

PIG SECTOR TASK FORCE REPORT

Introduction

1. On 16 April 2008, the Cabinet Secretary for Rural Affairs and the Environment announced his intention to establish a task force to consider actions to assist the pig sector and to determine which actions may be suitable for implementation provided resources are available and State Aids allow.

2. The Task Force had four meetings, under the chairmanship of Gordon McKen. Other members were Robin Traquair, Philip Sleigh, Sandy Howie, Stuart Ashworth, Andrew Peddie and Brian McMonagle. In addition, Scottish Government officials were in attendance.

Background

The pig sector

3. As Table 1 shows, the number of breeding pigs in Scotland has fluctuated over the years but is currently lower than it has been for at least 25 years.

Table 1 - Number of breeding pigs in Scotland

Year	Total number of breeding pigs (‘000)
1982	50
1987	45
1992	53
1997	70
2002	56
2007	40

4. In 2000, the UK pig industry faced major problems attributed to weaknesses in the management of the supply chain. The UK secured EC State Aids clearance for a Pig Industry Restructuring Scheme. Its objective was to reduce capacity in the pig producing sector in the UK and to bring about a restructuring of the industry in order to secure its long-term future as a viable and dynamic farming enterprise. At that time it was agreed that no other request for restructuring the UK pig sector would be made for at least the next ten years.

5. Scottish pig production is concentrated in the northeast, which accounts for nearly 70% of breeding pigs. Most of the production comes from a relatively small number of major producers:

- According to the June 2007 Agricultural Census, there were 440 holdings with breeding pigs, of which 254 had fewer than five pigs; and there were 651 holdings with fattening pigs, of which 352 had fewer than 10 pigs. Some holdings have breeding pigs and fattening pigs - and, overall, there were 945 holdings with pigs.
- In total, there were 40,175 breeding pigs at the time of the June 2007 Census.

- All major producers are members of the QMS or the Genesis QA schemes.
- The QMS Quality Assurance data set has records for 191 units with pigs; this covers around 93% of breeding pigs and around 98% of finished pigs slaughtered in Scotland. Of these 191 units, 21 have breeding pigs only, 88 have finishing pigs only and 82 have both breeding and finishing pigs. This includes a number of organic producers.
- The 103 businesses with breeding pigs account for 38,771 breeding pigs. The biggest 65 businesses (with 250 or more breeding pigs) account for nearly 90% of these pigs.
- In addition, two businesses, with about 3,500 sows, operate under the Genesis QA scheme.

6. The sector has a strong tradition of co-operation. Scottish Pig Producers is the largest marketing group with 122 producer members and market just under 400,000 pigs per year. In addition, Scotlean has 93 producer members (of which 22 are in Scotland) and markets around 160,000 pigs from Scotland annually. Wholesome Pigs (Scotland) Ltd is a producer-owned company whose aim is to promote higher health and welfare standards on farms. Key strengths of the Scottish pig industry include:

- strong co-operative producer base;
- effective communications and efficient service to processors;
- integrated supply chain;
- quality product;
- traceability;
- health initiatives - leading to improve welfare and improved productivity.

7. Table 2 shows recent trends in output and (for comparison) output in the peak year of 1998.

	1998	2003	2004	2005	2006	2007
Finished pigs sold ('000)	1326	827	787	757	714	711
Weight of meat (t)	90800	59500	62300	60700	57100	56400
Average price (p/kg dwt)	78	99	97	99	99	98
Value of output (£ m)	70.9	58.8	60.7	59.9	56.5	55.1

8. Grampian Country Foods (Hall's of Broxburn) undertook nearly 85% of the Scottish kill in 2007; they have about 1,300 staff (1,600 during the peak season). The second largest slaughterer is Robertson's at Ardrossan with around 6% of the kill, Scotch Premier at Inverurie has about 4% of the kill. Grampian Country Foods have expressed concern that continued reductions in the numbers of finished pigs will threaten the viability of their facility at Broxburn. Grampian Country Foods has recently been acquired by Vion (which is owned by Dutch farmers).

9. Direct employment in the pig farming, slaughter and processing sector in Scotland is estimated to be around 2,500 - 3,000 people, of whom about 500 are employed on farms. There is also indirect employment in the feed industry, veterinary services (28 practices), haulage (of feed and livestock – over 200 full-time posts), specialist farm building contractors, and cold stores. The industry also has important links with other parts of Scottish agriculture - for example, pig producers use 220,000 tonnes/year of cereals and arable farmers would suffer increased transport costs if they had to sell this produce outwith Scotland. In addition, the year-round nature of pig production underpins the livestock haulage and fallen stock removal businesses in central and north east Scotland. Without a pig industry, there would therefore be an adverse impact on other sectors.

10. The weekly kill in Scotland is about 11% of the UK total. Overall, the UK is around 62% self-sufficient in pigmeat. Most of the imports are in the form of processed products, bacon, or pigmeat for bacon. There is also a small trade in exported fresh pigmeat. While UK consumption of bacon and ham has remained relatively constant over the past 10 years (at 400,000 - 500,000 tonnes per year), consumption of fresh and other processed pigmeat has risen steadily since 2001, from just over 700,000 tonnes to 900,000 tonnes. Looking ahead, the pigmeat industry may benefit if concerns over global warming and the contribution of ruminants to greenhouse gas emissions lead consumers to purchase pigmeat because it has a lower “carbon footprint”.

11. Supermarkets account for 57% of sales of fresh pork and 70% of sales of bacon, with butchers accounting for 9% and 7% respectively. The food service sector accounts for 26% of sales of fresh pork and 14% of bacon. The balance consists of other retail outlets.

Problems facing the pig sector

Feed prices

12. Gross margins are very sensitive to increased feed prices and the current problems facing the pig sector in Scotland stem in large part from high feed costs. Feed prices, which account for about 80% of variable costs and 50% of total costs of production, have roughly doubled over the last year. For example, the price of ex-farm barley was between about £65/tonne and £80/tonne from 2005 until mid-2007, but peaked at over £160/ tonne in autumn 2007 and is currently £142/tonne. The upward trend for ex-farm wheat is even more pronounced, with prices approaching £200/tonne before dropping back now to £152/tonne. From February 2008, soya bean has doubled in price. This results from increases in world cereal prices caused by shortage of supply (attributable to poor harvests and use of land for biofuels); increased demand (partly attributable to increased meat consumption in Asia); the EU-wide restrictions on the import of GM feed. The major issue for Scottish pig farmers is that increases in their costs have not been sufficiently passed on through increases in prices. The GB deadweight average price of pigmeat rose from about 105p/kg to 110p/kg during the first half of 2007; it remained at just under 110p/kg until January 2008; and it has since risen steadily to reach 127p/kg in early June 2008.

13. Table 3 shows trends in pig profitability, based on BPEX data adjusted to reflect agricultural input price movements since October 2006. Feed price movement has been based on Agrisoft pig industry enterprise records for home mixed rations and purchased feeds.

A business relying purely on home mixed rations would have seen margins change as below:

	Oct 2006	April 2007	Sept 2007	March 2008
Gross margin/pig (£)	27.53	21.49	12.85	3.77
Net margin/pig (£)	8.30	1.15	-8.77	-21.04

A business relying purely on purchased rations would have seen margins change as below:

	Oct 2006	April 2007	Sept 2007	March 2008
Gross margin/pig (£)	27.53	23.34	18.48	13.23
Net margin/pig (£)	8.30	2.99	-3.14	-11.57

Thus, over the 18 months (October 2006 to March 2008), pig producers' net margins fell by between £20 and £29/pig depending upon the balance between purchased and home mixed rations.

14. Historically, Scottish producers have milled and mixed the majority of the feed required for their pigs. Pig production has often been part of mixed enterprises and home mixed rations have ensured efficiency. In the autumn of 2007, producers were caught out by the speed and extent of feed price rises. They would already have bought soya etc. to add to their home mixed ration. The compound feed market (for purchased rations) is typically a forward contracted market and prices reported by Agrisoft reflect this. A new customer would therefore find himself having to buy under current market conditions and would find prices much higher than someone who had entered a six month supply contract in July 2008.

15. The EU pig industry has never been eligible for direct support from the Common Agricultural Policy (CAP). The only support available has been through intervention in the market and aid for private storage. Since the beginning of the current crisis in the pigmeat industry, the European Commission has used private storage aids and export refunds to try to help the sector. These measures have helped to support the price of pigmeat within the EU.

Foot and mouth disease

16. In addition to facing the European/global problem of high feed costs, the pig sector in the UK has also suffered from the effect of export and movement restrictions during the autumn 2007 outbreaks of foot and mouth disease (FMD). (Annex A provides details of the closure of collection centres as a result of FMD.) A particular difficulty for Scottish pig farmers was that there are no facilities for processing cull sows in Scotland, and the facilities for killing cull sows in England were affected by FMD movement restrictions. One facility was also affected by Bluetongue movement restrictions. This, together with the closure of export markets (which are particularly important for cull sows), caused the price for cull sows to fall. According to BPEX figures, cull sow prices were between 65 and 72p/kg deadweight at the start of 2007. Prices were around 67p/kg deadweight before FMD began in August. During the FMD crisis, markets for cull sows were closed during much of August 2007 and

from mid-September until end November. After markets re-opened, prices were initially 42p/kg deadweight and transport costs increased by about £16-17 per sow. Cull sow prices have now recovered to about 98p/kg deadweight.

Regulation

17. European consumers have demanded improvements in farm animal welfare, and this demand has been reflected in regulation. Stalls and tethers are used to accommodate sows in between farrowings. The UK government chose to implement a stalls and tethers ban earlier than was required under EU law. While the EU-wide ban does not come into force until 2013, stalls and tethers were banned in the UK from 1999. The industry considers that product labelling does not properly distinguish pigmeat produced under the higher UK welfare standards, from imported pigmeat; there are also concerns over misleading labelling of imported pigmeat that is subsequently processed in the UK.

18. Pig farmers in Nitrate Vulnerable Zones (NVZs) are affected by the closed periods for slurry and manure applications. Manure management can be a challenge for pig farmers if they do not have much additional arable land, although many farmers will come to an agreement with neighbours who can benefit from the use of their manure as a fertiliser. The industry is concerned about the expected costs of complying with the Nitrates Action Programme in NVZs. In addition, Pollution Prevention and Control Regulations also apply to pig farms with more than 750 sows and/or 2,000 finishing places over 30kg liveweight.

New measures proposed by Task Force

Financial support

19. Task Force members would like the Scottish Government to pay up to €7500 to all quality assured pig producers (the “*de minimis*” scheme) and to introduce a “cull sow” scheme to compensate for loss of the cull sow market during FMD.

De minimis scheme

20. The justification being put forward by the industry for the *de minimis* scheme is that producers have been subject to rapidly increasing costs of feed and other inputs, and that producer price increases have not sufficiently reflected these increased costs. As a result, they have been losing about £6-7 per finished pig, and these losses are also reflected in prices paid to breeders. Between September 2007 and May 2008, 10%-15% of the Scottish breeding herd has gone out of business, or is in the process of being culled. If this trend continues, it will not only place future supply of Scottish pigmeat to Scottish consumers under threat, but it will also have serious consequences for both the rural economy and employment in the food processing sector.

21. A *de minimis* scheme would be seen by the industry as a positive signal and vote of confidence by the Scottish Government in the pig sector. This would help stem the exodus, which is important at a time when there is a need to retain the critical mass required for processing and haulage; as noted above, other sectors in Scottish agriculture would also suffer from a collapse in the pig sector. The French Government has also made use of EC State Aids *de minimis* provisions to offer up to €7500 to its pig producers in loan support and tax breaks.

22. The Task Force proposes that breeders and breeder-finishers are paid £60 per sow held on 1 September 2007 (up to a maximum of 100 sows, though producers may have significantly more sows); and that finishers are paid £3.00 per finished pig marketed between 1 September 2007 and 30 November 2007 (up to a maximum of 2000 finished pigs). Payments would be up to a maximum of €7500 per business (undertaking). Any businesses that have already received EC State Aids payments in the last three years would receive reduced payments, such that the total *de minimis* payment did not exceed €7500. Sow numbers would be calculated on the basis of numbers of sows recorded on Farm Assured units (audited to EN 45011 Standard) as at 1 September 2007. Finished pig numbers would be calculated from the same sources on the basis of the number of finished pigs sold from 1 September 2007 until 30 November 2007. However, to avoid State Aids problems, under Article 1 (a) of EC Regulation 1535/2007, the finished pig numbers might need to be based on numbers held on (eg) 1 September, not numbers sold. In addition, under this Regulation, payments could not be made to businesses in difficulty. About 117 businesses would be eligible and the **maximum cost to the Scottish Government would be up to €877,500 (£694,000)**. These payments could be administered by QMS on behalf of the Scottish Government.

Cull sow scheme

23. The Task Force would also like the Scottish Government to make a State Aids application to the EC for a scheme that would compensate breeders for losses associated with the loss of the cull sow market during FMD. As a consequence of the export and movement restrictions referred to above, 4,470 cull sows were held on farm during August, September and October 2007; with an additional 45 days feed per sow at 2.8 kg per sow and £215/tonne, this cost £121,092. In addition, a further 2,980 sows suffered from low prices in November and December 2007: the loss of £56 per sow (£40 on price, based on price fall from early August to December on average 160kg carcass; and £16 on additional transport) for 7,450 sows was £417,200. Thus the total loss is put at £538,292.

24. The total sow herd at 1 September was 44,702. Accordingly, the Task Force proposes that the Scottish Government pays £12.04 per sow (also calculated on the basis of numbers of sows recorded on Farm Assured units as at 1 September 2007). Assuming that EC State Aids clearance is obtained, **this would cost £538,300**. Again, these payments could be administered by QMS on behalf of the Scottish Government.

Health improvement programme

25. Looking ahead to sustaining the long-term resilience of the industry, the Task Force would also like a health improvement programme, with a package of measures including a research trial on vaccination against Porcine Circovirus 2 (PCV2), eradication of sarcoptic mange, and improved collection of information. This could be funded, at least in part, with some of the £1 million earmarked for helping to build industry resilience after FMD.

PCV2 vaccination

26. PCV2 is thought to be a necessary infectious agent in Post-weaning multi-systemic wasting syndrome (PMWS), which is a multifactorial disease. PMWS is not notifiable and is usually considered to be a “production disease” with no known public health risks. There can

be significant losses with PMWS with mortality rates between 5-50% of pigs, commonly at 4-12 weeks of age. However, the direct costs associated with PMWS are probably less now than when the domestic pig population was immunologically more naïve. The disease was first recognised in the UK in the early 90s and spread to Scotland in 2001. The role of PCV2 in PMWS is not straightforward. PMWS is only seen in a fraction of herds infected with PCV2, and although researchers have shown that inoculating colostrum deprived, caesarean derived piglets with PCV2 can cause clinical signs of PMWS, the precise role played by PCV2 in triggering PMWS is not clear. There are suggestions that co-infection with other pathogens and some degree of immune stress is needed, in the presence of PCV2 to cause PMWS. It is known that PCV2 is present on clinically normal farms, as well as those with PCV2 associated disease, but there have been no successful disease prevention and control programmes for PCV2 infection to date. (as part of their research, the Royal Veterinary College (RVC) are investigating this genetic/immune angle).

27. While there has been no previous justification for government intervention on either animal or public health grounds, the uncertainties noted in the previous paragraph have been used to support a case for further research. BPEX (the English levy funded pig body) are paying for vaccine (up to a limit of £1.5 million) for producers in England, as a way of encouraging participation in a research project at the RVC looking into PMWS. The project is looking at the causes of PMWS and the way in which disease develops. Further details are available on <http://www.bpex.org.uk/PracticalAdvice/ProducerKt/Pcv2.aspx>. The BPEX vaccine promotion work is facilitating the collection of data from vaccinated and unvaccinated pigs for comparison. The RVC project is expected to run for a further 2.5 years from now with a possible extension subject to good progress for another 2 years; the focus in the later years may move away from field studies towards an examination of the genetic/virological/immunological reasons for differences in responses to disease and to vaccination.

28. The Task Force would like this research programme to be extended to Scotland, by including Scotland in the RVC study. The project should benefit from Scottish samples because of the potential differences in epidemiology and vaccine response as a result of the different locations, management systems, host genetics and PCV2 types. This would require agreement with the RVC and QMS. Wholesome Pigs (Scotland) Ltd, which has a direct link to the Veterinary Practices serving all QMS Farm Assured Pig Units, could help in the administration of the scheme (at a fee of £5,000 per year, or possibly £15,000 over three years). Other costs would include payment to the RVC and the cost of free vaccine. Assuming an uptake (over three years) for 40,000 sows and 700,000 piglets, **it is estimated that a 50% contribution to vaccine could cost up to £0.57 million.** However, a number of herds already benefit from PCV2 vaccination. Further discussions are needed with the RVC about the expected coverage and length of the research trial.

Sarcoptic mange

29. Seventeen Scottish herds (with 2,600 sows) are thought to be affected by sarcoptic mange. It is a parasitic infection caused by mites. Mange reduces growth rates and feed conversion efficiency, and can also develop into a welfare problem in extreme cases. Eradication is a realistic proposition through a one-off application of in-feed medication and/or vaccination. Significant investment is also required from producers during the period in which they have to withhold pigs from the market to ensure effective coverage. Wholesome Pigs (Scotland) Ltd has identified the affected farms and could monitor the

effectiveness of the eradication programme, with QMS co-ordinating the activities of herd veterinarians and providing guidance on eradication. The cost of medication/vaccination is put at £82,000; in addition there are costs associated with withholding pigs from the market post-treatment. **A proposed 50% contribution from Government would total £41,000.**

30. Benefits of eradication include:-

- improved animal welfare due to less tail biting and ear biting caused by discomfort of the mange mite;
- avoid impairing growth rate by up to 10%;
- avoid skin condemnation at the abattoir with a loss of 6kg deadweight per carcass (costing £7.30 per carcass) and a devaluation on the remainder of the carcass - 15p/kg (costing £19.80 per carcass). The severity of infection will determine how many carcasses are affected by skin condemnation; this can be up to 20%. However, all pigs in the herd experience loss of growth. Eradication will eliminate this problem;
- a co-ordinated programme of elimination assisted by the marketing groups will ensure success;
- close screening of replacement stock will avoid re-infestation.

Collection of information

31. The third element of the proposed health improvement programme is collection of information in a format that allows benchmarking between farms. This principle would be extended to take in production performance data in order to allow the effect of the health improvement programme to be assessed. There are a number of commercial systems in operation, commonly using producers to enter data on the breeding herd and using abattoir information to provide data on finishing herd performance. Uptake is limited at present and often where data is collected, it is not fully collated and analysed. **Putting in place a single on-farm recording system would cost around £90,000 over three years for all farms; there could be additional costs in training and data analysis.** The SRDP Skills Development Programme may provide a vehicle for QMS to put together the funding package required for the on-farm recording and analysis system proposed by the industry for collection of information, provided that it was in the context of benchmarking group events involving at least 10 farmers.

Pigmeat labelling

32. The Task Force is concerned that current industry practice does not adequately provide consumers with information about sources of pigmeat and associated welfare standards. Accordingly, it would like the Scottish Government to commission research that would:

- improve understanding of industry (ie processor, retailer and catering sector) practice in relation to labelling of pigmeat products, especially with regard to

country of origin given that UK welfare standards are higher than EU welfare standards;

- review currently available analytical tools to establish provenance of pigmeat (eg DNA tests);
- investigate consumer awareness of and interest in the differences in welfare standards;
- consider the need for changes in labelling.

33. The researcher would be expected to plan initial talks about the problem with representatives of the processing sector, retailers' representatives and Trading Standards officials. The Task Force would also like to be represented on the Steering Group for the project. The work could be complete and results available by September 2008. Some of the research may be relevant to other red meat sectors.

Dialogue with retailers etc

34. The Task Force recognises the importance of continued active dialogue between producers, processors, retailers and the food service sector. This dialogue was initiated by the Cabinet Secretary for Rural Affairs and the Environment at a meeting on pig industry sustainability in the Scottish Parliament on 15 May. One immediate issue that arose was the need to ensure effective communication to ensure that full use is made of the entire carcass.

Action already underway

35. In addition to these proposals for new and additional measures, the Task Force recognises that the Scottish Government is already taking action aimed at helping the sector, including:

- a strategic review of the pig sector - this is being carried out by SAOS. The review involves an analysis of the sector with a view to making recommendations on marketing opportunities, requirements for investment in infrastructure and the future outlook for the sector. The final report is due in July 2008. The cost of the project is £30,000;
- a project aimed at improved marketing of the "fifth quarter"- through QMS. The purpose is to identify and access market opportunities for "fifth quarter" products whilst minimising waste and inefficiency in abattoirs. The project will include activity to maximise the eating quality of pork. The cost of the project is £300,000 over all species (beef, lamb and pork). It will be completed by March 2010;
- a range of measures in the Scotland Rural Development Programme - including skills development, setting up of young farmers, business audit, nutrient management plans, restructuring of agricultural businesses, modernisation through electronic data management, manure/slurry storage and treatment, support for renewable energy, processing and marketing grants, increased co-operation, treatment of run-off of nutrients and other pollutants;

- research projects, including livestock welfare; animal-based on-farm measures of health and welfare; prenatal stress; genetic improvement of piglet survival; improving pig neonatal survival through changes in sow diet before mating; correlations between behaviour, physiology and piglet survival; and selection for reduced aggression. The value of recent and current research projects relevant to pigs that have received Scottish Government support is over £2 million. The Task Force suggested that there should be greater transparency in the way this research is commissioned, and more effort made to communicate benefits to the industry.

Summary of potential new measures and costs

<i>De minimis</i> scheme	£694,000
Cull cow scheme	£538,300
PCV2 vaccination	£570,000
Sarcoptic mange	£41,000
On-farm recording system	£90,000
Pigmeat labelling	subject to tender
Total	£1,933,300 (+labelling project)

PIG TASK FORCE
18 June 2008

FOOT AND MOUTH DISEASE – CLOSURE OF COLLECTION CENTRES FOR CULL SOWS

Date (week commencing)	Dawkins Forfar	Cheale Meats Thainstone	Cheale Meats Elgin
5 th August 2007	Closed	Closed	Closed
12 th August	Closed	Closed	Closed
19 th August	Closed	Closed	Closed
26 th August	Closed	Open Wed 29 th Aug	Open Wed 29 th Aug
2 nd September	Open	Open	Open
9 th September	Open	Open	Open
16 th September	Closed	Closed	Closed
23 rd September	Closed	Closed	Closed
30 th September	Closed	Closed	Closed
7 th October	Closed	Closed	Closed
14 th October	Closed	Closed	Closed
21 st October	Closed	Closed	Closed
28 th October	Closed	Closed	Closed
4 th November	Closed	Closed	Closed
11 th November	Closed	Closed	Closed
18 th November	Closed	Open Wed 21 st Nov	Closed
25 th November	Open Mon 26 th Nov	Open	Closed
2 nd December	Open	Open	Open Mon 3 rd Dec 2007
9 th December	Fully Open	Fully Open	Fully Open