

Fighting back to recover lost export markets

The incidences of Highly Pathogenic Avian Influenza (HPAI), which first hit Thailand in November 2003 and reoccurred in mid 2004, have severely affected the Thai broiler industry. The public, both domestically and internationally, questioned the Royal Thai Government's transparency over the handling of the outbreak. At the same time, both exports and domestic consumption of chicken meat in 2004 dropped sharply, with estimated losses among integrated chicken operations of 5.0-6.0 billion baht (US\$ 126-152 million).

Although the outlook for the Thai broiler industry is still volatile, most broiler entrepreneurs are quite optimistic that, if the disease outbreak does not develop a human-to-human transmission vector, production in 2005 should recover by 4-5 percent over the 2004 level to 940,000 tons. This growth is attributed to improved management efforts by disease control agencies and export-oriented producers to control the HPAI outbreak, availability of unused production capacity among poultry processors, and a recovery in domestic consumption and, importantly, exports.

Trade sources believe that HPAI



The new face of Bangkok, still taking shape, contrasts with the more traditional image of Thailand reflected in the Imperial Palace.

incidences in bird flocks may decline this year following heavy depopulation, increased biosecurity among integrated poultry processors. Although heavy losses in 2004 made it difficult for several export-oriented processors to meet their cash flow requirements, debtors of these poultry integrators especially bankers have been flexible in their financing policies to assist these troubled entrepreneurs.

For example, one of the largest broiler processing companies is reportedly successful in refinancing, which has helped very much to cover its cash flow need. Meanwhile, trade sources report that most processing plants can access finance to boost their cash flow and invest in production lines of cooked



products for export. As a result, supplies especially cooked products will be easily increased when the demand picks up.

Average live broiler production costs in 2005 are forecast to decline to some extent, due mainly to the likelihood of less expensive feed ingredients especially soybean meal and corn and anticipated improvements in overall disease control and surveillance.

World trade and welfare

In this edition we move the focus from Brazil to another of the world's major chicken exporting nations — Thailand. The report above, compiled through the resources of the USA Poultry & Egg Export Council, shows how the Thai industry has had to cope with

the severe impact of disease epidemic but is now looking to better prospects through this year and into the future.

Our market commentary (page 4) looks at the implications of the World Trade Organisation's ruling that the European Union was

wrong to halt imports of salted poultry meat. Welfare issues are playing a greater role in chicken production and consumer opinion - we consider the latest developments in Europe where these factors have had the greatest impact so far.

Consumer confidence

After a sharp drop in domestic consumption in 2004, broiler meat consumption in 2005 is estimated to recover by 11 percent from the 2004 level to 710,000 tons. High stock levels especially leg quarters will continue to depress retail prices and stimulate demand. In addition, the implementation of improved disease controls should help to rebuild consumer confidence in the safety of chicken meat.

Domestic prices for live broilers are currently at 29-30 baht/kg (33-35 cents/lb), as opposed to 26-27 baht/kg (30-32 cents/lb) in January 2004. Retail prices for chicken boneless breast meat in Bangkok are 53-54 baht/kg (62-63 cents/lb), down from 63-64 baht/kg (73-75 cents/lb) in January 2004. Trade sources reported that prices for leg quarters reduced sharply from about 45 baht/kg (52 cents/lb) from mid 2004 to currently 25-30 baht/kg (29-35 cents/lb), reflecting the high stocks of these chicken parts.

Move to cooked product

Many trade sources believe that Thai broiler meat exports should recover from 210,000 tons in 2004 to about 270,000 tons in 2005, mainly because of the superiority of Thai cooked products in terms of quality and prices over such other competitors as China and Brazil and because of the ability of Thai producers to increase cooked product supplies quickly. However, this export level still falls far short of record exports in 2003 (545,000 tons).

Table 1

	Thailand broiler production (1000 tonnes)					
	2003 Official	Revised est. 2003	2004 USDA Official	Est. 2004	2005 USDA Official	Forecast est. 2005
Beginning stocks	0	70	0	90	120	140
Production	1340	1340	920	900	950	940
Total imports	0	0	0	0	0	0
Total supply	1340	1410	920	990	1070	1080
Whole, exports	0	0	0	0	0	0
Parts, exports	527	545	255	210	300	270
Total exports	527	545	255	210	300	270
Human consumption	788	750	525	620	650	690
Other use, losses	25	25	20	20	20	20
Domestic consumption	813	775	545	640	670	710
Total use	1340	1320	800	850	970	980
Ending stocks	0	90	120	140	100	100
Total distribution	1340	1410	920	990	1070	1080



Typical modern poultry housing which has transformed the Thai industry.

Trade sources foresee that these total exports (270,000 tons) should belong to cooked products only because a likelihood of continued import suspension on uncooked chicken meat by the governments of importing countries. Cooked

products should be mostly exported to the EU, Japan, South Korea, Singapore and Hong Kong.

The trade disruption with the primary importing countries heavily affected all integrated producers in 2004. Some large

operations had recently completed integration of farming and processing activities, taking on debt to pay for the improvements. Most small and medium scale operations had not focused on cooked products before the crisis.

Table 2

Wholesale prices for live broilers in Bangkok

Prices in Baht per kilogram

	2003	2004	% change
January	23	26	13
February	20	14	-30
March	20	26	30
April	27	30	11
May	30	28	-7
June	33	26	-21
July	35	25	-29
August	32	24	-25
September	22	27	23
October	24	22	-8
November	28	21	-25
December	25	26	4

Exchange rate 39.5 local currency/US\$

Table 3

Retail prices for skinless boneless broiler meat in Bangkok

Prices in Baht per kilogram

	2003	2004	% change
January	59	63	7
February	58	54	-7
March	53	62	17
April	54	63	17
May	62	63	2
June	69	63	-9
July	70	61	-13
August	71	61	-14
September	65	58	-11
October	66	56	-15
November	69	54	-22
December	67	53	-21

Exchange rate 39.5 local currency/US\$

Table 4

Thailand's chicken meat exports in 2002 (January – December)

(all in tonnes)

Destination	Uncooked meat	Further processed	Total exports
ASIA	281,995	93,958	375,953
Japan	188,115	83,780	271,895
Singapore	10,670	4698	15,368
China	21,847	99	21,586
Hong Kong	5695	3484	9179
South Korea	41,720	1832	43,552
Malaysia	14,082	34	14,116
Others	226	31	257
EUROPE	103,747	61,650	165,397
European Union	98,231	61,628	159,859
Belgium	805	876	1681
Germany	59,308	5862	65,170
Netherlands	21,784	17,676	39,460
United Kingdom	15,890	32,132	48,022
France	63	2076	2139
Others	381	3006	3387
Other Europe	5516	22	5538
MIDDLE EAST	2829	147	2976
Kuwait	687	0	687
Saudi Arabia	0	40	40
Dubai	0	0	0
Others	2142	107	2249
AFRICA	75	23	98
South Africa	75	23	98
Egypt	0	0	0
Others	0	0	0
OTHERS	281	1010	1291
TOTAL	388,927	156,788	545,715

A ban on uncooked products forced them to struggle to diversify into cooked products. Now all producers are forced to compete fiercely in selling cooked products while overseas demand for these products, especially high valued items, grows slowly. However, all integrated processors are likely to adjust themselves much better to this new trade environment.

As Thailand is not exporting uncooked chicken products, there are no export price quotations on basic uncooked items such as boneless leg and skinless boneless breast from Thailand. Trade sources reported that C&F price quotations for cooked products are in a wide range of US\$ 2,200-4,000/ton. Prices for fried box-shape-cut boneless leg, one of the basic cooked products, have dropped from about US\$ 3,000/ton in mid 2004 to US\$ 2,200-2,400/ton, due to fierce competition among Thai packers. Meanwhile, prices for high value-added items, such as grilled seasoned boneless breast/leg in stick, are still profitable at US\$ 3,500-4,000/ton. Cooked chicken products are normally made-to-



Cobb was one of nearly 500 exhibitors at the VIV Asia 2005 show in Bangkok, illustrating the importance of livestock to the Thai economy.

order meat products that are processed or prepared by heat (such as grilling, steaming, boiling, etc.). Some of these cooked meat products are puffed or seasoned (with salt, Japanese sauce, etc.).

Trade sources reported that current stocks held by all poultry meat exporters are about 130-140,000 tons, down from 160-180,000 tons in mid 2004, due mainly to a production scale-down and heavy sales of leg parts into the domestic market.

No price support – but import controls

Thailand does not conduct price support and export subsidy programs. Because of the HPAI outbreak, the government launched several measures to cope with the disease and to support the poultry industry from farmers to integrated poultry processors. These measures include the HPAI Stamping-Out Campaign on poultry farms/areas, a compensation scheme for

TABLE 5

Comparison of chicken meat exports in 2003 and 2004 (January – October)

(all in tonnes)

Destination	Uncooked meats		Further processed		Total exports	
	2003	2004	2003	2004	2003	2004
ASIA	227,681	14,653	75,820	88,356	303,501	103,009
Japan	153,658	9706	67,409	76,543	221,067	86,249
Singapore	8088	576	3964	4254	120,52	4830
China	17,693	603	64	0	17,757	603
Hong Kong	4757	234	2723	2810	7480	3044
South Korea	32,872	2897	1612	4503	34,484	7400
Malaysia	10,387	637	34	0	10,421	637
Others	226	0	14	246	240	246
EUROPE	89,146	11,027	50,731	60,005	139,877	71,032
European Union	85,686	10,095	50,716	59,991	136,402	70,086
Belgium	652	115	649	507	1301	622
Germany	54,266	5496	4735	7193	59,001	12,689
Netherlands	17,756	2978	14,875	15,597	32,631	18,575
United Kingdom	12,568	1494	26,092	32,985	38,660	34,479
France	63	0	2024	379	2087	379
Others	381	12	2341	3330	2722	3342
Other Europe	3460	932	15	14	3475	946
MIDDLE EAST	2046	382	123	97	2169	479
Kuwait	545	189	0	96	545	285
Saudi Arabia	0	0	28	0	28	0
Dubai	0	48	0	0	0	48
Others	1501	145	95	1	1596	146
AFRICA	0	75	23	7	23	82
South Africa	0	75	23	7	23	82
Egypt	0	0	0	0	0	0
Others	0	0	0	0	0	0
OTHERS	241	0	927	616	1168	616
TOTAL	319,114	26,137	127,624	149,081	446,738	175,218

disease-affected farmers, fee exemptions for chicken slaughterhouses, and outreach to help unemployed workers/ operators.

In addition to producer support, the government, lobbied by a group of integrated broiler processors, proposed in late 2004 a barter-trade to the Russian government of Thai chicken meat for Russian fighter aircraft. The idea was to dispose of the huge stocks held by exporters. However, Russia finally did not agree to these negotiations mainly because Russia normally buys a limited amount of imported frozen chicken meat, and has implemented strict health requirements on imported meat products.

Earlier this year the Thai Cabinet approved an additional budget of 4.7 billion baht (approx. US\$ 120 million) for a three-year bird flu eradication plan and contingency measures to cope with the possible outbreak of human-to-human infection. It was reported that about 741 million baht (about US\$ 19 million) would be set aside for contingency measures such as establishment of new human vaccine labs, education program, and procurement of equipment and anti-viral medicine.

Thailand is a protected poultry market through the government's use of non-transparent controls of the import permit requirement, high WTO-bound rates of import tariff (currently 30 percent for chilled or frozen uncooked meat and 40 percent for cooked chicken meat), and a discriminatory import permit fee on uncooked products (approx. US\$ 250/ton).

As a result of control practices, importers can only supply commodities that do not compete with domestic production, including broiler genetics and turkey meat, to Thailand.

Although the Thai authorities recently agreed in principle to accept US cooked products for entry, USDA/Washington and FAS/Bangkok are negotiating with Thai authorities to waive some additional unnecessary health requirements imposed by Department of Livestock Development on US poultry imports. In addition, FAS/Bangkok also put forth USDA/APHIS's request to the Thai DLD to remove the ban on all live



poultry and poultry products (uncooked and cooked products) as the United States eradicated the HPAI disease in the country. The DLD has not yet responded to this request.

Disruption of US trade

Thailand is a potential market for US chicken parts (especially leg-quarters), mechanically deboned meat (MDM), and value-added chicken meat. Thai local consumers, like those in other Asian countries, prefer dark meat to white meat. Recent official data indicated that prices for bone-in legs in the Thai market are only 9-10 percent cheaper than breast

meat, compared to approximately a 30 percent differential in the U.S. market.

In preliminary price analysis, FAS/Bangkok found that the hypothetical costs of US leg-quarters imported to Thailand should be 10-20 percent cheaper than domestic wholesale prices for leg-quarters sold in Bangkok. This is also the case for MDM. Potential buyers for chicken parts and MDM should be food processors (sausage processors in the case of MDM) and supermarkets. Value-added chicken meat can be introduced to modern retail markets and HRI industry. Thailand may import bone-in-leg meat for processing in Thailand

Tackling avian influenza

The Thai Government's policy against Highly Pathogenic Avian Influenza which first hit the country in autumn 2003 has been criticised for reacting too slowly to the crisis.

In response to a wide controversy on whether to introduce vaccination, the government set up a national-level committee to study possible strategies against avian influenza and later announced that vaccination would remain prohibited with strict penalties for violation.

New farm biosecurity measures recommended by the government are thought to have played a significant role in countering the disease.



and re-export it to such markets as Japan and non-EU countries. The current existence of HPAI outbreak in Thailand should offer opportunity for Thai processors to source raw material from the US and add flavorings, treatments, and cook for re-export.



Welfare report highlights broiler concerns

CONSUMERS in the EU believe that the poultry industry is the area of livestock farming most in need of welfare improvements.

This was one of the key findings of the Eurobarometer survey commissioned by Brussels on consumer attitudes to the welfare of farmed animals.

The report found that 42% of consumers in the EU overall believed that priority should be given to improving the welfare of intensively kept meat chickens. This was only slightly behind laying hens at 44%, which came

top of the table for improvements in welfare.

These two sectors, layers and broilers, came significantly ahead of other farming sectors in consumers' welfare perceptions, with pigs felt to be a priority for 28% of consumers and beef cattle next at 18%.

The member states where consumers were most concerned about broiler welfare were Sweden (75%), Denmark (74%) and Greece (70%). For France the figure was 49%, Germany 45%, and Spain 28%.

The Eurobarometer survey will

be used as a major tool by Brussels for planning new welfare legislation across farming. It is already being used to strengthen the Commission's case for the new Directive on broiler welfare reported on these pages.

The survey was conducted right across the EU and asked a wide ranging set of questions. Among its general findings was that 57% of consumers would be prepared to pay more for welfare-friendly food products; and that 74% believed they could improve animal welfare through their shopping choices alone.

Consumers also expressed concern that welfare friendly products could be hard to identify when shopping, and that insufficient weight was given to welfare in their country's agricultural policies.



Salted chicken set to make an EU comeback

BRAZILIAN broiler exporters are celebrating a victory over the EU which gives them back the right to export salted poultry meat to Europe at a special low import tariff.

Earlier this summer the World Trade Organisation (WTO) ruled that Brussels had been wrong to halt the imports in 2002, and the EU is now faced with a deluge of cheaper chicken meat.

For Brussels, it means a return of a problem that it believed had been laid to rest three years ago. This was when the Commission

closed a loophole in its import classifications, in order to prevent a runaway growth in shipments of lightly salted poultry from Thailand and Brazil.

Soon afterwards, however, the two major exporters raised a challenge with the WTO, claiming that the Brussels action was protectionist under trade rules. The WTO has now found in their favour and has demanded that the EU re-instate the preferential tariff rate.

For the moment Brazil will be the beneficiary, since imports of

raw meat from Thailand into the EU have been stopped under the control measures for avian influenza.

The fear now in the EU is that the salted poultry imports will rapidly return to their former level, and then continue the previous rate of growth. There is concern that this influx of chicken breast meat, at prices significantly lower than those already being imported, will do serious damage to the European broiler industry.

This is coupled with a sense of outrage that consumers will be

supplied with a basic food that has had salt added to it for no practical purpose.

The EU poultry processors' association, AVEC, is leading a campaign to get the ruling reversed. It claims that the WTO looked at the issue solely as a trade dispute, when it should have been treated as a customs classification matter.

This reflects Brussels original approach to the problem. It maintained the 'salted poultry meat' classification was devised to be a specialist category for chicken meat preserved by salting.

By contrast, the imports that had been arriving in the EU had contained a salt content of around 1.2%, enough to qualify for the tariff reduction but not enough to preserve the meat, which was frozen.

It argued that the salt had been added for no other reason than to qualify for the lower tariff. For this reason it amended the tariff rules so that the salt content had to be sufficient to preserve the meat without freezing.

However, Brazil and Thailand successfully argued at the WTO that the original rules never stated the salt must act as a preservative.

Before it was withdrawn in 2002, the lower tariff had a huge impact on the pattern of EU poultry imports. In 1996, when the loophole was first exploited, imports of standard poultry meat stood at around 200,000 tonnes and those of salted meat were 3,700 tonnes. By 2001, the standard imports had remained level but had been overtaken by the salted format, which had risen to 225,000 tonnes.

The salted chicken is normally used for processed products where the added salt passes unnoticed.

Europe digests implications of new Welfare Directive

THE big story this summer for the European broiler sector has been the arrival of the first draft of the proposed Directive on Welfare.

This will be a new piece of legislation, and will be the first time that EU-wide standards will be set for the welfare of intensively reared meat chickens.

The proposals have had a predictably controversial reception, with the industry expressing reservations about the conditions imposed, while welfare groups have suggested the rules are not strong enough. A consultation process will now ensue before any final version is adopted.

Although broilers are currently covered by general welfare legislation, the sector is notable for being a major area of intensive livestock production in the EU which does not have its own species-specific set of farm animal welfare standards.

The heart of the proposal is its two-tier stocking density. There is a 'basic' maximum stocking density of 30kg / sq m for farmers that can demonstrate an across-the-board set of housing and management standards. Those

conditions relate to drinkers, feeding, litter, ventilation and heating, lighting regime, inspection, cleaning, record keeping and health problems.

However, 30kg / sq m is comparatively low in relation to common practice. In the UK for example, 96% of producers stock at a higher density, and the industry's monitored scheme for Assured Chicken Production permits up to 34kg / sq m. One body that does already demand 30kg is the UK's principal animal welfare organisation the RSPCA, which runs the Freedom Food accreditation scheme.

The view is that 30kg/ sq m is not economic for the mainstream industry, and is likely to raise costs by an average of 5%, according to a model based on French production systems.

What makes the proposed Directive more workable from the industry's point of view is the inclusion in the draft of a second, higher permitted stocking density of up to 38 kg/ sq m. This would reduce the rise in costs to a less burdensome average of around 2%, it is estimated.

Producers who wished to grow

chickens at this higher density would have to meet more stringent conditions. These include an assessment of the production site, specific requirements on training and, crucially, monitoring for welfare indicators at the processing plant by veterinary inspectors. Failure to meet target levels on welfare downgrades etc. would force that unit to drop back down to 30kg /sq m.

A further complication is that each member state must apply for, and be granted, a derogation to operate the higher stocking density option in that country.

There is also concern that the rules apply to broilers reared in the EU, and not necessarily those that are sold there. So the domestic industry is unhappy that imports could have an additional competitive advantage.

Nevertheless, the incorporation into the draft of the two-tier stocking density is at least seen as recognition by Brussels that management standards matter more than a rigid, one-size-fits-all stocking rule.



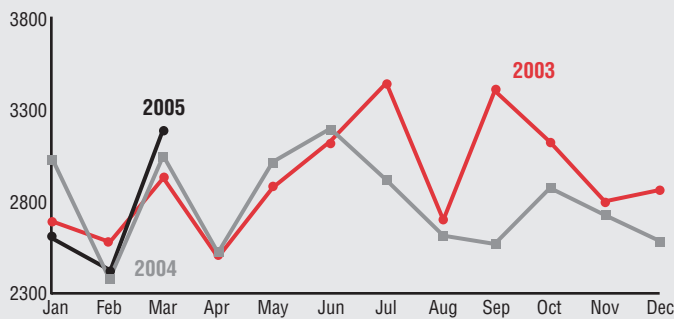
MARKET TRENDS

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	139	133	na	145	140
US maize (\$) No 3 yellow corn	99	97	na	93	118
US soya (\$) No 2 yellowbeans	271	250	224	220	345
EU feed wheat (€) Rotterdam	108	105	na	105	130
EU feed wheat (€) Hamburg	na	na	na	110	142
EU feed wheat (£) UK - national average	63	66	63	59	78
EU maize (€) Bologna	133	123	na	121	178
S American soya (\$) Argentina/Brazil	251	235	220	223	na

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	0.88	0.85	0.73	0.99	0.75
France	0.77	0.77	0.79	0.83	0.82
Germany	0.70	0.70	0.71	0.73	0.74
Italy	0.86	0.90	0.89	0.91	1.08
Netherlands	0.65	0.66	0.66	0.69	0.68
Spain	na	na	na	1.49	1.39
Denmark (DKr)	4.13	4.21	4.21	4.21	4.21
UK (£)	na	0.50	0.51	0.51	0.51

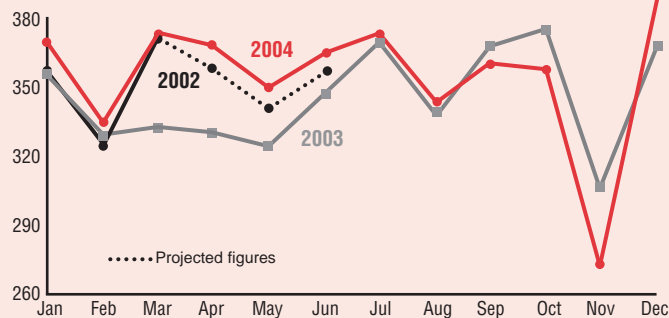
EU average wholesale prices

per/kg, whole oven-ready chicken

	UK (€)	Germany (€)	Italy (€)	France (€)
Jun '04	1.38	1.59	1.55	1.87
Jul	1.39	1.57	1.47	1.76
Aug	1.40	1.57	1.44	1.71
Sep	1.41	1.58	1.44	1.90
Oct	1.38	1.56	1.40	1.93
Nov	1.36	1.55	1.40	1.88
Dec	1.36	1.57	1.44	1.50
Jan '05	1.35	1.57	1.43	1.51
Feb	1.39	1.59	1.42	1.64
Mar	1.39	1.59	1.50	1.73
Apr	1.47	1.59	1.47	1.72
May	1.50	1.60	1.52	1.77

EU chick placings, 11 states

commercial broilers, millions



Exchange rates

	Current (June)	3 months ago (March)	6 months ago (Dec)	9 months ago (Sept)	Year ago (June)
\$ / €	1.22	1.35	1.33	1.23	1.21
€ / £	1.48	1.42	1.44	1.46	1.48
\$ / £	1.80	1.92	1.92	1.79	1.79

The market analysis is compiled with the help of Ken Randall, business editor of Poultry World.

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