# A closer look at the international pork trade

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Uncertainty due to the financial crisis, less demand for pork and at the same time reduced production, and a clear fall in the import and export of all the major players. These are only a few of the conclusions drawn by the Belgian Meat Office from the market study by the Gira Meat Club about the international pork trade. Producers can also expect more space in the first half of 2009 as a result of the recent fall in feed costs and stronger dollar.

## The situation in Europe

2008 was a year of two halves. During the first six months the price of pork was low and costs were soaring. In the spring and summer the seasonal demand suddenly led to a price increase, which was then lost during a sharp drop in prices in the autumn. The reasons for the latter price decrease were the financial crisis and international competition.

There are great differences in the European pork prices. Within Europe, Germany remains the price setter; Denmark and France are right at the back of the European pack. Thanks to the north, Germany achieved a new import record for piglets and, as a result, is very resistant to the crisis. In Belgium, too, the import of piglets is still increasing. This also benefits domestic production. It permits the abattoirs to stay profitable and also guarantee a constant supply for their customers, thus maintaining trade relations. In Denmark we can see accelerated concentration. In total there are not only fewer producers but we can also see less production.

Due to the many small family businesses, France is facing completely different problems. They are usually mixed and closed companies with little faith in the future. But they still can not simply cease their activities.

Many companies are burdened by high debts, which means they have to continue. What is more, it is impossible to restructure these companies.

A summary of the Gira Meat Club prediction is that, in 2009, we expect a fall in production for practically all of Europe.

The new member states especially seem to be facing a drastic fall in production. For example Slovakia (-15%), the Czech Republic (-10%), Hungary (-6.9%) and Poland (-6.6%).

Of the large production companies, Denmark is the biggest loser with an expected fall of 3.3%. France (-2.6%), Spain (-2.4%) and Germany (-1.0%) are also dealt a blow. Belgium follows with a limited decrease of -0.8%.

To put the statistics into perspective, in the long run, Belgium has already seen a greater fall in production. From 2000 to 2009 the production of pigs will have shrunk by 9%. The meat sector has to compensate for this by importing piglets and slaughter pigs to keep meat production at the same level. The recession has an impact on purchasing power and so it also has an effect on the consumption of pork. In 2008 consumption was still reasonable, but for 2009 we do expect a clear fall by 1.5-2.0%.

What is more, distributors and processors do not want to increase prices and on top of that cheap poultry meat is on the rise as a competitor to pork.

In the first six months of 2008 Europe saw strong export thanks to the restitutions. Export to Russia even achieved 320,000 tonnes, which is 75,000 tonnes over the quota. In the second half year the tide turned, which will continue this year. Export from the EU is under great pressure and we expect a decrease of 15-20%. Here, too, the financial crisis is paying a major role.

This is strengthened by the end of the restitutions and the great pressure from the United States and Canada.

In the meantime intra-European trade is on the rise. For example the Netherlands and Denmark export piglets and slaughter pigs to both Germany and Belgium. As far as the meat trade is concerned, more than ever Germany is the pivot of Europe.

Trade from Denmark remains stable and at a high level and also the Netherlands and France can safeguard their position. In the meantime, export from Spain to France is still increasing.

## Prospects for 2009

Production and demand follow the same evolution for pork. Since export is under pressure and perhaps also greater competition will occur between different types of meat, we expect a fall in the market absorption of 3%. This includes both consumption and export.

For 2009 we predict a further fall in production, since worldwide many producers will have to stop. After a sharp increase in 2008 production costs will fall again and

*Continued on page 27*

*Continued from page 25*
prices are expected to increase again. However caution is still required, after all we do not know how the dollar exchange rate will evolve and what is more the export markets already seem to be evolving even worse than expected.

We also have to wait and see how the distributors and processors will react to the recession. Finally, the animal welfare regulations are also on their way. Before making investments for this, it must be possible to first pay off the current debts.

## United States and Canada

American and Canadian farmers have had good years. Both countries have common trade, so that their economies are extremely interwoven. What is important in North America is the noticeable rise of ethanol production. For example more than a quarter of the corn stock was used for the production of ethanol. Naturally this competes directly with feed crops.

In the meantime Canada has had to deal with the 'COOL' (Country of Origin Label) label legislation, that has been in force for meat since September 2008. American abattoirs are no longer so willing to accept Canadian slaughter pigs. So it means a trade barrier for Canada, with confusion and additional costs as a result.

For the United States the prospects are positive. For over 20 years pork production has seen an upward trend. After all, pork consumption per person in the USA has fallen by 4% and thus has reached the lowest level since 1997. In 2008 meat export from the USA did achieve enormous results. The booming global economy with increased demand for proteins and greater urbanisation, as well as a weaker dollar led to this enormous increase. Considerable pork export from the USA is also expected for 2009, although the exceptionally high level of 2008 will not be matched.

As far as the prices of pork are concerned, the Gira Meat Club has calculated that prices have been very strong in the USA since 2000 and have not followed the normal evolution.

Recently, both supply and the price increased as a result of the booming demand. For 2009 a price increase of 9% is even predicted for the USA. The effect of lower production is thus curbed by less export and lower domestic consumption.

## Brazil

In Brazil the production and consumption of pork are greatly geared to each other. So export stays at a relatively low level of 600,000 tonnes per year. What is more, export is very vulnerable since Brazil above all focuses on the Russian market.

After all, in 2007 46% of the pork exported went to Russia, which makes them very dependent on one unpredictable export destination with all the risks that that entails!

There is great concentration occurring in Brazil. Pork production is concentrated in four states in the south and southwest of Brazil. Furthermore, together the five biggest producers account for more than 70% of the slaughtering.

Traditionally, Brazilians do not love pork, preferring beef and increasingly poultry on the menu. Now the industry is trying to jack up the consumption of pork. However, in times of crisis it could be very difficult to reduce the consumption of poultry.

## Russia

Domestic production is still growing in Russia, but it is being curbed by the crisis. In the meantime, consumption remains so that the demand for import exceeds the quota and the full import duty has to be paid.

That import largely comes from Brazil, although during the first half year Brazil had to deal with sanitary restrictions. Europe then seized part of the market share together with the USA and Canada. Perhaps we will soon see a new competitor on the Russian market with the rise of China.

In the meantime, the Russian population is consuming more and more meat, even if the preference is shifting to cheaper products. In 2008 pork saw the greatest increase.

## The Far East

Economic growth in the Far East is dominated by the continuing momentum from China. China experienced a stable 2008 and is developing as a stable market. Poultry production has recovered after the avian influenza and the small family pork producer can keep his costs under control vis-a-vis large commercial systems.

China is a very important market for our pork offal. After all we can still sell the parts that are not wanted in Europe at a good price in China. But import remains very marginal in China. After all, China always tries to be self sufficient. Consumption therefore closely follows the evolution of domestic production. China does have to stay alert for animal diseases such as PRRS, classic swine fever and foot and mouth disease.

In Japan Denmark has clearly been losing terrain to the USA during the past few years which now accounts for 41% of the important market. Production is very stable in Japan. When demand rose during the past few years, increased import was able to redress the balance.

In South Korea the high demand for pork is past its peak. Korean farmers have lost the battle against beef from the USA. The arrival of US beef is leading to a dip in consumption and thus to a curb on the import of pork. ■