MARCH 2011

Profitability in the Pig Supply Chain

A Special Report from BPEX

Contents

01 Foreword

It is difficult not to feel disheartened by the circumstances surrounding this report and the fact that just two years after the pig industry had to fight for its very existence and campaign to wring a fair price for the pigs we produce, we find ourselves again in the same situation.

Stewart Houston

The industry's production costs have shot up over the past six months as the price of feed has doubled. The price producers get for their animals, however, has fallen in that time. There is a real disconnect in the supply chain.

As this report makes clear, in the 12 weeks to 23 January, pig producers as an industry amassed losses of £35million. In the same period, the rest of the supply chain profited from the sale of pork to the tune of £292million.

What makes that situation especially galling is that while domestic producers' costs were spiralling, retailers were not only squeezing them on price they were also running deep-cut promotions in-store that featured imported pork. We know from previous research that it is questionable that all of this imported pork meets UK legal welfare standards. To use the vernacular, that's a double whammy and a kick in the proverbials for producers.

Such a situation is neither sustainable nor acceptable and that's why pig producers are again campaigning to save our industry and fight the threat to their very existence.

The threat is real. In a survey at the end of last year, 77% of pig producers indicated they would quit the industry if the current situation persisted. That would be in no-one's interests – not retailers, processors nor indeed consumers. The UK pig industry has contracted significantly over the past 12 years and further contraction would seriously damage the country's ability to provide consumers with the high welfare, quality assured pork they prefer.

The current plight of the pig industry is not unique to the UK. Right across the EU, pig producers are experiencing similar problems and with the additional cost burdens they face in meeting new welfare legislation that comes into force across the EU next year, their challenges are arguably even more daunting than those of UK producers. It may well be that the option to import cheaper pork produced to less demanding welfare standards will no longer be available to UK retailers and processors.

There is not much we – individually as farmers or collectively through BPEX – can do to influence world commodity prices and the cost of feed. That's beyond our control. However, we will do everything we can to secure a fair price for the pigs we produce to exemplary quality and animal welfare standards – standards that British consumers appreciate and prefer.

Publication of this report has been timed to coincide with a mass rally in Whitehall as pig producers descend on the capital to lobby their MPs and present a petition to the Prime Minister in support of their campaign for a fair price for pigs.

The solution lies in the co-operation of others in the supply chain – of those very processors and retailers who continue to operate in profit. Pig farmers are asking for no more than the same opportunity to do likewise and to be able to continue to invest in their individual businesses and in an industry which is continually striving for greater efficiencies.

The solution demands three straightforward actions that our campaign currently seeks from processors and retailers:

- Increase the DAPP to a sustainable level
- Support high welfare, high quality pork, such as Red Tractor
- Adopt total supply chain co-operation

It is unreasonable for processors and retailers to expect pig producers, who are not subsidised, to carry the whole burden of increased costs: the whole of the supply chain has a responsibility to work equitably towards a solution.

Retailers should stand by their commitment on stocking levels of high welfare, high quality pork and pork products – a quality scheme like the Red Tractor provides a sure-guard way that consumers can recognise quality they can trust, high animal welfare standards of production and an accurate indication of Country of Origin.

For long now, the industry has advocated a move to long-term dedicated supply chains – where risks and rewards are shared equitably – and where a sustainable future, in every sense of the word, can be assured. There are good examples of this working in parts of our market. They need to be adopted more widely.

The industry will continue to campaign for an equitable solution to the current crisis and I would urge retailers and processors alike to engage with pig producers – BECAUSE PIGS ARE STILL WORTH IT!

Stewart Houston CBE, FRAgS, Chairman BPEX

02 Executive Summary

Key findings

- In the 12 weeks to the end of January 2011, British pig producers lost an estimated £35million
- In the same 12-week period, the processing sector's profits are estimated at £100million while retailers enjoyed combined profits of £192million from pork and pork product sales
- There is evidence also that during this period, certain retailers featured deep-cut promotional activity on imported pork – and it is questionable that all of this pork comes from pigs produced to UK welfare standards
- This squeeze by retailers on the price paid to producers and the sucking in of imports is a serious threat to the sustainability of the British pig industry
- Over the past three years it is estimated that retailers have maintained a profit level of more than £100 per pig: that processors have maintained a profit level of £40 per pig and producers have suffered an overall loss while moving from loss to profit and back into loss again and currently are losing more than £20 per pig produced.

Report summary

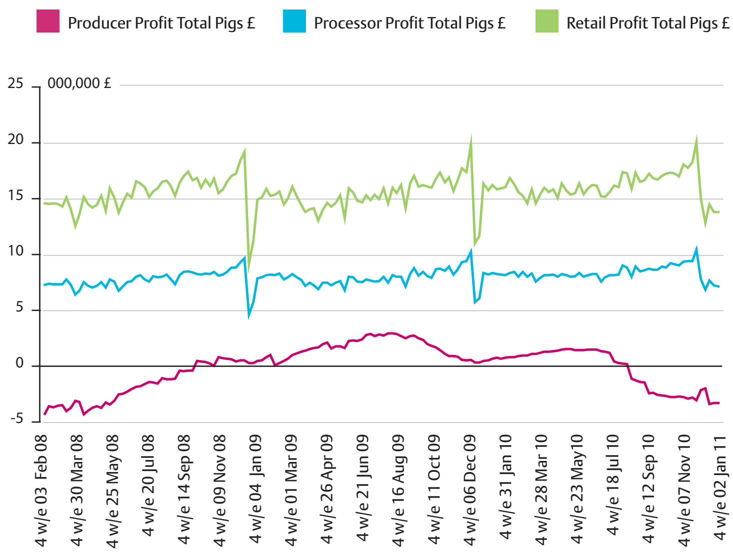
- The price of feed being paid by pig farmers has more than doubled since June 2010 – a rate of increase greater than during the similar crisis in 2007/08
- Feed now accounts for 77% of total pig production costs – up from the 2009 figure of 60%
- Every indication is that feed costs will remain at historically high levels for 2011 – and possibly beyond
- The average cost of pig production has now risen to 164p/kg
- The deadweight average pig price (DAPP) – the price producers receive – has actually fallen during the period that production costs have risen and in February stood at 135p/kg, down from 147p/kg in July 2010
- In the 12 weeks to the end of January 2011, British pig producers lost an estimated £35million
- In the same 12-week period, the processing sector's profits are estimated at £100million while retailers enjoyed combined profits of £192million from pork and pork product sales
- The situation is worsening: pig farmers are now losing more than £21 on every pig produced. The industry is racking up losses of £4million a week
- To cover production costs, British pig producers would need the DAPP to rise to around 164p/kg. To be sustainable, a reasonable profit margin still needs to be added
- Pig producers continue not only to develop practices to increase efficiency and reduce costs by improving the quality of pigs produced and increasing the performance of their herds but also to maintain their commitment to high animal welfare standards
- Data from Porkwatch shows that while the overall facings of British pork in British supermarkets has remained relatively constant over the past five year period, there has been a noticeable fall in the past year of the share of facings* – down from 83% of facings to 77%
- The fall is attributed to changes in the stocking policies of two major supermarket groups
- Kantar Worldpanel data shows that over the past three years, the volume of pork on sale in British supermarkets which does not clearly identify a specific Country of Origin has increased
- There is also evidence that most recently a number of retailers have featured deep-cut promotional activity on imported pork – some of which would have been illegal if produced in the UK
- The use of imported pork cuts featured in promotional drives by the major multiples has hit sales of Quality Standard/Red Tractor pork
- The European industry is facing exactly the same challenges as in the UK: on average the EU pig industry is losing around €130million every week
- Producers in the rest of the EU will be further challenged by the costs involved in converting their production systems to meet changes in welfare legislation which come into force at the end of next year

**The shelf space allocated to a particular product line*

03 Profitability in the UK Pig Meat Supply Chain

Chart 1 Total profit from pig production and sale

Source: AHDB Market Intelligence



The relative profitability of each sector of the pig meat supply chain – producer, processor and retailer – has been calculated* for the past three years (Chart 1).

It can be seen that following an extended period of loss, the producer sector returned to profit at the end of 2008 and, although fluctuating, it remained positive until late August 2010. This comparatively short period of profit was obviously welcomed by producers, during which time they took the opportunity to invest in production efficiencies and infrastructure improvements. The period of profitability, however, was not long enough to recover the losses previously sustained in 2007 and 2008.

The slide back to loss-making for producers in August 2010 was brought about primarily by significant increases in animal feed costs and exacerbated by a squeeze on the price they are paid by retailers and processors.

The doubling of feed costs has driven up the cost of production and producers are now suffering considerable losses (see Chapter 4, Cost Parameters for Pig Producers). The sustained nature of this feed cost increase, driven by world prices, has meant that even producers who had forward bought feed at more competitive prices are now sustaining high levels of loss.

**The basis of these calculations are detailed in Chapter 6.*

Chart 2 UK pig prices (DAPP), 2008-2011

Source: AHDB

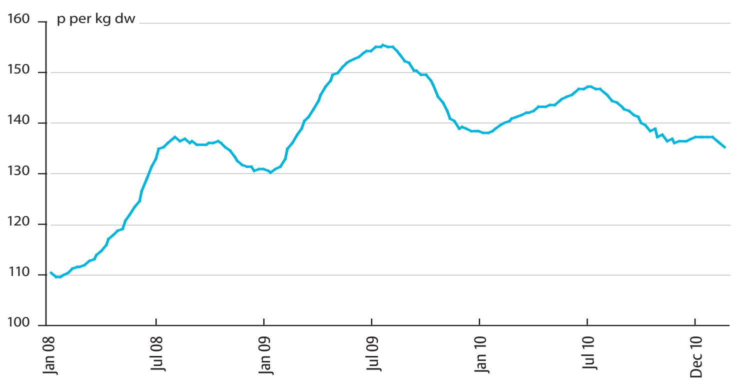
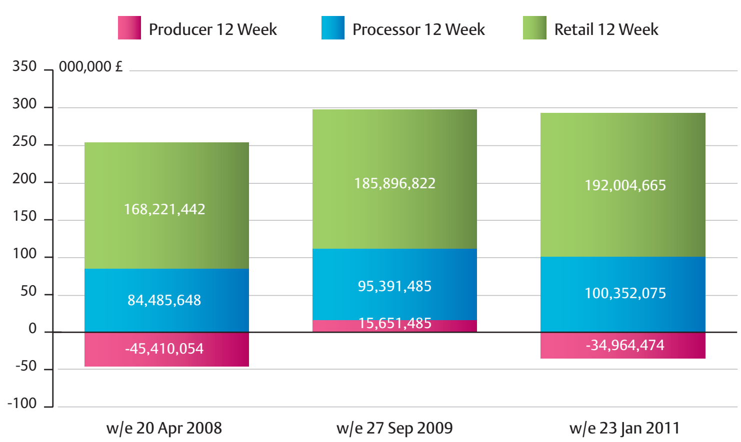


Chart 3 Pig industry profit/loss rolling 12 weeks



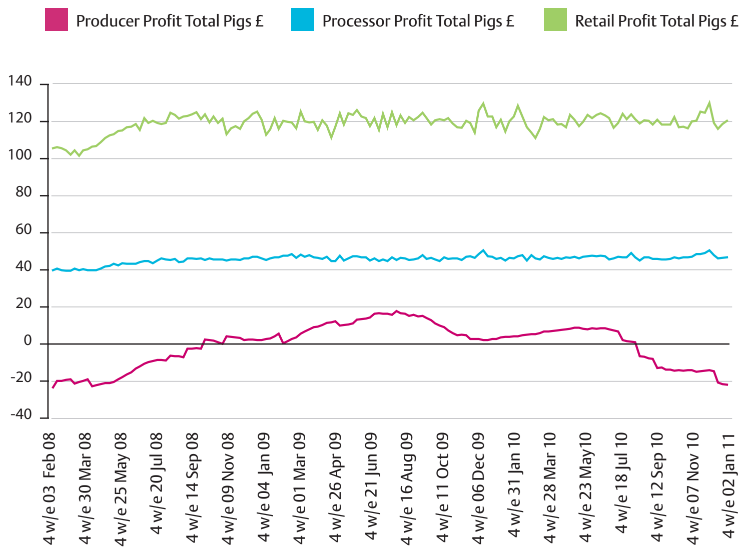
The impact of the hike in costs has been accompanied by a squeeze on the price producers receive for their pigs – the deadweight average pig price (DAPP), which records the price producers are paid for each pig slaughtered in the UK.

The DAPP averaged 142p/kg in 2010, 3% lower than in 2009 (Chart 2). At the beginning of 2009, the DAPP increased significantly, partly as a result of the Pigs Are Worth It campaign conducted in 2007 and 2008 which was launched following the sustained grain price volatility of 2007.

By February 2011 the DAPP had fallen to 135p/kg.

The cumulative effect of higher costs and lower income for producers means that in the latest recorded twelve-week period (to 23 January 2011), producers have lost nearly £35million (Chart 3). During that same 12-week period, the processing sector's profits are estimated at £100million, while retailers enjoyed combined profits of £192million from pork and pork product sales.

Chart 4 Profit made per pig £



It can also be seen (Chart 4) that the estimated retailer profit per pig has climbed to a higher level of just under £120 per pig. Over the same period of time, estimated processor profitability per pig has remained relatively level around the £40 mark, while for producers, the figure has fluctuated considerably and currently shows a loss of £21 per pig.

There is evidence also (see Chapter 7, Country of Origin and Retailer Support for Red Tractor) that during this period, certain retailers featured deep-cut promotional activity on imported pork. As recent research confirms, two-thirds of pork imports to the UK would have been illegal to produce here, on the grounds of pig welfare and it is, therefore, questionable that this higher volume sold on promotion meets UK legal welfare standards.

The squeeze by retailers on the price paid to producers and the sucking in of imports is a serious threat to the sustainability of the British pig industry.

What producers need to return to profit

To return to profit at cost of production levels as at w/e 23 January 2011 (164p/kg), a DAPP price in excess of this level would be needed – representing an increase of 27p/kg from the 23 January DAPP price of 137p/kg or about an additional £21 a pig.

04 Cost Parameters for Pig Producers

Chart 5 UK clean pig average carcase weights

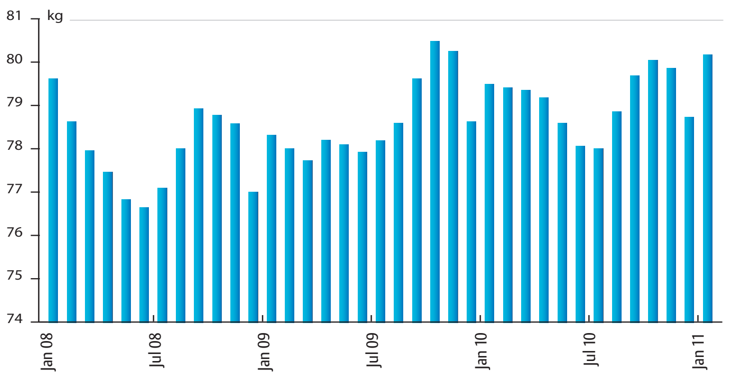
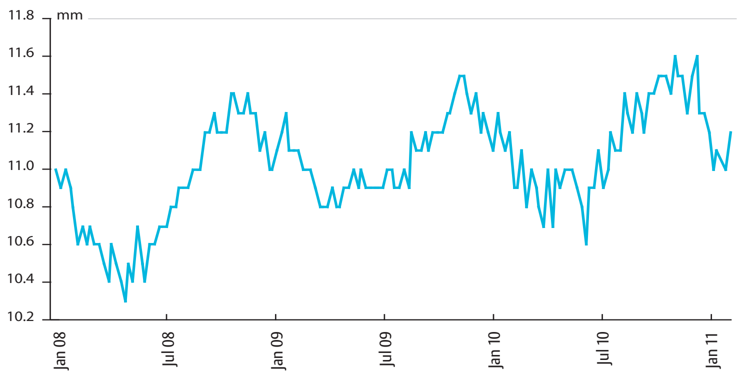


Chart 6 Average P2 probe measurement in the DAPP sample



Source: AHDB

An overview of the UK pig industry

The deadweight average pig price (DAPP) records the price producers are paid for each pig slaughtered in the UK. As indicated earlier, the DAPP averaged 142p/kg in 2010, 3% lower than in 2009 and had dropped to 135p/kg in February 2011.

The pig industry continually aims to improve production efficiencies. One way has been for producers to deliver carcases to processors at heavier weights. In 2010 the average carcase weight (ACW) was 78.5kg, half a kilo heavier than a year earlier (Chart 5). Heavier carcases result in a slightly higher return for the producer, assuming the heavier carcase does not affect the quality of the pig.

The probe measures the amount of fat on a pig. In 2010, despite heavier carcases the probe measurements increased by less than 0.1mm (Chart 6), indicating that heavier pigs were still lean.

Producers seek ways of improving physical performance as well as technical performance. Improving the productivity in the herd helps pig producers overcome some increases in production costs. Despite challenging weather conditions throughout the year in 2010, the performance records were similar to 2009.

Chart 7 UK pig feed wheat and feed barley prices, 2008-2011

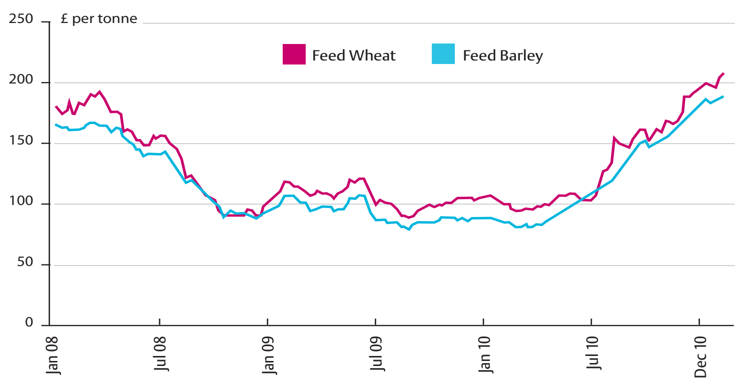


Chart 8 Feed wheat physical and futures prices, 2008-2011

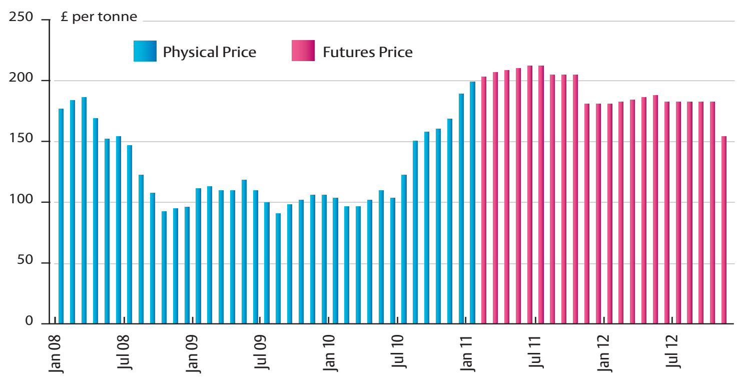
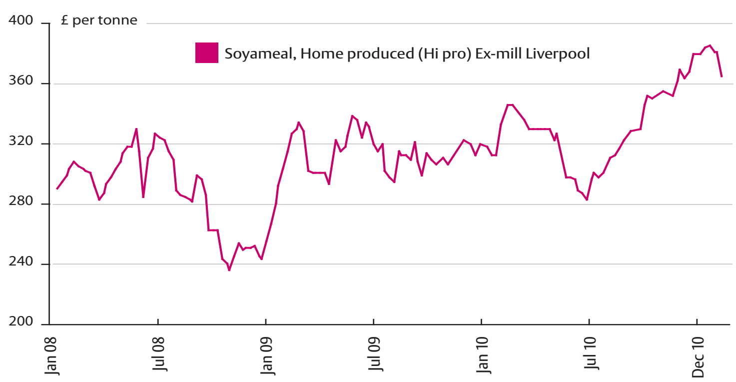


Chart 9 UK soya prices, 2008-2011



Source: AHDB

The input costs of pig production

Pig production is highly feed intensive: historically, around 60% of production costs are attributed to feed. Profitability within the industry is, therefore, highly dependent on the price of feed (Source: Agrosoft/ InterPig).

Pig feed rations are generally made up of a combination of wheat, barley and soya and the mix is dependent on nutrient content and price. In 2009 the average sow in Great Britain consumed 1,265kg with finished pigs consuming almost 187kg of feed.

Increased volatility in the grain market toward the end of 2007 and during 2008, meant sustainable pig production became increasingly challenging. Feed wheat prices almost doubled after breaking £100 per tonne in July 2007. After peaking in March 2008 prices took a further six months to return to more sustainable levels. By this time many producers had left the industry and production reduced. The producer price responded after a time lag which included a strong depreciation of sterling, improving competitiveness for UK producers within the European market and industry activity, including the original ‘Pigs Are Worth It’ campaign which highlighted that producers were losing up to £25 per pig.

The rise in the cost of cereals since mid-2010 has been greater than that in 2007/08 with feed wheat quotations exceeding £200 per tonne (Chart 7). Futures prices for feed wheat indicate that prices will remain at an historically high level and high input costs will continue for some time (Chart 8). In addition, the industry had the further challenge of soya meal prices (Chart 9) increasing 34% since June 2010.

The most recent increase in feed costs has impacted severely on total cost of production. In January 2011, it was estimated that feed now accounts for 77% of total costs – up from 60% as recently as 2009.

Chart 10 GB pig production costs and DAPP, 2008-2011

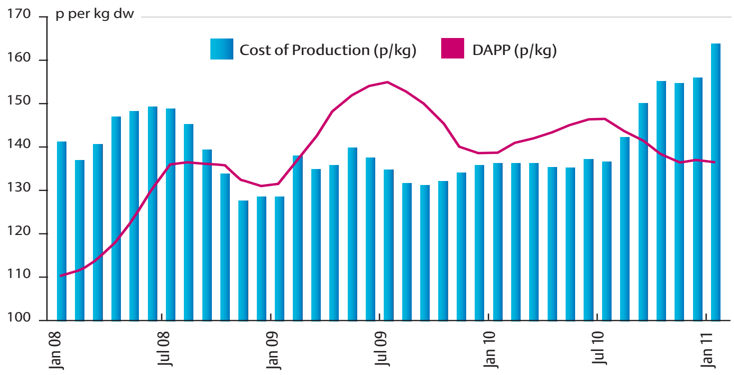


Chart 11 GB pig weighted feed costs

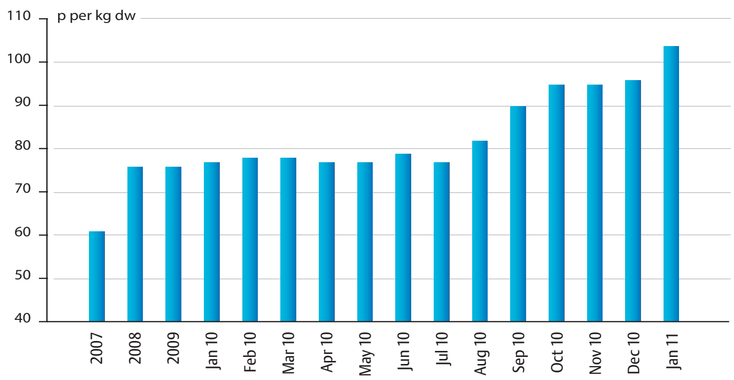
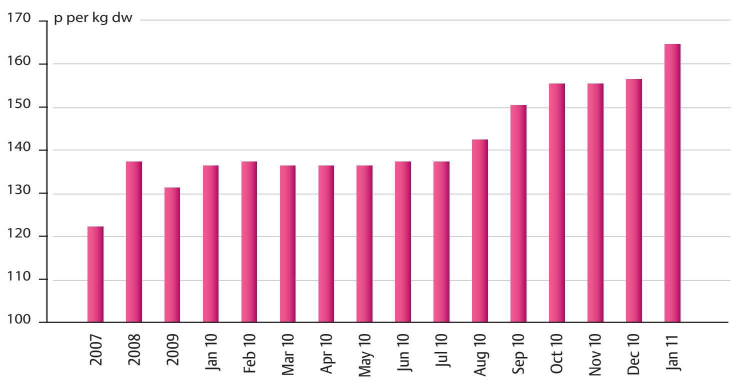


Chart 12 GB total pig production costs



Source: AHDB/InterPig

Cost of production

As a result of higher input costs, production costs increased to over 164p per kg in January 2011 while the DAPP seasonally declined (Chart 10).

Feed prices began to increase for producers in August 2010 as feed manufacturers passed on increased costs to customers. Despite some producers buying feed forward, the period of prolonged price increases has now affected all producers.

Between July 2010 and January 2011 feed costs for producers rose 35% to over £1 per kg (Chart 11).

During the same period the knock-on effect has been 20% on the total costs of production (Chart 12). In January 2011 the cost of pig production was 164p per kg. This represents a 25% increase on the 2009 average cost of production but, more significantly, a 34% increase in cost of production compared with 2007 when producers lost almost £11 per pig throughout the whole of that year.

Chart 13 Net margins for GB pig producers, 2007-2011

Source: AHDB/InterPig

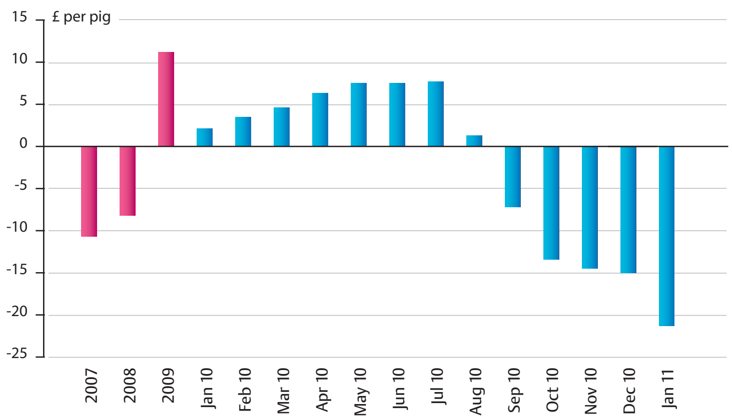
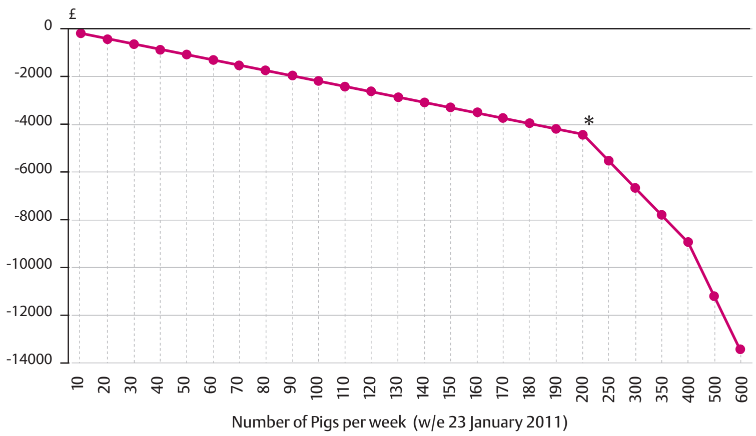


Chart 14 Producer profit/loss per number of pigs sent for slaughter



* Note: This is a straight line calculation the deviation is due to a change in scale from 200 pigs upwards

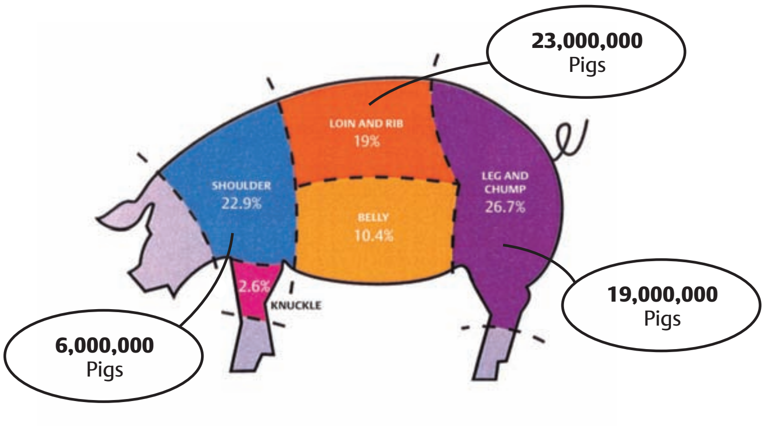
In 2009 those pig producers still in business were able to take advantage of higher returns and relatively stable input costs. At the start of 2010 there was a certain degree of optimism in the industry as some debt had been paid off and some capital investment had taken place to increase efficiency and productivity.

However, producers became loss-making in September 2010 and by January 2011 it was estimated that UK pig producers were losing over £21 per finished pig (Chart 13).

In the final week of the data on which this report is based (w/e 23 January 2011) a producer sending 200 pigs for slaughter would have lost £4,500 in that week alone (Chart 14).

05 Supply and Demand Dynamics in the Pig Meat Supply Chain

Chart 15 Demand for pig meat



Requirements of the domestic market

It is worth looking at the supply and demand dynamics of the pig meat sector by different cuts rather than straightforward numbers. In simple terms, UK pig farmers currently produce about 9million pigs for slaughter. However, the demand for pig meat varies by cut. For example (Chart 15), the demand in the UK for pork loin will require the equivalent of 23million pigs; our demand for pork leg cuts would need 19million pigs while 6million pigs would be needed to satisfy the demand for shoulder and other remaining cuts.

The UK, therefore, imports the loins from about 14million pigs and legs from 10million. For other cuts, there is a three million pig excess which is available for export.

Distribution of product through the processing chain

The structure of the UK industry is relatively straightforward with pig producers selling to the abattoir, either directly or through a buying group or co-operative. The animal is then slaughtered, cut into basic primal muscle groups and moved into a cutting plant or sold on to the further processing sector.

The abattoir and further processing sector within the pig meat industry has become increasingly integrated, with companies able both to slaughter and further process for trade customer or consumer final product requirements.

However, the volumes of pig meat required to meet the demand of each processor's customers may well be different to the supply of pig meat available from their own slaughter sites. So although a company has its own further processing facilities, trading of primal muscles will occur on an ongoing basis to match specific cuts requirements.

The loin and leg, for which there is a higher consumer demand, will command a higher price than the shoulder and other muscle groups which will generally trade at a wider market value, as any excess will have to be traded on a European and Global market.

06 How Supply Chain Profitability has been Calculated

Understanding the supply route and profit margins

Over the past five years, extensive work has been carried out both by independently-commissioned consultants and by BPEX to give indications of the general supply route of pig meat through the market.

A project undertaken by independent consultants in 2007 included work to establish broad retail margins across the entire carcase and this was revisited by BPEX with the collaboration of a number of processors in 2009. The objective of this work was not to establish exact margins for any customer but to give an indicative margin that a particular product would be expected to earn when it was sold to the consumer. We have used these margins in our retail calculations which may mean that we have underestimated retailer gross profitability, as margins may have moved forward since then.

BPEX purchases a wide range of consumer information to help its understanding of the pig meat and competitive markets. One of these sources is Kantar Worldpanel from which can be established the average weekly selling price of pork and pork products. If we have the selling price and the estimated retail margin we can then calculate the retail buying price of the product.

The project work carried out by the consultants established the relative volumes of each retail product together with the amount of meat available from domestic supply. It also established the volumes available for each cut from a carcase and the variances depending on which sector of the market was being supplied.

The starting point for this exercise was the average weight of the carcase – at the time 78kg deadweight, head on and internal organs removed. Although average weights have increased since 2007, all calculations are based on the 78kg figure, which again may slightly underestimate the profitability of the processing sector. The diagram below (Chart 16) shows the main carcase breakdown for further usage into cuts and products.

Chart 16 Carcase usage

Leg 28.5% (22.23kg)	**Loin 18%** (14.04kg)	**Shoulder 30%** (23.4kg)	**Belly 14.5%** (11.31kg)	**Fillet 1.32%** (1.03kg)	**Balance 7.68%** (5.99kg)
CPM Retail 69% = 15.34kg Trim to Sausage	Boneless Loin 63% (8.8452kg) Bone in Chop 87% (12.2148kg) AND Rib Rack 6.6% (0.92664kg) Trim to Sausage	Rolled Shoulder Joint 73% (17.082kg) Trim to Sausage	Rind off CPM 59% (6.6729kg) AND Ribs 15% (1.6965kg) Trim to Sausage	Fillet 100% (1.03kg) Trim to Sausage	Balance 7.68% (5.98kg)
Cooked Meats Premium 30.5% (6.78kg) Plus Small Muscle 32.3% (7.18kg) into Cooked Trim to Sausage	Rashers 67% (9.41kg) AND Rib Rack 6.6% (0.92664kg)	OR			
Gammon 69% (15.3387kg) OR 12.4488kg Gamm & 2.8899kg Prem Cooked Meats		Boneless Collar 20% (4.68kg) OR Bone in Collar 24% (5.616kg) AND 50% to Premium Sausage (11.7kg)			
Bone 12.5% Rind 6% Fat 8% Trim 7% to BC Sausage		Premium Sausage 74% (17.316kg)			
		Bacon Joint 73% (17.082kg)			

Trim is generated (75% or 55% lean) from each of the operations and it is this that forms the core of material for Sausage Mfr. Average 12lg Trim per Pig. 108k tonne Trim versus a market of 99k in Econ / Std / BC Sausage.

Only in Premium Sausages are whole shoulder muscles possibly used.

So Shoulder calcs based on Premium Sausage, Bacon joints / Shoulder joints only.

06 How Supply Chain Profitability has been Calculated

The retail buying price of the product is taken as the processor's selling price. As the major processors in the UK all slaughter, process and further process, it is possible to establish both a buying price from the DAPP and a selling price from the retail buying price. The gross profit generated from slaughter and further processing can, therefore, be calculated.

Farmer profitability is taken as the cost of production less the selling price achieved for the pig. Detailed cost of production figures are obtained monthly from Agrosoft and this provides the basis for the farmer profit data. However, to give a more realistic comparison between the sectors, it is important to remove as much cost as possible from both the processing and retailer data.

We have, therefore, used information from the Office of National Statistics Annual Business Indicator (ABI) for 2008. This indicates all major costs for a wide selection of industries.

For the slaughter and further processing costs we have used Standard Industry Classification code (SIC)10.1 - Processing and preserving of meat and production of meat products.

While most meat and meat products are stocked by the major retailers, the range of product included within the SIC code for multiples will be very diverse with costs of production ranging higher and lower than meat. We have, therefore, used the SIC 47.22 - Retail sale of meat and meat products in specialised stores.

We would expect multiples to be at least as profitable as the specialised stores they have replaced, bearing in mind that both have to provide chilled space, lighting, use electricity etc. The difference is about scale, buying power and the product range of multiple retailers which should produce a lower cost. In all but one retailer, the butchery cost has been removed and transferred to the processor, so a high skilled labour cost has been reduced to the cost of workers filling the shelves.

Supply chain sector profitability calculations

The basis on which the profitability of each of the sectors within the pig meat supply chain is as follows:

Farmer

DAPP £/kg less cost of production £/kg = profit per kg

Multiplied by the weight of the pig = profit per pig

Multiplied by the number of pigs slaughtered in that week, provides a producer total profit/loss for that week

Slaughter and further processing

Turnover = retail buying price

Cost of production (including raw material) = % of turnover from ABI data

Turnover, less cost of production = profit

Multiply by the number of pigs slaughtered = total processor profit

Retailer

As shown in Chart 16 the carcase can be utilised in varying ways. To arrive at an average pig, the demand for each product has been taken into account and then expressed as if one pig was supplying all product sectors. In practice, of course, this would not happen: for example a loin can only be used once.

The following calculations are based on product type and then calculated to represent a pig. Grouping by leg, loin, shoulder etc is also completed.

Retail price multiplied by volume per pig = retail turnover

Retail turnover, less retail margin = retail buying price per pig

Retail turnover, less retail buying price = gross profit per pig

Retail turnover multiplied by ABI (costs % of turnover) = cost per pig

Retail turnover, less cost per pig = profit per pig

To arrive at total retail profit:

1. Total revenue by cut (leg, loin, shoulder etc.), multiplied by number of pigs slaughtered, multiplied by % of cut used domestically, multiplied by % retail share of each cut
2. Add result for each cut together = total retail turnover multiplied by ABI (costs % of turnover) = total retail profit.

07 Country of Origin and Retailer Support for QSM and Red Tractor Pork

Two measures are used to track the Country of Origin of pork and pork products on sale in British supermarkets: Porkwatch and Kantar Worldpanel. In addition, Porkwatch is used also to record the use on-pack of Quality Standard Mark and Red Tractor logos, to provide a deeper insight into retailer support for quality standards.

Through the consistent use over a period of time of Porkwatch and Kantar data, it has been possible to produce robust and reliable information which is broadly acceptable to all parties in the pig meat supply chain. This data is used to provide a meaningful understanding of the pork and pork products markets and trends within it.

In addition, Porkwatch in particular provides information on the stocking policies of individual retailers, the number of facings afforded to quality assured product by those retailers and their use on-pack of the QSM and Red Tractor logos.

Porkwatch

Porkwatch was established more than 10 years ago and continues today as the bi-monthly measure conducted in-store to record the percentage of facings (as opposed to the actual volume) of pork, bacon, sausages and ham showing Country of Origin and the use of Quality Standard Mark – now the Red Tractor Pork mark.

Porkwatch data is collected from 278 stores nationwide, records the number of facings across all the main product areas and then expresses that as a percentage of total facings. Over time, BPEX has made positive progress in its objective of increasing the percentage of facings where products carry a quality assurance mark but much still remains to be done.

While there is some correlation between the number of facings and the volume of product sold, the actual number of facings given to any product line is driven by merchandising requirements. Retailers want to have a range of products available, to avoid any ‘out of stock’ situations and to hold stock in store rather than in the warehouse. Therefore, promoted lines can sometimes fall outside normal parameters and the volume of promoted lines being sold may not be represented by the facings given. This also means that Porkwatch share of facings would indicate a higher share of facings than actual volume sold.

Long Term Porkwatch data

It can be seen (Chart 17) that the percentage of facings of British pork, bacon, ham and sausages on sale in British supermarkets has remained relatively consistent since 2006 with a slight upward trend over that period.

The percentage of facings where products carried a quality assurance mark in the form of the BPEX QSM or the Red Tractor logo (Chart 18) has been less consistent over the past five years and varies considerably between fresh pork – 73% of whose facings carry a quality assurance mark – and ham, where only 6% of facings currently have any quality mark.

Chart 17 Porkwatch (May 06 - Jan 11) : Percentage of facings that were British

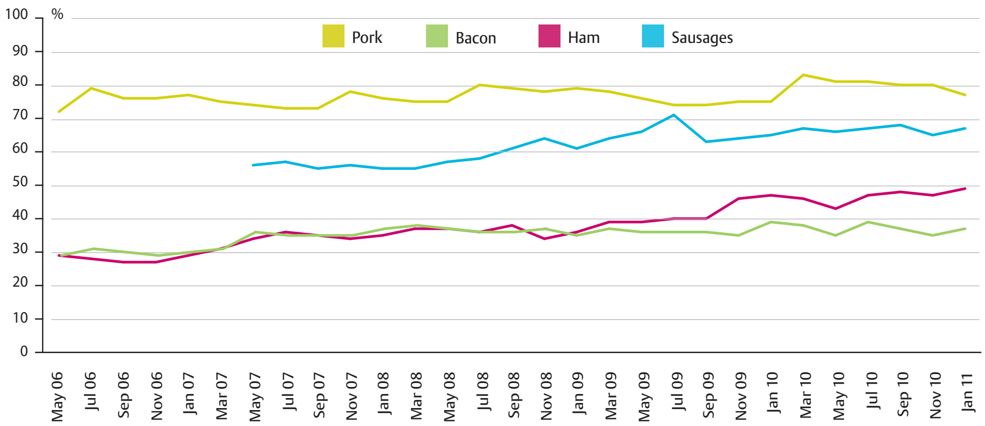


Chart 18 Porkwatch (May 06 - Jan 11) : Percentage of facings that featured a Mark

(BPEX QSM, Standard Red Tractor, New Red Tractor Pork)

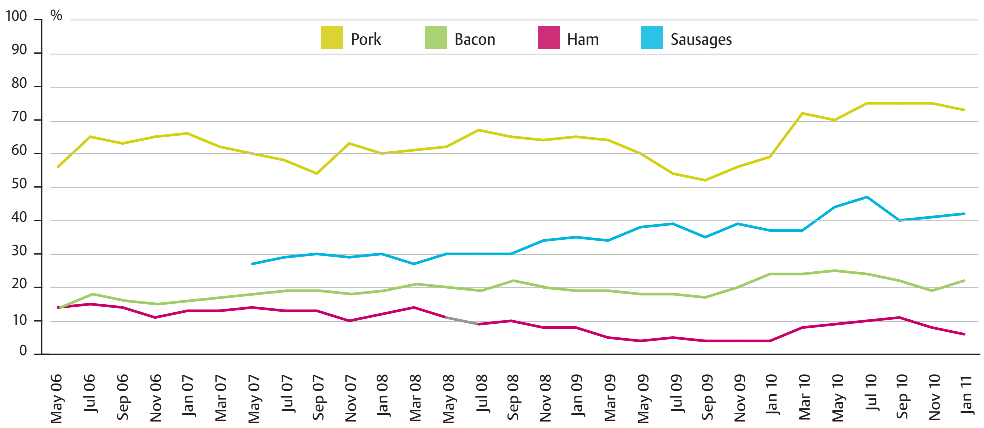


Chart 19 Percentage of British facings

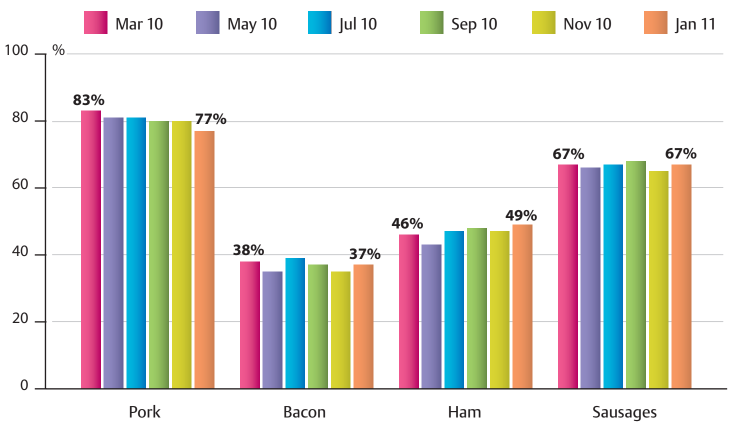
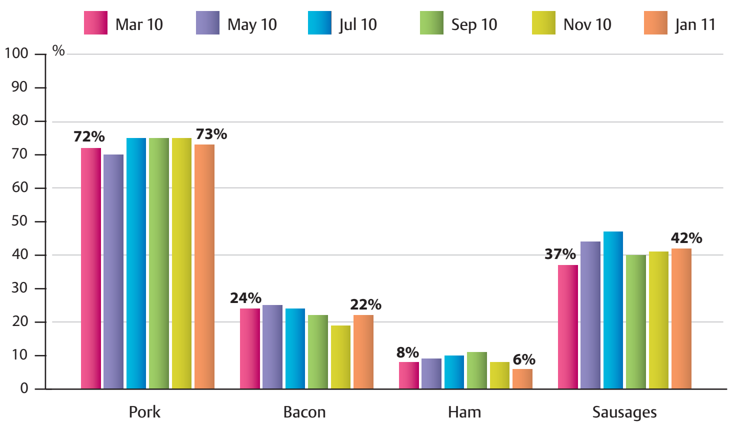


Chart 20 Percentage of facings with any Quality Standard Mark

(BPEX QSM, Standard Red Tractor, New Red Tractor Pork)



Latest 12-month Porkwatch data

In general, the Porkwatch data for the past year shows a consistent level of British facings (Chart 19) with the exception of fresh pork, where the British share has dropped from 83% of facings to 77% – primarily the result of changes in stocking levels of British pork at two major multiple retailers.

The percentage of facings showing a quality assurance mark has remained consistent for fresh pork over the past year (Chart 20), but has declined slightly for bacon and ham and increased for sausages.

Chart 21 Total Market - Total Pork - Volume (Tonnes)

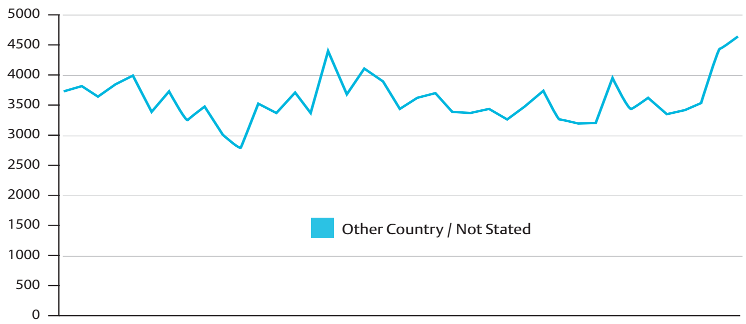


Chart 22 Total Market - Frying/Grilling - Volume (Tonnes)

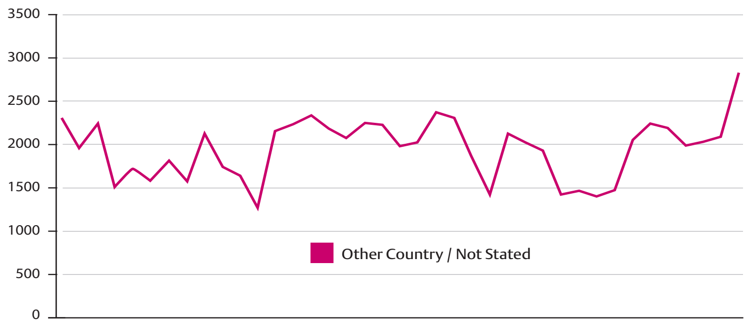
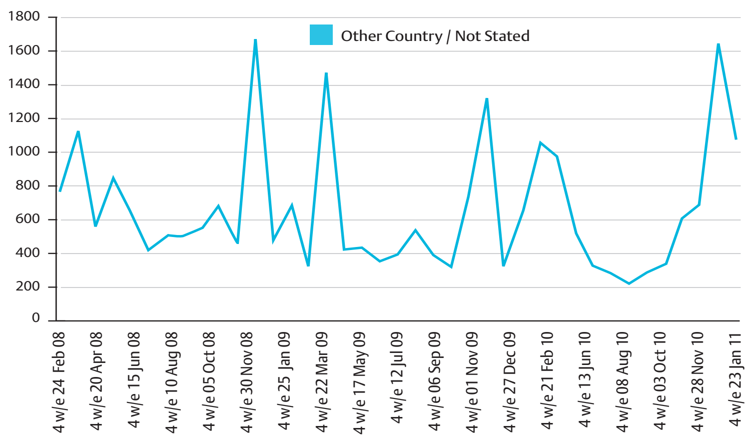


Chart 23 Total Market - Roasting - Volume (Tonnes)



Date axis applies to charts 21, 22 and 23

Kantar

Country of Origin information supplied by Kantar is based on barcode data. Each new barcode has a Country of Origin designation as part of it. However, suppliers and retailers may subsequently use the same barcode even though the Country of Origin of the product concerned may have changed. This will inevitably distort the figures.

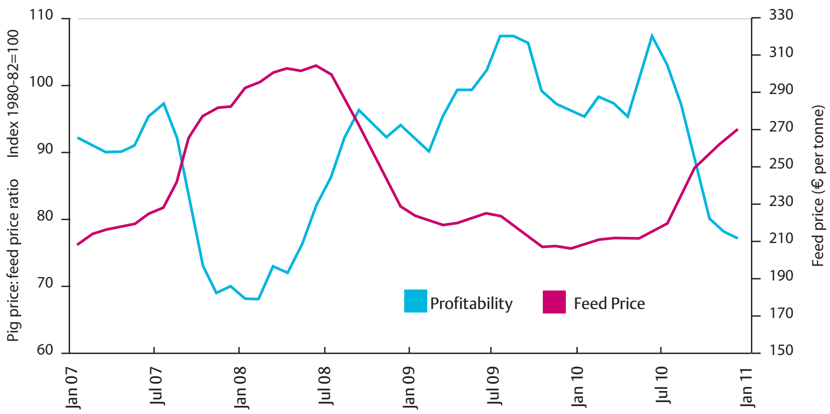
However, by looking at the amount of product sold (Kantar) which is not identified as British (either by stating a foreign Country of Origin or where no specific country is mentioned) it can be seen that the trend over the past three years has been for an increase in product not identified as British (Chart 21) with a notably sharp increase most recently. Such a trend is confirmed in the Porkwatch data.

The growth of 'other country/origin not stated' product is driven by increases in the volume of frying/grilling cuts and of leg roasting joints (charts 22 and 23). In-store observation by BPEX would suggest that such increases are the result of promotional activity – usually of imported product. While this activity has increased overall pork volume sales, it has also led to Quality Standard/Red Tractor Pork being replaced by imported product not carrying a quality mark – a disappointment for pig farmers at a time when they are especially looking for fair support from the rest of the supply chain.

08 Producer Profitability: A European Perspective

Chart 24 EU pig profitability and feed price, 2007-2010

Source: EU Commission



The pig industry all across Europe is also being severely affected by the current crisis. This is illustrated in the following article published in the European Weekly Market Survey by AHDB Market Intelligence on 18 February 2011.

Intense pressure on EU pig profitability

The weak pig market in 2010 combined with rising feed prices has meant that profitability of production in the EU is coming under intense pressure (Chart 24). Industry sources estimate that current producer losses within the EU amount to €20-30 per pig, compared to £21 per pig in the UK.

The EU Commission calculates a pig price to feed price ratio for the EU as a whole as an indicator of profitability of pig production as feed accounts for 50-60% of total pig production costs. This ratio has shown a marked deterioration since June 2010 when feed prices started to escalate. The pig price to feed price ratio and feed prices have tended to be inversely related as pig price changes have been less marked. The ratio has yet to reach the low levels of early 2008, the last time that there was a surge in feed costs, but has fallen by 28% from June to December 2010 and could well fall again given the further increase in feed ingredient prices in recent weeks. The average EU pig feed price, as calculated by the EU Commission, had increased by 25% as of December 2010 compared with June. In the meantime, other production costs, especially energy, have increased further adding to costs.

Chart 25 Sterling cost of pig production among InterPig countries, Dec 2010

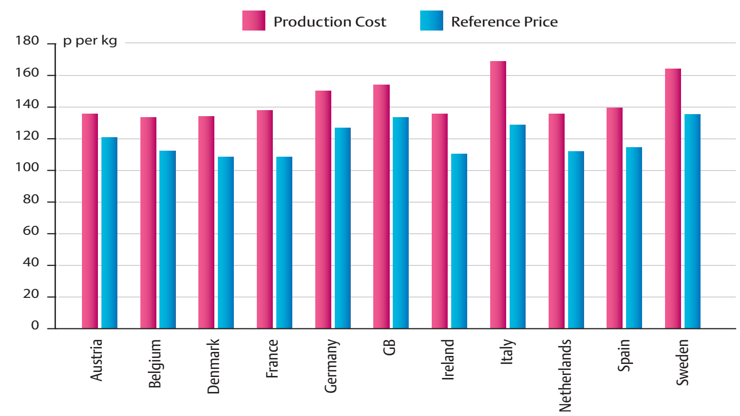


Chart 26 Euro cost of pig production among InterPig countries, Dec 2010

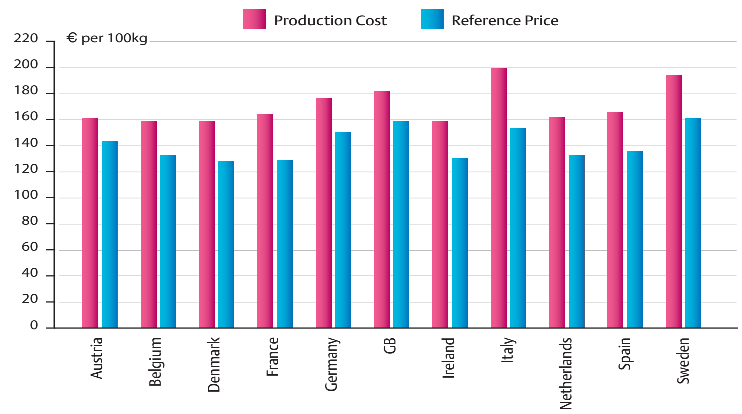
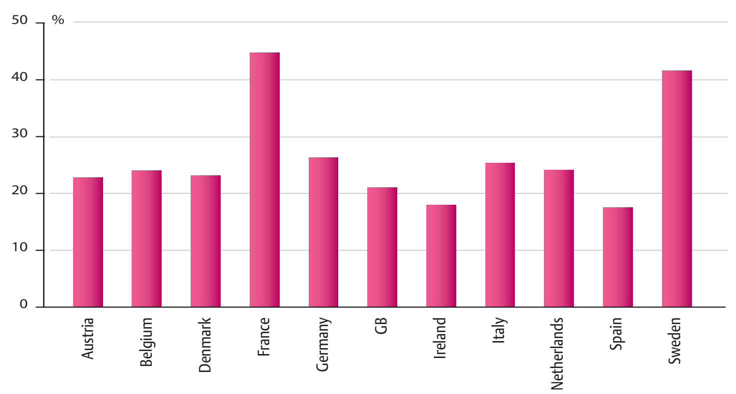


Chart 27 Change in weighted feed prices among InterPig countries, Jun-Dec 2010



Source: AHDB/InterPig

European producer costs and prices

The situation is uniform across all the member states of the InterPig group – that producer returns are below the costs of production (Charts 25 and 26). Great Britain, as a result of several factors including higher animal welfare standards and lower carcase weights, obtains a premium price over the major European producing nations. This increases the attractiveness of Great Britain as a target market for cheaper product which can be imported at a lower price by retailers. However, even at the Great Britain reference price, there are no countries within the InterPig membership which would be breaking even let alone in profit.

Feed costs increased dramatically in the six months to December 2010 across all member countries in a range of 15% to 45% (Chart 27).

Chart 28 Change in pig production costs among InterPig countries, Jun-Dec 2010

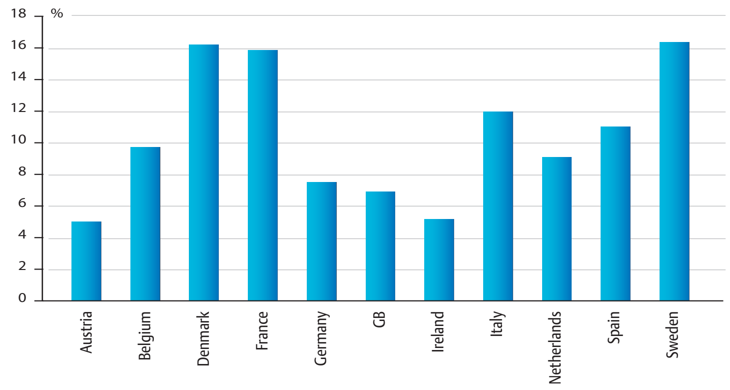
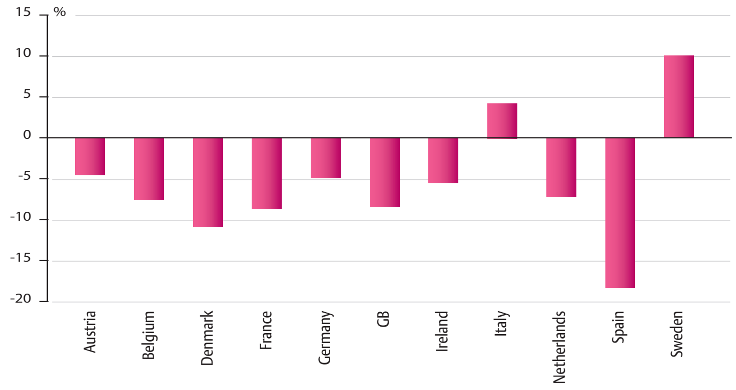


Chart 29 Euro change in pig reference price among InterPig countries, Jun-Dec 2010



Source: AHDB/InterPig

Production costs in the same period were affected by between 5% and 16% (Chart 28).

Producer prices between July and December decreased amongst the majority of member states, with the exception of Italy and Sweden (Chart 29). Despite the expectation of lower prices in the second half of the year, the effect has been to worsen the profitability for producers.

The added danger for producers in the rest of the EU (with the exception of Sweden) is the fact that next year they will have to comply with new animal welfare legislation (which still does not quite match the standards practised by British producers and introduced more than 10 years ago). This will inevitably add to the cost base of producers in mainland Europe and restrict the ability of retailers in the UK to suck in cheaper imports.

Chart 30 Net margin of pig production among InterPig countries, Dec 2010

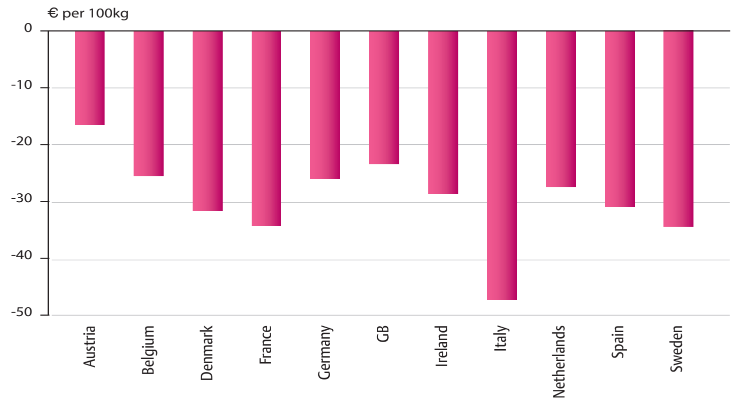


Chart 31 Selected EU countries monthly clean pig slaughterings

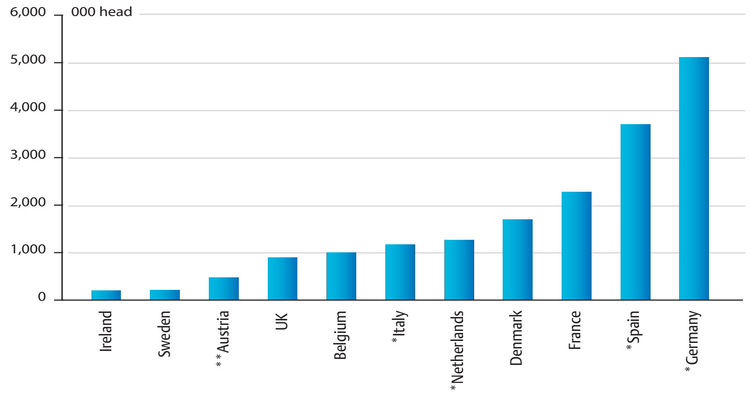
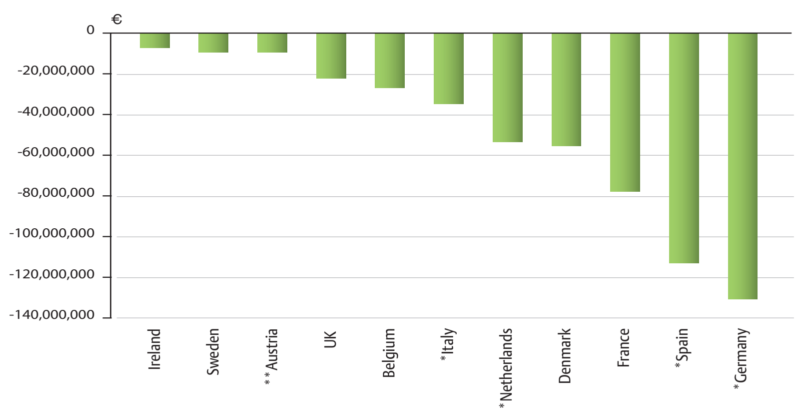


Chart 32 Net loss from pig production per month, December data



December data unless stated * November data ** October data

European producer margins and losses

While British pig producers were losing the equivalent of €23 per 100kg of production in December 2010, the situation was actually worse for farmers in most other pig producing countries of Europe.

The average among the member states of the InterPig group was a loss of €29 per 100kg deadweight (Chart 30).

In Germany, the largest producer of pig meat in the European Union, farmers were losing almost €26 per 100kg of pig meat produced.

Combined with the number of clean pigs slaughtered, using data from Eurostat (Chart 31), the losses within the German industry alone in the month of December will have been in the region of €140million (Chart 32).

Assuming an average European monthly clean pig kill of 4.7million head, an average carcase weight of 90kg and an average loss of €29 per 100kg of pig meat produced, losses for the European production industry are running at between €120 and €130million a week.

For Great Britain, taking the average weekly kill for 2010 and the loss of £21.30 per pig, the industry loss is equivalent to almost £4million a week.

Sources: AHDB/InterPig, Eurostat

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BPEX is a division of the Agriculture
and Horticulture Development Board

BPEX
Stoneleigh Park
Kenilworth
Warwickshire CV8 2TL

T: 02476 692051
www.bpex.org.uk