



ONE - 2006

GLOBAL CAMPAIGN FOR MARKET SUPREMACY

Fierce conflict in store for Big Four

by CLIVE BEDDALL

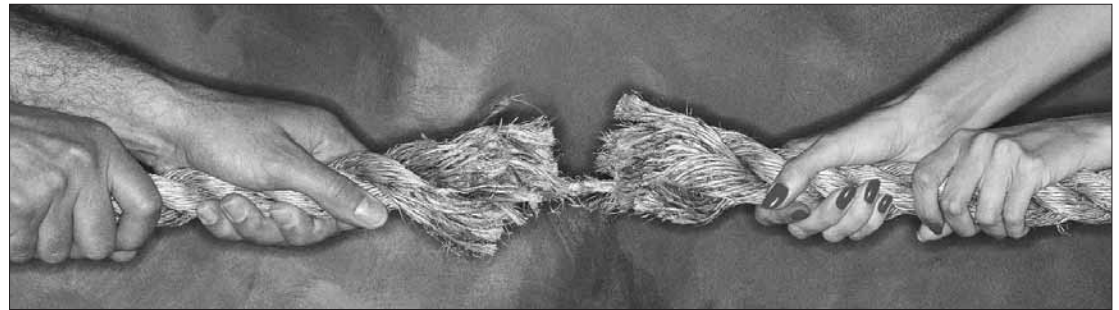
The old adage that a week is a long time in the international food business has never carried greater meaning.

For, aside from the possible threat to production and consumption patterns caused by a spread of avian flu, during 2006 poultry producers and processors across the US, Western and Eastern Europe and even the Far East face massive new challenges as they compete for instore survival.

More pressure on margins

The global retailing map will be dramatically redrawn as ambitious supermarket groups from Bentonville to Belgrade and Moscow to Manchester hot up their campaigns for market supremacy. And that means increased demands on suppliers for more product innovation, marketing support and, inevitably, more pressure on their margins.

The signs are many. In Britain,



the relentless high street price war between the country's Big Four multiples - Tesco, Asda, Sainsbury and Morrison - will become the fiercest and bloodiest conflict since self service grocery retailing hit UK shores in the fifties. Millions of pounds will be poured into price cuts as the quartet fight for a larger share of the shopper's purse.

In the US market, regarded by many as the "most over-stored in the world", there will be further acquisitions among the regional chains.

And Tesco has announced that it is to launch convenience stores in

California next year- its first foray across the Atlantic and a move which will take it into conflict with Wal-Mart on the US chain's home ground.

We want to ensure customer loyalty among shoppers who have been noticeably promiscuous in their buying habits by moving around several stores on their weekly trips

aggressive trading tactics that they have cultivated in the west.

And finally, IGD, the influential British think tank, predicts that Russia (currently in fifth place behind Germany, France, the UK and Italy) will become Europe's biggest grocery market by 2020. Russian multiples are growing and becoming more westernised, and there has been an influx of western European supermarket executives into key jobs in Moscow.

German co-operative Rewe is among those leading the charge into Russia. Currently international sales count for about 30% of its turnover, and Eastern Europe, especially Russia, is seen as a strategic opportunity for the company.

In addition, Wal-Mart, Marks & Spencer, Intermarche, Carrefour and German discounters Aldi and Lidl are all reported to be plotting a Russian "grocery invasion" in the year ahead.

And, as might be expected, currently topping the development league is Wal-Mart, the world's largest retailer. According to research due to be unveiled by IGD, the Arkansas colossus will achieve a turnover in excess of \$510 billion.

Obvious growth potential

In the 1,052 billion Euro mainland European food market, the emerging new EU member states, with their obvious growth potential, will see local supermarkets widen their supply sourcing. And more western European chains will open stores in countries like Romania, Poland, Hungary, Bulgaria and Croatia.

In addition, global food retailing giants like Wal-Mart, Tesco, and Europe's largest - Carrefour - will expand eastwards into India and China, taking with them the

LE FIGARO

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Grippe aviaire : le virus s'installe en France

Souçon de grippe aviaire chez un éleveur de dinde, dans l'Ain. 11 000 volailles supprimées.

Premiers cas présumés dans un élevage

QUINZE CENTES dinde ont été sacrifiées mercredi dans un élevage de l'Ain, dans le département de l'Ain. Les éleveurs ont déclaré à la fois un cas de grippe aviaire et un cas de grippe humaine. Le gouvernement a annoncé la destruction de 11 000 volailles. Les éleveurs ont été alertés. Les éleveurs ont été alertés.

52 millions d'euros pour la filière avicole

LE GOUVERNEMENT a alloué la somme de 52 millions d'euros pour la filière avicole. Cette somme sera utilisée pour la recherche et la prévention de la grippe aviaire.

Un deuxième canard contaminé dans l'Ain

UN CANARD sauvage a été contaminé dans la commune de Brion, dans l'Ain. Il s'agit d'un second cas de grippe aviaire.

IN THIS ISSUE
The first outbreak of avian influenza in commercial poultry in the EU was front page headline news for the popular French daily Le Figaro. In our review of world market news we consider the effects of the spread in avian flu, the state of global trade after the latest World Trade Organisation talks, the new European proposals on poultry welfare and the downturn in the Brazilian market.

By 2010, the American multinational will be four times the size of its nearest rival, French retail giant Carrefour, and over a quarter of its sales (28.6%) will be outside the US.

With outlets such as Asda in the UK and the recently purchased Sonae in Brazil, it currently turns over \$285 billion a year. It already operates in 16 countries and looks set to continue its expansion to include India (where Tesco is also setting its sights) and other parts of Europe. IGD says Wal-Mart will have about 8,000 stores around the world by 2010, which will generate half a trillion dollars, not to mention creating a massive supply potential for innovative poultry producers.

Sophisticated marketing

Thus, as big store retailers reinvent their businesses in a bid to stay ahead of their competitors, they will place even greater demands on suppliers for new products and more sophisticated marketing support.

As a senior director of a top British chain declared to me the other day: "Added value product innovation will become even more of the central part of our ammunition in the high street war. We want to ensure customer loyalty among shoppers who have been noticeably promiscuous in their buying habits by moving around several stores on their weekly trips."

That last comment, incidentally, could just as easily apply to the US where consumers are regularly using more than one chain for their

grocery needs. So for the development and marketing teams of poultry companies fighting for instore survival that must signal one thing- more collaboration with the big retailers if they want to keep their places on the supermarket shelves.

Yet, massive though that challenge will be, I detect some optimism, especially among retailers in the UK and across mainland Europe.



In Britain in particular there have been signs of a culture change that many industry observers believe could benefit the poultry trade, provided its new product development teams can respond effectively.

For although the emphasis instore will focus heavily on price cuts, there is a growing interest in premium food, with many customers willing to pay higher prices for it. That trend has also been noticed in parts of Europe, so much so that several more traditionally price conscious chains have begun to develop gourmet sections in their stores to cater for a new generation of foodies.

In addition, the bigger groups say customers are showing much more interest in what goes into their food, with the result that clearer

on-pack labelling has been developed to reveal just how much salt, fat and sugar is in the product.

And, by the way, Omega-3 enriched chickens are predicted to be the "next big thing" in the UK, with the traditional Coq Ardennais breed from Belgium figuring in the early store trials.

Even in upmarket France there are signs of change. A director of a French hypermarket group told me: "We have always been good at product originality, but as we fight to have a 'point of difference' with our competitors we will be looking for more innovation from our suppliers."

Critical to future success

The future global scenario was summed up best at a poultry conference in Atlanta, Georgia, when a speaker told producers "getting closer to your customers is critical to your future success."

Paul Weitzel, vice president, Willard Bishop Consulting went on: "Retailers need to understand where they are strong or weak, and where your products fit in with helping them differentiate their stores. Supermarkets are caught in an undifferentiated middle ground, and they want your help in addressing this challenge."

Weitzel's comments are just as applicable in parts of Europe, although some of the UK chains are already well along that route. But, at an international food conference that I chaired in Budapest highlighted recently, traditional demarcation lines between grocery retailing and the growing foodservice sector are becoming

blurred. And that, too, suggests a profitable development opportunity for the poultry industry.

After a shaky start, more big supermarkets are moving into "catering" by introducing food-to-go sections where ready cooked meals are available for sale to increasingly time-poor shoppers. In Europe, groups like Tesco, Asda, Sainsbury, Carrefour and Ahold are offering everything from Beef Wellington to chicken en crouete.

Yet, surprisingly, store checks have revealed that in some stores poultry has not fully realised its potential in this area.

But although what often starts in the US usually ends up on this side of the Atlantic in a Europeanised form, perhaps the US marketing folk might copy their European cousins and offer supermarkets more vegetable-fed, organic and even air-chilled chicken?



In his latest commentary for Business Focus Clive Beddall OBE looks at the impact of the global food retailers as they take their 'aggressive trading tactics' to new parts of the world. Clive is a former editor of the leading UK journal The Grocer whose views are widely respected throughout the retail trade.

EU keeps its barriers up for now

Real decisions that could profoundly affect the international trade in poultry have been delayed further into 2006, following the latest inconclusive Doha round of World Trade Organisation (WTO) discussions.

The EU has been under pressure from all sides to drop its import barriers against poultry meat - among a host of other commodities - but to date they remain in place.

The major concession that was

made by Brussels in the Hong Kong talks in the last days before Christmas was on export subsidies, paid to help EU farm products compete on world markets. These will be phased out by 2013.

Although it has been claimed that this move will have a severe adverse effect on some agricultural sectors in the EU - such as beef and dairy - export subsidies have not been a significant factor in EU poultry

exports for some years after a period in which funding was progressively cut back.

Leading poultry exporters such as Brazil and Thailand are already quite successful at selling into the EU (although in the case of Thailand only with cooked chicken at present because of the avian flu restrictions).

Hence there are deep concerns all across the EU poultry sector that any lowering of import protection would make it almost

impossible for European producers to compete in their own markets, and signal the start of a sharp decline in domestic production.

WTO negotiators have now set themselves the target of reaching an agreement on improved access to EU markets during the first half of 2006, but the sides are so far apart that reaching any kind of agreement this year will be hailed as a major achievement.

Avian flu strengthens its grip on worldwide markets

The westward spread of avian flu has continued since the start of 2006, dispelling any hopes that poultry markets would shake off their troubles in the immediate future.

Germany and France have now joined the tally of European countries to have discovered the H5N1 strain in wild birds, alongside Italy, Greece, Austria, Hungary, Slovenia, Bulgaria and Romania.

With infections also reported in Russia and Nigeria, only the Americas and Australasia now remain unaffected by the outbreak.

Many of the latest outbreaks have been characterised by the discovery of dead swans, and experts are unsure why this is the case. It has been suggested that infected swan populations have been moving around more, because of severe winter weather in central and Eastern Europe.

An alternative theory is that the

infections are not confined to swans, and that a collection of dead swans is simply more noticeable than for casualties among smaller wild birds. However, the EU-wide monitoring programmes have failed to pick up any H5N1 infections in the general wild bird population.

Whatever is going on, it has become clear that H5N1 has now decisively broken out of the Far East region and is likely to become an increasing threat to the global commercial poultry industry in the near term.

Meanwhile the constant drip of avian flu media coverage, including that of the latest human casualties in Turkey, has played havoc with poultry markets across the EU. Even in some of those countries where consumer confidence has remained stronger, markets have been undermined by export pressure from countries such as Italy where consumption has dropped sharply.

Accordingly, prices have been languishing at much reduced levels in a number of key EU member states.

In Italy, for example, wholesale prices for chicken were still down by a third at the turn of the year compared with in the summer - although up by 15% on the crisis month of October.

In France, there was a drop of 36% between July and December; and in the UK, 14%. Danish wholesale prices were down 8%, and Dutch prices by 3%.

In contrast, the German market has been far more resilient and prices have not wavered at all.

In the light of what appears to be a general consensus from epidemiologists that the problem is more likely to get worse than better, the EU made last-minute changes to stiffen its new avian flu measures before they were ratified just after Christmas.

The Council of Ministers supported an amendment, put forward from the UK, that all strains of bird flu should be brought under tight control, and not just the deadly H5N1 strain.

A cornerstone of the new regulation is the compulsory surveillance programme throughout the EU for low-pathogenic strains of avian flu in the poultry flock, to prevent them acting as a springboard for the emergence of H5N1. It was originally intended that any flocks found to be infected with low-pathogenic flu could be sold into the poultry meat market, but the amendment changed this policy to one of compulsory destruction.

Ministers appreciated that consumers, who were already over-reacting to the flu scare, would be unimpressed to hear that infected poultry could be entering the food distribution chain.

Welfare rules threaten to put Europe at a disadvantage

One of the reasons that broiler growers in Europe are so concerned about the likely course of the WTO discussions is the fear they will become the victims of double standards.

Currently working its way through the consultation process is the EU's proposed directive on broiler welfare. It threatens to make Europe's broiler growers even less competitive with overseas competitors, just at a time when any WTO agreement might be removing the protective barriers.

The new legislation, once agreed, will impose specific welfare rules on the EU-wide industry for the first time. To the alarm of industry organisations, in January the Commission's original proposal was unexpectedly 'gold plated' in a consultation report by members of the European Parliament.

At the heart of the proposed legislation is a two-tier welfare regime. A lower stocking density would apply for growers anywhere in the EU who met a basic standard of husbandry, covering factors such as ventilation, heating, lighting, inspection, cleaning and record-keeping.

Beyond this there will be a higher stocking density, permitted for units that can achieve higher management standards. The latter will entail an assessment of the site and the monitoring of welfare indicators, such as hock burns, at the processing plant.

In the original schedule, the lower density would have been 30kg / sq m, and the higher would have been 38 kg / sq m. It is that higher density that has now been

lowered by the MEPs' report, to 34 kg.

Given that this last condition would take densities below those commonly used in other parts of the world, there are real worries about the future competitiveness of the industry.

It is clear that MEPs' themselves have recognized the danger, because they also submitted an amendment that the Commission should prohibit imports of chicken

from holdings in third countries that do not observe similar welfare rules.

However, industry leaders have little confidence that such a 'get-out clause' would be acceptable to the WTO - especially since the WTO recently ruled against the EU in what it had believed to be a strong case for curbing imports of salted poultry meat (as reported in the previous edition).

Brazilian market runs into turbulence

The Brazilian poultry industry has been having a difficult time despite a year in which exports have been booming.

Ex-farm prices are down by a quarter on a year earlier and have reached a four-year low.

Production rose by 10% last year to 9.3 m tonnes, but domestic demand has been flat in recent months. Consumers have been feeling an economic squeeze and there was greater competition from lower-priced beef on the domestic market at the close of the year, when the foot and mouth

outbreak in Parana state led to a ban on beef exports from that area by many key importing countries.

Exporters had been doing well for most of the year, with avian flu working in their favour especially at the expense of Thailand. However, as the flu crisis spread across the globe at the end of 2005, many of Brazil's destination markets suffered a downturn in consumer confidence and exports weakened.

Exports were also hit in November with a strike by meat inspectors responsible for

approving consignments for export. Shipments of the main export category, frozen portions, showed a year-on-year fall in November and it has been estimated that 200,000 tonnes of poultry was left stranded in cold stores. This has caused problems to back up all down the supply chain to the farms.

Nevertheless, total chicken exports were up by 16% overall in the first 11 months of 2005, to 2.6 million tonnes, and leading exporters are predicting another 15% rise for 2006.

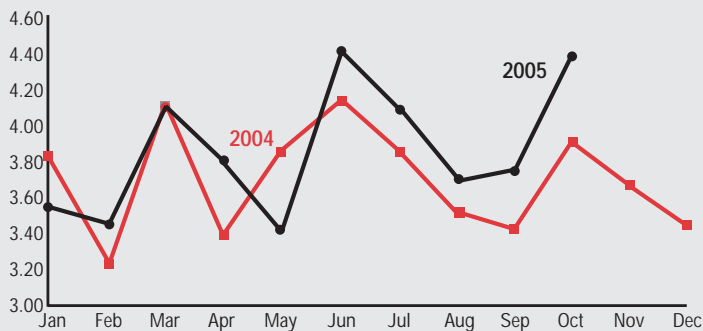
MARKET TRENDS

Feed ingredient prices

National currency/tonne	Latest (March)	3 months ago (December)	6 months ago (September)	9 months ago (June)	Year ago (March)
US wheat (\$) soft red winter	153	137	139	139	133
US maize (\$) No 3 yellow corn	109	104	97	99	97
US soya (\$) No 2 yellowbeans	234	242	234	271	250
EU feed wheat (€) Nantes	110	109	108	110	104
EU feed wheat (€) Hamburg	110	106	104	108	106
EU feed wheat (£) UK - national average	68	66	62	63	66
EU maize (€) Nantes	117	118	118	122	108
S American soya (\$) Argentina/Brazil	221	223	237	256	235

EU female parent chick placings (m)

18 states



EU broiler prices

€/kg liveweight (except UK & Denmark)

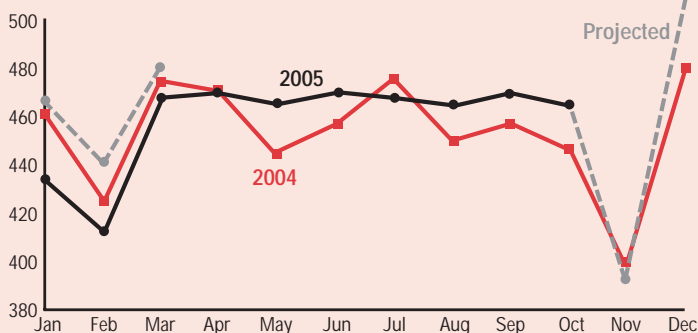
	Latest (Dec)	3 months ago (Sept)	6 months ago (June)	9 months ago (Mar)	Year ago (Dec)
Belgium	0.45	0.81	0.88	0.85	0.73
France	0.77	0.77	0.77	0.77	0.79
Germany	0.71	0.74	0.70	0.70	0.71
Italy	0.62	0.85	0.86	0.90	0.89
Netherlands	0.74	0.70	0.65	0.66	0.66
Spain	na	na	na	1.49	1.39
Denmark (DKr)	0.55	0.56	4.13	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 (€)
Feb '05	1.39	1.58	1.42	1.64
Mar	1.39	1.59	1.50	1.73
Apr	1.47	1.59	1.47	1.73
May	1.50	1.60	1.52	1.77
Jun	1.51	1.69	1.62	1.92
Jul	1.43	1.75	1.63	1.95
Aug	1.40	1.75	1.62	1.89
Sep	1.36	1.78	1.36	1.95
Oct	1.33	1.80	0.96	1.70
Nov	1.31	1.78	1.00	1.53
Dec	1.30	1.75	1.12	1.25
Jan '06	1.33	1.75	1.11	1.44

EU-25 Broiler placings (m)



Exchange rates

	Current (Dec)	3 months ago (Sept)	6 months ago (June)	9 months ago (March)	Year ago (Dec)
\$ / €	1.19	1.22	1.22	1.35	1.33
€ / £	1.50	1.51	1.48	1.42	1.44
\$ / £	1.79	1.84	1.80	1.92	1.92

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

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