

# THE ROAD TO RECOVERY 2006-2009

**A Strategy for Prosperity in the Pig Production  
and Processing Industry in England and Wales**

January 2006





## **Introduction**

The Road to Recovery 2006-2009 is a revised and updated strategy for prosperity in the England and Wales pig production and processing industry. It builds on the successes of the original strategy launched in 2002 and focuses more clearly on those areas where BPEX can use pig levy money to the greatest effect.

The strategy lays out clearly and simply the challenges and opportunities that the industry faces in the coming years. It redefines the role and activities of BPEX and particularly how best to use a reduced amount of levy funds most effectively. BPEX is totally committed to providing a unique service to pig producers and primary processors that ensures that the use of the levy for co-ordinated industry activity yields a better return for levy payers than they can otherwise achieve acting individually.

A handwritten signature in black ink, appearing to read 'Stewart Houston'.

**Stewart Houston**  
**BPEX Chairman**



## Executive Summary

The British market for pork and pork products has remained stable in recent years. However, production of British pork has declined sharply due to price pressure, disease outbreaks and the undermining of confidence to invest. In the last year there are signs of some stability but much still needs to be done.

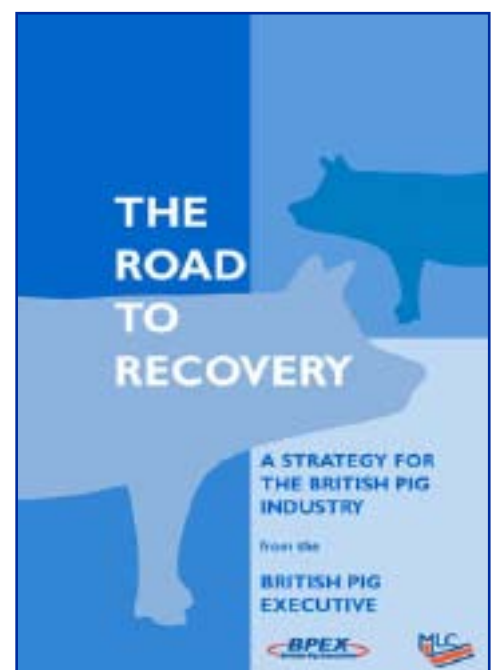
The England and Wales pig production and processing sectors face considerable challenges. Consumer perception of pork as high in fat is at variance with the facts. The production sector remains at the bottom of the EU cost of production league, retailer and food service concentration and power are increasing and political negotiations are likely to result in a liberalisation of world trade within the next three years.

Nevertheless opportunities exist. Pork is well placed to exploit growing consumer demand for taste, convenience and health. The British market is becoming more segmented with a growing demand for above mid-range and premium products that England and Wales producers can exploit. The production cost gap can be bridged with investment in research, development and knowledge transfer and pig production can make a positive contribution to the environment.

The BPEX mission is to enable the England and Wales pig industry to achieve sustainable international competitiveness through reducing production and processing costs and maximising the value of its pork and pork products .

The specific objectives of the strategy are to:

1. Help the industry recover herd health
2. Help the industry improve cost competitiveness to a level at least comparable with our main EU competitors
3. Build industry confidence to invest in the future
4. Increase the demand for British pork and pork products



These objectives will be delivered through a range of highly targeted projects including:

- The British Pig Health Scheme in all assured abattoirs.
- An integrated and extensive programme of research, development and knowledge transfer.
- Supporting the national scheme for Continuous Professional Development.
- Supporting the work of the Red Meat Industry Forum.
- Supporting the British Pig Project to encourage investment in new pig buildings.
- Promoting Quality Standard Mark pork and pork products focusing particularly on the above average and premium segments of the market.
- Promoting pork as healthy using the 96% fat free message established successfully in 2005.
- Improving demand for pork and breeding stock in markets outside the EU through gaining access to new markets and supporting export companies in conjunction with other organisations and agencies.

BPEX has identified a plan of activities that will cost a total of £10.5 million a year to deliver. The intention is to spend £7.3 million a year of pig levy payers money supplemented with £3.2 million from a range of other sources.

The balance of expenditure will change if co-ordinated supply chains take on more of this work themselves as an alternative to the statutory BPEX pig levy.



BPEX will be a leader, a catalyst for change, an authoritative knowledge source and a communicator to and on behalf of the industry. BPEX will use levy funds for co-ordinated industry activity that yield a better return for levy payers than they can otherwise achieve individually.

BPEX will remain a statutory body funded by a single levy paid by producers and processors. Maximum use will be made of non-levy funding. It is anticipated that the amount of levy will fall over time though how fast depends on the speed with which co-ordinated supply chains undertake the activities identified in this plan.



## **Background**

The British market for pork and processed pork products has been robust in recent years. Consumption has remained stable at about 1.45 million tonnes a year (carcase weight equivalent) or 25 kg per person. The value of sales has risen and the overall market was valued at £7.3 billion in 2004 (retail sales plus food service market volumes valued at average retail prices) making pork and pork products the single largest meat category in the EU.

There have been changes in the pattern of consumption with an increase in processed meats such as bacon, ham and sausage. This has been driven primarily by the demand for convenience and quality. The volume of fresh and frozen pork has fallen slightly and in 2004 accounted for approximately 21% of total consumption. British produced pork dominates this section of the market and is extremely important in determining the value of British pigs.

In contrast to consumption, production of British pigs has fallen sharply in the last 6 years. Increased investment in high welfare production systems, a number of disease outbreaks and pressure from the rapid growth in imports, often with standards of production with respect to welfare below those in the UK, have all combined to undermine confidence in the industry. Many producers have left the business and sow numbers have declined. The lack of investment in production facilities and poor herd health has compromised productivity, which has reduced production further. However, in the last year the decline in the breeding herd has slowed and there are clear signs that productivity is beginning to recover.

In the processing sector competitive pressure has also been severe. In the primary processing sector the reduction in pig numbers has resulted in excess slaughter capacity. The resulting pressure on efficiency combined with the relentless price pressure from major customers, such as retailers and food service companies, and the loss of many export markets in the wake of CSF and FMD has resulted in abattoir closures and the amalgamation of a number of companies.

Concentration in the production and processing chain has accelerated as a result of these pressures. Some pig producers have expanded their operations through acquisition. Others remain committed to the industry but are no longer prepared to accept the business risks. These producers have found a way forward through contract production for other producers. It is estimated that in 2004 more than half of the pigs finished in England and Wales were produced by only 33 pig farming businesses operating multiple units. There have also been several mergers and acquisitions in the primary processing sector. In 2004/05 the five largest companies accounted for 64% of pig slaughtering. 10 years earlier the equivalent figure was only 37%. This trend is expected to continue in the coming years.

The trend towards greater concentration will give the industry greater benefits of scale in areas such as pig marketing, the ability to react to customer demand and the acquisition and adoption of new knowledge and technology. It will also have implications for the role of BPEX in the future.

## The Road to Recovery

The Road to Recovery was launched in 2002 with the objective of arresting the decline in pig production and establishing a sustainable position from which the industry could start to recover. The basis for the strategy has been for BPEX to act as a catalyst to assist the industry to improve its competitive position throughout the supply chain, to defend and add value to the British market for pork and pork products and to build alliances to develop the market.

Considerable progress has been made in the last three years through the implementation of the strategy. Some of the highlights are as follows:

- A major multi-disciplinary research project on pig finishing systems has provided a considerable amount of comparative data on solid flooring versus slatted flooring with regard to animal welfare, food safety and environmental impact. It also demonstrated how controlled liquid feeding of food co-products could deliver a cost of production benefit of 14p/kg deadweight (net of investment costs) compared with compound feeding.
- Supply chain grants supported 42 projects in England and Wales to encourage greater co-operation between producers and processors and deliver benefits to primary producers.
- The Red Meat Industry Forum (RMIF) provided help to 30 pork processing companies that enabled them to improve business processes and potentially improve their competitive position in the market. RMIF also helped to establish six pig benchmarking clubs for producers.
- The Autofom on-line automatic ultrasound pig grading and data handling system was successfully introduced in England. This is in the process of being fully integrated into the pig payments system of Geo. Adams and Son and is providing valuable feedback on carcass traits to supplying producers. A further two Autofom systems are likely to be installed in the UK in 2006.
- The British Pig Health Scheme that gives rapid feedback of indicative post-mortem information on pig health to producers and their vets was supported in Scotland and successfully piloted in the remainder of Great Britain. A national scheme covering all assured producers was introduced in July 2005.



*Carcass monitoring in the abattoir.*

- The Quality Standard Mark (QSM) for pork, bacon, and ham and on sausages was actively promoted with retailers and food service companies. The profile of the QSM and particularly the high welfare standards on which United Kingdom production is based was promoted robustly to retailers and food service companies and directly to consumers through an integrated programme of print media and supporting public relations activity.
- The QSM featured prominently in consumer marketing activity that focused on the versatility, convenience and healthiness of pork.
- Regaining access to export markets outside the EU that were lost following CSF and FMD has been the focus of an export recovery programme. Access to markets such as China for breeding pigs was achieved and there were notable successes in many other markets including Japan, USA and South Korea. The result is that in 2004 non-EU exports of pork (including pig offal) and breeding stock reached £170 million. Further growth has occurred in 2005.
- The ZAP (Zoonoses Action Plan) Salmonella scheme was successfully introduced with the full support of the industry, the Food Standards Agency and retailers. This has put in place a mechanism to reduce further the already low risk to consumers from pork related food borne illness and to protect the reputation of the British pig production and processing industry.



The implementation of the Road to Recovery strategy has had a positive impact in some important areas affecting the industry. It has contributed towards the relative strength and stability of pig prices in Great Britain in comparison with EU markets. For example the average weekly Pig Reference Price in the UK has been about 11% higher than the EU average over the last three years. Even allowing for differences in the method of calculation in different member states, this still represents a British pig price premium of about 8p/kg deadweight.

While this price premium has been a positive contribution to profitability it has not, as yet, reversed the decline in production. A key problem remains that the confidence to invest in the British pig production and processing sector remains very fragile.

## Future Challenges

- Consumer demand for pork and pork products, while robust overall, is likely to continue to shift towards greater convenience. This is likely to be reflected in increased demand for processed products.
- The perception among a significant minority of consumers that pork is high in fat, despite the nutritional facts, could undermine demand. This would particularly be the case if the government's campaign to encourage consumers to reduce fat intake has a substantial impact. The campaign to reduce salt intake could have a negative impact on pork products such as bacon, ham, sausages and pies.
- The cost competitiveness of the British pig production sector remains weak in comparison with our main EU competitors. The latest BPEX report on EU farm cost competitiveness shows that on average British producers production costs are 8p-16p/kg deadweight higher than in other EU countries.
- A range of legislation to protect the environment is likely to have an impact on many pig producers. The requirement for cross compliance under the reformed CAP will ensure the impact is widespread in the industry.
- In the coming years cost competitive pressure is likely to grow. In the EU slowing demand for pork and pork products and increasing world competition could lead to pressure on internal EU supplies and prices.
- The difficult trading conditions of recent years, the continuing price pressure in the retail and food service sector and absence of long term contractual commitments in the supply chain will continue to undermine the confidence of many producers and processors to make the necessary investment to regain competitiveness.
- Retail concentration is likely to continue in the coming years. Companies such as Wal-Mart and Carrefour will be joined by others such as Tesco. The global reach of these companies will increase the pressure for global sourcing. This need will be matched by an increasingly concentrated processing sector with a global outlook.
- Political pressure for trade liberalisation in the WTO is likely to result in greater exposure to competitive price pressure. The result is likely to be a gradual reduction in import tariffs, which currently afford a measure of protection to EU producers that reflects some or all of the extra costs of producing pigs within the EU.
- Developing an effective way of measuring the aspects of pig meat products on which consumers are willing to place additional value and communicating that through the value chain.

## Future Opportunities

- The market for food will be increasingly driven by the combined demands for taste, convenience and health. Pork, in fresh and processed forms, already has a broad range of products that have the capability to meet these demands at competitive prices.
- Increasing segmentation of the market will provide the opportunity to derive added value for mid-range and premium products. Existing retail price differentials between standard and premium (non-organic) pork and pork products are averaging up to 40%. This is an opportunity for British high welfare, high quality, assured and traceable pork and pork products.
- The nutritional facts about the fat content of pork mean that consumer perceptions can be challenged. The reality about the nutritional content of pork could encourage demand at a time when public pressure will be to reduce fat in the diet.
- The growth in world consumption of pork gives British exporters the opportunity to exploit markets for high quality breeding stock and specific cuts for which there is higher demand than within the EU. In particular the export of pork offal to the growing Asian market could provide a source of value added revenue.
- The high welfare standards of UK production will continue to set this country apart from most other countries. Although there are some changes in sow housing legislation in the EU from 2013 this does not go as far as the legislation currently in force in the UK.
- The latest MLC analysis of comparative cost of pig production (2004) shows that although Great Britain is still among the highest cost producers in the EU, the average gap is only about 11%. The increasingly concentrated and larger structure of pig production in England and Wales and a recovery in productivity to historic levels could reduce British costs to a level more comparable to many of our major EU competitors.
- Pig production can continue to make a positive contribution to the environment. Methane emissions are low and pigs consume and recycle non-meat co-products from the manufacture of human food and drink thus reducing disposal problems in these sectors. Pig manure is of high potential value and can be readily recycled to arable crops. In future all these processes could be made more efficient.



## BPEX Vision for the England and Wales Industry

An industry that:

- Is internationally competitive, cohesive and profitable at all stages in the production and processing chain.
- Embraces new ideas from a broad range of sources and invests in its future.
- Anticipates consumer needs and produces a range of convenient, healthy, tasty and safe pork and pork products.
- Is information-driven and communicates efficiently and effectively with others in the supply chain enabling it to meet customer requirements.
- Has an international outlook that enables it to compete effectively to exploit all available knowledge in production and processing and all available markets for pork, processed products and offal and breeding pigs.

### The BPEX Mission is to:

**“Enable the England and Wales pig industry to achieve sustainable international competitiveness through reducing production and processing costs and maximising the value of its pork and pork products.”**



## The BPEX Objectives

BPEX will use the levy for co-ordinate industry activity that yields a better return for levy payers than they can otherwise achieve individually.

The key functions of BPEX are to be:

- A leader
- A catalyst for change
- An authoritative knowledge house for all stakeholders
- A communicator to, and on behalf of, all stakeholders

BPEX will minimise waste and maximise the return to the industry on pig levy spending. BPEX will seek out high impact activities and increase its speed of response to the strategic needs of the industry.

### **BPEX 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)
- Levy-funded by producers and processors
- Making maximum use of co-funding opportunities

The amount of levy should fall over time. The speed of this will depend on consolidated supply chains moving to undertake activity currently conducted by BPEX.

The amount of future levy and the timing of changes to levy rates will be decided on the basis of value for money from levy investment.

### **Strategic Objectives 2006 – 2009**

- 1. Help the industry recover herd health.**
  - 2. Help the industry improve cost competitiveness to a level at least comparable with our main EU competitors.**
  - 3. Rebuild industry confidence to invest in the future.**
  - 4. Increase the demand for British pork and pork products.**
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## Delivering the Strategic Objectives

### 1. Help the industry recover herd health

- Introduce the British Pig Health Scheme in all assured abattoirs in England and Wales to enable producers and their veterinary advisors to detect and reduce the incidence of pig disease.
- Encourage producers to make the best possible use of their veterinary consultant within the quality assurance schemes. This will include the more efficient use of Pig Farm Health Planning in co-operation with Defra and the National Pig Association.
- Work with Defra and government agencies to introduce a comprehensive and responsive system of veterinary surveillance. This will include the monitoring of existing disease and the early detection of new or emerging pig diseases and enable the industry and government to react quickly.
- Implement the BPEX plan for research, development and knowledge transfer with a particular emphasis on pig health and welfare. Priority will be given to the transfer and application of existing knowledge and techniques from around the world.





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## **2. Help the industry improve cost competitiveness to a level comparable with our main EU competitors**

- Implement the BPEX research development and knowledge transfer (RD&KT) plan. The plan recognises the need for integration between research, development, demonstration and knowledge transfer. Initial priority will be given to knowledge transfer of new and existing knowledge from around the world and projects that have the potential to affect directly the competitive position of producers and processors within a short period of time. Face to face contact between knowledge transfer staff and producers and processors will be a priority.
- The BPEX RD&KT plan will include the collaboration and support of a wide group of individuals and institutions both within Great Britain and beyond. The BPEX RD&KT plan is in line with the Defra Research Priorities Group. The plan requires the financial commitment and support of stakeholders such as government, the European Commission, and commercial companies. A small, dedicated team of scientists and advisors working with contractors will deliver the plan.
- Support the work of the Red Meat Industry Forum (RMIF) to deliver business improvement.
- Provide a market and policy analysis and strategic forecasting service for the industry including analysis of international competitiveness to ensure that informed business decisions can be made.
- Provide a government and EU relations service to minimise the regulatory impact on the industry and to support the activities of NPA, BMPA and others.



### **3. Rebuild industry confidence to invest in the future**

Industry confidence to invest is a combination of profitability and attitude to business risk. The aim of strategic objectives 1, 2 and 4 are to help producers and processors increase profitability. While attitudes to risk will remain a matter for individual businesses, BPEX will provide help in the following ways:

- Support the work of the British Pig Project, the aim of which is to encourage investment in new pig buildings.
- Support RMIF in disseminating best practice information from other industries on risk management techniques.
- Provide up-to-date information on global best practice on contractual and trading relations in the supply chain.
- Knowledge transfer staff will advise producers and processors on investment appraisal techniques where appropriate.

#### 4. Increase the demand for British pork

- Promotion of Quality Standard Mark pork and pork products through an integrated programme of trade PR, editorial and advertorial coverage, trade and consumer advertising (where appropriate) Pork Watch, website information and political pressure by NPA, BMPA and others. The focus of activity will be on improving demand for premium pork and pork products. This category has the greatest concentration of home produced pork and offers considerable potential for improved value added.
- Support for more integrated supply chains through the Supply Chain Grants Scheme. This will look particularly to encourage projects where a market premium is available for value added pork and pork products.
- Build demand for pork through continued investment in the promotion of pork as a healthy option using the 96% fat free message. Opportunities will be taken to co-operate with other companies and organisations in communicating this message.
- Defend pork and pork products from potentially adverse criticism from organisations seeking to exploit government nutritional messages on reducing fat and salt intake. BPEX will support industry organisations seeking to address the issues raised in a constructive and practical way. BPEX will continue to promote sausages and other important pork products that are fun, versatile and loved by a broad range of consumers mindful that these products need to fit into a balanced and healthy diet.
- BPEX will co-operate with devolved MLC bodies in the purchase and interpretation of consumer market research data so promotion and marketing by organisations and individual companies is executed more effectively.
- Growing demand for British pork, pork products and breeding pigs outside Great Britain and especially outside the EU has the capacity to add significant value to the British industry. Access to the Chinese market for pork offal will be especially valuable. BPEX will work with government to secure access to markets currently closed to British exports, will identify market opportunities and provide practical support and advice to exporters in England and Wales.

## Support for the Strategic Objectives

- Continuous Professional Development is an integral part of achieving all of the strategic objectives. BPEX will actively support the implementation of the industry strategy from Sustainability to Sustained Ability. This strategy aims to increase value through flexible and focused learning for the benefit of both individuals and businesses.

Provide a range of effective communication tools (print, media, shows, websites, press briefings) to ensure maximum uptake of the strategy.

- Provide a 24/7 communications team to promote the England and Wales pig industry, ensure effective communications and enhance uptake of knowledge and present objective, factually-based industry defence.

## Outputs and Outcomes

The outcome of the strategy will be that by 2009 there will be an England and Wales industry that is cost competitive compared to our main EU competitors, is deriving greater value than its EU competitors and demonstrates that it has the confidence to invest in the future.

Specific projects to deliver this strategy will have clearly defined outputs and outcomes. **Outputs** represent the activity that BPEX agrees should be done (for example the execution of a specific project to timetable and budget). **Outcomes** are the impact that our activities will have (for example a change in consumer attitudes).

## Targets and measurement

The overall targets of the strategy after three years are:

1. Achieve the number of pigs finished per sow per year at least comparable with the trade weighted average for Denmark, the Netherlands, France and the Republic of Ireland.
2. Achieve average pig cost of production per kg deadweight at least comparable with the trade weighted average for Denmark, the Netherlands, France and the Republic of Ireland.
3. Deliver an increasing confidence rating in the pig production and processing industry. This will be established in 2006 and improved by three per cent a year thereafter.
4. Achieve an increasing value of sales in the British pork and pork products market.
5. Maintain an England and Wales pig price premium over the EU average.



- Targets 1 and 2 will be measured annually as part of the EU Competitiveness Study.
- Target 3 will be measured annually as part of an industry opinion survey.
- Target 4 will be measured twice a year using retail sales data and volume sales through food service outlets valued at average retail prices plus the value of export sales.
- Target 5 will be measured four times a year using data from the EU Reference Price calculation. Reported prices will be adjusted to be as comparable as possible.
- Specific targets and measurements will be set for individual projects that are undertaken in order to deliver the strategy. These targets will be set as part of the BPEX Annual Plan and will be agreed with the BPEX Board. Targets will be reviewed regularly.

## Budget

The number of pigs slaughtered in England and Wales determines BPEX income. For the purposes of prudent planning it has been assumed that BPEX income in the three financial years from 2006/07 to 2008/09 will remain the same as 2004/05, at £7.3 million (after levy collection costs). This is based on the assumption that the anticipated recovery in productivity will be offset by a gradual decline in the breeding herd.

BPEX expenditure attracts a considerable amount of additional funding from other sources especially for research and development projects. For example, in recent years every £1 of BPEX levy invested in specific research projects has attracted an additional £3.60 from other sources. These sources have included Defra, SEERAD, FSA, the European Commission and commercial companies. It is planned that non-levy funds will continue to be used along with the BPEX levy for research, development and knowledge transfer.

The balance of spending between levy and non-levy sources would alter if co-ordinated supply chains take on more of the work themselves as an alternative to levy investment.

The approximate breakdown of annual expenditure by strategic objective is as follows.

<b>Strategic objective</b>	BPEX Levy £ 000	Non levy £ 000	Total £ 000
Recover herd health	1,350	1,465	2,815
Improve cost competitiveness	1,550	1,535	3,085
Rebuild confidence to invest	350	50	400
Increase demand	4,050	150	4,200
<b>Total Expenditure</b>	<b>7,300</b>	<b>3,200</b>	<b>10,500</b>



## About BPEX

**BPEX operates with maximum autonomy within MLC's statutory responsibilities and comprises leading individuals across the British pig industry. It consists of 11 people nominated by industry representative organisations. The Chairman is appointed by Ministers through open competition. BPEX meets at least six times a year.**

**BPEX determines MLC's Pig Strategy and ensures that pig levy payers' money is efficiently deployed in line with that strategy.**





## **BPEX BOARD**

### **Stewart Houston**

BPEX Chairman

Stewart is an MLC Commissioner and was appointed Chairman of BPEX in October 2002. Stewart is a founder member of the NPA and is currently NPA Executive Director as well as NPA Chairman.

### **Ashley Bowes**

Director, Bowes of Norfolk, representing the British Meat Processors Association.

### **Adam Couch**

Operations Director, Cranswick Country Foods, representing the British Meat Processors Association.

### **Jon Easey**

MJ & JA Easey, representing the National Pig Association.

### **Neil Hammond**

Managing Director, Grampian Country Pork, representing the British Meat Processors Association.

### **Steve Hart**

S & SA Hart, representing the National Pig Association.

### **Robert Howe**

Geo Adams and Sons Ltd, representing the British Meat Processors Association.

### **Richard Lister**

J C Lister Farms Ltd, representing the National Pig Association.

### **Sean McCurley**

Tesco Ltd, representing the British Retail Consortium.

### **John Rowbottom**

J R Pigs Ltd, representing the National Pig Association.

### **Mike Sheldon**

Greenway Farms Ltd, representing the National Pig Association.

### **Meryl Ward**

Waddingham Grange Farm, representing the National Pig Association.



## We are interested in what you think about The Road to Recovery 2006-2009

Tell us what you think about The Road to Recovery 2006-2009.

It would help if you tell us a little about yourself.

Regional/Location  
(national, Yorks, East Anglia etc):

Role in the industry  
(producer, processor etc):

Levy Payer: Yes / No

If you would like a reply tell us your email address:



I would like to receive regular email updates on BPEX activities to support the England and Wales pig industry.

**Submit**

If you would like to contact somebody directly, please click on the image below.



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