October 2011

BPEX Imports Report

An Analysis of UK Pork and Pork Products Import Trade

With implications from 2013 of EU sow stall ban

Contents

Introduction

Imports to the UK of pig meat have risen steadily since 2002 – despite the fact that retailers and foodservice operators expressed support for the UK pig industry when it adopted high welfare standards in 1999.

The UK's major retailers in particular (they account for about 75 per cent of sales of imported pig meat) have continued to suck in available, cheaper imports produced to lower standards of animal welfare – indeed such production would have been illegal in the UK.

The commitments of 1999 have been ditched in the pursuit of profit and at the expense of a sustainable industry. The UK pig herd has shrunk by 40 per cent in the past decade and currently faces another loss-making crisis that will inevitably force more producers out of business.

Previous BPEX Imports Reports have reported on the levels of imports and the impact these have had on the UK industry. They have urged retailers and caterers to specify product that matches the high welfare standards of UK production. In promoting the merits of Red Tractor pork and pork products, we have also advocated dedicated supply chains as the way forward for a sustainable future.

We have long argued that the extent to which retailers and caterers rely on cheaper pork produced to less-demanding welfare standards at the expense of high-welfare pork from an assurance scheme such as Red Tractor or equivalent can only be a short-term fix and a long-term disaster. It was inevitable, when the EU eventually compelled the adoption of higher welfare standards, that their production costs would rise and any price differential would therefore be eroded. Operators would no longer be able to turn to cheaper imports, indeed supply at any price would become tighter and the challenge would be to secure a guarantee of supply from a sustainable industry operating to high-welfare standards.

This year's Imports Report brings a renewed urgency to that message. Higher welfare legislation in the pig sector, in the form of a partial stall ban, comes into force throughout the EU at the end of next year. The high costs of meeting that legislation come after several years of negative returns for most European pig producers. It's a double whammy on costs for EU producers. As we report here, progress towards compliance in most Member States is tardy and many countries will not, as they are required, be fully compliant by 1 January 2013.

We expect many producers throughout the EU will quit the industry, that supply will tighten and prices will rise. It's a spiral of decline that needs to be resolved by the whole of the supply chain. Retailers and caterers, together with processors, need to work with producers to ensure a sustainable future for the pig sector. It's no exaggeration to describe it as a matter of saving our industry. It's that serious.

Stewart Houston, CBE, FRAgS
Chairman, BPEX

Executive Summary

- Sow stalls for use in pig production were banned completely in the UK in 1999, when the UK industry adopted loose-housing production systems to raise animal welfare standards
- EU legislation introducing a partial ban on sow stalls will come into force on 1 January, 2013 in all Member States
- It is acknowledged that a considerable proportion of pig producers in other Member States have yet to move to a welfare-friendly pig production system.
- Some producers will have to cease production as they will be unable or unwilling to invest in new buildings and convert their systems by 1 January 2013
- Production of pig meat in the EU can be expected to decline as a direct result, leading to higher prices (assuming there is no significant downturn in demand associated with the economic problems in the EU). Such developments could well impact on both the price and quantity of pig meat imported into the UK
- However, the probability exists that some non-compliant product will be produced – illegally – and might be traded after the 1 January 2013 deadline and that some of that could be exported to the UK
- This is not only unacceptable in itself, it will continue to prolong the competitive disadvantage under which the UK pig industry has operated since 1999
- For the processing industry and the retail and foodservice sectors, security of supply will assume greater importance. With the expected disruption to supply and/or price, the need for UK businesses to establish dedicated supply chains to ensure the guaranteed supply of high-welfare pork becomes imperative
- On balance, though, it would seem that for UK pig producers, future market developments should offer some hope for a sector that has been under pressure for some time
- BPEX will continue to monitor and report on the degree to which EU Member States comply with Council Directive 2001/88/EC.

Background

New 'partial stall ban' EU pig welfare legislation – Council Directive 2001/88/EC – comes into force on 1 January 2013. The most significant element of the new legislation will be to ban the use of individual stalls for pregnant sows and gilts during a period starting from four weeks after service to one week before the expected time of farrowing.

In 1999, when it introduced its own legislation, the UK chose to prohibit completely the use of sow stalls. The UK also ended the practice of castration and banned completely the use of blood plasma-based feed products – both of which will continue to be allowed in the rest of the EU.

The legislative change now facing the rest of the EU will still not quite match the standards adopted in the UK, therefore, but will nevertheless require EU breeding pig farms to change their buildings, which demands considerable planning and investment.

At present, a significant proportion of EU breeding farms have not yet been converted to comply with 2001/88/EC and it is certain, therefore, that many pig producers and most countries will not be fully compliant by 1 January 2013.

Some producers will simply choose to cease production as they will be unable or unwilling to invest in new buildings and convert their systems by 1 January 2013. It is expected that this will result in falling supplies of pig meat in the EU beginning in 2012.

It is interesting to note that corresponding welfare legislation was introduced in the laying hen sector where a ban on battery cages is due to come into force on 1 January 2012 (under Council Directive 1999/74/EC: the Welfare of Laying Hens). Despite having had 12 years to prepare for this ban, some countries still want to delay it by as much as 10 years: their egg industries are lobbying against it because they believe it will be economically damaging. The UK government has publicly declared its support for the ban on battery cages coming into force in 2012.

It is important for the pig industry that it follows developments in the laying hen sector and the extent to which egg production, with the ban on battery hens, will be compliant from January 2012.

In the pig sector, even if the majority of EU countries are not fully compliant by January 2013, the European Commission has stated (in February 2011) that it does not propose any derogation to any Member State. While Member States are primarily responsible for implementing the new EU legislation, the inspection service of the European Commission Health and Consumers Directorate General, through its Food and Veterinary Office, regularly carries out audits in Member States to assess the implementation of the legislation. In addition, the various Quality Schemes in place across the EU can also be used to ensure compliance with EU law.

Main Concerns

When the UK pig industry moved to loose housing in 1999, the country's major retail chains supported the change and, importantly, made a commitment to support the British pig industry initiative to produce high welfare pig meat.

In the following years, UK production declined, in part due to outbreaks of classical swine fever in 2000 and foot and mouth disease in 2001. This left the retail and foodservice sectors more aware of the risk of supply disruptions of British product and they turned increasingly to pig meat from other EU countries. Availability on the Continent was high and prices lower as there was over-supply in the EU market, especially in the 1998 to 2000 period.

The past decade has been notable not only for the way in which retailers have continued to suck in cheaper imports, but that most of the product imported would have been illegal to produce in the UK because of its high-welfare conditions. During this time of increased imports, the UK pig herd has declined by 40% – a major structural change.

The concern now is that not all pig farms in the EU will move to full compliance with 2001/88/EC by January 2013. As a result, the supply availability of compliant EU product will decrease. This would impact on UK pig meat imports, with all types of product affected to varying degrees, and restrict retailers' and caterers' ability to import as easily and cheaply as before. The need for UK businesses to establish dedicated supply chains to ensure the guaranteed supply of UK welfare or EU compliant pork becomes imperative.

Given the twin challenges experienced by EU pig producers in recent years of a difficult financial climate and the considerable capital investment required to comply with the incoming EU legislation, there are already indications that a number of producers in the EU are choosing to cease production rather than make the necessary and onerous investment in loose housing. This will certainly lead to a reduction in the overall supply of pig meat in the EU.

However, it is also probable that a number of farmers in some countries will continue to produce pigs in contravention of the new high welfare regulations with the consequent danger that these will enter export markets despite not being EU welfare compliant and potentially therefore at significant discounts.

Such a situation is clearly unacceptable to British pig producers. Nor should it be tolerated by others in the pig meat chain and all steps should be taken to ensure that it stays within the producing country and does not reach consumers in the UK.

The question also arises whether the EU, faced with potential shortages of high welfare pig meat, could turn to imports from the global market such as North and South America – the danger again being that not all such product might comply with the EU legislation. There is some scope for this although import levels would be restricted by high EU import tariffs unless product is imported under the limited number of WTO quotas that apply. Also, some countries are not allowed to supply the EU market for other reasons; for example on animal health grounds as is the case for Brazil or where there is use of pharmaceuticals that are banned in the EU.

Many in the EU pig industry, mindful of the substantial trade that takes place in the EU, are calling for robust auditing by national governments and Quality Scheme owners of traded product to ensure it meets welfare legislation. Such checks and safeguards should cover all types of trade – to include, for example, the estimated 7.5 million weaners imported each year by German finishers through to further processed products – and to cover pig stocking densities as the new welfare legislation will necessitate reduced densities.

EU-wide Implications

Published reports

A report published earlier this year from Rabobank[1] (the Dutch-based financial services provider with offices worldwide) assesses the EU-wide implications of adopting Council Directive 2001/88/EC. It points out two critical factors:

- five years of negative margins between 2007 and 2011 have accumulated into a major problem throughout the EU pig industry
- only an estimated 40 per cent of sow units comply with the new 2013 welfare requirements.

The report predicts there will be a decline of 1.2 million tonnes – equivalent to a fall of five per cent – in pork production over the next ten years.

This fall in production will in turn impact on the EU slaughtering and processing sector and the report states that supply security for this sector will become a more important issue than price. Processors will need to develop strategies to overcome expected shortages.

A second report from ABN AMRO[2] (the Dutch State-owned bank) concentrates on the Dutch pig industry but its author has been quoted as saying that the total sow herd in Europe may shrink by as much as 30 per cent when the new pig welfare rules come into place. He added that "even if it would only be 15 per cent this could be a significant reduction".

Developments in individual EU Member States

Different industry sources give some indication of the extent to which individual Member States are and will be compliant with Council Directive 2001/88/EC but no official data (for example, from the European Commission) has been compiled. The following summaries serve as the best understanding currently available of progress towards compliance.

Denmark is the largest supplier of pig meat to the UK and until recently it was widely assumed that it would be fully compliant with 2001/88/EC by January 2013. However, the Danish Pig Producers Association has reported lately that nearly one third of producers will not be able to comply with the new welfare requirements, the most-cited reason being that many have had their application for loans to finance the investment required turned down by the banks. In September 2011, Danish Crown, Europe's largest pig meat processor, even announced that it is increasing the premium for "England" pigs, clearly demonstrating the value of higher welfare production.

Unannounced inspection visits of farms are being undertaken by the Danish Ministry of Agriculture to monitor progress towards compliance.

The Netherlands is the second largest supplier of pig meat to the UK. The ABN AMRO report mentioned above states that the current lack of profitability in the Dutch pig industry means that funds are not being generated to enable farmers to make the investment necessary to meet the new EU welfare requirements.

ABN AMRO points out that one third of producers have already made the investment to become fully compliant; it estimates a further third should be able to achieve compliance; but believes the remaining third will have major difficulties and some of these will be unable to finance the upgrade.

The report goes on to say that not only pig welfare but also environmental issues will constrain production and further add to costs. Dutch industry sources confirm the report findings especially with regard to current compliance levels.

Germany is by far the largest pig meat producer in the EU, yet the Rabobank report indicates that only 20 per cent of the national sow herd is produced to the higher welfare standards demanded by 2001/88/EC. The country is now

[1] "EU Pork Industry on Threshold of Changes", by Albert Vernoooij, Food and Agribusiness Research, Rabobank.

[2] "Varkenshouderij: De kracht van ondernemerschap" by Wilbert Hilkens, Sector Manager Pig Sector, ABN AMRO Agricultural Business.

also the third largest supplier of pig meat in total to the UK, having increased its shipments of both pork and bacon in recent years but a considerable proportion of those exports at present would not meet the 2001/88/EC standards.

Germany's pig census of May 2011 indicated a six per cent fall in German in-pig gilt numbers and an 11 per cent drop in maiden gilts. AMI, the German market information agency, reports that some pig farmers are ceasing production rather than investing in new housing required to meet 2001/88/EC standards – a situation exacerbated by the negative margins in pig production over recent years.

Belgium is the third largest supplier of fresh pork to the UK – but, again, Rabobank estimates that only 20 per cent of the sow herd is 2001/88/EC-compliant.

The gravity of the situation for producers in Belgium can be gauged by the fact the Flemish pig producer organisation (VEVA) has presented a plan to Government to remove 100,000 sows (20 per cent of the national herd) from the industry to enable remaining producers to obtain better returns given the current bad economic situation. This includes citing the fact that the industry still needs to make heavy investment to meet the new welfare requirements.

In the **Irish Republic**, varying reports indicate compliance ranging from 20 per cent to 70 per cent of the pig herd, with many of the country's smaller producers yet to invest in loose housing, a situation further complicated by difficulties in obtaining funding.

At the time the Rabobank report was published, only 30-40 per cent of the pig sector in **France** was compliant. Industry sources there indicate that around 60 per cent of farms will have converted to the new welfare standards by the end of this year and that the industry aims to be fully compliant by January 2013. However, they will face the same financing problems as other countries.

Spain has the largest sow herd in the EU with 2.4 million head and yet the Rabobank report considered the industry to be only 30 per cent compliant in early 2011. The June 2011 Spanish census indicated that sow numbers are in decline: they are down seven per cent on a year earlier indicating an inevitable decline in slaughtering to come.

Industry sources indicate that only 30 per cent of producers in **Italy** are currently thought to be compliant. The Italian census of June 2011 showed an eight per cent year-on-year decline in sow numbers, pointing to declining output from 2012.

In **Poland** the breeding herd is declining sharply with sow numbers in June 2011 down 13 per cent on a year earlier. A further decline is expected as loss-making producers decide to quit the industry.

Although breeders are inefficient compared with those of Denmark and the Netherlands, it is understood that many small and medium scale farms in Poland have converted to loose housing. Perversely, meeting the new welfare requirements of 2001/88/EC is less of an issue in Poland at present than the poor financial situation of the industry.

It should be noted that Poland has emerged as a major player in the EU since accession and is one of the top five producers and a major importer and exporter. So the sharp falls in production expected to begin later this year will have a significant bearing on overall EU market developments.

Of the other **Eastern European** countries, sow numbers are also falling in the Czech Republic, Hungary, Bulgaria and Romania.

Battery Cage Ban Example

Council Directive 1999/74/EC: the Welfare of Laying Hens which prohibits the use of conventional cages (commonly referred to as 'battery cages') for laying hens comes into force on 1 January 2012.

In the case of the battery cage ban only 10 of the 27 EU Member States, including the United Kingdom, have so far confirmed they are on course to be fully compliant with this welfare legislation by January 2012.

The question has been raised as to whether the European Commission will allow producers who are not compliant to flout the ban with impunity – especially as it is up to Member States themselves to implement and enforce the legislation.

Industry pressure to ensure enforcement is building up from those countries that are already fully compliant as they would be at a competitive disadvantage if those producers that are not compliant were allowed to continue to market their eggs.

The British Retail Consortium has stated that British retailers are pledging strong support for high-welfare egg production and are reassuring consumers that they will not stock eggs or own-brand products if they do not meet the new welfare requirements.

In the UK, a report[3] from the House of Commons Environment, Food and Rural Affairs (EFRA) Committee made a number of recommendations, not least that an accurate assessment of the likely level of compliance in advance of the 1 January 2012 deadline be made so that the European Commission can implement the necessary enforcement action.

The EFRA committee expressed its concern about the evident complacency of the Commission in ensuring compliance across the EU by January 2012 and the need for it to have a plan to manage the anticipated non-compliance. It called on the Commission to boost the powers and resources of the Food and Veterinary Office.

In calling for an intra-EU community ban on the export of shell eggs and egg products from non-compliant egg producers, the EFRA committee also wants the EU to push for the recognition of standards of production within international trade agreements which it says would be in the interests of fairer trade in the long term.

UK Government Position

In response to questions in Parliament about the steps the Government is planning to take to protect British egg producers from competition by producers in other EU Member States who do not fully comply with the provisions of EU Directive 1999/74/EC, Jim Paice, Minister of State at Defra, confirmed that the Government had been at the forefront of efforts to convince the Commission that simply relying on infraction proceedings against Member States will not be enough to deal with the negative impact that a large-scale non-compliance would cause. "We are keeping the pressure on the Commission to put in place additional enforcement measures to prevent market disturbance," he said.

Mr Paice also revealed that information from the European Commission received earlier this year showed that only 13 countries are expected to be compliant by January 2012. Seven Member States failed to supply any data on the matter when asked by the Commission.

In September, Mr Paice told Parliament that "The Government are totally committed to the 2012 deadline to have phased out the use of conventional cages in the UK and acknowledge the sterling job the (egg) industry has done in preparing for the ban. We are currently developing a UK enforcement strategy which I will be discussing with industry and retailers later this month."

[3] "The Welfare of Laying Hens Directive-Implications for the egg industry", Published on 2 September 2011.

Current UK Imports of Pig Meat

AHDB Market Intelligence division calculations[4] indicate that the UK imports about 950,000 tonnes a year of pig meat and live pigs in carcase weight equivalent (Chart 1). Imports increased by almost 50 per cent between 2000 and 2007. Since then the UK industry, through its higher welfare standards and relative stability in domestic production, has been able to hold import volumes steady.

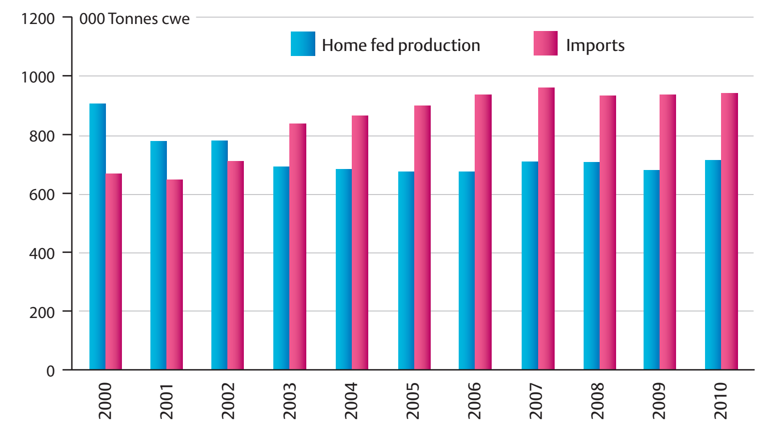
Pork imports are the most important category and accounted for 43 per cent of UK total pig meat imports in 2010, though volumes have declined since 2008 (Chart 2). Such pork is almost entirely fresh with less than 20 per cent frozen and includes product for curing into bacon and ham in the UK.

Bacon accounted for a further 33 per cent of the total and these volumes have increased since 2007. Trade in processed products, such as canned hams, has doubled since 2005 while imports of sausages have been relatively stable since 2006. Processed products and sausages accounted for 18 per cent of total imports in 2010.

The UK is also an importer of live pigs and having averaged 35,000 tonnes carcase weight equivalent in the 2005 to 2009 period, increased to 50,000 tonnes in 2010. These are almost entirely slaughter pigs from Eire which are slaughtered in Northern Ireland. UK production of home fed pigs[5] currently amounts to about 700,000 tonnes per annum of which about 150,000 tonnes is exported, leaving 550,000 tonnes for the domestic market. This means that UK pig farmers account for around 35 per cent of domestic pig meat consumption.

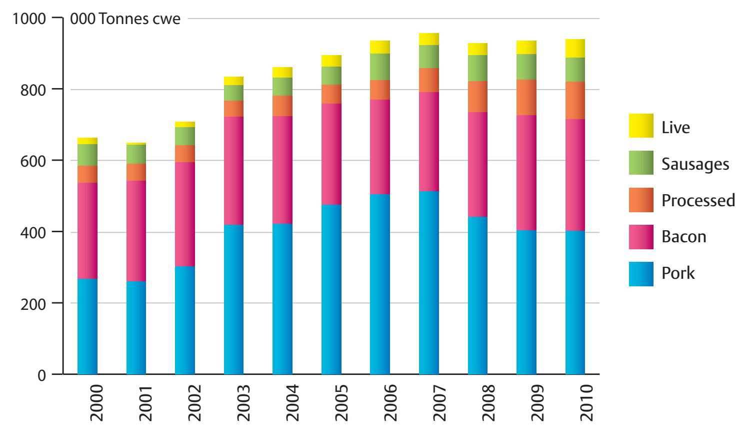
UK pig meat production and imports Chart 1

Source: DEFRA and AHDB-MI import calculations based on HMRC trade data



Total pork and pork product imports Chart 2

Source: AHDB-MI calculations based on HMRC



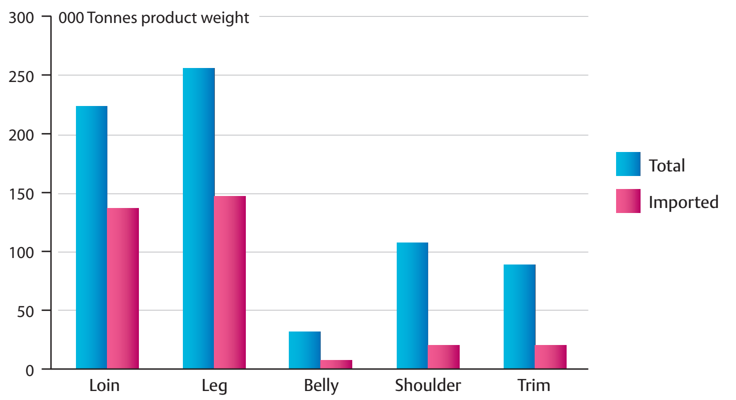
[4] This is based on trade data from HM Revenue and Customs which is given in product weight and converted to carcase weight by AHDB-MI using accepted conversion factors determined by the Statistical Office of the European Communities.

[5] Excluding live imports slaughtered in the UK.

UK annual market requirements by cut

Chart 3

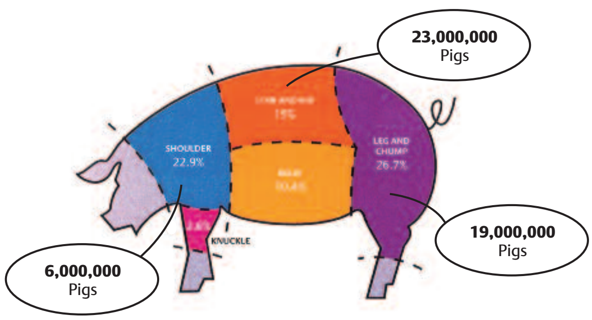
Source: AHDB-MI Consumer Insight estimates



An analysis of market requirements by individual primal cuts has been undertaken by the Retail and Consumer Insight Section of the AHDB-MI (Chart 3). It is based on a wide range of data sources including Kantar Worldpanel data, the Porkwatch survey and industry itself.

The market in the UK creates a carcase imbalance because demand for pig meat varies by cut. For example, production of loin and leg primals from UK-produced pigs is well below the demand requirement for the UK market while there is an over-supply of belly, shoulder and trim. UK pig farmers currently produce about 9 million pigs for slaughter. The illustration below shows the demand in the UK for pork loin requires the equivalent of 23 million pigs; our demand for pork leg cuts needs 19 million pigs while 6 million pigs are needed to satisfy the demand for shoulder and other remaining cuts.

Demand for pig meat



AHDB estimates indicate that all domestically produced loin and leg is used in the home market and is generally identifiable as British. However, the import requirement for additional loins and leg is considerable, accounting for an estimated 60 per cent of the total market for loins and legs in the UK.

In theory, there is enough UK-produced pig meat to satisfy the demand needs for all the other cuts. However, these cuts are imported if they are available at a lower price and the buyer does not have a high-welfare specification requirement such as the Red Tractor Pork standard or equivalent.

The AHDB-MI analysis indicates that 85 per cent of imports of all types of pig meat are either in the form of legs and loins or products that use them. Retailers tend to use imported legs and loins much more extensively in promotional activity with relatively little domestic product used in promotions. This is facilitated by the fact that retailers can source imported product more cheaply than home-produced.

The bacon sector accounts for the largest share of the pig meat imported to the UK – taking 47 per cent of total imports. A further 12 per cent goes to the fresh pork sector with sausages and other processed pork products each accounting for nine per cent. Sliced cooked meats (using legs) represent the remaining 23 per cent of total imports.

Main Sources of Imports

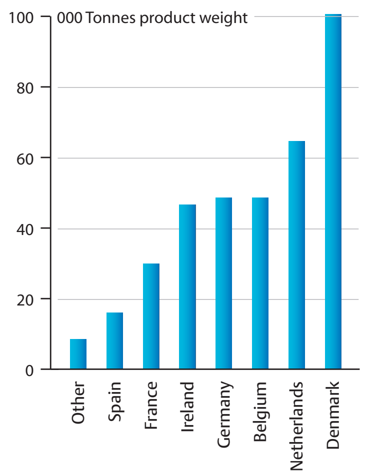
In product weight, **pork** imports amounted to 363,000 tonnes in 2010 (based on HMRC data) and were mainly fresh with less than 20 per cent frozen. It includes increasing quantities of product used for curing in the UK. Denmark is the largest supplier with a 27 per cent share of all pork imports in 2010 (Chart 4) followed by the Netherlands with 18 per cent. Other significant suppliers are Belgium, Germany, Ireland and France. Denmark's share of UK imports has fallen steadily in recent years: in 2006 its market share was 45 per cent. In contrast, the other main suppliers, with the exception of France, have all increased market share over the last five years.

Total **bacon and ham** imports into the UK amounted to 313,000 tonnes in 2010, with the combined volumes from Denmark and the Netherlands accounting for 81 per cent of total UK trade (Chart 5). Imports from Germany now account for 12 per cent of the total with shipments up 120 per cent in the past five years. This is partly explained by the increased involvement of Dutch companies, notably Vion, in bacon curing in Germany. Italy and France both shipped 6,000 tonnes in 2010 with only 4,000 tonnes from Ireland.

For imports of **sausages and processed products** Germany and Poland are the largest suppliers to the UK, with a 40 per cent share of total trade, followed by the Netherlands.

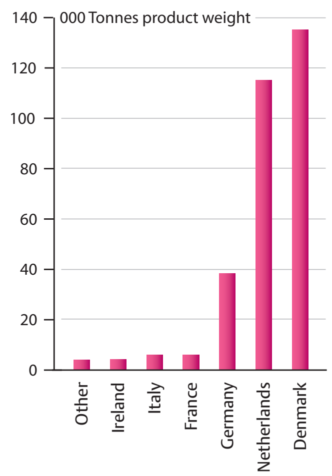
Pork imports in 2010 Chart 4

Source: AHDB using data from GTIS, HMRC



Bacon imports in 2010 Chart 5

Source: AHDB using data from GTIS, HMRC



Where Imports are Sold

AHDB estimates[6] indicate that in terms of total sales of imported pork and pork products, retail outlets dominate and in 2010 accounted for 740,000 tonnes carcase weight equivalent (cwe) or 82 per cent of imported product sales. Imports account for 61 per cent of total pig meat products sold in the retail sector. The smaller foodservice sector accounts for only 17 per cent of imports, but this represents 66 per cent of total pig meat sales volume in foodservice.

The quantity of imported fresh pork sold by retail outlets was estimated to have amounted to 74,000 tonnes cwe in 2010 representing 27 per cent of fresh pork sales. British pork sales have held their own in recent years with volumes amounting to 199,000 tonnes in 2010.

The volume of imported bacon sold by retailers amounted to 280,000 tonnes cwe in 2010. This includes imported pork subsequently cured in the UK. When the foodservice sector is included, 65 per cent of UK bacon sales were of imported origin in 2010. Bacon supply would be more vulnerable than fresh pork to any disruption to imports after January 2013.

Sales of processed products are dominated by sliced cooked meats and sausages – with the overwhelming majority accounted for by imports. In the retail sector, for example, only 28 per cent of processed product sales are of British origin.

Some retailers are inevitably more dependent upon sales of imported pig meat than others and thus their degree of vulnerability to any disruptions to imports from January 2013 would also vary. The analysis of market requirements by individual primal cuts undertaken by AHDB-MI Consumer Insight included estimates for the retail sector of the use of different types of imported product relative to home-produced (Chart 6). Data should be treated with care as some British products may not have been identified as such and hence would have been categorised as imported.

Of the top four supermarket groups, Tesco, Sainsbury and Asda all sell imported fresh pork to varying degrees. Tesco and Asda are the most import-dependent. In contrast, Morrisons and also Waitrose, the sixth largest retailer, stock only British pork.

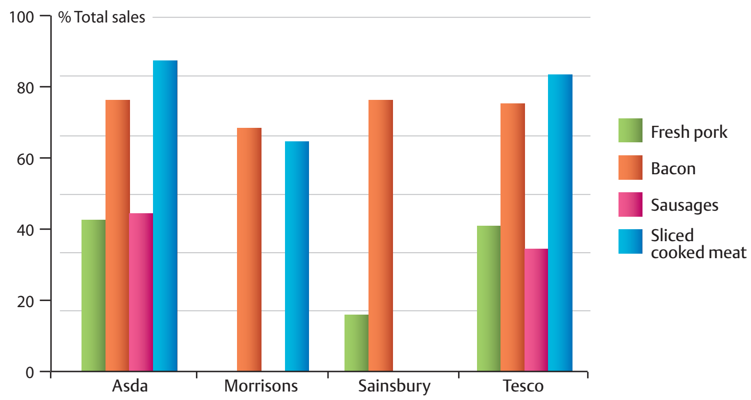
In bacon, all of the four largest retailers are heavily dependent upon imports.

Sainsbury and Morrisons sell sausages made only from British pork, unlike Asda and Tesco, a high percentage of whose sausages are made from imported pork.

In the case of sliced cooked meats only Sainsbury sells almost entirely product from British pigs while the three other major retailers are all heavily dependent upon imported product.

Top 4 Retailer shares of imported pig meat Chart 6

Source: AHDB-MI estimates



[6] AHDB-MI undertakes annual estimates of product flows in the pig meat marketing chain taking the supply of product available (production plus imports minus exports) and how it is distributed through the different parts of the chain based on industry surveys and estimates.

Possible Scenarios after January 2013

It is difficult to predict with certainty what will be the import situation in pig meat after January 2013. It will depend inevitably upon the extent to which major supplying countries have successfully converted to welfare-friendly pig production by that date.

However, some shortages and increased prices on the UK market seem probable. For example, in Germany, the EU's largest producer, even if there is a rapid shift to compliance it is acknowledged this will be at the expense of a fall in production in both 2012 and 2013 given the declining breeding herd at present.

While Denmark could be largely compliant, its sow herd is also declining at present and production will probably be lower by 2013. This will not be helped by the fact that Denmark is a major supplier of piglets to Germany and that trade will not decline in future despite falling sow numbers. This is because a number of smaller German breeders will cease production because they will not invest in loose housing and so German fatteners will continue to buy imported piglets by offering attractive prices.

Lack of compliance and producers quitting the industry will apply to other Member States including the Netherlands, Belgium and Spain.

Three scenarios for post 1 January 2013 are, therefore, possible and outlined below.

Scenario 1. This is a best-case scenario and assumes that producers will move more quickly towards full compliance by January 2013. Nevertheless, with many Member States still not 100 per cent compliant it is inevitable that some producers will cease production, even under the most optimistic assumptions. The result could be that UK imports would be only marginally affected as UK buyers would ensure they source product only from compliant farms. Prices, though, could be somewhat higher to secure product that is compliant.

Scenario 2. This is considered to be the most likely scenario. It assumes an ongoing gradual shift to compliance by the EU pig industry but that many producers will be forced out of business not least by the lack of available funds to invest in the new buildings necessary under the new welfare regulations. Even with the possibility that non-compliant producers are given a derogation and allowed to market their product on a local basis, the result will be a significant cutback in EU production, possibly by more than the five per cent predicted in the Rabobank report.

EU prices generally and specifically the price of pig meat exported to the UK could well rise from as early as Spring 2012 onwards as cutbacks in sow numbers on the Continent start to impact on production.

It should be noted that the price response to a change in supply is very high in the EU and so only small supply changes can have a considerable impact on pig prices. Demand, however, could well remain subdued and even edge back given the ongoing economic problems and uncertainty facing the Euro zone. This might reduce any upward pressure on prices.

Scenario 3. If there is little improvement on the current state of readiness in EU Member States to be totally compliant with 2001/88/EC by January 2013, the impact on UK imports from that time could be considerable. This assumes that imported pig meat is allowed to come only from compliant farms. The significant lack of compliant product implies that substantial price premiums would be necessary for UK buyers to secure sufficient supplies. Product from farms that are non-compliant would be expected to remain in a country's domestic market.

Trade with some countries, especially Germany, could, therefore, be greatly affected.

In the Meantime

BPEX will continue to study EU markets carefully in the coming months. Plans are also in hand to work in collaboration with industry bodies in a number of European countries to monitor closely the progress being made by the pig industries towards compliance and the steps being taken by Member States to ensure enforcement of the new welfare regulations. We shall report regularly on that work.

The experience of the egg sector under the Welfare of Laying Hens legislation will act as a useful template for the pig sector as it faces the challenges of implementing its own welfare legislation.

BPEX will also work closely with Defra as it formulates the necessary enforcement strategy to ensure the integrity of the market here for pork and pork products and that those consumers opting for high-welfare product can be confident that all such product comes from welfare-compliant farms.

Not least BPEX will continue to work with the retail and foodservice distributive trades in the UK to ensure as little disruption as possible to their supply chains and their ability to guarantee the supply of high-welfare pork and pork products to UK consumers. To that end BPEX will continue to promote the benefits of high-welfare pork such as Red Tractor Pork or equivalent to consumers via proactive communications programmes.

BPEX
Stoneleigh Park
Kenilworth
Warwickshire
CV8 2TL

T | 02476 692051

www.bpex.org.uk

BPEX is a division of the Agriculture and Horticulture Development Board

Published by AHDB