



National Pig Association
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**NPA response to the Environment, Food and Rural Affairs Select Committee call for evidence:
“Structure and operation of the food supply chain”**

The National Pig Association (NPA) is the representative trade association for British commercial pig producers, is affiliated to the National Farmers Union (NFU) and represents the interests of NFU members that produce pigs and the pig industry interests of its Allied Industry members.

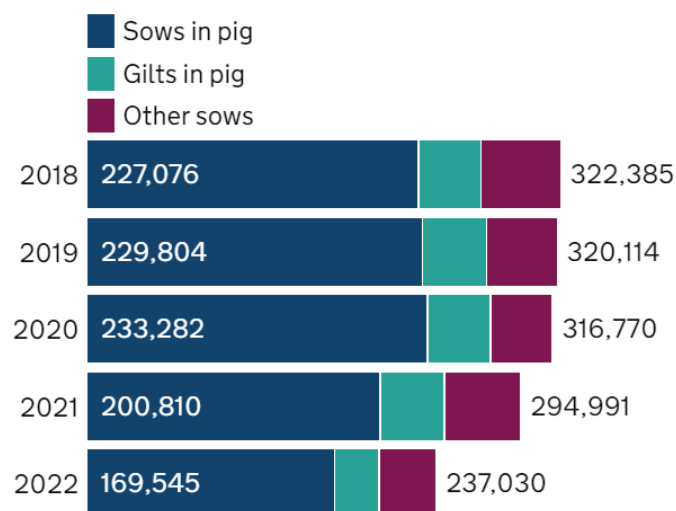
The UK pig industry is worth £1.6 billion at the farm-gate, £5 billion at retail and, considering foodservice, external sales and export values, over £14 billion in total. In 2022, over 372,000 tonnes of British pork was exported around the globe, to over 75 export markets, a trade worth more than £623 million.

1. To what extent is the UK’s food supply chain currently operating effectively and efficiently?

Recent crisis

The UK pig industry has endured an unprecedented crisis over the last two and a half years, triggered by a labour shortage in processing plants during the pandemic, that led to huge backlogs of contracted pigs on farms and the needless culling of tens of thousands of healthy pigs. The situation revealed an imbalance of power in the supply chain that ultimately led to Defra’s current review of fairness and transparency on contractual practice in the sector.

Since October 2020, UK pig farmers have collectively lost in excess of £750 million, according to AHDB estimates, and more than 60,000 healthy animals were culled on farms due to the acute lack of labour in abattoirs. The industry has seen a major contraction, with a 25% reduction in the sow herd since 2020 (Defra census, December 2022). Sow numbers are now at their lowest for 20 years.



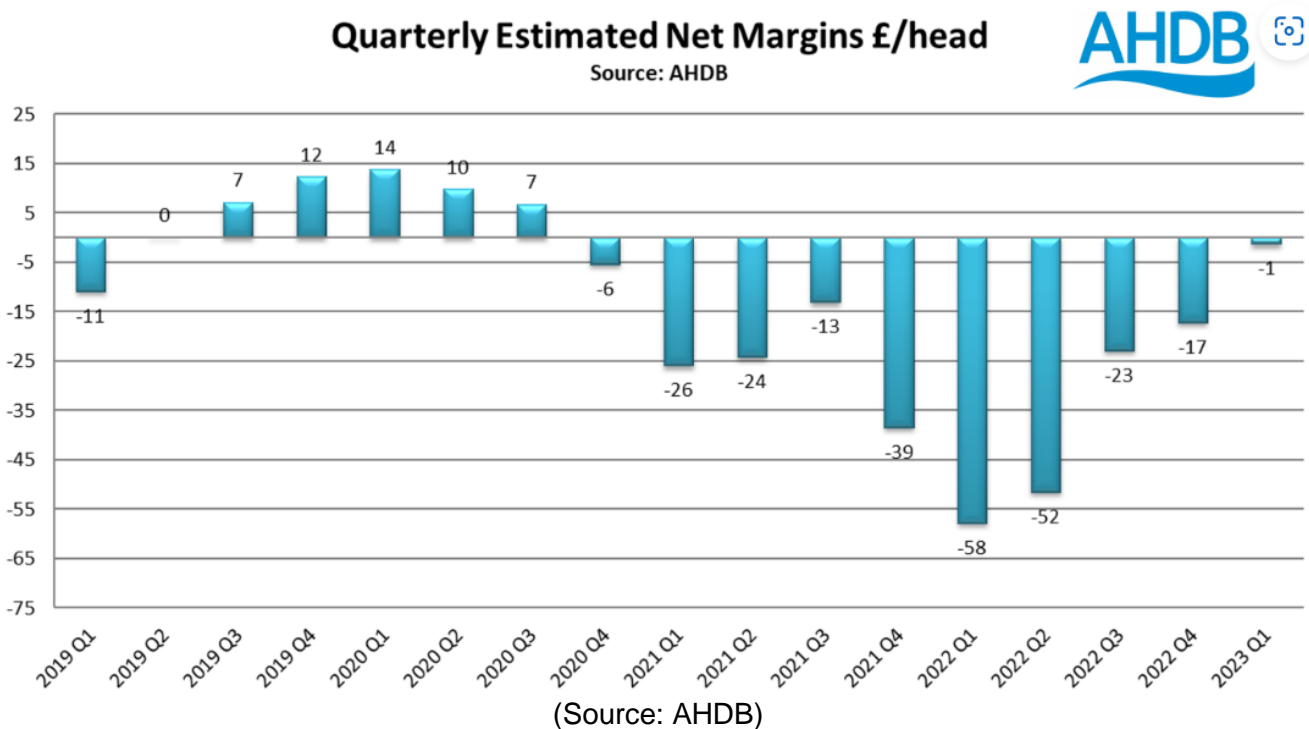
(Source: Defra)

The result of this contraction is less British pig meat available, fewer jobs and a reduction in overall food security. This loss of domestic production will be replaced by imported meat, often produced in systems with lower welfare and environmental standards.

Another consequence of this reduction in production is how it affects the viability of the processing industry in the UK. One of the most significant fragilities in the pig supply chain comes from UK farmers being so heavily reliant on four major processing companies, operating a small number of large abattoirs. Approximately 90% of UK production is slaughtered and processed by these companies. With such a large contraction in the sow herd, it has made some existing plants unviable and one major abattoir has closed in recent weeks. This leaves producers more vulnerable to problems in the processing sector, whether it be breakdowns, labour shortages or any other interruption to business as usual.

Wider than the processing sector, the contraction of the pig herd also affects allied industries such as feed, pharmaceuticals, genetics and building and materials companies.

The graph below shows the disparity between cost of production and pig price, which has seen farmers lose money on every pig sold since October 2020, peaking at £58 per pig in Q1 of last year. This clearly demonstrates that the supply chain has not been operating effectively and efficiently.



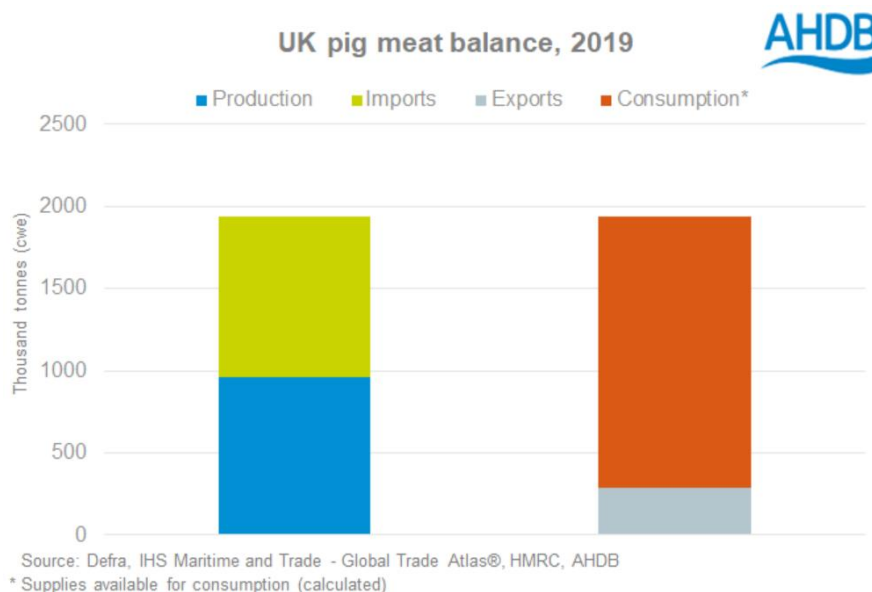
Pig sector structure

On a basic level, the commercial pig sector, and subsequent supply chain, in the UK comprises three main constituent parts: producer (farmer), processor and retailer (supermarket). Producers sell their pigs into processors and pork products are then sold into the major UK retailers. Other parts of the pig not required, including cuts and fifth quarter, will be exported. Due to a lack of self-sufficiency, retailers need to import a proportion of pork sold, and the majority of pork sold into food service and hospitality is also imported.

Marketing groups, who buy and sell pigs, also play an important role in the supply chain as they offer a degree of flexibility to the sector which benefits both producers and processors. For producers they provide access to markets they would struggle to access as an independent business, can manage smaller load numbers and can engage and negotiate with processors and retailers directly, often

benefiting from the greater collective volume of pigs. Likewise, marketing groups offer benefits for processors with just one point of contact when negotiating larger numbers and price. Processors will vary their numbers week by week and their engagement with marketing groups means they can divert pigs to different markets dependant on their requirements.

AHDB data shows that the UK is approximately 58% self-sufficient in pig meat, which is lower than in other proteins such as lamb (109%), beef (86%) and poultry (65%). It is important to note that trade plays a key role in carcass balance for the pig industry and, therefore, it is more complex than simply saying we produce 58% of what we eat. UK consumers prefer cuts from the leg and loin, and there are not enough pigs in the UK to satisfy that demand. We export less popular cuts, such as belly pork and offal, in order to maximise the value from each animal. The table below demonstrates this:



The domestic sow herd halved in number since the 1990s following a series of shocks at the turn of the century: sow stalls were unilaterally banned in 1999 followed by the Classical swine fever and Foot and Mouth Disease outbreaks of 2000 and 2001. As a result, we are now considerably less self-sufficient.

2. How could structural relationships between farmers and fishers, food producers and manufacturers, handlers and distributors, retailers and consumers be improved for both domestic and foreign foods?

In its response to Defra's consultation on contractual practice in the pig supply chain, the NPA highlighted eight headline asks:

1. Contractual practice needs to be underpinned by legislation to ensure accountability and deliver change for all producers and processors.
2. Contracts should follow a framework to allow producers and processors/marketing groups to negotiate terms that work for both parties. We outlined four principles for contracts in line with the powers within the Agriculture Act 2020:
 - Price needs to be fair, transparent and negotiable
 - All parties should be able to negotiate a contract fairly
 - One-sided clauses should be removed
 - A mechanism for dispute resolution is essential.

3. Penalties for out of specification pigs should not deliver a negative or zero value when contracted pig numbers have not been fulfilled.
4. Better forecasting is needed to help inform business planning, including a mandatory monthly pig weaning survey.
5. Processors should submit details of their contracted pig numbers to Defra for price reporting purposes.
6. Full transparency is needed for price reporting mechanisms.
7. Retail, food service and wholesale businesses should formally report the volume of cuts, carcass utilisation and origin of pork on a regular basis.
8. Retail and food service companies need to commit to buying a reasonable proportion of the pig carcass and utilising more British pork from it for products within their supply chains to help improve carcass balance.

We acknowledge the powers of the Agriculture Act only cover contractual agreements between the producer and processor, but there are challenges further up the supply chain given most retailers only purchase parts of the carcass. This is why number seven and eight are integral to the suite of asks, we understand Defra is exploring how the data powers can be used and we would like to emphasise the importance of this work.

In terms of consumers, the AHDB Consumer Insights team holds a huge array of information about the behaviour and values of consumers in this country and we urge the Committee to speak with AHDB to understand their findings.

3. How does the market power of UK supermarkets and manufacturers compare to other participants in the food supply chain, and how does this compare to equivalent relationships in other advanced economies?

There are approximately 2,000 commercial pig producers in the UK but only four major processors, who slaughter approximately 90% of all pigs. Three of these processors also own their own farms and pigs, and the other is owned by a major retailer. There is, therefore, an imbalance of power between smaller independent producers and the processors / retailers. It means that farmers are price takers rather than price setters and the price they can obtain is largely dictated by the top of the supply chain (retailers). We also note that the risk placed on pig farming businesses is disproportionate to the scale and size of businesses they have contracts with.

This is a similar structure to other major European pig producing nations.

4. Is existing regulation appropriate, for example the Groceries Supply Code of Practice and the Groceries Code Adjudicator for supermarkets' direct suppliers, as well as the Secretary of State's powers under Part 3 of the Agriculture Act 2020?

Pig producers very rarely directly supply a retailer and, therefore, the Groceries Supply Code of Practice and the Groceries Code Adjudicator do not apply. There are, however, opportunities under the Agriculture Act to address the imbalance of power which Government has committed to do.

NPA surveyed producer members as part of Defra's on-going review and nearly 90% were of the opinion that legislation is indeed necessary, as producers felt the balance of power currently lies with the processor and further up the supply chain. We do understand the challenges and merits for both options, but we recognise the need for legislation as part of this policy reform. A voluntary code has not been

trials within the pig sector; however, many contracts are currently based on trust and these have obviously failed leaving producers extremely vulnerable.

We also believe we can learn from the experiences of the dairy sector where the voluntary nature of the code proved ineffective in reforming contracts on a wide scale. The voluntary code of practice in the dairy sector did help improve contractual relations when the market was buoyant. However, when the market became more challenging, dairy processors shifted the risk onto their milk producers and, with no enforcement mechanism, they were not obliged to comply with it in its entirety. In addition, not all dairy processors adopted the voluntary code of practice so many dairy farmers were not in a position to benefit from it.

Similar to the dairy sector, the balance of power very much aligns with the processors with a small number of companies processing the majority of pork in this country (approx. 90%). Producers are, therefore, very limited in their ability to negotiate or find alternative markets, particularly for producers in less pig dense regions of the country, and, as such, we believe a mandatory approach with accompanying legislation is required to address the issues within contractual practice in the pig sector.

5. How effectively has the Government conducted reviews of contractual practice in specific sectors, for example in the pig and dairy sectors, and should other sectors be reviewed?

Defra [announced a review](#) into transparency and fairness in the pig supply chain in July 2022, including a consultation which ran until October 2022. Defra subsequently published a [summary of responses](#) in April 2023 and the NPA is pleased that Defra has agreed to take the following next steps, addressing the majority of our eight key asks:

- We will share our findings relating to the alleged negative consequences of market consolidation with the Competition and Markets Authority (CMA).
- The UK government will commence work developing regulations for pig contracts, using the regulation making power in section 29 of the Agriculture Act 2020 (this covers fair dealing obligations of business purchasers of agricultural products).
- These regulations will ensure written agreements are used between all producers and their buyers. We will work closely with industry to explore what other provisions, if any, should be mandated as part of these agreements.
- We will continue to engage with stakeholders to ensure that legislation works for all parts of the UK and incorporate special provision for differing circumstances, if necessary. Where there is no minister in place, as in Northern Ireland at present, we will continue to work closely with government officials.
- We will also develop regulations to collect and disseminate more supply chain data, particularly in relation to wholesale price transparency and national slaughter numbers. We will use the powers in sections 23 to 28 of the Agriculture Act to create such provisions in England. We will work with the devolved administrations on this issue, as this is a devolved matter.

This hugely welcome review must lead to tangible outcomes that better protect the primary producers by distributing risk throughout the supply chain more proportionately. Engagement with industry up to this point has been excellent and we would urge Defra to continue that at every stage of the process. We are also conscious that the timescales involved mean that it may not be possible to complete the process before a General Election and therefore we urge all parties to commit to continuing this work through to its conclusion.

6. What is the relationship between food production costs, food prices and retail prices? How have recent movements in commodity prices and food-price inflation been reflected in retail prices?

The biggest short-term driver of inflation in the sector has come from feed costs. Historically, they have made up 60-65% of the farmgate cost of producing a kilogram of pork meat. During 2022, feed costs

rose to 71-74% of the full economic cost of production. Energy costs are another major factor, particularly for the indoor sector, although the Government measures to cap prices for businesses were welcome.

The unprecedented inflationary pressures on farm and reduced supply of British pork, following two years of losses, have led to price increases. The Standard Pig Price (SPP) has risen around 40% in a year and retail prices are up around 20%. The way pricing is calculated in pig producers' contracts varies hugely across the industry. Many contracts rely heavily on price reporting mechanisms, which in itself is a problem, and far fewer are weighted to cost of production. This means that the risk and increased costs have been disproportionately borne by primary producers as prices on the supermarket shelf rose slower than the costs of production on farm.

7. What are the consequences of current relationships in the supply chain for:

- a) risk-sharing**
- b) prices paid and profit margins of farmers, food manufacturers and other suppliers**
- c) prices for consumers**
- d) quality**
- e) healthy food for consumers**
- f) animal welfare and the environment**
- g) competition between retailers?**

The ultimate consequence of the current supply chain is uncertainty for the primary producer. This in turn deters future investment and potential expansion of the domestic pork sector and means we remain heavily reliant on imports, which may be produced to lower standards than consumers would expect. It also puts us in a vulnerable position should we face other unexpected challenges, such as a notifiable disease outbreak or loss of a key export market. Both of these are very real risks and have occurred in recent years; therefore mitigation of volatility puts producers in a stronger position should issues arise. Retailers also need to face the reality that continued advances in improved welfare and lower environmental impact will come at a cost to producers and that prices will need to reflect that.

8. Does the structure of the UK food supply chain support overall domestic food security (both self-sufficiency and the availability of imported foods)?

There is an opportunity for the UK to become more self-sufficient in pig meat again if demand can be sustainably increased and the right market conditions return to make the industry more viable. New growth could come through more public procurement and increased food service sales of British produce. Currently nearly all pork consumed through those avenues is imported but changes to the way in which they operate, such as domestically focused procurement rules and country of origin labelling in hospitality settings, could encourage the sector to expand. Retailers also have an important role to play in supporting UK produce and there are examples such as Co-op, Lidl, Marks & Spencer and Waitrose where they are committed to domestic supply and only sell fresh British pork.

9. How successfully are supermarkets promoting affordable and healthy eating in the current high food inflation environment and what steps could they take to increase the take-up and affordability of healthy options? How are promotions, such as multi-buy offers, supporting healthy eating including for those on low incomes, and also affecting levels of food waste?

We urge the Committee to consult with the AHDB on their Consumer Insights work.

10. What challenges do low-income households face, in both urban and rural areas, in terms of accessing affordable and healthy food from a choice of retailers?

We urge the Committee to consult with the AHDB on their Consumer Insights work.

11. What measures could be taken by central and local government, and others, to enhance cooking skills to reduce reliance on processed food and improve access to self-grown food, in particular for lower income households? What challenges do such ambitions face given the pressures of modern living?

It is essential for consumers, especially in the current financial climate, to retain access to healthy, nutritious food. The British pig sector operates a variety of different high welfare production systems offering numerous options from Red Tractor assured to organic, delivering price points dependent on shoppers financial constraints or lifestyle/ethical purchasing decisions. We must be cognisant that welfare standards in this country are some of the highest globally, and rapidly and disproportionately increasing farm standards will increase the cost to the consumer, with many being unable to afford to purchase essential pork-based products. Currently, we understand that consumers are moving from beef or lamb into pork, and within the category they are trading down into cheaper cuts and pork products (e.g. mince) although we acknowledge the pattern differs a little by retailer, as such we urge the Committee to discuss this with AHDB and retailers.

AHDB is responsible for a number of marketing campaigns, such as [We Eat Balanced](#), [Mix Up Midweek](#) and [Love BBQ](#), which aim to promote healthy and affordable eating.

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