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ANALYSIS SHOWS UP TO 40% DIFFERENCE IN COSTS

Europe to push for global standards for chicken production?

IN today's global market for chicken, production cost has an increasing impact on the industry. It is influencing where companies source their primary poultry product and it is shaping where they invest for the future.

But not all countries are competing on equal terms, with standards of animal welfare, food safety and environment protection varying considerably.

One organisation which monitors the world industry is the Agricultural Economics Research Institute in the Netherlands. It compares production costs not only in the major European countries but in other areas such as North and South America.

In conjunction with local experts, the institute known as the LEI collects data on the components of production cost including performance and prices, and then relates them to a uniform standard to enable valid comparisons to be made. It uses the information to predict possible trends over the next five years.

Total production cost

The production cost of broiler meat in France, the UK, Germany, the Netherlands, United States and Brazil is shown in figure 1. The cost includes both primary production and processing cost, and relates to the year 1999. All amounts are converted into euros, without value added tax.

There is a marked difference in production cost between Europe and the other two countries. Within Europe the cost differences were relatively small. With the UK, for example, the higher production cost in the primary sector is compensated by lower processing cost. There were also different starting positions with regard to factors such as animal welfare and food safety. However, production cost in the USA is 30 per cent below the general European level and in Brazil more than 40 per cent lower.

The main components of primary production are the cost of chicks, feed, labour, housing and general overheads. As shown in figure 2, the high production cost in the UK is attributable to expensive day-old chicks and a high feed price. In Germany the animal feed market is very price sensitive and feed costs are relatively low. Both the US and Brazil have low feed prices with local access to feed ingredients and low chick cost due to efficient integrated production.

To provide a complete picture the processing cost is also analysed, as shown in figure 3 on page 2. Although European Union regulations lay down standards for waste water disposal, packing and inspection, there are some differences between countries but we have no reliable data to assess the differences.

Labour is a major part of processing cost and so the main differences between countries are caused by this factor, especially between the UK and Germany. There are no indications of productivity differences. On a global scale it is clear Brazil has the lowest labour cost.

Future trends

Across the EU new regulations are increasing production costs. These relate to a wide range of food safety, animal welfare and environment protection measures. As figure 4 covering the primary sector shows, we weighed the factors for the political interest in the subject, the economic importance and improvements already achieved in 1999.

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Our author

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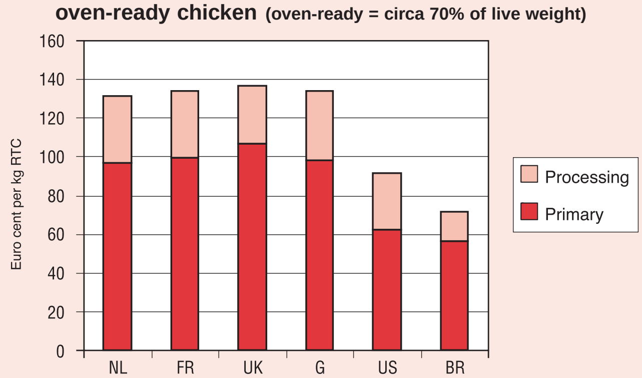
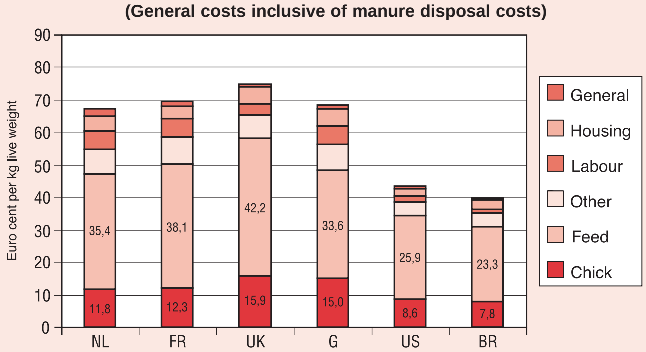
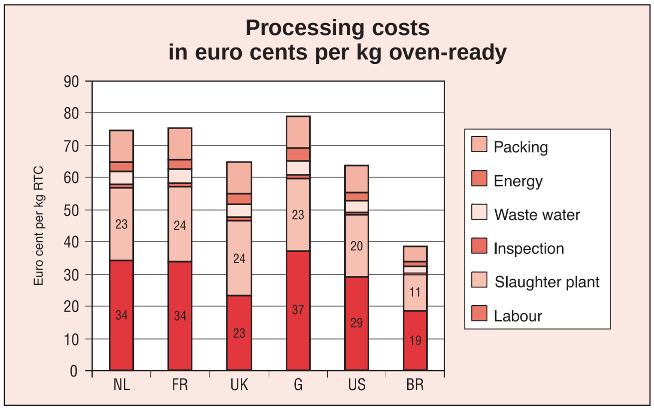
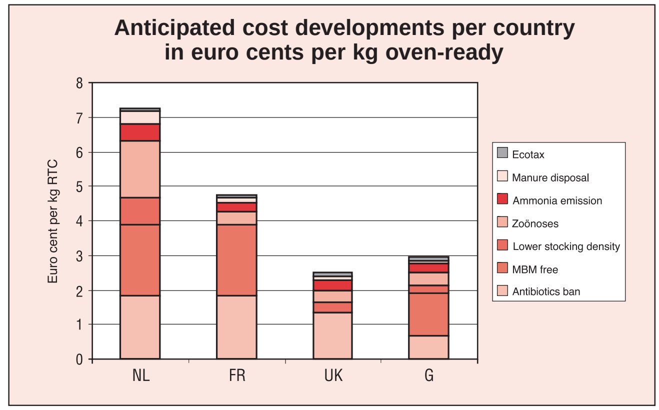
Total costs in euro cents per kg of oven-ready chicken (oven-ready = circa 70% of live weight)



Primary production costs in euro cents per kg of liveweight
(General costs inclusive of manure disposal costs)







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The expected cost increase for the Netherlands is an extra 7 euro cents per kilogram oven-ready. For France, Germany and the UK the increase is likely to be lower at 5, 3 and 2 euro cents respectively. The main differences are caused by:

- **Antibiotics** - Further significant cost rises can be expected in all the European countries as moves to ban antibiotics as animal feed additives are increased. However, the UK and Germany face lower cost increases as part of the industry was already working without preventive antibiotics by 1999.
- **Meat and bone meat (MBM)** - The use of MBM is banned in the EU and although we had thought its use would be allowed under certain conditions by 2003, we now expect this ban to continue. Compared to the base year of 1999, feed costs have increased by 3 to 4 per cent in France and the Netherlands. The UK on the other hand had already banned MBM by 1999 and in Germany the increase is lower as part of their industry had already banned MBM by then, too.
- **Stocking density** - A maximum density of 35kg liveweight/sq m will be introduced in the Netherlands in the near future. In Germany and the UK this density is already the rule for a large proportion of production, but France is unlikely to implement such a welfare requirement in the next few years.
- **Environment** - High livestock density in the Netherlands has led to regulations pushing up the cost of manure disposal. The Dutch also have more regulations on reducing ammonia emission, and have introduced energy taxes. Energy or green taxes have also followed in Germany, and we expect the UK and probably also France to introduce such measures in the years to come.
- **Zoonoses** - Across the EU countries the main differences in production cost increases relating to zoonoses are with the Netherlands where the policy is targeted at monitoring and combating all salmonella. In other countries efforts are restricted to *Salmonella enteriditis and Salmonella typhimurium.*

Brazil tough competitor

Figure 2 shows us that Brazil has 40 per cent lower production cost than Europe. Brazil has a large advantage in access to locally produced feed components like corn and soya beans, low housing cost as a result of a favourable climate and low labour cost, which is also a highly significant cost factor in processing. This adds up to Brazil being a tough competitor on the international broiler meat market.

In the current situation where there is a way to avoid European import levies, import from non-EU countries is attractive. At the moment with the low levies on salted meat, Europe is experiencing an explosive increase in imports of breast meat from Brazil and also Thailand.

From table 1 we can conclude that the EU import of filet increased from a minimum level in 1997 to 320,000 metric tons in the years to 2001. By 2000 the import of salted filet had exceeded the import of natural filet. By far the largest importers of salted filet are Germany, the UK and the Netherlands. The filet is finding its way to restaurants, caterers and particularly the further processing industry.

The data in table 2 show how attractive the import of salted filet can be. At a price of 2.10 euros/kg of filet - and with no price differential between salted and natural filet - the difference in tariff is 0.98 euro per kg. At a higher import price the difference is lower.

The crucial issue is whether the quality of the imported product meets all the standards set by the European governments, retailers and consumers. As mentioned earlier, the European countries are increasingly concerned with environment protection, animal welfare and food safety. These factors already have a large impact on production costs and will further increase the production cost in several European countries (see figure 4).

The Brazilians grow broilers in open, natural ventilated poultry houses with a low bird density. One could argue that animal welfare of broilers could even be better than Europe. In general, Brazilian producers benefit, too, from revenue on manure disposal with a market for fertiliser or ruminant feed. There are also differences in their use of meat and bone meal in the broiler feed, and in salmonella control and status through the production chain.

How to compete

As we have seen, the differences in production costs per kilogram for the main broiler producing countries in Europe are relatively small. By contrast, the costs in the USA and Brazil were respectively 30 and more than 40% lower for the year 1999.

Looking ahead towards 2004, the biggest impact on cost increases is expected to come from regulations of the EU and individual countries, together with retailer and consumer pressure for higher standards, particularly on welfare and food safety.

In all European countries we expect to see the figures reflect a relatively large increase in production cost as a result of the ban on the use of antibiotics and meat and bone meal, already implemented from December 2000. The LEI institute also expects a further increase in costs as a result of lowering bird density, and measures to combat salmonella and improve environment protection. To avoid undermining competitiveness, such measures should be introduced and enforced at a European level.

Yet price is just one part of the marketing mix. Competitiveness is also measured in product quality, good logistics, category management or strategically adapting the product to meet specific market and consumer demands. As Europe has difficulty in competing on price, it is crucial to compete in other areas to achieve a premium price for its poultry products.

There is growing debate as to whether the imports should meet the standards set by the EU governments and expected by European consumers. If this happens - as, for instance, with a ban on use of meat and bone meal - production costs would be increased in exporting countries such as Brazil, negating some of their advantage in the global market.

Table 1 **Import of filet into the EU from Third Countries**
(in metric tons)

	1998	1999	2000	2001
Salted filet	12,000	34,000	108,000	235,000
Natural filet	85,000	81,000	74,000	85,000
Total filet	97,000	115,000	182,000	320,000

Table 2 **Price differential between salted and natural filet**

Price (euro/kg)	Tariff on salted filet	Total tariff natural filet	Difference per kg
3.10	0.48	1.02	0.54
2.43	0.37	1.20	0.83
2.10	0.32	1.30	0.98

EU broiler expansion leaves the market behind

LAST year was one of steady expansion for the EU broiler sector.

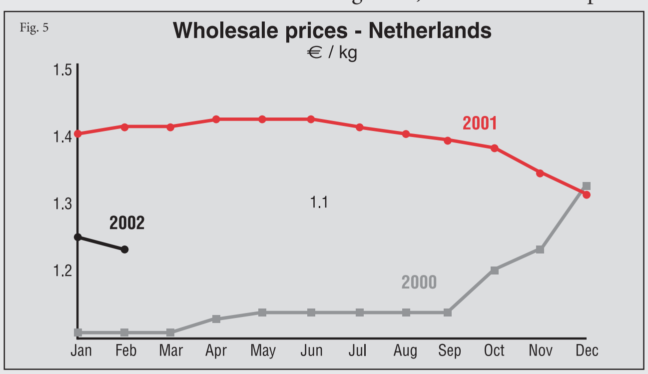
The pattern of monthly chick placings kept comfortably ahead of the previous year throughout much of 2001, as charted on the back page.

According to initial estimates from Brussels, total broiler production in 2002 was up by 2.7% in the 15 member states to just under 6.25 million tonnes.

However, by the end of the year this expansion had gone too far, and there was a marked tailing off in broiler chick numbers in the last two months, against a background of weakening market prices around Europe.

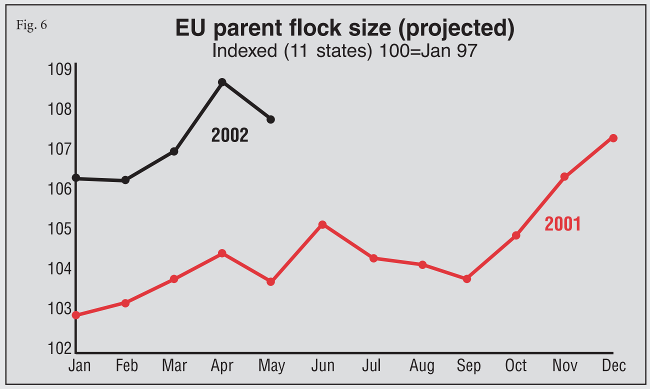
Much of the impetus to the market in the first part of the year came from the BSE crisis, with consumers switching from beef to poultry, but later in the year this trend had stabilised. At this stage the continued expansion and the constant pressure from low-priced imports took its toll on the market as the year drew to a close.

The effect on the market in the Netherlands is evident in figure 5, with wholesale prices continuing to decline up to February, and a similar pattern could be observed in Germany and France.



By the end of March some of the problems were starting to work themselves out. Market conditions were reported by many member states to have shown an improvement and were beginning to stabilise.

Throughout 2001, broiler parent placings generally kept moving ahead, as also charted on the back page. The effect of this expansion on the size of the laying flock is projected in figure 6.



This shows that the capability for continued growth in EU broiler production remains strong through the first half of this year.

For these reasons the chart of commercial chick placings on the back page now predicts a return to the long-term growth trend during the period up to May. However, much will depend on the impact of third country imports which in the last 18 months have begun to make serious depredations on EU markets.

Germany makes plans to overhaul animal welfare

THE recent decision to ban battery cages in Germany ahead of the rest of the EU could be just a foretaste of a whole raft of new animal welfare legislation heading the industry's way in that country.

The German Green agriculture minister Renate Künast may now have the broiler sector on her agenda, along with producers of pigs, rabbits and fur animals.

She is reported to have told a meeting of the *Association for Change in Livestock Rearing* that husbandry methods needed to be addressed in all these sectors, and that she was committed to improving animal welfare standards with new laws. Rearing conditions for livestock formed a key part of the quality issues that concerned consumers, she maintained.

Since the new law was enacted in mid-March, it has no longer been allowed for new battery cages (including EU-approved enriched cages) to be installed, and all existing cages must be phased out by 2007, five years earlier than in the rest of the EU. Even enriched cages will have to go by 2012.

New outbreak of contaminated feed in Belgium

THE Belgian broiler industry was in trouble again at the start of this year over harmful residues in chicken meat.

At the end of January the Belgian food safety agency revealed that around 1,000 of the broilers which had been exposed to feed contaminated with PCBs, chemicals which are believed to be carcinogenic, had entered the food chain.

By the time the affair became public, many of the birds were believed to have been consumed.

The contamination arose from a mill producing poultry and pig feed at Roeselare, and is thought to have originated in the feed raw materials.

Officials impounded chicken from three farms which had received the feed. The meat from one of these farms had PCB residues at levels of 500-1000 µg/kg of fat, against a maximum permitted level of 200 µg. All the pigmeat tested was within safe limits.

Belgian authorities played down the incident and said the risk to the public had been limited.

The residues were discovered by the national monitoring scheme which was introduced after the dioxin scandal in 1999.

German consumers turn away from meat

THE German meat industry was probably the most profoundly affected in all of Europe during 2001 by the BSE crisis. German consumers are normally confident that food safety standards are the highest in their country and this confidence was badly shaken by the BSE developments.

Unfortunately, the main effect of this was to reduce overall meat consumption and the substitution of beef by poultry was less dramatic than might be expected.

According to figures released by German sources, total retail purchases of fresh meat (excluding poultry) were down by nearly 8% to 879,000 tonnes, a fall of 74,000 tonnes. To compensate, poultry consumption was only up by 1.3% or 5,000 tonnes (to 373,000 tonnes).

Overall, beef consumption in Germany was down 25% for the year, to 127,000 tonnes. Against what might have been expected, pigmeat gained nothing from the crisis and dropped slightly to 619,000 tonnes.

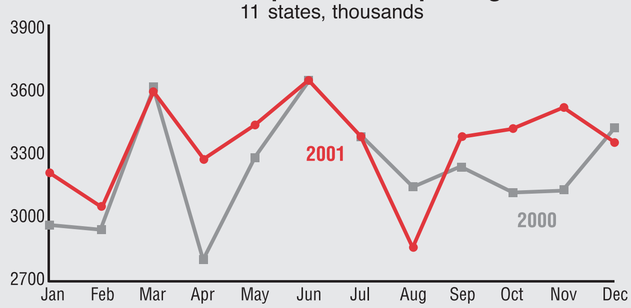
MARKET TRENDS

Feed ingredient prices

National currency/tonne	Current (Mar)	3 months ago (Dec)	6 months ago (Sep)	9 months ago (June)	Year ago (Mar)
US wheat ($) soft red winter	114	116	105	97	110
US maize ($) No 3 yellow corn	90	95	87	82	89
US soya ($) No 2 yellowbeans	180	176	186	181	175
EU feed wheat (£) UK - national average	71	77	76	76	69
EU feed wheat (€) Rotterdam	124	131	128	129	124
EU feed wheat (€) Hamburg	119	119	114	128	130
EU maize (€) Bologna	137	130	123	139	138
S American soya ($) Argentina/Brazil	157	192	236	171	165

EU female parent chick placings

11 states, thousands



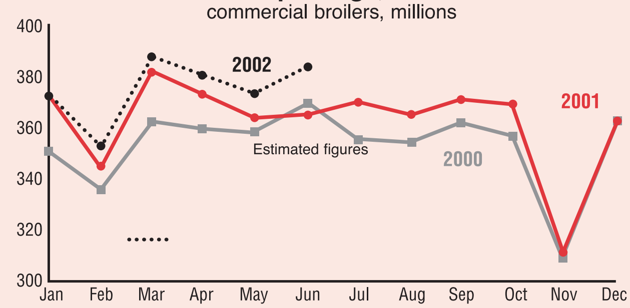
EU broiler prices

€/kg liveweight (except UK & Denmark)

	Current (Mar)	3 months ago (Dec)	6 months ago (Sep)	9 months ago (June)	Year ago (Mar)
Belgium	0.65	0.47	0.77	0.89	0.98
France	0.88	0.89	0.88	0.87	0.86
Germany	0.72	0.74	0.78	0.79	0.78
Italy	0.79	0.64	0.85	0.75	1.00
Netherlands	0.71	0.75	0.79	0.78	0.75
Spain	1.07	0.79	1.16	1.12	1.28
Denmark (DKr)	4.61	4.76	4.61	4.56	4.39
UK (£)	0.49	0.50	0.50	0.49	0.49

EU chick placings, 11 states

commercial broilers, millions



EU average wholesale prices

per/kg, whole oven-ready chicken

	UK (€)	Germany (€)	Italy (€)	France (€)
Mar	1.66	1.57	1.62	1.86
Apr	1.74	1.58	1.33	1.88
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

End of the road for feed antibiotics

ALL use of antibiotics as growth promoting feed additives will end in the EU in 2006, if plans announced by the Commission in March are put into effect.

Currently there are several 'feed' antibiotics still available for use as growth promoters within the EU. These are the ones that were still allowed to be used as feed additives after the Commission introduced its ban four years ago on all those antibiotics with a potential role in human medicine.

It was expected at the time that Brussels would in due course 'finish the job' and ultimately ban all non-therapeutic use of antibiotics in feed.

The Commission has suggested that non-antibiotic alternative growth promoters can be introduced by the 2006 deadline. However FEDESA, the body that represents the animal health industry, is doubtful this can be achieved.

Exchange rates

	Current (Mar)	3 months ago (Dec)	6 months ago (Sep)	9 months ago (June)	Year ago (Mar)
£ / €	1.59	1.59	1.60	1.62	1.58
$ / €	0.89	0.90	0.91	0.86	0.90
£ / $	1.41	1.44	1.46	1.39	1.43

BUSINESS FOCUS

For more information on topics in this issue please contact us at:

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