms of public procurement the Government should ensure that all pork and pork products that are purchased are to a standard that would be legal in the UK. In addition part of any procurement policy should take account of the carbon footprint and therefore public bodies should be required to buy locally where the standards and costs are comparable.

I would be very happy to provide further evidence and clarification either orally or by email.

September 2008
## PIG INDUSTRY RULES AND REGULATIONS

**Compulsory General**
1. Asbestos
2. attachment of Earnings Order
3. Child Support Agency
4. COSHH
5. Data protection act
6. Disabled access
7. Driver hours
8. Foreign worker checks
9. Fuel tank registration
10. Gangmaster regulations
11. Health & Safety
12. Inspection of air compressors
13. Inspection of lifting equipment
14. Lotry regulation
15. PAT (Electrical appliance testing)
16. PAYE/NI
17. Planning and flood risk
18. Protection of badgers
19. Protection of soils
20. Registered trader in fuel oils
21. Rights of Way Act
22. Soil Action Plan
23. SSSIs
25. VAT
26. Wages order
27. Waste Directive
29. Working time directive

**Compulsory Agriculture**
1. Animal movement order
2. Animal transport
3. Antibiotic growth promoters
4. Catchment sensitive farming
5. Cross compliance (SPS)
6. Disease notification
7. Dota (EIA (Environ Impact Access)
8. Fallen stock
9. Feed ingredients declaration
10. Hedgerow Regulations
11. HGCA declarations
12. Incinerators
13. IPPC
14. LERAP (Local Environ Risk Access Pestic)
15. Local authority feed registration
16. Local authority food registration
17. NVZ
18. Pipeline inspections
19. Public Footpaths
20. Rights of way
21. TPOs (Tree Preservation Orders)
22. Waste exemption registration
23. Water frame directive
24. Weeds Act
25. Welfare codes
26. Wildlife & Countryside Act

**Voluntary**
1. Ass British Pigs
2. Ass mill UFAS
3. Ass transport
4. CCL
5. CSS
6. ELS
7. Retailers special requirements

**Bodies with statutory powers**
1. BT
2. Defra
3. Drainage Boards
4. Electricity Boards
5. Environment Agency
6. Fire Brigade
7. Health & Safety Executive
8. HM Revenue & Customs
9. Local authorities
10. MHS
11. Natural England
12. Oil/gas pipelines
13. RPA
14. RSPCA
15. State Veterinary Service
16. Trading standards
17. UK Border & Immigration Authority
18. Water Companies

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These lists are not exhaustive, there will be many items missing.
Memorandum submitted by the National Pig Association (Pigs 23)

The National Pig Association (NPA) is the representative trade association for British commercial pig producers and is allied to the National Farmers Union (NFU) and represents the pig interests of NFU members. The NFU fully supports this submission by the NPA. Thank you for the opportunity to provide evidence to your inquiry.

EXECUTIVE SUMMARY

1. The English pig industry was once a world leader and could be again if there is a concerted effort by government and all in the supply chain. The industry has the advantages of world-beating genetics and a large consumer market on its doorstep.

2. So what's wrong?
   — the cost added by unilateral UK welfare legislation precipitated the decline in the British pig industry that has seen the national herd halve from 800,000 sows in 1998 to an estimated 400,000 today;
   — retailers and Government not standing by their commitment to ensure these high welfare standards were rewarded by the market;
   — the exotic disease outbreaks of CSF (2000) and FMD (2001 and 2007) left a legacy of herd health issues affecting productivity from which the industry is only just recovering; and
   — most current pigmeat supply chains are dysfunctional and have not been working to address the unprecedented costs (pig feed) felt by the weakest link in the chain, the pig producer.

3. What’s needed?
   — retailers and processors to engage in meaningful discussions that create genuinely integrated supply chains that more fairly apportion profit;
   — the Government to ensure that the PSFPI is completely implemented in all its departments within a year—then challenge the private sector to follow its example;
   — processors and retailers can work harder together to sell the whole pig. The credit crunch is an opportunity to demonstrate the full versatility of the pig carcase and introduce consumers to new great value cuts of pork; and
   — retailers to meet their CRS statements on sourcing policy and labelling, by committing to a common UK welfare standard for all pigmeat products, and committing to clearer labelling through increased usage of the Quality Standard Mark (QSM).

4. Other measures where the Government can assist the pig industry:
   — OFT to provide clear guidance on permitted supply chain discussions;
   — Government to deliver tangible industry benefits through its “risk based approach”, especially in relation to the raft of current environmental requirements (e.g. IPPC, NVZs, Water Framework Directive);
   — reinstate the Agricultural Buildings Allowance; and
   — host a genuine science based debate on GM issues

5. The pig industry is not looking for hand-outs. Pig producers have worked hard to help themselves through continued business investment to improve herd health, and through engaging with the consumer with the highly successful “Pigs Are Worth It” campaign. Now with positive encouragement from government, regulators and retailers it should be possible to transform the industry so that it supplies a greater percentage of the nation’s pigmeat, and once again is seen as a world leader in both production technology and stockmanship.

THE EFRA COMMITTEE’S QUESTIONS

1. What is wrong with the pig industry in England? Are present problems more than just a cyclical imbalance between supply and demand?

6. In 1998 the traditional cyclical production pattern of the pig industry was broken, triggering a decade of decline for the national herd, this was due to a combination of factors including:
   — globally low pig prices in 1998 and 1999;
   — significant industry investment required in higher welfare production systems following the unilateral legislation imposed by government in 1999 when it implemented its ban on sow stalls. Sow stalls are not prohibited in the European Union until 2013, and even then the ban is not absolute;
14 EDM 1097: Pig Farming and the Pigs Are Worth It! Campaign
This House congratulates the British pig industry on its high production standards, on its continued commitment to animal welfare and on the provision of the best in pork, bacon and ham to consumers; notes with concern that high animal feed prices mean that pig farmers are losing more than £20 on every animal raised, posing a serious threat to the future of British pig production; notes that shoppers have said they are willing to pay more for high welfare British pork, and that 70% of imported pork has been produced under conditions that would be illegal in the UK; welcomes the National Pig Association and British Pig Executives’ campaign—“Pigsareworthit.com” and calls on Government to help ensure that increases in retail prices flow down the supply chain to Britain’s pig farmers.
14. Pig producers are proud of their welfare standards and would not wish to return to the use of stalls, but they had expected both government and retailers to play their part and meet the pledges they made at the time, always to source pork to equivalent UK welfare standards. As an example Tesco in a press release on 29th June 1997 stated:

“Tesco is introducing a ban on the use of sow stalls and tethers for all fresh pork from 1 August 1997, within 12 months, the ban will be extended to cover all pigmeat products sold under the Tesco name, including ham and bacon” the then Tesco Meat Trading Director Andrew Batty said “Tesco is committed to improving welfare standards on all products. Stalls and tethers have no place in modern pig production and must be replaced by alternative methods”.

This is just one example, a number of the other retailers made similar public commitments at the time.

15. Unfortunately the reality has been very different and retailers later found it to be commercially unpalatable to source their imports from stall free systems, and so once the media spotlight had moved on they quietly reneged on their commitments. In 2005 the British Pig Executive estimated that at least 70% of the pigmeat imported into this country would be illegal to produce in the UK due to our welfare rules. The British pig industry has been decimated partly as a result of being under cut by cheaper, low welfare imports. In 1998 the national herd was 800,000, and in 10 years it has halved to 400,000 (BPEx 2008 June estimate).

16. British pig producers that did invest in new stall free, high welfare systems with consequently higher costs of production, were then undermined by cheaper imports from continental stall systems. This left them poorly prepared financially to cope with the exotic disease outbreaks described earlier (Classical Swine Fever and Foot and Mouth Disease).

17. An additional concern would be the EU stance on animal welfare in the WTO negotiations. In the interests of free trade the EU must not concede on animal welfare and put its livestock producers in a position where it cannot block the import of meat below current and future EU welfare standards.

3. What could supermarkets and the hospitality industry do to alleviate the pressure on the domestic pig industry?

18. Carcase balance—Retailers could play a much more active role with processors in trying to find solutions for marketing the traditionally less popular parts of the carcase, especially in the current economic climate where the versatility of the pig carcase could offer additional great value cuts that can meet a range of consumers budgets. The recent success of pork belly is an excellent example of a cut that has been brought back into favour following the joint work of industry, celebrity chefs and retailers.

19. Retail sales techniques—Review current discounting strategies. They have been extremely successful tools in driving volume sales, but unless carefully co-ordinated can cause huge disruption to the supply chain that has to source more of one meat cut, and offload all the other parts of the carcase that they don’t need. Retailers are increasingly use these strategies to attract consumers, but with concerns over disposal of food waste is it appropriate for retailers to devalue high quality products that have cost a lot to produce and create the impression that they are “free”?

20. Corporate social responsibility statements:

— Retailers made previous statements promising only to source from stall free systems, finally meet that commitment and source all pigmeat products to a UK welfare standard.

— Responsible labelling—Use the Quality Standard Mark (QSM) so that when it says British, it means British. Stop misleading consumers by selling “British” products such as Wiltshire cure ham, when they have been made from imported pigmeat.

21. Integrated supply chains—In functioning integrated supply chains retailers would be sitting down with their processor and producer partners, understanding each others challenges and agreeing longer term strategies that can cope with continued volatility on raw material markets. The buying power of the retailers could be harnessed to help drive down production costs for the whole supply chain in terms of energy and feed procurement.

4. Can the Government do more to support the industry either directly or through its public procurement policies?

22. The pig industry welcomes the challenge of continuing to lead the world in high welfare standards, but we look to our Government who introduced unilateral welfare legislation a decade ago ahead of the rest of Europe to be our champion. As this recent excerpt from Hansard (22/04/08) demonstrates we have not received quite the backing we had hoped:

Lord Hoyle asked the Chairman of Committees: Further to his Written Answer on 3 April (WA 188), why the bacon served in the River Restaurant and the cafeteria in 2 Millbank is not British. [HL3165]  

The Chairman of Committees (Lord Brabazon of Tara): The River Restaurant and two Millbank Cafeteria cater predominately for staff and operate with the objective of using ingredients of quality and keen purchase price in order to keep the menu pricing at an affordable level for staff. As the
purchase price of English back bacon is 76% higher per kilogram than the Dutch equivalent. Purchase of English back bacon would not meet the objective of keeping the menu pricing at an affordable level for staff.

23. This debate highlights the issue expressed by many food purchasers that are trying to meet strict cost criteria that they feel British pigmeat will be too expensive. However, the industry is working with a number of companies that have managed by being more creative to introduce innovative pork dishes that meet their price spec, and are now able to offer local, quality British pork on their menus.

24. The Public Sector Food Procurement Initiative (PSFPI) will enable Government departments to lead the way in responsible sourcing of pork, this should be implemented across all departments within a year. Government can then challenge the private sector to do the same.

25. Other ways government could assist industry:

— encourage the OFT to give industry clear rules of engagement on supply chain discussions surrounding price and contracts. At present retailers have been using the OFT issues surrounding milk as a reason for not engaging in certain discussions. With clear guidance from OFT the supply chain can be clear on what can and can’t be discussed;

— the Government should make genuine efforts to meet its commitment toward a “risk based approach”. There are many opportunities within current pieces of legislation, especially on the environment side where government could remove duplication, confusion and contradiction (e.g. IPPC, NVZs & Water Framework Directive). They should take into account existing industry mechanisms that are independently auditing, such as farm assurance, which could cover off legislative requirements;

— reinstate the Agricultural Buildings Allowance, recently abolished by Treasury that provided assistance for producers wishing to invest in new more efficient, lower energy usage buildings desired under IPPC; and

— Government should lead a proper debate on GM, following science based evidence. They need to overcome the current political nervousness that has seen such constipation at an EU level in terms of mandating new GM varieties that have been passed as safe by EFSA.

September 2008

Witnesses: Mr Stewart Houston, Chairman of British Pig Executive Ltd and Chairman of the National Pig Association, Mr Richard Lister, Chairman of the National Pig Association Producer Group, Mr John Godfrey, Member of the British Pig Executive Ltd, Mr Mick Sloyan, Chief Executive of the British Pig Executive Ltd and Mr Nigel Penlington, Pig Technologist, British Pig Executive, gave evidence.

Q1 Chairman: Good afternoon, ladies and gentlemen. May I welcome everybody to this first evidence session of our inquiry into the English pig industry. Can I welcome Stewart Houston, from the British Pig Executive Limited and the chairman of the National Pig Association, Mr Richard Lister, who is chairman of the National Pig Association Producer Group. Mr John Godfrey, who is a member of the British Pig Executive Limited, and Mr Mick Sloyan, who is the Chief Executive of the British Pig Executive Limited. Thank you all very much for coming and thank you for your written evidence. I know, Mr Godfrey, you have supplied some evidence in your own name as well as contributing. I am sure, to the collective evidence. When I read the evidence and the other material the Committee have to assist us in getting some background, I got deeply depressed because the reasons for the perilous state of your industry seem to be exactly the same as the last time that I looked at the perilous state of your industry, matters connected with productivity, the number of piglets per sow, the high cost of welfare. Why are we having to look at this now when the agenda does not seem to have changed?

Mr Houston: We do seem very good at lurching from crisis to crisis in the pig industry. I have to say that in our view most of it is not of our own making and probably not of the making of any individual circumstance or sector. The bigger problem is as a result of external influences like the two exotic diseases we had to cope with in 2000 and 2001 and then again in 2007; the competition we have from Europe and endemic disease which we have attempted to come to terms with in a variety of different ways. Probably more deeply rooted is the fact that all of those influences have affected badly the confidence of producers particularly and, to a certain extent, the processing sector and limited the amount of investment we have made in our pig units and in our stock over perhaps the last 10 years. I would not like you to think that we have sat and let all this happen; nor that we have wished for others to solve our problems for us. In my view we have been proactive in trying to put some of these circumstances right. First of all, we sought a better say on how our levy was spent. You remember the debate around bringing BPEX into operation so that producers and processors had a more full say in how the levy was used for the betterment of the industry. We brought political representation together as one voice through the National Pig Association under the umbrella of the NFU. I would like to think that we have forged a far better relationship with Defra and the processors and are having a closer dialogue with retailers than ever before. Additionally, through this better focus that we have through the industry bodies, we have
designed new strategies and we have done that from the bottom up. Instead of others suggesting what the pig industry actually needed, we have asked producers what they needed and we have built a number of strategies from the bottom up. These range from pig industry skills, where we have introduced certificates of competence, and a pig industry register. We were the first to put in place a Pig Health and Welfare Council which married up with the government health and welfare strategy. We designed our own strategy to help deliver health and welfare for pigs. On the back of that, we have introduced an abattoir surveillance scheme to better inform producers and vets of the problems on the endemic disease within a herd. We have run a number of consumer awareness campaigns, at the last of which was our “Pigs are worth it” campaign, and I have to confess to being involved with “Stand by your ham” which is now famous throughout the world. We have introduced a knowledge transfer team to encourage research and development uptake on the back of a new bottom-up R&D strategy. We recently introduced a unique national vaccination research project to help cope with the pig wasting disease which we have had trouble with.

Q2 Chairman: Sitting and listening to this quite remarkable and entirely laudable list of things that you have done to help the industry, I am almost feeling guilty that we are having to have an inquiry. We did this because the industry was said to be in dire straits and you have just listed a whole load of things that you think have helped. If we look at the raw facts, in 1999 when our predecessor Committee, the Agriculture Committee, looked at the industry, in terms of breeding sows, there were 780,000. Now we are down to a figure of around 470,000. If all of these measures have been abundantly successful, how is it that the industry has just about halved in size?

Mr Houston: I dread to think where we would have been had we not initiated the work programme that we have outlined. In fact, we are seeing some results. We have seen an improvement in, for example, pigs per sow per year up nationally from 16.7 in 2004 to just over 20 pigs per sow to date. It is working but we still have all these external cost pressures put upon us that range through from regulation to the more recent one, which was entirely out of our control, and that was the significant increase in the cost of our feedstuffs.

Q3 Chairman: Perhaps Mr Godfrey can help me to understand. When I looked again at the evidence of the amount of money which pig producers have over the last few years been losing per pig. I came to the conclusion that I could not understand how anybody was still left in the pig business. I think there was a hint in your evidence that it was really only the arable part of your business which had saved you. There is a slight sort of lack of fit between these statements about these vast losses which the industry is running up. We have just been talking about banking crises. Finding funding for these things is obviously quite difficult, but you still at least do have some pig producers. How have these survivors survived?

Mr Godfrey: It is because we have looked at our business as a whole and we believe that it is best to have several strands to our business. We have been losing a lot of money on pigs. We are hoping that at some future date there will be a lot of money in pigs and we will at least recoup some of the losses we have suffered.

Q4 Chairman: Is this a form of agricultural gambling? You just keep hoping it is going to get better?

Mr Godfrey: I have to admit that anybody who is farming is gambling because we sell a commodity and the commodity prices, as you know, go up and down like a yo-yo.

Q5 Chairman: In my time in Parliament, this must be either the third or the fourth cyclical issue involving pigs. Pigs are famous for the cyclical nature of the business and I am never quite clear during the good bits whether you recoup the losses from the previous bits, but the impression I get is—you only have to look at the number of people in the industry—for many, this has been a burden too far. They have gone out of the industry. Help me to understand. You take a whole business view but there are specialist pig producers who do not have that benefit of balancing. Some of those remain. Let us put it very simply: of those who are in the business, some must be making a profit. How do they do it and the others do not?

Mr Godfrey: In the past year or two, I do not think any producers will have actually made any money. There are one or two producers that will have a contract with processors that is the cost of production contract but I believe now there are very few of those left. They have been unsustainable and that is because the price that they have been paying under that cost of production contract has been unsustainable for the processor, which I can understand. They will have been making a bit of money. Other than that, I cannot think of any producers—at least I have not spoken to any producer over the last 15 months—that will have been making a profit.

Q6 Mr Gray: If you are not making money, what is the point of doing it?

Mr Godfrey: Because we are hopeful that in future we will make money. We have made money in the past in pigs and, to answer your question, there have been periods since 1999 when we have been in profit and have made reasonable profits. I am not sure that we have recouped all our losses. The last downturn has been particularly severe, especially over the last 15–18 months.

Q7 Chairman: We have the data for example in terms of the EU cost of production per kilo. You have to accept that this is information that the Committee has been given. You may find that your own
enterprises differ from it but if we look at the situation in Denmark I believe figure is quoted at 91.3 pence per kilo for 2006. If we look at the Netherlands, it is 87.2 and the UK was 108.2 pence. If we take not so much the absolute number but the ratio between them, the Netherlands must be affected by the same European Union regime, the same feed cost prices. Okay, there may be a bit of currency but in 2006 the pound to the euro was stronger. How come these guys are producing more cheaply than you are?

Mr Lister: There are a number of reasons for us having higher costs of production and one of those is higher welfare. When we talk about higher welfare, we are talking about loose housing of sows. The cost of turning to loose housing of sows away from stalls, from Farm Animal Welfare Council figures, was £400 to £700 a sow. In our own farms, we know that was around £500 a sow so I would agree with those figures. Additionally, there was some more research done which has been quoted in the BPEX figures, where running a stall house system was 15% cheaper than running a loose house system. That is one of the costs. Also in the UK, we have a lower carcass weights. We do not castrate in the UK so we cannot take our male pigs to such great weights.

Q8 Chairman: Why do you not do that?

Mr Lister: From a welfare point of view, our production standards say that we do not castrate in the UK. It is legal but our assured standards do not allow it so that is why we do not.

Mr Houston: The carcass weights are more at the request of our retail sector. It is down to size of pack and so on because the retail sector in the UK is pretty different to that which operates in Europe.

Q9 Chairman: These are the same retailers who are buying very substantial amounts of product from other European producers and it does not quite seem to fit.

Mr Lister: The pressure is changing in Europe at the moment in terms of castration. It is very high on their agenda to stop it.

Q10 Chairman: What about the question of the scale of operation? Are there any cost factors there? Give me a feel for how you compare with your principal European competitors.

Mr Godfrey: If we look at unit size, the units on the continent are smaller than ours and that is one of the reasons why they do not fall within the IPPC, as I have said in my submission. That is a major cost to us and will continue to be a major cost with six monthly inspections and the additional costs that we will have to bear because of what they are suggesting. In terms of individual units, they do not have those costs. They do have an advantage in that most of their abattoirs are relatively close to where their pigs are produced. They do not appear to have the same pressure of legislation, at the same pressure of inspections that we seem to have. They have in the past had very good financial incentives in terms of grants that we have not had in the UK. One of the things that I have raised in my submission is the change in the tax regulation for buildings, which is going to hit us very hard. We will have £1 million worth of buildings that we have put up in the expectation of getting tax relief but we are not going to get tax relief. That is a cost that we are going to have to bear that we did not expect to bear and these are the sorts of things that are coming through that are different in the UK than in the rest of Europe.

Q11 Chairman: I think you made the point that you reckon that the buildings only had a 10 year life and, because of the end of the agricultural buildings allowance, you were going to be significantly disadvantaged because of the higher depreciation in reality and the zero assistance through the tax system. Is that the point you were making?

Mr Godfrey: That was the point, yes.

Q12 Chairman: As a matter of idle curiosity, did you as an industry make that point to Defra, because there was a period of consultation over the end of the agricultural buildings allowance. Did you talk to them about it?

Mr Godfrey: I have a file at home of letters from the Chief Secretary of the Treasury, Defra and everybody else which is about that thick.

Q13 Chairman: Did you get any vague impression that Defra was sympathetic to your cause?

Mr Godfrey: What Defra were saying was that it was a decision of the Chancellor.

Q14 Miss McIntosh: Would you like to say a few words about ladies in pigs and the work that they do to promote?

Mr Houston: I am awfully remiss in missing out ladies in pigs from my list of things that we do to help ourselves. It is a unique organisation of wives, girlfriends and others of pig producers who help us tremendously in promoting the benefits of British pigmeat with demonstrations to the general public and an awful lot of shows. They are the darlings of the industry.

Q15 Miss McIntosh: I would not like you to go home without having placed that on the record. What percentage of pigmeat sold in the UK is British and what percentage does carry the Quality Standard Mark?

Mr Houston: The best handle we have on that is through our regular pork watch. We do a monthly census of stores. Pigmeat with the Quality Standard Mark on it; 65% of pork, 22% of bacon, 10% ham and 30% sausage. Obviously those latter ones reflect the amount of imported products in those areas.

Q16 Miss McIntosh: Why does not all British pigmeat carry the Quality Standard Mark?
Mr Houston: Some of the retailers have made a decision that they will not do so. The likes of Waitrose, for example, recognise their strong brand, but we are not too bothered about that because they are 100% British.

Q17 Miss McIntosh: What do you think will be most useful to pig producers in this country, a label showing origin of the product or a label showing the welfare standard of that product reflected?

Mr Houston: The origin is quite important to us because it is the origin of British versus the origin of imported that we use as part of our differentiation campaign on which we spend considerable sums.

Mr Sloyan: Having accurate labelling in retailing and indeed in food service is extremely important, principally over animal welfare. The various analyses we have done over the years have not been challenged by any of our import suppliers and they have shown that just under 70% of all of the pigmeat that is imported into this country would be illegal to produce here on the grounds of welfare. That is quite a startling figure. It is not because our suppliers on the continent do not want to produce this product. They tell us they could produce a lot more. It is just that the demand is not here, they say, from the retailers and food service companies. One of the reasons I believe that that demand is not here is because we do not have clear, unambiguous labelling as to what standards the various meat is produced to, whether it is imported or British. We would call upon the retailers and food service companies as a minimum to specify that they should buy product that meets the legal minimum standard for production in this country. We would prefer that they specified that it was up to our quality assurance standard—for example, that excludes castration or at the very least they undergo castration in a more welfare friendly manner.

Q18 Miss McIntosh: Is that because it is stressful and obviously will damage the meat?

Mr Sloyan: The reason they castrate on the continent is because they have relatively high carcass weights. They are scared of tainting the meat so the present practice is to surgically castrate pigs without the use of anaesthetic. That is changing on the continent but we do not castrate at all. The important thing is we have been pressing retailers for quite some time on a variety of different things. Firstly, as a bare minimum, to follow best practice labelling guidelines as put out by the Food Standards Agency. I have examples of packs on sale just over the weekend that show that there is a sort of labelling of country of origin but it will give you an option of three countries from which that product might have come. That is not particularly helpful to consumers, we do not think, so I think what they should do is clearly indicate the country of origin and then have a public statement as to what their buying specification is.

Q19 Miss McIntosh: In your evidence you say that consumers are willing to pay more for good quality pork. Do you have any evidence to support this?

Mr Sloyan: Yes, we have, and I will gladly send it to you. We asked about 1,500 consumers—and we have done it more than once—

Q20 Miss McIntosh: Was this through Pig World Magazine?

Mr Sloyan: No, this was done through an independent research company and I am more than happy to supply the results. We asked consumers whether they would be prepared to pay a few pence more. We did not specify and we asked them how much more they would be prepared to pay to support British farmers, so there is an indication out there that they are prepared to do that. We see some research coming from people like the BRC and various retailers that says the most important thing people are interested in is price and that may well be true if you ask people to rank it, various factors, but it does not mean it is the only thing that consumers are interested in and that is the question they are never really asked. Yes, people want keen prices but what else do they want? I guess if you ask them as we have done in the past, “Would you like your pork to be produced to the same legal standards as it is in this country?” the answer is overwhelmingly yes, because they do not appreciate that it is not for a lot of imported product.

Q21 Miss McIntosh: Do you believe there is a label that would be not too bewildering for the consumer that would have the welfare standard on it?

Mr Sloyan: It is very difficult to communicate that within a single label. We try within our own Quality Standard Mark to do that. The red tractor logo which has exactly the same standards as ours tries to communicate that in the same way. The important thing is to have a clear and unambiguous statement on behalf of retailers and food service companies, to have somewhere on a website or in an annual report, as some of them claim to do under the corporate, social responsibility statements, to say, “This is the specification to which we buy”, and incidentally to watch out for what might be construed as playing with words. Some retailers state that “everything we sell under our label conforms to this specification”. We believe that retailers are powerful in this country even if they decide to sell under a tertiary brand—i.e., not with their name on. They could still insist on a specification because they are powerful enough to enforce that.

Q22 Miss McIntosh: Considering that the welfare rules were driven by the consumer, you would think that they would want to see that reflected on the product label.

Mr Sloyan: You would think that they would certainly want the information, absolutely.
Q23 Miss McIntosh: How best do you think British pigmeat could be labelled to highlight the welfare standards? Are consumers for example likely to understand the difference between free range, outdoor and indoor?

Mr Sloyan: When you get to nuances of how animals have been produced, you have to accept that at the moment we can only measure inputs so we equate high welfare with systems of production. We do not know what the outcome is on the animal. We have a research programme ongoing at the moment with Bristol University to try and plug that particular gap. In terms of specifics in relation to free range, outdoor bred or outdoor reared, statements that are used at the moment, we are working with the RSPCA to have in the first instance a voluntary code that specifies what we mean by that. Hopefully by the end of the year we will have something in place.

Q24 Miss McIntosh: As regards castration and everything else you have said, you are saying that we have the highest welfare standards and we are probably scoring a bit of an own goal by not reflecting that in consumer information?

Mr Sloyan: We have extremely high welfare standards. It would be wrong of me to say that they are the very highest in the whole of Europe. Sweden has quite stringent laws and there are one or two other countries as well, so it is fair to recognise that. If you take Denmark, we referred in our evidence to the UK contract which is pretty much UK standards with the exception of castration, so they can produce those pigs if the market incentive is there. This is not about those supplying countries. This is all about retailers, food service companies and the demands they make on those importing suppliers.

Q25 David Taylor: We are dealing with the willingness of the consumer to pay an extra premium for the welfare of product. My own direct contact and experience with this mainly relates to the area of poultry but I am sure there is a carry over to pigmeat as well. If you stand with a clipboard outside any Tesco, Asda or something and ask people to endorse the sentiment about higher welfare standards for poultry or pigmeat, people are pushing you out of the way to get to the chiller cabinet and picking the cheapest cut. I know that the BRC are saying that that is a key factor. My view would be that maybe either QSM or other standards are just not promoted as vigorously and as extensively as they could be so that they percolate into consumers’ pattern of purchase. I do not think that enough is done to let people know what the implications are of buying the cheapest as opposed to buying a QSM or other standard product. What would you like to see either the government or producers do?

Mr Sloyan: I agree with you that what consumers say and what consumers subsequently do does not always match up. That is undoubtedly true. I agree with you that in terms of the money we have available, trying to communicate with our consumers—which is not the full 60 million in the country but it is a big proportion of them—is something that we have not succeeded in fully in terms of making sure that all of our consumers fully understand the issue. That comes down to the amount of money we have to spend in communicating that. What we rely on is working with retailers and food service companies to make sure that they are helping to make those communications for us. I do really think that retailers cannot abdicate the responsibility in terms of the specifications that they have; nor food service companies; nor, dare I say it, government in terms of the specifications it uses to buy the products we have which we know are not universally specifying at least a legal minimum standard for UK product. There are a lot of people in the chain who all have a responsibility to communicate this. One thing I am very sure of though is that if consumers were fully aware that when they pick up a very cheap packet of bacon, for example, that standards of welfare were not just not the highest but would be illegal in this country, it would change consumption patterns, not for everybody—I fully accept that—but certainly for a significant proportion of the population.

Q26 David Taylor: Consumers probably conveniently close their minds to the implications of what they are buying at times.

Mr Sloyan: Some of it, but I think it would be too cynical to say—

Q27 David Taylor: I am not saying that is always the case.

Mr Sloyan: If you look at where an idea takes hold, for example, fair trade is a very good example of that. Once it became established within consumers’ minds, it really started to be a demand that had to be met. It is not my particular area but I remember people saying, for example, they could not sell bananas. They could not possibly have them priced at two particular levels, until a retailer said, “We will only stock free trade bananas”, so that was the push that was required. I think it was the retailers and the food service companies responding.

David Taylor: There is a cognitive dissonance almost, people holding in their head contradictory positions of being able to buy cheap meat and having higher welfare.

Q28 Mr Gray: What David describes is going to get worse, not better, with the recession and people are going to be more and more concerned about price. Mr Sloyan said just now that there is a whole variety of people responsible and retailers themselves are responsible. Retailers are not responsible. The retailers’ job is to maximise the return for their shareholders by selling food. I think you are wrong there. I think the fair trade thing was done by producers producing a wonderful, catchy expression, by advertising and by pressing the point. It is your job surely, is it not, to say, “Half the stuff
you are buying is produced illegally. It is disgraceful and if you care about pigs buy our stuff”? It is your job and not the supermarkets’. 

**Mr Sloyan:** That is something we have been trying to do for a number of years within the resources that we have but it is very difficult unless we can get support. For the complete avoidance of doubt, what we are saying here is not that we want to stop imports and that people should only buy a British product. Quite the opposite. What we would like to see is that all the product that we currently import is produced to the same standard. That is about demand in the market place and I am afraid the retailers are the gatekeepers of that. If they change their minds tomorrow, I believe—

**Q29 Mr Gray:** The notion that Lidl might turn round tomorrow and say, “In the interests of pig welfare we are going to stop buying from X, Y and Z countries and we are going to put our prices up tomorrow because we really care about pigs” is away with the fairies. There is not a chance they are going to do that.

**Mr Houston:** Lidl is a good example because they have moved from virtually no sourcing of British pigmeat to something like, from memory, 65% British pork. This is not all doom and gloom.

**Q30 Mr Gray:** That is great, but it is supply and demand from consumers. I am concerned from the tone of your answer that it is everybody else’s fault and they must all do something about it. I do not think that supermarkets are going to change their buying habits unless people coming into the supermarkets say, “I do not want that stuff”. If there is lots of the bad stuff, as it were, left in the freezer compartment at the end of the day, the supermarket will stop buying it, but that is your job, not theirs.

**Mr Houston:** A number of supermarkets are in our 100% British club. I am thinking of Waitrose, Marks and Spencer fresh pork, Budgens, the Co-op. I am sure I have missed people out.

**Q31 Chairman:** Tesco perhaps?

**Mr Houston:** Tesco have a corporate statement that they will only buy to British standards. Part of Mick’s presentation is that we do not have an argument if the standard of the pigmeat coming in is equal to the UK standard. Tesco do follow up on that by auditing their imported supply chain.

**Q32 Chairman:** The message is very clear from the producer side of the evidence that we have had, that there is a cost to produce to the UK’s welfare standards. You are then saying that there are continental producers with a similar, in the case of Sweden, or a more exacting regime than we have and that there is a third category which are those continental producers who are getting somewhere near the UK standard and therefore are able to supply discerning customers like Tesco. They are able to do that competitively to the exclusion, effectively, of pushing our own production. What that says to me is it is the other factors in the cost function of producing a pig which weigh more heavily in the competitive difference between the industry that you represent and other people’s products on the shelf. Is that a fair assessment?

**Mr Houston:** We are a lot closer to the similar cost of production—

**Q33 Chairman:** Is it yes or no?

**Mr Houston:** It is not a yes or no answer. We are a lot closer to the cost of production of producers in EU countries who are producing to the same standard.

**Q34 Chairman:** But sufficiently different to give a competitive price advantage to those other producers. When you read this evidence, it is very long on what I call playing the welfare card. The changes in the sow stall and tether system have been around for a long time and the “good producers”, the ones with sufficient finance, I guess I am right in saying, will have made their changes in investing in different production systems quite some time ago. Would that be correct?

**Mr Houston:** That is right.

**Q35 Chairman:** In terms of there being a new cost, that could not be the case. It may represent an additional cost to production because of lower density, more space being required etcetera, but this is not a novel feature in pig production in the UK amongst our bigger producers; it is the reality, is it not?

**Mr Houston:** There is an ongoing cost of maintaining that difference in welfare standards.

**Mr Lister:** Welfare is not the only cost. There are various other costs. There is a catalogue of events. You said that when you read the report it was a story of one bad occurrence after another. We had the 2001 F&M outbreak. That had a huge carry over on our own herds. It took us four years to recover from that because of the consequences of not selling old sows, movement restrictions and disease problems. Again, that was a catch 22 so we did not invest and it became more inefficient. Welfare is not the only reason. There are a number of other reasons which are all part of a catalogue of events.

**Q36 Chairman:** Welfare would be a positive if you were attracting a premium. Let me focus my line of enquiry. You enunciated a number of supermarkets who had gone 100%. I must admit I enjoyed my bacon sandwich on Sunday morning after my bicycle ride. It came from Marks and Spencer so I know it must be part of your club. It was very good bacon indeed but do those producers who go for the 100%, or are part of the 100% club if we can put it that way, receive an obvious premium over the suppliers which go to other supermarkets which are not quite so discerning?

**Mr Houston:** No, the market does not work like that. It works more on averages because pigs are split up in the abattoir and do not all go to one outlet.
Q37 Chairman: Let me turn it round the other way. If we are looking at welfare and we are saying this is a particular attribute of our production, should there be a premium paid for welfare over and above whatever benchmark you care to define as the market price for pig meat?

Mr Houston: Absolutely.

Q38 Chairman: You are actually getting more than the continental counterpart?

Mr Houston: Yes.

Q39 Chairman: If my colleagues and I wrote a report which came to the conclusion that our supermarkets were wholly unmindful of the whole question of the cost, Mr Godfrey—

Mr Godfrey: I am agreeing with you. The supermarkets are not wholly ignoring what is happening and in fact there are some premiums for additional welfare standards. Some outdoor production does get a premium. The question is why are our costs so much higher than our continental brethren.

Q40 Chairman: We write a report which goes effectively to Defra for their comment and for other people to read. Mr Sainsbury was kind enough to send us some evidence and they talk about doubling their range of high welfare products, so you can see there is some support. If we are going to ask for things to be done to help your industry, we must be clear about in whose gift those things are, what things might be in the gift of the government, of the retailers, of the EU legislator and anybody else to deal with the problems. I am getting the impression that perhaps the sales value to the customer of high welfare—we can argue about whose fault it is—is such that customers perhaps do not appreciate the qualities of the product which comes from higher welfare. On the other hand, there is an indication that the customer—in this case the food service industry and the retailers—are paying at least a little bit towards the welfare costs. Is that a fair summary of the welfare argument?

Mr Houston: They are paying a little bit.

Q41 Chairman: Not as much as you want.

Mr Houston: If you look at where consumer prices have gone in retail over the last 12 months or so, you will see that their price according to the ONS data on average is up by an increase of 90 pence and the producer price is up 27 pence. We do not know where the difference is. The consumer is paying it.

Mr Drew: Milk.

Q42 Chairman: As my perceptive colleague, David Drew, observes, it sounds like there is a lack of transparency.

Q43 Chairman: Have you any idea where the money has gone, apart from in the till of the person who has put the price up that you have not seen?

Mr Houston: No. It is a question that needs to be posed and we would appreciate an answer.

Q44 Chairman: Just between ourselves and as nobody is listening apart from the vast television audience that watches these affairs, is there any one supermarket that is a sinner worse than the others?

Mr Houston: No.

Q45 Chairman: They are all the same? You are a great diplomat and a complement to your industry.

Mr Houston: They are all customers.

Q46 Mr Gray: Reading your submissions, it seems to me the problems of the industry are an amalgam of things about which you can do nothing and higher costs, a problem, but there is not that much you can do about it; and things about which you can do something. One of those things seems to me to be regulation. In that context, am I right in distinguishing between regulation about which nothing can be done—namely, IPPC, which after all came in 10 years ago—and for example NVZ and the Waste Directive? Are some of those more doable than others?

Mr Godfrey: Two or three years ago we were asked to register every premise we have for exemption for the Waste Directive. We were told at that stage that it would be a once and for all registration and would not cost anything. We have done that. A consultation has now just come out to say, “No, we have changed our minds. We want you to register once every three years and it will cost you £50 per premise.” That is a fairly simple one. We go to IPPC. Although you are right in saying it came in 10 years ago, we had no idea what was coming in because the rules and regulations are still being written, even though it has come in. The regulations are changing all the time. We have no idea what we are supposed to do. We had one unit that was supposed to have ammonia emissions because there was a SSSI not far away and, fortunately for us, they decided that the ammonia emissions were not sufficient to put any restriction on that unit but I understand there are other key units where that has been done. The Environment Agency have calculated the figures wrongly and they have had two or three shots at saying how much they have to reduce the emissions. The problem is that we do not know. Although this legislation was previewed 10 years ago and we knew it was coming in, we do not know next year what we are going to have to do to comply because the rules have been changed.

Q47 Mr Gray: We will do a report and say it is terrible. I could draft the government’s response which is, “We are extremely sorry. Do not worry. We will be telling you shortly”. Which bits of the legislation can we say to Defra about strongly, “This
is outrageous. We should not be doing this. This regulation piling on top of farmers is putting them out of business?  
Mr Godfrey: The Waste Directive is one. I am not sure that in NVZs they have looked enough at the evidence. There are areas I believe in the country that should not be in NVZs because they are below the 50 milligrams per litre limit, but they are saying that they might go above the 50 milligrams per litre, so that area should be designated NVZ. I know we got into trouble with Europe on NVZs but I think there is a robust argument to say, “If your river water or your catchment water is below 50 milligrams per litre, why should you be in an NVZ?”

Q48 Mr Gray: BPEX is a terrible name. Leaving that aside, there is a chart which you very kindly provided the Committee with that is extremely useful.\(^2\) I suspect it would be even more useful in colour. What it lacks though is a kind of colour code that would demonstrate which of these assorted directives and regulations are worst and which of them could be done away with or minimised. We could be really punchy with the government and say, “Here is where you are gold plating. We want to get rid of that” and say that you can conform with the directives that do it in a minimal way rather than in a maximal way.

Mr Houston: We can provide you with further information that lies behind that but I thought it was useful for you to see pictorially how there are so many regulations coming towards us. The problem with them is that there is a contradiction and overlap between many of those. Surely, you could have found a way of amalgamating them and making them simpler. You are quite right. One of the fights that we have had over the last several years with IPPC and NVZs is the over-interpretation. First of all, there is an interpretation of what the EU means by Defra and then there is an interpretation by the Environment Agency on what Defra means. We have put in a significant amount of work to help both Defra and the Agency to understand the problems. In fact, we have employed a specialist to help the industry and producers understand IPPC and all of its implications. I am sure the processing sector too will indicate the difficulties they have had in coming to terms with IPPC.

Q49 Chairman: You have gone through this with a fine tooth comb and, as a result, you perhaps hope you have highlighted ways in which the IPPC regulation implementation, practice and therefore cost could be reduced.

Mr Houston: We have done our best to do all that, but we have not been successful in a number of areas.

Q50 Chairman: If you have identified meticulously how the costs could come down then we can ask Defra when they come along why it is they do not believe you, because otherwise we would not be having this conversation. Something would have happened. How long ago was it that you submitted this meticulous piece of work?

Mr Houston: This was not how long ago and a piece of work; this is an ongoing dialogue.

Q51 Chairman: What would be helpful is perhaps to have a note to summarise the work you have done. I was much taken by Mr Godfrey’s evidence when he said that for each of his seven units he has had to pay £16,702 each year to get them renewed. That seems like an awful lot of money. I do not know what you get for 16 grand with Defra but you obviously think it can be done cheaper than that.

Mr Godfrey: We get two inspections a year to tell us what we have to do to improve in the future. Those improvements are supposed to be best available techniques and there is a dispute on that but they are supposed to be improving the unit in terms of environment. They are costing us money and I believe they are doing very little to improve the environment.

Q52 Chairman: Please have a think because what we would like to be able to do is to incorporate a simple point that says: here are these guys. They know the industry. They know what the law says. They have done their best to comply. They have even shown you how it can be done better but it is still costing them a shed load of cash and they have some ideas about how it can be reduced.

Mr Houston: As an example, if you take the ammonia emissions as part of IPPC, a number of units are being asked, because of the way the output has been modelled, to bring their ammonia emissions down below the national background levels. It is impossible to do and it is based on a model that they have gone back three or four times to rethink.

Q53 Mr Drew: The Chairman stole my thunder because I was going to say that this industry seems to parallel the milk industry. We looked in our inquiry four years ago at the missing 3p or 4p that was supposedly passed down the line from the retailers and we could not identify where that money had gone to, if it had gone anywhere. Is one of the problems with your industry that the lack of transparency and openness across the supply chain really masks quite serious dysfunctionality?

Mr Houston: Yes, that is true.

Q54 Mr Drew: We found in the milk industry that relationships could not be described as anything other than poisonous. Do you see that or is that too harsh a term?

Mr Houston: That would be too harsh. We as producers have a contractual relationship with the processor. We have no relationship further and beyond that. The difficulty comes when the market or we, because of cost of production, need to move our prices up. We can only do that if there is a willingness by both the processor and the retailer

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\(^2\) Not printed
and usually there is retailer pressure to keep the price down, which is reflected back to us through the processor.

Q55 Mr Drew: In the milk industry, the retailer squeezes the processor. The processor squeezes the producer and it is a completely downward pressure market, very difficult for you to push upwards even in a state of desperation.

Mr Houston: The pressure is all downwards but when there has been a shortage of pigs and an increase in demand the opposite happens. It is the processor who is squeezed because he has to find some pigs to deliver his contract and he is not getting a return quickly enough from the retailer.

Q56 Mr Drew: I suppose the only difference would be that there is a really specific role here for the manufacturer. Most milk manufacturing is done by the processor. Here, there is a distinctive manufacturing capacity within this industry. What role do they play? Any role at all?

Mr Sloyan: There is a difference on the milk side, certainly within the liquid milk market, because it has the vast majority of domestic consumption. The pressures are fought out as between the players. Where it becomes relevant in terms of processors and where it is very different for pigs is that currently we are less than 50% self-sufficient, so half of everything we eat in this country is imported and that can apply tremendous pressure on domestic producers. A large proportion of that is processed so particularly the bacon and the ham market would contribute quite a lot to that. That is split between abattoir processors, people who would slaughter and subsequently process, and those who are stand alone operators who will import product, maybe even in a finished format or a semifinished format, slice it, pack it and sell it on. That pressure, particularly in competition from imports, is probably far greater than in the milk market.

Q57 Mr Drew: It is, but on visits we have made to Denmark to discuss some of the ways in which Denmark, in farming, seems to be much more aggressive when it comes to protecting their bacon, the whole ethos of that country is to work together and to allow themselves to be much more effective, therefore entering other market places. Exactly the same would be true of New Zealand where we went some years ago. Why are we so bad at this in the UK? Why do these relationships sour so easily? Everybody distrusts everybody else and there is a complete lack of transparency. Maybe the wider world does not need to know these things but if different parts of the industry do not know where the money is going to it does not say a lot for the competitive edge that British pig manufacturing can have when it is trying to get out in the wider world.

Mr Houston: What we would dearly like—and if we managed it BPEX’s job would be almost complete—is a series of supply chains that run from producer, through the processor to the retailer, all of them understanding each other’s problems and mitigating the price to all three parties through that. You may consider that is a pipe dream but there is a good precedent in the way that Waitrose works with its processor and supplier. It is admittedly one of the smaller retailers and the bigger ones indicate that it would be a step too far for them to go to that extent, but it is a challenge we have left with all of those retailers. They are beginning to recognise it and the dialogue is much better than it was, but it has a long way to go.

Q58 Mr Drew: Scotland, with its Task Force, has begun to grapple with this. Are you working with the Scottish Government?

Mr Houston: No. We look after both the National Pig Association and BPEX. We look after the English producers. Scotland opted to work on their own.

Q59 Mr Drew: But you have colleagues in Scotland. You must be watching them and they must be taking advice from you.

Mr Houston: Yes, we do, and they watch us too.

Q60 Mr Drew: Where has the Scottish Task Force got to then?

Mr Houston: We have not seen any output from it at all that I am aware of.

Mr Sloyan: They set themselves, I think, a target of what they considered to be a sustainable industry as far as they were concerned, which was an expansion of 15 or 20%, but you would need to check the figures on that. Their industry is probably slightly better structured, albeit very much smaller. One slaughterhouse accounts for about 80% of the kill and they have two producer groups to supply all of that, so they are already quite well structured. We will watch the way they have gone about it with interest. What is also interesting with that is through their Task Force almost having a third party view of their own industry, having somebody coming along and saying, “Let us look at it from the outside to see if we can pick out where you need to make improvements”. One of the improvements that we have certainly been trying to make is to try and talk to the retailers specifically, and we have found that extremely difficult, not least because they appear to be very concerned about potential action from the Office of Fair Trading, so that any discussion that they may enter into with producer representatives is viewed as placing them in some sort of danger. That is despite the fact that we have been to see the OFT and we have had a form of words from them about what we can and cannot do, but that still is a severe problem for us.

Q61 Mr Drew: No doubt you will be looking forward to complaining to the Ombudsman. It will be interesting to see how much they squeal then. Just to finish on the issue of Scotland relative to England, if we now look at the wider view, one of the allegations about this industry is that there is a lot of funny money going around, that certainly some countries have been very cute in that they have
subsidised their industry, whether it is in terms of branding support, whether it is in terms of technological advancement. Is that not a reason why you suffer, because there has never really been any history of government subsidising the pig industry in this country?

Mr Houston: It may be part of the reason. Whenever we hear of these issues that you raise we try to get to the bottom of them but you only need to look at some of the overt support, particularly on the environment side, where their governments have supported the environmental changes.

Q62 Mr Drew: Give us some examples.

Mr Houston: IPPC would be one.

Q63 Mr Drew: Any particular countries? Denmark, for example?

Mr Houston: Denmark would be one.

Q64 Mr Drew: The Netherlands?

Mr Houston: Yes.

Mr Sloyan: On the Netherlands, we have a colleague who does nothing else but deal with IPPC and associated matters.

Q65 Chairman: Can you give us a concrete example rather than floating a country name in front of us? Come on, Mr Expert, come and sit here and we will see who you are, first of all. What is your name?

Mr Penlington: Nigel Penlington from BPEX.

Q66 Chairman: Nigel Penlington, answering questions with specific examples of IPPC subsidy. You are on *Mastermind* now, so you have got one second to answer the question.

Mr Penlington: For example, in the Netherlands they have funded the relocation of farms that were near to sensitive habitats. They are currently funding equipment to remove odour and ammonia from pig units. They have in the past covered slurry stores and helped farmers purchase equipment for spreading manures or slurries to reduce the ammonia.

Q67 Chairman: Are these cash grants to farmers for that purpose?

Mr Penlington: Yes, we believe so.

Q68 Chairman: You believe so?

Mr Penlington: Well, yes, this is what they tell us they are.

Q69 Chairman: Who is “they”? Are “they” the farmers?

Mr Penlington: This is information that has come back from their farmers and when we talk to their producers, and when we raise this with Defra officials we are always told, “They managed to find a way of doing it. It cannot be done in the UK”.

Mr Houston: And Defra do not have any money.

Mr Drew: I know they have not got any money but they could at least complain about the opposition kicking downhill all the time.

Q70 Chairman: That is in Denmark?

Mr Penlington: The Netherlands.

Q71 Chairman: Right, that is the Netherlands. Are there any other examples of this sort of largesse being handed out that you have come across?

Mr Penlington: Not that readily come to mind.

Q72 Chairman: So we have got one country.

Mr Penlington: There is Germany with its biogas production, where they are supporting the energy producer.

Q73 Chairman: So we have some evidence, but it is not universal or it is not universally known to you?

Mr Sloyan: The Irish Republic are paying for conversion to high welfare, particularly the removal of stalls, which, obviously, we have already done and paid for. The French introduced an aid package which was a cash limited benefit to their farmers in the pig sector during the course of last year. I do not think it had state aid clearance but I think they do it first and apply for the state aid clearance afterwards, so there are examples in other areas.

Q74 Mr Drew: Obviously, you point this out to Defra. Do Defra then go to various embassies to ask the agricultural expert there to go out on the ground and see if this is happening or if there are any facts that can be accrued? Do you get any feedback on that?

Mr Sloyan: We are not aware that that is happening.

Q75 Mr Drew: A good question for Defra then. Mr Houston: Chairman, would it be helpful if we drew together something a bit more definitive for you?

Q76 Chairman: I think it would be because so often it is the case that we hear about these things but it is never documented in such a way that it can be written down and, as I say, used in evidence.

Mr Houston: Can we try and do that for you?

Q77 Chairman: That would be very helpful. Just before we move on to our final area of questioning, I want to get back to this fear which I have certainly picked up from contacts with supermarkets about sitting down and talking about supply chain relationships. You said that you had had an indication from the OFT about what could be done and what could not be done. From the information I have had it would appear that the supermarkets, in spite of those reassurances, still do not want to have the kind of dialogue that you are talking about. Do you think there would be merit in us getting the OFT in front of this Committee to try and publicly clarify what can and cannot be done?

Mr Houston: I think that would be a really good idea, Chairman.

Chairman: I like good ideas so that is very good. We will move on to Anne McIntosh.
Q78 Miss McIntosh: I have a question on carcasses. Why is the British pig industry poor at using all the rest of the meat after the main cuts have been taken off, so we are relying on imported meat for processed food? In the quote that you gave earlier Morisons were advertising that there is a very high percentage on joints, but I think you will find that on processed there is a very high percentage of imported.

Mr Sloyan: We have always imported pig meat in some quantity or other and bacon from Denmark goes back over 100 years, so I would not expect that to necessarily change, and one accepts that. The levels of demand across the whole carcass in the UK are going to be very different. Are we any worse or any better than others? If you export 90% of everything you produce, as is the case in Denmark, probably not quite so much with other countries, of course you find a market for them. That is not being terribly clever. They just try and find an export market that will take those products. For example, they send their loins to us, either fresh or cured as bacon. They send legs to us and they get turned into ham. That is because of their nature as an exporter. For us the issue is trying to maximise the value for each of those cuts, not just trying to find a home for them, if you like, and that falls into two areas. One is trying to add value to cuts that perhaps are a bit less popular, and one of the other very good examples of late is trying to encourage consumers to use belly pork, which is a fantastic product. It is a lot leaner than it used to be and it can be cooked in quite a nice way instead of just being minced up and put in sausages.

Q79 Miss McIntosh: So are you using marketing techniques to go out and specifically target those?

Mr Sloyan: Absolutely. I am more than happy to supply the Committee with an awful lot of detail and recipe leaflets that we put into various areas within the supply sector.

Q80 Chairman: I am happy with a bacon sandwich, actually.

Mr Sloyan: The other part to it is that there are parts of this world where consumers place a higher value on some of the products that we consider to be of extremely low value. Without going into the details of biology, in places like China they really like some of the internal organs and other bits of the pig that we do not, and so that is about maximising exports. I have to say, and this would be a plug for Defra, that we have been working very hard with Defra to gain access to the Chinese market but we have suffered the setbacks of foot and mouth disease in particular where, the instant you have an outbreak, you lose access to that market. In the case of China it has taken so far around five years to try and get that market back.

Mr Houston: Chairman, just as a supplementary to that, I would think that we are more efficient in terms of carcass balance. Before classical swine fever in 2000 and FMD in 2001 there were quite lively export departments in each of the processors, but when you lose your export markets for so long it is awfully difficult to build them back up again, and when we talk about efficiency and costs of production and so on we should not underestimate the cost of losing those markets because of exotic disease in the last several years.

Chairman: Gentlemen, thank you very much indeed, including our star additional witness. I am very grateful to you for your contribution to our proceedings this afternoon, and indeed to those other producers, in addition to your good selves, who also sent evidence in. I am thinking particularly of Len Goodier, one of my constituents, who very kindly sent some written evidence, so we are grateful from the production side for your contribution to our inquiry.

Supplementary memorandum submitted by BPEX Ltd (Pigs 06a)

What is the difference in quality between British and EU pig meat that demands the higher cost of production?

The two main elements of quality that affect price are carcase weights and high welfare production systems. The average carcase weight of English pigs is estimated at 77.9kg in 2007 (Eurostat) compared with an average of 88.6kg in the EU 27 (Eurostat). BPEX estimates that the additional cost of our lighter weight is 3.5p/kg or £2.72 per pig (An Industry Guide to the Production of Heavier Pigs, BPEX 2003).

The extra cost of higher welfare systems, as we stated in our initial submission is just over 6p/kg carcase weight. We believe that higher welfare is an important part of the quality of our production process. A detailed analysis of these extra costs is contained in BPEX Annex 1.

Is the English pig industry particularly sensitive to increases in the price of animal feed?

Over the period of the last 12 years when feed cost movements have been reasonably modest there has been only modest sensitivity. However, in the last 16 months, the unprecedented increase in feed cost has had a significant impact as feed accounts for 50% of total production costs (70% of variable costs). The result has been a 7% fall in the breeding herd in the 12 months to June 2008 (BPEX Annex 2).
Submissions from the RSPCA, Compassion in World Farming and Defra question whether the rules on animal welfare have added significantly to the cost of production. In particular, the RSPCA point to Sweden which has similar, if not more stringent, animal welfare legislation and yet has lower production costs. How do higher welfare standards add to a producer’s running costs and the cost of meat?

This point has been dealt with in some detail in BPEX Annex 1. On the specific point of Sweden, BPEX analysis for 2006 shows that Sweden had a slightly lower cost of production than Great Britain at 102.3p/kg compared with 108.2p/kg (2006 Pig Cost of Production in Selected Countries, BPEX, December 2007). However, if the Swedish figures are adjusted for their relatively high carcase weight (86 kg in 2006) then the difference in production costs is only 2.4p/kg. Interestingly, Sweden is ranked as one of the three highest cost of production countries in the BPEX analysis of 9 EU pig producing countries most probably due to its high welfare production systems.

Is information on the source of meat adequately provided on supermarket Internet sites?

There is considerable room for improvement in the quality, content and accessibility of information that consumers can get about the origin and production standards of pork and pork products. We would like to see clear, unambiguous and accessible statements about the origin and production standards of all pork and pork products sold by individual retailers that includes both own label products and branded products. For further details of current individual retailer practice please see BPEX Annex 3.

The BMPA suggested that the UK chain has been shown to embrace the integration of farming and processing—an approach that had been successful in other countries. Is there enough profit in the industry to support both producers and processors separately?

Integration in the supply chain through ownership has been reasonably successful in a few countries; most notably Denmark where one farmer co-operative processing company has a market share in excess of 90%. However, this is very much the exception.

There has been integration and efficiency in the pig farming sector in England, particularly the growth in contract finishing. The way forward is to have greater co-operation and collaboration within the supply chain in England that must include the customer, especially supermarkets. Without the collaboration of the customer either the producer or the processor is left exposed to pressures that compromise sound business relationships. This is a large and difficult topic that could be addressed by a Task Force for the English pig production and processing sector.

The BMPA suggested that there was a lack of interest in long-term contracts between farmers and processors. Do farmers want long term contracts with processors? If not, why not?

There is a considerable interest in longer-term contacts between all the participants in the supply chain including retailers and food service companies. The problem at present is that without the customer involved in the contract the risks are considered by producers and processors alike as being too great. This is an issue that could be addressed by an English pig industry Task Force.

FURTHER INFORMATION

The results of the YouGov survey conducted in May 2008 are detailed in BPEX Annex 4.

A note on the ongoing dialogue between BPEX and Defra on the burden of environmental legislation is contained in BPEX Annex 5. This also contains a colour copy of the chart provided to the Committee on the existing burden of environment legislation.¹

A briefing on examples of financial assistance given to pig producers in other member states is detailed in BPEX Annex 6. This looks at some examples affecting environmental regulation compliance and welfare regulation compliance.

A note on the dialogue between BPEX, NPA and the OFT is contained in BPEX Annex 7.

In addition, since the oral hearing of the Committee we have seen the release of the latest consumer price index from the Office of National Statistics. Within the ONS calculation data is available for pork and bacon prices. As BPEX Annex 8 shows, retail pork and bacon prices indices have increased by 23% and 21% respectively. Using current average retail prices this means that retail pork prices are on average 118p/kg higher than a year ago and bacon is 126p/kg higher on average. Over the same period average pig prices have increased by 27p/kg carcase weight. We have no information on where the rest of the money has gone and so we would be very interested in the Committee’s view.

I have also enclosed some examples of BPEX promotional material in which the Committee might be interested.² This is intended not only to inspire consumers to eat more pork but to also point out the value and versatility of our meat. Included in this is a CD Rom aimed at processors, retailers and food service

¹ Not printed
² Not printed
companies, highlighting the extra value they could get by using more pork forequarters. This would help to provide consumers with even better value for money meat cuts and help the industry address the current imbalance in demand across the carcase.

Please pass on my thanks to the Committee for taking the time to conduct this investigation into the English pig industry.

From our viewpoint the discussions to date have uncovered four important issues. Firstly, the need for greater transparency in the supply chain that leads to more constructive business relationships and the equitable distribution of profits. Secondly, the need of consumers for clear, unambiguous information about the standards to which the products they undoubtedly love to eat are produced. Thirdly, the urgent need to turn the desire for better regulation into practice, especially in the area of environment. Fourthly, the leadership role that the public sector can play in explicitly including production standards in buying specifications as part of the Public Sector Procurement Initiative.

Stewart Houston CBE
Chairman, BPEX Ltd
Chairman, NPA

Annex 1

ANIMAL WELFARE

In addition to the points made in the BPEX written submission on the impact of higher welfare on costs of production (paragraphs 14–17 and the related references), we attach further information below.

The EU has been at the forefront of the drive to improve pig welfare and the succession of legislation, frequently enacted earlier in the UK than the rest of the EU, is an example of this. As long as it is accepted that this improved pig welfare is the motivation for the legislation then its adoption and implementation ensure the move to higher welfare standards.

InterPIG standardised cost of production figures for 2006 showed the cost of production was 12% higher in Britain than the EU average and more than 60% higher than North-South American exporting countries.

There are two elements to this claim:

— One-off capital costs for conversion.
— On-going variable costs of production.

As the original legislation on stalls and tethers was enacted in 1999 it is fair to assume that the majority of pig farmers’ one-off costs of this change have been “written down” and are no longer significantly affecting the cost of production. However it is still worth noting that the Agriculture Committee in 1999 “estimate the overall cost at £500 a sow place”.

Referring to on-going variable costs of production the same Committee said “the unilateral banning of stalls and tethers by MAFF has increased the UK cost of production per pig by £2.86 on average”. But how do these costs premia stand up in 2008?

Appendix 1 details the different UK/EU systems for pig production and the attendant costs as a result of new legislation post 1/1/06. Simplistically the “group housed system” used in the UK requires typically 28 sq ft per sow compared to only 14 sq ft for the “sow stall system” permitted and widely practiced in the EU. The group housed system also requires greater use of straw per sow as stall systems are typically on slatted floors. The capital cost of this is estimated at £444 per sow place, which in itself translates to 1.6p kg of pigmeat since 2006.

A further 1.5p/kg in on-going costs is made up of 1.2p/kg for higher feed consumption and 0.3p/kg for additional labour. A further 3.3p/kg is a result of reduced productivity in this higher welfare, group housed system. This amounts to a total of 6.4p/kg as a direct result of complying with EU welfare legislation.

The total of these costs is:

<table>
<thead>
<tr>
<th>p/kg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital conversion</td>
</tr>
<tr>
<td>Decreased productivity</td>
</tr>
<tr>
<td>Increased feed usage</td>
</tr>
<tr>
<td>Increased labour costs</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

British retailers have long claimed to operate a “level playing field” on welfare and to only buy equivalent welfare standards from the Continent. In so doing they conveniently ignore the issue of castration, banned in UK but permissible in EU. Even so the current premium paid to Danish producers for their “UK contract” is 5.4p/kg. This clearly demonstrates that the higher welfare standards of the “UK contract” lead directly to higher costs for producers.
In the UK Journal of Farm Management 2006 Vol 12 No 8 pp 427–442 PJ Cain and JH Guy conclude that “The general conclusion of this study is that pig production costs tend to be higher in systems which are judged to provide better conditions for the sow’s welfare”. Also “Compliance with legislation enacted to improve animal welfare does impose a cost on the producer. In this respect, the ban on stalls and tethers in the UK had a significant impact on production costs here”.

APPENDIX 1

COST OF UK PIG WELFARE LEGISLATION V EU LEGISLATION

The principal areas of additional cost relate to the switch from sow stalls to group housing systems.

The following pictures display the typical sow stall system permitted by EU legislation for buildings constructed prior to 1 January 2006 (Typical stocking density per sow 14 sq ft).

The following picture shows a Group Housed System required by UK welfare legislation since 1st January 1999—sows must be kept in groups at all times, stalls are prohibited (Typical stocking density 28 sq ft per sow).

CAPITAL COST TO INVEST IN SOW NEW ACCOMMODATION

The impact of the new welfare legislation was requirement for all pig breeding farms to convert their dry sow housing (accommodation for sows when not farrowing and weaning piglets) over to loose house group systems from stall based systems.

Typically this involved:

- New larger building as space requirements per sow increased from c 14 sq ft to 28 sq ft.
- Increased straw storage facilities as group housed systems require greater straw per sow than stall systems which were typically on slatted floors.
- New feeding systems to enable all sows to have access to feed at all times rather than individual hoppers in each stall.
Based on a typical 400 sow breeding unit the cost for these changes were as follows:

New Dry sow house with Electronic Sow Feeder (ESF) £162,318.50
Extended Dutch Barn to take more straw £10,000.00
Additional electrical wiring for ESF £5,288.00

Total cost per sow place £444
Total cost per kg pig meat produced (capital and interest) = 1.6p per kg

Source: John Godfrey and Meat and Livestock Commission

The Farm Animal Welfare Council quotes the cost of conversion from stall system to group house system required by UK pig welfare legislation to be between £400–£700 per sow.

Operational Costs

Additional operational costs relating to group housing system compared to stall production systems are as follows:

- Feed + 1.2 p per kg
- Higher sow feed usage in loose housed systems as stall systems enable individual feed usage to be tailored to their specific requirements and reduced losses.
- Lost productivity due to suboptimal feeding of some sows within the group.
- Labour + 0.3 p per kg

Additional labour is required for operating a group housed systems including:

- Additional time spent adding and removing straw to pens.
- Increased time required to service, pregnancy test and vaccinate animals which are not confined and therefore free to move around when these management techniques are being used.

Reduced Productivity

The impact of group house systems is to decrease farrowing rate (number of litters produced per 100 sows served) and size of litters. This is thought to be as a consequence of sows being more exposed to aggressive behaviour from other sows during the service period with an increased incidence of sows not holding to service—early term miscarriage.

Effect of Post Service Rest Period on Farrowing Rate

<table>
<thead>
<tr>
<th></th>
<th>No rest after service (group housed system)</th>
<th>Rest 2 hours after service (stall system)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Younger sows</td>
<td>83%a</td>
<td>88%b</td>
</tr>
<tr>
<td>(2nd and 3rd parity)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Older sows</td>
<td>84%a</td>
<td>84%a</td>
</tr>
<tr>
<td>(4th parity and beyond)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a, b: < 0.05

Single v Group Housing—Effect on Productivity

<table>
<thead>
<tr>
<th></th>
<th>Group pens (Group Housing)</th>
<th>Single Pen (stall system)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Litter produced after first service</td>
<td>943</td>
<td>933</td>
</tr>
<tr>
<td>Total pigs born per litter*</td>
<td>13.0</td>
<td>12.7</td>
</tr>
<tr>
<td>Farrowing rate after first service, percentage</td>
<td>84</td>
<td>87</td>
</tr>
</tbody>
</table>

*Total born pigs: born alive + stillborn pigs, litter size adjusted
a, b: < 0.05

Farrowing Rate—references

— 2003 Nebraska Swine Report—Steven Kitt et al.
— Ohio Pork Industry Centre—Donald Levis
— Arch Zootec 52—Levrino & Robinson.
In summary the above published research concluded that farrowing rates in group housed systems decrease by an average 4%.

Litter size for sows in group housed systems decreases by an average of 0.3 pigs per litter.

The combined cost of these reductions in productivity is 3.3p per kg dwt.

Total increase in cost of production attributed to GB welfare legislation requiring group housed pigs is as follows:

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>P per kg dwt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating costs</td>
<td>3.3</td>
</tr>
<tr>
<td>Decreased productivity</td>
<td></td>
</tr>
<tr>
<td>Increased feed usage</td>
<td>1.2</td>
</tr>
<tr>
<td>Increased labour costs</td>
<td>0.3</td>
</tr>
<tr>
<td>Capital Costs</td>
<td></td>
</tr>
<tr>
<td>Building conversion</td>
<td>1.6</td>
</tr>
<tr>
<td>Total increase in cost of production due to group housed systems</td>
<td>6.4</td>
</tr>
</tbody>
</table>

Sources
- Financial costs
- J G Godfrey pig farming business—5,000 sows
- BQP pig farming business—36,000 sows

Farrowing Rate—references
- 2003 Nebraska Swine Report—Steven Kitt et al.
- Ohio Pork Industry Centre—Donald Levis.
- Arch Zootec 52—Levrino & Robinson.

Annex 2

The Sensitivity of the UK Pig Sector to Feed Price Changes

Historically, UK pig production changed on a cyclical basis around the trend line. Producers reacted to increased profitability by expanding production, which eventually led to a fall in pig prices, which led to producers contracting, which eventually led to an increase in profits, and so forth. These cyclical movements were not particularly regular, although the average length of the cycle was about three years.

For the past 11 years there has been no apparent pig cycle. Production has been trending lower since 2008, with no significant fluctuations around the trend from year to year. The main reason for the demise of the pig cycle is likely to have been a structural one. At one time there were many thousands of small pig farmers, many operating mixed farms, who could fairly easily move into and out of pig farming in response to changing economic conditions. There are now far fewer pig farms, and 80% of production comes from 20% of large farms. These producers are far less likely to move into or out of pig production.

There are other factors besides feed that can impact on profitability, such as sale prices, disease outbreaks, exchange rates and trade flows. This suggests that the pig sector will not necessarily be very sensitive to “moderate” changes in feed prices by themselves.

The following chart shows that there is empirical evidence for this view. There were low feed prices in 1998–2000 at the same time as pig numbers were falling. The fluctuations in feed prices seen for most of the period since 2003 do not have a very strong negative relationship with changes in the breeding herd.
However, the very sharp rises in feed prices from the last quarter of 2006 to mid 2008, together with the fact that feed accounts for around 50% of the total cost of pig production (or around 70% of variable costs), severely impacted on profitability. Currently, sow numbers are down about 7% compared with a year ago in response to the combination of factors that led to unprecedented high feed prices.

Annex 3

SUPERMARKET INTERNET SITES

Sainsburys—clear country of origin on the website at the point when you click on a particular line, but have to look hard for product specific welfare statements.

ASDA—not very clear country of origin, only by clicking on the picture you will or not see the British QSM/FLAG/red tractor etc. Clear animal welfare statements on each product in pork.

Waitrose—Extremely clear statements on fresh pork, bacon and sausage which are easy to access and informative.

Co-op—Some information on Farm Assurance Schemes including the Red Tractor but no information on specific products. (Their new sustainability report is likely to contain information on pork and the QSM.)

Budgens—State that their Budgens own label Pork is 100% British and carries the QSM. They also list all their pork farmers.

Tesco—Some statements on animal welfare and farm standards including regional sourcing. However, their on-line shopping site in most instances does not state the country of origin—eg Tesco standard pork chops could be British or imported.

M&S—Statements on farm assurance and animal welfare standards—however not specific to pork.

Somerfield—They do not provide online shopping, however there is a small paragraph on welfare in their “Responsible Retailing Report 2007” although not specific to pork.

Morrison—they do not provide online shopping, but you can access a list of their suppliers, there are however no pork farmers listed although they state under the butchery section they are 100% British for beef, lamb and pork.

Annex 4

YOU GOV “WELFARE CHOICE” SURVEY
MAY 2008

THE RESEARCH

An Online Survey carried out by YouGov between 14 and 16 May 2008. The total sample size was 2,117 adults who were representative of all GB adults (aged 18+).
THE FINDINGS

“Recent rises in the cost of oil and many foods have meant an increase in the cost of many items in the weekly shopping basket. Which if any of the following do you consider to still be good value for money?”

Chicken (44%) was seen by consumers as best value for money. Within meat, pork and pork products (25%) scored better than beef (11%) and lamb (7%).

Consumers then read the statement “The animal welfare standards on British pig farms, as designated by the Quality Standard Mark (QSM), are amongst the highest in the world. However British pig farmers are currently losing money because of the high cost of pig feed and many face the prospect of going out of business soon”. To what extent do you agree or disagree with the following statements:

“I am prepared to pay a few pence more for a pack of pork, bacon, sausages or ham if it comes from pigs produced to higher welfare standards.”

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Disagree/strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>29%</td>
<td>44%</td>
<td>8%</td>
</tr>
</tbody>
</table>

“I think it is important that we support British farming and I am prepared to pay a few pence more for a pack of pork, bacon, sausages or ham to help British pig farmers through the current crisis.”

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Disagree/strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>31%</td>
<td>41%</td>
<td>7%</td>
</tr>
</tbody>
</table>

“I will specifically look for British pork, bacon and ham when shopping to support our farmers and higher animal welfare.”

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Disagree/strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>27%</td>
<td>36%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Respondents were then asked to state “How much extra would you be prepared to pay for a pack of bacon to help British farmers and support sustainable agriculture in the UK?”

<table>
<thead>
<tr>
<th>Nothing</th>
<th>Between 1p and 10p</th>
<th>Between 11p and 20p</th>
<th>Between 21p and 30p</th>
<th>More than 30p</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>40%</td>
<td>26%</td>
<td>9%</td>
<td>7%</td>
<td>8%</td>
</tr>
</tbody>
</table>

CONCLUSIONS

Consumers have given a resounding level of support to the QSM and what it stands for. In addition they are even prepared to pay more for the product to ensure they receive its benefits.

Annex 5

A NOTE ON THE ON-GOING DIALOGUE BETWEEN BPEX AND DEFRA ON THE BURDEN OF ENVIRONMENTAL LEGISLATION ON PRODUCERS

— BPEX, by having a member of staff dedicated to environment related issues wherever practically possible tries to actively participate and engage with various Defra Departments and Officials on issues involving the pig industry. This activity can range from infrequent workshops and meetings on specific topics to recognised formal Stakeholder Groups. This provides the contact network for two way communication and we believe allows BPEX to work in a constructive way with policy makers and regulators. Recent examples of this infrequent contact include:


— IPPC (EPR)—BPEX and the NPA continue to work with both Defra, its advisers (NE) and the EA on implementation of the directive through the mechanism of stakeholder steering group, subgroups and informal dialogue. This has proved beneficial to all parties. When Critical Levels for atmospheric ammonia were substantially reduced this enabled BPEX to keep the producers affected informed and to understand the mechanisms and implications for their businesses. We were also able to refer problems back to the EA and help resolve these. This steering group is now entering a new phase in its life cycle.
Farm Waste Regulations—A BPEX Representative, also acting on behalf of the Agricultural and Horticultural research Forum sits on the Agricultural Waste Stakeholders Forum, currently chaired by the EA. This provides a channel for communications back to Defra and useful contacts.

Water Quality:
1. Nitrate Vulnerable Zones; provision of technical data to consultants working on this project for Defra. Attendance at stakeholder meetings and other events held by the Defra project team.
2. Catchment Sensitive Farming. Contact with the CSF Team, including presenting at CSFO training event.

The diverse range of subject areas and the number of different departments or project teams within Defra means that organisations like BPEX have to prioritise their work into key areas. It is also recognised and accepted that in some cases the interests of the pig sector are very minor in the overall scale of the topic and Defra staff are limited in how much time and attention they can give the industry or even recognise that the pig sector will be impacted upon. There are instances, when what appears to be quite minor can be extremely significant to a small specialised industry such as ours. The net result is that at times we appear to be fire fighting or balancing priorities when we would rather be taking a more measured approach.

A central focus point such as the Industry Sponsor within Defra is essential for keeping the communications route open, making the right contacts and recognising key issues.

BPEX has been developing the Pig Environment Partnership (PEP), one component that they wish to develop is a Stakeholder Forum to encourage and stimulate greater cooperation between those with an interest in the future of the pig industry in England.

Annex 6

FINANCIAL ASSISTANCE TO PIG FARMERS IN OTHER EU COUNTRIES

In recent years financial assistance has been provided by French and Irish Governments to assist their respective pig industries with the significant financial investments required converting pig breeding accommodation to comply with new EU welfare legislation.

From 2013 all existing breeding pig accommodation must be converted to enable the group housing of sows. However this legislation still permits sows to be confined in sow stalls for 25% of the gestation period ie four weeks from the time of mating.

The cost of converting accommodation is not as high as that incurred by the UK pig industry which in 1999 had to remove all sow stalls as opposed to the 75% reduction in sow stall accommodation required by other EU countries to comply with the new welfare legislation in 2013.

A summary of the aid provided to the Irish and French pig industries is as follows:

IRELAND

In 2005 the Irish government launched an aid package to all Irish pig farmers to assist in the capital investment required to convert breeding pig accommodation.

The aid package comprised a 40% grant for capital investment in new or altering existing accommodation. Capital grants were available on any investment. The maximum grant permitted for each farm was for an investment of €120,000 ie €48,000 grant per pig business.

FRANCE

In order to help producers to adhere to the new welfare standards relating to the housing of pregnant sows the French government announced in 2008 support of up to 20% of total eligible investment. This support is increased by 10% for producers located in less favoured areas (mountains) and for young farmers.

The ceiling for financial aid is €15,000 per farm, with an extra €1,500 for LFA and young farmers. There is also a ceiling of €100 per sow applied to this grant aid.

In the autumn of 2007 the French agriculture minister Michel Barnier also announced an emergency aid package of €2.5 million for the country’s pig producers, who were under severe pressure from rising production costs and low prices.

Barnier told a session of the French parliament that €500,000 was being released immediately to fund social security tax cuts for the farmers and a further €2 million would allow farmers to defer their payments.
FURTHER INFORMATION ON THE FINANCIAL ASSISTANCE OFFERED TO PRODUCERS BY OTHER EU COUNTRIES

EU Member States implement environmental legislation in different ways and have their own priority areas to address. Ammonia and Nitrates are problems in many countries, especially those with large numbers of livestock in relation to the land area.

The types of financial aid differ and finding details is extremely difficult. In some countries such as The Netherlands and Denmark, these issues have been recognised and policies adopted to mitigate problems since the early 1980’s, for example; The Netherlands 1984, Interim law pigs and poultry.

Some of the following information has been provided by members of the Interpig Group, this is a group of industry economists lead by BPEX, who compare production costs and statistics across the EC and other key pig producing countries.

Examples include:

— Northern Ireland: Farm Nutrient Management Scheme (Northern Ireland) 2006 (SI 2006 No. 537 AGRICULTURE). Grant aid at a rate of 60% of eligible expenditure for manure storage and handling facilities and a number of associated fixed works. This followed the Farm Nutrient Management Scheme (Northern Ireland) 2005 when grant aid was at 40%.

— Scotland: Scottish Rural Development Programme (SRDP). Support for new or improved storage and handling facilities for manure and slurry. This includes items to, expand or otherwise improve facilities for the collection and storage of slurry and manure (including dung and farmyard manure, FYM), and their application to farmland. Besides slurry stores eligible items may include equipment such as slurry injectors and manure treatment systems for means of converting livestock manure into products which are easier to handle for agricultural benefit or which (eg biogas) have a non-agricultural use.

Rate of support; for non-LFA up to 40% of eligible costs. Plus 10% Young Farmer Premium if eligible.

For less favoured areas (LFA) up to 50% of eligible costs. Plus 10%.

— Ireland: The Farm Waste Management Scheme paid grant aid for storage and of handling manure ended in 2006. The rates were; 60–70% of cost for storage. 40% for treatment such as decanter centrifuge until end 2006.

The Rural Development Plan 2007–13. The Farm Investment Scheme pays grant at the rate of 40%, eligible items include—labour and water saving, fencing, meal bins, and most items covered by the Farm Waste Management Scheme. Other schemes include Young Farmer installation aid and early retirement.

— The Netherlands:

  1. 1994: Ammonia and Livestock Farming (Interim Measures) Act. As part of this law money was invested in research and development of low emission housing techniques in general and low emission housing systems in particular. This law achieved full legal status in 2002.

  2. 2002; Ammonia and Livestock Farming Act. Since 1993 farmers and industry were encouraged to develop and implement low emission housing systems on a voluntary basis. A shorter “write-off” period was allowed for buildings in receipt of a “Green Label” award (achieving a 50% reduction in emissions compared to traditional housing).

  3. Exhaust Air Scrubbers (ammonia and odour), current, 90% of installation costs.

— Germany: Agrarinvestitionsförderungsprogramm, provides for support investments in agriculture including manure storage. The program involves also some conditions for animal welfare.


— Denmark: Land distriks midler funds. One fund is open to all companies and is for the development and implementation of novel ideas and techniques. Examples of projects currently funded include plant for producing glue from pig slurry and reducing the dust and odour within pig housing using water treatment. Grant rates are 45 or 50%, dependant upon the application.

The second fund, for farmers only is for projects that develop and stimulate uptake of novel techniques that are not yet widely adopted. Grant rate is 40%.

— France: 400 (1997) manure treatment stations in Brittany to address phosphate and nitrate loading problems. Cost of treatment and disposal is paid for by the slaughter house (50%), Government (40%) and farmer.

— Belgium: Replacement of existing pig housing with approved types of “low emission” housing offering 50% reduction in ammonia emissions to the atmosphere. The farmer can opt for either a 20% subsidy on the cost of construction, or if using his own capital, 3% of the interest on the whole cost.

SUPPLY CHAIN RELATIONS—BPEX AND NPA DISCUSSIONS WITH THE OFFICE OF FAIR TRADING

BACKGROUND

Against the background of very sharp increases in pig feed costs for over a year (in a normal year these account on average for around 50% of the total cost of pig production, or around 70% of variable costs of production), the British pig industry has sought to generate awareness amongst parliamentarians, policy makers, food retailers and consumers about the adverse impact of these cost increases on the pig industry, and the need for higher returns for pig producers in order to cover their costs and allow investment, and to ensure the viability of the domestic industry. Part of this campaign has involved discussions with retailers, with the aim of ensuring that they understand the issues and the implications for pig supply chains in the UK.

In September 2007, the Office of Fair Trading issued its provisional findings of collusion amongst large supermarkets and dairy processors during 2002 and 2003 to increase the prices of dairy products, at an estimated cost to consumers of £270 million. Ultimately, a number of supermarkets and processors admitted collusion and paid substantial fines.

In the light of the large supermarkets' heightened sensitivity and BPEX' and NPA's awareness of the dangers of transgressing competition rules, BPEX and NPA sought the OFT's guidance on the scope of permitted supply chain discussions.

THE OFT’S GUIDANCE

In a meeting with the OFT on 24 September 2007, the Office advised Stewart Houston (Chairman of BPEX and NPA) and Richard Lowe (then CEO of the Meat and Livestock Commission) that in any discussions with retailers, any discussion of retail competitors’ pricing intentions should be avoided. Whether deliberately or unwittingly, BPEX and NPA must not act as a channel for disclosing to any retailer their competitors' pricing intentions. No reference should be made to the outcome of any discussion previously undertaken with the competitors of any chain. This would preserve the principle that competitive uncertainty and risk would not be reduced for any individual retailer and, thus, the competitive market would be maintained.

The OFT confirmed that objective information on cost of production increases could be communicated. Similarly, information that was historic and in the public domain (eg actual retail price increases which had occurred) could be communicated. It was acceptable to discuss supply chain issues on a chain-by-chain basis, and there were no objections to discrete supply chain issues being debated by participants in that chain.

CONSEQUENCES

In view of the OFT’s dairy market investigation, supermarkets remain extremely sensitive about discussing supply chain issues with BPEX and NPA, and appear to have made their own interpretations of what is and what is not permitted by competition rules.

In this situation, it would be very helpful if the OFT were to issue clear and comprehensive public guidance. This would help to ensure that, whilst remaining safely within OFT rules, meaningful discussions can take place amongst actors in the supply chain in order to improve understanding, transparency, efficiency, and trust within, in this case, the pig supply chain.

RETAIL PIG MEAT PRICE TRENDS

Since August 2007 there have been significant increases in retail pig meat prices, mirroring the growth in producer prices. However, although producer and retail prices have increased by broadly similar percentage amounts, the absolute increase in p/kg is much greater for retail prices.

There have been increases in retail prices in all pigmeat sectors—fresh pork, bacon and other processed products (e.g. sausages and ham). A weekly independent survey of retail prices in the four largest supermarkets is carried out on behalf of BPEX. This shows that average pig meat prices at the beginning of October 2008 were 25% higher than a year earlier, equal to an increase of 130p/kg. Over the same period, producer prices increased by 27p/kg.

An alternative, non-BPEX, source of retail prices information are the monthly indices published by the Office for National Statistics. Although there are some methodological differences compared with the other survey—for example the ONS looks at all retail outlets, not just the four largest supermarkets—the results
of the two surveys are very similar. The ONS survey indicates that retail pork prices increased by 23% in the year to September 2008 and retail bacon prices by 21%. This is equivalent to an increase of 118p/kg in pork prices and 126p/kg in bacon prices.

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<th>Latest</th>
<th>% change</th>
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<td>Unit</td>
<td>Period</td>
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<tr>
<td>ONS indices</td>
<td>Pork Sep-07</td>
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<tr>
<td></td>
<td>Bacon Sep-07</td>
<td>176.7</td>
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<td>Independent survey (a) Pig meat W/e 06 Oct 07</td>
<td>p/kg</td>
<td>520.38 W/e 04 Oct 08</td>
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October 2008

Supplementary memorandum submitted by BPEX Ltd (Pigs 06b)

IMPORTS OF PORK AND PORK PRODUCTS PRODUCED TO UK LEGAL WELFARE STANDARDS

BACKGROUND

1. The United Kingdom introduced unilateral legislation in 1999 banning the use of stalls for pregnant sows. This legislation does not exist in other EU countries (with the exception of Sweden). However, there are a number of countries where producers have responded to market demand in the UK for higher welfare pork and pork products and produce pigs under commercial contracts at standards equivalent to UK legal requirements regarding sow welfare.

2. These contracts are not equivalent to UK Assurance standards due to the practice of castration (including Sweden) which, while legal in the UK is not allowed under UK Assurance rules.

3. BPEX has made an assessment of the overall volume of imports that are produced under “UK contracts”. Reports were published in 2006 and 2007. The analysis has now been updated using market research conducted in mid-2008 and applied to 2007 import data. The conclusion of the analysis remains that nearly 70% of the pork and pork products imported into the UK in 2007 would be illegal to produce in this country on the grounds of pig welfare.

METHODOLOGY

Step 1

4. Detailed import data is provided by Global Trade Atlas (an official agent for UK government trade statistics). This data shows import volumes by country and by detailed product type (for example chilled loins or bacon). The latest analysis data for January–December 2007 has been used. This shows that a total of 816,000 tonnes of pork, bacon and ham was imported with more than 60% coming from the Netherlands and Denmark.

Step 2

5. The volume imports by product and country are converted into “pig equivalents” using information from industry sources. So, for example, imports of bacon from Denmark total 97,910 tonnes. Industry sources estimate that 80% of this total is bacon backs for slicing and packing in the UK. The average weight of bacon back is 5.5kg and there are two backs per carcase. We therefore estimate that the number of pigs required in Denmark to produce bacon back imports in 2007 was 7.12 million head (97,910 x 0.80 / 11kg).

6. The remaining 20% of bacon imports will be predominantly streaky bacon and gammons. The same calculation is done to reach the number of pig equivalents. However, if the number of pig equivalents in the bacon back calculation is higher than for streaky bacon and gammons it is assumed that these cuts all come from the same pig. Therefore, the back bacon pig equivalent figure is the only one carried forward into the rest of the calculation.

7. Trade data for other cuts of pork is analysed using the same methodology. Again using Denmark as an example we also import bone-in and boneless loins of chilled pork. These are converted to pig equivalents and added to the bacon figure to give a total pig equivalent import requirement from Denmark of 9.236 million head.

8. The process illustrated above is repeated for all countries that supply pork and pork products to the UK.
Step 3

9. Research is conducted in each supplying country to assess the total number of pigs produced under a “UK contract” or to a “UK welfare specification” if no formal contract exists. In most cases companies or representative organisations have been very co-operative. Again if we use Denmark as the example the Danish Bacon and Meat Council have supplied information that states that the number of “UK contract” pigs produced in Denmark are between 50,000–55,000 a week. Taking the mid point of 52,500 and a 50 week production year this gives an annual total of 2.625 million head a year. The same process is repeated for all countries that supply pork and pork products to the UK.

Step 4

10. A comparison is made of the total pig equivalent import requirement into the UK (by aggregating the data from Step 2) and the total estimated “UK contract” or “UK welfare specification” pigs produced in supplying countries (by aggregating the data from Step 3). In 2007 the number of pigs being produced under “UK contracts” or “UK welfare specifications” was estimated to be only 33.8% of the total import requirement. Therefore, the claim that nearly 70% of imports would be illegal to produce in the UK on the grounds of pig welfare is justified.

Sensitivity of Analysis

11. The accuracy and sensitivity of the analysis depends on the quality of the data.
   — Import Data
      From official sources and assumed to be as accurate as possible.
   — Distribution of Cuts
      From a variety of trade sources and assumed to be reasonably accurate. A cautious approach has been taken especially assuming that, where relevant, cuts come from the same carcass.
   — UK Contract/UK Welfare Specification Production
      From authoritative sources in Denmark and the Netherlands which together account for more than 60% of imports. The addition of authoritative sources in Ireland and Germany improves the coverage to over 80% of total imports.

Legal Position

12. It is worth pointing out that importers are not acting illegally by taking pork and pork products from other EU countries that do not apply UK welfare standards. The fact that the UK chose to introduce higher standards of welfare cannot be used as a barrier to trade within the EU.

How to Change the Situation

13. Many importers claim quite rightly that they have reacted to customer demand in the UK with the introduction of UK contracts. The reason that they have not increased the number of pigs produced under these contracts is the failure of UK retailers, food service companies and public sector buyers to explicitly specify that they want to purchase to a standard that is equivalent to UK minimum legal standards with respect to pig welfare.

M J Sloyan
November 2008

Supplementary memorandum submitted by John Godfrey (Pigs 14a)

IMPACT OF ABOLITION OF AGRICULTURAL BUILDINGS ALLOWANCES

1. Farm buildings especially pig buildings have a comparatively short life. I was round one of our units last week and saw roof sheets totally rotten on buildings that were put up nine years ago.

2. The Chancellor in his budget speech proposed a new capital allowance of 10% for integrated fittings (this still has to be defined). It is very important that ventilation, feed systems, refrigeration units etc are defined as plant not fittings. They have a very short life & a halving of the new rate of 20% to 10% on reducing balance would be a very severe blow.

3. Pigs are very destructive and if there is any hole or crack in the fabric of a building they will work at it making it larger and larger.

4. The buildings were erected in the expectation of claiming capital allowances.
5. 20% of expenditure (£600k) relates to the stall & tether ban, 8% to other pig welfare, 11% improved productivity, 40% to improving potato quality, 18% purchases from former owners and 6% other.

6. In addition to the schedule below our partnership farms will have £122,885 of unclaimed building allowances after 5.4.07.

7. Farm buildings depreciate they don’t increase in value. If you are buying an arable farm apart from a very good house the buildings make very little difference to the value.

8. On pig units after a period of 10 years the cost of maintaining buildings continues to increase to such a point that it is better to replace them.

9. We will have approximately £2,209,000 allowances unclaimed after 5.4.07 and assuming we don’t erect any more buildings after allowances for 2008—3%, 2009—2%, 2010—1% we will have approximately £2,118,000 of unclaimed building allowance that at the new tax rate of 28%, assuming we make profits, is an additional £593,000 tax to pay that will not be reinvested in the business (see schedule below for the major company).

**Calculation Showing the Additional Costs of the Proposed Tax Changes**

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<thead>
<tr>
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<th>ABA’s Reduction in corporation tax liability</th>
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<tbody>
<tr>
<td><strong>PRE ABOLITION</strong></td>
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<tr>
<td>Tax written value at 5 April 2007</td>
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<td><strong>POST ABOLITION</strong></td>
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<td>Tax written value at 5 April 2007</td>
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<td>Financial Year 2007–08 ABA</td>
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<td>Financial Year 2010–11 ABA</td>
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<tr>
<td>Residue of expenditure on which tax relief lost</td>
<td>1,680,953</td>
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<tr>
<td>Increase in corporation tax liability</td>
<td>353,000</td>
</tr>
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</table>

**Notes in Response to the Chief Secretary to the Treasury’s Letter**

1. Agricultural building allowance has not acted as a significant distortion on investments in buildings and the argument that tax relief is available on the cost of repairs and insurance is irrelevant. The logic of the argument would mean that there should be no tax relief on any capital expenditure which would include plant and equipment as their repair and insurance are an allowable expense against tax.

2. Taxpayers who already have buildings that were constructed in the expectation of tax relief are being penalised by legislation that is in effect retrospective.

3. As the cost of buildings already constructed have already been agreed with the Inspector of Taxes, I cannot see that abolishing building allowances does much to simplify the system as the allowance figure is the same each year and therefore I cannot see any compliance burden.

4. It is fine to say it has been phased in over four years, but buildings put up over the last 20 years will lose tax relief. (In our case assuming current tax rates it means that we will have to pay huge increases in tax with the consequent effect on our ability to reinvest in buildings).

5. The 100% annual investment allowance while welcome and will help to finance the purchase of plant and machinery.

6. No account has been taken by the Treasury that agricultural buildings unlike many industrial buildings cannot be used for a variety of uses. Pig and poultry buildings are specialised and have no other uses. They are also on sites that will never be developed and do not increase in value and therefore do not distort commercial property decisions. Most intensive livestock buildings have a relatively short life and will be replaced after a period of about 15 years.

7. We are spending large amounts of money replacing and upgrading our buildings to reduce their environmental impact, this change in the tax rules will slow our investment which is contrary to the Treasury analysis.
Memorandum submitted by the British Meat Processors Association (Pigs 24)

INTRODUCTION

1. This submission to the EFRA Committee is from the British Meat Processors Association (BMPA). The BMPA is a trade association representing a wide range of red meat slaughtering and meat manufacturing companies in the UK. In total our members process in excess of 80% of the pigs slaughtered in England and include all the major processing facilities, which process the majority of imported pig meat. BMPA members are well positioned to compare UK production and market performance as we trade in both domestic and international markets.

2. The views expressed in this submission are BMPA views but they do not necessarily reflect wholly, or in part, the views of any individual company within the BMPA membership.

Question 1: What is wrong with the English Pig Industry? Are the problems more than just a cyclical imbalance between supply and demand?

3. We consider the problems with the English Pig Industry are more than a cyclical imbalance between supply and demand. The unprecedented increases that have been seen in commodity prices and the knock-on effect on animal feed prices have merely compounded existing problems that would not be sufficiently solved by a worldwide reduction in feed costs. There are a number of key issues that we believe have contributed over a long period of time to the current problems within the industry.

PRODUCTION EFFICIENCY

4. UK pig production is significantly less efficient than other key European and global competitors. For example, a British Pig Executive report published in December 2007 highlighted that in many areas the UK still lags behind our European competitors. In particular, we would like to draw attention to the following observations:

   — Great Britain remains the highest cost country in the EU with production costs in 2006 of 108.2p/kg compared with 91.3p for Denmark and 87.2p for the Netherlands.

   — The number of pigs weaned per sow per year in GB (21.4) is significantly lower than in key competitor countries such as Denmark (25.9) and the Netherlands (25.1) although it should also be noted that in other areas such as rearing mortality the English industry compares very favourably with its competitors.

   — Average daily live weight gain remains in the lower half of the EU league table.

5. Unless English producers become as efficient as their direct competitors there will continue to be commercial pressures to source cheaper imported product. This is especially true at a time when consumers are becoming increasingly price sensitive. If the price of English pork is consistently higher than imported products and we continue to see a decline in the size of the English pig herd then it is highly likely that we will see the closure of one or more processing facilities leading to an additional loss of capacity within the industry.

6. A significant limiting factor to improving production efficiency in the UK are the various regulatory controls. These regulations, notably environmental regulations, prevent pig units reaching their optimum production size. There has also been a history of grant aid in other EU countries to help their producers implement environmental regulations.

7. Whilst the entire world has seen increases in feed prices many of our global competitors have had a number of advantages over the English and European industry. Potential feeds, such as GMOs or derivatives which are not approved here are allowed in the feed rations of some of the key pig producing countries.

LACK OF VERTICAL INTEGRATION

8. The sector’s current structure is fragmented in comparison to other more efficient performing countries, which is not sustainable. The industry needs to develop long term relationships, between farmers and processors if it is to secure sustainability.

9. In using the existing model and economics of the pig farming and processing sector, it is difficult to foresee a scenario where sustainable levels of profit can be found for both producers and processors. With the exception of a handful of cases, the UK chain has been slow to embrace the integration of farming and processing, an approach which would allow the chain to focus on cost reduction and an approach that has been demonstrably successful in other countries. Without more vertical integration, producers will not be able to develop markets and move away from being “price takers”.

10. Directly linked to this, is the lack of interest in long term contracts between farmers and processors. This damages confidence in future business and reduces the chain’s resilience to both adverse events and cyclical market conditions. The use of long term written contracts between retailers and processors should also be encouraged for the same reasons.

LACK OF INVESTMENT

11. The poor profitability experienced by the pig sector over recent years has lead to a significant lack of reinvestment. This has particularly limited the industry’s ability to improve efficiencies in the pig production sector, but it has also damaged producer confidence to an extent that cannot be underestimated.

MARKET FORCES AND ARTIFICIAL BARRIERS

12. The UK market is dominated by a relatively small number of large retailers who have been very successful at delivering competitively priced pork and pork products to UK consumers. However, this marketplace price orientation demands lowest cost raw materials. This inevitably comes at the expense of loyalty to the pig meat chain subscribing to British welfare standards—particularly for tertiary brands and “non-fresh” products.

13. Moreover, many costs that would intuitively be considered as retailer costs are actually borne by processors—for example materials, labour, packaging and in particular, promotional costs.

14. Whilst the UK consumer has demonstrated a degree of loyalty to British pork, due to inter alia, higher welfare standards, the retail marketplace does not always cater for this loyalty, or at worst, offers the impression of loyalty without adding value to the UK chain. At retail, a good deal of fresh pork is heavily promoted as British but in most cases, products that are not categorised as “fresh”, such as cooked meats and ready meals, are not produced from pork that is produced to British standards yet the inference of backing British produce remains. This issue is also a major contributory factor in the problems of carcase imbalance (discussed later in the document).

15. Similar parallels are found in the food service sector, where products do not have the same degree of loyalty to British welfare standards and as such give competing products an advantage over English produced pork. Moreover, consumers are not conditioned, nor have the tools in many cases to be more discerning when purchasing non-fresh pork and pork products in the food service sector.

16. In terms of domestic demand, UK consumers have a preference for cuts that are derived from particular parts of the pig carcase i.e. they do not buy the carcase in balance. However, much of the remaining products, such as feet, tails and fifth quarter residuals have no substantive market in the UK. Therefore, the return on a pig carcase is critically dependant on reaching foreign markets, which can provide a premium or at least avoid the imposition of disposal costs. Maximising carcase usage in this way is vital to maintain competitiveness but the “carcase imbalance” is a major issue that has been growing over a long period of time as consumer preferences have changed and export markets have contracted.

ANIMAL DISEASES

17. Animal disease issues also play an important role in the international trade dynamic. Outbreaks of disease in this country lead to the immediate closure of export markets which have a direct effect on our industry with the loss of sales for many parts of the carcase compounded by the fact that these once valuable products must then be disposed of at a not insignificant cost due to the lack of a domestic market for the products.

18. A further consequential effect of this market closure is that our competitors further exploit our lost export opportunity and their own carcase balance improves meaning they can then sell prime cuts on the UK market at further reduced prices.

19. The time required to obtain access to lost export markets and develop market share is very considerable and does enormous damage to the UK industry in the meantime.

20. It should be noted that this is not just related to diseases of pigs. For example disease outbreaks in other species can have large knock on effect such as the ban on meat and bone meal which has had an effect on the pig industry but was a consequence of a disease in bovines.

Question 2: Are domestic pig welfare standards a principal reason that English producers have problems competing with those outside the UK? Are there other reasons?

21. We are confident that the general welfare standards of pig production in the UK are amongst the highest in the world and that these standards represent a cost that affects competitiveness. Whilst we do not accept that this is the principle reason for poor competitiveness in the UK (see section 1.1) the costs of maintaining higher welfare standards than those implemented in the rest of Europe, cannot be ignored.
Question 3: What could supermarkets and the hospitality industry do to alleviate the pressure on the domestic pig industry?

22. We feel that there are a number of areas where retailers and the food service sector could help in the development of a sustainable future for British pig farmers.

23. The key areas where retailers and the food service sector could help are:
   - To help explain the value of purchasing English product and provide clear and transparent tools to help consumers to differentiate between England and imported product.
   - The food service and hospitality sector could make greater use of lower value cuts in a wider range of products (for instance, pizza toppings, pies etc). This would make a significant contribution to the carcase balance issue and increase the sector’s resilience to export pressures.
   - Place less focus on the promotion of raw materials already in short supply (such as loin), which exacerbates the carcase balance problem.
   - Incentivise and encourage farmers and processors to develop truly sustainable long term relationships through the wider use of long term contracts. This should lead to more stable pricing and provide a stronger incentive for investment.
   - Reduce the costs associated with promotions as the chain is too vulnerable to withstand these costs in the short to medium term. Furthermore, the longer term benefits of this investment are not adequately realised by the production and processing sector.
   - Apply British Standards to all product including secondary and value products and tertiary brands.
   - Make a clear statement accepting that both producers and processors need to reinvest if there is to be a continued and sustainable supply of English pig meat.

Question 4: Can the Government do more to support the industry either directly or through its public procurement policies?

24. There are a number of areas where Government can do more to support the industry either in a proactive way or by the removal of artificial barriers which are currently imposing inefficiencies or costs on the industry. The following proposals are recommended:
   - Fundamentally review environmental regulations and influence Europe to ensure that the barriers to efficient production which are presented by the Integrated Pollution, Prevention and Control (IPPC) framework and other environmental regulations are removed. The key issue for any review would be to look at the outcomes which the regulations are seeking to achieve and ensure that the onus is placed on the business to deliver the outcomes without imposing draconian limits which set artificial barriers to scale.
   - Consider the introduction of a system of grant aid, as other EU countries have done in the past, to help producers meet the challenges posed by environmental regulation. This is needed by the UK industry to ‘catch up’ with our competitors who have already received taxpayer support in this area.
   - The application of domestic regulatory standards should not go beyond EU requirements. Whilst the industry should be continually looking to improve standards, these improvements should not be imposed ahead of the market’s ability to sustain them. The focus of Government efforts should be with European Regulators to ensure the UK chain is not disadvantaged by cost of production and undermined by cheaper—and freely tradable—imports.
   - The Government procurement policy ought to be aligned to the standards set by Government and all pig meat should be sourced in conformity with UK standards.
   - Urge that those responsible for targeting levy funds use their resources to address the cost of production problems rather than marketing because marketing will achieve very little if English production continues to be uncompetitive in a price sensitive market.
   - Address the long term decline in food preparation teaching in schools which is contributing to a narrowing skills base and a reduced market for a wider range of meat cuts.
   - Lead EU discussions on the issue of zero tolerance of GM in animal feed and the issue of the time taken to authorise GM feed for use in the European Union.
   - Support a proportionate, science based approach to the issue of non ruminant meat and bone meal as a protein source for pigs.
   - Review disease control policies and preparedness to ensure that the wider economic consequences feature more heavily in the decision making process.
   - Carry out research to look at how vertical co-operation works in other countries and whether such a model could be used to benefit the UK production and processing sector.
Under the auspices of food chain resilience planning, the encouragement of forward buying of raw materials and stimulation of Industry emergency planning to cope with volatile world market prices. Part of this planning could be the consideration of alternative protein sources by Industry and risk based thinking on alternatives by regulators.

SUMMARY

25. We believe that urgent action is needed to stop the decline in the UK pig industry and welcome this inquiry as a step towards this.

26. We believe the only sustainable way for the pig industry to halt the current decline is to address the production inefficiencies which are at the heart of the decline. However it is also vital that the myriad of other issues such as environmental, welfare and animal disease problems are also addressed because whilst their impact individually may not be enormous the cumulative effect of these issues is extremely important.

September 2008

Witnesses: Mr Stuart Roberts, British Meat Processors Association, Mr Gerry Finley, Tulip Ltd, and Mr Adrian Dowling, CEO, Bowes of Norfolk, gave evidence.

Q81 Chairman: Gentlemen, I am almost tempted to allow you a few moments’ discussion with our earlier witnesses so you can negotiate a few lucrative contracts but you probably would tell me that you have done that already, so we will move on from that great commercial opportunity. Can I formally welcome Mr Stuart Roberts from the British Meat Processors Association? Mr Roberts, what is your position with the organisation?

Mr Roberts: I am the Director of the British Meat Processors Association.

Q82 Chairman: Mr Gerry Finley comes from Tulip Ltd, but what do you do there, Mr Finley?

Mr Finley: I am Divisional Managing Director for Tulip in the UK.

Q83 Chairman: And finally Mr Adrian Dowling is the Chief Executive Officer of Bowes of Norfolk. Gentlemen, you are all very welcome, and again I reiterate to you our thanks for your written evidence. Can we just pick up on a point? You were kind enough to be sitting in for our earlier evidence and we were talking about supply chain relationships and some of the difficulties that exist there. Our previous witnesses referred, as did Waitrose in their written submission, to the fact that they seem to enjoy at least what I would describe as vertical conversations with producers, but the impression that we gained from our previous witnesses was that as far as the bulk of retailers was concerned there was an apprehension about having the kind of dialogue which might enable some of the problems that we heard from our previous witnesses to be thoroughly discussed because there does seem to be a disconnect between the efforts the supply side are making to meet customer demand and the rewards that they are getting from it. In fact, one of the points made was the big difference between the rise in the retail price of the product and the amount of that additional price which is coming back to the production side. Perhaps you would like to tell us why from your standpoint you believe that the English industry has not in fact developed those long-term contracts between producers, processors and retailers that would give you a knowledgeable supply chain.

Mr Dowling: Good afternoon, Chairman. I would like to answer that one for you. I think supply chain relations are good up to the end of the processing sector. We in the processing sector are as good as our last order. There are no formal contracts and in history I know of very few formal contracts with any customer in the processing sector, so I will cover not just the retailer but also the food service industry and, of course, the public sector, and their tendering systems which you are probably aware of. Going back down the chain, I believe we have a very good supply chain relationship particularly with regard to our suppliers and producers, but I think it has to be pointed out that our suppliers can either be a marketing group or they can be an individual producer whereas we will commit ourselves generally to a 12-monthly contractual arrangement with a notice period. What that basically develops is a processing industry that is taking all the risk because we do not have a guaranteed outlet for our product.

Q84 Mr Gray: Why not?

Mr Dowling: I think it is in history. Particularly with retail, if we go back, probably the very first multiple retailer being Mr Sainsbury, everything was dealt with on a handshake, a gentlemen’s agreement, and I think that has continued on.

Q85 Chairman: Mr Dowling, I understand that one of your major customers is Tesco; is that right?

Mr Dowling: Correct.

Q86 Chairman: I do appreciate that in the supermarket sector you do not get a formal contract that says, “I will guarantee to supply and they will guarantee to buy X”, but, given the knowledge which retailers have of the pattern of their consumer demand, they must at least give you some programme indication as to their likely takeoff of product; otherwise you would not have a clue what to supply. Surely the dialogue is not a sort of week-by-week relationship, is it?
Mr Dowling: It can be. We know more about their business and plans sometimes than they do and we build that up over a period of time, i.e., their performance history. In terms of them saying, “We are committed to you for X amount of years forward”, no.

Q87 Chairman: No, that bit I do understand, but in terms of enabling you to plan, because you quite rightly drew the Committee’s attention to the relationship you have, if you like, going down the supply chain as you see it in terms of being able to give information to the primary producer about the lack of trends in the industry, you will do that firstly from your knowledge of your own business but you cannot have that knowledge without some indication from your major supermarket and food service customers as to their likely patterns of off-take.

Mr Dowling: I think that is something that is in general agreement but, of course, what the processing industry has historically been asked to do has been to commit to a source of supply, as the pig farmer needs to commit to his feed, without a written contract at the customer end with regard to the end customer of the processing industry.

Chairman: Things must have changed since I was a supermarket buyer. Anyway, at least I was able to give the primary producer some indication as to likely future demand without entering into a hard and fast contractual arrangement, but I guess what you are saying to me is that it is a bit more cut-and-thrust today than it was when I was there. It was a long time ago.

Mr Drew: You are showing your age.

Q88 Chairman: I agree with you, I am.

Mr Dowling: As I will come back and reiterate, that effectively is an agreement as per a gentlemen’s agreement that we intend to take supplies of meat from this business.

Q89 Chairman: I am sorry to pin you down on this but we are not that far away from Christmas and one hopes and prays that there will still be some people out there who will want to enjoy it. The sale of ham joints, for example, I would guess—and tell me, Mr Dowling, if I am wrong—forms an important part of your back end of the year trade. Is that right?

Mr Dowling: It will not this year, unfortunately.

Q90 Chairman: Oh, dear, I have obviously picked the wrong example to ask you about.

Mr Dowling: I am sorry, but I suppose you are referring to is there a plan in place for Christmas?

Q91 Chairman: Yes.

Mr Dowling: I would imagine with regard to producers of cured product and processed product there is. From a fresh pork point of view, apart from one or two selected cuts of meat, no, there is no plan.

Q92 Chairman: This is a pretty dire picture you are giving us about the relationships in the supply chain. If you had a free hand how would you improve it?

Mr Dowling: I would prefer, of course, to have the same commitment in terms of volume, not the total volume as we would not contract all of our pigs in total volume because we must allow for variability in demand, but for the majority we would certainly like to see a firm contract and commitment in place that would then give us a level of comfort to then further commit to our supply base.

Q93 Chairman: But would you say that if you had the model that you have just described to us that would also enable a sensible dialogue to take place about the costs of production? For example, in certain aspects of the horticultural trade people have gone to cost of production contractual arrangements unless I have been misinformed, so in some aspects of the supermarket business there is obviously a closer relationship than the one that you are describing because our earlier witnesses identified for us a number of aspects of the realities of doing business in England, which are not the same necessarily as on the continent, and particularly in the context of welfare they would argue that that should be reflected properly in the price, just as the price should have reflected some of the recent very high increases in the cost of grain, for example. Would the improved chain relationships that you have described in your judgment and experience address those issues in a meaningful way so that the producer would recognise that at last they were being listened to?

Mr Dowling: Absolutely. For example, I spent 22 years supplying McDonald’s in the United Kingdom in a previous life, and our business was based on a cost of production arrangement with a solid, robust contract.

Q94 Chairman: Do you think you could give us a best guess—and do, gentlemen, feel free to join in this one because our colleagues from the production side were anxious to identify the significant differences between what they got as a price increase and what the cost at retail was—as to where the money has gone? Mr Roberts, you are anxious to come in.

Mr Roberts: Yes. There was something that you touched on in the previous session about transparency in the supply chain and transparency of costs. You touched on the Scottish Pig Task Force. One of the areas that it would also be worth looking at, and it is not in relation to pigs, is the Northern Ireland Red Meat Task Force, which carried out an exceptionally useful piece of work looking at anonymous data but some really in-depth analysis (you have probably seen it) in relation to costs and margins at retail/processor/farmer level, and maybe that is something that you might consider for your report.

Q95 Chairman: That is very good for Northern Ireland. It slightly dodges the question I was asking, which is, where has the money gone in England? Mr Dowling: I am quite happy to answer the question.
Q96 Chairman: Come on then, Mr Dowling. You have volunteered for the difficult question.

Mr Dowling: Let us put the numbers to one side. There is no question at the end of the day that both the producer and ourselves have been playing catch-up. There is always a lag factor in a rising market, so there will be an element of that. There is evidence, of course, that retail prices have been pushed up considerably. In terms of where has some of that money gone to, I imagine that that has been spread across the trade, I think is the honest answer.

Q97 Chairman: It is a hell of a lot of spreading. The evidence that the Committee has received is that between August 2007 and February 2008 the prices went up by 30p a kilo retail and only 1.5p was passed back to the producer. That is an awful lot of spreading that has been going on. There are retailers, processors and producers. Is anybody else joining the party that we have missed out?

Mr Dowling: Of course, you have always got the traders or the marketers.

Q98 Chairman: You supply the supermarkets, right? You know how much you pay for the product because those are the people you deal with, and you know how much you sell it for. Is there somebody creaming something off between you and the supermarket?

Mr Dowling: No, not at all.

Q99 Chairman: Therefore we have only got three people to discuss with here, so if the producers have only got 1.5p in 30p either you are taking one hell of a slug or the supermarkets are copping the lot. Which is it?

Mr Dowling: Sorry—I thought I had answered the question.

Q100 Chairman: No, you said “put the figures aside” and I thought that was the really interesting bit so that is why I am coming back, to try and understand this. Why are we doing all of this? Because we have to write a report at the end of this exercise and I need to have a finger to point at somebody to say that something here is not quite fair. We only work on the information we get, and if I am a producer and I am only seeing over that period of time 1.5p a kilo back and I have seen the retail go up by 30p—if the retail price goes up by 30p let us divide it by two to take out the margin, so that is 15p of actual net cash to 1.5p back to the producer, so there is 13.5p to account for. You would not like to hazard a guess as to who has had it, would you?

Mr Dowling: I would say to you that that has been spread across the trade. It is all about percentages, and the higher the figure—

Q101 Mr Drew: You were sitting here in the previous session and we went through this very similar act of denial and lack of transparency with the milk industry and we were hearing about that and I think we eventually got to the stage where we thought we knew where it was but no-one would ever admit to it, and partly that is the pressure that retailers put on you and you subsequently put on the producers. It is a bit different, as I say, because the manufacturers have more of a role here than you would find with liquid milk, certainly. If there is more money that could be a good thing but we are undertaking this inquiry because the producers are saying, “We are going out of business. We cannot carry on like this. We lose money every year at the moment”, so if it has been spread around to producers either they are in an even more dire position and you have baled them out temporarily or they have not had it and they are going to be even angrier as a result of this inquiry. Can you elucidate?

Mr Dowling: Certainly. As an operator of an integrated business, obviously, we are seeing the cost of production of the pig. We are there, of course, experiencing the cost of processing that pig and therefore, of course, we are selling to retail, the wholesale market, the food service market, et cetera, so we are right across the piste. As I say, the benefits of increase in price have been spread across the trade. If you are asking me who is taking the lion’s share of that, it is all about percentages, and the higher the figure—

Q102 Mr Gray: What do you mean? I do not understand what that means.

Mr Dowling: If we say we are selling something for a pound but our retail customer is selling something for £1.30 but we are both looking for a 3% return, then, of course, in pence per kilo terms the retailer would be gathering more pence.

Q103 Chairman: Mr Dowling, I can see that you want to reflect on what we are having to discuss this afternoon. The Committee would like a little bit more of some hard evidence and I will say this to the Association: I appreciate that you do not want to be in what I call the difficulty of revealing in public your contractual arrangements with any one of your customers, I can respect that; that is a fair position, but perhaps you might be able to reflect on at least giving us some indication as to what percentage goes where in the cost chain so that we might understand with greater clarity who is getting what out of this particular process. I will not press you at this stage but it would be helpful to us to have a bit more information in writing because, as I say, we come back to why we are asking the question. If somebody is disproportionately gaining from the price changes that have occurred, and it is clearly in this case not the primary producer, then we would like to know who, and if there are more elements in the supply chain that we ought to know about your guidance would be appreciated. There may be a need to prod and poke a little bit and we need some facts to help us do that. I will leave that one with you for further reflection, if I may.

Mr Dowling: I am sure that we could provide you with some average industry information.
Chairman: That would be extremely helpful, lovely. Let us move on to Anne McIntosh.

Q104 Miss McIntosh: Just on the costs of production, do you think that the higher welfare standards of this country puts UK big producers at a competitive disadvantage? Mr Finley?

Mr Finley: I think the basic answer to that would be yes, but I think we need to understand where we come from and why that is. We are asking consumers to pay a premium for welfare. You have covered a little bit about consumer research in the last session and a lot of people who purchase these products will say, “Yes, we support the British pig industry”, so it is not quite 80 and 20 but 80% might say yes but only 20% will vote with their pound in their pocket, so research is fine, but if you watch behaviour in front of the retail shelf, as Mr Taylor alluded to, it is what is cheapest on a lot of the occasions. Where we focus on welfare and provenance, and perhaps that is where pig farmers have been directed some years ago, the distinguishing characteristic is the quality. I think people want to know about the quality. Is a British pork chop sufficiently different from a Danish or a Dutch pork chop to get them going back and paying that price differential for that pork chop? Rather than welfare being worthy of a premium, it would be the quality differential in my view that would be more sustainable.

Q105 Miss McIntosh: Could I just ask, particularly with your background, because you are from the Tulip company, and I perhaps ought to declare that I am half Danish but I do tend to eat British pork, particularly that produced in North Yorkshire—is there any evidence in terms of applying EU directives that Britain is more enthusiastic in the way that EU directives are implemented, whether they are on nitrates, which we are not here to talk about, the waste framework, habitats and birds, the water framework or the groundwater framework? Do you think that we might goldplate or what?

Mr Finley: I do not know whether goldplating is the right word. We certainly embrace it a lot more seriously and I would like to comment on the levels of compliance, or certainly the timing of compliance, but if I am interpreting the direction of your question correctly, I think, yes, we go to the letter of the law.

Q106 Miss McIntosh: Mr Roberts, you say in your submission that UK pig production is less efficient than EU and worldwide counterparts.

Mr Roberts: Yes, and I think that comes back to one of the points Gerry was making, but I think one of the reasons in our cost of production, if you wish to use that as a measurement of efficiency, is welfare, but that is not the only thing. You touched in the earlier session on pigs per sow, kilos of meat per sow and a number of other factors. In the past we have had a world-class efficient pig production. I think a lot of that was down to genetics and I think probably what has happened is that much of the rest of the world has caught up with us. On the EU point, if I can pick that one up, and I think there are some good examples here, what may happen is that it is how laws are interpreted and how we do things rather than what we do. If you look at something like the area of waste and you look at the current direction that the Commission are going in in relation to the burning of tallow, there are a number of countries that have taken the direction of travel, the intention, and have effectively allowed the burning of tallow, which saves an enormous amount of money in relation to waste. Perhaps when we are interpreting laws we need to look at the intention of the EU law, not just the wording of that law.

Q107 Miss McIntosh: You argue in your evidence that global competitors have an advantage over yourselves because they are able to use GM crops and animal feed containing bonemeal. In your experience is this something that UK producers would want to use or that retailers or consumers would wish to buy?

Mr Roberts: Let us separate the two and let us take the GM one first. I find the GM issue quite interesting because we wrap the whole thing up in terms of the growing of GM crops here, whereas there are three distinct issues in my view. One is the current zero tolerance in relation to imported GM feed. The way that the world is developing genetically modified crops and feedstuffs means that effectively any ship in future that has had any GM product in it previously will not be able to bring in food to the EU and comply with the zero tolerance issue, and I think we need to address that and take a sensible approach to it. That is the first tranche. The next would be the speed at which the EU authorises GM products. Effectively, the speed of authorisation is slower than the speed of development so you end up being one generation behind, two generations behind and so on. The third tranche is the growing and the acceptability of GM crops in this country. I think you have to separate all three. You can make good, fast progress in relation to the first one. You can make slower but steady progress in relation to the second one and you can make slower again progress on the last, but we should not use consumer acceptability on the last point to slow up progress on the first or second points; there is a real issue there. One of the keys to that is that we can import product into this country that has been fed on a diet but we cannot import the ingredients of that diet into this country to feed our production. On the meat and bone meal point, I think this is an interesting one and my gut feeling at the moment is that whilst the science may say that this is acceptable, particularly in relation to feeding pig protein to poultry and vice versa, consumer acceptance of that, and therefore by definition retailer acceptance of that, probably still has some way to go.

Q108 Miss McIntosh: You believe the UK has been slow to embrace the integration of farming and processing. Do you think that by integrating that would make the industry more efficient?
Mr Finley: It probably would make it more efficient and we have certainly seen that around the world—Denmark, for example, was mentioned in the previous session—that is true. It would have the potential for enhancing efficiency. Where I think it is also important, and we touched on it before and we will bring the data back, is that profit margins are extremely low in both producers and processors and effectively the simple theory behind my argument is that there is not enough profit for the farmer and the processor and if we continue that argument forward effectively you cannot have the two sustaining alongside each other in the long term.

Q109 Miss McIntosh: In terms of boosting shopper loyalty to UK produce, whose responsibility do you think it is to ensure that food is clearly labelled?

Mr Finley: The industry. We as processors have to work in partnership with the retailer and the producer because if we feel that is what consumers want and that is what we are driving then we should all get round the table and decide is it working, how do we give clarity of labelling and decide how we are going to go about it. I do not think it is any one individual or business in the supply chain; it is all of us. We are very integrated with our customers and we do talk to the producers about overall direction. I think the debate has gone on too long about labelling. In our zest to inform and educate we have managed to muddle the thinking. What fundamentally are we trying to tell the consumer?

Q110 Miss McIntosh: But if you take Denmark as an example, if you look at a Danish food label at a Danish meat counter I think it probably gives more information than in any other country in the EU. There is presumably a limit to how much information at a glance you are going to be able to put on the label. How can you educate the shopper to distinguish between meat that has been reared in the UK in accordance with the higher UK welfare standards and meat that has not?

Mr Finley: First of all, the Danish consumer might not be the same in terms of behaviour as the British consumer or the English consumer—

Q111 Miss McIntosh: They do not eat bacon butties.

Mr Finley: —so we just need to be a little bit careful about one cap fits all because it quite clearly does not. To get back to the research that we have done, what do they fundamentally want to know about the product? They want to know what the product is, what is in it and where it is from. We can argue for quite a long time about the relevance of the welfare and provenance of the animal and the gentlemen beforehand stressed the importance of that, but we think the primary importance, having got it moved off the shelf, is about the quality of the product that will get the repeat purchase rather than whether it was outdoor reared, outdoor bred, free range. In fact, there is quite a lot of confusion with consumers about these different production systems for pigs.

Q112 Miss McIntosh: Tulip presumably produces more processed meat than other producers. What do you believe that processors can do or are doing to help the consumer make educated decisions on the food that they buy?

Mr Finley: It is about the labelling and we have plenty of opinion but not much action and decision-making. Retailers have a view, the FSA have a view, we would have a view, but none of the packs and products that we process and package are very complicated and very unclear, and you must see it every day of the week yourselves, but we are taking too long to understand what we are fundamentally trying to tell the consumer.

Mr Roberts: One of the issues is that we always see the solution to this, whether it be on nutrients or on fat or on origin, as adding extra information to a label, which by definition means we are constantly getting more and more information on the label and are not getting back to the heart of what the key things are in relation to consumer decisions. I was talking to someone the other day, and unfortunately I have not got evidence to substantiate it but certainly from my own shopping habits it probably is right, who told me that we spend a matter of a few seconds in general looking at a label. We can put reams and reams of information on a label. If we are only going to spend a few seconds looking at it what are the key bits of information on there and how do you present them in a clear form? That is the key to it.

Mr Finley: I think we are in danger of having too many vested interests. The FSA want to highlight the healthy side of the product or the unhealthy side of the product. The producers want to focus on the provenance. The retailers want to sell the product. It is their responsibility to see it move off the shelf and they are the ones who understand consumers better than we do. We have an input into that but at the end of the day, yes, it is in particular to educate consumers but we have almost got too many vested interests and in the end we do not get a decision and we carry on regardless with the same confusion on the pack.

Q113 Miss McIntosh: Finally, why do you think Denmark has been so strong in developing co-operation and co-operatives between farmers? They must have the equivalent of the Office of Fair Trading.

Mr Finley: The structure of the industry goes back 100 years. It is a co-operative movement, as you are aware. Farmers therefore have a say in the direction of their industry, slaughtering and butchering and where their markets are, so there is quite a unified approach to where their industry goes, but they have had 100 years of this—for whatever reason we are not in that position—and therefore they have a more co-ordinated approach to markets and, like I say, their farmers have a vested interest in the success of that business and where it should go.

Q114 David Taylor: There is a Tulip plant in Coalville, Leicestershire, round the corner from my own office. We have seen a label—“Tesco
Unsmoked 8 Back Bacon Rashers”, and embedded in the detail, if you have very sharp eyesight and you are under 30, you would find, “Produced using pork from the UK”—or “Denmark”, or “Holland”, or “Sweden”—“and packed in the UK for Tesco Stores Ltd”, and that is proudly stamped, “Produce of Britain”. It may be legal but surely morally that is misleading to the ninth degree. I am not saying Tulip has packed it but you are involved in things of this kind.

Mr Finley: Yes. I do not doubt what you are saying is right. We come across it all the time, and there is evidence of confusion here, but let me give you an example which I think is the best way of answering your question. What is driving it is that you will get quite a lot of clarity with individual products and individual sources and origin. If we enter into some promotional activity we may want to source from different countries to ensure we have got guaranteed supply. I am not saying this is; you have sprung this on me, but invariably, if we want a guaranteed supply, we would say to the customer, “Look: we cannot give you it all from the UK”, or, “We cannot give you it all from Denmark. We need some options”.

Q115 David Taylor: The customer being the retailer in this context or the customer being the ultimate consumer?
Mr Finley: The customer would be the retailer, but we do not get any complaints about, “What’s all this?”.

Q116 David Taylor: I am sure you do not because what Mr Roberts said just a moment or two ago was that, quite rightly, the typical consumer would spend, he said, seconds and I would say fractions of a second, looking at the label and if they took in anything on this label they would see, “8 Back Bacon Rashers, Produce of Britain”. That is all you would take in and into the basket it goes. You would not, unless you were unusual, at a later date then unpick all of this but it is deeply misleading.
Mr Finley: In this individual case, but I do not believe this is representative of the majority of the market. We would not support that. We would want to clarify that.

Q117 David Taylor: Do you typically both wrap and label for your retailer customers?
Mr Finley: Yes.

Q118 David Taylor: So it would go out as Asda back bacon rashers or whatever?
Mr Finley: Yes. We are in favour of greater clarification of that. We are not negative towards that. We do not want to misinform. That is not a good place for us to be.

Q119 Mr Gray: So if we send our spies out to supermarkets and look at Tulip products you would be confident that we would not find a similar thing like this? Is that what you are saying?
Mr Finley: I am not saying in every individual case. If you look at the amount of trade we do with retailers and you count the amount of business we do with this sort of example, I think it would be absolutely minimal.

Q120 David Taylor: You are about the largest processor of pork products in the UK, which is the subject of the inquiry, I guess, are you not, Tulip?
Mr Finley: I would probably say so, yes. We are a big supplier but I do not know whether we are the biggest.

Q121 David Taylor: And you have got more than 20 plants in the UK and probably hundreds scattered around the EU. Is there a central company line on labelling in terms of countries of origin being displayed on products or is it left to local national management? I was just wondering whether or not they have a more relaxed attitude to accuracy and, I am almost tempted to say, honesty in other countries of Europe in that consumers there would not be confronted with “Produce of Germany” if the German element of the whole process was tiny?
Mr Finley: I think there are two issues here. One is that if we supply these big branded retailers they trade on trust. You might say this is a slight breach of trust because it is confusing and I am not going to argue against that, but we do not want to break that either because that is our reputation and we do not want that, so as a policy we want to be plain and, believe it or not, honest.

Q122 David Taylor: Is that national policy or group-wide policy within Europe? Is this a UK policy for Tulip or a group one?
Mr Finley: I can only speak for the UK; I could not comment beyond that, but it would be for the UK. Having said that, if there is an individual product decision that says, “We cannot supply you with this product using only one source”, that would be a discussion with our customer to say, “Okay, can we compromise? Is it okay or should we not compromise?”.

Q123 David Taylor: And, “How do we label?”.
Mr Finley: Yes, but if you are paying 99p for eight slices of bacon then you might find you would be compromising. If you are paying £3.99 I am sure it is one origin because it will be volume related. We can guarantee source from one origin if it is not huge volumes. If it is big promotions, big volume, we have to identify that we can get the raw material for these products.

Q124 David Taylor: But you will always aim as a processor, as a packer, as a labeller, to be both accurate and comprehensive in terms of country of origin information on the label?
Mr Finley: Yes, without a doubt.

Q125 Miss McIntosh: Your main customers are the retail industry and the British Retail Consortium have said that British producers are not maximising the use of the rest of the carcass. Do you have plans to do better?

Mr Finley: Carcass balance is a bit of a holy grail in the industry, as you probably gather. I think there are two issues around carcass balance. As Mr Taylor highlighted, as a processor of scale we have greater opportunity to balance the carcass if the pig is a standard pig. Let us call it a standard pig for want of a better word. If we were looking at a premium priced pig, which might be a free-range pig, then carcass balance is important and would be related to an individual customer because if we cannot sell all of that pig there is a big differential in cost, so we generally, and I am speaking as a company here, would be able to manage the carcass balance situation. That is probably the same for other processors of scale. That might be a different issue for small or medium processors.

Q126 Miss McIntosh: But, for example, if I want to know what is in my sausages and if I want to buy British produced pork meat in my sausages, then I know if it is British produced pig meat that it is reaching a high standard of welfare. We heard earlier that some of the pork that we are importing, which you are saying is more likely to go into processed food, is not necessarily from countries that would meet our standards. It is in the consumer’s interest to use more of our own produced carcass meat?

Mr Finley: Not always. It is about choice. Some people might have great empathy with the British pig market and British processors. Other people just want the price of the product and therefore it is about providing choice in the marketplace. It is not about providing all British or all Danish or all Dutch. It is about choice and the relative price of that choice so that people can make value decisions about what they are buying.

Q127 Miss McIntosh: On Mr Taylor’s point, if, for example, British pork is exported and sold in France or Denmark (unlikely but in another EU country) and sold as finished in that country, so therefore origin in that country, then the British producer would get more per kilo so it does work both ways?

Mr Finley: Yes.

Q128 Miss McIntosh: Just for the record, can we get that on the record?

Mr Finley: It depends on different marketplaces.

Mr Dowling: I would like to add something on the British part of this because there is a lot of talk about European products. In terms of labelling of British, I feel it ought to be under the control of the FSA. There is a real underlying issue here with regard to fresh pork and further processed pork products. There is a clear distinction between the two in terms of the labelling standards.

Q129 Miss McIntosh: I am sorry to interrupt you, but my concern is that we pandered to the consumer and we introduced the highest welfare standards. The consumer is more inclined to vote for the cheaper cut of meat. I am not sure that the FSA is prepared to reflect that if you put them in charge. It is a debating point. How are you going to get them to reflect both sides of the coin, because I really believe that it is important you give the consumer as much information as possible?

Mr Dowling: Of course, and I quite agree with you, but it is certainly for the FSA to set down the rules in terms of origin. The consumer surely needs to be made aware of origin of product. We do not want us just to target the retailer. This has to be targeted right across the industry, both the food service sector and the wholesaling sector, distributors, so that everything is clearly marked and labelled. This is one of the most damning things to our premium product. If we take fresh pork as being responsible for 24% of the market, bacon 28% and other processed products 48%, if we are not going to clearly label it that that product is British and that product is a premium product, it is outdoor bred, it is outdoor reared, so that we are all clear, then that is where our British product is missing its premium and what creates carcass imbalance is partly to do with labelling.

Chairman: Gentlemen, thank you very much indeed for assisting us with both your written and your oral evidence. We look forward to your further observations about the split of the value chain and thank you very much for coming to see us this afternoon.

Supplementary memorandum submitted by British Meat Processors Association (Pigs 24a)

1. What is the difference in quality between British and EU produced pigmeat that demands a higher cost of production?

We believe that there is little difference in “quality” between UK and EU produced pork. However there is clearly a difference in the welfare standards between some EU and UK pigs.

2. Is the English pig industry particularly sensitive to increases in the price of animal feed?

Yes. The cost of feed represents around 50% of the entire cost of producing pigs. The English industry is also particularly sensitive because of its poor competitiveness with EU producers. It should also be noted that the current controls on GM mean that the English industry cannot access many cheaper sources of animal feed available to other producers around the world.
3. **Who is responsible for the information provided on the labelling of a pigmeat product?**

   Ultimately, labelling is the responsibility of the person selling the product. The vendor is responsible for compliance with labelling regulations and it is the vendor who determines what content is best for the target market within the scope of the rules.

4. **Is information on the source of meat adequately provided on supermarket internet sites?**

   In the absence of qualified research, we believe information online appears to differ in content depending on product and vendor. However, we anticipate there may be marketing reasons for this as the online retail environment differs greatly from a supermarket environment.

5. **Division of costs and final price of pigmeat across the supply chain**

   I regret that BMPA is unable to provide a full answer to this question in the short time frame allowed. As the Chairman recognised in the oral hearing, *inter alia*, there are commercial and practical sensitivities attached to this question. Moreover, we feel the question is considerably more complex than it might suggest, and a considered answer would need to include:
   (i) scrutiny of any evidence already available;
   (ii) a long-term view that takes into account a number of market cycles;
   (iii) an analysis of marketing tactics such as promotional discounting; and
   (iv) a process that independently and anonymously evaluates a range of supply chains.

   As mentioned at the hearing there is a precedent for such an analysis being carried out with the Northern Ireland red meat industry. The committee might like to consider whether a recommendation about carrying out a similar analysis in relation to the English pig meat sector might be appropriate.

   **Stuart Roberts**
   Director, British Meat Processors Association

   **October 2008**
THE PIGMEAT INDUSTRY

1. The British Hospitality Association is the national association for the hotel, restaurant and catering industry. Our members include every publicly quoted hotel group, major restaurant chains and independent restaurant businesses, together with every major food and service (contract catering) management company, motorway service area operators and clubs. We also have in membership the two largest wholesale food suppliers, two major retailers and a major food service supplier. Our members employ over 500,000 people in over 40,000 locations.

INTRODUCTION

2. Many members of the BHA who are principally involved in food service (the contract catering cost sector) have publicly stated their position with respect to the purchasing of meat (all species), which is to buy from UK sources. Indeed where they are involved in public sector catering, eg in schools, hospitals and prisons, they follow the guidelines laid down in the Government’s Public Sector Procurement Strategy.

ISSUES WITH RESPECT TO THE COMPETITIVENESS OF ENGLISH PIG MEAT

3. There are issues for food service businesses both in the cost and profit sector with respect to the purchasing of English pigmeat:

   (i) The implementation of the Welfare of Farmed Animals (England) (Amendment) Regulations banning amongst other things the use of tall stalls and tethers was unilaterally imposed by the UK Government well ahead of any other EU member state and required an investment by British pig farmers in new systems and buildings for which they have received no financial return.

   (ii) At the same time as the imposed investment above there was a fall in pig prices below the cost of production. This lead to the contraction of the UK pig Industry over the last 10 years so that the production of UK pigs has fallen by over 100,000 pigs per week.

   (iii) British pig farmers do not castrate male pigs for slaughter, whereas on the Continent they castrate. The practice is seen as a welfare issue; however there is a benefit in lean meat growth and feed conversion efficiency. There is, however, a greater tendency towards “boar taint” which can affect 5–10% of British pork which is clearly a quality issue.

   (iv) When financial pressures occur, British producers tend to slaughter later in the pig’s life which, again, increases the tendency towards boar taint.

   (v) Animal feed imported by the Netherlands and Denmark is landed in Rotterdam and the price of the feed is cheaper. UK producers pay a premium on prices and are therefore at a disadvantage with their continental rivals.

   (vi) The UK is competitive with other EU countries for shoulder and belly pig meat, but loins and legs are 15–23% more expensive. UK back bacon which is overwhelmingly preferred by consumers is 40% dearer than streaky bacon.

   (vii) UK pig farms have received a premium for their pigs compared to Danish and Dutch producers over the last 10 years. This has been as much as 15–20p/kg. Where continental producers operate equivalent UK standards (e.g. removal of sow stalls and tethers), they receive c £5p/kg premium for their added investment.
SUPPORT FOR THE ENGLISH PIG MEAT INDUSTRY BY FOOD SERVICE

4. While food service businesses wish to support English farmers, including the pig meat sector, the pressure of increased food costs has never been higher. Food service businesses, e.g. Compass, have promoted English pig meat through “Best of British” promotions which have gained consumer support by identifying the provenance of the pork and also promoting Free Range pig meat.

ACTION BY GOVERNMENT NEEDED TO SUPPORT ENGLISH PIGMEAT INDUSTRY

5. The UK Government should take action to ensure that English Pig producers compete on a level playing field with their European competitors. This can be achieved by pressing the EU to ensure Member States introduce Animal Welfare Regulations for pigs across Europe which meet the same requirements as in the UK sooner than the agreed timescales.

The structure of the English Pig Meat Industry could also be modified to adopt elements of the Co-operative model used in Denmark and Holland where knowledge transfer of research and best practice is more swiftly adopted by producers. This should be accompanied by fiscal measures to support the Industry and make it more efficient and competitive.

John Dyson
Food and Technical Adviser
British Hospitality Association

October 2008

Witness: Mr John Dyson, Food and Technical Affairs Adviser, British Hospitality Association, gave evidence.

Q130 Chairman: Good afternoon, ladies and gentlemen. Welcome to our second and final evidence session on our short and focused inquiry into the English pig industry. Can I welcome our first witness, Mr John Dyson, food and technical affairs adviser at the British Hospitality Association. Mr Dyson, thank you for being here and thank you for your written evidence. In paragraph four of your written evidence you say, “While food service businesses wish to support English farmers, including the pig meat sector, the pressure of increased food costs has never been higher.” That seems to be a rather diplomatic but shorthand way of saying English pig meat is too expensive. Do I read that correctly?

Mr Dyson: You do. A number of my members have said to me yes, English pig meat is too expensive. It has become uncompetitive.

Q131 Chairman: Given the declaration that you wish to support English farmers, there are attributes of the home produced industry which no doubt you may recognise, but it does suggest to me that you do not want to pay for them, the principal one of which is animal welfare.

Mr Dyson: The reality of life is that the animal welfare regulations were taken on by the British and English pig industry, or imposed upon them, and the rest of Europe does not have them in the main. That is one of the reasons why we are uncompetitive.

Q132 Chairman: There are many who have advocated the fact that the customer wants to ensure that their meat products—pigs in this case in particular—are produced to the highest standards, in terms of provenance, welfare and flavour. The way you are coming across to me is that your members do not seem to regard those as marketable opportunities for which a premium can be charged.

Mr Dyson: It is true to say that everyone is interested in animal welfare. If you look at some of the food service businesses who talk to their clients about this issue and say to them, “This is what it is going to cost” there is not great enthusiasm to take that cost on board. While people talk about it, when it comes to buying it, it is another matter.

Q133 Chairman: Compass have promoted English pig meat through their “Best of British” promotion. Have you any idea whether that was really successful? It sounds good.

Mr Dyson: Yes, it sounded good and, yes, they have had some success with it but, at the end of the day, it is limited. It depends very much often on whether the client is prepared to take it on or not because, in contract catering, you are in the hands of the client and the client’s workforce. It is not just down to the contract caterer.

Q134 Chairman: If you take something as basic as the bacon butty, there could not be anything more quintessentially English or British, depending from which standpoint you come. I choose my words carefully because Defra’s remit runs in this case to England but obviously the Committee is aware that Scotland is doing its own thing with its Pig Sector Task Force to focus on the Scottish industry. You would have thought, with the emphasis, if you like, on the Britishness of the bacon butty that members would have said, “Let us go the whole hog and have British bacon” but the message I am getting is that the cheapest will do.

Mr Dyson: It is not a question of the cheapest will do. The consumer tends to buy on price and that is the reality of life. We would agree. It is a good
marking opportunity and many restaurants do take on country of origin and provenance as a marketing opportunity. There is no doubt that that is quite a positive thing to do, but it does not go right across the industry. Given the homogenous nature of the hospitality industry, which is full of very small businesses as well as very large, you have a massive problem in terms of saying to the guy who is running the very small café on the corner, “You have to go out and buy British” when the vast majority of what has been given to them is not.

Q135 Mr Gray: How much more expensive in percentage terms would British product be over overseas sourced?
Mr Dyson: I think in my evidence I have said that the UK is competitive on shoulder and belly pig meat but loins and legs are 15 to 23% more expensive.

Q136 Mr Gray: Remind me what those two bits make.
Mr Dyson: Back bacon, which is what a lot of people in this country eat rather than streaky bacon, which comes from the belly, is 40% more expensive so you are paying a premium for back bacon. People eat a lot of back bacon.

Q137 Mr Gray: Your evidence does not surprise me. It does not surprise me that buyers go for the cheapest. We all say we want to buy British but we all go to Lidl and buy the cheapest.
Mr Dyson: There is a tendency at the moment, given the economic circumstances, that people will buy down.

Q138 Chairman: What you seem to be telling us is that there is not really a cast iron case for activities which promote British, English, localised bacon production. They are not that successful and therefore not worth paying a premium for.
Mr Dyson: I can give you a cast iron case on why I think we should maintain it is a different argument. The price has created difficulties and is continuing to create difficulties but at the end of the day there is a cast iron case for having a British pig industry. If we land ourselves from a food security point of view just with importing all our food and not having a pig industry, that would be disastrous.

Q139 Chairman: I would agree with you but you have given us a very clear steer that there is a limit in terms of what your members are prepared to pay for the product in doing that.
Mr Dyson: The pig industry needs help in order to get to the point where you can get the price competitive.

Q140 Chairman: In your evidence you say there is, “… however, a greater tendency towards boar taint which can affect 5–10% of British pork which is clearly a quality issue.” Tell me what you think the industry ought to do about that.
Mr Dyson: Boar taint, as I understand it, occurs when animals are matured longer. That happens when the pressure comes on from a financial point of view. There are two issues, as far as I understand it. One is that you do not allow the animals to mature as long. I was speaking to an expert on this matter yesterday. He said to me that one or two of the old breeds that have come in and are starting to be used have created this problem as well.

Q141 Chairman: One of the issues which the industry made very clear to us that was central to the economics of the pig industry was the maximum utilisation of the carcass. Given that in the catering side of things there is perhaps more flexibility to use different cuts of the pig, is there anything you believe the hospitality industry is doing to address that issue?
Mr Dyson: If you look at the chefs on TV these days, they are beginning to use more and more cuts to try and show what can be done with the rest of the carcass. Yes, work is being done in that area. As the economy is going the way it is and people are buying down, people will buy bacon joints. They will buy premium sausages and that sort of thing as opposed to buying anything more expensive.

Q142 Chairman: You have just given me a description of some of the things. Let us come back to your industry. Are you aware of any parts of the industry which are positively following programmes which are addressing this very central issue of utilisation of the carcass? Is there somebody you know who is doing something special that says, “We are trying to help the industry by utilising more than just the prime cuts”? Mr Dyson: It is not in mainstream catering but certainly some of the restaurants are beginning to use different parts of the animal and show what can be done to use different parts of the animal to put on people’s plates that can be quite tasty and that they can enjoy. There has been a move in that direction but it is limited in its volume.

Q143 Chairman: Even Mr Hugh Fearnley-Whittingstall’s recent programme in which pigs’ trotters featured largely has not yet broken the mould in encouraging people in the hospitality industry to follow suit?
Mr Dyson: If people like Hugh are doing things like that, people will follow it inevitably but whether it is going to produce the volumes you are looking for I am not absolutely certain.

Q144 Dan Rogerson: We have talked a little bit about provenance and people’s interest in that. What responsibility has the hospitality industry in ensuring that customers are aware of provenance and ensuring that welfare standards are clearly marked up in catering outlets?

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Mr Dyson: The legal requirement from a labelling point of view on provenance is not to mislead the customer. That is the important thing. Therefore, the issue around provenance in the catering industry has been taken on in marketing. In Scotland, I went up to talk to Richard Lockhead, Cabinet Secretary for Rural Affairs, where they have set up a pig task force. We have been engaging with the Scottish Government. They are doing some research at the moment on what consumers want in terms of provenance. We are involved in that process. Probably a way forward is to find out what consumers want, what the industry can do in terms of best practice and then promote that best practice. I think that is a way forward as well.

Q145 Dan Rogerson: That is looking at the demand there is for this sort of information. Where the word “British” is used for example, what controls are there on people in the industry to ensure that that is British reared rather than imported?

Mr Dyson: If you say it is British and it is imported, you are misleading the customer and therefore you can be prosecuted by Trading Standards.

Q146 Dan Rogerson: The difference between processing and rearing?

Mr Dyson: At the end of the day, you have to decide what is British. Is it where it is born? Is it where it is slaughtered? Is it where it is cut up? What consumers understand by “provenance” is a critical issue. In fairness to the Scottish Government, that is the basis of some of the research that is going on, to make sure that consumers are aware. What consumers really want to know and what they expect is what people are looking at.

Q147 Dan Rogerson: It is very much what is coming from consumers rather than any discussions you have had with the industry, with government or anything like that?

Mr Dyson: It is part of the process that we are engaging in in terms of the UK with, in this case, the Scottish Government about engaging in best practice; but before you go to that end you want to establish what consumers are thinking and wanting. That is a good way to go forward.

Q148 Chairman: I think Mr Rogerson had his question informed by a pack of back bacon which Tesco produced. It says on the label, “Produce of Britain”. Work was done on meat supplied to the producer to produce this pack in Britain but then, in the fine print, it says, “Produced using pork from the UK, Denmark, Holland or Sweden. Packed in the UK for Tesco stores.” Unless you read the fine print, you might think that everything in it was British but, in fairness, the pack tells a different story. Given that your members do things to the raw material before it becomes a meal, we were wondering whether they describe that as British when in actual fact it might contain a variety of raw material input as per the pack.

Mr Dyson: It is always going to be more difficult with a meal because a meal will have several constituents in it. You could say where the meat content of that meal had come from and where you bought it if you know where the local farmers produced and reared it. A lot of restaurants do that now as a marketing opportunity. They will do that across a species and I am sure you have seen it as well in several restaurants, where they will identify that.

Q149 Mr Drew: Have you any examples of good practice in marketing within your own Association, where there has been a real attempt to segment the industry to maximise what maybe both British interest in joints of meat and so on? Who is doing it and are you part of it, or has this been launched by supermarkets or whatever?

Mr Dyson: We have been in discussion with what was the Meat and Livestock Commission now for two to three years, if not longer, in terms of their best practice guidance. A lot of our members do take that on, particularly in relation to beef. As far as pork has been concerned, I cannot say that until recent times that has been the issue. We have taken this up in Scotland following the Scottish issue and we will take it across several species. It seems quite reasonable that if there is pressure in England that will probably follow.

Q150 Chairman: Do you have any supply chain relationships within your industry where particularly big caterers will have a relationship with the processor and with the primary producer? If so, what are the benefits?

Mr Dyson: The large contract caterers definitely do have relationships. They are shortening the supply chain. They have more direct communication with the primary producer. There is no doubt about that. The benefits are that you can understand better how the industry is operating its production and therefore understand what the problems and issues are and work together to produce solutions, rather than in isolation just at the end.

Q151 Chairman: If that occurs, is there any evidence to suggest that people who have that potentially beneficial relationship are more likely to offer more than pork and beef from local sources?

Mr Dyson: I gave you an example of Compass as somebody who promoted English pig meat through “Best of British” and they definitely have closer relationships with their suppliers because they are larger. There is a greater opportunity for that to happen in those cases.

Q152 David Taylor: In your submission, which is admirably concise and helpful, the final paragraph says: “The structure of the English pig meat industry could also be modified to adopt elements of the co-operative model used in Denmark and Holland . . . “. Which elements did you have in mind and why are you promoting that idea?

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Mr Dyson: Because we think that by farmers working together instead of in splendid isolation we will be able to gain benefits from investing in the properties on the farm, in the units, and to take elements of best practice in there. We think that could make the industry more competitive and we think the work that the English—

Q153 David Taylor: Is there an oxymoron in there? You talk about the industry being competitive. I guess you mean with other European countries. Are not farmers notoriously competitive and even contrary? How would you suggest that they be encouraged to develop those qualities which would allow them to cooperate within the industry?

Mr Dyson: I do not think I can comment on the attitudes of farmers. I am not a farmer. I do have friends who are farmers and I am not about to call them contrary. I would take the view that by sufficient persuasion, if they could see the benefits of this, like all business people, they will see a way through it and still keep their competitive nature and yet, at the end of the day, take the maximum benefit out of it.

Q154 David Taylor: You state quite clearly in your submission that you believe best practice is not being readily and swiftly adopted by producers within the UK industry. Why do you think that is? Is it the cost?

Mr Dyson: I think it is due to financial pressures that have occurred over the last 10 years. People are trying to pay off their overdrafts. The reality of life is it has been tough out there for a long time, which is why we have lost the industry, which is why we are in the state we are in now.

Q155 David Taylor: We are back to the poor old taxpayer. You talk about all this being accommodated by fiscal measures to support the industry. What did you have in mind? A pig tax of some kind?

Mr Dyson: If the industry needs to invest then clearly allowances should be there. I believe the pig species is the only species that has not received subsidies. I think beef and lamb have received subsidies over the years. Why should not the pig industry receive the same?

Q156 David Taylor: By “invest” do you mean in equipment or housing or stock?

Mr Dyson: Yes. You would want a pig farmer to restock every 10 years. How many are restocking at the moment?

Q157 David Taylor: They will be able to set a fair proportion of those costs off against tax, will they not?

Mr Dyson: Yes, if they are making any money.

Q158 David Taylor: Do you think it should be an up front capital allowance, 100% perhaps, in the year of investment?

Mr Dyson: Yes, to give them an opportunity because they may not have made the money. We are in a situation where they need to be financially viable. We need to invest in our pig farms.

Q159 David Taylor: What sort of costs do you think might be associated with investment support or fiscal measures of that kind?

Mr Dyson: I could not give you a figure. I will go away and look at it if you want me to, but I am not going to guess.

Q160 David Taylor: I just wondered if you had any idea what that cost might be.

Mr Dyson: No. not at this stage. It will depend on what the structure of the industry is going to look like in five years.

Q161 David Taylor: How well do you think the British taxpayer would take it if more money was being passed on to pig farmers?

Mr Dyson: We are in a situation where, if we are going to support our industries and people are interested in pig farming and buying British pork and they see this as a way forward, then I am sure it can be explained.

Q162 David Taylor: The best way of supporting industry should be a relatively low cost one of the British Hospitality Association, the British Retail Consortium and others not conspiring in the misleading labelling of pork products that we see on a grand scale. I am not suggesting you are responsible for it but are you fighting against it vigorously enough? That would be the best way of helping the British pig meat industry, would it not?

Mr Dyson: There is no conspiracy in the British Hospitality Association with respect to labelling. That is not happening. The industry is not conspiring against the consumer in any way.

David Taylor: I do not think I have ever seen a restaurant that has made a big issue of the provenance of the pig and it being British.

Q163 Mr Gray: I am a bit puzzled by this. Your job as the British Hospitality Association is to provide first class hospitality and therefore if you can buy anything—in this case it is pig meat—for 40% cheaper from overseas than you can from here, and if the consumer is perfectly happy to eat that bacon from Denmark rather than bacon from Wiltshire, why on earth do you think the taxpayer, especially at a time like this, should stump up large sums of money to subsidise an industry which is unable to produce goods at a competitive price? Surely you can tell people, “This is great. Cheap stuff is coming in from Denmark and frankly I do not care whether British farmers cannot compete. What is the problem with that?” Why do you as the BHA have a strong view on this?

Mr Dyson: I would suggest that they are looking for cheaper alternatives. The countryside is an important part of tourism. If we do not have farms, we do not have animals. We do not have tourism. It is not going to help. You only have to look at the damage that was done by the foot and mouth outbreak. We have had
damage done to the pig industry by a foot and mouth outbreak in recent times. The reality of life is we believe that we should support the farming industry full stop. We should have a countryside that is worth people going to see and tourism is an important part of the economy of this country. Therefore, there is a good reason for supporting the UK.

Q164 Mr Gray: Surely the whole point about the CAP reforms is moving away from subsidies in particular parts of farming. Beef, dairy and vegetables and everything else are now competitive and making money. What you are saying is you would like the government to subsidise one particular small part of the industry, the pig industry only, and fork out large sums of money to keep the pig industry going despite the fact that it is completely uncompetitive with the rest of Europe. I do not follow that. The argument about the countryside is one thing but what you do not want to see in the countryside is free range pigs. They make one hell of a mess. I would much rather see cows and sheep.

Mr Dyson: If the industry had had a level playing field to play on from the start and they had not been landed with the costs of the welfare regulations, then life would probably have been a lot simpler than it is now.

Q165 Dan Rogerson: You believe this collaborative work on developing just what it is the consumer wants to see could increase the confidence of the industry to do more about reporting that back so that people will see it as a positive? The work that McDonalds does about saying where things come from a bit more may be slightly less on this and means that everybody will be able to move forward together. That will hopefully put the local industry on a far more secure footing.

Q166 Chairman: You touched very briefly on the Scottish Sector Task Force of which you are part. Do you think that its aims and objectives are sensible and practical? Do you think we ought to have one in England?

Mr Dyson: I did not say we were part of the Scottish Pig Sector Task Force. I went up there for a meeting with various parts of the Scottish pig industry and they talked about producing the Scottish working party, but they did not invite us to join the working party. We found that a bit strange but we did say that we would be part of a working group that looks at provenance labelling. That is what we are doing.

Q167 Chairman: You are an adjunct to it?

Mr Dyson: Absolutely.

Q168 Chairman: Given that you took an interest in it, I am not quite clear what it is supposed to be doing. What is it supposed to be doing?

Mr Dyson: I am not 100% certain what the Scottish Working Party on Pigs is doing. I think it is there to help to try to promote Scottish pigs and the Scottish pig industry one way or the other.

Q169 Chairman: We ought to address our questions to them and say, “What are you doing?” It would perhaps be unfair for you then to nail your colours to the mast as to whether we should have one in England or not.

Mr Dyson: I think you should ask them the question.

Chairman: Thank you very much indeed. You have given us a clear insight into how the hospitality industry sees this problem both in your oral evidence and in your written evidence and for both we are most grateful. Thank you very much.

Memorandum submitted by the British Retail Consortium (Pigs 25)

1. EXECUTIVE SUMMARY

1.1 The pig industry in England has suffered over a long period from competition from other countries, market for pork products and consumer demand. These problems have been exacerbated over the last 12 months by the problems caused by FMD and the sharp rise in input costs.

1.2 There are some encouraging signs, in terms of demand for English products and price increases paid to farmers.

1.3 Retailers have promoted and supported English pig producers and will continue to do so responding to consumer demand.

2. INTRODUCTION

2.1 The British Retail Consortium is the trade association for retailers. In terms of food sales, our members account for approximately 80% of grocery sales in the UK. Our food members are primarily the large retail chains, we don’t represent independent butchers.

2.2 Our members are firm supporters of British farmers and have worked closely with English pig farmers over the years to promote and sell their produce. They work closely with their suppliers.
2.3 Retailers sell a high proportion of pork in England, approximately 80%, but they are not the only sellers, particularly when it comes to processed pork products, and cannot be held solely responsible for the health of the pig industry.

3. What is wrong with the pig industry in England? Are present problems more than just a cyclical imbalance between supply and demand?

3.1 There are some long standing issues with the English pig industry, such as the problems with carcase balancing, competition from European countries and consumer preferences. These have been exacerbated recently by the problems last year due to FMD, which prevented valuable exports of pork products with no market in the UK, and the sharp rise in input prices, particularly feed. Also as our imports come from Continental Europe English farmers can suffer from the £/€ exchange rate. This has meant a very difficult period for pig producers and re-structuring within the industry.

3.2 In terms of sales, a problem for the pig industry in England has been building a loyal long term consumer base for pork and finding a market for all parts of the pig. Pork is in competition with other meats for customers’ spending and it has in the past suffered when other meats are promoted. This is unlikely to change in the future and could be exacerbated by the pressure on consumer spending and the growth in popularity of alternatives such as salmon.

3.3 During 2007 pork, for example, faced increased competition from other meats that could not be exported during the FMD outbreak and came onto the UK market. This at a time, when farmers were unable to export pork.

3.4 However, the outlook for pig farmers has improved recently, both in terms of demand for products and the price paid for their pigs. Mariann Fischer Boel, in her speech to the World Meat Congress this month pointed out that European pig producer margins had improved gradually and were now getting back to their long term average.

3.5 The market for pork has increased in recent years, accompanied by a rise in pig prices. The consumption of pork in the UK has been rising steadily since the end of the 90’s and is now about 13% higher than in 1999. Industry data from the MLC shows that pork sales have held up well over the last year. The data also shows the demand for fresh cuts of pork such as roasting joints have outperformed other cuts of meat. Even cheaper cuts of meat, such as pork belly have performed strongly in the last year. Increasing consumer demand for higher welfare pork and the interest in local sourcing are positive signals for English producers.

3.6 During the last year, the price paid to pig farmers has increased markedly, reflecting the problems they are facing in rises in input prices. Retailers have rewarded farmers without passing all that cost to consumers, in an attempt to keep pork prices competitive. ONS figures show the price of pork increased by 19% in the year to July, whereas the price of pigs increased by 25% (BPEX).

4. Are domestic pig welfare standards a principal reason that English producers have problems competing with those outside the UK? Are there other reasons?

4.1 This may well have had an impact on the wider industry and I am sure others in the industry will comment. In terms of the major retailers, they are very conscious of the need to ensure consistent welfare standards across all the products they sell. They aim to ensure comparable standards in other European countries, particularly avoiding stall and tethers. These are reinforced through auditing of their supply chains and working with their foreign suppliers.

4.2 One of the other problems is the UK is competition from a large well established pig industry in Europe. This has led to strong price competition, especially in processed pork products. Competing countries have well structured, efficient industries, which have also been able to overcome the problems of carcase balancing faced by our producers. This competition over an extended period has meant they now have a substantial share of parts of the UK market.

4.3 European pig producers have also been struggling in recent times but have continued to compete on price, accepting losses, which have underpinned the European price of pork.

4.4 In terms of consumer acceptance of imported products, it is important to remember two things in terms of consumer demand. Firstly, some of the imported product has a perceived quality amongst customers, it is certainly not seen as an inferior product. Secondly, country of origin is not a strong factor of choice for many customers.

4.5 Country of origin, as demonstrated by research from IGD, is not a key factor in customer choice. Price, however, is a key factor for consumers, particularly in the current economic climate. This means English producers face direct competition from European producers, particularly on generic products where customers are focused primarily on price.
5. What could supermarkets and the hospitality sector do to alleviate the pressure on the domestic pig industry?

5.1 Retailers have worked with the pig industry for a long period to promote and find new opportunities for English products. During the period of recent pressure on producers, due to escalating input prices, retailers have rewarded farmers and tried to minimise cost increases to consumers, to ensure long term confidence in pork. This is demonstrated by figures which for July showed an annual increase in the retail price of pork joints of 19% (ONS) compared to an annual increase of 24% in pig prices (BPEX).

5.2 Retailers are working closer with their suppliers and this is key to a successful supply chain. Relaying consumer information and demand to producers helps them understand the market better, the role of promotion and matching supply to increased demand. Retailers have worked with producers and Government to analyse consumer demand to help plan future promotion. For example, a number of our members sponsored an extensive piece of research by the IGD in connecting consumers with farming and farm produce in 2005 to examine how to promote added value on British products.

5.3 Retailers will continue to work with the producer levy boards to promote British pork. They have promoted the BPEX Quality Mark and Assured Food Standards to raise consumer awareness of the value of British quality and assured produce.

5.4 Retailers can work to promote those cuts of pork which have been less popular historically but could be more attractive to customers concerned about price, for example pork belly. One retailer has told the BRC they were so successful in a recent promotion their suppliers couldn’t keep up with the increase in demand for British belly pork.

5.5 Retailers can continue to promote new products, developing new opportunities for English producers and trying to address the problem of carcass balance. Retailers have helped promote growth in higher tier products such as outdoor reared and organic pork and processed products. They have also expanded their range of locally sourced products such as bacon and sausages. The vast majority of these products are UK produced and have given farmers the opportunity to gain added value in a growth area.

5.6 Our members take labelling of all their products extremely seriously and pork is no exception. They voluntarily go beyond the legal requirements by putting the country of origin on pork joints and are clear about the provenance of their processed products. If there is a belief that clear labelling and information can stimulate home demand then the hospitality sector could be encouraged to give clearer information about sourcing on menus.

5.7 Retailers will continue to promote and support English pig producers but ultimately it is consumer demand that is key and that is influenced by a number of factors, especially price. Retailers offer their customers value and choice and whilst they will promote English produce, they will also offer other produce whilst it is demanded.

6. Can the Government do more to support the industry either directly or through its public procurement policies?

6.1 The Government could do more to improve procurement of locally sourced products. The introduction of the “Healthier Food Mark” announced in Food Matters, would encourage better sourcing and the Government could encourage early adoption by purchasing departments and local authorities.

6.2 The Government could increase funding of research in production and processing. This has declined in recent years, as research focused more on environmental aspects of production.

September 2008

Memorandum submitted by Waitrose (Pigs 05)

1. Executive Summary

Waitrose recognises that the English pig industry is in decline and is aware of the issues that have contributed to the situation, including:

- high feed prices;
- increases in other costs;
- the plethora of legislation;
- environment and welfare; and
- a weak marketplace for the farmer.

The Waitrose supply chain has continued to grow and develop, consisting of Waitrose, BQP and Dalehead Foods and is widely recognised as the best practice in the sector. This supply chain is founded on seven important elements:

(i) Delivering on consumer preferences.
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(ii) A retailer who is committed to a supply base of producers.
(iii) Genuine focus on carcase utilization.
(iv) Committed processors with a stable pig supply.
(v) Committed producers who have a clear message on production standards and volumes required.
(vi) Good communication throughout the chain.
(vii) Structured farmer groups.

Waitrose has invested significantly in the long-term support and growth of the pig industry, and has made substantial progress in assisting the pig industry.

2. Waitrose—Background

2.1 Waitrose, the food shops of the John Lewis Partnership, has 192 supermarkets in England, Scotland and Wales, and combines the convenience of a supermarket with the expertise of a specialist shop. As a co-owned Partnership, everyone who works for Waitrose owns the business.

2.2 We also extend a notion of partnership to our suppliers. At the heart of our supply chain are our producer groups that we operate across our livestock, milk, farmed fish, fruit and vegetable categories.

2.3 These groups offer farmers a forum where they can share best practice and set mutual business objectives. At present we operate more than 30 distinct groups for livestock alone, from Angus beef to Select Farm chickens.

2.4 The groups give farmers an assured market and a clear direction and in return offer us quality, reliable supply and total traceability.

2.5 This submission consists of a description of the unique and highly successful Waitrose pig industry supply chain, followed by responses to the Committee’s questions.

3. Waitrose’s Relationship with the Pig Industry Supply Chain

3.1 It is clear there are significant issues within the English pig industry which have resulted in a continuing decline in the sector. Causes of this decline include high feed prices, increases in other costs, the plethora of legislation, including both environment and welfare, and a weak marketplace for the farmer.

3.2 However, within the industry there are examples where a financially sustainable system is working. One of these is the Waitrose supply chain and its association with Dalehead Foods, BQP and other independent farmers. During the time the industry has decreased in size this supply chain has continued to grow and develop. The Waitrose supply chain, widely recognised as the “best practice” in the sector, comprises BQP coordinating the pig farmer supply base, Dalehead Foods processing the wide range of pigmeat based products and Waitrose as the retailer marketing and selling the final products.

3.3 This supply chain is founded on seven important elements.

(i) Delivering on consumer preferences. The Waitrose understanding of its customers’ needs and preferences means that the supply chain has been developed to consistently deliver the best possible taste and eating quality in all the pork products we sell. It does this in a number of ways, including by ensuring high husbandry and welfare standards through to the use of bespoke genetic breeding programs.

(ii) A retailer who is committed to a supply base of producers. This is manifested in:
— a long term view on requirements;
— clear definitions of production standards for specific lines at retail level;
— sustainable prices for the farmers involved; and
— sustainable prices for the processor involved in both directions.

(iii) Genuine Focus on carcase utilisation. Our own label producers of pork products and other “pork users” throughout Waitrose work closely together to ensure a much high level of carcase utilisation than if the premium pig produced was only used for just fresh pork, sausage, bacon and ham. In doing so, we use as much of the premium British pig as possible. However to achieve this has taken literally decades of work. It is easy to identify as an issue, but less easy to resolve quickly.

(iv) Committed processors with a stable pig supply and the confidence to invest into new processing facilities to add value or lower cost, making a virtuous circle of financial sustainability.

(v) Committed producers who have a clear message on production standards and volumes required. The pricing is based on a number of factors including cost of production, and this has helped to make the agricultural element of the supply chain more sustainable, particularly during the recent high feed prices. This approach allows for effective and positive long term business planning. Waitrose has ambitious plans for growth and as such, it is important that our suppliers and farmer partners are focused on delivering long term, stable and sustainable production. In respect of pigmeat products, the Waitrose pig supply chain achieves precisely that.
(vi) Good communication exists through the chain with genuine feedback both ways from the retailer through the processor to the farmer. This is fundamental to the success of the supply chain. Waitrose has also invested in significant training for our counter staff selling pork products, ensuring that positive agricultural, quality and animal welfare messages can be communicated to consumers. In addition, our communication extends to clear labeling on specifically defined production standards.

(vii) Within the Waitrose Supply Chain there are structured farmer groups that meet regularly to discuss and advise on best practice and communication both up and down the chain. These groups are an essential part of obtaining the farmer’s commitment to improving the supply chain.

3.4 Issues do still arise at certain times, but the success of the sustainable supply chain is that it is based around our ability to recognise and resolve issues, without there being a cost to a particular part of the chain. By this process, trust is built up and the chain becomes stronger.

3.5 This is a brief summary of a complex supply chain which is underpinned by a transparent and mutually beneficial relationship in which each party is respected and rewarded. Others often seek to replicate parts of this chain for short periods of time hoping to end up with a similar result, but without the genuine long term commitment from the retailer it cannot be reproduced.

4. Responses to the Select Committee’s Questions

1. What is wrong with the Pig industry in England? Are present problems more than just a cyclical imbalance between supply and demand?
   - The English industry is in the main structured in a fragmented manner and is generally adversarial between producers, processors, retailers and manufacturers. Few examples exist of integrated supply chains (either partial or completely) where all the parties work together and add value for the benefit of all in the supply chain, thereby driving sales of English pigmeat where profitability is respected and delivered for all the parties involved.
   - The English industry operates at a higher welfare standard than the rest of the EU. This follows a decision 10 years ago by the UK government to unilaterally ban the use of stalls and tethers ahead of the rest of the EU. This has placed the UK at a cost disadvantage with the need to recover this cost from its customers. In some cases, a significant part of the carcase will be sold on promotion, without actually obtaining its maximum value. The efficient utilisation of the carcase, delivering carcase balance, is essential for sustaining the supply chain.
   - As a result of lack of investment due to volatile prices being received in the UK, output of English breeding herds has lagged behind other major EU producers. Some of this lack of investment has also been created by the loss of export markets caused by:
     - Classical Swine Fever (CSF); and
     - Foot and Mouth Disease (FMD) outbreak.
   In addition the impact of PDNS and PMWS, diseases which entered the UK in 1999, amplified by the effects of CSF and FMD, has further reduced the efficiency of the English breeding herd.
   - The industry has suffered as a result of the exchange rate being of advantage for imported supplies of pigmeat products. Much of this has been removed in recent times as a result of the weakening of the GBP to the Euro, where the English pig producers are now more competitive for exports and imports are more expensive.
   - The present problems of profitability have been compounded by the significant increase in raw material prices over the last 18 months, which have increased the cost of production by circa 40%. Some retailers, against the background of plentiful supply of pigmeat in the EU, have not always been prepared to increase prices paid to producers, allowing them to recover some of these price rises during this period. This has resulted in losses of a magnitude hitherto not seen in the English pig industry, and a subsequent reduction in the UK pig herd. If this continues, more producers are likely to exit the industry as their business cannot take the variability of profit/loss.
   - A key way to avoid the challenges of volatile raw material prices in the future is to better educate producers on the use of various tools available to manage and reduce their risks. Examples include the forward buying of raw materials, the use of options, and the use of alternative sources of protein, other than imported soya.

2. Are domestic pig welfare standards a principal reason that English producers have problems competing with those outside the UK?
   - English production standards are at higher levels than the majority in the EU, resulting in higher costs of production. In addition smaller processing factories than some other EU countries add to the cost base. In the UK, processing throughput has declined in the last ten years, while throughput elsewhere in Europe has increased.
— The English pig industry is unique in that circa 35% of breeding herds operate out of doors as compared to minor percentages on other EU countries. This produces significant welfare benefits to the sows but as result produces fewer pigs per annum than intensively kept sows, and thus higher costs of production.

— Some non-EU countries would, in some cases, be using raw feed materials not allowed in the UK, for example, GM based products and meat and bone meal. While this offers a point of difference to English pig producers there is an additional cost that, unless reflected in the price paid to producers, will reduce their profitability.

— The clear labeling of English pigmeat products to highlight the differences in welfare standards is currently insufficient. There is also a need for a consistent approach on country of origin labelling. A related issue is the proliferation of on-pack labels which, alongside those of the retailer brand, can also confuse the consumer about the point of difference between products.

3. What could supermarkets and the hospitality industry do to alleviate the pressure on the domestic pig industry?

— Supermarkets could help by communicating more effectively the points of difference of English production. Consumers are then more aware why English products may cost more than imported products. BPEX has an important role to play in encouraging and supporting retailers in this regard.

— Carcase balance is a key issue, especially where pigs are produced to higher standards/costs. The use of lower value cuts, such as shoulder, could be encouraged, especially in the hospitality/cost sector thereby also increasing the overall carcase value. It is essential that English pigmeat is used across as wide a product range as possible including in pies, ready meals and pizza toppings.

— In-store promotional activity should be more focused on eliminating carcase balance challenges (e.g. offer on shoulder cuts) rather than stimulating the demand for higher value cuts already in short supply (e.g. loins), which may then use imported product to meet sales demand.

— The catering sector has in recent times used pork more widely (for example, belly of pork and specialty sausages). Pork price and quality competitiveness as compared to beef and lamb could be communicated more widely to increase demand in a sector where pork has historically struggled.

— Contracts should be developed which encourage more stable pricing for all in the supply chain, allowing for longer term investments. This will reduce the adversarial aspects between the parties in the supply chain where price is often the only issue discussed.

4. Can the government do more to support the industry either directly or through its public procurement policies?

— Increased welfare and environmental standards in the UK have led to increases in the cost of production, as compared with other European countries where standards lag behind. This has reduced the UK industry’s competitiveness and it has, overall, not proved possible to price UK products, produced to higher standards, at a premium over imported pigmeat. BPEX (the pig industry sector of the Agricultural and Horticultural Development Board) has a leading role in successfully differentiating UK products from non-UK products. This is not intended as a criticism of the UK’s higher welfare standards. Rather, it is important to recognise the effect on competitiveness given the variability in such standards across Europe. The government should ensure the English pig industry does not ever again burden itself with higher welfare or environmental standards than the rest of the EU. Where new initiatives/standards are put in place across the EU, the government can assist by ensuring these do not add further unnecessary costs in the future.

— Given the significant damage caused by the outbreak of FMD, the Government could assist confidence levels in the industry by increasing disease monitoring.

— BPEX should invest in the development of mature supply chains, enabling them to grow and improve. Over the last five years, the need for a central organisation to undertake promotional activity has declined. Instead, individual retailers have engaged in promotional activity according to their own business planning cycles.

— Pigmeat is a lean, safe and nutritious food. The industry produces a wide portfolio of products to suit a variety of meal occasions and disposable incomes. In current economic conditions this should represent an opportunity for the industry. Government procurement policy should reflect these factors, and pigmeat should be a food of choice across the public estate.

September 2008
Chairman: We move on to our next small group of witnesses: Mr Duncan Sinclair, the agricultural manager from Waitrose, and Mr Andrew Opie, the food policy director of the British Retail Consortium. Mr Opie, can I put on public record my appreciation for your thoughts on a possible inquiry that this Committee might ultimately do into food security matters? You were kind enough to put your thoughts in writing and those were circulated to the Committee. We are most grateful for your observations. Can I welcome you both to our meeting this afternoon and thank you both for the written evidence which you have been kind enough to provide for us.

Q170 David Taylor: Mr Sinclair, you said in your submission to us that some retailers—you did not say whether you were one or not—set against the background of cheaper pig meat in the EU have not been willing to increase prices paid to British producers to allow them to recover the cost of increased feed, which I believe is 50% of production costs or thereabouts. You also observe that the UK has smaller processing factories than other EU countries which has added to the costs of UK production. How central is that to the difficulties of the British pig industries, the smaller units which you observe are in place?

Mr Sinclair: I think it is an important consideration in terms of the economies of scale and the scale of the processing facilities and unit costs right through the whole process. If you look at some of the larger European abattoir groups and the scale of their plant, it is a bit like any industrial process where you have supply and volume and overheads. There is some benefit to be had from the supply chain. I do not have a specific figure in mind as to how great that is but I think it is a factor that is fundamentally different here in the UK.

Q171 David Taylor: Do you agree with me that the supply chain for pig meat is significantly unbalanced in that the farmers and the processors are probably too weak and the retailers are probably too strong?

Mr Sinclair: I can only speak about the Waitrose supply chain in that regard.

Q172 David Taylor: Can you answer from the Waitrose point of view?

Mr Sinclair: From our perspective, what we have set out to do, in a partnership spirit, is to take a number of elements into consideration in determining the price we pay to the farmers. There are elements in there in terms of the industry barometer and industry average price taken into consideration as well as an element in relation to pig prices and costs of production. The third element is looking at how our retail prices for certain pig meat products are moving. Each month we have a look at how we see elements are moving to determine our price and structure for the coming month. When things start moving and input costs go up, there is a sharing of that across the supply chain. If the retail prices move, there is an equal sharing of that with the three partners as well. What we have achieved is a much more stable pricing structure where it is less prone to the oscillations that some other supply chains may well experience.

Q173 David Taylor: Mr Opie, do you think that the retailers you represent are over powerful in the supply chain?

Mr Opie: No, I do not, but I do think it brings a responsibility which they do recognise. It is very important that they play their part as partners in the supply chain. I think we see that in terms of the pig price that we see in this country recently, for example, compared to the retail price increase. We have seen the pig price that the farmer is receiving accelerate much quicker for example than the retail price which consumers are paying for those British pork products.

Q174 Chairman: Last week, unless I have had a complete memory failure, we were probing around. You probably listened to some of the stuff that was put in front of us. It seemed that at retail the price per kilo for pork meat had gone up by 30 pence but the price back to the farmer had gone up by 1.5 pence. If you knock off half of the 30p and call it margin and other costs, that still represents a ratio of ten to one and we could not find where the difference was. Can you help us?

Mr Opie: Certainly. Obviously the costs by the time the retailers sell the product are much larger than the farmer would take in terms of pricing the product. If you look at the price for the deadweight average pig price that the farmers receive back to September 2007 for example compared to September 2008, that price has gone up by approximately 25%; whereas, looking at ONS figures for September 2008 for a range of pork products—everything from sausages right through to ham and gammon—that price has gone up anywhere between 10 and 20%. Yes, it does look a bigger price because there are more costs involved in terms of the retailer putting the product on the shelves themselves, but if you look at the share of the margin through the chain that has diminished through the year because the farmer’s increase in his price has gone up more than the retailer has sold to the consumer for.

Q175 Chairman: I would be grateful if you could write us a note to explain that because I almost got the feeling that we were being asked to compare apples with pears. Looking at one set and then saying that there is some ONS data which is a basket of other things does not necessarily mean to say we are comparing like with like. Also, we do not in fairness know what the ratios were between certain of these costs in the function you have just described at the beginning of the series and at the end of the series, because things move at different speeds. Retailers change their prices against a different
frequency necessarily that they pay their farmers. We would like to try to get to the bottom of this and if you can help us we would be grateful.

Mr Opie: That is why I took it over a year rather than maybe a shorter period, to try and iron out some of those differences.

Q176 Chairman: I will make certain that our clerk communicates to you what we know and then you can reply from the point of view of the BRC. Mr Sinclair, I got the impression from what you said and also from your evidence that there was more short term flexibility in the pricing arrangements that Waitrose have up and down your supply chain according to what is happening. As retailers, you also have to maintain your competitive position in the market place. Does that mean from Waitrose’s point of view you have had to have quite a lot of margin flexibility to enable you to respond sometimes quite rapidly changing price scenarios from the primary producers’ standpoint?

Mr Sinclair: I think it probably does in the last 12 months, not only on the pig meat side but in other meat areas as well, where the price of the raw material has gone up quite considerably. For example, if you take the price we are paying our farmer suppliers in October this year, that is running at about 20% up year on year. When you look at how our retail prices are versus this time last year, on the pork side, it is roughly 7% up and, on bacon, it is roughly 2 or 2.5% up. It has had an impact on our ability in terms of return from the market place.

Q177 David Taylor: Mr Opie, is not the plain, unvarnished truth that because of the structure of British retailing you have the farmers and processors over a feed bin, have you not? They have little power to influence their own future in the face of this overwhelming dominance that your members have of the UK market.

Mr Opie: I come back to this issue of responsibility and advantage. Responsibility is one thing. Those supermarkets have used the same standards for imported pork as they have for pork that they buy here, so we can level the playing field in terms of some of those disadvantages which UK farmers would have faced otherwise. That is one great thing they have done. The other thing is, because they are large, they have huge access to consumers. What they have been able to do is develop lots of good British pork and British higher welfare standards—things like outdoor reared, outdoor bred, organic, British type products—get them out there into a huge market and make sure they are supported by promotion and marketing. They are large and they do have a responsibility and they take that extremely seriously. They can also bring advantages to British pig farmers.

Q178 David Taylor: One point put to us with some vigour by the British Meat Processors’ Association was that the UK chain has not really embraced farming and processing in the way that has been relatively common in other EU countries. Do you think that would benefit the industry? It would certainly level up the balance of power within the supply chain.

Mr Opie: The other thing that we have not talked about already is the—

Q179 David Taylor: Could you answer that question first? Could there be much more progress on looking at the scale of farming and integrating farming with processing?

Mr Opie: The scale of farming has changed quite a lot through the years anyway. That will continue to evolve and change. We have seen a similar issue in the processing sector as well in terms of companies coming together and larger processors within the market to try to get the efficiencies which we see in other countries as well. We are starting from a slightly different base in the UK and in terms of farmer cooperation. That has tended to operate in a different way to that which we have seen in other countries in terms of farmers owning co-ops and processes, that sort of issue. I still come back to the fundamental thing that our structure does not necessarily mean that British farmers need to suffer. I think it can be quite a powerful tool for them in terms of promotion and marketing of British pork.

Q180 David Taylor: Waitrose is very much the flagship for the quality end of retailing. Mr Sinclair, do you for instance operate your own abattoirs and processing plants or do you buy from generic processors?

Mr Sinclair: We source our product from a processor who processes all our pig meat and the retail carton packaging plant. We have developed a relationship there. The model we have developed is possibly more integrated than some in terms of the people who look after the farming end, who are involved in the purchase of the feed and sourcing the feed on behalf of the collective group of farmers. Also, we have a research facility looking at driving best practice, and we are trying that out at the research facility before asking or encouraging other members of the groups to pick that up and introduce that. The third element is that high on the agenda right across the various livestock schemes is emphasis on working with breeds to improve the taste of the product with significant emphasis on the pig meat side. That has led to the development of a specificWaitrose board line that is used throughout our standard pig meat products. There are elements where, because of our size, it has allowed us to do things slightly differently to some others.

Q181 David Taylor: You are not one of the big four at the moment. Do you have any sympathy at all with the point that I am trying to make which is that, in a very highly concentrated retail market in the UK, bigger than any other western European country, there can be a tendency for overweening power of the group of four main retailers to act and operate in a way which is inimical to the interests of in this case the British pig meat industry. Do you see any signs of that at all?
Mr Sinclair: It is difficult for me to comment on that. I have not previously been in the industry and I came specifically to Waitrose two years ago. I do not have the background.

Q182 David Taylor: You must talk about these things.

Mr Sinclair: It is something that you are aware of. It is a consideration but we have decided to develop a model that works for us. We very much focus on developing that for the benefit of Waitrose and the partners in that supply chain.

Q183 Chairman: Listening to our previous witness, there was a very strong emphasis that price was the dominant feature. That was a very key element in the hospitality industry. We have been talking about supplying major supermarkets so far in the inquiry. Waitrose, I note from a recent edition of Farmers’ Weekly, are supporting the award for the pig farmer of the year to be presented this evening in the Great Room of the Grosvenor Hotel, a sumptuous event. I notice happy, smiling pig farmers beaming from the pages which is an unusual sight for us to see, but two people appear to have been fingered as persons of excellence. Mark and Paul Hayward. In their operation they have the Dingley Dell brand of pork products. One of the points that the judges liked in coming to the conclusion that they were winners was branded point of sale information, drive to get 100% of branded meat, and very much that they had gone their own way. They had circumnavigated having to do business with big retailers and they decided that they were going to do their own thing. That suggests to me that they are saying niche is the way to be profitable with pigs. Is that a fair comment?

Mr Sinclair: I accompanied the judges going round to the finalists for the Farmers’ Weekly award. On the two farms I visited there was innovation and a drive to stand aside from the mainstream market and take control of their own destiny. They were two of the major factors that these finalists had embarked on pretty successfully. Different people have different attitudes to how they can develop their business and opportunities. Two of the finalists had decided, “Right. Let us see if we can diversify our outlets and not rely on just one major outlet.” They are spreading the risk in terms of the different markets.

Q184 Chairman: The reason I am asking these questions is that it is quite difficult to get your head round whether the UK is encompassed with the phrase “Physician, heal thyself”, which is what people like these potential winners have done—they have said, “Okay, we are going to set out our own stall”—whereas others clearly are co-located as in your supply chain and those other supermarkets that Mr Opie speaks on behalf of, because that is what they have decided to do. The general message from the industry is one that the industry is truly struggling. You come to the question: if some can make it a profitable, worthwhile and positive enterprise, what are the rest doing wrong?

Mr Opie: The niche player is an important issue but it is only one very small part of the pork market. In terms of the interest in local produced food, for example, pork has been one of those where they produce sausages. There is good consumer interest in those smaller niche products. For the farming community as well, there is always going to be a variety of efficiencies on those farms in terms of the way that they are managed and run. We tend to think of farmers and farming groups as all the same, as if they are almost like a factory unit that is producing a product at a certain price. That is not true. What is interesting is trying to address some of those efficiency issues directly with those who are in the mainstream supply, looking at things like efficiency and breeding, to help them also make money. There is money to be made in the mainstream supply to main supermarkets. I do not think we should see the niche player as the panacea for the industry, for example.

Q185 Dan Rogerson: It is quite often farmers who own the processing but not British farmers. There is a question about the issue of pressure to change the way pig farming is carried out in this country which came through retailers and through government. Now that that change has happened, it is get on with it yourself, farmers. That is the situation you have to work in. Do you think that is a fair summary of what has happened?

Mr Opie: In terms of the government or in terms of the market?

Q186 Dan Rogerson: In terms of the retailers involved in what the government decided to do, in terms of tightening up and changing things.

Mr Opie: Certainly in terms of the animal welfare standards, retailers have been up front about that. If you look at all the statements of the major retailers, they make it clear that where they source outside the UK they look for comparable animal welfare standards to those in the UK, stalls and tethers being the clearest example. Retailers have stepped up to the mark here and said, “We recognise the government has a concern on animal welfare but we do not want to penalise our own home industry because that is absolutely at the core of everything we do in terms of British retail.” Therefore, we need to make sure that when we are buying a product we can assure ourselves that it is of an equivalent standard.

Mr Gray: What you are saying is entirely different to what BPEX are saying.

Q187 Dan Rogerson: That is what I was going onto. BPEX are saying that up to 70% of what is sold does not meet those standards.

Mr Opie: I think there is a difference between what might meet the BPEX quality standard and what would be legal in this country, talking about stalls and tethers. The one issue which often comes up is castration for example which is allowed in other countries and is perfectly legal. In fact, it is required in some countries, but it is not part of the BPEX scheme here and therefore would not qualify.
aside, the main issues which we are concerned about here—stalls and tethers, those sorts of issues—are covered in comparable standards and are also audited across Europe.

Q188 Dan Rogerson: That is a 70% figure on the strictest interpretation of things. You mentioned stalls and tethers in particular and the ability to move round as crucial. Could you give us a percentage figure for what you think meets those slightly more limited standards?

Mr Opie: When you say “more limited standards” are you talking about—?

Q189 Dan Rogerson: More limited than what BPEX are telling us would be legal.

Mr Opie: They are not illegal standards but they might not qualify for the BPEX standards. I do not have a figure to hand on that. 80% of fresh pork sold in UK supermarkets is British produced. Up to about 50% of bacon and ham is also British produced. If you take out that, not all of those pigs would necessarily have been castrated as well. You can see the sorts of margins we are starting to get down to.

Q190 David Taylor: Would you say that the Food Standards Agency has reasonable knowledge about what it is that consumers are looking for in food, in particular meat and in particular pig meat?

Mr Opie: I am not necessarily convinced that they always know what consumers are looking for in food. They are the authority on food labelling, so I would accept that point. I think there is a difference between consumer demand and what consumers are looking for when they go into a supermarket. That is the point I am making rather than the legal framework.

Q191 David Taylor: You acknowledge that they have a role, knowledge and expertise in terms of labelling. What they say comes head to head with what you say. They say that high on the list of consumers’ demands for change is better country of origin labelling. In your submission to us at 4.5 you say: “Country of origin, as demonstrated by research from IGD, is not a key factor in customer choice.” How can the FSA and yourselves both be right on this?

Mr Opie: We are right. We rely on the IGD figures which are produced regularly. That figure I quoted there came from a collaborative document that was co-sponsored by some of the supermarkets, the NFU and some of the producer groups as well. The particular reference there was that in the top five buying preferences for consumers country of origin was not one of those. That is a consistent figure. I am talking against things like price, quality, use by date, those types of indicators on a product compared to country of origin. It consistently scores lower than other factors in consumer choice surveys which have been done over a number of years by IGD.

Q192 David Taylor: It is a fairly convenient finding for your members, is it not? You are able to brandish the labelling that your members put in as being of British origin or whatever it might be, but when you are put under pressure to say, “It ain’t British by any logical measure that people have” you say it does not really matter to the consumer anyway.

Mr Opie: No. What I am saying is it does not matter to all consumers. What we do—what all good supermarkets do—is help consumers to make a choice. If you go into any major UK supermarket now, which we all do, you will see lots of products: bacon, ham, pork products, very clearly labelled as British with “British”, with the Union Jack, with the BPEX quality mark on fresh pork joints, country of origin, all of these things which go well above the legal requirements but are there to help consumers make the choice.

Q193 David Taylor: Not to mislead?

Mr Opie: Absolutely not to mislead.

Q194 David Taylor: Not with a veneer of national loyalty from national retailers which is not borne out by the evidence?

Mr Opie: Absolutely not. UK supermarkets are incredibly proud of the British pork they sell. They want people to be able to come and see it and choose it easily. That is why they support things like assured food standards.

Q195 David Taylor: Why do you not pay British producers more premium for the higher standards which they are able to deliver, welfare standards in particular?

Mr Opie: They do pay a good price for the pork. We have already been discussing the rise in the DAP price that we have seen over the last year for example.

Q196 Chairman: You have now been presented with a piece of evidence which the Committee has. It is but one example, the one I used earlier in my questioning of Mr Dyson, but it does seem to be somewhat at odds with what you are saying. Do you want to pass an observation?

Mr Opie: When was this photocopy taken?

Chairman: It was sent to us by one of our witnesses.

Q197 Mr Gray: It says on it 17 August.

Mr Opie: Which year?

Q198 Mr Gray: 2008?

Mr Opie: That product is not illegally labelled as it stands.

Chairman: I do not think it is the legality that we are questioning. It is the fact that the word “Britain” is printed there. For the person who shops by eye and may not get down to the bottom bit, when they see the collection of meats that have gone into that, they might be surprised to learn that a pack of bacon contained meat from so many countries of origin. I know it says “Britain” and not “British”.

5 Ev 54

6 Ev 102
Q199 David Taylor: The four key qualities of advertising includes truth and honesty. It may well be that technically what is on that label is truthful but it is not honest, is it? It is misleading. It is trying to lead people to the checkout believing that somehow they have supported the British industry when all they have done is support some firm that has wrapped it up in polythene in Kent.

Mr Opie: I do not agree with that. If you took a photograph of the whole of that chiller cabinet for example, you would be able to pick out lots and lots of products which had the BPEX mark on them. They have the union jack mark on them. They may have “Produce of Britain” on there, but there is an absolutely easy choice for consumers to make when they go into a supermarket.

Q200 Chairman: Mr Opie, you take a very correct retail point of view and I do not blame you for defending your members with vigour. I appreciate that it is dangerous to generalise from one specific example. The fact is that there is a problem and that is that, technically, if you process certain items in the way that this product is processed, you can describe it as “Produce of Britain”. When you come to the bottom bit, this is where the consumer is not understanding the nuance of what you can call for whatever reasons British. They then look to find that there is this collection. They will be confused because they are not as expert as you are in what is and what is not permitted in terms of labelling.

Mr Opie: Absolutely. Retailers have moved a long, long way in terms of their labelling of product.

Q201 Chairman: Since 17 August?

Mr Opie: This is a very unique product that you have here and it is not representative of the marketing and advertising of product that goes on in stores. I was in two or three of my local supermarkets coming here today. I just wanted to have a browse around to see what they are doing. You are faced with a mass of Union Jacks, BPEX stickers, AFS, little red tractor stickers, in a store. I could not see one like this example but, if you look at the mass of UK advertising and British produced pork from farms as a British product, you cannot miss it when you go into a supermarket.

Q202 David Taylor: Is it your view then that British consumers, if there is not too substantial a price differential, would prefer British meat and higher standards of welfare?

Mr Opie: I think they will. I am not sure whether UK consumers would necessarily understand some of the animal welfare issues. I think they understand country of origin better than they would necessarily understand the nuances of animal welfare, for example, if you were to look at those.

Q203 David Taylor: Who do you think should be responsible for alerting consumers to the differences that exist in terms of the welfare of husbandry in different countries?

Mr Opie: I think retailers try to do that in terms of some of the differentiation of the product that we have seen. We have seen outdoor reared and outdoor bred. We have organic products. If you go into poultry or other areas, we have free range. They have all been grown with consumers and consumer demand to take them forward. Retailers continue to label those clearly so that people can make the choice when they go into a supermarket. That is what we are faced with when we go in every day.

Q204 David Taylor: Who in general do you feel is responsible for clear labelling? Is it the processors from whom your members buy or the person that effectively puts it into the chiller cabinet?

Mr Opie: The supermarkets themselves you mean?

Q205 David Taylor: Yes.

Mr Opie: I think the supermarkets have a responsibility.

Q206 David Taylor: A responsibility or the responsibility?

Mr Opie: They have a responsibility because obviously they need to check things like their sourcing policy et cetera with the company that is producing the product.

Q207 David Taylor: How often do they do compliance audits and checks of accuracy of labelling by someone else further up the supply chain?

Mr Opie: They will do that regularly themselves and also they are challenged regularly. Today we would be regularly challenged by consumer groups, the FSA, Trading Standards, people like BPEX and various other groups to say, “Hang on. You are not labelling correctly here.” That is the way it should be. Supermarkets are quite happy to argue their case when they are challenged.

Q208 David Taylor: More and more produce is bought over the internet. That would be true for all your members, I guess. Has any particular examination been undertaken about the labelling in the internet sense of what consumers can find about the origin and standards of upbringing of meat on an internet website?

Mr Opie: I am not aware of any. Are you talking about an FSA survey?

Q209 David Taylor: Are there any different expectations where meat has been bought over the internet as opposed to being picked out from a cabinet so that it can be examined with all of the labelling thereon?

Mr Opie: No, not at all. The supermarket will try and make every effort to make it clear. It is a different environment because obviously when you are in a supermarket you are picking it up and looking at the pack but they do find ways to demonstrate on the internet clear labelling, again to help people make the choice. That is what labelling is all about.
Q210 Mr Gray: How would you react to the thesis that it would be in the supermarkets’ interests to label clearly where they are seeking to persuade the consumer to pay a higher price for a particular product? Whether it is organic or free range, there are big signs saying, “Please pay a little more because we are delivering something you want.” The contrary equally would apply. Where they are seeking to sell the product as cheaply as possible, like this Tesco product that we saw here, there will be an incentive on a supermarket to be not intentionally misleading in a wicked way or an illegal way but they might be incentivised to seek to sell something to a consumer not realising what it was they were buying. In other words, when you say there are Union flags and free range and so on, there would be, would there not, because they are trying to flog that? Where they are trying to persuade someone to buy something cheaply and still say it is equally good, that is where you end up with unclear labelling.

Mr Opie: No, I do not agree. I do not think you need to compromise on labelling. You can compromise maybe on the packaging for example. You can make differences in terms of the way you might promote it in store compared to other products but I do not think labelling would be compromised necessarily. If you look at the basics ranges for example, which I am sure you would in the supermarkets, you will see that there is still a lot of labelling on those products.

Q211 David Taylor: It is in the economic interests of your members, is it not, to give the impression of national loyalty without adding a single link of sausage to the UK supply chain in terms of value?

Mr Opie: No, I do not agree with that. If you look at how much is sold, how much is paid into UK farming by supermarkets, who are clearly their biggest customer in pork, the amount that they pay, the number of farmers who work with supermarkets who have built their businesses with supermarkets, I do not agree at all. They are commercial businesses. They are in business to make money. That is absolutely true, as are farmers. The key people are looking to build long term, sustainable relationships with their farmer suppliers so they can all move forward together. I do not agree with that at all. We all need to be able to make enough from the supply chain to look forward to a long term relationship.

Q212 David Taylor: I am grateful for the comment you made earlier that your members try hard—I may be paraphrasing now a little—to educate consumers to distinguish between that which is reared in the UK or in accordance with UK welfare standards and that which is not. You think enough is being done, do you?

Mr Opie: In terms of welfare standards, I think the key thing is the issue of comparable standards. Do not compromise on standards if you are taking it from outside the UK compared to that which is produced in the UK. Consumers may not know that much about animal welfare standards when they go into a particular supermarket. Therefore they do not need to worry about that decision because it is already being looked after by the retailer who has put the product on the shelf.

Q213 David Taylor: Do you think it should be the responsibility of hard pressed welfare groups to promote to consumers the importance of having higher welfare standards for the meat which they are about to buy?

Mr Opie: If you look at freedom foods, organic products, those sorts of things, the promotion is done with the supermarket. The supermarket is the promoter with the RSPCA for freedom food, with the organic groups, to grow those markets together. We have seen a major change in our animal welfare standards in this country.

Q214 David Taylor: I would hazard a guess that the ethical groups like the Co-op and possibly also Waitrose spend a higher proportion of their marketing budget on trying to encourage their consumers to distinguish between high environmental and welfare standards for the products they are buying. I would guess they would spend a higher proportion than Tesco and the Asdals of this world.

Mr Opie: I simply do not agree with that assertion. There are different consumers for different issues and there will be different shoppers who go into a shop with a different set of criteria in their minds in terms of the products that they buy. I would definitely agree with that. Any smart retailer is going to fit their sales to that particular consumer to make sure they spend the most when they come into their shop. If you look at what all supermarkets are doing across the board, in animal welfare or in other areas, they are all moving forward. The volume retailers are the ones who can also make the biggest difference.

Q215 Chairman: From Waitrose’s standpoint, they seem to have a very good relationship in terms of their supply chain. Mr Sinclair, you were talking about that earlier on. It seems to me in contrast to the messages that the Committee has been getting from other leading supermarkets which say that, in the light of the OFT’s ruling following the milk case, they are now exceedingly worried about what kind of relationships they may have in the context of their supply chains. I heard of one meeting which took place where representatives, officials, retailers and others were present and the retailers only turned up in the company of a competition lawyer who effectively said, “You can and you cannot talk about this or that aspect of the supply chain relationship.” That obviously makes life difficult in building the kind of harmonious relationship which you seem to enjoy. How is it that Waitrose have done it? Mr Opie, what is it that troubles the rest about doing the same?

Mr Sinclair: For us, it is working closely with the supplier and the agricultural team—in our case, the BQP—who manage the day to day relationship with the farmers. Our role is to turn up at events throughout the year, when we are invited, to give an
update in terms of some of the Waitrose developments, how our business is going, what sales are like, so that they feel part of that business. We also have a magazine that we issue to all our farmer suppliers three times a year so that everyone across the different supply chains have a better idea of what the challenges and issues are in different sectors. We are about to publish the next edition in the next couple of weeks. We are going to have a pig farmer, a dairy farmer and a salmon farmer write about the year in their supply chain. For the next year we will use these three farmers, to share the challenges of their supply chains across a wider range of supply chains. They are all farmers, each with different challenges and we are keen to get others and other supply chains to understand what are the common issues.

Q216 Chairman: You have achieved this relationship without contravening competition law. You are happy bunnies. You can do that. Mr Opie, why do other supermarkets currently feel deeply nervous about building supply chain relationships, taking into account the findings of the milk judgment?

Mr Opie: I think we should remember how large some of those fines were first of all that were levied on the companies under the milk case. That has quite naturally made companies nervous about some of the issues on competition and the OFT. That does not stop the supply relationship discussions. I have spoken to two or three supermarkets today who are also continuing to have a dialogue with producer groups in particular. Some of them have had problems where they maybe have started a meeting about one thing and then it has moved on to price. At that point, they may stop the meeting but, as I understand it, although it is more difficult now, those relationships are still carrying on. There is still discussion with producer groups. I know there is a lot of interest in terms of working with groups of farmers generally across agriculture and pigs are no different to that. I think they will continue but people are naturally more cautious post the milk case.

Q217 Chairman: On behalf of members, are you doing any work to identify what I might call the more sensitive areas? The idea of major retailers talking with their suppliers is as old as the hills. It is one of the most fundamental things that retailers do if they want to achieve the product mix that makes sense to them. I come back to when the Scottish Pig Group was started. If a situation like that is a task force, and I think they have had only two meetings possibly up to now. The competition issue aside, because there is a risk if you get all the potential buyers of pork together with all the potential sellers of pork, you could run into issues there, the two positive issues which she felt it has

Q218 Chairman: You would argue in simple terms that there is no barrier to proper supply chain relationships being established. Taking the Waitrose model, the primary producer understands very clearly what the retailer wants.

Mr Opie: I think they need to understand what the parameters of the discussion can be before retailers are going to get nervous about possible breaches which could end up with the OFT. Therefore, as long as those issues are understood at the start, there is no reason why there should not be a constructive dialogue.

Q219 Chairman: It is evident that in this area of fresh produce a number of supplier groups have been formed, not exclusively for pig meat but for a variety of raw material inputs. That again made me wonder why it was, if that can be done, we still have this worry about what the OFT might or might not approve of. Have you had any discussions as the BRC with the OFT about what is and what is not permitted?

Mr Opie: No, but we have had discussions with government in terms of what is and is not permitted in terms of discussions with them.

Q220 Chairman: What are the areas that need to be cleared up if good supply chain relationships are not to be marred by simply putting money in competition lawyers' pockets?

Mr Opie: I think the simplest thing to avoid is too much discussion around ultimate price between retailers, because that is the thing that is going to end in trouble. The problem is, most of the farming groups are, quite naturally, lobbied by their members because their members want to earn more money, so the first thing they want to talk about is the price that is paid for particular products, and that is a tricky subject.

Q221 Chairman: Let us move to the question of this Pig Task Force which the Scottish Executive established. Our previous witness, who nosed up to it but was not let in through the door, could not help us in identifying what it was supposed to do. Can you help us? What is it supposed to do?

Mr Sinclair: I do not have any details of it.

Mr Opie: One of my Scottish colleagues is on the task force, and I think they have had only two meetings possibly up to now. The competition issue aside, because there is a risk if you get all the potential buyers of pork together with all the potential sellers of pork, you could run into issues there, the two positive issues which she felt it has
developed, thus far at least, is first a better understanding of what everybody is doing within the chain at the moment, and we have been through some of the issues today and she said they found that incredibly useful, to get people round a table and say what their interests were going forward, so that has been one thing, a better understanding. The second is to identify some of the issues, which I know you have discussed previously in this committee, around things like carcass balancing, for example, and promotion of certain parts of the pig, which might help the pig farmers maximise the price that they can get, so some of the traditional issues which maybe through the Levy Board they are bringing together in a wider forum, hopefully at some point to include both hospitality and retail, and therefore bringing all the sellers and users of pork forward, but it is in its early days at the moment.

Q222 Chairman: At the risk of saying that the solution to every problem is starting up another official initiative, is it worth having one for England? I sense, Mr Opie, the answer is perhaps not.

Mr Opie: I am really not sure whether it is. I am looking at the inquiry you are having now. You are having an inquiry when actual pig farmers are doing relatively much better than they were six months ago, and I think the whole starting point of your enquiry is, is pig farming a cyclical business and are we in a peak or a trough at the moment? I am not sure, therefore, whether you would achieve all of the things that you would hope to do that you are not already doing. Maybe bringing in all of the people who do not normally voice an opinion or are not normally there into the conversation might be useful, but I am not sure.

Q223 Chairman: Let us turn to carcass balance. Mr Sinclair, in your evidence you make particular reference to the work which Waitrose has done on that. You are obviously aware of its importance in terms of the overall economics of pig production, so perhaps you could talk about what you have done, what lessons there are to be learned, and, Mr Opie, you might talk in more general terms about how the industry can improve the utilisation of the carcass, what the barriers are to progress.

Mr Sinclair: A fundamental issue for us in terms of maximising the value and return from the carcass is to make the most use of all the individual parts, so what we have is a product that is for fresh retail sale, and then we have the same provenance in that it is the same product that is then used for sausage, ham, bacon, and in our ready meals and ready-to-cook meals. So we are using the same provenance and the same quality in the processed product area as we have in the fresh product, and that is something we do not only in the pigmeat sector, but also for lamb, beef and in other sectors.

Q224 Chairman: Would you like to hazard a guess as to what percentage of the carcass, the meat supplied to Waitrose, is utilised?

Mr Sinclair: I do not have specific figures here with me, but I could try and get them for you.

Q225 Chairman: It would be really helpful to be able to compare them with the overall picture that we gained from BPEX just to get an idea if somebody is positive of what you can achieve. Mr Opie, what about the wider industry barriers to progress in this area?

Mr Opie: One of the benefits we have seen from the credit crunch and people looking at the price is that we have been able to market a lot more some of the cheaper cuts of pork, for example, which we found it harder to sell previously. If you look at the MLC’s figures in terms of the sales of pork cuts, for example, things like belly and pork mince have really shot up over the last year. That has been a great opportunity to supermarkets to bring both value and a better carcass balance into the equation. I guess the problem is that some retailers will maybe over-trade in one particular area for British pork, it could be bacon or ham, for example, and that would be their big selling point with their customers, because that is important to their customers, and therefore a lot of the issues about carcass balancing, both in terms of making the most of the pig and some of these bits of the pig that none of us in the UK particularly wants to eat is with the processors, because pork trade is a global issue as well as being a UK or an English issue. Therefore, whilst retailers can promote some of the cuts which we traditionally have not eaten so much here, which will definitely help, I think ultimately the processors are best placed to try and help the whole industry in terms of maximising the carcass balance.

Mr Sinclair: Can I just follow on from that, because it ties in neatly with the current economic circumstances? We have recently launched a “Forgotten Cuts” campaign and have enjoyed quite a lot of publicity from that. It is putting products like pig cheeks back on our service counter, as well as pig’s trotters, lamb shanks and beef cheek. So it is something that we believe is an opportunity to look again at some of these cuts that were used traditionally. Some of my colleagues have been back looking at some of the 40- and 50-year old cookery books, looking at different recipe ideas and supporting this initiative with some of these recipes, and after two weeks of sales it seems to be going quite well. It is going to be a small proportion of sales but I think it demonstrates what is possible.

Chairman: Gentlemen, thank you very much indeed for your contribution, both oral and written, we are most grateful, and thank you for agreeing to supply us with some additional material.
Supplementary memorandum submitted by the British Retail Consortium (Pigs 25a)

I would be grateful if you could provide the Committee with a breakdown of price increases between August 2007 and August 2008, illustrating how the increases in cost and retail price are shared along the supply chain.

In my oral evidence I explained that the BRC has been tracking farmgate livestock prices and retail meat prices to demonstrate that farmers had earned a larger proportion of the share in the chain, during a time of rising prices. For obvious reasons, as in all supply chains costs increase through the chain, due to increased labour, energy, property and other costs, hence it is better to look at % increases in price.

Using BPEX published figures in September, the deadweight average pig price (DAPP) increased to 137p/kg in August 2008, compared to 109.8p/kg in August 2007, an increase of 24.7%. At the same time, using ONS published figures the retail price of bacon increased from 645p/kg to 693p/kg an increase of 7.4% and pork loin rose from 496p/kg to 566p/kg in the same period, an increase of 14.1%.

Retailers, through competition and promotion have kept the price increases to consumers to a minimum whilst not penalising farmers, a point that is demonstrated by the increase in their share of the final price. Using the same approach as the one used by the Competition Commission in their recent report on the grocery sector, which analysed the pig supply chain (Appendix 9.5) this is demonstrated below.

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<tr>
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<th>Pork Loin</th>
<th>Bacon</th>
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<td>p/kg Share %</td>
<td>p/kg Share %</td>
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<tr>
<td>Farmgate pig-meat price</td>
<td>109.8 22.1</td>
<td>137 24.2</td>
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<tr>
<td>Processor cost and retail margin</td>
<td>386.2 77.9</td>
<td>429 75.8</td>
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<tr>
<td>Retail price</td>
<td>496</td>
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What proportion of imported pigmeat do you estimate would meet UK legal welfare standards?

It is difficult for the BRC to be too precise in this answer for two reasons. Firstly, we do not have access to the current figures of where imported produce is sold and secondly, the BRC does not represent the whole of the retail sector. However, the BPEX report of 2005 regarding imports estimated 60% of imported pork is sold through retailers. The BRC represents approximately 80% of grocery sales in the UK and our major members have all confirmed that their pork is produced in conditions that would meet UK legal standards.

This means we would estimate that at least approximately 50% would meet legal welfare standards. That figure, of course, could be higher, depending on the sourcing policy of the hospitality sector and non-BRC retailers but we can’t comment on their behalf.

Do all your members only buy and sell imported pork that meets UK welfare standards? Did you mean legal standards or BPEX quality standard meat when you referred to pork that retailers buy here?

All of our major members have confirmed that all their pork meets legal UK welfare standards. The key issue which was raised in the inquiry was the use of stall and tether in pig production which is banned in the UK. Our members have confirmed that they do not take pork or pork products from totally confined systems.

Not all of this meat would meet the requirements of the BPEX quality scheme. For example, castration which is legal in the UK and routinely used in Europe is not allowed under the BPEX scheme. For those customers that are particularly interested in compliance with the BPEX scheme, our members do have those products clearly marked with the quality scheme label.

How might the consumer be educated to distinguish between meat that has been reared in the UK, or in accordance with UK welfare standards and meat that has not?

In terms of meat that is produced in the UK our members make it very easy for consumers to choose it. As well as providing country of origin, which goes beyond legal requirements, they use descriptions in the label such as British ham from British pigs, and use clear labels such as the Union Jack or the Assured Food Standards red tractor label.

By sourcing imported meat that is not from stall and tether systems they have also helped consumers in not having to choose between products on basic welfare issues. Research shows the bulk of consumers do
not put welfare issues high in the list of decision making when choosing a product. It is also difficult to communicate detailed welfare issues to consumers, but supermarkets did not want UK farmers to be penalised, hence their decision on equivalent sourcing requirements.

Andrew Opie
Director of Food Policy
November 2008

Supplementary memorandum submitted by Waitrose (Pigs 05a)

CARCASE BALANCE

During the oral evidence session the Chairman of the Committee asked for Waitrose to provide additional information on the level of carcase balance which is being achieved from the integrated Waitrose pig supply chain.

We have examined the data available and over the last year the average figure we are achieving on a weekly basis is 88%. This is detailed below:

- Weekly production: 100%
- Waitrose own label sales (pork, bacon, sausage): 57%
- Sales to partnering suppliers (manufacturers of Waitrose cooked meats, pies, pizzas, ready meals, ready to cook products): 31%
- Sales to others: 12%

Duncan Sinclair
Agriculture Manager
26 November 2008

Memorandum submitted by the Department for Environment, Food and Rural Affairs (Pigs 19)

INTRODUCTION

1. This Memorandum sets out Defra’s responses to the questions identified by the Committee for its inquiry into the English pig industry. They are considered from an England perspective although many factors are relevant across the UK and this is reflected in the response (England accounts for about 82% of the UK’s breeding pigs; Scotland 9.4%, Northern Ireland 8.5% and Wales under 1%).

Q1. What is wrong with the pig industry in England? Are present problems more than just a cyclical imbalance between supply and demand?

2. The overriding challenges facing the English pig industry in the past couple of years have been the impact of increased global feed prices and the failure of market returns to keep pace with increases in production costs. These challenges have to some extent been compounded by other factors which, on their own, may have had less impact than perhaps they did (for example, the cost of new EU legislation, or necessary limitations imposed on livestock movement during animal disease outbreaks). In common with the other livestock sectors, the pig industry also has concerns about general macro-economic issues and international trading conditions and competitiveness. The pig sector has long been largely unsupported by CAP, so this sector has been relatively little affected by CAP Reform measures.

3. Defra estimates of incomes for pig farms in England published at the end of January 2008 indicate average commercial pig farm losses of £4,100 in year to end of February. This compares with an average income of £24,400 in the same period in 2006–07.) Provisional figures from the June 2008 Agricultural and Horticultural Surveys of the UK Agriculture Departments show a decrease in the UK female pig breeding herd of 6.7% overall from June 2007, and a decline in the total pig population of 3.6%. Further statistics on UK pigmeat production and breeding pigs can be accessed on the Defra statistical website. Relatively high sow slaughtering levels reported for the first months of 2008 indicate some contraction in the breeding herd as producers leave the industry (although the cull sow level will in part follow the FMD movement restrictions of last Autumn, and improved prices in the EU for sow meat). The increase in feed costs has of course had a global impact upon pig production: throughout the EU reported estimates are of an overall decline in production of 2% in 2008. Rising EU prices may now be helped by some tightening in supply.
4. Feed costs account for over half the costs of producing a pig. Feed prices rose globally following two successive lower wheat harvests, nearly doubling in the twelve months between March 2007 and 2008. Since March 2008, cereal prices and hence feed costs have started to fall from their peak, and prospects for the global 2008 harvest are generally favourable for both maize and wheat. The UK wheat harvest is still weather dependant but UK feed wheat futures have been falling and are currently (September) around £70/ton less than the highs recorded in late February. Clean pig prices have meanwhile shown some increases in 2008, and producers will have benefited to some extent from the fall of sterling against the euro. If these price trends are sustained through to next February then a partial recovery in profitability in 2008–09 should be seen, although the 2008 harvest and its impact on feed prices remains central.

5. Animal disease outbreaks of classical swine fever and FMD (Foot and Mouth) have impacted significantly on the industry in the last few years. Last year’s FMD outbreaks and necessary restrictions came at a time when producer margins were already squeezed. The impacts included the loss of third country exports, particularly to China which traditionally provided an outlet for the “fifth quarter”: this added to production costs, because of lack of alternative outlets.

6. Lowering animal disease risks is the main objective of the current Defra work looking at how responsibility and cost sharing for animal health can be re-balanced between government and the livestock sector. Improved decision making and incentives to livestock farmers delivered through a different balance of the costs should help reduce the incidence and severity of disease outbreaks. Such an outcome would contribute to strengthening the longer term viability of the pig industry (and all livestock sectors).

7. Regulation in livestock sectors, including pigs, is essential to protect public and animal health and welfare and the environment. Many England regulations follow common EU standards and requirements and in negotiating these it has been a priority for the UK to ensure that controls are proportionate and avoid unnecessary burdens on industry. Understandably, especially at the present time, pig operators are concerned about meeting regulatory costs such as the environmental controls under the Integrated Pollution Prevention and Control (IPPC) Directive, although the sector has had over 10 years since the IPPC Directive was agreed to come to terms with it and its costs.

Q2. Are domestic pig welfare standards a principal reason that English producers have problems competing with those outside the UK? Are there other reasons?

8. The vast majority of pig meat imports into the UK are from EU countries. UK market demand for bacon in particular has meant that there has always been a need to supplement UK production, but in recent years there has been growth in imports, particularly from Denmark and the Netherlands. In terms of animal welfare, there are few areas in which UK law goes beyond the requirements of EU minimum standards, and in those areas Defra has worked to secure a more level playing field in the future. This Government’s approach is to seek future improvements in welfare standards at an EU level. Certain other Member States have also introduced national requirements that exceed the minimum specified by EU Directives, for example, Sweden, the Netherlands (hygiene standards) and Germany (increased space requirements for rearers and finishers). Castration of males is commonly in use in other EU countries but not in the UK where, although not illegal, the practice is not permitted by the farm assurance schemes which cover most UK pig producers.

9. The principal difference currently between the UK and other Member States’ pig welfare legal requirements is that in the UK, tethers and close-confinements stalls for breeding sows have been banned on a unilateral basis since 1999. In the EU, tethers have been banned from 2006 and sow stalls will be largely banned from 2013 (keeping sows in close-confinements stalls for the first four weeks after service will still be allowed). In 1991, when the unilateral ban by 1 January 1999 was agreed, the cost to the UK pig industry over that period was estimated at about £9 million. The initial cost of conversion may have caused some difficulties for the UK pig industry, although new systems would be completed by 1999. Defra has no analyses of the current impact of the UK ban on close-confinements stalls and tethers for breeding sows on production costs. An InterPIG study in 2006 showed 12% higher production costs in the UK than the EU average, but it is likely that other factors will have a significant role in relative costs—physical performance of the herd, feed costs, land and labour costs etc. We note that the Farm Animal Welfare Council (FAWC) recently considered pig welfare standards in relation to production costs and concluded that both legislated and voluntary welfare standards will have increased UK costs of production, although non-welfare production costs “also differ considerably between countries” (reference FAWC letter of 7 July 2008 to Richard Lochhead, Scottish Government—www.fawc.org.uk).

10. Defra has encouraged the industry to use high welfare standards as a marketing advantage. More than 90% of UK pig meat production comes under farm assurance schemes with audited and inspected welfare standards. Ultimately of course the success of such a strategy will be down to market forces. The industry would like improved country of origin labelling, so that consumers can be assured that they are buying products produced to certain standards. EU proposals for Food Information include measures which should be helpful to this.

11. Some non-EU countries have lower welfare standards than apply in the EU but their pig meat exports to the UK make up only a small fraction of the UK market. We have no evidence that global variations in standards have a significant impact on relative competitiveness when compared to other factors in the costs...
of production. Production in South America benefits from self-sufficiency in grain production and the low cost of its facilities, labour and land. Similarly, production costs in the US are significantly lower than in the EU but benefit from economies of scale and good disease prevention and quality management. We would be naïve to think that we can impose our welfare standards on others—WTO rules do not allow members to restrict trade in products based solely on the method of production (e.g. on animal welfare grounds) and the UK adheres to the principle that developing countries should be granted equal access to our markets without having processing standards imposed. Developing countries in particular fear that animal welfare production standards will be used as an excuse for protectionism.

12. We note that the EU Community Action Plan on the Protection and Welfare of Animals 2006–10 envisages the introduction by 2009–10 of standardised welfare indicators and an EU wide welfare labelling scheme. The aim is to facilitate the choice of consumers between products obtained with basic welfare standards or with higher standards. The Commission has been charged by the Council of Ministers to assess further the issue of animal welfare labelling and to submit a report to the Council in order to allow an in-depth debate on this subject.

Q3. What could supermarkets and the hospitality industry do to alleviate the pressure on the domestic pig industry?

13. The pig industry have been campaigning for better economic returns on their products within the supply chain, to restore profitability after higher production costs. The setting of prices is of course a commercial matter to be resolved by private negotiation which should take place within the parameters set by competition law. The market must determine price levels. However, in recognising long-term needs of their customers, supermarkets have to consider how best to maintain a sustainable supply of products demanded by those customers. Some UK supermarkets have already pledged support for British pig producers in their product sourcing policies.

14. In response to the Competition Commission’s 2008 report into the groceries market BERR, which has responsibility for Competition issues, has collectively agreed a government response on recommendations. Additionally, although it was not an official recommendation the Commission suggested that BERR and DEFRA should consider extending the Code of Practice, or the introduction of appropriate measures, including the extension of the GSCOP (Groceries Supply Code of Practice) and the role of the Ombudsman or the introduction of a similar, complementary code and arrangements to cover the intermediaries and primary producers. In response to the CC’s suggestion, Government are grateful to the CC for highlighting this issue but would want to see how any change impacts on the operation of the supply chain before considering whether any further action might be necessary.

Q4. Can the Government do more to support the industry either directly or through its procurement policies?

15. UK Government is keen to ensure that sustainably produced food is readily available in sufficient quantities, but it is not—generally—the role of government to manage food supply nor carry the risks associated with such private enterprise. The pig sector has traditionally played an important and significant role in a diverse food supply industry, and it possesses many strengths from an effective and efficient structural profile (with strong leadership) to high product standards and quality control. Whilst sympathetic towards the sector’s current market challenges, the Government maintains the view that managing these challenges is essentially a matter for the industry itself. It is worth noting, too, that the England pig industry operates in European and global markets, and is not alone in facing these demanding challenges.

16. The pig sector’s long term sustainability will continue to depend upon its ability to compete successfully upon market principles, including performance, quality and welfare standards. The industry has achieved much in these areas in recent years, while being largely unsupported by the CAP, and notwithstanding the decline in production after 1997. Between 1997 and 2007 the size of the UK pig herd decreased by some 40%, to 4.8 million pigs, and import penetration increased, although by 2006–07 the national herd size appeared more stable. (The sharpest decline was in the five years following 1998, regarded generally as a year of peaking production when consumers were substituting pork for beef. The industry was also affected by outbreaks of animal disease including Classic Swine Fever.) Continued investment by the industry will be key, although the current priorities for many producers may be re-establishing profitability and clearing debts.

17. In 2000–01, the Government invested directly to help secure the longer-term viability of the sector by granting £37 million (over 3 years) restructuring finance. That was a very significant, but one-off, grant to allow the sector to take sole responsibility for its long-term economic future. Further direct intervention in the sector would not be in accord with broader Government policy or approach to CAP Reform aimed at achieving a farming sector which is profitable without the need for distorting and costly public subsidy. Nevertheless, the Government has consistently assisted the pig industry, within these parameters, as instanced below.

18. More recent, and ongoing, Government support has included:

— support for measures taken by the European Commission to increase the supply of feed grains and reduce prices. These include suspending the duty on imports of third country cereals, re-selling the...
remaining intervention (public) stocks of grain and removing the requirement for farmers to keep land out of production for the 2008 and 2009 harvests. As a consequence EU cereals production this year is forecast 16% higher than in 2007 and feed wheat prices have fallen around 32% since the start of the year. We also support further reductions in market support in the on-going CAP Healthcheck;

- aware of industry concern that feed imports are affected by delays in the EU approval regime for GM products, the Government have encouraged the European Commission to find ways of speeding-up the approval regime without compromising on safety;
- direct support in export promotion, including re-opening markets closed as a result of EU/UK animal disease outbreaks. Following the Foot and Mouth outbreaks last year Defra has been working hard, with the industry, to reopen profitable non-EU markets. Many key markets are now open—including Japan, US, Canada, Philippines, Malaysia and Thailand. China lifted FMD related import restrictions on 7 August 2008 (meaning that the export of breeding pigs can resume) and have just agreed a protocol on pigmeat which is a big step towards eventual acceptance of our exports (estimated to have a potential value of more than £10 million per annum). There is still some way to go on more difficult markets like Russia and the Ukraine;
- also in the aftermath of the animal disease outbreaks last year Defra gave a £12.5 million package of aid to the livestock farming sector. While this mainly benefited non-pig sectors it included £2 million to promote the marketing of red meat, including pork;
- support for better product labelling. Pig producers in England have long been concerned that pork products such as bacon may not be labelled with the country of origin of the pork. Defra is liaising closely with the Food Standards Agency (who lead on such labelling matters) to support new food information proposals issued by the EC which would require, when the country of origin is identified against a product, the origin of the main/defining ingredient to be declared also if different;
- significant investment in research of interest to the pig sector, commissioning approximately £38 million on pig-specific projects with end-dates after January 2000;
- Defra contributes £1.5 million per annum towards the costs of a scanning surveillance programme to facilitate early detection of new pig disease threats and changes in disease trends, to facilitate prompt intervention. Monthly reports are published by the Veterinary Laboratories Agency and are also made available on the BPEX website to enable easy access to its members;
- Defra provides a representative on the British Pig Health & Welfare Council subgroup which is developing a strategy to improve the health of the national pig herd, thereby enhancing performance, welfare and sustainability of the industry.

19. The Public Sector Food Procurement Initiative (PSFPI) was launched in 2003 to encourage public bodies in England to use the £2 billion they spend on food and catering services to help deliver a world-class sustainable farming and food sector. Among the PSFPI objectives are ones to increase tenders from small and local producers and promote higher standards of animal welfare. In support of the objective to improve animal welfare we are encouraging public bodies to specify higher animal welfare in the procurement of meat. For this purpose we have produced a model specification clause that allows buyers to give extra weighting to produce meeting higher level standards such as those meeting the criteria of RSPCA’s Freedom Foods or equivalent, when awarding contracts.

20. We have also worked closely with the Meat and Livestock Commission and now the Agriculture and Horticulture Development Board (AHDB) to improve the supply of red meat into the public sector, including pigmeat. The AHDB recently produced a DVD to promote less popular cuts of meat in the public sector in support of full carcass utilisation. The Government Office for West Midlands in collaboration with the Heart of England Fine Foods and with Defra funding will also shortly launch a cook book promoting recipes using less popular cuts. These are just as tasty as more popular joints but less costly, which is good news for public bodies.

21. Other examples include: the Defra funded English Farming and Food Partnerships’ “Share to Supply” programme to encourage and help farmers and food producers cooperate in supplying the public sector; sponsoring of events to raise awareness of suppliers such as one put on by the Meat Trades Journal in March 2008 and reported in their publication; and support for British Food Fortnight that this year is promoting the PSFPI.

22. More information is given on the PSFPI web site, which includes the publication “Putting it into practice” that explains the issues to public bodies and what they need to do. The web site also provides advice to producers to help them to supply the public sector either directly or through first tier suppliers. URL: http://www.defra.gov.uk/farm/policy/sustain/procurement/index.htm.

September 2008
Witnesses: Rt Hon Jane Kennedy MP, Minister of State for Farming and the Environment, and Mr Duncan Prior, Policy Advisor, Livestock and Livestock Products, Department for Environment, Food and Rural Affairs, gave evidence.

Chairman: We move into our final evidence session, and I have great pleasure in welcoming Jane Kennedy to her first session before the EFRA Sub-Committee of the Select Committee in terms of her recent appointment to Defra. We hope very much that you will be happy in your new department. I think you are on an almost vertical learning curve if those are non-sequiturs, having had to master the entire CAP for last Monday’s outing. You are now moving diametrically into an area which is not so directly involved with the Common Agricultural Policy, so thank you very much in your early stage for agreeing to come and give evidence to us and we hope you will be happy in Defra. Mr Prior knows all about this subject because he went to the David Black Award last year and munched his way through sausages and bacon and everything and therefore must be an expert.

Mr Drew: Perhaps he should declare an interest.

Q226 Chairman: Indeed. Perhaps he will be going to this year’s award, I do not know. You are a Policy Adviser to the Department in the livestock area, so you are very welcome. Do, please, both of you, feel free to join in the discussion, because we are anxious about the facts as much as anything. Minister, when a new minister has to face a new subject and you know you are going to be asked a lot of detailed questions, you say to the hapless official who has been summoned from the depths or the heights of Defra to come and brief you, “What is the problem?”, so when you ask that question what did they tell you?

Jane Kennedy: So far as the pig industry goes in the UK, you will have seen from the Defra submission that the advice I got is that there are broadly two problems. The first, certainly in recent times, has been the high cost of feed, and we can talk about the detail of what we have done to try and mitigate that high cost, but the second would be, and I am trying to find a succinct way of putting it, the lack of prices keeping pace with the costs of production, and there might be a lot of factors affecting the costs of production, some of which I know you have a deal of interest in here in the Committee. My practice has always been to say, “That is very interesting, and what is the pig industry saying? What are the representatives of the industry saying are the issues affecting them?”, and I must say, not to spare Mr Prior’s blushes, that he has been very effective in communicating the concerns of the pig industry. Indeed, we both went to visit a pig farmer in the East North Riding of Yorkshire two weeks ago, knowing that I was coming to this Committee. As a minister I always like to go and meet the stakeholder groups if they have a particular issue with either government policy or another policy affecting their activities; I like to go out and meet them and see the whites of their eyes.

Q227 Chairman: Let me ask you about another perspective on this. The pig industry as such is affected by a variety of European regulations but it has not been in the past an area of agricultural production subject to subsidy and payment from within the Common Agricultural Policy, and it is not unnatural that people in times of difficulty will come to the principal agricultural department. Defra, and ask for some help, so perhaps you could assist the Committee by laying out for us what responsibilities Defra thinks it has towards the pig industry.

Jane Kennedy: Our overarching aim is to ensure a thriving agricultural industry across the UK. That is the department’s responsibility and that applies as much to pig farming as to any other aspect of agriculture, and I am very quickly beginning to appreciate the vast range and diversity of agriculture in England in particular and the UK as a whole and all the different factors that affect it. I beg your pardon: I have gone off the point of your question.

Q228 Chairman: My question was a very straightforward one, which was, given the relationship of the pig industry to the Common Agricultural Policy, what do you think are the principal responsibilities that Defra has towards the pig industry? You have given me a clear picture about your view of the responsibility towards agriculture. For example, in your submission, in paragraph 3, it says, “Defra estimates of incomes for pig farms in England published at the end of January 2008 indicate average commercial pig farm losses of £4,100 in year to end of February”, and you can give some comparative income figures as well. That is quite a showstopper figure—average commercial pig farm losses of £4,100 a year. You might turn round and say, “Do we have any responsibilities in the light of an industry which clearly is in some difficulty?”. What do you think Defra’s responsibilities are towards the industry?

Jane Kennedy: They will be demonstrated in the action that was taken earlier this year when it was perceived that there were difficulties, as I said earlier, partly caused by the high cost of animal feed. The UK was instrumental in working with the EU to lift the duty on imported feedstuffs and to take at least two other steps to assist. One of them was—

Q229 Chairman: I am going to be very rude and stop you there because you are giving me a shopping list of policy responses. I will just come back to the central issue. If you had said to me, “One of our responsibilities is to ensure as a department that we do everything we can to ensure that the industry has, for example, a competitively priced availability of food”, that would have been a perfectly acceptable answer. Given that, for example, a number of the European directives which impinge on the industry have cost implications, you might have said to me, “One of our jobs is to minimise external cost increases on the industry”, but instead you have, not unnaturally, giving me a shopping list of short-term help measures. I am interested in trying to put a framework round the industry about what your
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Jane Kennedy: I asked you about welfare.

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It was seeking to quote examples of ways in which the department will work with the industry when we see a particular problem developing that might mitigate against the overall objective of a thriving industry. The definition of a thriving industry I am sure is open to constant debate between government, the industry and other stakeholders involved, but the department has taken action in the past to ensure that the pig industry in the UK is not adversely affected in an unfair way. We believe in keeping markets as open as possible because that is essential to sustain our food security, but very integral to that also is a thriving UK industry that can play its part not only in providing food to our home markets but also in exporting.

Q230 Chairman: Let us drop down one level of
detail. In looking at the industry we have been told that there are certain aspects of our industry which put us at a disadvantage compared with competition from abroad, and cost of production is one of those that is used. What is Defra’s analysis of the production efficiency of the UK pig industry? Does it, for example, believe that the industry overall is less efficient than its continental competitors?

Jane Kennedy: No. Our assessment is that we have a highly efficient industry, that it is competitive, but, more importantly, that it is producing pig food products to a very high standard with very high quality products and we acknowledge that some of the animal welfare requirements that we have placed upon the industry are to a higher standard than our competitors and therefore the department has been encouraging the pig industry to use that as a selling point for their products.

Q231 Mr Gray: I am terribly sorry, Minister, but what you said just now was inconsistent. You said that you were convinced that we have a healthy, competitive industry competing well with the rest of the world, but that we are proud of the fact that we have higher animal welfare standards than the places we are competing with. Surely by definition that means that it is not competitive, and indeed the evidence we are getting from other people is that the price which you can buy pigmeat at from European countries is 15, 20, 30% less than you can get it for here, and that is because of those very high animal welfare standards, which I am very proud of. I am glad that we have them, it was a Conservative Government that brought them in, but nonetheless surely that has made our industry uncompetitive.

Jane Kennedy: The high cost of feed has affected pig farmers right across Europe, and indeed right across the world.

Q232 Mr Gray: I asked you about welfare.

Jane Kennedy: There are a lot of factors that impact upon the cost of production, not just in the UK but across Europe. In terms of our animal welfare requirements, I understand that there are—and I do not know this; I have not visited yet—other European countries which have imposed higher standards than the European basic minimums, the European standard, and that in most of animal welfare the UK applies the EU standard. In pig farming I think it is fair to say that we introduced the ban on sow stalls and tethering early and those have had a major cost, but it is also true to say that other European countries will face those costs in the next two to three years as the ban is applied right across the European Union. My reply to you would be that I believe that in comparison to our competitors we are doing well. We need to understand what the factors are which are impacting upon the industry, and that is why I am keen to listen to what representatives of the industry are saying and to work with them with Defra to mitigate the impact, if it be the impact of European regulation, and to make sure that is implemented in a way and over a time period which our industry can cope with.

Q233 Mr Gray: If that is the case why is it that Wiltshire, for example, my own county, was historically the biggest single producing county of pigmeat, I think, in the whole of Europe, and the pig industry has now been obliterated in Wiltshire? We have not got any. It is gone, finished. Why is that?

Jane Kennedy: I simply do not know the answer to that.

Q234 Mr Gray: Farmers are coming here and saying they are going bust and the British pig industry is disappearing and that pig production in the UK is going to be finished and it is the end of the world. We are saying to you as Minister, why is that? Why is the British pig industry being destroyed in this way?

Jane Kennedy: I do not recognise the word “destroyed”. I would be interested to know what it was that has been impacting on the industry in Wiltshire. I know that there is still very profitable and productive farming of pigs going on but maybe that is in East Anglia and the East Riding of Yorkshire and Lincolnshire where I visited. I do not know whether you know more about what has happened in Wiltshire.

Q235 Mr Gray: I was just using it as an example of England as a whole. I am merely using Wiltshire as a good example. I was not saying there was something different about Wiltshire. Farmers have come before this Committee to say that unless something happens the British pig industry is finished. They cannot compete. The supermarkets are buying pigmeat from Europe 15, 20, 30% cheaper than they can buy it from British farmers.

Jane Kennedy: That is not what they were saying to me when I met representatives of the industry two or three weeks ago. They were clear that there were problems but it was not apocalyptic in the terms that you were using just now.

Chairman: It is not very good when they are losing as much money as has been indicated in our earlier exchanges, but Mr Drew wants to pursue this line of questioning.
Q236 Mr Drew: In terms of what James has just said, and I will not be as apocalyptic, certainly the producer who gave evidence to us the first time we took evidence was saying he had not made any money for three years and he is a larger producer. That was interesting because at the end of the previous session they were saying that there was more money in the industry of late. I wonder what you think about the sustainability of the industry if there are people who have not made any money and yet ours are some of the most efficient producers. What can you as a Government do to try and allow them to ride out what currently is a storm? He made every indication he intended to stay in the industry but he is saying that in the industry he is losing money. That is a bit of a dilemma for him, surely.

Jane Kennedy: We have over the last eight years provided funding to the industry to help with particular problems. I think in the early 2000s we provide something like £37 million to help with refinancing and restructuring of the industry and last year we gave further support to deal with animal disease, such as foot and mouth disease, but that is not what the industry has been saying to me it needs from the Government. There were a number of complaints but the two that I felt were most passionately felt by the representatives of the pig industry that I met were first of all the cost of regulation and the way in which the UK tended to implement EU regulation, and they made points about how the Environment Agency worked with them and whether that could be improved, but the second point they made was this sense of powerlessness when dealing with the big grocery retailers in selling their produce. The farmer that we visited, David Morgan, in the East Riding, was very clear that he felt that despite the fact that he had invested in what are regarded as some of the best animal welfare provisions the supermarkets were simply not prepared even to meet him halfway in terms of the impact of the costs of production. I would therefore be keen to study and understand what is happening there and learn what we can do to use the power of consumers to influence that.

Q237 Chairman: But, Minister, with great respect, that has been looked at so many times. We have just come out of an OFT study, the second one, on the relationship between the primary production sector and the supermarkets. What you have just enunciated is perfectly true but with regard to the idea of bringing the power of consumers to bear, all of this has been looked at umpteen times by, if you like, “official arms” of government but seemingly without bringing a solution. I think the exchanges earlier. In fact, BPEX summarised it, if I can find the figure they quoted to us, that average retail prices of pork and pork products have increased substantially over the last year by 179p per kilo or 37%. Over the same period the average pig price paid to farmers has increased by only 27p. If you knock half of the 179p off for margin we are down to 90p roughly, so there does appear to be a bit of an imbalance and, in fairness, Mr Opie attempted to explain that to us earlier on. I am not surprised your pig farmer said that but then people have been saying that not just in the pig sector but in the horticultural sector and just about every other sector, seemingly without any solution, but they all want to carry on doing business with them.

Jane Kennedy: I do not think it has been without solution. I think there are a number of solutions and what we have to do is redouble our efforts to make sure the solutions are effective.

Q238 Chairman: Hold on— “redouble our efforts to make sure the solutions are effective”? What do you mean by that?

Jane Kennedy: I think clearer and more effective labelling will allow purchasers in supermarkets to make it clear through what they buy that they want to support farmers who use better animal welfare production methods.

Q239 Chairman: But we have heard that that does not really apply, that people are not all that welfare conscious, and when it came to the British Hospitality Association’s evidence they made it very clear to us that the number one predominant factor at the present time is price.

Jane Kennedy: I suspect that is the case at this moment but if you look at the impact of consumers on the way in which eggs have been produced I would argue that consumer choice has had a major impact on the welfare of laying hens.

Q240 Chairman: Is that why we have organic eggs at £4.26 a dozen?

Jane Kennedy: Organic eggs are having a particular difficulty at the moment because consumers are choosing free range but not necessarily organic.

Q241 Mr Williams: Can I apologise for arriving late? One of the biggest and strongest consumers in the country, of course, is the Government itself, and a criticism from the agricultural industry is that the Government is not active enough in its procurement procedures to make a difference, but surely if the Government are expecting pig producers to have very special welfare conditions for their animals they ought when they are procuring pig products to be insisting on those similar welfare conditions. Is the Government doing that, and, if it is not, when will it?

Jane Kennedy: I absolutely agree that Government has to lead the way and show by example what can be done. There is a lot of progress being made in this. I do not think it is good enough that a significant number of departments did not respond to BPEX’s request for data, so I intend to work with officials to make sure we get a good response from all departments. However, there are a lot of very good examples. The Ministry of Defence is an exemplar and the Ministry of Justice should be given recognition for their understanding of farm assurance issues. The Cabinet Office has agreed to review its bacon procurement. Her Majesty’s Revenue and Customs does not get many plaudits.
but it should get a plaudit for seeking to improve opportunities for UK suppliers of pork and bacon, and British pork served in their restaurants has gone up by 10%. We are getting there. There are a number of other examples which we can provide to the Committee but what I am saying is that it is not perfect and we need to work harder at it but we are making progress.

Q242 Mr Williams: Very often we are told though that the Government is restricted by European regulations in the way in which it must go about procurement, but the point I am making is that if we are insisting on very high welfare standards for our producers then we should insist on very high welfare standards for the products we buy. Yes, put it out for competition but limit it to those producers who are abiding by the requirements that the British Government has.

Jane Kennedy: I think that would not necessarily contravene European rules if that was exactly how it was done. I know Mr Prior has been involved in these discussions. Would you like to hear directly from him?

Q243 Chairman: We would be delighted to hear from Mr Prior because I would like to ask him a question but he is going to give us an answer now, so off you go.

Mr Prior: I have been directly involved in this particular issue, and I think it is true to say that although the welfare standards that we are talking about were introduced in this country some years ago it is relatively recently that awareness of welfare in procurement has gone up the agenda, including the public agenda. I think people are becoming more aware. In terms of government procurement, we are getting better generally. We cannot, as you must know by the way you pitched your question, employ a “Buy British” campaign because that would be illegal under EU single market rules. However, what we are trying to do is take forward an initiative whereby, for example, we could have model contract clauses for the public sector that stipulate not “Buy British” but “Buy to UK welfare standards”, and if those standards could be met by suppliers outside the UK, so be it. That is where we are trying to get to, that is the lie of the agenda at the moment. Meanwhile, public procurement is increasing its British procurement, as it happens, significantly, and I think by the end of November the Government will be publishing a report that spells out the purchasing profile of pork and bacon procurement for all government departments, so that will be put in the public domain.

Q244 Chairman: Have you seen any evidence to show that welfare is a factor which is affecting consumer demand beneficially as far as retail or food service offers of pork meat are concerned?

Mr Prior: There is evidence from consumer surveys, for example, that consumers would be willing to pay more for products—

Q245 Chairman: That is an anticipatory exercise. I am asking have you seen, or has Defra commissioned, any work to establish beyond peradventure that the higher welfare standards to which the Minister has referred and on which many others have commented is a plus point in influencing real-world consumer decisions? As opposed to asking what you might do, as you have rightly pointed out, these high welfare standards have been around for a long time; the industry puts great stock by them as a point of differentiation in the marketing of our product versus our competitors’, but I want to know if it really does carry weight in terms of what the customer does. Have you seen any evidence that answers that question definitively?

Mr Prior: There is evidence, not necessarily brought about by Defra research but certainly government research, for example, by the Food Standards Agency, that consumers will act like that. Where they can see a demonstrable welfare benefit they will act accordingly.

Q246 David Taylor: What do you mean by “act accordingly”?

Mr Prior: Pay more for the product if they are reassured and satisfied that these are higher quality standards, in this case welfare standards. I think one of the difficulties consumers have is in identifying that quality, as the Minister says, through perhaps lack of labelling.

Q247 David Taylor: On that very point, as they say in the chamber across the road, Mr Opie said to us that he had been in one or two of his members’ outlets in the last few days, and he had seen strong evidence—and I am paraphrasing now—of heaps of meat with the Union Jack being emblazoned all over it and little red tractors running hither and thither, but there is little evidence that the UK buying public (or the English at least) fully understand what the import of those labels is. Would you agree on that, that there needs to be a far greater effort perhaps from Defra, perhaps from the FSA, I am not sure, to alert consumers to the differences in the different labelling motifs that there are?

Jane Kennedy: I would tend to agree with that. Mr Opie is?

Q248 Chairman: He is from the British Retail Consortium. He is sitting behind you. You may not have noticed him. Mr Opie, stand up so the Minister can have a look at you.

Jane Kennedy: I have not seen detailed evidence yet, partly because I have not had time to assimilate it, if there is any, but my experience as a consumer would be that there is not sufficient information on the labelling of food products, for example, to be able to judge from what you are reading what the welfare standards have been in the way that meat has been produced.
Q249 David Taylor: You are in an ideal position in your new role to influence that over the next 18 months or so. How do you plan to improve that information available for consumers to be able to differentiate?

Jane Kennedy: I would want any changes we made to be based on good evidence, so I would want to understand and gather that evidence so that we were not just basing it on anecdotal evidence of somebody who is a regular shopper like me. I would want to gather together what evidence there is available so that we can make a judgement about what labelling should be made available. I think this argument is being won. I think the European Commission is considering labelling and how detailed it should be. There are three changes they are considering making to labelling, including where the animal was bred and where it was raised, and there is a debate about where it was slaughtered being displayed on the product. We are not necessarily persuaded of the need to have the third, but certainly we think having the first two, the country of breeding and the country of raising, displayed on the product would be of benefit in terms of information for the consumer. At the moment it is not available.

Q250 Chairman: What is the likely timetable for that series of changes?

Mr Prior: It is not imminent in that it is co-decision procedures so it has to go through the whole shebang, including the European Parliament, but it is clearly on the agenda, and even with the shift of presidencies successive future presidents have said that this is a priority.

Q251 Chairman: Mr Prior, that is a wonderful piece of painting over the cracks, “It is clearly on the agenda”, and yes, I understand that timetables can be a long time. Has it been discussed by the Council of Ministers?

Mr Prior: It has been before the Council of Ministers at the level of broad principles. It is now being considered at working group level in the Commission. It is going to take time. I cannot predict what that time will be exactly. It is a Commission competence area to take this forward.

Q252 Chairman: When is the working group supposed to be reporting back on its initial findings to the Commission then?

Mr Prior: I do not know what the timetable of the working group is.

Chairman: Would you like to look at that and perhaps provide us with a note giving us your best guess? I appreciate sometimes these things have to be a bit broad-brush in European timing, but can you give us a feel, because it sounds like it is travelling in the right direction but it is on a bit of a long track.

Mr Taylor, I interrupted you.

David Taylor: If you feel I am wandering back to a topic that has already been covered I am sure you will stop me.

Chairman: Feel free to wander.

Q253 David Taylor: Mr Williams raised the point about public sector contracts and Mr Prior underlined the clear fact that anything that resembled “Buy British” would be illegal, but is it not possible to frame the standards for the product within a public sector contract in a way which would favour those producers, perhaps in the UK, perhaps elsewhere, who had significantly higher standards? There is not a great deal of evidence that that is being done, is there?

Jane Kennedy: The NHS supply chain has provided one of the most positive responses to this initiative. They have placed animal welfare and ethical trading as part of the consideration they give to a product before they buy it. That, I think, is the way forward, but partly it is ensuring that public sector purchasing is properly informed and well informed of what it is we are expecting them to do. Mr Jack, just on your last point, paragraph 12 of our response to the Committee’s inquiry does indicate that the Commission envisages the introduction by 2009–10 of standardised welfare indicators, and it is in that context that the Commission are being charged by the Council of Ministers to assess further the issue of animal welfare labelling and to submit a report. 2009–10 is next year, so we can certainly get you the detail on what progress we are making.

Chairman: That is why I have written “timing” down in my notes at the end of that, so you are right to draw my attention to it. Anyway, Mr Prior is going to busy himself and help us on that.

Q254 Mr Drew: What we found, certainly from the first group of evidence, was that next to the milk industry relationships in the pig industry are not good; in fact, I would describe them as poisonous and getting worse because there is this antipathy between the different segments and there is this downward pressure all the time. In a sense that is competition and the different market segments have to sort themselves out, but from the evidence that we have seen when we have gone on our travels to New Zealand, to Denmark, relationships across the industry always seem to be better and that seems to give them a competitive advantage because at least they can keep their own house in order. Does it matter to you, Minister, that these relationships are at least poor, if not worse than poor, because of the way in which that seems to take up a lot of the time, and is the reason for this investigation? People are clearly lobbying us, saying, “Have a look at this industry. Things are not right”.

Jane Kennedy: Yes, it does concern me. When you meet pig farmers who are clearly frustrated and disappointed, to put it mildly, that their efforts, for example, in the area of animal welfare, are applauded by the big retailers but not really much more than that, then you can imagine that they would easily become discouraged. Some of them have made very significant capital investments in improving animal welfare, but it appeared to me, and this is just from one visit so I should be cautious in drawing the conclusion, based on what other farmers that I met on that day also told me, that there is a disconnect between the policy statements
that some of the big retailers make as a big corporation and what actually happens when their buyers are negotiating with producers. There are other issues involved as well, are there not? There are issues around the food packers, and the people who will come between the two, the producers and the retailers.

Mr Drew: Is this “not interested” inasmuch as this is quite a small industry in terms of the numbers of producers, the numbers of processors? We know about the retailer bind. It is not beyond the wisdom of anybody to call them in and say, “Look, I know a lot of the information that you trade between each other is commercially confidential, but the British pig industry does actually matter to me as a minister and if I see it as apocalyptic”, in James’s view—

Q255 Mr Gray: I was not that apocalyptic.

Jane Kennedy: Yes, you were.

Q256 Mr Drew: “it would seem to be at least half true that there is a problem with this industry that eventually will cost the consumer, because the consumer will lose the opportunity to buy British”. Is that something you could see yourself doing, calling in the various sectors, which did in fact happen with the milk industry, that eventually ministers had to get their sleeves rolled up and call different parts of it together because the relationships were so poor?

Jane Kennedy: If it became necessary I would be willing to do that, but I think there is scope for a lot more work to be done first. I would want to see all of the evidence that you have heard as the Committee and to read your report with a lot of interest before I committed to doing that. The industry has not asked me to do that, the British pig industry. I know that there are many different factors impacting upon the large retailers’ behaviour, and I also am very conscious of the fact that it is not just the large grocers that have an impact on prices; there is the whole food service industry that also has responsibilities here. I am a bit too soon into my brief to be able to say that I know absolutely clearly what needs to be done, but I am beginning to understand some of the pressures.

Q257 Chairman: Let me ask you something specific. BPEX, in their evidence to us, estimated that 70% of imported pig meat had not been reared, in their judgement, to UK welfare standards, and it would have been illegal if it had been produced in this country. Does not the fact that so much of retail purchase is of that particular kind suggest that there has been a negotiation of the UK’s higher welfare standards, because we did that thinking that there would be an advantage, but BPEX tell us that 70% of what is sold does not adhere to those high welfare standards?

Jane Kennedy: I tend to agree with that. Also, the farmers’ representatives accept that our society demands high and good quality welfare arrangements for British pigs, British cattle, British hens.

Q258 David Taylor: On the mandate that they have they have said loudly and effectively that 70% is at a lower standard than we would expect.

Jane Kennedy: Exactly.

Q259 David Taylor: So what do you plan to do in the next 18 months?

Jane Kennedy: What I want to do is learn what the issues are that are preventing consumers in the UK from exercising their power more effectively; that is the first step. If it is necessary to organise the kind of summit that you were suggesting, Mr Taylor, then I am not averse to doing that, but I want to understand exactly what the factors are that are causing that disparity because there is a clear disparity there between what we as Parliament have enacted, based upon what our constituents have made it clear to us they expect, and what those same constituents do when they exercise their power as consumers.

Q260 Chairman: Just for the record, and perhaps I could put this to Mr Prior, over the time that we have been in transition to the adoption of the higher welfare standards, the removal of stalls and tethers, what help has the United Kingdom Government given to our pig producers to assist with the costs of the transition from the previous to the expected welfare standards, taking into account that there is some evidence that the Republic of Ireland, for example, gave assistance to their pig producers when stalls were removed? What have we done?

Mr Prior: This Government has not provided financial assistance for that transition. We are aware that some states have been minded to do that, Ireland being one of them, but this Government does not generally speaking feel that it has to use public money to pay people to meet their legal obligations. However, the Government has provided support, as the Minister has outlined, for restructuring, not specific to the welfare issue, I accept that, but the £37 million restructuring finance was not insignificant. On your specific question, no, the Government has not made funding available for that transition.

Q261 Chairman: Simply because you felt that should be an industry expense, full stop?

Mr Prior: There are different ways of helping and the way the Government has moved this forward to try and bring about a level playing field is first of all leading the way across Europe in raising the standards that Parliament in this country wanted but then to lobby hard and achieve similar standards across the EU. They are not in place yet; it is pretty imminent but it has been a few years, but that was one of the costs of achieving that raising of the bar, if you like.

Q262 Chairman: Are you certain that there are not, from your analysis, any schemes in other European Union countries which are designed to help their producers move to the higher welfare standards which, if there were such schemes, would clearly put
our producers at a disadvantage? Are you monitoring what is going on in other Member States?

**Mr Prior:** Not systematically. It is the job of the European Commission to ensure that Member States do not unfairly support their industries, which is why we have the state aids regime, so we would expect any support that goes beyond the de minimis threshold of state aid to be put through that process. Where we are given evidence, and quite often it is anecdotal evidence, that other Member States are pursuing the types of initiatives you might have in mind, we pursue that with the Commission and quite often undertake some questions in the country concerned through, for example, the British embassies concerned. We are reactive to those issues where they are brought to our attention.

**Q263 Mr Williams:** You say that higher welfare standards are going to be brought into other European countries. Presumably the reason why they are not there at the moment is that they have asked for and obtained a derogation because of the state of their industry and the effect that it would have on their industry. Is that the case and, if it is, there is no chance that any applications for further derogations could be accepted by the European Union?

**Mr Prior:** If I have understood your question correctly, Mr Williams, I do not think other Member States are enjoying a derogation. It is that the law has not been brought in yet to its implementation stage, so although the EU law is in place the farmers have not been required yet to bring those standards in and there is just a little bit of time left to go before they are.

**Q264 Mr Williams:** How much time is a little bit of time?

**Mr Prior:** I think it is 2012. I will have to check that.

**Q265 Mr Williams:** That is quite a lot of time.

**Jane Kennedy:** But bear in mind that the UK ban was, I think, introduced in 1991. It was in advance of my election to Parliament in 1992, and there was a long period of time, about seven years or so, for the UK industry to adapt to that decision of Parliament, and then we were campaigning in Europe to have that standard applied across Europe for the way in which pigs are farrowed. We took the step first. If you like, we led the way as a country in terms of welfare, and now we have been successful in securing agreement across Europe. It has taken some time to get there and it will still be another two or three years before it is fully carried out. There were some concerns expressed by pig farmers’ representatives that I met two weeks ago about some leeway that may be given to certain pig arrangements, and I know I have got the detail at the back of my head, but there is some anxiety about that and that will have to be followed carefully.

**Q266 Chairman:** If I could just come back to my previous point, Mr Prior, and I have been helpfully supplied by a little example, courtesy of BPEX, they tell us that in order to help the French producers adhere to the new welfare standards relating to the housing of pregnant sows, the French Government have, according to this information, provided support of up to 20% of the total eligible investment, and this support I am advised is increased by 10% for producers located in the less favoured areas, and indeed for young farmers. Were you aware of that?

**Mr Prior:** We were aware of BPEX’s concern and we have made inquiries, including to the British Embassy in Paris, but have not been able to identify a breach of state aids nor an application for state aid, so if, as we always call for, there is hard evidence that we can be furnished with to support some of these claims, we will pursue them, as we do.

**Q267 Chairman:** Hang on. M Barnier has announced it. You said that there is no evidence of an application for state aids, right? If you wanted to get on with it perhaps you would wait until somebody blew the whistle. Do you not think you might ring up Paris tomorrow and check this out again, because BPEX are not in the business of manufacturing unfounded bits of information and they have provided some information in good faith?

**Mr Prior:** Perhaps I was not clear. What I was trying to say was that we have not got any evidence that the French have been pursuing support measures that are in breach of state aid rules. If those sorts of measures achieve state aid rules, fine.

**Q268 Chairman:** For our greater clarification would you be kind enough to make an inquiry, either via the embassy in Paris or in Brussels, to find out if this on-the-record public package is within or without state aid rules? We would just like to be educated on-the-record public package is within or without state aid rules? We would just like to be educated about it because we are not experts either but we can only work on the information that is given to us. Minister, I just want to check a point. Were you in the Treasury when the modification to the agricultural buildings allowance went through the Finance Bill?

**Jane Kennedy:** When it went through the Finance Bill, yes.

**Q269 Chairman:** So, being the careful Minister you are, you will no doubt have seen the submissions that came from the department of which you are now part giving a view about these allowances. Can you remember what advice you got from Defra at the time?

**Jane Kennedy:** The change to the ABA and the IBA was announced at the 2007 Budget which was a few months before I was in the Treasury, and I published the consultation document that went out in the July following the Budget in preparation for the 2008 Finance Bill. I spent long hours, as you will recall, Financial Secretaries do in preparation for Finance Bills, understanding the reasons for the decision and
the announcement at Budget. If you remember, a very large number of changes took place to business taxation as a result of announcements in the 2007 Budget and this was a part of that overall package, and the change and the introduction of the new industrial allowance means that about 95% of small businesses will be able to seek significant relief on investments in the first year in which the investments are made and it evens out the ability of business, whatever the sector in the UK, to get the benefit of the allowances.

Q270 Chairman: That is a very good Treasury line and it works if your business is profitable because any allowance is an allowance against your tax liability, but if, as we have just been told, many of the components of the industry were not making money, then it can be an interesting proposition on a piece of paper but the hard reality is that you still have to make certain changes and you have not got any profit. Okay, there is carryover relief but it means that you do not get the benefit from it for a long period of time, and, given the type of capital expenditure which the industry continues to have to make for high welfare standards, notwithstanding the IPPC investment which we will come on to in a minute, it did seem to be hitting at least that particular part of industry quite hard at a time when it was “down”. That obviously did not weigh in your mind.

Jane Kennedy: I did not see representations from the agricultural sector. I did see and met representatives of those in manufacturing who had concerns about the implementation of the removal of one type of allowance and the introduction of the new one. I looked at it very carefully and there was no getting away from the fact, which I acknowledged at the time, that there would be some businesses that would be losers overall as a result of that change, but in terms of the overall reform of business taxation, which you will recall we as a Government were being heavily criticised for for the complexity of the arrangements, this was a very significant step towards simplifying the arrangements for allowances for capital investment in buildings and, in the Treasury phrase, “fittings” and plant and machinery, which were horrendously complicated.

Q271 Chairman: Did Defra make a submission that you recall about it?

Jane Kennedy: I certainly did not see one and I am not aware that they did.

Q272 Chairman: Oh, well, I suppose that is another one that we put down on our list of areas where we question whether Defra has “punched its weight”, as we used in our—

Jane Kennedy: That is not necessarily Defra’s fault.

Q273 Chairman: “Not necessarily Defra’s fault”—hmm, said ex-Treasury Minister Jane Kennedy. Okay, at least we have got the idea. That is perhaps one we can put to the Permanent Secretary when she comes to see us. Let us move on to IPPC. Do you really back what your memorandum says, that producers have had ten years to prepare for IPPC, when it is quite clear from the evidence that we have had that the rules keep changing and there is still uncertainty as to exactly how they are going to work?

Jane Kennedy: In what respect? Do you mean in relation to the way in which they will work with the Environment Agency?

Q274 Chairman: I think the rules keep changing and farmers, we have been advised, are concerned. For example, one of our witnesses, Mr John Godfrey, commented that had he sent all the required documents in connection with IPPC in hard copy it would have amounted to 7,000 pages and he has had to work 500 hours in terms of management time just to implement this ever-changing mix of requirements. There seems to be some confusion in the world of farming as to exactly how these IPPC requirements are going to operate even now. The impression given by your memorandum is that it is all done and dusted but the pig producers are telling us a different story, that it is not. Mr Prior, what do you think is the situation? Do you sense from your contact with the industry that there is still confusion?

Mr Prior: We accept that all the detail due for implementation was not known 10 years ago, to answer the specific point, so it is true the industry could not have known all the detail then because it did not exist. The directive had a 10-year implementation life. As you will know, the directive covered a huge range of different individual sectors from cement works and chemicals to, as we are talking about, the intensive livestock sectors. The Government decided it would leave the intensive livestock sector implementation until the last opportunity, which gave that sector a benefit in one sense that other sectors did not have, but it meant that the detail that you are talking about that was necessary for the industry to know could not be available until nearer the time. What the Government would say is that the implementation by Defra and the Environment Agency is being carried forward with very close working arrangements with the industry. The industry itself has been part of the determination of the unknown factors, if you like, but yes, it is true: 10 years ago industry could not possibly have known all the answers because they were not in place.

Q275 Chairman: And this is another area where the United Kingdom Government have chosen not to give farmers specific assistance in terms of implementing IPPC?

Mr Prior: Yes.

Q276 Chairman: Again, are you aware of any help that is being given by continental counterparts?

Mr Prior: We are aware that some Member States have been minded to put support in place but, going back to the previous answer, it is not this Government’s policy generally speaking to use taxpayers’ money to pay people to meet their obligations.
Q277 Chairman: No, Mr Prior, there is a concern in the industry that if other Member States have in some way given assistance in this context it puts our pig farmers at a competitive disadvantage. It may well be that they have Commission approval for whatever mechanisms they used; that is perfectly legitimate. The question I am asking is, have we established if any schemes that you are aware of were or were not within the state aid rules?

Mr Prior: Yes, they were.

Q278 Mr Williams: Many representations were made to Lord Rooker about this issue and, as I understand it, he has set up a committee that was chaired by one of the leading officers in the NFU to look at it and see if it could be slimmed down a bit because there was a suspicion that there was duplication. Do you know if any progress has been made by that committee?

Mr Prior: Yes, indeed, Lord Rooker did set up a team, chaired jointly by the NFU and the Environment Agency, to look at these costs. I think there were two elements to the costs. There were the initial costs associated with the IPPC permit application and the processing of that, and the second category of costs was the ongoing annual costs of inspection of farms and so on. An independent auditor was employed to thoroughly investigate this. My understanding is that the investigation did not find significant savings, indeed found that the Environment Agency, if anything, was under-recovering some of its costs, so the pledge that was made when the investigation was set up that any excess costs that were discovered would be reimbursed to industry fell because there were no excess costs to reimburse. The inquiry then looked at the ongoing annual charges and specifically the idea that it might be possible to use third party operators, inspectors if you like, to undertake some of the work on behalf of the Environment Agency where those inspectors may have been on the farm in any case, for example, through the assurance scheme inspections. The Environment Agency with industry has been working with those assurance schemes to look at that and we understand that that is now being taken forward, and where it is possible to enjoy the economies of scale, if you like, of having those joint inspection arrangements some of the annual costs imposed by the Agency would be reduced accordingly.

Q279 Mr Williams: Is there any prospect of that happening in the near future?

Mr Prior: Given that the Environment Agency has costed some of that very specifically, the answer should be yes. It is going to be up to industry at farm level to demonstrate that they are able to comply and the figures that the Agency have given us are that if the Environment Agency itself carried out the full inspections the costs would be £2,386 per installation a year, but under what you might call accredited pig installations the cost to the Environment Agency and which would be passed on to the farmer would be £1,500, so a reasonable reduction, but, as I say, the industry has to be able to demonstrate its compliance with that arrangement in order to enjoy the benefits of what essentially is a risk-based approach.

Q280 David Taylor: What was rebutted by the British Retail Consortium to an extent was that the producers and the processors are in a relatively weak position in the supply chain compared with the four major retailers in this country, who have 80% (or whatever it is) of the market. I asked whether or not closer integration of producers and processors would (a) assist the supply chain, make it more efficient, and (b), rebalance the power within that relationship. I wonder what observations you have on that.

Jane Kennedy: There is clearly going to be quite a debate about the recommendations of the Competition Commission which made quite a series of recommendations as to how the relationship between producers and retailers could be opened up to scrutiny, if you wish to describe it like that. The report of that inquiry did indicate that there was a concentration of buying power in supermarkets and we understand that there are concerns about that and about the effectiveness of the code of practice. We drew the Commission’s attention to those matters that we believed it should look at during that investigation and those included the impact of supermarket buyer power on the long-term viability of suppliers. It is not the Government’s role to dictate what should happen between producers and the retailers. We do want to secure open and effective markets but we also think it is important that supermarkets recognise that in the long run they and their customers do need a sustainable UK-based supply chain. It is not in the supermarkets’ long term interests if Mr Gray’s interpretation of the representations is carried out and the British pig industry goes out of business, so there needs to be a healthy relationship between those who are purchasing the products from the producers and the producers themselves and the health of that relationship will be very much affected by the balance of power within that relationship.

Q281 David Taylor: Who is your Scottish counterpart in the administration, and have Defra or have you had any discussions with them about how the Scottish Pig Task Force has worked in practice and how effective it has been in looking at supply chain issues?

Jane Kennedy: Certainly the Secretary of State was talking with my counterpart, and with my counterpart in the Welsh Assembly, just last week and I know he does that regularly. The name is . . . Richard Lochhead.

Mr Williams: Elin Jones in Wales.

Q282 Chairman: You have phoned a friend, Minister.

Jane Kennedy: I have not had the pleasure of meeting him yet.

David Taylor: Shall I move on to the labelling section, Chairman?

Chairman: I think that would be very helpful.
David Taylor: I do not know if the Minister should have a copy—

Chairman: I think she should; everybody else has.

Q283 David Taylor: Perhaps the Minister could have a copy of “Back Bacon Rashers, Tesco. Unsmoked” which we found as a particularly egregious example of extremely poor labelling. If you look at the bottom oval in the bottom left hand corner, you will see something saying—despite the fact it has got “Produce of Britain” in the top oval—“Produced using pork from the UK, Denmark, Holland or Sweden and packed in the UK for Tesco Stores . . .”, et cetera. You are a busy minister so presumably send your servants out to buy the weekend meat, I am sure, but would that be misleading to you and to them, with the co-location almost of the “Produce of Britain” and the detailed information that is there? Do you not think that is extremely misleading for the British consumer? What would you like to see happen in these cases?

Jane Kennedy: As somebody who routinely does the shopping for the family within the usual half hour or so I have available on a Friday or Saturday, I would not have the time to read the small print and therefore I would rely on where it says, “Produce of Britain”, and I would have made the assumption that “Produce of Britain” meant that the bacon had been certainly reared in the UK.

Q284 David Taylor: Whose responsibility is it for accurate, helpful and legible labelling?

Mr Prior: Ultimately the responsibility for that is with whoever is supplying that information on the market, so it is Tesco’s responsibility not to mislead the public.

Q285 David Taylor: Who carries the political responsibility to ensure labelling is accurate?

Mr Prior: The Food Standards Agency.

Q286 David Taylor: Who are responsible to?

Mr Prior: The Department of Health.

Chairman: For some reason there has been a division called in the Commons, so we are going to have to curtail our evidence session because there may well be multiple votes coming up and it would be unfair on everybody to drag you back. Thank you very much. We may write to you with some other questions, Minister, and thank you very much for your written submissions. Thank you very much.

Further submission by the Department for Environment, Food and Rural Affairs (Pigs 19a)

Thank you for your letter of 11 November setting out a number of questions identified by the Committee based on the evidence that I gave at the session on 27 October. Responses to the questions are set out below.

You also requested a copy of the Government’s report “Proportion of domestically produced food used by government departments and also supplied to hospitals and prisons under contracts negotiated by NHS Supply Chain and National Offender Management Service (previously HM Prison Service)”. The report is available online and can be found at: http://www.defra.gov.uk/farm/policy/sustain/procurement/awareness.htm.

Q. BPEX provided details to the Committee of the financial assistance provided to pig farmers by the French and Irish Governments to help with the cost of converting accommodation for pigs in order to meet animal welfare legislation due to be introduced into the EU. BPEX has also provided details of financial assistance offered by other EU countries to help farmers with the implementation of environmental legislation (please see attached information provided by BPEX). I would be grateful if you could confirm that this information is correct. If EU farmers are getting help to move to the higher welfare standards and to implement environmental legislation, but UK farmers are not, are UK producers at a disadvantage as a result?

A. I am sure that the information from BPEX was provided in good faith but I am unable to corroborate all the details which are derived from their own research.

The Government does not favour the use of taxpayers’ money to fund operators to meet their obligations under EC legislation in the way that France and the Irish Republic have decided to do, according to BPEX. Nevertheless the Government has been sympathetic to the plight of the pig industry and we have invested taxpayers’ money and effort in helping the industry to adapt and encourage the development of the market for high welfare standard pork and bacon products over the years. A number of examples were provided in Defra’s written evidence to the inquiry. Some of those which relate to specific support for the UK pig sector are:

— in 2000–01, the Government invested directly to help secure the longer-term viability of the sector by granting £37 million (over three years) state aid approved restructuring finance. That was a very significant, but one-off, grant to allow the sector to take sole responsibility for its long-term economic future in support of those businesses that were investing in higher welfare standards;

— direct support in export promotion, including re-opening markets closed as a result of EU/UK animal disease outbreaks. Following the Foot and Mouth outbreaks last year Defra has been working hard, with the industry, to re-open profitable non-EU markets. Many key markets are now open, including Japan, US, Canada, Philippines, Malaysia and Thailand. China lifted FMD
related import restrictions on 7 August 2008 (meaning that the export of breeding pigs can resume) and have just agreed a protocol on pigmeat which is a big step towards eventual acceptance of our exports (estimated to have a potential value of more than £10 million per annum);

— also in the aftermath of the animal disease outbreaks last year Defra gave a £12.5 million package of aid to the livestock farming sector. While this mainly benefited non-pig sectors it included £2 million to promote the marketing of red meat, including pork and bacon.

It is our view that having encouraged the pig industry to adapt to higher welfare standards at the turn of the century they have a much stronger marketing advantage than their EU competitors who are struggling to catch up.

Q. What discussions did Defra have with producers over the removal of the agricultural buildings allowance in 2007, and did Defra make representations to HM Treasury on this issue?

A. Budget 2007 announced a major package of reforms to enhance international competitiveness, encourage investment, promote innovation and ensure fairness across the tax system, in line with the key principles that have underpinned business tax policy since 1997. This included an extensive set of reforms to the capital allowances regime to remove outdated incentives, some of which date from the immediate post-war period, and move to a simpler two-tier system for plant and machinery allowances.

As part of the package of capital allowances changes, and consistent with the Government’s general policy of not allowing relief for capital investment in land and buildings, it was announced that the Agricultural Buildings Allowance (ABA) would be phased out from 2008–09 to 2011–12. As a result, the effective rate of allowance fell to 5% in April 2008 and will fall to 2% from 2009 and 1% from April 2010, with full abolition taking effect from April 2011.

Defra officials have not had specific discussions with the pig industry on this issue but did have discussions with the National Farmers’ Union, which provided a paper proposing some changes to the new capital allowances which would be of benefit to the farming industry. Although the Government does not consult on changes to (or abolition of) tax rates and reliefs, it did consult on the three new features of the capital allowances system (Annual Investment Allowance, integral features and first-year tax credits) in July and December 2007. A comprehensive Impact Assessment of the whole package has been published and is available at http://www.hmrc.gov.uk/ria/capital-allowances-tech-note.pdf. Defra officials have since been working with HM Treasury and HM Revenue and Customs officials to ensure that the official guidance clearly reflects how the rules on plant and machinery capital allowances, and in particular the new Annual Investment Allowance, apply to expenditure on slurry storage facilities.

Q. Do you intend to discuss the finding of the report of the Pig Sector Task Force with Richard Lochhead, Cabinet Secretary for Rural Affairs and the Environment, Scottish Executive?

A. I do not have any intention at this stage of formally discussing the findings of the report with Richard Lochhead. However, there are always lessons to be learned from such reports so I will watch with interest the outcomes of this exercise. There is ongoing contact at official level between the Scottish Government and Defra on the challenges facing the GB pig industry and we are aware of the issues raised in the report. These are however matters for the Scottish Government to address.

Q. Could labelling be made clearer to the consumer within current labelling rules?

A. The Food Standards Agency has issued Guidance on Clear Food Labelling on its website to help industry to produce labels that provide information in a clear way that is helpful to consumers. Since I gave evidence to your Committee, the Food Standards Agency has also issued Guidance on Country of Origin Labelling that aims to encourage industry to help consumers through the provision of consistent, informative and transparent labelling practices. The Food Standards Agency has also produced Guidance on Clear Food Labelling on its website to help industry to produce labels that provide information in a clear way that is helpful to consumers. These Guidance documents are being fed into the process of negotiating the new European Food Information Regulation. Links to the Guidance are found below.

http://www.food.gov.uk/foodindustry/guidancenotes/labelregsguidance/originlabelling

Q. Whose responsibility is it to ensure that food is labelled clearly?

A. As was explained to the Committee during oral evidence, it is the responsibility of industry to ensure that food is labelled clearly so this falls to the manufacturer, producer or retailer who is producing the label on their product. It is the function of Trading Standards Officers to ensure that food labelling rules are enforced at retail level and that the consumer is not misled.
Q. How might the consumer be educated to distinguish between meat that has been reared in the UK, or in accordance with UK welfare standards, and meat that has not?

A. The Public Sector Food Procurement Initiative (PSFPI) is linked to “Think Food and Farming (previous Year of Food and Farming)” which is an industry-led initiative aimed at helping children to understand more about where our food comes from and to involve them in memorable first hand learning experiences/http://www.thinkfoodandfarming.org.uk.

This is one of the best ways of educating future consumers to be more aware of the way in which livestock are reared to higher welfare standards in the UK.

We are also encouraging key stakeholders to disseminate the advice published in PSFPI guidance that among other things covers animal welfare standards, eg “Putting it into practice”, “Food Policy in Schools/Catering and Food Procurement Supplement” and “Sausage and Mash and Sustainability”.

Q. What is Defra doing to encourage Government departments to buy bacon raised to British welfare standards?

A. Defra’s catering toolkit includes a model specification clause covering farm assurance and organic standards that Assured Food Standards and the NFU are promoting to public bodies through their own leaflet.

One of the aims of specifying farm assurance standards was to help create a more level playing field for our producers given that the standards of husbandry are generally higher in the UK than in most other countries. By including the model clause in the contracts public bodies could use their buying power to improve methods of production and animal welfare by specifying and accepting, where appropriate, Red Tractor criteria or equivalent as evidence that suppliers met these standards. The model clause also provided the option of supplying food produced to higher standards such as, where appropriate, Linking Environment and Farming (LEAF) or equivalent for integrated farming and EC Regulation 2092/91 for organic food.

Defra is now producing a model specification covering the procurement of pork and bacon for inclusion in OGC’s new food commodity quality standards, launched in November 2008/http://www.ogc.gov.uk/food_food_ingredients.asp. To keep within the rules the specification will need to be non-discriminatory and clearly set out and explain the welfare requirements which, if they exceed the minimum requirement of EU law, should wherever possible be supported by scientific evidence demonstrating the benefits to the consumer and be relevant to the subject of the contract.

The aim is to clear the model specification for pork and bacon with lawyers and ministers before the end of the year. The specification could also serve as a model for other Commodities for use in OGC’s other food quality standards that cover some 40 food categories. The inclusion of key criteria in OGC’s quality standards makes it more likely that farm assurance might in due course be integrated into public sector contracts.

Advice to other Government Departments will also be given on which farm assurance schemes already meet the required standards, eg those marketed under the Red Tractor, Linking Environment and Farming (LEAF), BPEX Quality Standard Mark and RSPCA Freedom Food labels. Under the procurement rules buyers must accept other evidence proving equivalence to these standards.

Q. Can you give examples of the responses of public sector organisations when Defra has encouraged them to buy pigmeat which was raised using equivalent welfare standards to those in this country?

A. Examples of public bodies’ response to encouragement to specify equivalent welfare standards are given in the second report on the “Proportion of domestically produced food used by government departments and also supplied to hospitals and prisons under contracts negotiated by NHS Supply Chain and National Offender Management Service (previously HM Prison Service)”. 

Q. Have any public sector bodies refused to follow such a policy? If so, was cost the reason? What does Defra do in such cases?

A. Within the legal and public framework governing public procurement there is plenty of scope for public sector bodies to pursue sustainable development considerations in their procurement of food and catering services. Defra is using this flexibility to encourage public bodies to adopt a more innovative approach and in determining quality to pursue PSFPI objectives, which include animal welfare. Cost constraints and the requirement among public bodies to achieve savings in their procurement of goods and services remains a barrier to progress. Defra is however working with OGC to promote the PSFPI through their collaborative food procurement programme. For example, building on OGC’s food quality standards.

I trust this answers your further questions.

Rt Hon Jane Kennedy MP
28 November 2008
Written evidence

Memorandum submitted by FARM (Pigs 01)

EXECUTIVE SUMMARY

This response has been prepared on behalf of FARM by Peter Lundgren who is a Lincolnshire arable farmer and producer of Gloucester Old Spots pigs that are reared outdoors, slaughtered locally, and butchered on the farm before being supplied to local food outlets and individuals.

Thank you for the opportunity to feed comments into the inquiry. I want to concentrate on the first issue raised in the terms of reference:

What is wrong with the pig industry in England? Are present problems more than just a cyclical imbalance between supply and demand?

FARM believes that the current problems faced by the pig industry are more than just a cyclical imbalance in supply and demand.

The primary cause of the present crisis in the pig industry is the dramatic increase in the cost of feed rations. Over the past decades the pig industry has got used to the availability of cheap protein—firstly in the form of meat and bone meal and latterly in the form of cheap oilseeds and grains—and has developed pig genetics and the infrastructure to take advantage of cheap protein.

Now that the era of cheap protein is over the industry is unable to respond and a fundamental reassessment of the pig industry is needed.

Starting with a critical assessment of the viability of existing feed sources and the associated production methods the industry needs support from government and the food chain to identify alternative feed sources and develop pig genetics that can take advantage of alternative feed sources.

FARM believes this is the only way to reduce the traditional cyclical imbalance and offer the industry a viable and sustainable future.

What is wrong with the pig industry in England? Are present problems more than just a cyclical imbalance between supply and demand?

1. FARM believes that the current problems faced by the pig industry are more than just a cyclical imbalance in supply and demand.

What’s the cause of the crisis?

2. The primary cause of the present crisis in the pig industry is the huge increase in the cost of feed rations. Over the past decades the pig industry has got used to the availability of cheap protein—firstly in the form of meat and bone meal and latterly in the form of cheap soya and wheat—and now that protein has become more expensive the industry is unable to respond.

Comparison of the Value of Feed in the Cost of Production for Pig Meat

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>differential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ration £/ton</td>
<td>160</td>
<td>240</td>
<td>80</td>
</tr>
<tr>
<td>Pork cost p/kg</td>
<td>54</td>
<td>76</td>
<td>22</td>
</tr>
</tbody>
</table>

3. As demand for protein in the form of oilseeds and grains increases from both an increasing population and increased demand for biofuels the value of protein for animal feed will continue to increase. The era of cheap protein is over and if the pig industry is to survive it has to find alternative sources of cheap feed and alternative production systems.

Will GM crops help the industry?

4. Our farming leaders are demanding that the EU licence newer varieties of GM crops that the seed industry are wanting to introduce into the US and South America for cultivation. The industry is citing reports that unless these varieties are licensed the UK and EU will be unable to source the necessary feedstuffs but FARM questions whether this is a valid financial argument.
Table 2

5. Comparison of increased costs of production GM and GM free diets.[1]

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2008</th>
<th>differential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pork p/kg</td>
<td>0.8p/kg</td>
<td>2p/kg</td>
<td>1.2p/kg</td>
</tr>
</tbody>
</table>

— In 2006 the cost differential was negligible, particularly at the point of sale.
— Two years on and the message from the figures in the table above is that the cost differential between GM and GM free feed has increased by 1.2p/kg and the differential is now a significant cost to producers.
— However in comparison with the huge hike in feed costs 22p/kg (table 1), whether GM or GM free, the premium for GM at 2p/kg is negligible. The cost of GM or GM free is not the primary problem and the future availability of newer GM varieties will not save the UK pig industry from financial disaster.

Table 3

6. Average pork production costs (p/kg)

<table>
<thead>
<tr>
<th></th>
<th>April 2007</th>
<th>April 2008</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feed</td>
<td>30</td>
<td>50</td>
<td>42%</td>
</tr>
</tbody>
</table>

7. Protein prices will remain high for the foreseeable future, at least until the global supply of grain and oilseed can meet the twin demands of food and fuel.

The supply problems are being exacerbated by:
— conventional crop breeding has reached a yield plateau;
— GM is not delivering on the promise of increasing yields;
— research and Development is failing to identify solutions; and
— increasing fertilizer costs will restrict yield potential.

8. The only short-term response available is to increase the area of land in production but that has real implications for the environment.

9. The primary message to the pig industry and government has to be that the pig industry cannot afford high protein rations based on grain and oilseed—whether GM or GM free—and will not be able to do so for the foreseeable future.

How can pig producers respond?

10. The standard industry response to a situation where feed prices are rising is to increase production through intensification. However, increased intensification will likely lead to increased problems with maintaining acceptable animal welfare standards.

Have we got the wrong production model?

11. The current methods of intensive pig production has grown out of the availability of cheap protein and the demand from food processors and supermarkets for plentiful cheap pig meat.
12. In order to respond to these market drivers producers have developed feeding regimes and an infrastructure that utilises cheap protein, as well as developing the genetics of pigs that utilise cheap protein efficiently.
13. In many ways producers have become lazy and dependent on others to supply rations at a cost that leaves a margin and in a physical form that suits their production system.

Is there an alternative?

14. Reliance on the availability of cheap protein has left the industry unable to respond by utilising alternative feeds—either because pigs are genetically unsuited to alternative feedstuffs or because the infrastructure can’t handle alternatives.
We need to question the suitability of the genetics of our pigs

15. Modern commercial pigs have been developed to utilise protein but in an era where protein will become increasingly expensive does the genetics of our pigs make us vulnerable to global shortages.

16. Now that the era of cheap protein is over do we now have the right characteristics in our livestock to make the best returns for the feed sources available?

17. Are some of the older varieties of pigs that are able to utilise roughage and waste in their diet, more suited to the current situation?

We need to look for new feed resources

— food waste from the human food chain;
— meat and bone meal;
— steam treated straw for pigs; and
— animal waste.

18. Looking at the work of Prof Bob Orskov at the Macauley Institute,[3] FARM would suggest that we may already have some of the answers. Prof Orskov, working for the UN and FAO, has been instrumental in developing alternative feeding regimes in many parts of the world that have made a significant impact on local production whilst utilising existing local resources.

19. Prof Orskov calls this resource management. Not a new concept but it involves a full understanding of the value of the resources available and the interrelationship between those resources.

20. And it requires an enquiring mind that is open to the possibilities.

Can the pig industry respond to the challenge?

21. FARM questions whether producers have the financial resources or confidence in their future to respond to the challenge.

22. The food chain and government have a role in addressing the situation.

23. The government must take the lead through initiating the necessary R&D to help producers respond.

24. The supermarkets and food supply companies must act in support as they are uniquely placed to respond to this crisis and initiate a response. Not only do they act as the link between producers and consumers but also through their designated supply chains they are able to influence the production methods adopted by their contracted suppliers.

Notes

[1] Value of GM free premium supplied by Grampian and Bunge:
   2006 £8/ton
   2007 £20/ton

[2] Based on average cost of feed April 08 £235.00.

[3] www.macauley.ac.uk

September 2008

Memorandum submitted by Friends of the Earth (Pigs 02)

SUMMARY

The Environment, Food and Rural Affairs Committee’s inquiry into the pig industry must consider the international sustainability of UK pig production and consumption. Friends of the Earth is concerned by the global environmental and social impact of the domestic pig industry, particularly through its use of feeds from South America. Soya production for animal feed has emerged as a leading threat to biodiversity across the world, especially affecting tropical forests and grasslands. Increasing amounts of soya for animal feed are bound for Europe and the UK.

Present economic problems in the industry are a result of low farm-gate prices, the rising cost of inputs, and the increasing intensification of pig farming which relies on imported feeds.

Consolidation of the grocery market has given the supermarkets considerable buyer power and farmers’ share of retail prices has been consistently in decline, with the pig industry in particular suffering from long-term downward pressure on prices. Supermarkets must be made to pay a price that reflects the true cost of
production, and, as recommended by the Competition Commission, a stronger Groceries Supply Code of Practice and a new supermarket Ombudsman are vital to protect suppliers and ensure farmers receive a fairer deal.

Friends of the Earth would like the inquiry to explore how the English pig industry can reduce reliance on imported animal feeds, particularly from South America, and increase the production of home-grown feeds. Our initial research has found that the main obstacles to introducing more domestic feed for livestock are a continued lack of industry action and inadequate levels of publicly funded research. Government must develop sustainable solutions that fairly reward farmers for food production and improve domestic food security by reducing reliance on global commodity markets for feeds. Government must urgently commit to developing sustainable solutions through research and development into alternative feeds and mixed farming systems, through sustainable livestock procurement, through its use of subsidies and by promoting sustainable consumption.

What is wrong with the pig industry in England? Are present problems more than just a cyclical imbalance between supply and demand?

1. The pig industry in England is currently unsustainable. Present problems are a result of low farm-gate prices, the rising cost of inputs, and the increasing intensification of pig farming which has global environmental and social costs.

2. Intensive production and the global impacts of the English pig industry. The Environment, Food and Rural Affairs Committee’s inquiry into the pig industry must consider the international sustainability of UK pig production and consumption. Friends of the Earth is concerned by the global environmental and social impact of the domestic pig industry, particularly through its use of feeds from South America. We would like the EFRA Committee to widen the scope of its inquiry to consider the global impacts of the English pig industry.

3. Soya cultivation, almost entirely for animal feed, has emerged as a leading threat to biodiversity across the world, especially affecting tropical forests and grasslands. Between 2004 and 2005, an estimated one million hectares of rainforest were cut down as a result of soya expansion. Increasing amounts of soya animal feed are bound for Europe, partly due to feeding practices following the BSE crisis, making Europe the world’s second largest importer of soybeans. Within the EU, the UK is the fourth largest consumer of soya. Recent analysis suggests that the UK is potentially responsible for 4% of the soya cultivation in the Cerrado and Amazon Atlantic forests in Brazil. The full impact is probably higher as this figure does not take into account soya that we import via third countries such as the Netherlands.

4. Initial research compiled by Friends of the Earth has found the biodiversity and social impacts of the production of soy in Brazil and Paraguay to include:
   - Environmental impacts: Deforestation, soil erosion, intensive use of chemicals, forest fires, global warming, habitat fragmentation, biodiversity loss.
   - Socio-economic impacts: Marginalisation of smallholders, changing patterns of land ownership, infringements of labour rights, limited labour opportunities, human rights abuses, slavery, militarisation, loss of income opportunities, health problems from aerial spraying of crops.

5. Friends of the Earth would like the EFRA committee to consider the global environmental and social impacts of the English pig industry and to explore possible solutions, for example in order to reduce reliance of the pig industry on imported feed, particularly soya from South America. This could cover practicalities such as UK feed production, breed types as well as changes needed to government policy and subsidies.

6. Low farm-gate prices. Farmers’ share of a basket of food staples has fallen by 23% between 1988 and 2006. The pig industry faces particular difficulties, with farmers suffering an average loss of £12 per pig, whilst supermarket profits are soaring.

7. Consolidation of the grocery market has given the supermarkets considerable buyer power. Farmer organisations and civil society groups have complained of unfair terms of trade and abuse of buyer power by supermarkets. As the Competition Commission concluded in its recent inquiry into the grocery market, supermarkets’ supply chain practices harm the viability of suppliers and have an adverse effect on competition. Friends of the Earth believes that supermarkets must be made to pay a price that reflects the true cost of production.

1 Eating up the Amazon, 2006, Greenpeace.
2 Globalisation of the Amazon soya and beef industries: Opportunities for conservation, 2006, Daniel C Nepstad, Claudia M Stickler, Oriana T Almedia.
4 Agriculture in the UK, 2006, Defra.
6 For example, Britain’s largest retailer Tesco, which controls over 30% of the grocery market, posted record profits of £2.8 billion in 2008—see Tesco sees profit rise to £2.8 billion BBC online, 15 April 2008 http://news.bbc.co.uk/1/hi/business/7347769.stm
7 See submissions to the Competition Commission’s grocery market inquiry: www.competition-commission.org.uk/inquiries/ref2006/grocery
8 Final report of the grocery market inquiry, April 2008, Competition Commission.
8. Rising costs of inputs. Rapidly rising energy and feed costs are major causes of the current economic problems for the pig industry. Feed prices account for almost half of the cost of producing a pig, and industry forecasts predict that high prices will continue for at least the next twelve months. Prices for both wheat and soya, the principle ingredients of pig feed, are at historical levels. US and European demand for crops for biofuels is competing with the rising demand for animal feed crops. The IMF estimates that increased demand for biofuels accounts for 40% of the increase in soybean prices. Escalating speculation on global commodity markets has further aggravated the situation. Despite the high prices, Defra figures show a substantial increase in the use of soya in the last months of 2007 to rates well in excess of historic highs.

Are domestic pig welfare standards a principal reason that English producers have problems competing with those outside the UK? Are there other reasons?

9. As outlined above, unfair prices from the supermarkets and the reliance on imported animal feeds are the principle reasons for the industry’s economic problems. Rather than weaken standards, government and industry must work together to improve pig welfare and sustainability standards, and ensure that supermarkets are paying farmers a fair price.

10. Friends of the Earth understands the fear that domestic standards may lead to rising imports of cheaper meat with even lower welfare and sustainability standards. However, we do not consider the standards of livestock farming in England to be over-burdensome, and a lowering of standards will be unsustainable for the farming industry and will send unhelpful signals internationally that welfare is of reduced importance. The Government must work in Europe to ensure higher standards of meat production across the whole of the EU, and work internationally to ensure that the standards of English pig production are replicated globally, as an initial step towards global sustainable livestock production.

What could supermarkets and the hospitality industry do to alleviate the pressure on the domestic pig industry?

11. Friends of the Earth wants to see a sustainable future for pig farming in Britain. We fully understand the need for a fair return to farmers if we are to expect them to invest in higher priced feed inputs or more extensive systems of production. Therefore the retailers, the hospitality sector and public procurers must pay a fair price to farmers for produce from the pig industry.

12. Friends of the Earth has been campaigning for several years to get better protection for suppliers from the Competition Commission (CC) and to force supermarkets to pay a price that reflects the cost of production. In April 2008, the CC published its final report from a two-year inquiry into the grocery market, recommending a new independent Ombudsman to oversee relationships between supermarkets and their suppliers and to monitor and enforce a Groceries Supply Code of Practice. The Department for Business, Enterprise and Regulatory Reform must now follow the recommendation of the CC and enact the necessary legislation to establish the supermarket watchdog. This would help ensure that farmers, including English pig producers, receive a fairer deal from supermarkets.

Can the Government do more to support the industry either directly or through its public procurement policies?

13. Government has a clear role to stimulate a more sustainable pig industry through research and development, regulation, fiscal incentives, advice and support to the industry, and its own procurement policies. We want the UK to take a leading role in sustainable livestock production and recognise that farmers will need support to do this.

14. Our initial research has found that the main obstacles to introducing more domestic feed for livestock are a continued lack of industry action and inadequate levels of publicly funded research. Government must develop sustainable solutions that fairly reward farmers for food production and improve domestic food security by reducing reliance on global commodity markets for feeds.

Sustainable Solutions

15. Research and development into alternative feeds and mixed farming systems. Shifting to sustainable farming will mean investing in research and development to help farmers make the best use of farmland and natural resources, and move away from intensive production. Government must direct UK food and farming research into finding ways of reducing the need for global feedstock, producing UK livestock more sustainably and humanely, and ways to help consumers develop a lower impact diet. This includes researching and advising on home-grown alternatives to soy, such as legumes.


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9 John Lipsky First Deputy Managing Director, International Monetary Fund—add full ref.
17. **Subsidies.** All UK funds for livestock farming must be directed towards sustainable livestock farming systems, such as organic, and to support far greater domestic feed production as alternatives to soy. All taxpayer support for intensive livestock production and exports must urgently be reviewed and phased out.

18. **Promoting sustainable consumption.** Government has a responsibility to raise public awareness of the impacts of pig and other livestock consumption on the environment. This includes taking action to ensure accurate labelling so consumers can make decisions based on sound understanding of the production impacts.

*September 2008*

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**Memorandum submitted by David Turton (Pigs 03)**

**ENGLISH PIG INDUSTRY**

**Economics**

In the price report section of commodities of a newspaper it states “Pig Meat”. It does not say whether it is Organic, Free Range, Intensive, or Barn reared pig meat. There is as far as commodity traders are concerned, only one price for pig meat, no different in attitude to the price of Oil, Copper, Wheat, etc.

**Animal Welfare**

British society correctly considers the pig to be a “sentient being.” Therefore this should be enshrined in the law to protect the pig. Also there is a demand by Supermarkets that pigs should be kept in what they and their customers consider a “welfare friendly” manner.

**The problem**

Keeping pigs in such a manner increases fixed costs in terms of labour, bedding and feed consumption. The British pig population is only 3.6% of the EU free market total. Britain is the only country in the EU to have gone for outdoor commercial pig farming. The hard economics are that there is only one commodity price for pig meat. This price does not, and never will take into account the higher production costs of what is considered “welfare friendly”.

Britain will never compete with the rest of EU with higher fixed costs because of pigs being kept outdoors. The evidence is in the statistical fact that since the cessation of sows being kept in stalls and the majority of pigs being kept outside, the breeding herd has fallen by half.

**The solution**

Research and development into indoor pig buildings that meet in the majority the welfare needs of the pig but without adding to uncompetitive fixed costs compared to other EU pig farmers.

Politicians should follow the principals of the rules of sport. Each sports body has internationally agreed rules. The sport is still highly competitive but the same rules apply where ever the sport is played in the world.

**Finally**

I have farmed pigs for 32 years, mostly indoors and a bit out of doors.

I strongly believe in scientific solutions, not policy made from emotion.

*September 2008*

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**Memorandum submitted by Robert Hanson (Pigs 04)**

1. **What is wrong with the pig industry in England? Are present problems more than just cyclical imbalance between supply and demand?**

To answer the first part of the question:

(i) over regulated;

(ii) insufficient returns;

(iii) too much imported pig meat that is produced at lower standards; and
(iv) lack of skilled/young people that are motivated.

To answer the second part, pigs have always been cyclical and probably always will, it must be noted that there has been a shortage of British pigs for several years but not a shortage of pig-meat any shortfall has been easily imported.

2. Are domestic pig welfare standards a principal reason that English producers have problems competing with those outside the UK? Are there other reasons?

Yes. I have been in pig assurance from the beginning in 1997, we felt it was the right way forward—how wrong we were. The scheme is now far too bureaucratic, enforcing rules and regulations beyond reason and common sense which is costing the pig industry a lot of money to achieve these so called higher welfare standards, yet we have received no extra money for our efforts, thus over the last 10 years many pig units have closed down because of low returns coupled with the need to re-invest a lot of money into better higher welfare buildings.

I would like the inquiry to consider why sow numbers have consistently fallen to less than 400,000 sows now, yet farm assurance and all these rules and regulations are supposed to be so good? Why?

3. What could supermarkets and the hospitality industry do to alleviate the pressure on the domestic pig industry?

Pay a sustainable price so that we can re-invest, we do not want subsidies, just a sensible price. Better and clearer labeling.

4. Can the government do more to support the industry either directly or through its public procurement policies?

Yes, it could be more positive in its buying policy—buy British.

5. We are small farmers by today’s standards, but we are a very traditional mixed 90 acre family farm, our 35 sows and followers are fed on our own cereals via our own mill and mixer—that must be a very low carbon-footprint. Yet we are registered and inspected by (1) veterinary medicine directorate, (2) pig assurance, (3) state veterinary service, and registered (4) trading standards.

The pig assurance requires our pig unit to be inspected by our own vet every three months plus an annual inspection by pig assurance—at our own expense.

Do we need all of these?

We use our own straw which is returned to the land as farm-yard manure, which benefits our potatoes, so you can see we are well integrated and waste very little. We had a new farrowing shed erected 18 months ago yet we will get no capital allowances in the future. Our other pig buildings need replacing/refurbishing—yet we get no help.

My son left school three years ago to work on our farm, but does not see a future in the livestock enterprise seven days a week, 365 days a year for a low reward.

We are a traditional family farm struggling to go forward, yet there seems very little incentive, spending too much time surviving, not thriving! We can see large arable farmers getting large area aid payments, yet we get very little.

TO SUMMARISE:

— We need less bureaucracy and regulation.
— The industry needs some form of help with the refurbishment/replacement of buildings.
— Supermarkets need to be more accountable as to why they import pig meat—carbon-footprint.
— Sustainable returns from the supermarket/processor.
— Farm/pig assurance needs to be simplified and a lot less of a burden.
— We need more skilled labour—young people need more incentive and motivation.
— Pigs are a long term business needing long term solutions.
— Does the government value food security?
— In the long term I would like to see pig units part of an integrated family farm like ourselves. Not multi-site large pig businesses.

September 2008
Memorandum submitted by Meryl Ward ARAs, NSch (Pigs 07)

Executive Summary

The UK Pig herd has declined by 52% over the last 10 years. This submission describes the factors behind the decline and the resulting structural changes in the industry. It highlights areas of collaboration pre the farm-gate which have radically altered trading relationships for key inputs to cut costs and improve efficiency demonstrating that producers have worked hard to remain competitive. Post farm-gate the current contractual arrangements are described highlighting the failure of current carcase assessment methods to provide clear connection between carcase value in terms of factory efficiency and customer quality to payment received at the farmgate. The role of retailer dominance over the period in stifling supply chain initiative and preventing appropriate payment for high welfare pigmeat is discussed.

Background

1. The Industry has suffered a number of setbacks over the last 10 years which are well documented. Our business has been affected as follows:
   - The sow stall and tether legislation with no compensation and the subsequent removal of the agricultural buildings allowance in 2007 imposing a retrospective tax on the new sow housing provided to meet the legislation—our business spent £400,000 meeting the legislation including provision of straw and muck handling facilities.
   - The market slump in 1998 was unique in that, for the first time in modern intensive pig production, a series of world events impacted on the cyclical pig price to create prices where even the most efficient lost money on a scale that implied substantial cash loss to the business. A loss of 20% of the net worth of an intensive pig operation in one year was not uncommon. This continues to curb risk-taking in the industry, and in light of being unable to secure meaningful contracts with the processors has dented our confidence to invest for a product that is 10 months from conception to point of sale.
   - The “BSE Tax” impacted on production costs. It was estimated that the cost of BSE amounted to over 8% of gross output of the farmgate value of the pig sector or 150 % of the profits that pig farmers could reasonably expect to make, compared to 3% for beef and 2% for sheep. A large proportion of the cost was carried pre-farm gate as processors sought to recoup their costs of offal disposal.
   - Swine fever in East Anglia followed by Foot and Mouth in 2001 and Foot and Mouth in 2007 impacted in several ways. The UK lost valuable export markets particularly for cull sows. Cull sows can account for 5% of a pig units sales value—when export markets are closed their value can fall by up to 60% removing the total margin of the business. Movement restrictions placed extensive stress on industry systems that relied on two or three site production, where restricted movement caused overcrowding and resource problems. Although the shutdown was less severe in 2007, the loss of export markets at a time when producers were struggling with lack of profitability through increased feed prices was a serious blow.
   - In 2001, overcrowding from movement restrictions became the trigger for a new pig disease to the country, PMWS and PDNS. Both conditions caused extensive mortality post-weaning and raised costs of production significantly. The problem was accentuated by the older parity structure of the national herd, the background health status and the initial movement restrictions, still in place from Foot and Mouth, that made health clean-up techniques more difficult to operate.

   Many of the above issues have affected the competitiveness of our business for reasons outside of our control. We have not been complacent in trying to restructure to reduce risk and restore profitability but the seriousness of the external factors have led to reduced investment that hampers future competitiveness.

Supply Trading Relationships and Competitiveness Pre-Farm Gate

2. In the three key inputs that impact most on production costs, we have made significant progress in developing long-term collaborative business partnerships alongside industry initiatives.
   - Feed accounts for over 60% of the cost of producing a pig. Traditionally, this has been purchased as branded products on a three, six or 12 month contract. Cost plus arrangements over raw materials have been developed where the emphasis of the trading partnership is on areas of business improvement rather than on price negotiation with a spread of purchasing of raw materials spreading the risk of volatile commodity prices and substantially helping us with the volatility of raw materials over the last year.
   - Labour is approximately 10% of input costs with stockmanship and management having a major influence on efficiency and productivity. The industry has put in place a nationally recognised accreditation process and Continuous Professional development scheme recorded through the Pig Industry Professional Register, which is now helping us with recruitment and training.
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Herd health planning has been the norm in the pig industry for many years in conjunction with the quarterly assurance visits. The industry has built on this through the establishment of the British Pig Health scheme, which supplies regular reliable abattoir carcass health reports and the NADIS surveillance scheme. Collaboration of producers in a veterinary buying and discussion group has helped overcome herd health problems.

3. In terms of physical performance, Great Britain has performed poorly in a number of key areas—litters per sow per year, mortality and daily liveweight gain, against European comparisons. There is a great range between producers. Poor profitability, lack of reinvestment on units, poor staff morale through foot and mouth and PMWS disease and the upset that this caused to the herd structure have all created a negative spiral of poor productivity adding to profitability problems. There is no disagreement that Great Britain has become less competitive but possibly not to extent AHDB reporting suggests. Many producers believe that the carcass dressing specifications allow for greater deductions and a lower killing out percentage in abattoirs in Great Britain, which skew the comparison of costs of productions pre-farmgate unfavourably against Great Britain. There are many costs carried by EU abattoirs that are producer costs in Great Britain—transport, lorry washes and the size of levies. The small number of buyers have allowed these costs to be transferred back to the producer.

4. In summary, the production issues of health and breeding herd performance are being rapidly addressed. However, there is a concern that the full competitiveness will not be re-established until confidence is restored to encourage reinvestment. A belief that producers have not been properly rewarded for the welfare standards delivered to date, the lack of security in contractual arrangements and concern over the cost of regulation (particularly environmental) is hampering reinvestment.

**Consumption and Supply of Pigmeat**

5. The growing demand for pigmeat products in the UK has not benefited UK producers. As the level of self-sufficiency has fallen, the level of imports has risen to fill the gap. Imports of pork and processed pork products increased by 14% in 2003 to reach 767,000 tonnes product weight. The MLC estimates that, in 2004, 59% of all pig meat consumed in the UK was imported. Shockingly, 70% of these imports came from pigs that would not conform to UK minimum legal standards.

6. Although the food service sector is growing in importance, the sale of pork and products is still dominated by retail sales taking approximately 68% of all pork and pork products. The multiple retailers are responsible for 76% of all retail pork sales and 82% of all retail bacon sales in 2003 (ref MLC Yearbook 2004). The position was largely unchanged in 2004. The main focus of the industries efforts to promote differentiation has therefore concentrated on the retail sector. The unique position of the industry, where the whole industry is differentiated by the banning of the use of sow stalls and tethers, is the main plank of the voluntary system of independently audited Quality assurance marketed under the British Meat Quality Standard Mark. This operates to the internationally recognized EN45011 standard. A second major welfare difference from other EU states is the ban on castration for the 90% of units within the national farm assurance scheme. The Farm Animal Welfare Council, in a letter to Richard Lochhead 7 July 2008 confirmed the higher welfare standard of UK pigs. Despite continued efforts by BPEX marketing campaigns to highlight these differences and inform the general public, it has remained impossible to generate transparency in the system at the point of purchasing to establish fully effective campaigns or to ensure that a fair price is returned pre-farmgate, particularly for indoor pig systems.

**Contractual Pricing Arrangements**

7. Pig slaughtering and processing is dominated by four main processors, two of whom own multi-sites and are in international ownership. Most pigs in the UK are pre-sold under contractual arrangements. Some of these offer an element of stabilization, usually based on tracking elements of costs of production, combined with a negotiated market price. The stabilization is seen as beneficial in reducing risk to prevent a recurrence of 1998 low prices but do not address the provision of an acceptable margin based on economic supply and demand. The contracts are not legally binding and because of the reducing level of UK pig supply have not been tested in a market situation of oversupply. Many of these contracts are being renegotiated into supply only with price announced on the day of delivery. There are two problems with the contractual arrangements.

8. Firstly the measure of payment for quality on delivery does not adequately reflect the value of the carcass to the factory in terms of factory efficiencies or to the end customer in terms of eating quality. The introduction of the autoform grading classification system into one abattoir, supported by BPEX, was a major step towards rectifying this. The purchase of the factory by an overseas processor has meant that progress in implementing this system has stopped. Despite the short supply chain, there is no communication on eating quality down the chain. In the reverse, the drive to produce lean pigs through measurement of fat at one position on the pig has probably adversely affected eating quality through reducing tenderness. Limited “supply chain” projects, which genuinely involve retailer, processor and producer, exist but mainly in-house where the processor normally owns the livestock. Rectifying these deficiencies in the supply is a medium to long-term project requiring joined-up effort and investment by all
parties in the chain but is unlikely when the retailer relies on short-term buying initiatives. Effective marketing initiatives have to date only included the outdoor or niche “free-range” producer and so despite the higher welfare of the indoor units, the processors have sought to substitute indoor British pigmeat with cheaper inferior welfare imported product, thereby reducing the welfare premium. The more processed the end product the less adherence there is to welfare standards.

9. The second issue is the excessive influence of retailer buyer power on the market place and the lack of contractual obligation by the major retailers to their primary processors. The direct contracting of pigs in closed contract production systems has led to the removal of a competitive open market trading where real prices can be established. Coupled with the use of (or threat to use) imports, prices have become divorced from the real economics of supply and demand and remain capped. The situation is made worse by the retailer remaining remote from the contractual arrangements between their major processor suppliers and the producer so that further downward pressure can be exerted on these capped arrangements. The benefits of dedicated supply chains of safety, quality and product innovation and business planning are squandered as the retailer domination takes short-term profits at the expense of suppliers. This was demonstrated in the recent increase in feed prices where farmgate prices remained static for many months whilst retailer prices rose by 12.5%.

10. The closed system described above has prevented the proper expression of the value of the high welfare system of UK production. A variable premium has been achieved but is invariably reduced by increasing imports, leading to the current situation of 58% imports of which 70% don’t meet UK legislative standards. Reliance on labelling to market welfare effectively is wholly inadequate. Consumers are confused by product displays mixing welfare and non-welfare product on same shelf-space and in similar packaging. Retailers manipulate supply by managing volumes of own-label brands and tertiary brands for which they do not extend welfare guarantees. Processed product gets lost in a non-welfare system. There are opportunities through local and regional sales, and through niche contracts such as organic and free-range but these are very small proportions of the marketplace. However, even these standards are largely confusing to the customer.

11. With our own supply, we have always contracted our supply on a long-term basis. Eight years ago, we entered into a five year agreement with Glanbia Meats with several other producers to provide a quality pig where the length of the contractual time would allow development of retailer/processor/producer initiatives to improve product quality and customer choice. The contract ended after five years in disarray after two transfers of ownership and continual efforts to reduce the farmgate price. A following contract with another processor ended six months after it began when the retailer indicated a preference for only outdoor reared pigmeat.

12. The situation has benefited no-one other than retailer profit. Customers have lost out as welfare standards of pigmeat products decline with imports and innovation to improve product quality is stifled. Remaining producers who have delivered quality assurance to national legislative standards despite the difficult economic and disease pressures of the last 10 years are frustrated by the lack of progress and inability to add value to their products. 40% of an industry has been exported delivering lower standards of welfare to the end customer and removing pigmeat sales worth over one billion to the UK economy. The immense level of stress on the people within the Industry at all levels and the acceptance of reduced welfare standards is unacceptable.

13. Conclusions:

(a) The industry must continue to demonstrate competitiveness through technical excellence and sound trading relationships, and strive to improve product quality—especially eating quality—to meet market demands.

(b) Unilateral legislation cannot work effectively without recognition of welfare in cross-border trade—a way needs to be found round this. Welfare labelling helps but the market will never be perfect. It is a disingenuous to impose costs but allow inferior product onto the shelves.

(c) The current confusion of welfare claims must be verified by an independent body that bases its assessment using validated welfare outcomes rather than solely prescriptive systems.

(d) The Independent audit must include auditing of processor and retailer/caterer to validate marketing claims and provide clarity to the consumer through welfare labelling.

(e) Government can demonstrate leadership through its own procurement policies.

(f) Reinvestment in the industry is desperately needed and reinstatement of the agricultural buildings allowance would demonstrate Government commitment to the English pig industry.

September 2008
Memorandum submitted by Compassion in World Farming (Pigs 08)

EXECUTIVE SUMMARY

1. The cost of the UK ban on sow stalls is often overestimated. Authoritative industry data indicate that moving from sow stalls to group housing added just two pence to the cost of producing 1kg of pigmeat.

2. English pig farmers have higher welfare standards than many of their continental competitors. However, that does not mean that all is well as regards welfare standards in the English pig industry. Most English sows are kept in farrowing crates; these place severe restrictions on movement and on sows' nest building and mothering behaviours. Farrowing crates should be phased out as recent research demonstrates that well-designed farrowing pens in which the sow has ample space can be just as effective as crates in preventing piglet mortality.

3. Many English fattening pigs are kept in barren conditions and are routinely tail docked. Since 2003 EU legislation has required pigs to be given environmental enrichment and has banned routine tail docking. Many English farmers are ignoring this legislation: 80% of UK pigs are tail docked and many farmers fail to provide straw or some similar natural material and instead simply supply chains or toys despite the scientific evidence that these are fundamentally unsatisfactory as enrichment materials.

4. British consumers are increasingly demanding high welfare products. This is particularly evident in eggs and chicken meat. Similar developments are likely as regards pigmeat. British pig farmers should prepare themselves to benefit from this opportunity by adopting genuinely high welfare standards.

5. Supermarkets should not stock—and public sector bodies should not purchase—imported pigmeat produced to lower welfare standards than UK pigmeat; this principle should apply to all pigmeat whether fresh, frozen or processed, and whether own brand or branded product.

IMPACT OF DOMESTIC WELFARE STANDARDS ON COMPETITIVENESS

6. The English industry tends to assert that the UK ban on sow stalls is the principal factor behind the decline in sow numbers in England. The suggestion is that the move away from stalls has greatly increased production costs. However, this contention is not borne out by the industry’s own data.

7. In the late 90s Grampian Country Foods, then the UK’s largest pig producer, pointed out that pigmeat production costs in the UK were 44p/kg higher than on the continent. Grampian stated that only 2p/kg of this was due to the ban on stalls; the majority of the extra costs resulted from the then strength of sterling and the fact that at that time meat and bone meal had been banned in the UK but not on the continent.

8. Similarly, a study by the Meat and Livestock Commission in 1999, the year that the sow stall ban came into force, found that moving from sow stalls to group housing added just 1.6 pence to the cost of producing 1 kg of pigmeat. French and Dutch studies show that even in the better group housing systems—ones giving reasonable space and ample straw—a kg of pigmeat costs less than two pence more to produce than in sow stalls.

WELFARE STANDARDS IN THE ENGLISH PIG INDUSTRY

9. Compassion in World Farming (Compassion) recognises that English pig farmers have higher welfare standards than many of their continental competitors. Sow stalls have been banned and castration is prohibited by Assured British Pigs who assure the vast majority of production. However, that does not mean that all is well as regards welfare in the English industry.

10. English farmers are right to be proud of their achievements in abandoning sow stalls and not castrating male pigs. However, a number of serious welfare problems continue to affect English pigs. Most sows are still confined in farrowing crates and many fattening pigs are kept in barren pens with no effective enrichment and are routinely tail docked.

Farrowing crates

11. Most English sows are placed in farrowing crates about five days before giving birth; the sow is kept in the crate until the piglets are weaned at three to four weeks of age. These crates are very restrictive; the extreme lack of space means that the sow cannot move other than to stand up and lie down.

12. Scientific research has established that sows have a very strong instinct to build a nest for their piglets shortly before giving birth. In semi-natural conditions, the sow will exhibit intense nest-building behaviour, first excavating a hollow and then gathering leaves, grass and twigs. In a farrowing crate, it is impossible for a sow to fulfil her strong nest-building instincts. Nor, once they are born, can she mother her piglets properly. The prevention of natural behaviour in crated sows is highly stressful (Weber and others, 2007).
13. The use of farrowing crates is defended by the argument that piglet mortality is lower in crates than in loose-housed sows. However, recent research shows that well-designed farrowing pens in which the sow has ample space can be just as effective in preventing piglet mortality. Analysis of data from Swiss farms has found that piglet mortalities in farms using loose farrowing systems were no higher than those in farms that used crates (Weber and others, 2007).

14. The EU Pigs Directive is due to be revised shortly. Compassion believes that farrowing crates should be phased out on an EU-wide basis. It is entirely proper for farmers to be cautious about moving to systems which require experience for effective operation. This is all the more reason for the British industry to develop the necessary expertise as soon as possible to ensure that Britain remains at the forefront of high welfare production.

15. Most crushing deaths occur in the first three days after birth. It would be an important step in the right direction to develop systems which release the sow a few days after farrowing. However, this would not deal with the problem of frustration during the nesting-building period nor with the sow’s need to initiate contact with her piglets shortly after birth. This is not a long-term solution.

Fattening pigs

16. The term “fattening pigs” is used in this submission to refer to pigs reared for meat as opposed to sows kept for breeding.

17. Although there is no reliable figure on this point, we estimate that around 40–50% of British fattening pigs are kept in barren conditions with no effective environmental enrichment and are routinely tail docked. In these circumstances welfare outcomes are poor.

18. Since 2003 EU legislation has:
   — required that pigs be given environmental enrichment, specifically they must have “permanent access to a sufficient quantity of material to enable proper investigation and manipulation activities, such as straw, hay, wood, sawdust, mushroom compost, peat or a mixture of such . . .”; and
   — prohibited routine tail docking. Under the legislation tail docking may only be used as a last resort. The law provides that farmers must first take measures to improve the pigs’ conditions and, only where these have failed to prevent tail biting, may they tail dock.

Environmental enrichment

19. Scientific research (summarised in a 2007 Opinion by the European Food Safety Authority (EFSA)) shows that enrichment materials for pigs:
   — are of great importance in enabling them to engage in their natural behaviours of exploring and manipulating materials; and
   — should be complex, changeable and destructible and that straw is particularly suitable.

20. A proportion of English farmers fail to use one of the natural enrichment materials referred to in the legislation and instead just provide metal chains or toys even though scientific research shows that chains or toys are fundamentally unsatisfactory as enrichment materials. In its 2007 review of the research EFSA stressed that objects such as chains are not sufficient to provide for the behavioural needs of pigs.

21. We believe that Defra must take steps to ensure that farmers provide effective environmental enrichment as required by law.

Tail docking

22. A 2007 EFSA report shows that 81% of piglets are tailed docked in the UK. This figure is similar to that given in 2006 by Dr David Burch, then President of the Pig Veterinary Society, who said that “currently over 80% of UK pigs are tail docked as a routine preventive measure”.

23. Research (reviewed by EFSA in 2007) shows that the majority of tail biting can be prevented by keeping pigs in good conditions: in particular, by giving them straw or some other manipulable material. EFSA also concluded that the use of fully slatted floors is an important factor leading to tail biting.

24. Compassion believes that the fact that 80% of piglets are being tail docked indicates that many farmers are not, in any serious manner, fulfilling the legislation’s requirement to take measures designed to change inadequate environmental conditions or management systems before carrying out tail docking. The considerable body of research that shows how tail biting can be prevented would suggest that, if farmers were making genuine attempts to take other measures to prevent tail biting, a very much lower proportion of piglets than 80% would be tail docked.
25. We believe that Defra must take steps to properly enforce the ban on routine tail docking. Some farms have fully slatted floors; it is difficult to provide straw or other meaningful enrichment materials on such floors. We question whether newly-built fully-slatted systems are compatible with the EU requirement to address environmental issues before resorting to tail docking.

ECONOMIC CONSIDERATIONS

26. As indicated earlier, the ban on sow stalls added around just two pence to the cost of producing 1kg of pigmeat. Moreover, a range of studies show that the provision of straw and/or more space for fattening pigs can produce economic benefits in terms of higher growth rates and better feed conversion ratios.

27. British consumers are increasingly demanding high welfare products. The willingness of consumers to pay extra for good welfare has to date been seen primarily in the poultry sector. Defra figures show that in the last 10 years UK production of non-cage eggs has doubled from 20.5% in 1998 to 41% in the first quarter of 2008. Free-range eggs now account for over half of the value of egg sales at the retail level. In addition, Sainsbury’s reports that higher welfare meat chicken sales are up 60% compared to 2007.

28. Similar developments are likely to take place in the pigmeat sector. Accordingly, British pig farmers should take steps to position themselves as the providers of genuinely high welfare pigmeat. This means that they will have to provide straw and move away from routine tail docking and farrowing crates. Such welfare improvements should be seen not as a burden but as a marketing opportunity.

WHAT COULD SUPERMARKETS DO TO HELP UK PIG FARMERS?

29. We fully share the pig sector’s concerns that certain supermarkets are selling imported pigmeat produced to lower welfare standards than those that are obtained in the UK. This practice inevitably undermines UK pig farmers and runs counter to the principles of corporate social responsibility in failing to support farmers who are producing meat to higher welfare standards than many of their competitors.

30. Compassion will continue to lobby supermarkets not to stock imported pigmeat produced to lower welfare standards than UK pigmeat and to apply this principle to all pigmeat whether fresh, frozen or processed, and whether own brand or branded product.

PUBLIC PROCUREMENT

31. Compassion believes that the public sector should procure food produced to good standards of animal welfare. Much of the pigmeat used in the public sector is produced to low welfare standards. We believe the public sector should not use imported pigmeat produced to lower welfare standards than those that apply in the UK. Indeed, we believe that the public sector should go further and only buy pigmeat, whether domestic or imported, from pigs that have been provided with straw (or some similar natural material) as bedding, that have not been tail docked and whose mothers have not been kept in extreme confinement systems.

September 2008

Memorandum submitted by Provision Trade Federation (Pigs 09)

ENGLISH PIG INDUSTRY INQUIRY

Provision Trade Federation membership includes, *inter alia*, suppliers and processors of over 90% of bacon on the UK market which is mainly imported from other Member States. But PTF does not favour the interests of any particular nationality over others. We believe in fair play and free trade.

We are submitting this memorandum in the hope that the Environment, Food and Rural Affairs Committee will bear the free market in mind when undertaking this inquiry. We must emphasise that we are deeply concerned about the poor state of the UK pig industry not least because it reduces competition for pigmeat products on the UK market. Competition is healthy for all parts of the chain from farmer to consumer.

For well over a century, imported bacon has represented an important segment of the UK market particularly in the case of products from Denmark and the Netherlands. Indeed, imports are essential in order to meet market demand. We cannot envisage a market without bacon of Dutch and Danish origin. In addition, Dutch and Danish-owned businesses have invested heavily in the UK where they own a major proportion of the slaughtering capacity and processing. Thus they contribute significantly to employment and the economy in the UK.
We have been concerned by the use of negative publicity campaigns regarding imports, generated over the past few years, as a strategy designed to gain commercial advantage for UK production. We believe such initiatives to be detrimental to the market as a whole, regardless of country of origin, and they are as damaging for the generators of the publicity as for the competition. In other words, they do not sell more bacon.

On the question of welfare standards, it is undoubtedly true that national legislation has added additional costs to British producers not experienced by producers in other EU countries. A good example is the unilateral ban on confinement of sows during pregnancy, which was implemented in January 1999.

However, it is also fair to point out that in several EU countries, national legislation also exceeds the minimum pig welfare standards laid down by EU Directives. It is also relevant to highlight that legislation in the area of food safety and the environment has added significant costs to pig producers in other EU countries, which are not currently being experienced by producers here.

In the past, UK farmers have suffered discrimination against their products by other Member States. The French ban on imports of British beef long after the BSE crisis is a prominent example. Just as we expect legitimate trade in UK products throughout the rest of Europe, so must we allow the same for products entering our national market from other Member States.

September 2008

Memorandum submitted by Laurence Gould Partnership Limited (Pigs 10)

1. SUMMARY

1.1 Budgets were prepared for an organic pig breeding and finishing system to provide a basis for considering the options for survival under the current market conditions.

1.2 The budgets were based upon a 300 sow breeding herd selling organic finished pigs certified by the Soil Association.

1.3 Organic production has been encouraged by DEFRA in recent years.

1.4 The two significant problems faced by enterprises in this sector are:

   — Significant increase in organic feed price—37% in the last 12 months.

   — Dramatic reduction in demand for organic pork—assume as a result of rapid change in market with consumers moving away from premium products with less money to spend.

1.5 Potentially a move to conventional free range pig production could allow enterprises to continue.

1.6 To allow this to happen rapidly it is necessary to be able to move to the conventional free range system without the land losing its organic status. This will allow organic pig enterprises to adapt to the current market conditions. The organic regulations currently do not allow this and in order for this to happen a derogation would need to be granted by DEFRA. The alternatives are to lose significant amounts of money or to cease production.

2. INTRODUCTION

2.1 I am a director of Laurence Gould Partnership Limited based in our South West office. Laurence Gould are independent farm management advisors established for over 40 years working mainly for farmers assisting with the development and profitability of their businesses.

2.2 I have been asked to prepare budgets and comment on ways forward for an organic pig enterprise. I have used this as a basis to consider options for the future and the problems facing organic pig producers.

2.3 Budgets were prepared for a system based upon 300 breeding sows with finished pigs sold at approximately 75kg deadweight to Soil Association standards.

2.4 Outdoor organic pig enterprises form part of an organic arable rotation. A 300 sow unit typically utilises between 25 to 40 hectares rotated annually.

3. CURRENT POSITION AND STATE OF ORGANIC PIG INDUSTRY

3.1 The business investigated has been profitable and had the benefit of a fixed price feed contract to 31 August 2008.

3.2 The pigs were being sold at 240p per kg deadweight through to the start of September 2008.

3.3 Feed prices have increased rapidly in the last 12 months with a shortage of supplies particularly in the organic sector. From 1 September 2008 the change in feed price will increase the forecast cost of production by 52.7p/kg deadweight (£189,830 per annum).
3.4 The budget for the year ending 30 September 2009 shows the breakeven price for organic pigs sold to be 270.7p kg deadweight.

3.5 At the end of July 2008 it was considered that there was scope for the finished organic price to rise to cover the increased feed costs and return a small profit.

3.6 In early August it became clear that the organic pig price was not going to increase from the 240p per kg deadweight in the short term.

3.7 On the 2 September 2008 the enterprise was told that their organic pigs were not wanted and that the price would be 140p per kg deadweight with immediate effect.

3.8 At 140p per kg deadweight continuing to feed organically would result in a forecast loss of 130.7p per kg deadweight equivalent to £470,520 per annum.

3.9 There will be situations where producers currently have sale contracts at above breakeven prices but these are expected to reduce.

3.10 Clearly the significant increase in feed costs coupled with the rapid drop in demand has caused a major financial problem requiring rapid action to rectify.

4. OPTIONS FOR THE FUTURE

4.1 Options for the future development include:
   — finding a replacement organic market;
   — producing conventional free range pigs (non-organic); and
   — ceasing production.

4.2 Demand for organic production appears to have dropped dramatically and finding a replacement market for 90 pigs per week is not considered to be possible in the short term.

4.3 Producing conventional free range pigs (non-organic) is considered to be the practical way forward in the current market. This is estimated to reduce the breakeven price from 270.7p per kg deadweight to 153.9p per kg deadweight. This option would have the advantage of continuing the enterprise at a near breakeven price and providing an opportunity to convert back to organic production at a later date (assuming that demand for organic pigs returns in the future).

4.4 The enterprise has been built up over a number of years and stopping the enterprise is considered to be a waste of a potential opportunity for the future. To stop this enterprise would take approximately four to eight months depending upon opportunities to sell weaners. Breeding sows are likely to be culled and staff would be made redundant. Once stopped it is unlikely that this enterprise would be restarted (if organic demand increased) because of high initial setup costs and the time delay between setup and selling pigs.

5. THE WAY FORWARD

5.1 In order to progress it is important to be able to react rapidly to the current market conditions and convert to conventional free range production quickly.

5.2 Currently the Soil Association have suggested that the following two potential options are available:
   — Feeding the growing and finishing pigs conventionally with a limit of 120 days on organic land. This is not considered to be a solution with too short a time scale to be practical.
   — Removing the land used for pigs from organic production creates a problem in that the enterprise is part of an arable rotation. Taking land out of organic production would then necessitate a two year conversion period back to organic after the pigs were rotated on. The crops grown in this period would not be organic (for which there is currently a very high demand). This could also lead to problems in the post harvest handling and storage of grain (keeping crops separate). There would be issues with the Organic Entry Level Scheme on the land. This is not considered to be a practical solution at this stage.

5.3 Allowing conventional free range pig production on organic land would provide a practical solution to allow the continuation of this enterprise. Currently the organic regulations do not allow this. In order for this to be allowed it is understood that a derogation would be needed from DEFRA.
6. CONCLUSION

6.1 The only practical way for the organic pig enterprise investigated to continue is for DEFRA to grant a derogation to allow the use of organic land for conventional free range pig production until market conditions change significantly.

Mark Shepheard
Director
September 2008

Memorandum submitted by Digby Lidstone-Scott, Publisher, Pig World magazine (Pigs 11)

EXECUTIVE SUMMARY

1. The English pig industry has been in decline since 1998 as a result of unilateral United Kingdom legislation, exceptional circumstances (such as foot-and-mouth in 2001), and the dominance of multiple retailers. However the industry has much to offer the nation and remains well organised and determined to succeed.

2. If the multiple retailers can be persuaded to adopt a more strategic view of the industry, and if government forms a pig sector task force to nurture producers’ confidence, there is no reason why the decline cannot be halted and possibly reversed. The EFRA Committee inquiry could be the catalyst.

Are present problems more than just a cyclical imbalance between supply and demand?

3. English pigs make up circa 86% of the United Kingdom pig herd. The herd was subject to the normal vicissitudes of the “pig cycle” until mid-1998. (See Figures 1 and 2.)

4. Since then there has been no United Kingdom cycle. The herd has been in sharp decline. The decline was triggered by global low pig prices in 1998–99 which coincided with the introduction in January 1999 of the United Kingdom’s unilateral sow stall ban.

Are domestic pig welfare standards a principal reason that English producers have problems competing with those outside the United Kingdom? Are there other reasons?

5. The sow stall ban cost United Kingdom producers approximately £323 million in conversion costs (from stalls to loose-housing on straw).

6. Whilst few producers would wish to return to using stalls today, the cost of conversion has proved pivotal to the industry’s decline since 1999.

7. It left producers with significant debt and no buffer to help them through the difficulties ahead. Most of these difficulties were exceptional:

- Classical swine fever in 2000.
- Foot and mouth disease in 2001.
- PMWS/PDNS (known as “wasting disease”) from 2002 onwards, triggered by movement restrictions during the outbreaks of classical swine fever and foot and mouth disease.
- Since July 2007, record feed costs.

8. Better prices during the industry’s period of decline (1998 to the present day) would have given pig producers the incentive to invest their way through their troubles but the past two decades have seen increasing dominance by multiple retailers. Tesco, Asda and other leading retailers use their buying power ruthlessly to drive down prices.

What could supermarkets and the hospitality industry do to alleviate pressure on the domestic pig industry?

9. It is important to understand why ways should be sought to incentivise retailers and foodservice to be more supportive of British pigmeat.

- Fewer Imports:
  A successful English pig industry means more healthy, versatile, competitively-priced food from our own resources (as highlighted in Peter Walker’s white paper of the same name in the 1970s).

- Feed Efficiency:
  As world food shortages grow feed conversion efficiency will increasingly become an ethical as well as economic consideration: pigs are more efficient converters than beef or sheep.
— Recycling:
Pigs are excellent at converting vast quantities of English co-products into healthy protein. Much of this material would otherwise go into landfill.

— Environment:
The natural fertiliser produced by pigs replaces imports of artificial fertiliser from finite resources. The organic matter and micronutrients in slurry and farmyard manure mean its benefits extend beyond its nitrogen, phosphate and potash content.

— Countryside:
Outdoor pigs enhance the visual diversity of the countryside whilst indoor pigs have a small visual footprint.

— Employment:
Pig units employ more people per acre than most other farming sectors and pay is above minimum wage, often in areas where minimum wage is the norm.

— Skills:
Pig units provide quality employment where skills are taught (usually involving the industry’s own Certificate of Competence qualifications) and employees can see an industry career structure. The industry has its own continual professional development scheme in PIPR (the Pig Industry Professional Register).

— Entry to Farming:
Selling off many county council farms means avenues for youngsters who want to farm in their own right are getting harder to find but pigs still provide a way in (as they have always done) for those who are determined to succeed.

— Carbon Footprint:
A local English supply chain—and there are lots around the country—makes more sense than importing pigmeat (and more fertiliser).

— World beating Genetics:
British genetics continue to be much sought after around the world—the British genetics industry is an ambassador for the industry and the country as a whole.

10. Although the above points demonstrate the English pig industry is worthy of support and encouragement, it is unrealistic to expect the multiple retailers to suspend the laws of economics for the national good (even if a mechanism existed).

11. The multiple retailers would benefit, however, from adopting a more strategic view of their pigmeat supply chains. Although their use of lower-welfare imported pigmeat helps them tactically control the price of English pigmeat, they rely on the domestic industry to:
   (a) meet day-to-day fluctuations in demand, and
   (b) to signpost their corporate animal welfare credentials.

12. Adopting a more strategic approach can be as simple as introducing clear labelling and display rules for all suppliers, and for all instore staff. Many surveys have shown the majority of consumers will chose British pigmeat products over their imported equivalents, provided:
   — The signposting is clear, so they can make their decision in 30 seconds or less (Farming and Food: The Acid Test, April 2002).
   — The price differential is not too great (British Pig Executive data).

13. When British bacon carrying the Quality Standard Mark was displayed in segregated “blocks” in ASDA stores for a test period in 2002, sales increased 3% by volume, 7% by value.

14. Retailers could strategically drive demand for English pigmeat by:
   — Always displaying British product in clearly signposted blocks, by category—fresh pork, bacon, sausages and ham.
   — Refusing to sell ambiguously labelled product (either their own, or brand name) that gives the impression of being British but in fact contains, or may contain, imported pigmeat. (See Figure 3.)
   — Refusing to sell product (either their own, or brand name) containing pigmeat from production systems that would be illegal in this country.

15. These measures would probably see their (the retailers) sales increase by value and volume. The “passing off” of foreign product as British is particularly pernicious where the pig industry is concerned because the United Kingdom’s unilateral stalls ban adds 6.4p a kilo to producers’ cost of production. If producers cannot recoup this sum, the industry will continue in decline. Even when the European Union stalls ban is introduced in 2013, it will not be a complete ban. Most producers on the continent will still be allowed to keep sows in stalls for four weeks (a distinction that will be hard to explain to British consumers).
Can government do more to support the industry, either directly or through its public procurement policies?

16. The EFRA committee inquiry is helpful as it will help highlight the importance of the English pig industry. Defra has been supportive of the industry.

17. The English pig industry has a large and sophisticated market on its doorstep. But the industry’s decline since 1998 means massive investment in pig unit infrastructure is now essential. This will only happen if producers have confidence in the future.

18. In Scotland, the Cabinet Secretary for Rural Affairs and the Environment recently established a task force to consider actions to assist the Scottish pig sector. A similar task force should be established in England. It should be chaired by a high-profile figure and it should seek to:
   — Give producers confidence to invest in the future of the industry.
   — Persuade retailers to adopt a more strategic approach to domestic supply chains.
   — Encourage all public institutions to source pigmeat that complies with United Kingdom welfare standards.
   — Use the task force’s deliberations as a publicity vehicle for English pork and pork products.

September 2008

Annex A
Executive Summary

— the UK pig industry is currently in a spiral of decline;
— the reasons are multi factorial but would include:
  — unilateral legislation reducing competitiveness,
  — the betrayal of the industry by retailers and government in not being true to their word and
    ensuring that the higher welfare standards imposed were rewarded by the market place,
  — three incursions of exotic disease in eight years with direct and indirect consequences—the
    latter having by far the greater impact.
— despite all these problems, herd health and productivity are now increasing; and

Memorandum submitted by Richard Longthorp (Pigs 12)
— with concerted and continuing positive action by government, retailers and processors this decline can be halted and reversed.
— British consumers can continue to enjoy high welfare, great tasting, locally produced pork, bacon, sausages and ham.

I. What is wrong with the pig industry in England? Are present problems more than just a cyclical imbalance between supply and demand?

1. Pig industry fortunes have traditionally followed a cyclical pattern. Unfortunately now due to globalisation and the power of the retailers and processors, the troughs are deeper and more long lasting and the “peaks” are lower and shorter lasting meaning that the losses incurred in the troughs are never recouped from the peaks.

This creates a classic spiral of decline. It needs to be halted. With corrective action the decline can be halted and indeed reversed. British consumers can continue to enjoy high welfare, great tasting, locally produced pork, bacon, sausages and ham.

The irony in the question posed by the committee, however, is that despite there now being an imbalance between supply and demand, with supply being less than demand, the price at farm level has still not risen to the level required either to put the industry back into a sustainable position nor to a level that reflects the increase in retail prices.

With retail price having risen some 160p/kg DW over the past 12 months and farm prices having risen only 26p/kg/DW over the same period, there is a clear imbalance. Retailers look like they have maintained, if not increased, their percentage margins meaning that their absolute margins have most certainly increased.

2. In my view it is fundamentally flawed in a supposedly “mature and sophisticated” economy to have a situation where a major food product, in this case pork, is not in surplus yet the only tool apparently available to increase price to cover unprecedented input cost inflation (feed), is for supply to reduce below the level of demand to force the price up.

Some tool. Some sophisticated economy!

3. It is very possible that those who formulated the 1947 Agricultural Act might have had similar views. However, I am not advocating a return to direct government market intervention. The answer lies in fully functional integrated supply chains where each part of the chain—primary producer, processor and retailer—gets a fair and equitable slice of the value in relation to its input and the customer gets a great product at a realistic cost. A problem in one part of the chain should be seen as a problem for all and a solution worked that involves all parties. Currently problems in either the retail or processing sectors invariably pass down to the primary producer. On the other hand the recent massive and unprecedented increase in feed costs, whilst obviously impacting directly on the production sector, have appeared to have had little effect on the retail and processing sectors—other than to give retailers the opportunity to increase their retail prices.

4. Retailers have undoubtedly been very successful at growing their market share and returning value to shareholders. They are now at such a size, however, where they need to use the power that they have accumulated responsibly. They have the capacity and ability to ensure that truly integrated supply chains actually happen. They need to be “encouraged”. Such encouragement should not need to take the form of legislation. We all know in business and politics that there are plenty of alternate ways of oiling the wheels and encouraging things to happen without having to resort to legal process or similar!

II. Are domestic pig welfare standards a principal reason that English producers have problems competing with those outside the UK? Are there other reasons?

5. Welfare standards are part, but a very important part, of a complex mix of factors that have made UK pig production uncompetitive. The unilateral imposition of the stall and tether ban, together with the required investment to comply with the legislation could not have come at a worse time for the pig industry. The market was already depressed following a collapse in the pig price during 1998. The industry was reassured by both government and retailers alike that high welfare was the way forward and that the return would come from the market place. The fact that both reneged on this commitment was a bitter pill to swallow and affected confidence (to invest) significantly.

6. Extensively reared pigs (outdoor, straw yards etc) convert feed far less efficiently than their intensively reared counterparts. Consequently any increase in feed price has a disproportionate impact on extensive systems.

7. In an already weakened position, the industry was then hit by successive outbreaks of Classical Swine Fever and Foot and Mouth Disease, both of these most probably contributing to the onset of PMWS and PDNS or “wasting disease”.
The incursion of exotic disease into the UK has played havoc with the industry both directly and indirectly. Exotic disease does not by definition inhabit the UK naturally. It has to be brought in by vectors or infected meat. Being an island gives us a unique potential advantage in the control of exotic diseases. Unfortunately this potential has never been realised over the past 10 years—in fact quite the opposite.

Within my own business risk management strategy is a line that stare at me from the page that in the UK, on the experience of the past eight years, I can expect an outbreak of an exotic disease approximately once every two and a half years. Risk at this level is simply not manageable. Government has a responsibility to keep exotic disease out of the UK. It needs to take action to improve the unenviable record that it has created over the past eight years.

It is rarely the direct impact of exotic disease that so compromises the pig industry rather the indirect or consequential losses:

— The lost export markets that reduce the value of the carcase as much of the “fifth quarter” such as head, guts etc. has to be paid for to get rid of rather than receive value from export.
— Also the lost value in cull sows not only effects profitability directly but also means that normal breeding herd replacement policies are ditched with subsequent drops in herd performance.
— Movement restrictions mean that disease rapidly builds up on farms that are designed for an optimal number of pigs.
— Movement restrictions also means that replacement breeding stock availability becomes a major issue.
— Reduced fertility due to increase in disease and disruption of breeding herd replacement.

I estimate that the most recent outbreak of FMD cost the industry in the order of 25p/kg\textsuperscript{10} in additional cost and lost output. Much of this loss probably lasted for at least six months and this was a relatively “small and well controlled” outbreak.

8. Retailer and government pledges about supporting UK farmers on their unlevel playing field were soon proved to be empty with neither group bucking up their rhetoric with action. Retailers continue to insist that UK producers adhere to UK welfare standards whilst importing from countries that cannot or will not produce to the UK specification. Similarly government continues to uphold its legislation whilst as a purchaser of pigmeat and pigmeat products it continues to procure product that was produced using systems of production that are illegal in the UK.

9. Danish pig producers are offered a premium of about 6p/kg DW to produce to UK welfare standards. The number of producers taking up this option is reducing as they find it uneconomic to do so.

III. What could supermarkets and the hospitality industry do to alleviate the pressure on the domestic pig industry?

10. Operate to a single standard—UK welfare standard.
11. Retailers to do more work with processors to achieve better carcase balance.

12. UK retailers have been referred to as the “most sophisticated in the world”. They are far from that when it comes to sales strategy. Currently it would appear that the main if not the only tool to increase sales volume is to reduce price or offer “BOGOFs” etc. Hardly sophisticated and something a London barrow boy of 100 years ago could have come up with!

13. Above all else though we have heard retailers and processors talk the talk on integrated supply chains, what we need is to see them walk the walk.

— Problems and rewards need to be shared equitably amongst all in the chain.
— Retailers need to work to a timescale similar to producers. Rather than have a procurement strategy that would appear to have a lifespan of all of four weeks we need the whole supply chain to be working to a much longer timescale—at least 12 months and preferably 24. Farming in general, with pig production being no exception, is necessarily a long term activity. From taking

\textsuperscript{10} Cost of an outbreak of exotic disease (p/kg deadweight of slaughter pig):

- Loss of Exports:
  - Sow value 2.5p
  - Fifth Quarter 8.0p
- Consequential Production Loss due to increased disease resulting from movement restrictions:
  - Mortality and Feed Conversion Efficiency 4.0p
  - Breeding Herd Health/Productivity 1.5p
- Additional Costs:
  - Labour looking after additional pigs in less than ideal circumstances 0.5p
  - Administration dealing with licences etc 0.5p
  - Haulage 0.5p
  - Market Distortion:
    - Imports booked to cover supplies whilst movements halted
    - Backlog of pigs took 6 months to clear
- Therefore domestic price fall accordingly 7.5p
- Total 25.00p.
a decision to produce bacon pigs to actually selling the first pig takes typically 12–16 months dependent on the availability of resource particularly breeding stock. With reasonable market conditions it might take five years to get into positive cashflow.

— There needs to be more transparency showing just where the value resides.

IV. Can the Government do more to support the industry either directly or through its public procurement policies?

14. The fact that government and its agencies etc continue to procure pigmeat reared in conditions that would be illegal in the UK is an absolute disgrace. This should be corrected without any further delay.

15. Recent WTO proposals by Peter Mandelson freeing up the EU market to imports from countries with lower welfare and environmental standards threatened to put the whole EU at a competitive disadvantage as regards pig production. If these proposals had gone through then high welfare pig production would reduce dramatically and welfare and environmental management across the piece globally would effectively be reduced.

16. The current GM situation is having a similar effect with UK and EU not able to effectively compete with countries that have unfettered access to GM feed ingredients.

17. Reinstate the Agricultural Buildings Allowance. To become more competitive the UK industry needs to invest and catch up on investment that has simply not taken place over the past eight years. To remove tax relief (and effectively retrospectively) is a small minded and petty action that will bring little extra into Treasury coffers but has and will continue to have a significant impact on investment decisions by pig producers.

18. Government need to move more quickly to a risk based approach to farm inspection and compliance. The industry already has Farm Assurance schemes and also a Continuing Professional Development Scheme—The Pig Industry Professional Register (PIPR) that demonstrates and records competence. These need to be used more widely in reaching the risk based goal.

19. Recent EU proposals to change from a risk based to hazard based approach to pesticide approval will potentially mean the loss of many of the arable farmers most important and effective yield protecting pesticides. This will lead to reduced production and higher prices for cereals, oilseeds etc. with the pig producer suffering yet again.

20. The pig industry needs to be able have constructive discussions with retailers without being hamstrung by OFT regulations. This may often be more of an “excuse” used by the retailers than a real issue but whatever, the end result is the same—insufficient constructive dialogue. At the end of the day the pig industry simply does not have the capacity to “fix” the market!

September 2008

Memorandum submitted by the Royal Society for the Prevention of Cruelty to Animals (Pigs 13)

EXECUTIVE SUMMARY

1. A number of factors have contributed to the recent problems faced by the UK pig industry; problems that have affected the rest of Europe and beyond. High feed prices are the primary cause of these difficulties, but the effect of other factors, such as the restrictions on exports resulting from the 2007 Foot and Mouth disease outbreak, should not be underestimated. Higher levels of animal welfare in the UK, compared to the rest of Europe, in certain areas of pig housing and husbandry can be seen as a positive step, leading to market differentiation and the opportunity for a stronger marketplace position for UK producers.

What is wrong with the pig industry in England? Are present problems more than just a cyclical imbalance between supply and demand?

2. It is not just the English, or even the UK, pig industry that has been experiencing difficulties in the last year/18 months. Producers in most EU countries have experienced increased cost of production with little increase in the prices paid to them from processors/retailers. As a result, the EU pig herd has seen a reduction in numbers, with a fall of nearly 10% in the last few months. Every country has reported contraction. If this trend continues, it is predicted that by December 2008 the herd will be at its lowest for at least 20 years. This phenomenon is also not unique to the EU; for example, the official statistical agency in Canada reported that the number of pig farms in Canada fell almost 20% in the one-year period ending April 1, 2008.
Are domestic pig welfare standards a principal reason that English producers have problems competing with those outside the UK? Are there other reasons?

3. There are a number of factors that have contributed to the recent problems facing the UK pig industry. High feed prices are the primary cause of the current difficult situation; feed is the single most important component in the cost of producing a pig (around 45% of total costs). With feed wheat prices up to £150-180/tonne from lows of £60-75 two years ago, the cost of production of pigment is approximately £1.50/kg and the average pig price is currently around £1.15/kg, as it has recently started to increase. However, on a 78kg carcass, that difference leaves a £0.35/kg loss or a £27.30 loss/pig.

4. Feed prices have increased for a number of reasons including an increased demand for food as global population rises, relatively poor harvests, an increased demand for grain, including wheat, in emerging Asian countries, such as China and India, and also an increase in the demand for biofuel production in the US and the EU. This has reduced the amount of raw materials available for use in animal feed, thus increasing prices. Indeed the pig industry itself, in the 2008 BPEX Pig Yearbook, states that “Worldwide, the single most important factor influencing prices in the next 10–20 years will be the continued expansion of biofuels.”

5. It should be remembered that producers in the rest of Europe and elsewhere are also having to live with the consequences of these increases in feed prices. However, the recent weakening of the pound sterling against the Euro has meant that imports are now more expensive and exports more competitive, which may help to ease the pressure on UK producers.

6. The effects of the 2007 Foot and Mouth Disease (FMD) outbreak on the current situation cannot be underestimated. Prior to the outbreak, exports of pork, offal and breeding stock were all increasing. When movement restrictions were put in place, these valuable markets were temporarily lost, leading to additional costs to the industry. However, it is thought that most of this cost was borne by the slaughtering sector rather than producers.

7. Higher standards of animal welfare have been cited, in the past, by some sectors of the industry as a cause of higher costs of production and a reduction in the size of the UK herd. Whilst it is true that Great Britain is the highest-cost country in the EU, it is interesting to note that other European countries, such as Sweden, have higher national welfare standards than the UK in many areas (e.g. greater space allowances, ban on the use of farrowing crates). Yet, their costs of production are lower than in the UK.

8. The two major differences, in terms of welfare, between the UK and the rest of Europe relate to the issues of sow stalls and castration. The use of sow stalls throughout the sows pregnancy was banned in the UK from 1999, whilst they are still permitted in the rest of the EU (except Sweden) until the end of 2013. However, even then, they will still be permitted for the first four weeks of pregnancy. Whilst legal in the UK, as in the rest of Europe, castration is not common practice in this country; approximately 5% of male piglets are castrated in the UK. The difference, in terms of cost, of castration versus non-castration is unclear. Whilst losses may result from not castrating in terms of a potential increase in condemnations at slaughter, due to injuries from fighting/riding seen in older pigs, this is unlikely to be comparable to the situation that would arise in other EU countries should they not castrate. This is because pigs tend to be slaughtered at a lower weight in the UK, so producers experience such problems to a lesser extent. Also, any cost would need to be balanced by the benefit of raising entire males, in terms of improved food conversion ratios.

9. In terms of the cost involved in moving away from sow stalls to loose-housed systems for sows, the RSPCA commissioned independent research on this issue back in 2000. The subsequent report concluded that whilst there was an initial capital cost involved in converting buildings for loose-housed systems, there were no ongoing running costs. The report concluded that the average cost of alternative systems is less per sow than stall systems, so producers replacing them with loose-housed systems make a one-off saving. In 1999, the RSPCA joined with the British Pig Industry Support Group to highlight this change in legislation to the public and to promote the lack of sow stalls in the UK as a point of difference from the rest of Europe. It should be remembered that higher standards can bring a financial benefit as they allow greater market differentiation and often command higher prices at the retail level. The BPEX Pig Yearbook 2008 states that demand for British pork and pork products increased in 2007–08, particularly in the premium sectors of the market, suggesting that differentiation of products through higher welfare production offers UK producers a stronger marketplace position. This is supported by comments from Tesco’s senior pork buyer, at a recent European pig industry conference, that the best opportunities (for growth and sales) in the future are in terms of differentiating the premium tiers, which clearly involve welfare.

10. It is interesting to note that the 2007 BPEX report The Impact of Feed Costs on the British Pig Industry does not make reference to higher standards of animal welfare being a cause of the current crisis. A November 2007 special report from BPEX stated that “The extreme and growing pressure on the pig industry is due to the huge increase in feed costs following the doubling of world wheat prices.”
What could supermarkets and the hospitality industry do to alleviate the pressure on the domestic pig industry?

11. At present the UK is not self-sufficient in pigmeat. We export certain cuts (e.g. belly and shoulder) and import others (e.g. bacon and ham) for which there is high demand. Greater rebalance of the carcass with more consumption in the UK of the cuts which are currently in low demand would reduce the need to export, and therefore potentially the need to import so much pigmeat. Purchasing UK produced pigmeat, where available, would also help. However, where importing from abroad, retailers could also ensure that all pigmeat they source/sell is from production systems that are at least working to UK legal standards (i.e. stall and tether free).

12. As Government will be aware, unlike for eggs and poultry meat, there is no legal definition to describe and label pigmeat produced from pigs born/reared in different systems, such as outdoors and free-range. The UK has much higher percentage of pigs in these systems than in the rest of the EU and evidence suggests that consumers in the UK are increasingly seeking such products. Figures relating to chicken, have shown that once consumers are aware of the different types of systems available, they are more inclined to buy higher welfare products. For example, as a result of the TV programme Jamie’s Fowl Dinners, broadcast in January 2008 on Channel 4, sales of higher welfare chicken have increased and, more importantly, have been sustained, even in the face of the recent rise in food prices and the cost of living. The RSPCA, in conjunction with pig industry representatives, has been developing a set of definitions for different production systems, notably “free-range”, “outdoor”, and “indoor” or “barn”. It is hoped that both the industry and retailers will use these definitions. Support from the Government, in terms of lobbying for marketing terms legislation at a European level for compulsory pigmeat labelling, would help to end the confusion amongst consumers, not just in the UK but in the rest of Europe, as to the method of production of the animals that produced the pigmeat they are buying.

13. In addition, there is also the issue of price; the increase in feed prices has not been reflected in the prices paid to producers for their pigs.

Can the Government do more to support the industry either directly or through its public procurement policies?

14. Government could, indeed, do more to support the industry, through the Public Sector Food Procurement Initiative. Schools, hospitals and even the Houses of Parliament tend to make purchasing decisions based on cost rather than on quality or country of origin i.e. British. In a response to a question from Lord Hoyle, on 3 August 2008 Lord Davies of Oldham, responding on behalf of Her Majesty’s Government, stated that “All bacon purchased is Danish . . . the primary reason for using non-UK-sources bacon is that, at current prices, Danish bacon is three times cheaper than British bacon.”

15. Government also needs to be aware of the potential impact of environmental rules on some types of pig farming in England, notably free-range systems.

16. Government in England could also devote a higher proportion of CAP modulation money to supporting the health and welfare initiatives within the pig industry. Sadly, in contrast with, for example, Scotland, there are almost no opportunities for farmers in England to obtain funding for welfare-related initiatives from this source.

References

1 NPA website accessed 1 August 2008.
4 BPEX Pig Yearbook 2008.
7 Comments made by Andy Carter, Senior Pork Buyer, Tesco, during his presentation at the European Pig Producers Congress, 5–8 June, Norwich, Norfolk, UK.
10 House of Lords, Summer Recess 2008. Written Answers and Statements. Lord Davies of Oldham, responding on behalf of Her Majesty’s Government, to a question (HL4891) from Lord Hoyle, on 3 August 2008, relating to pork and bacon.

September 2008
Memorandum submitted by Neville Meeker (Pigs 15)

As a pig farmer for the past 50 odd years, I would like to tell you of a few problems as we see them, we only fatten pigs, we do not breed them.

1. Most of the UK’s pigs are produced to the highest welfare standards in the EU and most other countries of the world, but with the UK Government’s different more strict legislation this has increased our costs of production well beyond that of our competitors.

The Processors, the Retailers and the Hospitality industry could support the UK pig farmers if they bought our home produced product and bought less of the imported pigmeat of inferior welfare standards.

These companies wanted these Assured Schemes and we have, but have never rewarded us for joining up, it is really just a licence so that we can sell our pigs, because without it we would find it difficult to find a buyer for our pigs.

The Government could use more UK pigmeat for the armed forces etc. and also not gold plate the legislation that comes from the EU. I believe other EU countries do not adhere to the rules so vigorously as the UK.

2. You are obviously aware of the contraction of the UK pig industry, but I can assure you there will be a further considerable decline during the next three years as the Nitrate Vulnerable Zone legislation begins to bite. This will be a terrible burden on the pig and dairy industry. Pig farmers will have to store the slurry for six months which will put a huge financial cost on the industry to provide the extra storage. This will also cause the workforce problems with having nothing to do during the winter months then having to spread 12 months of slurry in six months, and if we get a wet time even less time to spread it.

I can see that we shall have an outcry from the village when we start spreading for weeks on end, then the local authority will want to close us down for causing a nuisance. Will we be able to quote the Government legislation in our defence? We will be the ones that have to suffer the consequences of their “legislation”.

In three years time when we have to have this storage I don’t think we shall bother to spend these vast sums, the returns are just not there, but will wait till they shut us down and call it a day. I am sure we won’t be the only ones. When the country gets hungry these rules will go out of the window, lets hope that’s in the next couple of years.

September 2008

Submission from David Kilbey (Pigs 16)

My concern is the security of food supplies in Britain. Pig meat is a vitally important food and the sustainability of its supply is in jeopardy due to the numbers of producers currently leaving the industry, unable to make it pay due mainly, to the rapidly increased feed costs and low prices.

This submission concerns the influence of Supermarkets on the pig industry (Item 3)

1. The Government has largely abrogated its responsibilities for food supplies allowing too much power to concentrate in the hands of the marketers/the supermarkets, wholesalers, importers etc. This is a mistake for in consequence price has become too great a governing factor, resulting in imports of cheaper but often inferior products.

2. The pigmeat buying departments of the supermarket retailers will give verbal assurances that they “look after” their supplying farmers by following government guidelines. The effectiveness of this may be judged by the numbers of their producers leaving pig meat production. The Big 4 are understandably reluctant to divulge their arrangements with producers, but the words of one Supermarket were “It is up to the farmer to make it pay”. With costs rising unpredictably, especially of feed, it is no wonder many pig farmers are being squeezed out of business with little sympathy from the buyer.

3. On the other hand some supermarkets—two at least—more concerned with quality takes careful account of production costs to ensure the sustainability of their British suppliers. It is significant that this supermarket was forthcoming in the information it provided about its dealings.

4. The Government Guidelines, to which Supermarkets refer, seemed to be used as a tool to insist on high levels of hygiene control. Whilst this is important there are other aspects—are they being implemented or ignored? British producers are being subjected to much stricter standards than our overseas producers.

What can the Government do?

1. Accept its responsibility for the security of food production in Britain.

2. Consult with the pig meat industry to devise a scheme to ensure the producers are not exploited especially at a time of unpredictable rises of costs.

3. Set a good example of pricing through its public procurement policies and always buy British.

September 2008
Memorandum submitted by Fred Henley (Pigs 17)

I could list many reasons why the pig industry is in crisis but all I want to say is that the same is likely to happen to all primary food producers unless everyone (government, retailers, caterers, the consumer and everyone who is involved with food production) recognizes that it takes a long time for the farmer to produce food, but then only a short time before it is processed and eaten and very important it is almost impossible for farmers to forecast how much will actually be produced.

I believe a “free market” for food long term will lead to feasts and famines with ex-farm prices fluctuating violently totally independent of production cost.

In the future in order to have enough food some way must be found to give farmers the confidence to produce food profitably. Talking to other pig farmers recently their view is that their businesses are now a big gamble with luck being more important than being good at farming pigs.

I’ll give you my list not in order of importance as to why there is a pig industry crisis and why there are no pigs on my farm now:

1. Too few buyers, in reality the supermarkets are in control.
2. Unilateral welfare rules with no provision to cover the extra costs.
3. Rules and regulations, again no provision to cover extra costs.
4. Uncertainty about more rules, restrictions and paperwork.
5. The general attitude “we can always import food.”
6. There is no way of setting pig price to reflect production cost.

I could probably go on but if there was a profit to provide an income for me and be able to reinvest then I would probably like others I know farm pigs again but at present my confidence has gone.

September 2008

Memorandum submitted by Sainsbury’s (Pigs 18)

1. INTRODUCTION

1.1 We welcome the opportunity to respond to the Committee’s inquiry into the English Pig Industry. While we do not contract directly with pig farmers we take our responsibilities to the whole of the pig industry supply chain seriously.

1.2 For context, key statistics on Sainsbury’s:
   — 802 stores, of which 289 are convenience;
   — 153,000 employees;
   — around 17 million customers a week; and
   — 26,000 food/drink products (15,000 of which are own-brand).

1.3 We have been committed to supporting British farming for over 130 years. We believe that many of our customers actively choose British produce because of what that represents to them in terms of freshness, regionality and food that hasn’t travelled so far: for these reasons they believe that foods are tastier and healthier. We stock 3,500 home-produced products and last year sold over £6 billion of British food, including £1.5 billion worth of British meat. Of the food that can be grown in this country, we source 90% from the UK.

1.4 We ensure that in our operations with our suppliers and their farmers that they adhere to the highest animal welfare standards. This has been recognised by Compassion in World Farming, who in December 2007 awarded us “Most Improved Supermarket” and “Best Volume Retailer” in their Supermarkets and Farm Animal Welfare Survey.

2. EXECUTIVE SUMMARY

2.1 We are strong supporters of the British pig industry—all sausages are 100% British and all our Taste the Difference and standard hams are British, for example. This month we announced a doubling in our range of higher welfare fresh pork.

2.2 While we continue to support the industry through increasing the price we pay our suppliers and through working in partnership with our suppliers, the global economic conditions of strong increases in feed prices have hit the pig sector particularly hard.
2.3 We have tried to stimulate customer demand in store for British pork through promotions and strong marketing programmes, but this takes place in a tough trading environment. Customer fears about the credit crunch have resulted in a reduction in meat sales. There are still long term system issues, particularly the lack of utilisation of the full processing capacity in the abattoir sector.

2.4 There are also increased pressures on our suppliers through the current high UK business costs of land, transport and labour. The Committee needs to fully recognise these issues when investigating the profitability problems and issues within the pig industry.

3. What is wrong with the pig industry in England? Are present problems more than just a cyclical imbalance between supply and demand?

There are a number of long-term pressures within the market:

3.1 The intensive nature of pig farming and its particular exposure to grain prices has resulted in pig farmers experiencing the effects of the global increases in costs.

3.2 Despite other health benefits coming from pork, the traditional processing method of adding salt to ham and bacon for vital food safety reasons makes it very difficult to further reformulate the salt out of these products and make “healthier”. This need for a significant salt content has impacted on sales of ham and bacon.

3.3 The necessity to “trade” parts of the carcass to ensure carcass utilisation makes it difficult to achieve the balance of sale either by promotion or international sale. For example, while ham legs are popular in the summer, it is difficult to promote them all year round and so surpluses build up making it difficult to continue to put a stronger value on them.

3.4 Due to some of the inbuilt issues, such as the lack of utilisation of industry processing capacity, particularly in the abattoir sector, this has further restricted profitability in the supply chain capacity. Customers can help us improve this situation by demanding to buy more British pork.

There are also a number of immediate issues which have affected the pig market:

3.5 A poor summer restricting both ham and BBQ product sales.

3.6 Customers’ reaction to fears around the “credit crunch” has meant a reduction in sales of all protein products.

4. Are domestic pig welfare standards a principle reason that English producers have problems competing with those outside the UK? Are there other reasons?

4.1 The Compassion in World Farming award for “Most Improved Supermarket” and “Best Volume Retailer” in their Supermarkets and Farm Animal Welfare Survey in December 2007 was important to us. We have always strived to improve the animal welfare in our supply chains and it was extremely encouraging to be the only major UK retailer to be awarded three stars out of five for company commitment to farm animal welfare. We also scored the highest of all large scale retailers in the UK in ensuring the distance travelled by animals for slaughter was the minimum it could be.

4.2 We have continued this support, announcing this month the doubling of our range of higher welfare pork products. This is to meet growing customer demands for affordable meat raised in better conditions. The new range of pork is bred outdoor on farms inspected by Freedom Food to strict RSPCA welfare standards. This move was praised by Compassion in World Farming, who said “Sainsbury’s is again showing leadership by providing customers with improved access to higher welfare animal products at affordable prices”.

4.3 We are strongly committed to British pig producers and over the last three years we have taken measures to increase our proportion of pork and pork products made with British pork. The reason for this change reflects our customers’ desire for us to show better traceability for our ingredients and support for sourcing British pork products. Sourcing British also gives us better quality control. We are fully supportive of the high quality and standard of British pork.

4.4 All of our own label fresh pork—Basics, standard, Taste the Difference and Organic—is British. Due to the arguments detailed above, particularly around capacity in the British pig industry, the only exception to sourcing British pork is due to insufficient British supply to meet consumer demand. This normally only happens when we are running big promotions, particularly on our standard pork products. The use of promotions in this way helps to stimulate overall demand and interest in pork products, which aims to have a positive impact on the British pork sector.

4.5 All our counter pork is British and has been since September 07, all our sausages are 100% British, all our Butchers Choice bacon is now British, all our Taste the Difference bacon is British, all our Taste the Difference and standard hams are British, all our frozen primal pork is British, all our pork ready meals are
British (except where we use pork ingredients for example pancetta, in which case we allow suppliers to use pork from a list of approved EU welfare suppliers). All of our pork Inspired to Cook range uses British meat and EU welfare pig meat.

4.6 This commitment to British animal welfare standards does not put English pig farmers at a disadvantage to non-domestic suppliers, as our policy is to source all pork to the same or equivalent welfare standards (European level 1 welfare).

4.7 We also work with our processors and producers to help with “carcass balance”. For example in January we launched a British, fresh organic pork leg joint, in order to help improve organic pig carcass utilisation and to encourage customers to try non-traditional cuts of pork. It now accounts for 20% of organic fresh pork sales.

4.8 Factors which are a strong and growing influence on our continued ability to source British pig meat, as opposed to pork from the EU, include: cost of land, cost of transport and labour costs. We would urge the Committee to take these high and growing supply chain cost issues into account when investigating the impact EU imports have on the current domestic pig sector.

5. What could supermarkets and the hospitality industry do to alleviate the pressure on the domestic pig industry?

5.1 We are developing our premium Taste the Difference pork tier and further developing the communication around our pork welfare standards—for example, this month we launched a new tier of higher welfare Freedom Food approved pork. This is because demand has grown for affordable meat raised in better conditions. The range includes pork chops, loin steaks and joints.

5.2 We currently buy proportionately more British pork than our major competitors. In recent months we have agreed to inject a further estimated £10million back into the UK pig meat supply chain. This is on top of our October 2007 announcement where we proactively increased the price we pay our suppliers for British pig meat—worth an estimated £5 million per annum. These contributions will help to maintain a sustainable British supply chain and support producers who are facing pressure due to increased feed prices. This move attracted support from both the National Pig Association and British Pig Executive.

5.3 We are further supporting the industry:

5.3.1 Last year we set up a Partnership in Livestock scheme for pork—similar to the beef and lamb ones we have been running for the last few years—and are actively engaging with our producers and processors to better understand the pressures they are facing. The agenda is driven by the category’s performance and consumer issues, but we also discuss livestock industry “hot topics” and livestock prices. Through these relationships we have developed an on-going dialogue with farmers, who are dedicated to supplying us so we can better understand the challenges and opportunities they face.

5.3.2 Helping processors and producers plan forward requirements, such as sharing sales patterns and future estimates, customer trends and customer insights and demands with them. This helps them to plan for future demand and reaction to how the market is working.

5.3.3 Ensuring our labelling is transparent and clearly states the country of origin.

6. Can the Government do more to support the industry either directly or through its public procurement policies?

6.1 We would recommend to the Committee that there are three areas the Government could further support the industry:

— By ensuring that public procurement policy is consistent and supports the British pig industry.

— By ensuring that the traceability of product is policed and that they lobby the European Commission to ensure traceability and country of origin labelling is consistently applied across the European Union.

— By supporting supply chain and retail Research and Development of pork and pork products, and development of innovative farming methods.

Simon Twigger
Director—Dairy and convenience

September 2008
Memorandum submitted by the Pig Veterinary Society (Pigs 20)

THE ENGLISH PIG INDUSTRY

1. What is wrong with the pig industry in England? Are present problems more than just a cyclical imbalance between supply and demand?

2. Are domestic pig welfare standards a principal reason that English producers have problems competing with those outside the UK? Are there other reasons?

3. What could supermarkets and the hospitality industry do to alleviate the pressure on the domestic pig industry?

4. Can the Government do more to support the industry either directly or through its public procurement policies?

EXECUTIVE SUMMARY

The Pig Veterinary Society recommends that steps should be taken urgently to ensure a sustainable future for the pig industry in England. Information about sources of pigmeat and associated welfare standards should be more clearly communicated to consumers and the higher standards in the UK identified by the Farm Animal Welfare Council highlighted. Public procurement policies should include a commitment to welfare that would send a clear signal that the Government is committed to practical support of high welfare standards and not just to enforcing the principles on others. International trade policies should seek to ensure that imported products should meet the same welfare standards, otherwise pig production will simply be exported to countries with lower standards and the net effect will be poorer pig welfare. Restoring adequate margins over the cost of production would do much to improve health and welfare and also restore the confidence needed to boost investment and rebuild the philosophy of continuous improvement that once made the English pig industry world leaders. Health and welfare objectives are best served on well-managed and profitable pig farms with adequate re-investment in their facilities and staff. Finally Government and industry should work together to deliver a programme of health improvement and disease elimination to restore production efficiency on pig farms in England.

Pig Veterinary Society views and comments

1. The Pig Veterinary Society welcomes the inquiry by the Environment, Food and Rural Affairs Committee into the English pig industry.

2. The Pig Veterinary Society is a specialist division of the British Veterinary Association. Members are veterinary surgeons that have a special interest in pigs, representing all sectors of the pig industry—private practitioners, academics and veterinary surgeons employed within the animal feed and pharmaceutical sectors and government. The aims of the Society are to enhance knowledge and understanding of pig disease and health and welfare of pigs every day of their working lives. The Pig Veterinary Society acknowledges the reality that the health and welfare is a responsibility shared by its members, pig keepers, government and allied industries. The Pig Veterinary Society and its members play an active role in industry initiatives to improve pig health and welfare e.g. British Pig Health and Welfare Council; British Pigs Health Scheme; National Animal Disease Information Service; and the ZNCP Salmonella Programme.

3. Members of the Pig Veterinary Society exercise their responsibilities for promoting and protecting the health and welfare of pigs every day of their working lives. The Pig Veterinary Society acknowledges the reality that the health and welfare is a responsibility shared by its members, pig keepers, government and allied industries. The Pig Veterinary Society and its members play an active role in industry initiatives to improve pig health and welfare e.g. British Pig Health and Welfare Council; British Pigs Health Scheme; National Animal Disease Information Service; and the ZNCP Salmonella Programme.

4. The Society recognises that health and welfare objectives are best served on well-managed and profitable pig farms with adequate re-investment in their facilities and staff. The costs of raising pigs to normal slaughter age in England are among the highest in the world, and therefore require a strong income stream and return on investment to survive and prosper. The breeding herd has declined to its lowest level in over 25 years and has almost halved in size over the last decade, yet the UK is only around 60% self-sufficient in pigmeat.

5. The majority of on-farm costs of production are those associated with adequately feeding pigs, followed by finance and staff costs. The proportion of the cost of normal pig production in England due to health inputs (vaccines, medications etc) is only around 5%.

6. The price received for pigs by the English industry is largely determined by the processors who purchase pigs and in turn the price they can command from retail and supermarket outlets. The concentration of purchasing power in fewer hands has inevitably led to lower prices being offered for pigs. The most effective responses of pig farmers in this (not uniquely British) situation are to (i) enlarge in scale, so that the size of slaughter agreements gives some bargaining power to the producer, (ii) purchase their own processing facilities, and (iii) develop niche markets with higher value-added returns. Progressive farmers will adopt one or all of these strategies and the PVS supports these trends—there is no value for our pigs or the industry in small, non-profitable farms battling into bankruptcy situations.
7. The British pig industry has also adopted welfare measures that are among the strictest in the world and uniquely through its network of farm assurance schemes can assure consumers of compliance. In a letter to the Cabinet Secretary for Rural Affairs in Scotland, Professor Christopher Wathes, the Chairman of the Farm Animal Welfare Council concluded that:

“The majority of pigs in the UK, including those in Scotland, are kept to a higher welfare standard than elsewhere in the EU and other countries. The higher standard arises from differences in legislation and voluntary measures but both will have increased the costs of pig production in the U.K. relative to those in exporting countries.”

8. Most British producers have made significant investments in developing systems to improve many aspects of pig welfare (such as keeping sows without stalls) but this has rarely been reflected in returns. Raising animal welfare standards in England has resulted in higher costs of production of slaughter age pigs. This is a large part of the reason why English pig farmers have become vulnerable to some cheaper imports from other Member States and third countries, as EU and WTO rules prevent Member States from restricting the import of meat derived from animals on grounds of animal welfare. Pig farming groups in those overseas nations can view the “English obsession” with welfare as a non-tariff trade barrier seeking only to support a protectionist stance for an inefficient industry. They therefore point to other areas of inefficiency in English pig farms such as high feed and labour costs, restrictions on use of GMO feed crops etc as being behind the “need” for high welfare standards.

9. The PVS rejects this view and suggests that the British Government must press OIE (World Animal Health Organisation) to continue the development of global standards for animal welfare building on the standards agreed for the transport and slaughter of live animals. However, the OIE standards are a voluntary code and not legally enforceable. The development of global standards for animal welfare should be a basis for discussions of rules on international trade, such as those of the World Trade Organisation (WTO). Every effort should be made to amend the WTO rules so that when improved welfare standards are adopted, it may be possible to restrict the import of produce coming from animals reared to other standards. Even within the EU the English industry will continue to operate at a competitive disadvantage because of differences in detail in the welfare legislation in operation and in its enforcement.

10. Assessment of welfare is subjective and evaluation of the impact on welfare and other parameters is rarely straightforward. Keeping sows without stalls results in higher levels of physical damage as a result of fighting and other vices and sow performance post-service is compromised. Pigs in England are not castrated on welfare grounds but this results in some variation in product quality. It has been suggested that the use of maternity cradles (also referred to as farrowing crates or piglet protection devices) for nursing sows should be discontinued on sow welfare grounds. The two most common systems in commercial use are the maternity cradles and outdoor farrowing. Maternity cradles with insulated concrete floors and creep areas were developed in the 1960’s and have continued in global use because of the obvious benefits to the piglets of adequate heat input and of not being crushed or trodden on by large sows.

11. Many European producers who had experimented with early designs of non-restraint farrowing areas were disillusioned with high levels of piglet mortality and reverted to maternity cradles. Scientific reviews also concluded that farrowing systems which do not confine the sow lead directly to a higher number of piglets being overlaid, crushed and trodden on.

12. Clear country of origin labelling would be welcomed. Marketing messages can then be more easily understood behind the country banner allowing for a more informed choice. Consumers only spend a few seconds at supermarket meat counters before selection of their purchases and labels need to be large and visibly British. The Government also needs to send a strong message in support of welfare by making high welfare standards a pre-requisite in public procurement contracts.

13. There is cynicism in some areas of the English industry that farm assurance schemes have not improved returns and have been undermined in impact by cheaper available pork imports, leading to disillusion with further welfare based agendas (such as banning maternity cradles), promoted by urban pressure groups—as all costs and no returns. There is therefore a need to consider a change in focus of farm assurance schemes from an input-based approach to one that is outcome orientated. The British Pig Executive is funding a study at the University of Bristol to examine the feasibility and benefits of including on-farm observations of health and welfare outcomes within farm assurance inspections, including the ability of this assessment to add value for producers (management information), consumers (improved welfare), industry (maintain UK competitive position) and regulators (maximise compliance with legislation).

14. The most serious insults to pig health and welfare in England in the last decade have been associated with the introduction and subsequent control of exotic diseases. Recent and devastating CSF and FMD outbreaks are both suspected to be due to imported processed meat products ending up in the diet of English pigs. The PVS supports greater efforts and inputs into UK border controls, including more border staff, sniffer dogs for meat products in incoming materials, X-ray screening of incoming luggage etc.

15. The PVS also supports a high level of vigilance from its own members and in particular from Government agencies and staff at VLA, DEFRA and Animal Health for exotic and notifiable diseases. The level of activity of these agencies should be much higher in terms of training, staff visibility, research activity, model exercises, overseas training programs, contingency plans, risk evaluations, policy groups etc.
16. In this respect, PVS and its members have contributed significant amounts on unpaid time and expense to tackling notifiable diseases in the past decade. PVS recognises that there is a need for practice-based vets to be involved in developing policy if the mistakes of previous notifiable disease outbreaks are to be avoided in the future and is prepared to make reasonable efforts. However, PVS believes there is a substantial difference between a general stakeholder group where much of the rationale is to update the stakeholders and allow them to raise issues of particular interest to their members and groups like the proposed Classical Swine Fever Core Group which will develop policies from which there would be significant direct benefit to DEFRA and the wider industry. PVS has no doubt that expert input to CSF policy development would contribute substantial savings to the Exchequer and the industry in the longer term in lower costs of disease outbreaks but there would be few if any direct benefits to the Society and its members although there may be indirect benefits from the continued survival of the industry. It is deplorable that DEFRA expect to be allowed to plunder the intellectual property of veterinary surgeons who make their living through developing and then marketing their expertise and to undermine the financial position of PVS through their expectation that PVS should supply expert consultancy services for the core groups.

17. The development of a national strategy for pig health and welfare which can deliver real improvements is very important for the sustainability of the pig sector in Great England. Delivering real improvements will require drive and enthusiasm to sustain momentum, and human and financial resources to provide the infrastructure to enable the industry to make the necessary changes.

18. There is a wide variation in productivity and cost of production between farms. Two-thirds of the performance difference between farms is due to differences in feed conversion, growth rate, and pig mortality rate. The production performance in many key competitors is higher in a number of key areas, notably pigs produced per sow per year and average daily gain. Improving the health status of pig units in England would make a major contribution to improving production efficiency by allowing the pigs to more fully exploit their genetic potential.

19. Around 200,000 piglets are born each week on pig farms in England. The immune system of the pig is not fully mature until the pig is 10 to 12 weeks of age. At any given time there will be up to two million pigs that are very vulnerable to disease challenge. Pigs are exposed to, and may be challenged by, many diseases throughout their life. The threat and/or occurrence of disease in their pigs is managed by farmers and their veterinary advisors by a combination of hygiene, management, vaccination and treatment. It is hoped that the recent introduction of vaccines for Porcine Circovirus 2 will allow the industry to tackle effectively for the first time in a decade the serious diseases associated with this virus. The effectiveness of the vaccines is being investigated in a large-scale research project funded by the industry through BPEX. The delay in bringing these vaccines to market is thought to have cost the industry in excess of £100 million.

20. The economic impact of pig diseases is usually hard to estimate because having controlled the major single agent diseases of pigs e.g. Classical Swine Fever the diseases now seen are usually multifactorial involving more than one agent and interactions between these and the immune status of the herd and the environment.

21. There are a number of diseases which are enzootic in the pig herd in England that could be eliminated as part of a programme of health improvement. Effective strategies have been developed to eliminate atrophic rhinitis, enzootic pneumonia, mange, pleuropneumonia, PRRS and swine dysentery. An eradication scheme for Aujeszky’s Disease funded by pig producers but administered by MAFF introduced in Great Britain in 1983 was successful and on 15 May 1991, the UK Minister of Agriculture Fisheries and Food announced that Great Britain was officially free of Aujeszky’s Disease. It involved the compulsory slaughter of over 500 herds and nearly 440,000 pigs and in net terms cost £27 million. A similar level of investment and sustained commitment would be necessary to successfully eliminate other enzootic diseases of pigs.

22. An area of particular concern to PVS members is the cost and availability of medicines to protect the health and welfare of pigs. In particular there are a number of vaccines for common pig diseases including Actinobacillus pleuropneumoniae and Streptococcus suis which are available in other EU Member States that have never been registered for use in the UK. One reason for this appears to be that registration procedures within the UK are more bureaucratic, expensive and/or restrictive than in other EU Member States. There has been a considerable delay in the time between when some products became available in other EU Member States and when they finally were registered for use in the UK. The costs of centralised registration of products within the EU are a barrier to some products being registered because the potential market volume may not justify the investment that would be required. There is also a fear that product licences for some existing low volume products may be lost because companies realise that the cost of maintaining or renewing registration cannot be commercially justified. As a result anaesthetic and anticoccidial options for pigs are already very limited.

23. A factor noted by many members is the aging demographic of those involved in the pig industry. The scale of investment required for a unit that can support a family is a significant barrier to new entrants. Some thought should be given to encouraging new entrants for the dynamism and openness to new ideas that they would bring to pig farming in England. A chronic lack of confidence following a decade of poor prices, exotic diseases and soaring costs has all but eliminated the commitment to a philosophy of continuous improvement that once characterised the English pig industry. It has also limited the time, energy, effort and investment in advice and planning that is needed to improve production efficiency.
24. Irresponsible reporting and the negative image portrayed by the media of agriculture in general and the pig industry in particular have made it difficult to attract people with ability and talent into the industry. This combined with the absence of a clear structure for career progression and a skills drain out of the industry underlines the importance of supporting and building on initiatives like the Pig Industry Professional Register and Agskills. Even more effort is required to improve the confidence and skills of existing staff at all levels, stockworkers, managers, advisors, and vets as well as to attract competent people into the industry.

25. The low level of investment in the pig industry in recent years is a major reason why the health, growth rates and efficiency of growth of pigs in England have failed to keep pace with the genetic potential of the pigs and the levels reported by major competitors. Many buildings have reached the end of their predicted lifespan and the point where the physical environment would benefit significantly from investment particularly in areas like insulation, ventilation and flooring. The lack of investment is not only the result of a prolonged period of poor profitability but also a lack of confidence in the future of the industry. The recent abolition of 4% capital allowances with retrospective effect further undermined confidence and discouraged investment. The small and constantly fluctuating margins had made obtaining credit difficult even before the current disruption in the financial sector.

26. The Pig Veterinary Society believes that a strong and sustainable pig industry in England would be good for pig welfare, good for the environment in terms of food miles and essential for food security. The Society will continue through its members to support the industry and urges the Government to work with the industry to secure its long-term survival.

27. The Pig Veterinary Society would welcome the opportunity to submit oral evidence to the Committee.

September 2008

Memorandum submitted by Leonard Goodier (Pigs 21)

INTRODUCTION

I am what you would call your average small family pig farmer. I have been keeping pigs for 46 years, and now have 270 sows over two sites in Greenhalgh, Lancashire, and I finish the weaners in a rented site I took on five years ago. We home mix our pig feed, but last year that only accounted for 12% of our needs. We were badly caught out by the rise in cereal prices as it is not the custom to buy forward from the local farms, so we were forced to purchase wheat as high as £190/tonne. The rise in feed prices added £50,000 to our costs. We also have 40,000 broilers, which have shown a profit all year which we have used to subsidise the pigs. This has managed to limit our losses to £30,000 so far.

EXECUTIVE SUMMARY

— a decade of dismal prices and successive exotic disease outbreaks has left the British pig industry in a fragile state;
— in my poultry business my customers actively engage with us, why can’t my partners in the pork supply chain do the same?
— I’ve invested heavily in the infrastructure of my business improving animal welfare and my productive efficiency and yet I am more in debt now than I’ve been in my 46 years of keeping pigs;
— when are the retailers and processors going to pay a fair price for the high welfare pigs I produce, that they and the consumer say they want?
— I urge the Government to stand by its own public procurement policies, and ensure the school children of Lancashire can go back to eating British pork, rather than lower welfare imports.

If we can’t improve the British pig supply chain then this family farm, as with so many others, will no longer be keeping pigs in the future.

1. What is wrong with the pig industry in England? Are present problems more than just a cyclical imbalance between supply and demand?

The following are the main causes of our current problems:

— The stall and tether ban in 1998—We invested £45,000 in an Electronic Sow Feeding (ESF) system for 100 sows to meet the new requirements.
— The collapse in global pig prices in 1998—In the years leading up to 1998 we had achieved some reasonable prices, so I was losing my own money. However having had a decade of disease problems and poor prices, I’m now losing money I haven’t got. By investing in the business and expanding to become more efficient, I am now more in debt than I’ve ever been. We’ve had to add another £30,000 to the overdraft this year alone.
— CSF in 2000, FMD in 2001 and 2007—Losing the export market due to movement restrictions had a big effect because we lost the value for our cull sows overnight which traditionally mostly go for export. Although not as bad as some, we suffered from the pig wasting disease PMWS as we tried to recover from the disruption of the outbreaks. We changed our breeding, and introduced Pietran breeds which seem to cope better with PMWS, and started weaning our pigs later; both of which helped us to overcome these health problems.

— Supply chain issues—When I suggested to my processor that we needed to sit down with the supermarket and talk about our problems I was told that they weren’t allowed to do this as it would be seen as price fixing! I just want a fair share of the value. Its completely different with our poultry business where we have actually been approached by processors wanting to discuss contracts. They also seem to have a much better understanding of the realities of our costs of production, and are prepared to pay above it. Why do they behave so differently on the pig business? If they don’t engage with us soon, the pigs won’t be here.

2. Are domestic pig welfare standards a principal reason that English producers have problems competing with those outside the UK? Are there other reasons?

The stall and tether ban was a turning point for the industry. Government and supermarkets said they only wanted pigs from high welfare farming systems, yet they then back tracked on their promises, and the industry has been shrinking ever since.

Having been selling my pigs over such a long period I have always got the impression that the processors keep a lid on our prices, and consequently the size of our herd, by intentionally undercutting our market with lower welfare imports.

Welfare comes at a price, we invested in our stall free systems and are proud of how well we look after our animals, but we have higher costs of production than our continental neighbours. The supermarkets couldn’t resist cheaper, lower welfare imports and undercut our market, its completely double standards!

3. What could supermarkets and the hospitality industry do to alleviate the pressure on the domestic pig industry?

Create a level playing field—Supermarkets all said they would support British pig farmers when the stall ban came in by only buying pork products that were from stall free systems. I challenge them all to meet the commitments they gave a decade ago across all their imported pork.

Get to know us—I would like to be part of a supply chain where I had a better understanding of what my abattoir, and my supermarket wanted, and how I can continue to meet their expectations. I would also like them to take full recognition of the huge rise in our feed costs that make up 60% of my cost of production. I would like to sit down with my partners in the chain and together see how they could help me reduce some of these costs, e.g. through their power of purchasing on things like energy and feed. But also to get some long term commitments that enable me as a businessman to have an investment strategy for my business that doesn’t revolve around daily survival.

I have been told by my customers that the price I receive is not related to my cost of production, but is dictated by the world pork price, and only changes in supply and demand will move it up. In the long term this doesn’t seem the smartest way to run a business.

4. Can the Government do more to support the industry either directly or through its public procurement policies?

One of the reasons I felt compelled to respond to your inquiry, is that I realised that my own MP, Michael Jack chairs the EFRA Select Committee, and what has just happened in his own constituency highlights the problems our industry faces.

I have recently learnt that my own County Council has taken the decision across all the schools in Lancashire to switch from supplying UK Quality Standard Mark pork (QSM) loin steaks to imported pork loin steaks for all their school meals.

Lancashire County Council’s justification apparently is that using the imported loin is cheaper and with falling numbers of children taking a school meal and with no likelihood of a council subsidy the cheaper option has become the affordable option.

However, this decision flies in the face of Government policy both for school meals where £250 million has been given to schools to “buy better ingredients” and also the Public Sector Food Procurement Initiative where there are a number of objectives including “Improve Standards of Animal Welfare” and “Improve the Standards of Production, Process and Distribution”.
I feel betrayed. I have spent my whole life keeping pigs and in 1998 I met the challenge laid down by my government, and invested heavily in my business to deliver what I was told the British public wanted. To hear that my own County Council is no longer going to be serving my pork to the children of Lancashire and is instead going to supply them lower welfare pork purely on the basis of price, makes me question why I am still keeping pigs.

I want to be part of an integrated supply chain that has a strategic vision for the future that understands the value of local, quality, high welfare pork. And I believe it is reasonable to expect that I receive a fair share of the value for what I do, so that I can continue to reinvest in my business and deliver what, if given the choice, my Lancashire consumers actually want!

Even my son is now saying if margins don’t become realistic we may (even with better prices) have to cease pig production and concentrate on our chicken business.

_September 2008_

Memorandum submitted by Food Security Ltd (Pigs 22)

1. The pig industry in England is in severe decline. We do know from 38 years’ experience that the pig industry is cyclical, but for the reasons outlined in 2, 3 and 4 below, we feel strongly that the decline is much more than cyclical this time.

2. The very high and costly welfare standards enforced in England are certainly a principal reason that English producers have problems competing with those outside the UK, but another reason would be that the English housewife finds it difficult to “spot” and therefore buy pigmeat genuinely produced in the UK. Until the law is changed, retailers can sell meat as British which is processed here but is actually produced in some other country. Then there is the burial ban. When a Labour MP was questioned about the costly implications of the ban to the UK pig farmer he was very sympathetic. However, he said that they won’t bother about it in France. When asked about this he said it is not a level playing field. The cost of the collection of dead pigs from our family farm has escalated to £2,000 a year, and was the final nail in the coffin of the pig production on this farm this year. All of the 170 sows have gone for slaughter.

3. Why would supermarkets do anything to support the pig industry? We cannot expect them to act as anything but big businesses out to make as much money as possible. Only Government can regulate them. A Government ombudsman has been suggested many times in view of ensuring fair trade in Britain, but will it ever happen? The need is urgent and vital to maintaining a livestock industry in this country.

4. While enforced public procurement of British pigmeat would certainly provide a measure of support to the industry, Government policy for farmers to be “keepers of the countryside” rather than “producers of food” stands unchanged. Unless this basic policy changes, there is not a lot of hope left for livestock farming in this country. Ultimately, public procurement of British food will presumably be quietly put to one side, because it will not be there to procure. It is worth noting that pig production is a very efficient method of meat production—only about 3kg of feed needed to produce 1kg of pigmeat. This contrasts sharply with beef production—7 or 8kg of feed needed to produce 1kg of beef. Does this fact alone not fully justify your Committee’s valued inquiry into the English pig industry? Maybe the Committee should investigate what sometimes is represented in the farming press as to how the French Government somehow maintains its financial support for French pig producers in hard times.

Surely it is obvious from events of the past few weeks that the character of nations never changes—why delude ourselves that there is no link between self-sufficiency in food and national security? The percentage of pigmeat produced in this country relative to UK consumption is 69% for pork and 42% for bacon and ham. The current decline from these already worrying figures demands dedicated and urgent support for the industry.

_Keith Groombridge_
_Director_

_September 2008_

Memorandum submitted by Fresh One Productions (Pigs 26)

Food labelling generally is in a state of confusion with packets of pork, sausages, ham and bacon faring no better. Visits to retailers abroad show their national produce proudly marketed as home grown yet this is not always the case for our pig farmers. They contend with intermittent use of the recognisably British, Quality Standard Mark, then there are the labels which appear to suggest the product is British but detailed examination reveal it’s from simply “the EU” and there’s a stark absence of information to inform how the animal lived before it became meat on the plate. We believe there are three key areas this Committee could support which would help both our farmers and consumers.
1. CLEAR DEFINITIONS OF UK FARMING SYSTEMS

We urge the Committee to consider whether clear definitions of pig farming systems are needed so the consumer might understand animal welfare choices. The RSPCA is paving the way in an initiative with the pig industry to develop agreed definitions for terms such as “free range” and “outdoor bred” in relation to pig products. Their aim is to secure agreement from all major retailers and Government so that welfare labelling can then become an expected piece of information for every shopper.

2. WELFARE LABELLING

There are currently no laws, or even Government or industry guidelines, relating to the labelling of pig meat products with the method of production. This contrasts with the situation for egg labelling which, across Europe, is now legally required to state the manner in which the bird producing the egg lives; caged, barn or free range. It is a simple, transparent and verifiable system which empowers the shopper.

UK retailers use a number of different terms to describe the farming systems used to produce the pig meat they sell. Terms such as “outdoor reared”, “outdoor bred” and “free range” are often seen, but usually without clear explanation for the consumer about exactly what they mean. This is at best confusing, and is potentially misleading. There is growing interest from consumers in the provenance of food, including the welfare standards under which farm animals are produced. However, consumers can only fully exercise their undoubted power to support and encourage certain methods of livestock farming if they have enough information to enable them to make an informed choice. In this regard, it is essential that clear, well defined, consistent (both within and between retailers) labelling of pig meat products is achieved.

A voluntary agreement to apply these definitions when labelling pig meat would be a positive start, but ultimately, the aim should be to introduce legal provisions in this area, building on the precedent set in EU law for labelling poultry meat. Consumers across Europe would then be in a position to identify which products to buy if they wish to support certain systems of pig farming.

3. ARTICLE 35 OF THE PROPOSED LABELLING REGULATION ON THE PROVISION OF FOOD INFORMATION TO CONSUMERS

The European Parliament Member States are currently considering a proposed new regulation on all food labelling. One aspect of this relates to the voluntary labelling of meat with a single country of origin. Consumers are increasingly concerned about the provenance of their food yet current laws fail to address this issue.

Currently, it is perfectly legal for a piece of pork to have been imported from Denmark, cured in Britain and sold as British Bacon. There is a perception that many products are misleadingly labelled as British when the animal was in fact only posthumously dealt with here, having been born, reared and slaughtered abroad.

Article 35 of the proposed new regulations would stop this nonsense. Article 35 (4) states:

“For meat, other than beef and veal [already dealt with by Regulation 1760/2000], the indication on the country of origin or place of provenance may be given as a single place on where animals have been born, reared and slaughtered in the same country or place. In other cases information on each of the different places of birth, rearing and slaughter shall be given.”

We are aware of the difficulties British pig farmers have faced over the past decade. Cheap pork imports being passed off as British exacerbate an already difficult situation. Article 35 (4) has the potential to stop this. We urge the Committee to examine this issue and make support of Article 35 part of the UK policy on food labelling.

Nicola Gooch
Series Producer

Simon Ford
Executive Director

October 2008

Memorandum submitted by the Office of Fair Trading (Pigs 28)

I am writing with regard to the EFRA Select Committee inquiry into the UK pig industry. I understand from the transcript of your meeting on 13 October 2008, and from subsequent communications with the Committee Clerk that the Members of the Select Committee have queries regarding what form of discussions on the supply chain can be held by producers, processors and retailers in compliance with competition law11 and to know what guidance or advice is available.

11 Predominantly, Chapter I and Chapter II of the Competition Act 1998 and Articles 81 and 82 of the Treaty establishing the European Community.
CONTEXT

By way of background and to set the Office of Fair Trading’s mission in context, the Government White Paper Enterprise: unlocking the nation’s talent reaffirmed that enterprise is “one of the five core drivers of the Government’s strategy to lift the productivity of the economy”. That enterprise culture rests on a framework of UK and European competition law. One of the key responsibilities of the OFT is to promote compliance with these laws.

Competition is at the heart of any successful market economy. It provides a stimulus for businesses to improve their performance and to reduce their prices in order to gain an advantage over rivals and win more business. It encourages the development of new or improved products or processes and increases economic growth and living standards. Without competition in food production, for example, there could be less incentive for farmers to offer better produce to their customers and, ultimately, to consumers.

As set out in more detail below, the UK and European competition laws prohibit anti-competitive agreements and the abuse of dominant market positions. Such anti-competitive agreements and the abuse of dominant market positions increase prices or reduce quality, among other things, and harm consumer choice. Such behaviour also makes a supply chain less efficient, undermining productivity and the performance of the economy as a whole.

There is nothing, in itself, wrong with bilateral discussions between different parts of a supply chain. They may serve a useful and necessary function, benefiting consumers by encouraging greater efficiency.

However, as the Select Committee is already aware, participants in discussions between members of an industry need to be aware of the risk of dampening normal competitive processes, and breaching competition law. For example, the exchange of information on commercially sensitive competitive matters, particularly proposed future price information, can remove or reduce the uncertainties inherent in the competitive process to the detriment of consumers.

The term “agreement” (taken to include decisions by associations of undertakings and concerted practices for the purposes of this letter) has a wide meaning. It covers agreements whether legally enforceable or not, written or oral. There does not have to be a physical meeting of the parties for an “agreement” to be reached: an exchange of letters or telephone calls may suffice.

In practice, any form of direct or indirect contact between competitors in which information about the future commercial conduct of one business is disclosed to another—for example by revealing pricing plans—will amount to an agreement. The same would apply to any attempt to influence the commercial conduct of a competitor.

There is an exemption for agreements which: (1) contribute to improving production or distribution, or promoting technical or economic progress, whilst (2) allowing consumers a fair share of the benefits and provided (3) any restrictions on competition are indispensable to these objectives and (4) the agreements do not substantially eliminate competition. All four conditions must be met for the exemption to apply and the burden of proving that the conditions are met lies on the businesses concerned. In practice, serious restrictions of competition are unlikely to meet all the conditions for exemption.

It is also important to emphasise that, although the exemption conditions are capable of being applied in the context of a “crisis” situation (for example, production cutbacks to deal with chronic overcapacity) as well as normal trading conditions, the exemption conditions are firmly grounded in objective criteria. If the conditions are not met, an agreement or practice will not benefit from exemption, no matter how well-intentioned the motives for it may be.

ASSESSING COMPLIANCE

As a result of changes made to EC and UK competition law in 2004, businesses no longer need to notify agreements to the competition authorities in order to obtain exemption. Instead, businesses are required to assess for themselves whether their agreements may restrict competition but nevertheless benefit from exemption. This is explained in more detail in the guidance issued by the OFT on modernisation (see below).

In light of this, the OFT does not generally provide specific guidance to individual sectors of the economy or offer legal assurance to sector representatives as the law applies uniformly across all sectors of the economy. There may be rare exceptions where truly novel or unresolved legal questions are raised about the application of UK or EU competition law, in which cases the OFT may publish an Opinion to aid business
compliance on such issues. However, we need to look at any such request on its merits, in the light of the specific facts and the resource implications for OFT. Moreover, the OFT would not give specific guidance on issues that are not truly novel or unresolved and/or are currently under investigation in the same or other sectors.

One important factor underpinning our approach is that UK and EU competition law is based, in part, on the effects of firms' behaviour, as well as its form. Except in the most clear-cut cases, one needs to examine the actual or potential effects of an agreement in the relevant, specific economic and factual context in order to determine whether it prevents, restricts or distorts competition and, if so, to go on to consider whether it benefits from exemption. This effects-based approach avoids the risk that a rule might prohibit behaviour which is, in fact, beneficial to consumers, or conversely might allow harmful behaviour. It also explains why general guidance provided by the OFT does not, and largely cannot, include definitive lists of practices that are, and are not, permissible under competition law. It also means that providing guidance, or publishing an Opinion, can be very resource intensive for OFT. We need to weigh these resource implications carefully against possible alternative priorities, such as taking on enforcement cases.

GUIDANCE

The OFT has issued already a host of materials which can assist businesses within the pig industry to assess what nature of discussions can be held by producers, processors and retailers in compliance with competition law.

In particular, the OFT has published extensive guidance to help businesses and industry representatives assess their actions for compliance with all aspects of UK and EU competition law. Detailed guidance is available on the OFT website at:


The OFT has produced specific guidance for trade bodies which sets out some examples of activities that may or may not be permitted and includes details on information sharing. The guidance notes, for example, that the exchange of information on output and sales should not affect competition provided that it is sufficiently historic and aggregated and cannot influence future competitive market behaviour.


You may also find useful the guidance recently published by BERR. The guidance explains how competition law applies to voluntary agreements between businesses in the UK:


See also the additional guidance of relevance in the Annex.

CONCLUSION

This letter has provided a high-level overview of the key areas of the legal framework that apply to discussions between industry participants, and pointed out the range of relevant guidance that the OFT and BERR have already produced. We appreciate that certain industries may at different points in time desire more specific reassurance from the OFT as to which practices may and may not permissible, I hope we have clarified the significant constraints on the OFT in responding to these requests.

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Annex

FURTHER RELEVANT OFT GUIDANCE


This UK guidance is in addition to the large volume of judgments of the European Courts and decisions/guidance issued by the European Commission.

http://ec.europa.eu/comm/competition/index_en.html