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Ministry for Primary Industries
Manatū Ahu Matua

Aide-memoire:

From: Grace Campbell-McDonald
Director Biosecurity and Animal Welfare

Contact: Grace Campbell-McDonald
Director Biosecurity and Animal Welfare (s 9(2)(a) [redacted])

To: Hon Damien O'Connor
Minister for Biosecurity

Date: **1 April 2020**

Additional information on Pork and butchers - How can we increase the use of domestic pork under present COVID19 circumstances to avoid wastage and on-farm animal welfare issues?

Key Messages

- At present under COVID-19 lockdown alert level 4, approximately 4,000 – 5,000 pigs per week are not being utilised through the system due to the shutdown of food service channels and other retail channels (butchers).

- New Zealand imports a significant quantity of pork (equivalent to over 15,600 pigs per week), with the majority (79%) of this pre-cut pork used for further processing s 9(2)(b)(ii) [redacted]

- Food processors have signalled they are able to absorb the excess capacity of domestic pork supply if pre-cut supply of the needed cuts is available, but there are challenges in realising this.
    - There is a significant gap in the domestic supply chain for cutting services due to constraints around the ability to ramp up cutting production due to halal production standards for other meats; and other cutting services (butchers) currently closed.

- If Ministers wish to pursue options for matching domestic supply to food processors, MPI can explore options with NZ Pork, food processors and appropriate butchers (i.e those that would be able to be set up to do the cutting for food processors) with the right capacity to resolve these supply chain issues while New Zealand is in COVID level 4. This would take us at least a week to get up and running so would not provide short term relief for the animal welfare issues. (see para 6-14 below).

- MPI have explored other avenues for absorbing excess domestic pork supply. Supermarkets have provided their best offer s 9(2)(b)(ii) [redacted] pigs per week) and the pressure on their supply chains and distribution centres does not allow them to take more. (see para 15-16 below)

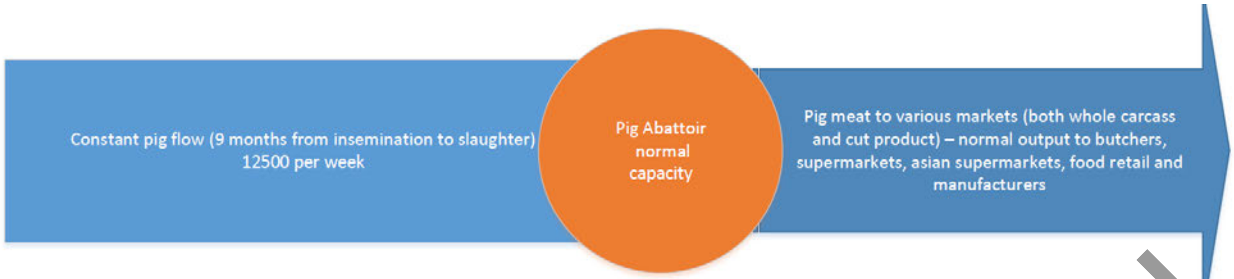
- Opening retail butchers is still the most straight forward option logistically to take the pressure off the oversupply from the Domestic Pork Industry. It is also the option that will provide the most immediate relief to the animal welfare issues being reported by industry. If butchers were opened, officials would continue to work with supermarkets, butchers and the industry to keep pressure on to both slow down, and absorb the supply of pig carcasses.

- Another issue that Ministers need to be aware of, is the reports from butchers of the risk of them dumping stock already in butchers' shops. This is wider than the pork issue and is not an animal welfare concern but does play into issues to do with food waste.

Analysis

1. NZ produces approximately 42.3 million carcass weight equivalent (CWE) kilograms of domestic pork production annually. Exports constitute a further 0.7 million CWE kilograms to the Australia and Pacific countries (PNG, Tonga, Fiji, Cook Islands). The majority of pork is imported, 70.6 million CWE kgs, or approximately 63% of total.

2. Pigs for slaughter are raised on a nine month lifecycle, with a constant production cycle year round. Once reaching killable weight pigs cannot be held in piggeries for both animal welfare and stock management reasons. An average dressed carcass weighs around 80- 86 kg and an average 40 kgs of lean meat. The lean meat consists of 21% ham, 20% loin, 14% belly, 3% spareribs, 7% shoulder roast and blade steaks, and 10% picnic, with the remaining 25% going into jowl, lean trim, fat, miscellaneous cuts, and trimmings.



3. Domestic production, under normal circumstances, results in approximately 12,500 pigs prepared for slaughter each week. The table below shows the distribution of pigs across the wholesale market and impact of COVID level 4 on that market (numbers rounded to the nearest 100).

Wholesale point	**Approximate number of pigs per week**	**Trading or not trading under COVID level 4**
Major retail (i.e. supermarkets)	5,600 to 5,900	Trading
Manufacturers (i.e. food processors)	1,500 to 1,600	Trading
Asian (i.e. Asian supermarkets)	1,000 to 1,100	Some maybe trading
Other retail (i.e. butchers)	2,000 to 2,100	Not trading
Food service (i.e. hospitality)	1,700 to 1,800	Not trading

4. At present approximately 4000 – 5000 pigs are currently not being utilised through the system due to the shutdown of food service channels and other retail channels (butchers). This results in a number of issues for the industry including the dumping of meat/carcasses.

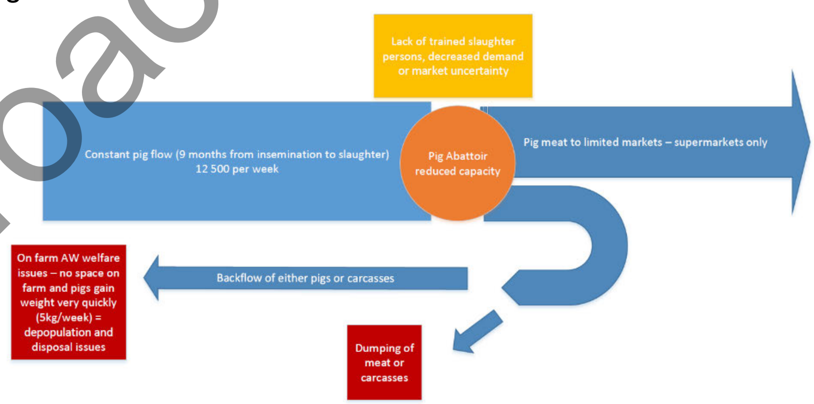


Figure 1: Illustration of supply chain issues under COVID level-4

5. The most promising options available are to **encourage retail channels that remain open under COVID Level 4 to use more domestic pork** and **increasing retail channels** (opening up butchers). These are discussed in further detail below.

<u>Encourage retail channels that remain open to use more domestic pork (Supermarkets and food processors)</u>

6. Pork and pork products imported in 2019 were 70.6 million kgs CWE[1] worth $NZ 213 million (equivalent to over 15,600 pigs per week). In 2019, NZ's major pork importing partners were Spain, Canada, US, and Finland. The majority of pork was imported as frozen products (either as chilled or frozen in unprocessed and uncooked formats). Anecdotal advice suggests imported product is sourced from overseas for:
   - convenience – it is pre-cut and carton-ed meaning the food processor don't have to do their own cutting;
   - consistency – the food processors need a lot of particular parts of the pig; and
   - price – imported pork is about 60% to 80% of the cost of domestic pork.

7. Given the volume and nature of the imports, the vast majority of imported pork is being used in small goods manufacturing - Heller's notes the vast majority of the pork they use is imported, with 95% of the pork bellies they use for streaky bacon being imported. They use pork belly volume of approximately 70 tonnes/week (or bellies from 12,500 pig carcasses).

Table 1: Top 5 Swine/Pork Imports categories for Year end June 2019

NZ Harmonised System Code (Lvl10)	Description	Qty as % of total imports	Value as % of total imports
0203290011	Meat; of swine n.e.c. in item no. 0203.2, frozen, other than meat bones and hocks	82%	78%
0203290019	Meat; of swine n.e.c. in item no. 0203.2, frozen, meat bones and hocks	6%	4%
0203220009	Meat; of swine (other than wild pork), hams, shoulders and cuts thereof, with bone in, frozen	6%	5%
0203190009	Meat; of swine (other than wild pork), fresh or chilled, (excluding carcasses, half-carcasses, and hams, shoulders and cuts thereof, with bone in)	2%	2%
0210190001	Meat; of swine, bacon, salted, in brine, dried or smoked	1%	2%
Remaining 14 codes (for swine/pork products)	Misc.	4%	10%
Total		**100%**	**100%**

[1] 70.6m kilograms at approximately 86kg CWE per pig over 52 weeks.

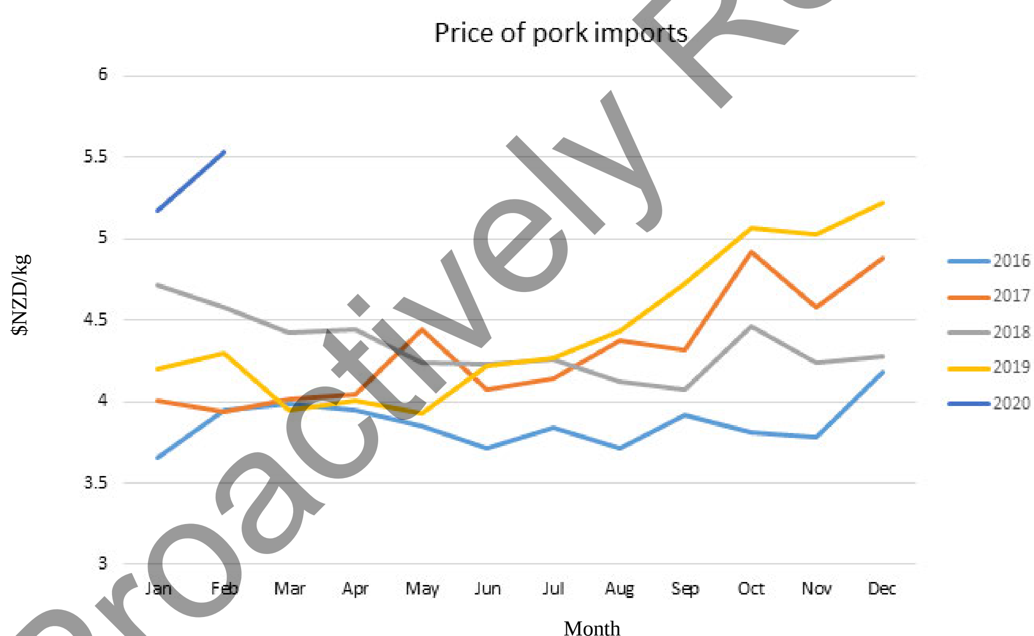
8. Domestic consumption (based on supermarket retail sales) of pork small goods are conservatively estimated to be approximately 14.8 million kg per year, excluding Christmas hams, over the counter deli sales and store made products (such as store made sausages).

9. Local small goods manufacturers have the potential to utilise more domestic pork in lieu of imported product however there are two challenges related to price and product format.

Price

10. Price is a commercial decision and we would expect that the excess of carcasses from the domestic industry would serve to reduce the gap between domestic and imported pork.

11. Prior to the disruption of COVID19, imported pork prices had been steadily rising based on increased Chinese demand related to the impact of African Swine Fever. More recently, the price in the United States has started to fall dramatically so it is unclear what the trend for pork prices will be over the next 4-5 months.



We need to find a way of getting the carcass cut in order for food processors to absorb more

12. We understand from discussions with large food processors and from discussion that Pork NZ has had with the food processers, that that they would be willing to take the domestic supply of pork (at the right price). But access to cutting services would need to be resolved. As set out above, the New Zealand food processing sector has shifted towards using pre-cut meat and removed its in-house cutting capability.

13. Cutting of carcasses would still require specialised butchering facilities as pigs are considered *"haram"* (forbidden) and unable to be processed on most NZ red meat processing facilities which conform with Islamic Halal standards. Coupled with reduced processing capacity due to COVID19 working practices it may be challenging to find alternative options to fill the cutting gap in the New Zealand supply chain of pork processing.

14. Solving this issue will require discussion between NZ Pork and the food processors. We would expect that the key point will be access to cutting, and it may be that the butchery sector could be bought into this – i.e. they could provide the cutting service between the slaughter house and the food processors. s 9(2)(f)(iv) [redacted]

Increasing retail channels – i.e. allowing butchers to open for processing or retail

17. As set out above, the butchers have a significant role in the domestic pork market. Both because of the volume that they take (2000 per week in 2019), and they fact that they have the ability to process whole carcases, which the large food processing companies no longer have.

18. We have already advised on reopening the butchers for retail. As set out above, another option, could be to work with the NZ Pork industry, butchers and food processors to reset the supply chain during the COVID lockdown so that butchers with the right capacity could reopen to provide cutting of carcases to the food processors.

Minister / Minister's Office

Seen / Referred

/ / 2020