Outlook for European meat value chains – in a global context, and related to environmental sustainability

for
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Gira’s key characteristics

**Gira is a specialist food advisor**

- Specialist in **food**.
  - especially in meat, dairy, bakery, fish, etc.
  - full supply-chain analysis covering dynamics and key success factors of each stage in the chain, and their inter-relationships
    - from Inputs to producer to processor and on to retailer and end users

- **Global** coverage.
  - Global meat market coverage.
  - Head office close to Geneva.
  - Staff and associates located throughout the world.

- **Cost effective.**

- **Multi-format**:
  - detailed, published research reports (cost syndicated)
  - strategic consultancy: markets, customers, competitors, etc.

- **Strong record** with most ‘blue chip’ food companies

- >45 years of quality research, neutrality & client-service
Two main areas of Gira activity

A global consultancy that specialises in the food chain… nothing else!

Unrivalled Global Food Sector Knowledge

- Data
- Dynamics
- Issues
- Forecasts
- Contacts

Gira’s Strategic Multi-client Market Reports

Strategic studies with depth of understanding based on 40 years experience of researching food & retail markets & industry structures.

Gira’s Consultancy

- Market, competitor & strategy consulting
- M&A, due diligence, market audits
- Distribution & export strategies
- SWOT, positioning, gap analysis
- Co-operative strategy
- Global dynamics
- Product development
Agenda: structure

Global meat outlook

Global pigmeat outlook

European pigmeat outlook

Context of environmental sustainability

2014: year of contradiction: disease & political disruptions … very profitable for many:
• especially US (and CA), with record prices and falling costs … also AU, BR, RU:
• but not for EU, nor CN.

2015: year of dramatic currency change vs. very strong USD:
• Changing domestic meat demand characteristics … and:
• Changing apparent international meat cost competitiveness.

2016f: year of price competition – plentiful Py and Pk:
• Pushed from BR (weak currency and poor domestic economy) and US (by-product of rising production).
• Pulled into CN and other Asian markets.

In fact 2016 year of CN import:
• Unexpected strong rise in CN imports:
• … and 2016 production did not grow as much as Gira anticipated:
• … and so prices were higher than feared

2017/18 more price competition: meat production rising:
• Continuation of US production growth, BR export push etc.
• Enabled by cheap feed
• Volatile political conditions … made more so by the new US Administration
2016/17 Global Meat Market: CN share of trade

**CN becomes an even more important destination for exports**

**China’s Share of World Meat Imports, 2014-17f – including grey (but excl. offal) trade**

CN increases its share of world meat imports – except in sheepmeat:

- welcome price support for exporting countries, especially in pork (and especially for EU exporters).
- risks associated to such import share … Farming concentration and "industrialisation" in CN is inevitable and will raise productivity. What impact on future import demand?
Currency: index to USD

Exceptional recent devaluations vs USD … but less so in 2017: impacting relative competitive position

Average Annual Exchange Rate Index to USD

Depreciation (vs. USD)
Appreciation (vs. USD)

Source: Gira, GMC
World Meat Consumption

Disappointing 2016; stronger growth in 2017f & through 2021

World Meat Consumption 2010-17f, 21f

Source: Gira, GMC
EU Meat Consumption

The EU is a big market … but not growing relative to world markets … (after a recent recovery)

EU Meats Consumption, 2005-2021(f)

Source: Gira, GMC
CN Protein Consumption & Imports

Protein consumption rises: so do 2016/17 pork, poultry imports

- After a strong rise, consumption of pigmeat stagnated due to supply issues following the sow culls of 2014 and 2015.
- Beef consumption hit price resistance but remained solid.
- Fish consumption has been rising at a 4.2% CAGR since 2005.

Pork imports doubled in 2016 to make up for the domestic supply shortage and take the edge off record prices.

Poultry imports also rose due to a supply shortage caused by a ban on GP imports due to HPAI.

Both are expected to fall back … assuming domestic production recovers with industrialisation policy.
Overall retail meat prices are expected to fall in 2017 due to increased domestic supply and lower demand growth as economic growth slows.

In 2016 the domestic beef and poultry prices held steady; sheepmeat fell due to higher supply.

The pork price rose to a record because of short supplies, then fell off as imports flooded in.

Retail meat prices fell further in USD equivalents than in CNY, because of about 6% devaluation during the year (and about 14% since late 2014).

Reduced USD prices reduced margins for imported products, but Chinese prices remained high enough for all four major meats that it was still profitable to import.
Global Pigmeat Outlook

GMC16

www.girafood.com
Huge CN influence on the global Pk sector in 2016: With almost 50% of global pork production & consumption, CN weighs enormously on all aspects of the world pig/pork sector.

- CN faced a 1% production decline: reflecting restructuring from backyard.
- CN Import pull increased by >1 mio tonnes, equivalent to about 11% of world pork trade.
- CN producer prices rose strongly (+14% in CNY terms/+8% in USD) which pulled the Gira world real price index upwards … in spite of price pressures in many other countries.

Continued CN import pull in 2017f – in spite of some production recovery:

- Gira expects CN output to start recovering in 2H17 only, with new industrial farms getting into production.
- Hence, there should be further large import needs in 2017 and Gira only anticipates a small decline (-10%?).

US expansion (and also CA) following recent highly profitable years:

- Approx 10% capacity growth in the US from 2016 to 2018: destined for export push.

EU facing further decline given serious challenges.

- Large – but mature domestic market … but with ongoing ‘ethical challenges’.
- Ongoing restructuring at different rates of change through EU28.
- Prolonged historic loss of ‘equity’, although moderate recent profitability.
- ASF threat is looming in the N-East: and little prospect of recovering export trade to RU.

RU output continues to grow … with a new export objective:

- Longstanding Government production support: through historic subsidy, pricing and import controls.
- Facing risks of oversupply in the absence of export developments.
- Negotiating market access with several Asian countries…incl. CN.
Pigmeat Production

Global production trends dominated by CN, EU and US

Pigmeat Net Production by Country/Region, 2005-17f, 21f

Million t cwe

Source: Gira, GMC

O.Asia = HK, ID, MY, SG, TW & TH
Global Pigmeat Imports

2016/17 CN ‘surge’: attracting more than 25% of total volumes

Source: Gira, GMC
Pig Producer Prices (USD/t)

2016 declines (except CN) generally amplified by USD strength
Chinese Pigmeat Balance

Impact of industrialisation to replace backyard … but with a 2016 import surge … sustained into 2017…

Chinese Pigmeat Balance, 2005-17f, 2021f

Source: Gira, GMC
Production rebound for a profitable, scale-efficient industry which is increasingly export motivated

US Pigmeat Balance, 2000-17f, 2021f

Source: Gira, GMC
EU Pigmeat Outlook

GMC16

www.girafood.com
Production (GIP): stable in 2016 (Spring 2016 EU sow herd: -3.9%)

Exports: +30% in 2016 (thanks to China, all cold storage has been liquidated)

Imports: tiny (CETA effects can be expected after 2018)

Available for human consumption: 2015 (overestimated), 2016 = -2.3%
Chinese demand improved the EU situation on all levels

- China dominates: +87% over 9 months 2016
- Other 3rd countries close to 200 000 tons, or less over 9 months 2016
- Asia: first 5 destinations = 76% total EU exports
- Raw meats: 54% of total EU exports
EU Pk production in selected countries

Significant Spanish growth in a EU pig sector which is transforming

- Very important … and growing live trade (in piglets especially) … from the highly productive, yet environmentally limited, large, modern & well invested specialists (in NW Europe)
EU Pig price 2017

Pig price expected to increase slightly: +2.2%
Still high production and pressure on consumption

- Production: small decline.
- Price 2017: very similar to 2016
  - Less export to China is anticipated,
  - More competition from US.
- Feed costs should stay low.
- Profitability: 2017 should be positive.

Source: Gira based on EU Commission & national data
EU Pk Producer Profitability

Good profitability in 2nd half 2016
2017 could be a “positive” year for the producers

Regional production shifts within the EU:

- **ES**: increase
  - Integration >80%
  - large scale farms, recent investments
- **DK**: stable
  - Investment in fattening
  - Continuous reorganization,
- **NL**: reduction…when?
  - piglet prices under pressure,
  - Differentiation through welfare, organic… limits
- **DE**: some reduction expected
  - productivity compensation
  - movement to closed farms
- **FR**: resistance, but some exit
  - restructuration is starting… but invisible
  - succession problem…many farms will stop

Source: Gira based on IFIP
Context of environmental sustainability

GMC16

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EU meat sector in the world meat context

*EU is overtaken in production & trade: but is at the forefront of retailer, consumer & political demand developments*

- **Production: important, but declining EU share of world production:**
  - Pigmeat: 21% global share.
  - Poultrymeat: 13% global share.
  - Beef: 14% global share.
  - Sheepmeat: 9% global share.

- **Consumption: the EU is a major market … but:**
  - The growth and dynamism is elsewhere … and increasingly complex EU societal demands.

- **Trade: important share of world pigmeat trade, but:**
  - US (and CA), Brazilian (and CL, MX) … and Russian competition.
  - Threat of greater EU import penetration should FTAs be realised, in the longer term.

- **Prices: EU no longer such a high price meat market:**
  - Asian meat prices have overtaken the EU.
  - Cyclical trough in commodity prices.

- **Meat processors: fragmented … and confined to EU operations:**
  - Fragmented EU processing industry (and EU farm structure).
  - Global concentration through M&A and organic growth: which does not much include the EU firms.
  - Tougher regulations and standards of sustainability etc. for the EU than elsewhere.

- **Risk of more competition: from larger scale and more integrated meat supply chains:**
  - Domestic & in export. With much easier access to new technologies & developments.

- **Risk of being marginalised in a changing world.**

- **Need for innovation & sector vision, as part of the foundations for greater sector confidence.**
Societal concerns about meat: not new, but growing

*Complex array of intense issues for some consumers: especially in EU*

Increasing quantity, intensity and complexity of consumer concerns – articulated through new social media …. requiring professional responses from a well organised meat chain
Sustainable livestock production

Economic sustainability is the fundamental

- Economic sustainability is the key … without which:
  - Not enough to ‘share’ to achieve social objectives.
  - Environmental objectives can be unaffordable.

- Competition gets fiercer through trade.

- … environmental sustainability is becoming mandatory:
  - Legislation: already happening … and will become greater.
  - Commercial need: normally enforced by customers: which is rapidly increasing:
    - Lead by European retailers.
    - Bouyant in the US: notable QSR developments.
    - ‘rolling-out’ to 3rd countries.

- Some scope for differentiation.

- Some price premia … but only sustained by substance, and effective marketing.

- Part of the “right to produce”.

- Need for effective meat chain structure to enable change and sustainability.
Hungary: Pk & Py balances

Poultry sector performing better than pigmeat: many challenges

- **Must be cost competitive**: Need to match the productivity and herd performance of competitors:
  - ... and/or attract price premia through differentiated marketing.
- **Lack of HU Pk sector scale & structure**, relative to competing EU countries ... and global competitors:
  - Breeding, finishing .... and processing.
- Need for effective HU Pk supply chain communication ... and perhaps integration, to enable change.
Thank you for your interest & attention

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