BUSINESS Cobb FOCUS

Publication of Cobb-Vantress, Inc.

THREE - 2002

PROFILE ON RUSSIAN POULTRY INDUSTRY

This edition of Business Focus puts the spotlight on Russia and some of the other countries of the former Soviet Union where, as *Roger Ranson* reports, the poultry industry is in the midst of major restructuring. This feature has been compiled with the assistance of Poultry International.

Catering for growing consumer appetite for chicken

Restructuring of the former state enterprises and new investment is reshaping large sections of the industry where many facilities have been under-utilized, or in some cases lain dormant, for several years.

Chicken production in Russia has increased substantially in the last five years, but the country is still heavily dependent on imports. With chicken imports totalling almost 1.3 million tonnes in 2001, however, the country does have a major impact on the world market.

Domestic production

High levels of imports have been a feature of the Russian market for number of years, amounting to more than one million tonnes for four of the past six years. On the other hand, domestic production has also been rising from a low of 200,000 tonnes in 1997 to an estimated 470,000 tonnes in 2002.

Certainly Russian consumers have a growing appetite for chicken. It is a mainstay of the diet for many families, and they are prepared to pay about one third more for home produced products. Consumption was put at 5.6 kg/person in 2000 and is forecast to rise to around 12 kg within five years.

Large broiler complex in southern Russia.

Government policy is to encourage more locally produced food, partly to stimulate employment and also make full use of the raw materials such as cereals and soya bean which can be grown cheaply in the southern regions.

Business climate

Existing production is centered on some large, fully integrated companies that are starting to gear up output and there is a change in the business climate. Over the past ten years few Russian investors have put their money into food production, but under President Vladimar Putin there is more willingness to invest in this industry.

Substantial investment is now being made by Russian entrepreneurs - and also by some foreign investors - bringing farms up to modern standards in all aspects of production.

The expertise is available and with more direct input into management and greater flexibility in the work force, the expansion is gaining momentum.

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The Russian chicken market

	1996	1997	1998	1999	2000	2001	2002 (estimate)
Production	290	200	280	350	380	430	470
Imports	1,102	1,283	1,032	930	949	1,280	1,350
Consumption	1,379	1,472	1,301	1,275	1,324	1,705	1,814
Exports	13	11	11	5	5	3	6

(1,000 tons ready-to-cook equivalent)

Russia's big influence on world trade

RUSSIA is one of the key players in the world trade in poultry meat, being the largest importer ahead of China and Japan.

Last year there was a massive increase in Russian poultry meat imports to 1.37 million tonnes, and in the first three months of 2002 imports surged by almost 24 per cent to 321,000 tonnes. Imports from the largest supplier, the United States, were worth $635 million in 2001 while US sales to Estonia and Latvia for both direct consumption and re-export to Russia, added up to another $30 million.

Veterinary controls

The US imports were brought to an abrupt stop by the temporary ban imposed in March. Trade was halted for about five weeks following apparent Government concerns about product quality and then resumed on a limited basis, but imports are now faced with much stricter requirements.

A draft protocol includes provisions for tighter veterinary controls, complete re-inspection of all poultry plants including growing facilities, limitations on use of feed from genetically-enhanced grains and certain antibiotics, and new shelf life requirements including six months for leg quarters and two months for ground poultry.

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Russia's big influence on world trade

This has sparked the debate about how far the Russian Government is pursuing a policy of protectionism under pressure from domestic producers.

'Shameless protectionism'

George Watts, president of the US National Chicken Council, spoke about examples of 'shameless protectionism' when he spoke at an Agra Europe conference in London in May.

"Many of them are based on what we considered to be bogus sanitary or veterinary grounds," he said. "For example, the European Union keeps out American poultry on the ground that we use chlorinated water in processing......and we have been doing this for over 40 years."

The debate is likely to intensify in coming months, especially as Russia's accession to the World Trade Organisation is expected to be completed before next year's WTO Ministerial meeting in Mexico.

Most of the US chicken is imported as frozen leg quarters, providing a cheap source of protein for Russian consumers. Saving several dollars a month on chicken is seen as an important factor in many Russian household budgets.

On the other hand, this trade is also beneficial to the whole US chicken industry. Leg meat made up 90 per cent of US chicken exports in 2001 and 85 per cent over the past ten years.

Substantial exporter

Among chicken importing countries, China is the second largest taking around a million tonnes a year followed by Japan with more than 700,000 tonnes. China can also be a substantial exporter, although total sales in the first quarter of this year dropped from 82,000 to 43,000 tonnes. Ironically, this drop coincides with success in the Russian market where Chinese exporters achieved sales of more than 4000 tonnes for the first four months of this year, compared with virtually nothing through 2001.

Increased sales

Another country supplying into Russia is Brazil. In the first quarter of 2002 Brazilian chicken exports in general rose steeply by nearly 18 per cent to 322,000 tonnes, with trade with Russia up from 11,000 to 30,000 tonnes and increased sales also to Europe and Asia.

The level of future Russian imports will be determined by the extent of rising chicken consumption and increasing domestic production, coupled with changes in import controls reflecting pressure from its own industry and from world trade.

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Growing appetite for chicken

As well as increasing efficiency and output, major improvements are being made in all aspects of husbandry particularly relating to biosecurity, feed manufacture, food safety and financial management.

Profits are being made and are being ploughed back into the chicken business, with the emphasis on encouraging Russian investment rather than having to rely on foreign investors who can be deterred by what they regard as complex local regulations and issues relating to land tenure.

Thriving trade

There is also a thriving trade in backyard production which some sources estimate to account for up to 30 per cent of total output.

There are forecasts that poultry meat output will rise five-fold from 1999 to 2010, reaching 3.9 tonnes. But with this expansion is coming growing industry pressure on the Government for tighter import controls, which has resulted in the measures described in the accompanying article.

Meanwhile, progress is being made in some of the other former Soviet states. Ukraine has several large producers and is attracting foreign investment in a poultry meat market isolated from world trade and in Kazakhstan two of the larger complexes are expanding and investment is likely to increase.

Brussels acts to curb cheap salted chicken imports

PRESSURE on internal EU chicken prices from low-priced imports is expected to ease later this summer when new tariff rules on lightly salted chicken start to take effect.

Brussels has finally taken action over the 'loophole' in the customs regulations which has allowed ever-increasing volumes of so-called 'salted poultry meat' (almost entirely chicken) to enter the EU from Brazil and Thailand, at significantly lower rates of duty than standard fresh or frozen poultry.

Customs tariff

These imports have been taking advantage of a product category in the customs tariff that was originally devised for an altogether different reason, and which stipulates a minimum salt content of 1.2%.

However, since 1996 exporters in Brazil and Thailand have discovered there is a huge potential EU market for ready-processed chicken meat with around 1.2-1.5% salt that can be made into popular added value products like nuggets, burgers and 'steaks'. The imports are frozen, because the salt content is too low to act as a preservative.

Widespread disruption

As a result, EU imports of low-priced salted poultry in this category have ballooned from just 3,700 tonnes in 1996 to 225,000 last year (Fig 1).

Over the last few years they have reached such volumes that they have been causing widespread disruption to the market.

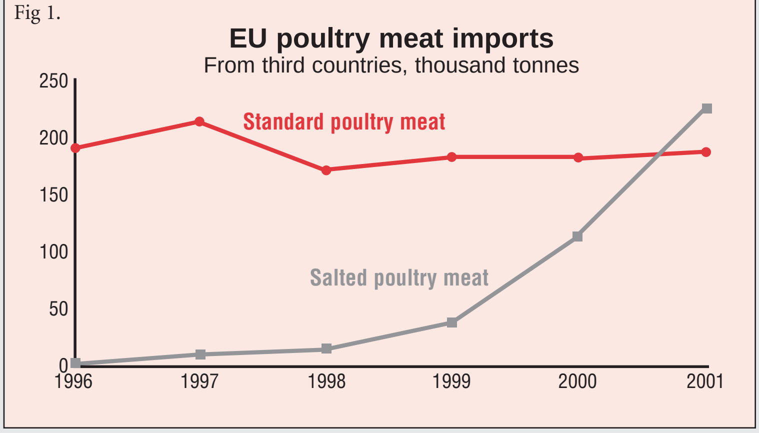
Over the five year period the salted meat imports have accounted for all the growth in imports of poultry from third countries, as figure 1 shows, and last year they exceeded the volume of conventional poultry imports for the first time. The main destinations have been Germany, the Netherlands and the UK, which are the leading industries in added value chicken products.

The EU Commission has now stepped in and altered the rules so that lighted salted poultry meat that enters the EU in frozen form will attract the same duty as normal frozen poultry.

Price structures

It is not really expected that the level of imports will diminish, but that they will now enter the EU at 'normal' prices, causing less damage to EU domestic price structures.

Fig 1.



EU broiler sector still in retreat

EXPANSION of EU broiler production has come to a sharp halt as the industry struggles to cope with a further deterioration in prices as the year has progressed.

Official representatives from member states meeting in Brussels reported that the broiler sector was in ‘crisis’, partly due to the effect of imports of low-priced salted chicken, and partly due to overconfident expansion last year.

The trend on Dutch producer prices (fig 2) typifies the pattern around the EU with prices dropping steadily through the January-June period.

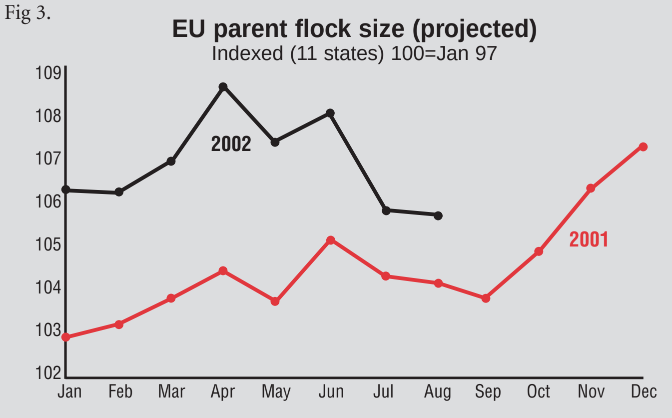
As a result, broiler chick placings fell by 5% in the first three months of the year and breeder flocks have also now started to contract, although the flock size in the EU still remains above the levels of 2001 (fig 3).

Among the steps taken by Brussels to strengthen the market has been to increase the level of export refunds on whole chickens, to encourage exporters to meet competition, from Brazil in particular, on their traditional markets.

The Commission is also considering whether to switch some of the refunds quota on whole birds to chicken portions, for which the available quota has already been fully taken up.

Fig 2.

Fig 3.



Germany’s new animal rights eclipsed by biggest-ever organic scandal

JUST as predicted in our last issue, Germany has made the news again with sweeping legislation on animal rights.

However, in the same month, Germany’s credentials as a champion of food quality also took a severe knock with the eruption in May of a major scandal over feed contamination in the organic poultry and eggs sector.

Final ratification

The new animal rights legislation was passed overwhelmingly by the Bundestag in May, and will make Germany the first country in Europe to establish animal rights as part of the constitution. The new law is subject to final ratification by the Upper House this summer.

The issue was largely brought to a head by the question of Muslim slaughter methods, in a controversy dating back to 1995. That was the year that traditional Muslim (Halal) slaughter was banned in Germany, on the grounds that the procedure did not avoid unnecessary suffering.

However, last year the Halal ban was reversed by the German Constitutional Court, which ruled that it infringed religious rights under the Constitution.

Husbandry methods

By establishing animal rights in the Constitution as well, the new law puts religious rights and animal rights head-to-head on more equal terms. So clearly there are further battles ahead on the Halal question. It also leaves the door open to further rulings in future on what methods of husbandry might be considered as inflicting unnecessary suffering.

Almost certainly, organic, extensive production methods will be automatically favoured, so it was ironic that in late May that the public’s confidence in the integrity of organic production was badly shaken by the appearance in organic chicken and eggs of a herbicide linked with cancer.

Contaminated feed

The scandal intensified when it emerged that the contamination might have been going on for three years, and not just the six months originally thought; and that there seemed to be more than one source of the contaminated feed. It was also revealed that non-organic products had also been affected, and the contamination had also spread to pigs.

The result is that sales of organic products have fallen by 50% in Germany, and the head of the country’s biggest retailer of organic products, Bioland, has said the credibility of green farming was at stake.

Organic farms

So far, more than 100 organic farms have been affected. Poultry meat supplied to 10 of the 16 Länder (regions) in Germany can be linked with the contaminated source, as well as exports to Austria, Denmark, the Netherlands and Belgium.

As well as in poultry meat, the herbicide residues have been found at organic farms with a combined total of 200,000 organic layers and 4,000 pigs.

The chemical in question is Nitrofen, and the puzzle yet to be solved is where it is coming from. It has been shown to cause cancer in rats, and has been banned for farming use since 1981, but is highly persistent in the environment, like the notorious insecticide DDT.

Communist years

The residues were originally traced to wheat that had been stored at a depot in the former East Germany where both Nitrofen and DDT had been kept during the Communist years, and where contaminated dust was found.

But then it was argued that the level of contamination in the wheat was too high and too uniformly distributed to be explained by this. Also, some affected grain samples had not come from the depot, including one batch delivered direct from another organic farm (where no traces were found).

All this mystery has called into question the integrity of the entire grain trade, and raised the spectre of systematic fraud and even sabotage. The repercussions on the food chain and consumer confidence could be long lasting.

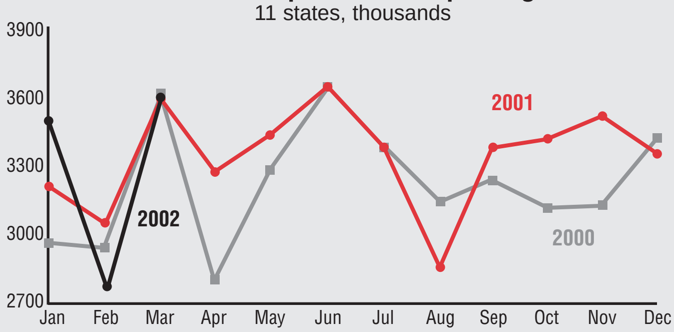
MARKET TRENDS

Feed ingredient prices

National currency/tonne	Current (June)	3 months ago (Mar)	6 months ago (Dec)	9 months ago (Sept)	Year ago (June)
US wheat ($)					
soft red winter	118	114	116	105	97
US maize ($)					
No 3 yellow corn	99	90	95	87	82
US soya ($)					
No 2 yellowbeans	196	180	176	186	181
EU feed wheat (£)					
UK - national average	60	71	77	76	76
EU feed wheat (€)					
Rotterdam	115	124	131	128	129
EU feed wheat (€)					
Hamburg	108	119	119	114	128
EU maize (€)					
Bologna	149	137	130	123	139
S American soya ($)					
Argentina/Brazil	207	157	192	236	171

EU female parent chick placings

11 states, thousands



EU broiler prices

€/kg liveweight (except UK & Denmark)

	Current (June)	3 months ago (Mar)	6 months ago (Dec)	9 months ago (Sept)	Year ago (June)
Belgium	0.71	0.65	0.47	0.77	0.89
France	0.86	0.88	0.89	0.88	0.87
Germany	0.72	0.72	0.74	0.78	0.79
Italy	0.72	0.79	0.64	0.85	0.75
Netherlands	0.68	0.71	0.75	0.79	0.78
Spain	0.80	1.07	0.79	1.16	1.12
Denmark (DKr)	4.41	4.61	4.76	4.61	4.56
UK (£)	0.48	0.49	0.50	0.50	0.49

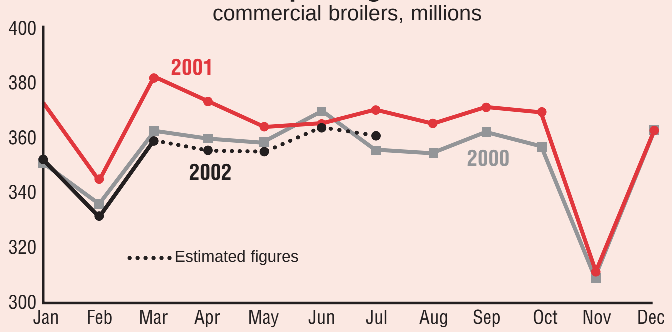
EU average wholesale prices

per/kg, whole oven-ready chicken

	UK (£)	Germany (€)	Italy (€)	France (€)
May	1.75	1.58	1.18	1.87
Jun	1.78	1.58	1.40	1.77
Jul	1.72	1.57	1.33	1.75
Aug	1.64	1.56	1.31	1.64
Sep	1.64	1.54	1.37	1.60
Oct	1.64	1.53	1.13	1.68
Nov	1.65	1.49	1.16	1.68
Dec	1.65	1.45	1.12	1.61
Jan ‘02	1.65	1.41	1.05	1.60
Feb	1.58	1.39	0.96	1.59
Mar	1.59	1.38	1.20	1.50
Apr	1.60	1.38	1.17	1.50

EU chick placings, 11 states

commercial broilers, millions



Exchange rates

	Current (June)	3 months ago (Mar)	6 months ago (Dec)	9 months ago (Sept)	Year ago (June)
£ / €	1.55	1.59	1.59	1.60	1.62
$ / €	0.91	0.89	0.90	0.91	0.86
£ / $	1.46	1.41	1.44	1.46	1.39

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