



Consultancy & Research  
Prospective et Stratégie

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

for  
Hungarian meat industry conference  
May 9<sup>th</sup> 2017

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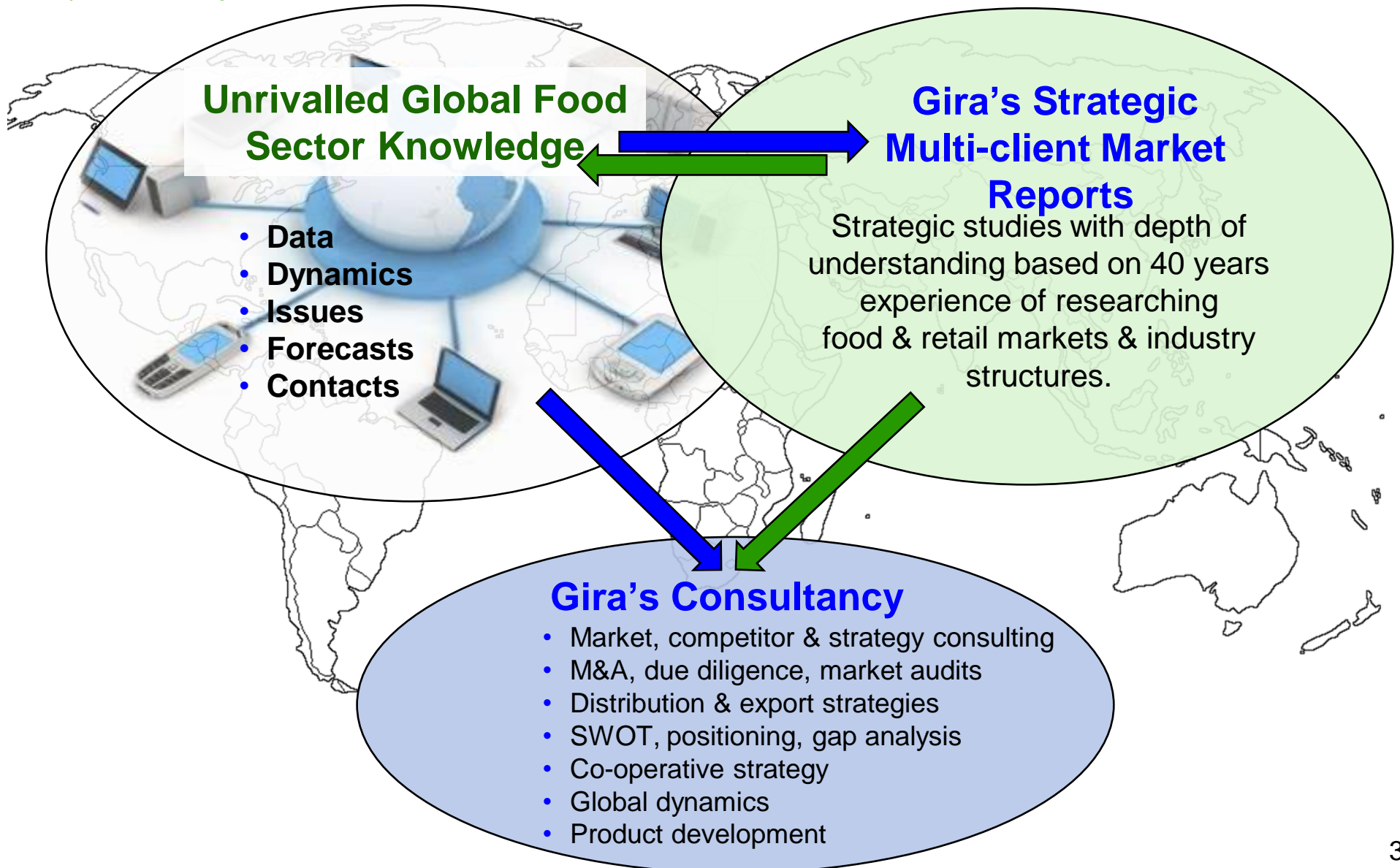
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## Gira's key characteristics

*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**



**Global meat outlook**

**Global pigmeat outlook**

**European pigmeat outlook**

**Context of environmental sustainability**

## 2013-2017: global meat market context

*Increasing meat supply ... with global prices 'saved' by CN  
import demand strength*

**2013: year of production caution: high feed cost** (2012 US heatwave).

**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:**

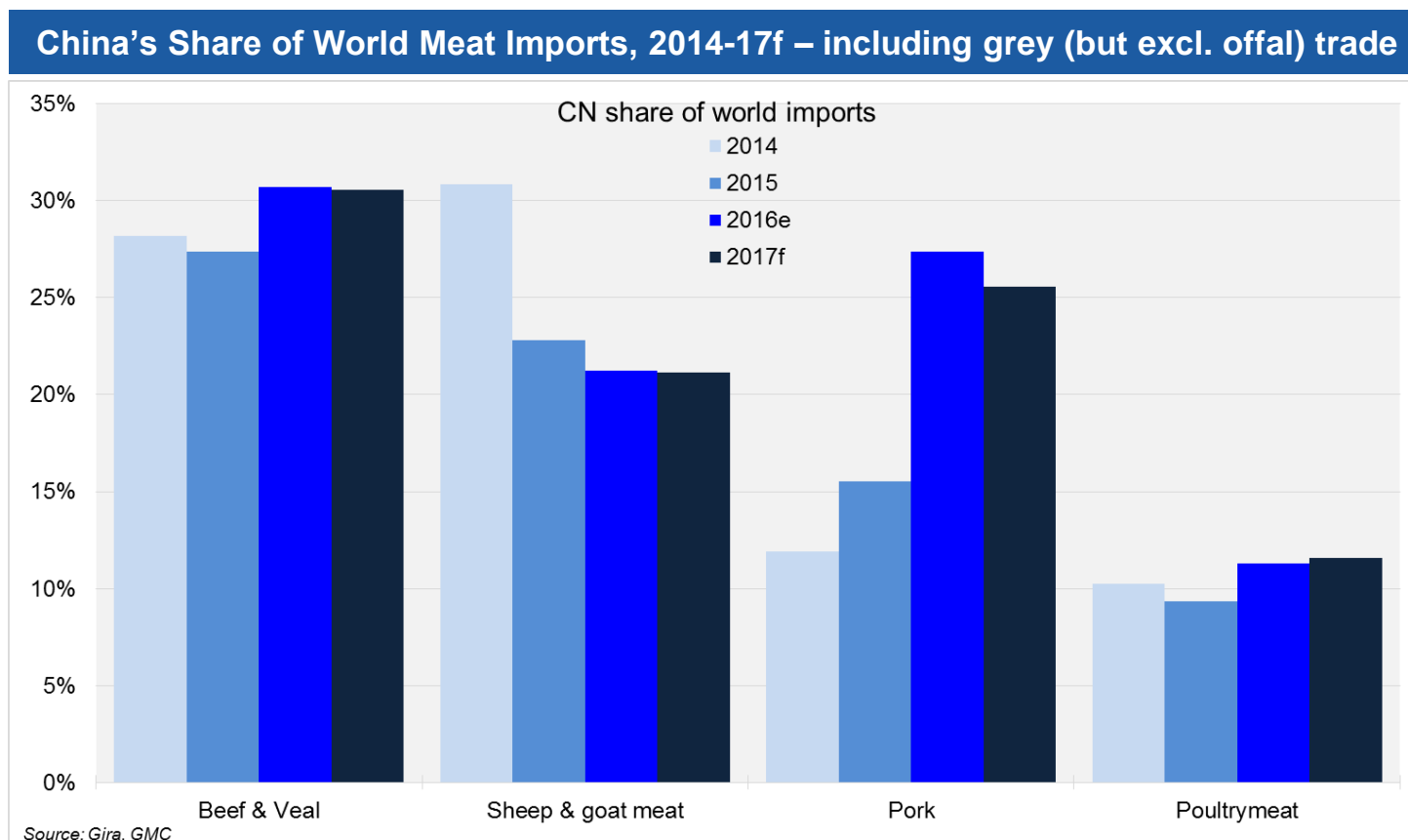
- Unexpected strong rise in CN imports:
- ... and 2016 production did not grow as much as Gira anticipated:
- ... and so prices were higher than feared

**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*

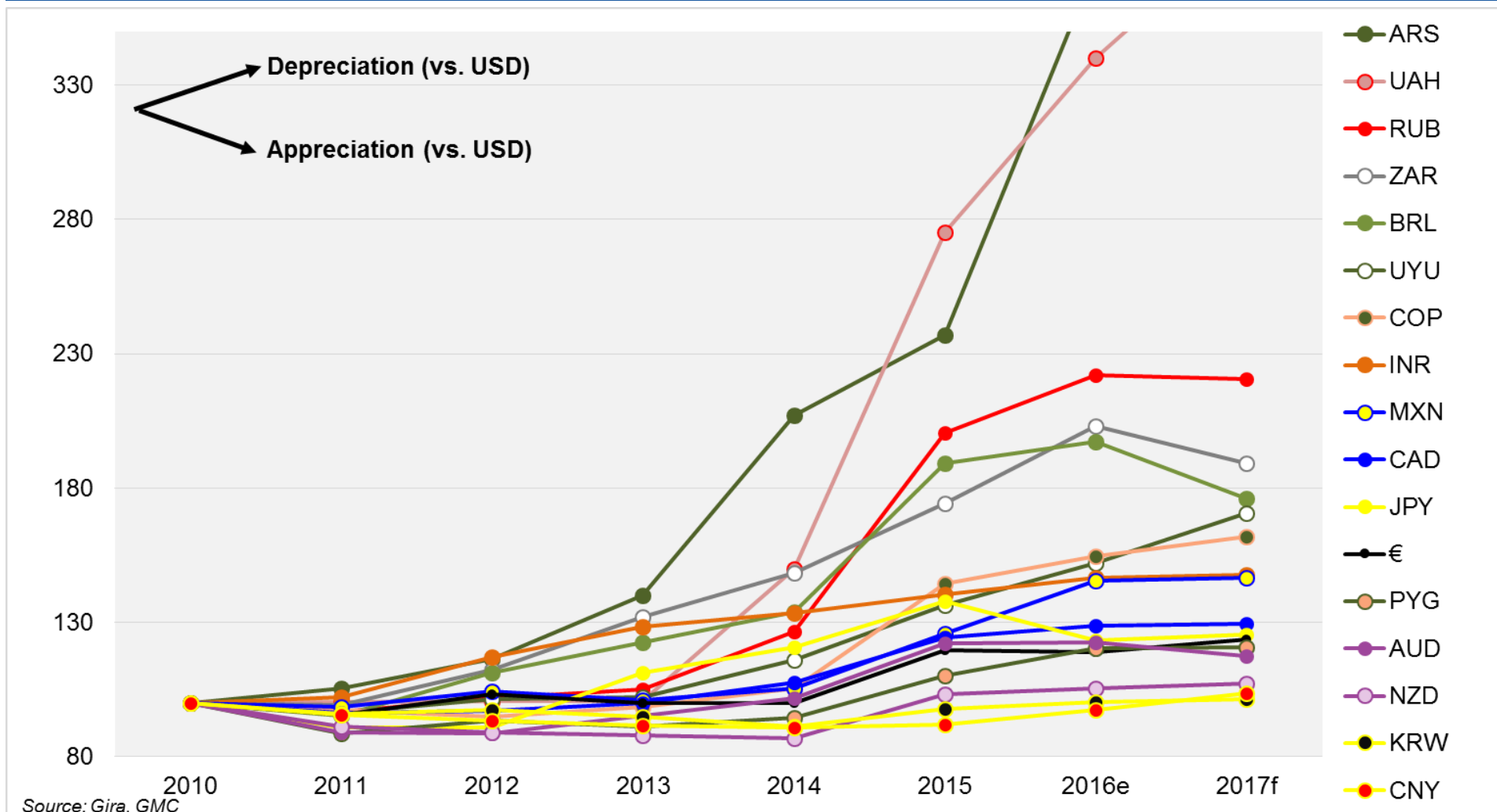


### **CN increases its share of world meat imports – except in sheepmeat:**

- 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?

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

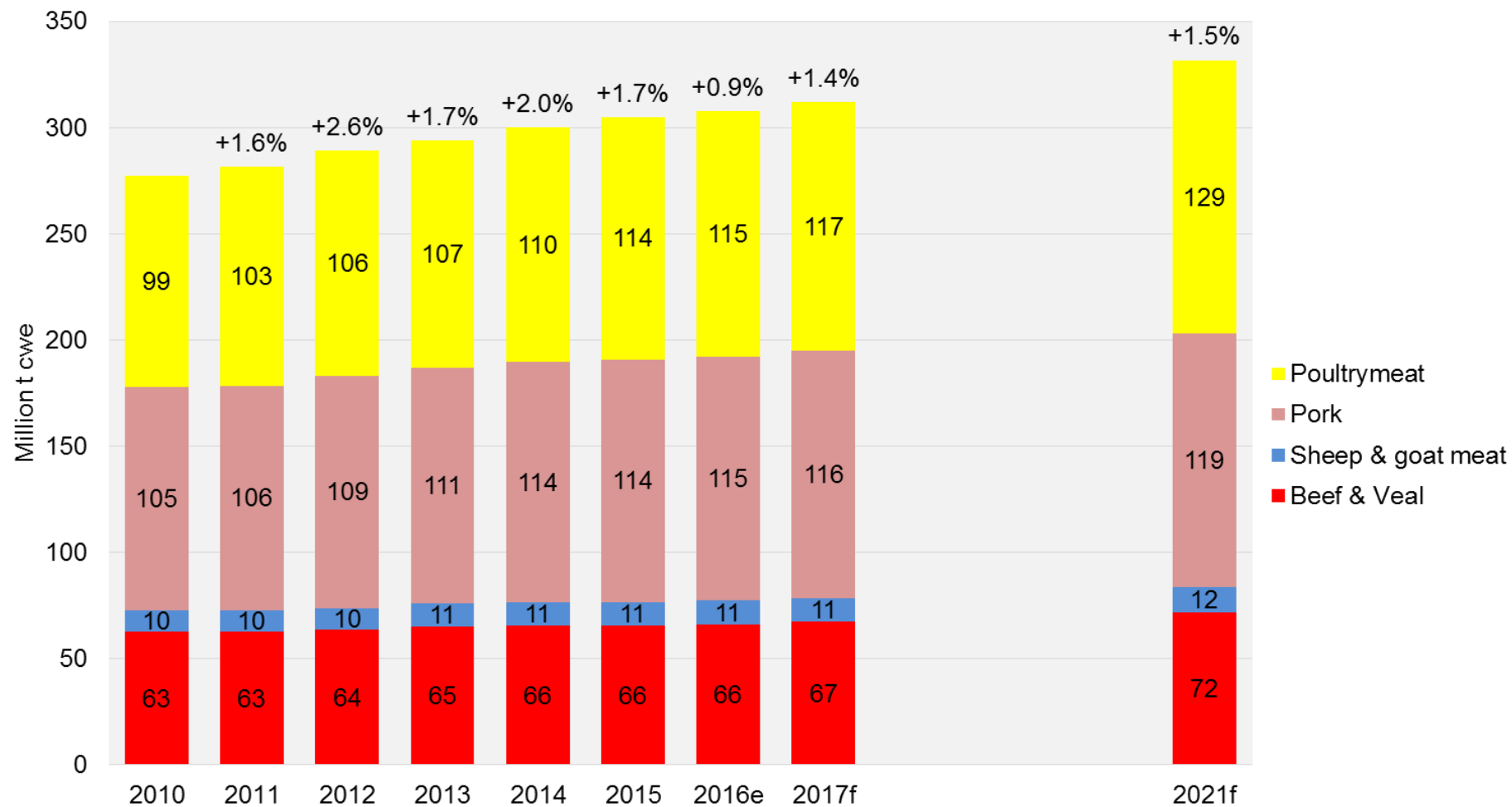
Average Annual Exchange Rate Index to USD



# World Meat Consumption

*Disappointing 2016; stronger growth in 2017f & through 2021*

World Meat Consumption 2010-17f, 21f



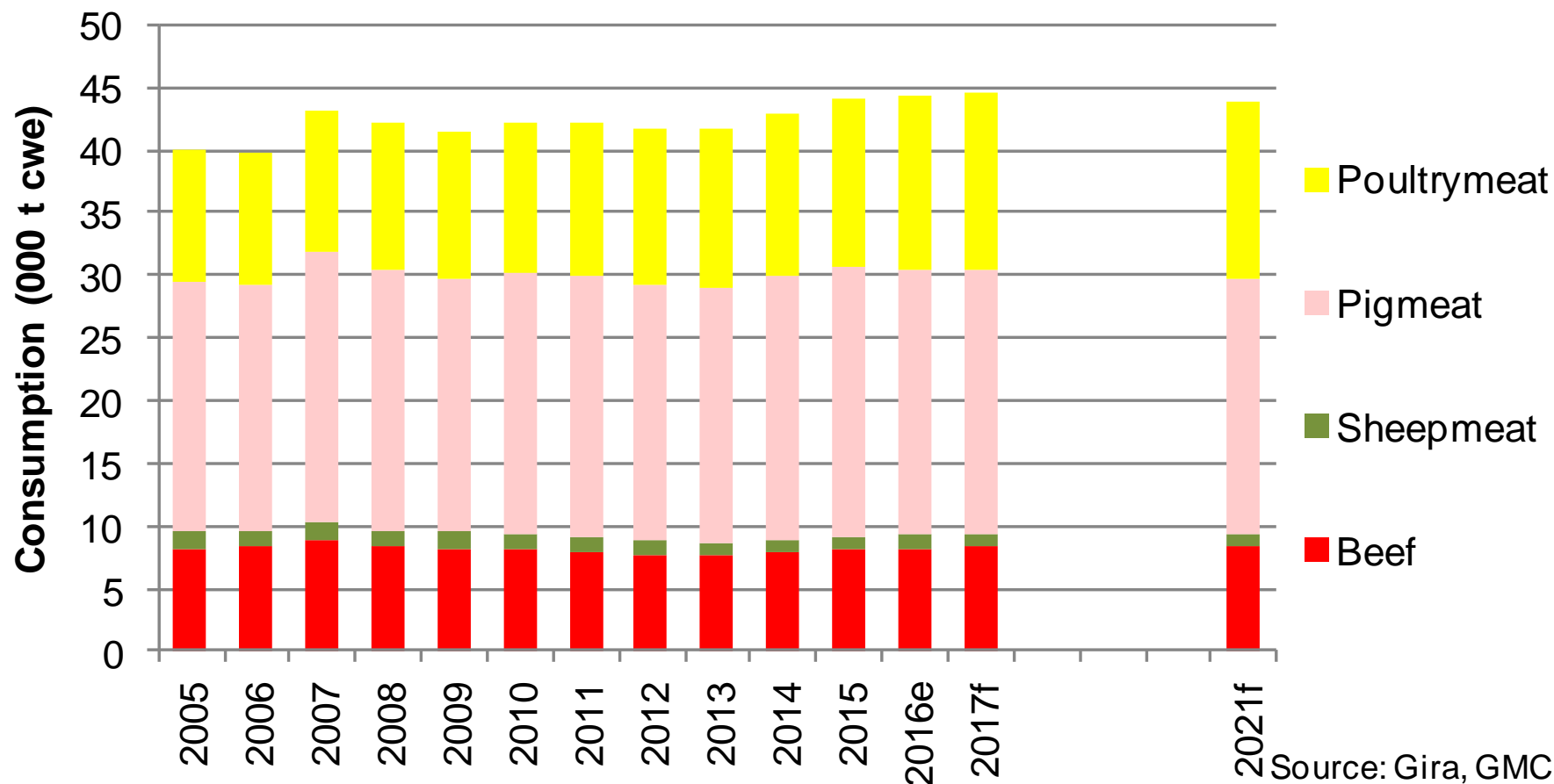
Source: Gira, GMC





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

**EU Meats Consumption, 2005-2021(f)**

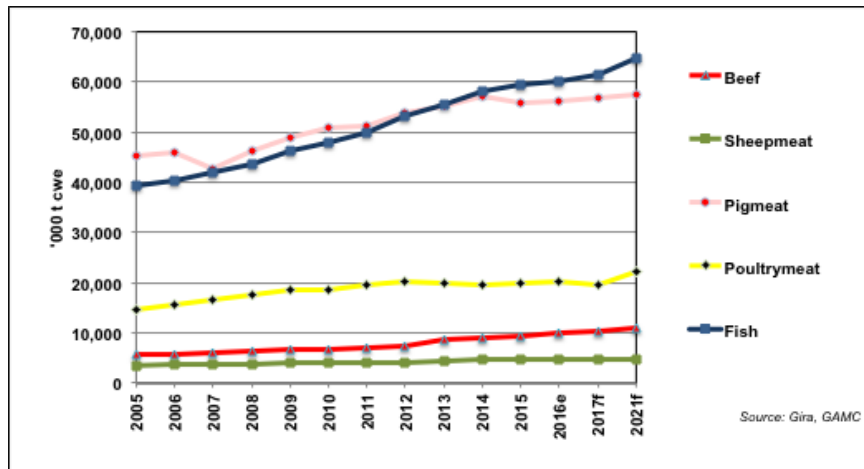


# CN Protein Consumption & Imports



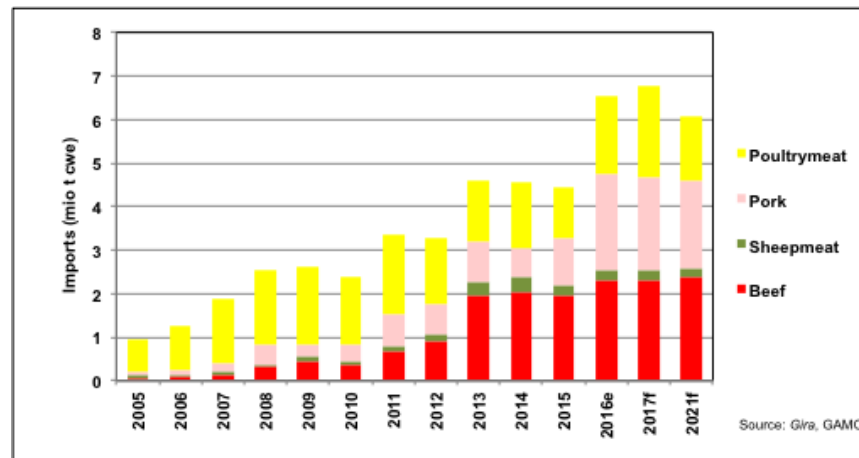
*Protein consumption rises: so do 2016/17 pork, poultry imports*

**Total Meat & Fish Consumption, 2006-2017f**



- 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.

**Total Meat Imports, 2005-2017f**

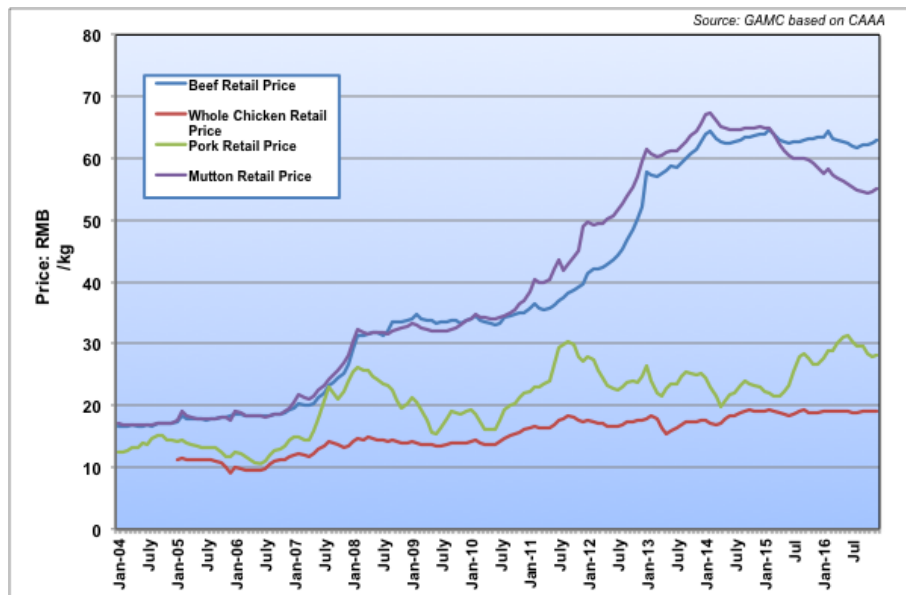


- Pork imports doubled in 2016 to make up for the domestic supply shortage and take the edge off record prices.
- Poultry imports also rose due to a supply shortage caused by a ban on GP imports due to HPAI.
- Both are expected to fall back ... *assuming* domestic production recovers with industrialisation policy.



*Lower prices now due to slower growth, more production*

## Retail Prices (CNY) – 2005-2016

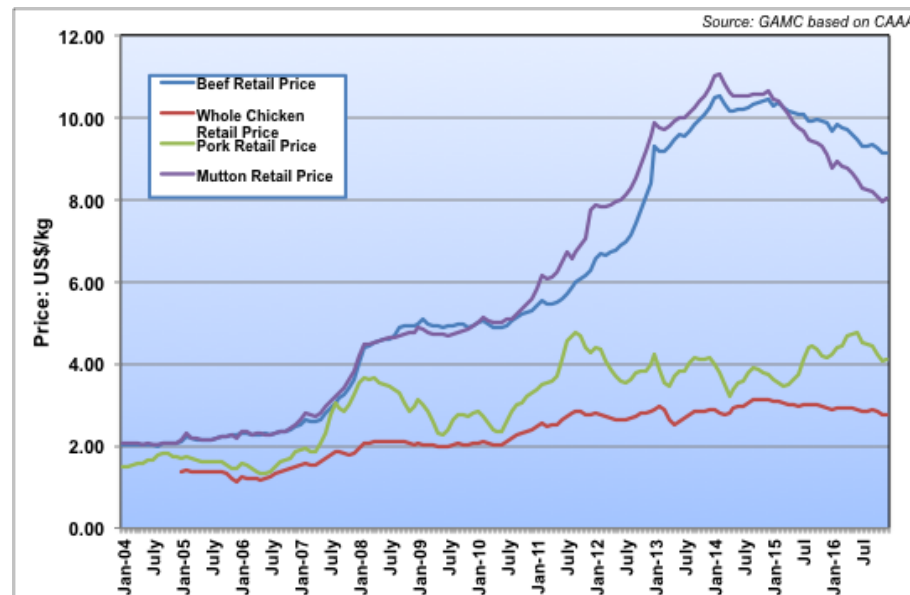


**Overall retail meat prices are expected to fall in 2017** due to increased domestic supply and lower demand growth as economic growth slows.

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 Prices (USD) – 2005-2016



**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**

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## *CN import demand offsetting growth in US/CA; ASF in EU*

**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.

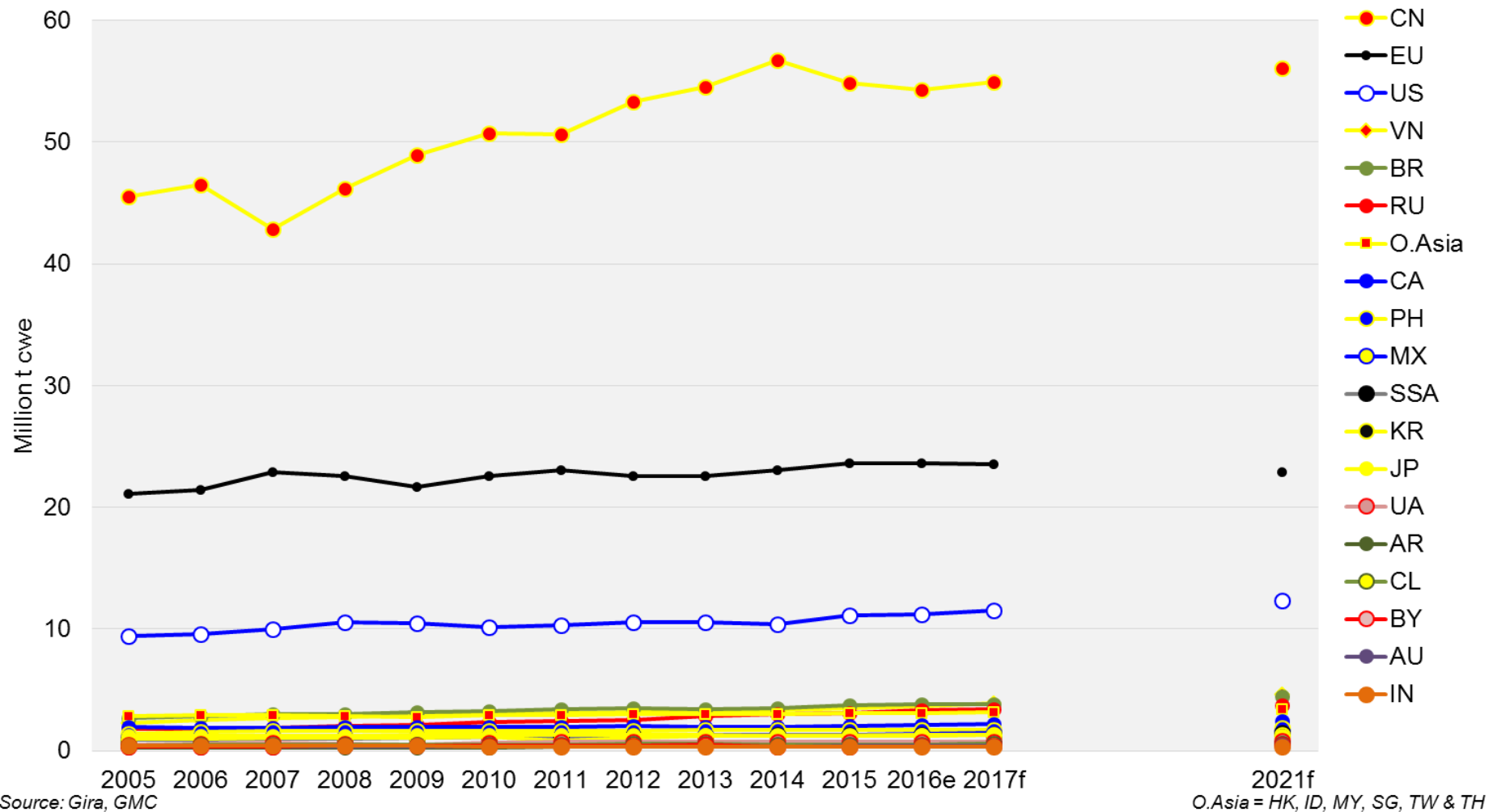
- Large – but mature domestic market ... but with ongoing ‘ethical challenges’.
- Ongoing restructuring at different rates of change through EU28.
- Prolonged historic loss of ‘equity’, although moderate recent profitability.
- ASF threat is looming in the N-East: and little prospect of recovering export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

*Global production trends dominated by CN, EU and US*

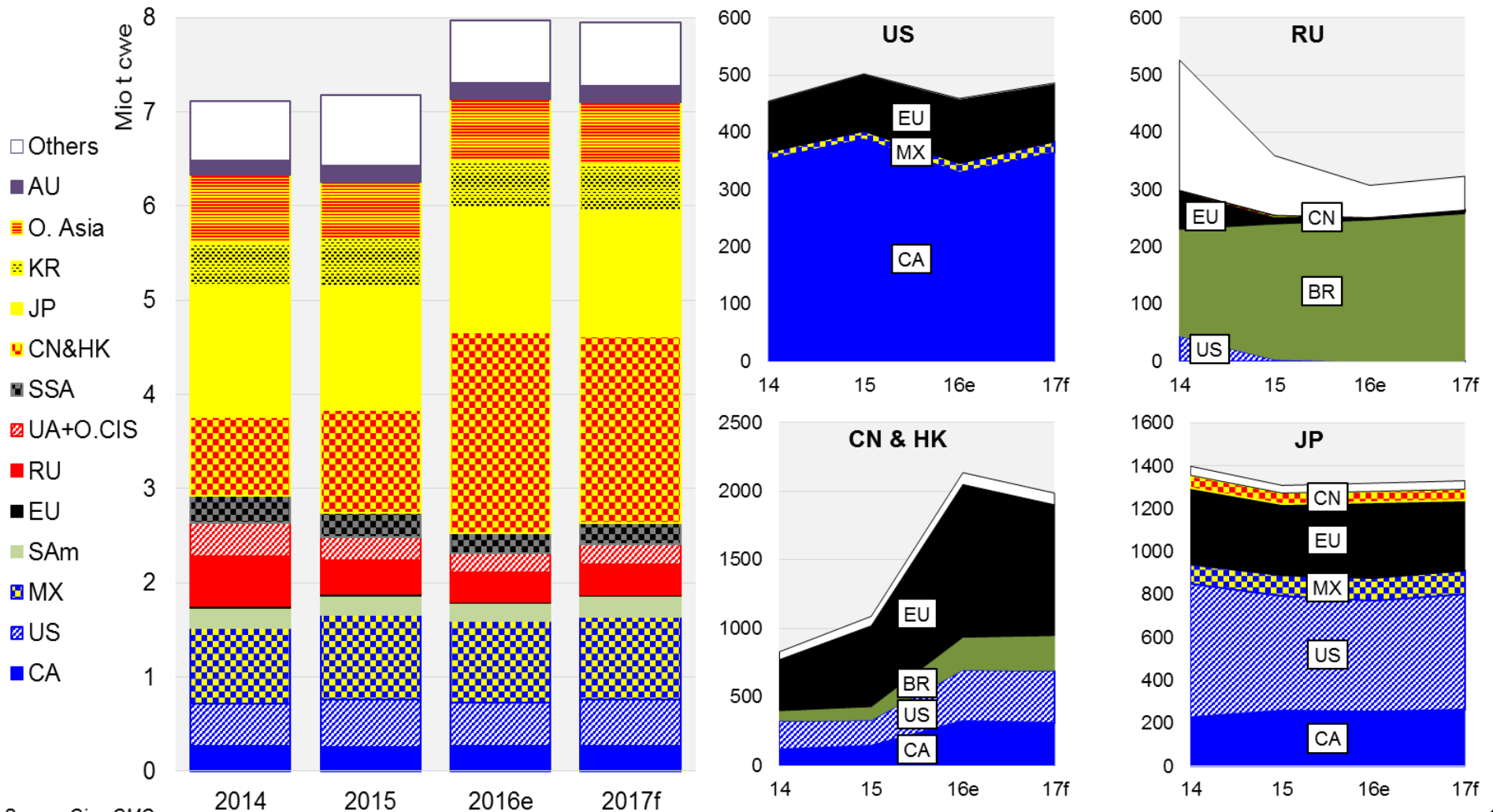
**Pigmeat Net Production by Country/Region, 2005-17f, 21f**



# Global Pigmeat Imports

*2016/17 CN 'surge': attracting more than 25% of total volumes*

## Pigmeat Importers, 2014-17f

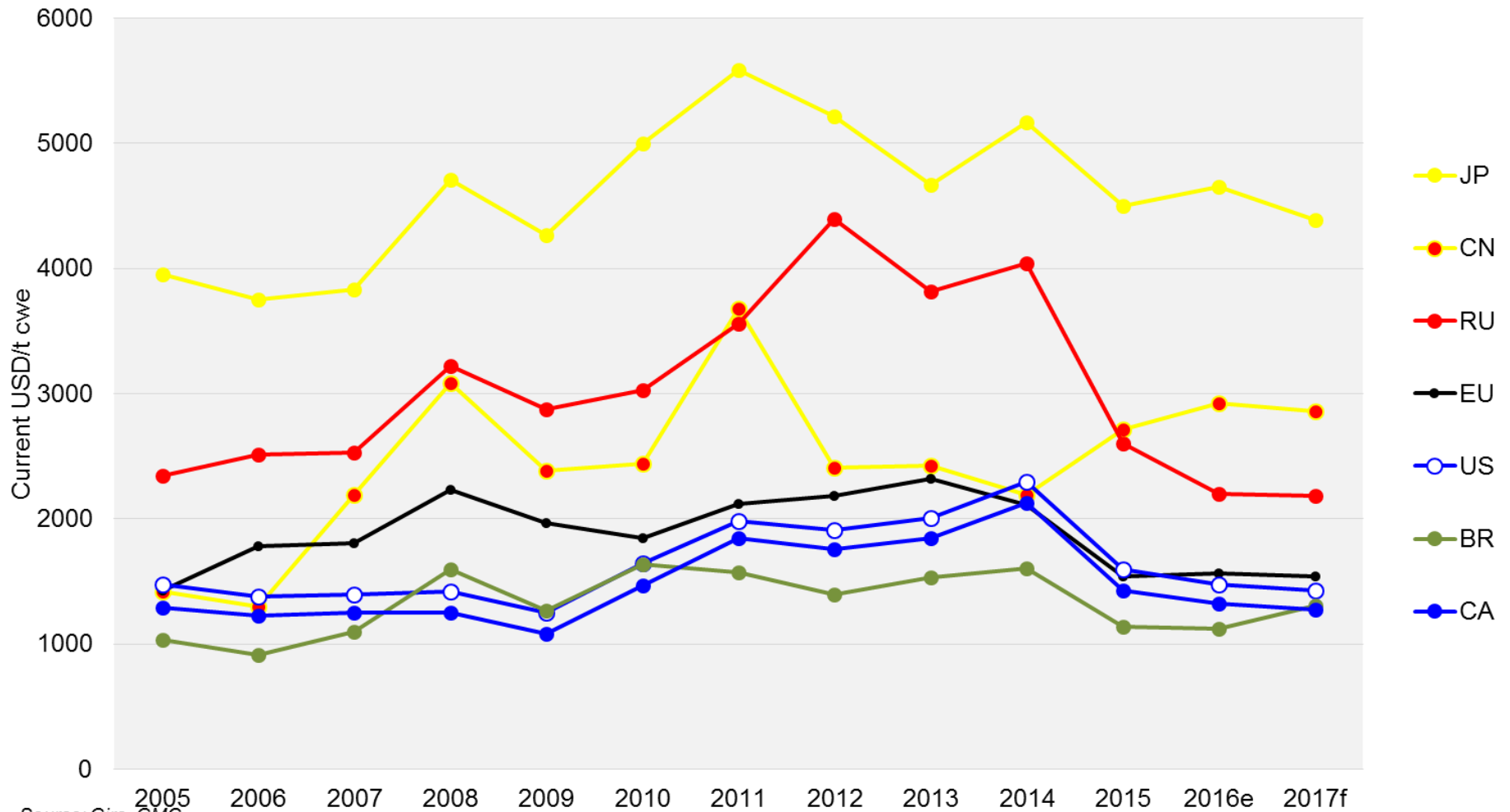


Source: Gira, GMC

# Pig Producer Prices (USD/t)

*2016 declines (except CN) generally amplified by USD strength*

Current Pig Producer Prices, 2005-17f



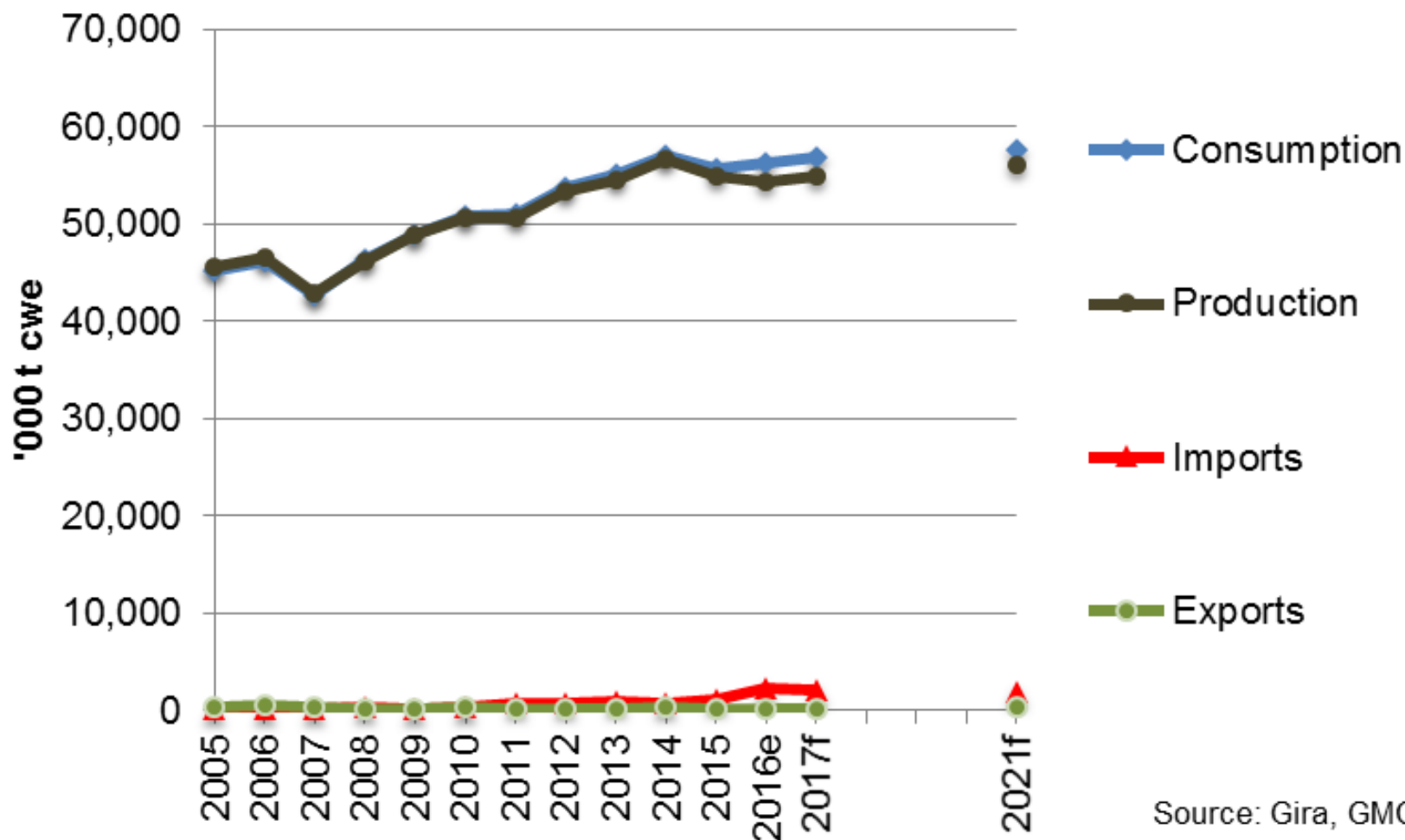




# Chinese Pigmeat Balance

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

Chinese Pigmeat Balance, 2005-17f, 2021f

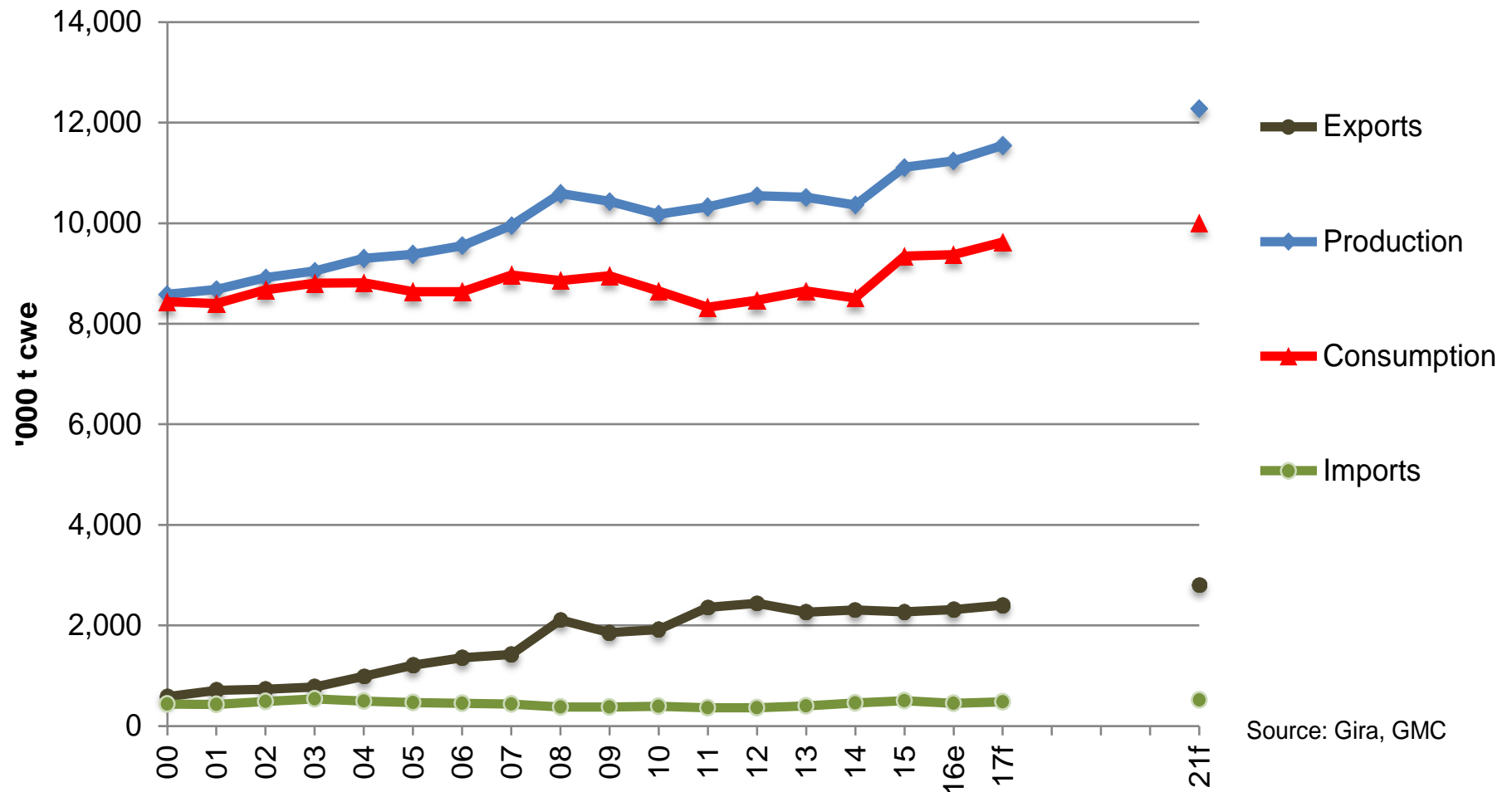


Source: Gira, GMC

# US Pigmeat Balance

*Production rebound for a profitable, scale-efficient industry  
which is increasingly export motivated*

US Pigmeat Balance, 2000-17f, 2021f



Source: Gira, GMC

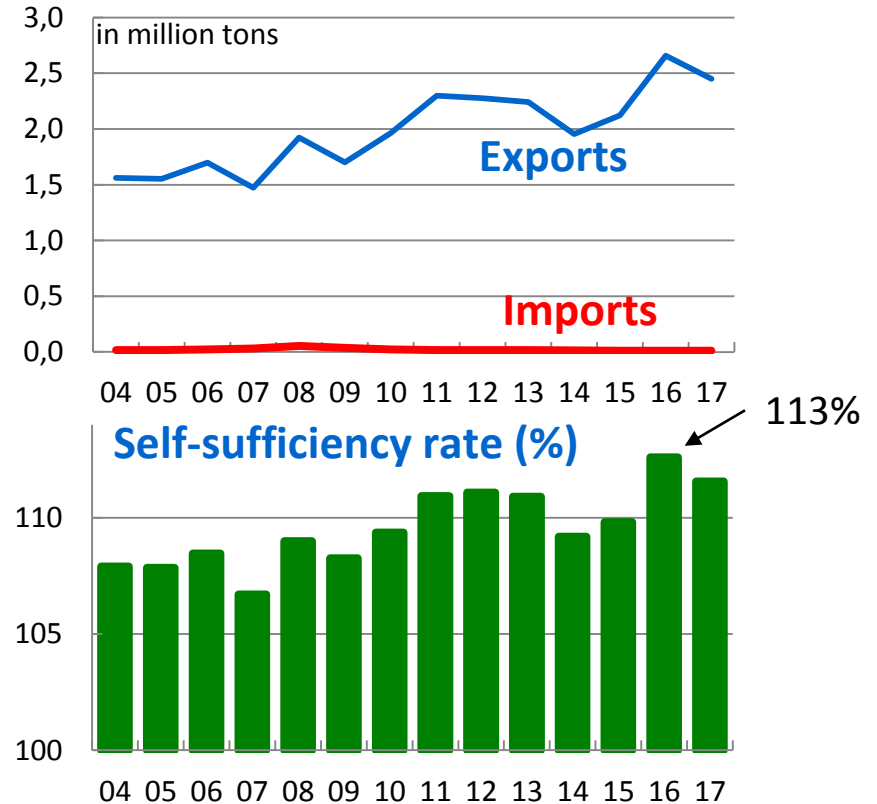
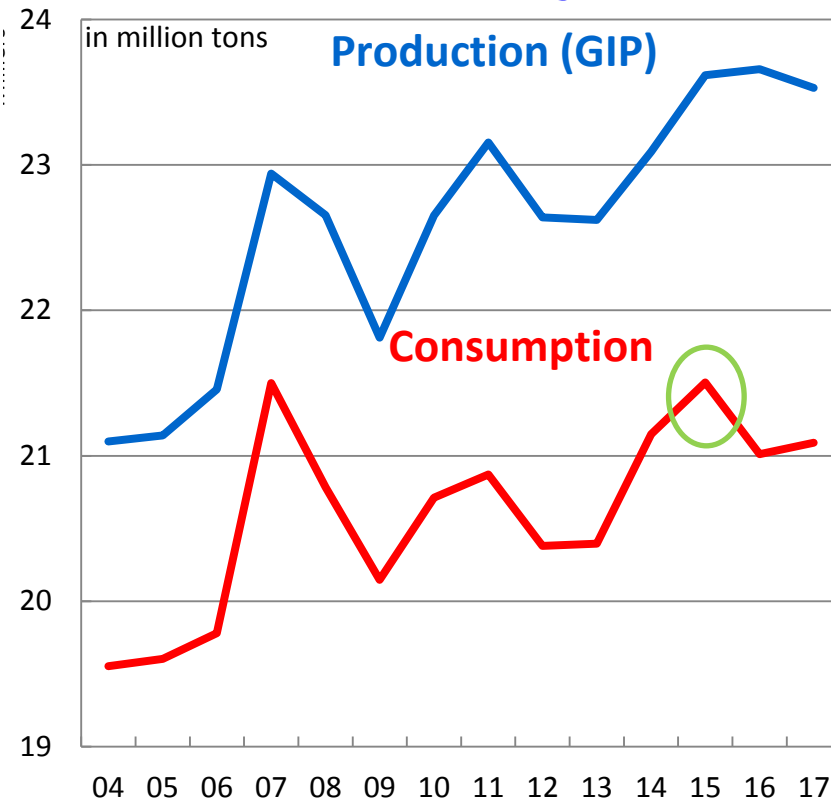
# EU Pigmeat Outlook

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## EU28 Pk balance

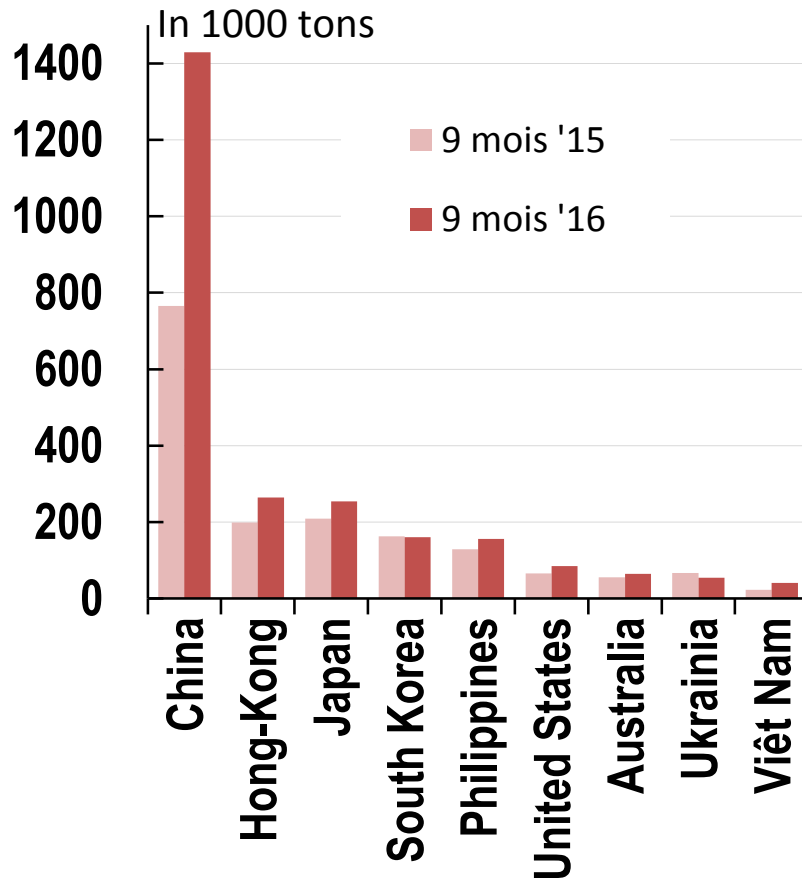
*Production (GIP) stable in 2016, slight decrease in 2017*  
*Export surge which clears the stock and reduces consumption*



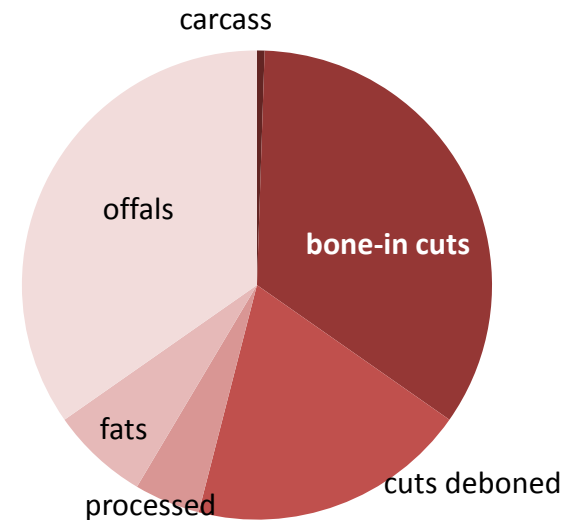
- Production (GIP): stable in 2016 (Spring 2016 EU sow herd: -3.9%)
- Exports: +30% in 2016 (thanks to China, all cold storage has been liquidated)
- Imports: tiny (CETA effects can be expected after 2018)
- Available for human consumption: 2015 (overestimated), 2016 = -2.3%

*Chinese demand improved the EU situation on all levels*

## EU exports to third countries, destinations



## EU Export to third countries, products

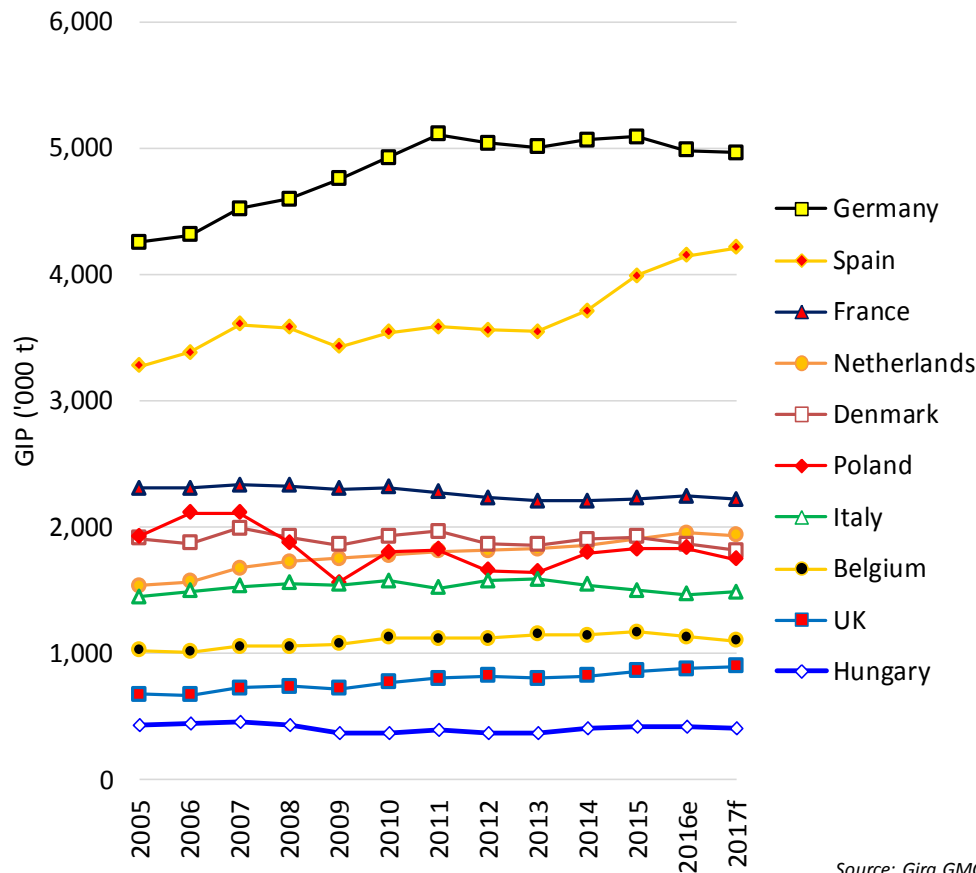


- China dominates: +87% over 9 months 2016
- Other 3<sup>rd</sup> countries close to 200 000 tons, or less over 9 months 2016
- Asia : first 5 destinations = 76% total EU exports
- Raw meats : 54% of total EU exports

# EU Pk production in selected countries

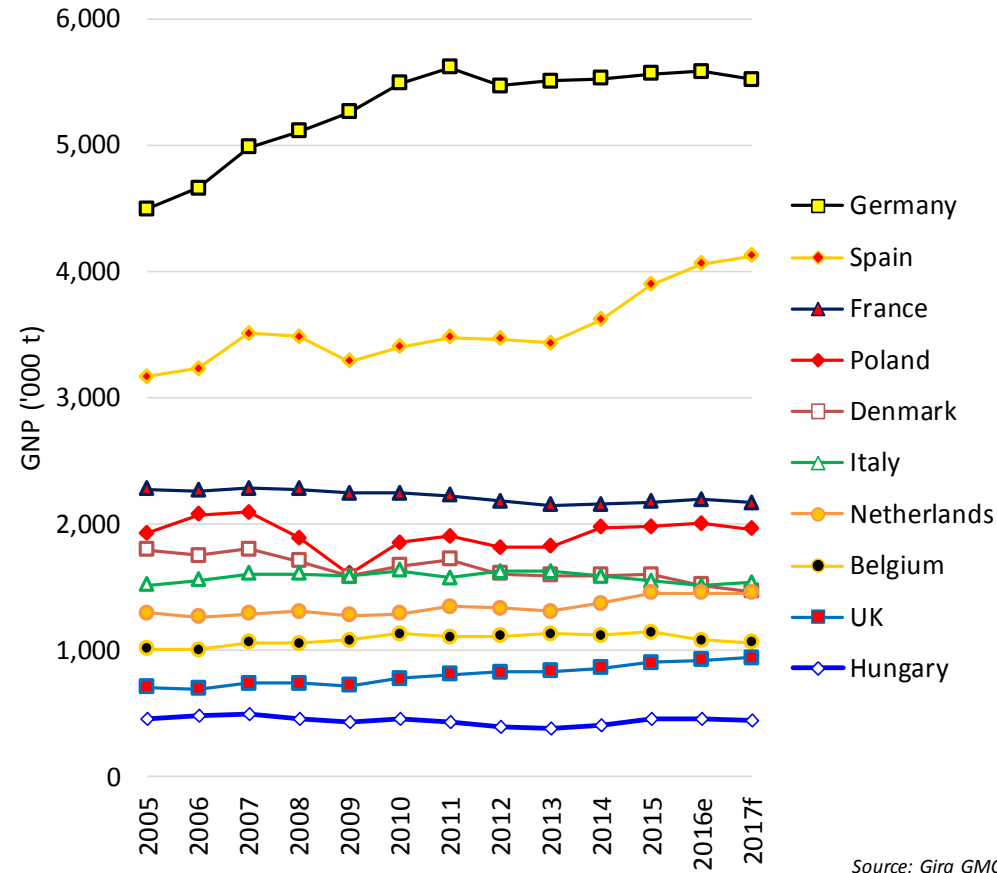
*Significant Spanish growth in a EU pig sector which is transforming*

## EU Pigmeat Production GIP



Source: Gira GMC

## EU Pigmeat Production GNP



Source: Gira GMC

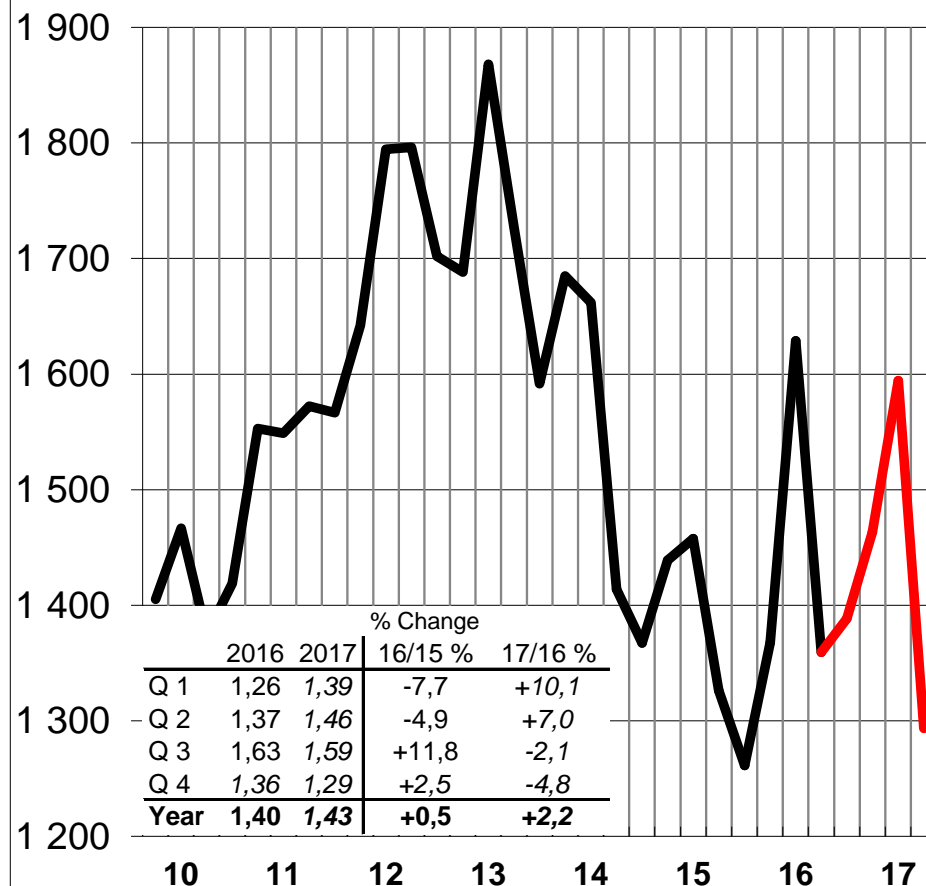
- Very important ... and growing live trade (in piglets especially) ... from the highly productive, yet environmentally limited, large, modern & well invested specialists (in NW Europe)

## EU Pig price 2017

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

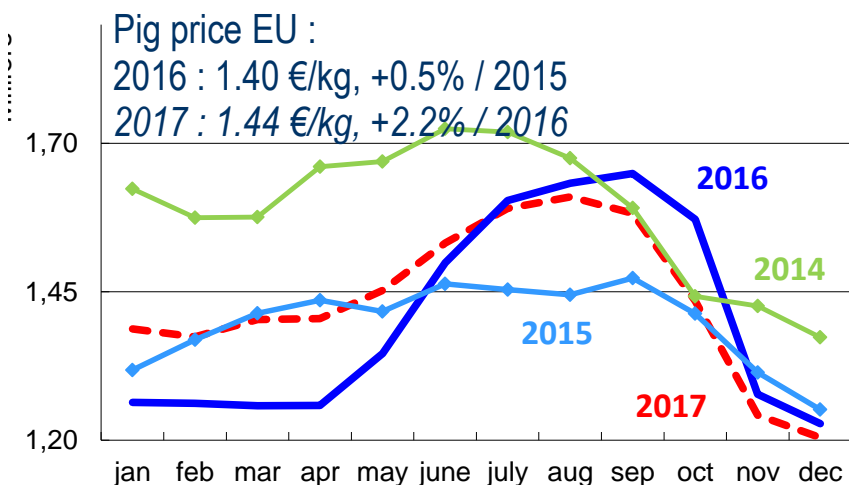
- Production: small decline.
- Price 2017 : very similar to 2016
  - Less export to China is anticipated,
  - More competition from US.
- Feed costs should stay low.
- Profitability : 2017 should be positive.

### Pig price evolution quarterly in Euros



Source: Gira based on EU Commission & national data

### Pig price evolution monthly in Euros/kg

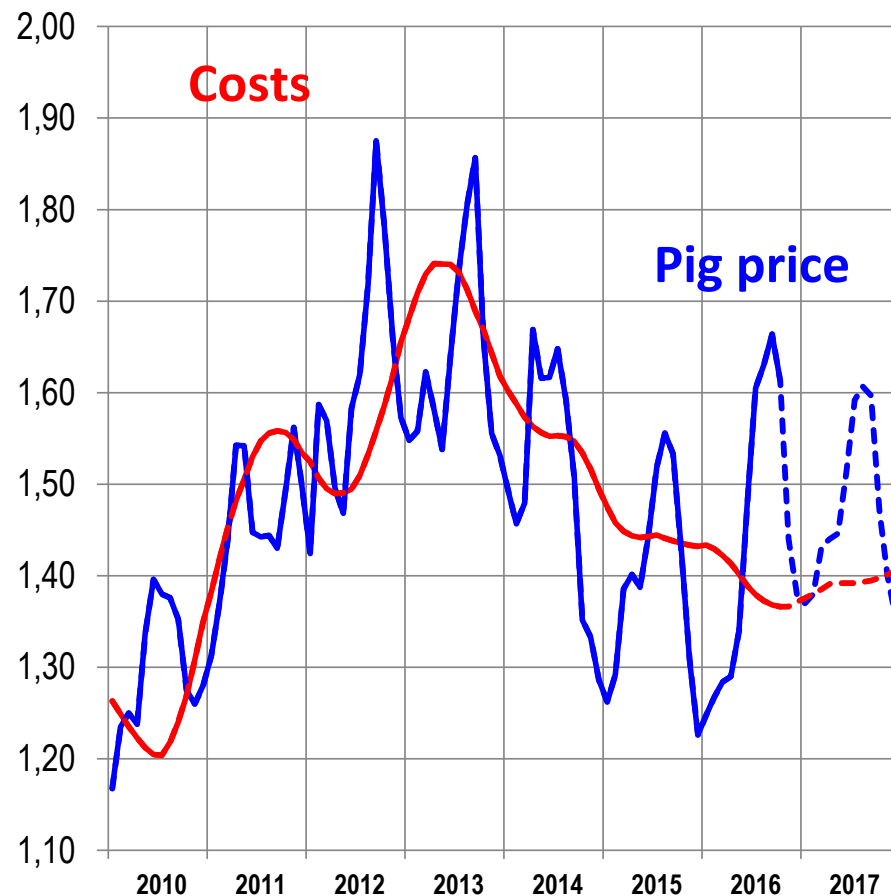


*Good profitability in 2<sup>nd</sup> half 2016*  
*2017 could be a “positive” year for the producers*

## 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

## Producer price and cost of production in €/kg





# Context of environmental sustainability

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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*

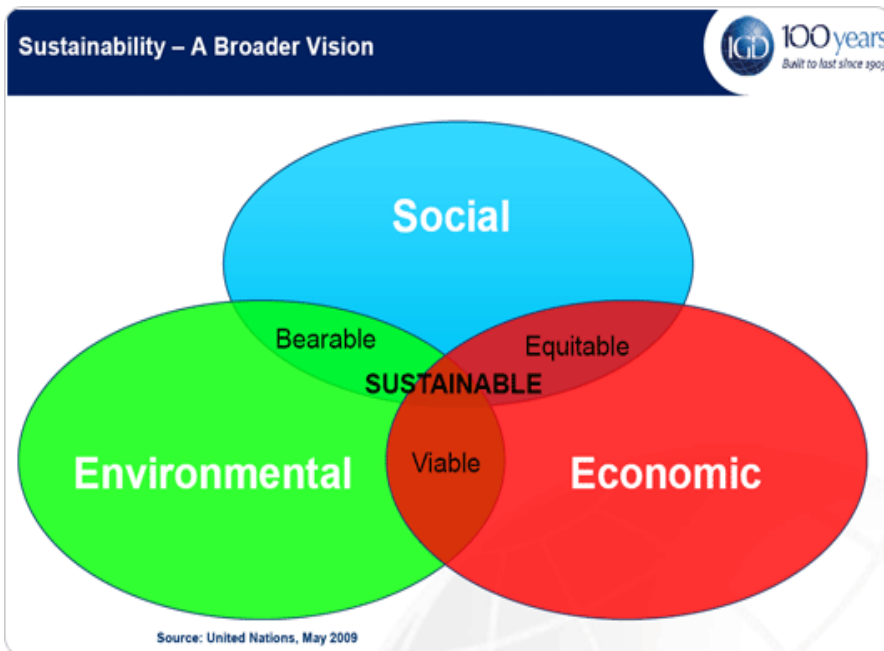
- **Production: important, but declining EU share of world production:**
  - Pigmeat: 21% global share.
  - Poultrymeat: 13% global share.
  - Beef: 14% global share.
  - Sheepmeat: 9% global share.
- **Consumption: the EU is a major market ... but:**
  - The growth and dynamism is elsewhere ... and 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

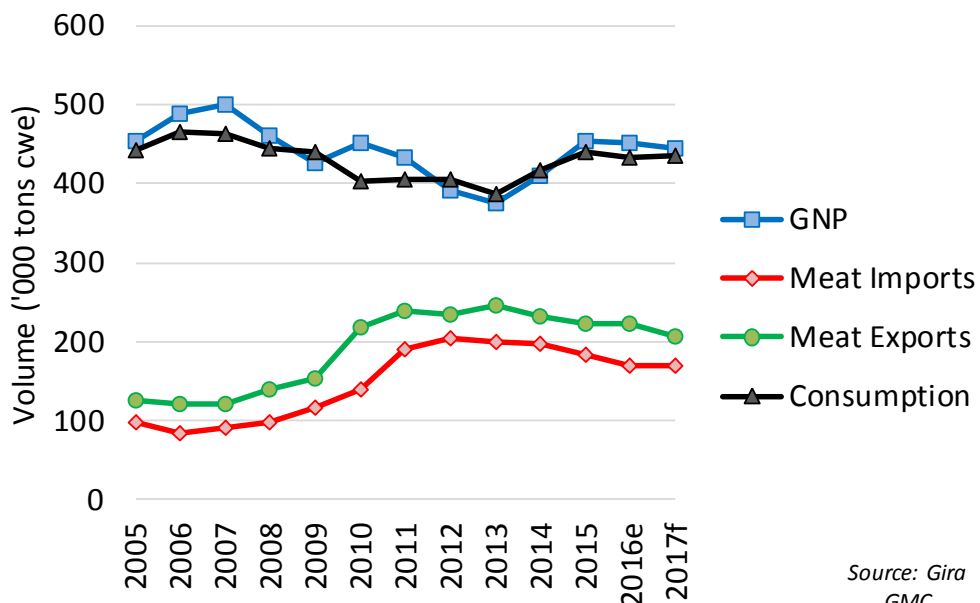


## Sustainable livestock production

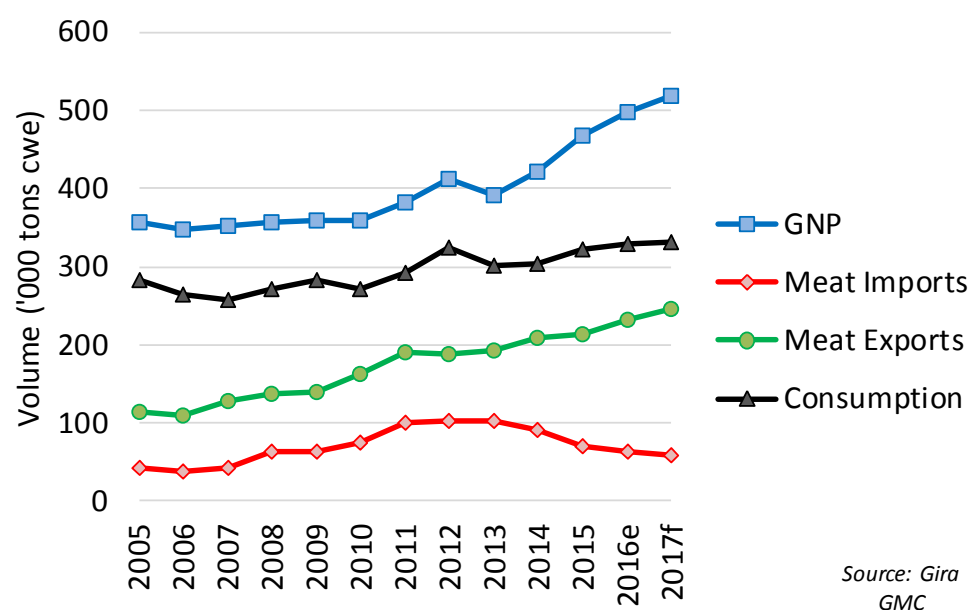
### *Economic sustainability is the fundamental*

- **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 3<sup>rd</sup> 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.**

## Hungarian Pigmeat Balance



## Hungarian Poultry Balance



- **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.



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Thank you for your interest & attention

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