

Proposal for establishment of Pig Stability Fund

Submission to Minister of Agriculture, Food and the Marine,
Charlie McConalogue TD

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Jointly prepared by: The Irish Farmers' Association (IFA), Meat Industry
Ireland (MII) and Irish Grain and Feed Association (IGFA)



IFA



IGFA
THE IRISH GRAIN & FEED ASSOCIATION



Pig Stability Fund

The Irish pig sector is currently engulfed in possibly the worst crisis in its history. Teagasc estimate that pig farmers are losing on average c. €56,000/month and rising. Teagasc again estimate that 5% of pig farmers have already been forced into a decision to exit, with a further 20 – 30% at serious risk of failure due to the unprecedented and rapid escalation of feed costs since the Russian invasion of Ukraine. Producers have already incurred exceptional losses and it is expected that in total, these losses will exceed €160m from late 2021 to early 2023. In order to avoid the demise of the sector, the Irish Farmers' Association (IFA), Meat Industry Ireland (MII), and the Irish Grain and Feed Association (IGFA) are jointly proposing the immediate establishment of a Pig Stability Fund. While we acknowledge this fund will require sizeable state support, the importance and economic value of the sector merits this intervention as, without it, the sector's long-term future and its contribution to the economy is in real jeopardy.

Introduction

The Irish pig industry is one of the most significant sectors of Ireland's agricultural economy ranking third in size after the dairy and beef sectors. The sector supports over 8,000 jobs domestically generating c. €1.7 billion of output when the primary and value-added sectors are accounted for (Bord Bia).

Based on the most recent National Pig Census there are c. 1.7m pigs in Ireland, predominantly on fully integrated pig units. The Irish pig sector has undergone significant consolidation in recent years with Bord Bia estimating there are c. 270 farmers currently participating in their Quality Assurance Scheme.

The Irish pig sector, unlike the other large livestock sectors, is based on a constant year-round production model. The sector is a major consumer of Irish produced compound feed and is a very significant contributor to the rural Irish economy, in particular the 4 largest pig producing counties of Cavan, Cork, Tipperary and Waterford. The pig sector is also one of the few sectors within Irish agriculture which does not receive any direct funding via the Common Agricultural Policy (CAP).

Table 1: Irish Pigmeat Industry output 2021

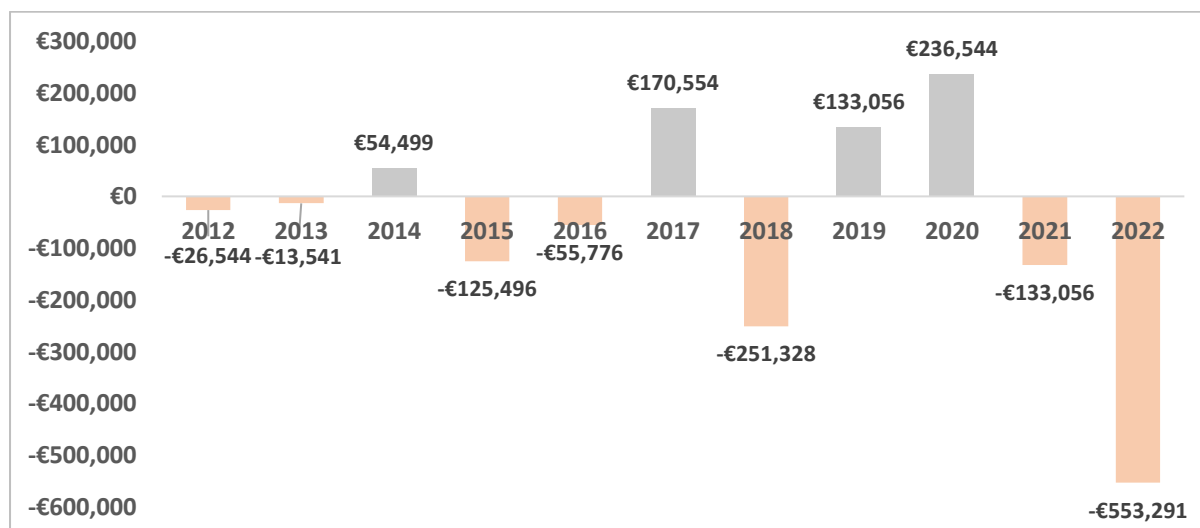
Irish Pigmeat Industry 2021 Breakdown	Value
Exports	
Primary Pigmeat Exports	€542m
Value added pigmeat exports	€402m
Total Exports	€944m
Home Market	
Retail- Pork	€152m
Retail- Bacon inc rashers	€241m
Retail- Sausages	€113m
Retail- Sliced Cooked Ham	€172m
Foodservice- Pigmeat Products	€170m
Total Home Market	€848m
Total Exports and Home Market	€1,792m

Source: Bord Bia

Sector Volatility

Volatility is a constant challenge for pig farmers across the world. The hog cycle, first coined by US Economists in the 1920's, outlined the challenges volatility presented to pig farmers in particular. Due to the shorter production cycle when compared to beef, price volatility, while evident in all sectors, tends to be more pronounced in pig farming. The following table illustrates this volatility in an Irish context.

Figure 1: Estimated profit/loss of 600-sow pig unit in 2012-2021 period



Source: Teagasc

This analysis, prepared by Teagasc, outlines the estimated profit and loss of a 600 sow Irish pig unit over the last 11 years, 2012-2022. This shows that this pig unit operated at break-even from 2012 to 2021, generating little or no surplus. This analysis also shows how exceptional the current crisis is with projected losses more than double the year when heaviest losses were incurred in 2018.

This current destabilisation of the sector has a significant negative impact on the long-term sustainability of the sector. The sector has already incurred significant losses which have now been compounded by unprecedented cost inflation. The sector is in immediate need of stabilisation and cashflow injection.

Current pig crisis

As the earlier graph outlines, the current crisis engulfing the sector is at a magnitude never experienced in the sector. Teagasc estimate the industry will incur losses of c. €160m at farmer level over the 18-month period from September 2021 to March 2023 (see Appendix 1). Teagasc again estimate that an average 600-sow pig unit will incur losses of €663k during this period. This is completely unsustainable and, without significant state intervention, the sector faces possible collapse.

Table 2: Estimated Industry losses (September 2021 – March 2023)

Quarter	Sept-Dec 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Total
Losses (€m)	23	39.6	47.2	34	13	3.5	160.3

Source: Teagasc

The reasons for the current crisis are a combination of factors, all of which have been outside of the control of pig farmers. These include:

- Brexit has had a significant negative impact on pig prices. Since the start of 2021, both the volume and value of pig output exported to the United Kingdom has fallen by c. 50%. This output was sold onto other markets which were of lower value and had higher transport costs to access them.
- The Covid-19 outbreak caused substantial market disruption leading to downward price pressure. Processing capacity, in particular in Northern Ireland, was curtailed leading to a backlog of pigs on Irish pig units, which continues to be the case today.
- The African Swine Fever (ASF) also had a negative impact on the pig market. While thankfully, Ireland has avoided directly contracting ASF, the outbreak within mainland Europe has led to a collapse in European prices and has had a direct impact on Irish prices.

The aforementioned issues resulted in a significant reduction in farmgate pig prices. In addition, the massive increase in feed prices have aggravated the issue. Feed prices have been increasing relentlessly since mid-2021. However, the recent geopolitical events in Ukraine have substantially exacerbated this issue. The pig sector is one of the most exposed to feed price increase as it constitutes c. 66% of the cost base of an Irish pig farm.

From harvest 2020 cereal prices have more than doubled. Wheat price has risen from €185/tonne to the current price of €430/tonne, an increase of 132%. Similarly, maize has risen from €175/tonne to the current €390/tonne, an increase of 122%. Initial rises were based on lower world closing stocks and increases in freight prices, but more recently the war in Ukraine has cause significant additional price hikes.

Table 3: 2022 price increase in key feed commodities

Crop Futures Prices	Increase Jan 1st to Feb 25 th	Increase since Feb 25 th
Corn	15%	27%
Soybean	5%	23%
Wheat	41%	56%
Soy oil	6%	29%
Soy meal	4%	15%
Milling Wheat	20%	18 %

Source: CME Futures

Disruption to the global trade in feed materials has immediate and dramatic impacts on the Irish feed sector and in turn, on Irish pig farmers. Already this year the sector has experienced feed material market disturbances due to weather-induced supply issues in major exporting regions, combined with

logistic and freight problems as a result of the Covid pandemic. These factors have also impacted both the availability and price of vitamins, amino acids, vital trace elements as well as fats and oils. The outbreak of war in Ukraine in February 2022 has exacerbated the disruption and has a dramatic impact on logistics and the availability of feed materials.

The Irish pig sector is not unique in its current challenges with similar market conditions evident across other Member States within the European Union. As a result, other Member States have already intervened to support their pig sectors including The Netherlands, France, Slovenia, Belgium and Poland.

To date, state intervention within Ireland has amounted to a €7m support package for the sector. While welcome, this is in no way sufficient to address the €160m losses that the sector has identified.

Pig Stability Fund

In order to address both the current crisis and the long-term volatility challenge within the sector, IFA, MII and IGFA jointly propose the establishment of an initial €100m Pig Stability Fund in order to save the Irish pig sector from irreparable harm.

Fund outline

The following is an outline of the key aspects of this proposal:

- Establish, without delay, a state-administered fund to provide an immediate cash injection to pig farmers to avoid the demise of the sector at primary and processing level
- This fund will be jointly funded by a state contribution along with a long-term fund sourced by way of a new statutory levy
- Introduce a statutory levy of 90 cent/pig (equivalent of c. 1 cent/kg) on all pigs slaughtered in the Republic of Ireland or exported to Northern Ireland. Based on the 2021 output, this would generate a revenue stream of c. €3.6m/annum (based on output of c. 4m pigs/annum)
- Based on a 14-year payback period, this constitutes a direct farmer contribution of c. €50m
- Commitment from the State to initially fund the farmer contribution of €50m along with an additional upfront funding from the State of €50m. The former will be repaid by the revenue from the newly-established statutory levy.
- Levy to be compulsory on all farmers producing finished pigs within the sector.

Proposed fund payment model

The pig stability fund will only be deployed during periods where the industry is experiencing significant losses. These losses will be calculated based upon independent Teagasc analysis. The following is an outline of the proposed administration of this scheme:

- Payment made via monthly direct transfer to farmers based on number of pigs sold in previous month. Payment based on estimated Teagasc losses per pig for reference month
- Proposed commencement in April 2022 with initial payment to cover losses incurred in January-March '22 period. May 2022 payment will cover losses for April.

- It is important to note that farmers have already funded substantial losses in the September to December period of 2021 from their own resources and represent a significant financial commitment by pig farmers
- It is proposed that the scheme initially funds losses for the January to July period and a commitment given to fund further losses if deemed necessary

Benefits of proposed fund structure

There are a number of benefits to the proposed fund and its associated structure. These benefits include the following:

- The proposed fund facilitates the creation of a volatility management mechanism for the sector to help make it more economically sustainable in the medium-term
- The design of the fund ensures that if and when the pig sector returns to profitability payments from the fund cease
- A significant level of direct farmer funding is proposed to part-finance the fund

Conclusion

The Irish pig sector is one of the most important sectors in the Irish agricultural economy supporting c. 8,000 jobs and making a substantial contribution to the rural Irish economy. The current challenge facing the Irish pig sector is unprecedented in scale with Teagasc estimating that c. 30% of Irish pig farmers at risk of closure. Closures of anywhere close to this level will have major implications for the sector, both at primary and processing level. In addition, destocking at this scale could prove very difficult to manage from a logistical perspective because it cannot be implemented in a rapid manner. The proposed stability fund sets out to address both the short-term and long-term challenges the sector faces. The fund will be part-financed by a substantial contribution from pig farmers and offers a volatility management mechanism to support the long-term sustainability of the sector. Most importantly, this intervention is needed to secure the survival of the sector; without it Irish pig farmers face a very uncertain future.

Appendix 1

Teagasc Cashflow Forecast for 600 sow unit purchasing compound feed: Sept 2021- Mar 2023

Date: 09-03-2022

Feed	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Ave	
Composite Price	346	348	353	363	382	393	393	463	488	488	488	488	468	448	448	448	448	448	448	448	€429
Feed Tons / Mth	425	425	425	425	425	425	425	425	425	425	425	425	425	425	425	425	425	425	425	425	
Total Feed Cost	€147,050	€147,900	€150,025	€154,275	€162,350	€167,025	€167,025	€196,775	€207,400	€207,400	€207,400	€207,400	€198,900	€190,400	€190,400	€190,400	€190,400	€190,400	€190,400	€190,400	
Feed Cost €/kg	119	120	122	125	€1.32	€1.36	€1.36	€1.60	€1.68	€1.68	€1.68	€1.68	€1.61	€1.55	€1.55	€1.55	€1.55	€1.55	€1.55	€1.55	26.82
Non feed Cost	€57,904	€57,904	€57,904	€57,904	€64,064	€64,064	€64,064	€64,064	€64,064	€64,064	€64,064	€64,064	€64,064	€64,064	€64,064	€64,064	€64,064	€64,064	€64,064	€64,064	
Total Cost	€204,954	€205,804	€207,929	€212,179	€226,414	€231,089	€231,089	€260,839	€271,464	€271,464	€271,464	€271,464	€262,964	€254,464	€254,464	€254,464	€254,464	€254,464	€254,464	€254,464	
Pigmeat kg	123,200	123,200	123,200	123,200	123,200	123,200	123,200	123,200	123,200	123,200	123,200	123,200	123,200	123,200	123,200	123,200	123,200	123,200	123,200	123,200	
Price €/kg	1.54	1.51	1.46	1.46	€1.42	€1.42	€1.42	€1.54	€1.66	€1.74	€1.78	€1.78	€1.84	€1.88	€1.92	€1.96	€1.96	€2.04	€2.08	€2.08	€1.71
Total Income	€189,728	€186,032	€179,872	€179,872	€174,944	€174,944	€174,944	€189,728	€204,512	€214,368	€219,296	€219,296	€226,688	€231,616	€236,544	€241,472	€241,472	€251,328	€256,256	€256,256	
Surplus / Deficit	-€15,226	-€19,772	-€28,057	-€32,307	-€51,470	-€56,145	-€56,145	-€71,111	-€66,952	-€57,096	-€52,168	-€52,168	-€36,276	-€22,848	-€17,920	-€12,992	-€12,992	-€3,136	€1,792	€1,792	
Cumulative	-€15,226	-€34,998	-€63,055	-€95,362	-€146,832	-€202,977	-€259,122	-€330,233	-€397,185	-€454,281	-€506,449	-€558,617	-€594,893	-€617,741	-€635,661	-€648,653	-€661,645	-€664,781	-€662,989	-€662,989	
Margin per Pig Sold	-€10.88	-€14.12	-€20.04	-€23.08	-€36.76	-€40.10	-€40.10	-€50.79	-€47.82	-€40.78	-€37.26	-€37.26	-€25.91	-€16.32	-€12.80	-€9.28	-€9.28	-€2.24	€1.28	€1.28	

Assumptions:

Herd Size	600 sows
Total Feed usage	8.5t/sow/year
Monthly Feed Usage (T)	425
Herd Output	28 pigs sold / sow / year
Sale Weight	88 kgs deat wt
Non-feed Costs/kg	52c/kg (Incl 5c/kg enegy)
Monthly Non-feed	€44,562
Feed Price Forecast	Teagasc Forecast & Industry Indications
Pig Price Forecast	Teagasc Forecast
Performance	Stable
Feed Credit Terms	0 Days
Pig Price	Does not include over-wt penalties Does not include discounted N.Ire price

Ave Loss/sow	-€1,105
National Herd Size	145,000
Total Industry Loss	-€160,222,342