Looking towards the east for future expansion

The European feed industry fights for fairer prices for farmers and for global feed safety standards. Meanwhile the EU accession countries promise medium-term expansion possibilities.

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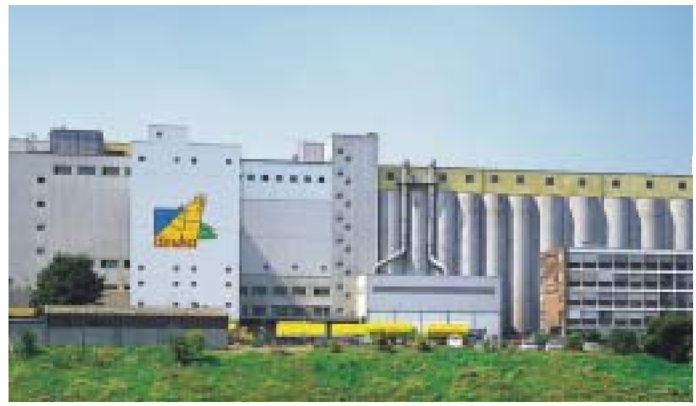
Cautious optimism for a slight EU-wide increase in demand for poultry feed amid signs of further decreases in cattle and pig feed demand: this is how the European Compound Feed Manufacturers' Association (FEFAC) views the current situation. Even the predicted 1 to 2% rise in poultry feed sales in 2004 depends very strongly on the recovery of the Dutch and Belgian flocks after the 2003 disease problems and on a healthy development of production in the new EU member states. Positive outcomes would give European poultry feed manufacturers a welcome increase on sales estimated at around 0.9 million tonnes (Mt) to some 45 Mt feed.

But even with the excellent harvests in 2003 in most countries, the continued pressure on input costs and beef, milk and pork producers' end prices continue to depress feed demand in these sectors. FEFAC reckon that, Europe-wide, sales will be down 3% or approx. 1.1 Mt this year for cattle feed, bringing 2004 sales to an expected 37 Mt or thereabouts. A predicted 2% decrease in pig feed sales should bring overall sales in 2004 down to around 46.5 Mt after a 3% fall in the previous year.

Using more compound feeds

For many years now, according to the German central marketing and price reporting agency (ZMP), eastern EU accession countries have not relied on compound feeds so much as their western neighbours. Aiming in the main for self-sufficiency restricted any financial advantages of feeding compounds. For years, total compound feed production for the 10 new Member States has therefore jogged along at 14 – 16 Mt. The major proportion of output remains within Hungary, Poland and the Czech Republic. Additionally, the ZMP points out that concentrate rations have often been poorly balanced in some of the accession countries, in many cases because required components were not always avail-



The Düsseldorf plant and headquarters of Deuka, Germany's market leader in the compound feed sector.

Table 1 - Compound feed production trends within the major producers in the EU-25 countries

Country	1999	2000	2001	2002	2003
France	23.65	23.16	23.29	22.79	22.61
Germany	18.75	9.64	19.47	19.69	20.01
Spain	16.48	17.13	17.35	19.65	19.42
Netherlands	15.86	15.28	14.52	13.36	12.06
UK	12.26	13.63	13.95	13.58	13.63
Italy	11.12	11.70	12.10	12.80	12.19
Belgium	6.53	6.30	6.37	6.29	6.13
Denmark	5.63	6.13	6.05	5.78	5.53
Portugal	3.93	3.84	3.85	3.94	3.78
Ireland	3.75	3.52	3.58	3.82	3.74
Sweden	2.44	2.37	2.42	2.36	2.35
Finland	1.23	1.30	1.32	1.37	1.40
Accession lands*					
Hungary	6.00	5.00	6.00	5.61	5.12
Poland	4.00	4.00	5.00	4.88	5.31
Czech Repub.	3.00	3.00	3.60	3.20	3.14
Slovakia	1.13	1.34	1.00	1.34	1.28
Slovenia	-	-	-	0.526	0.50
Lithuania		-	0.330	0.327	0.320
Latvia	0.200	0.170	0.170	0.200	0.233
Estonia	0.180	0.190	0.210	0.221	0.220

(Sources: FEFAC, ZMP, FeedTech research) (2003 estimated by FEFAC) * In eastern Europe compound feeds not produced by the largest companies and multinationals have often been simply a non-standardised mix of milled cereals and protein sources without all required minerals.

able. The agency argues that just by optimising rations for the current livestock population alone, sales of compound, or mixed concentrate, feeds should increase.

Poland

This situation has made these countries more interesting for western multinational feed producers. And there's another attractive aspect: official feed production figures are thought to be well below true consumption according to the Polish Union of Feed Producers and the surveys of the Dutch Rabobank. This means there's even more business opportunities. While Polish production in 2003 is put at just over 5 Mt in the official tables shown following, the Rabobank reckons that the real figure could be around 8 Mt.

There's certainly no shortage of foreign investors in the Polish feed sector with 80% of total investment now coming from abroad. Fifteen of the top players now control 65% of feed production and 70% of the premix market is supplied by just five companies – all foreign-based. Provimi (including Rolimpex) is one of the market leaders and saw sales in 2002 increase by €64 m to €424.6 m. Cargill Animal Nutrition is thought to sell even more with new feed mills established in no less than six sites throughout the country. Other important foreign companies working in Poland include Nutreco, de Heus and Cehave. Vipasz and Contipasz remain the top Polish companies in the feed segment.

Compounder consolidation to continue

A clear opportunity for established feed producers through this year's enlargement of the EU is seen by new FEFAC (European Feed Manufacturers' Association) president Dr Martin Tielen, at least in the short term. "There is considerable restructuring within the feed production sector to be accomplished in most regions of the accession lands," he explains. "We're dealing with very many comparatively small family milling and compounding concerns with often out-of-date processing equipment."

He adds that many of these firms are producing under conditions already below current EU standards for food safety control and hygiene. But he stresses that, in general, the compliance rate with EU standards is higher in the feed sector than in many parts of the food processing sector – particularly in meat and dairy processing plants. Sadly, many of these firms will find themselves in the coming years having to merge or give up as the respective national sectors gear-up for modern production. "On top of this, many are now undergoing difficult times because of the slump in the meat markets and a move to home-mixing of compound feeds over the past years – a situation which means many compound mills are running at only one-third capacity just now." Dr Tielen points out that large compounders from the west – also FEFAC members – are firmly established in the accession countries. "Our role will be to support the domestic companies, too, with technical and economic advice and marketing know-how. After all, many of the remaining accession country compounders are, through their national associations, already FEFAC members."

DR MARTIN TIELEN SEES HARD TIMES AHEAD FOR SOME FEED PLANTS IN THE EAST - BUT AN ATTRACTIVE MARKET FOR THOSE CONCENTRATING ON CUSTOMER SERVICE AND FOOD SAFETY.

By August this year, just three months after official accession of the 10 new countries, FEFAC had acquired five new member countries: Poland, Slovakia, Slovenia, Cyprus and the Czech Republic. Negotiations with Hungary are ongoing. The Baltic States have first to consolidate their national feed manufacturers' associations. When this step is taken they will also be welcomed into the FEFAC fold, according to Dr Tielen.

But the FEFAC president already sees advantages for the eastern Europeans in the feed sector: "Labour is cheaper in the east. There's also a great flexibility in the livestock sector with production already adapting to meet new demands from the west."

Dr Tielen sees foreign investment growing in the feed industry throughout the east. Nor are investors only from Europe. "We've got companies from the USA involved in the mechanisation and technical upgrading of feed companies as well."

In the longer term, Dr Tielen sees more opportunities for the feed industry in the east from the respective domestic markets. "This all depends on the speed of general industrial development; how quickly the standard of living and personal incomes rise. Better expectations mean more consumption of meat and other livestock products and with this, a boost for the feed industry."

He adds that a level playing field for restructuring in agriculture and its supply sector is therefore one of the biggest concerns of FEFAC within – and outside - Europe in the coming years.

Global feed challenge

"The challenge is to encourage a standardisation of production methods, animal welfare, food safety, hygiene, feed ingredient control and so on - not only for consumer protection but for fair trading on a global basis " Developments here through the International Feed Industry Federation (IFIF) are first of all targeting general agreements throughout the world based on the code of practice for good livestock feeding adopted by the Food and Agriculture Organisation (FAO) in its "Codex Alimentarius" and the International Feed Ingredient Standard developed by the International Feed Safety Alliance (IFSA).

Not only universal good management practices are being built into the global initiative, says Dr Tielen, but also real efforts to harmonise economics of feed production in different areas of the world for fair, as well as safe, business practices.

Table 2 - EU Cattle compound feed production (x 1000 t)

Country	2002	2003	Increase/decrease in percentage
German	6,620	6,717	+ 1.5%
Spain	5,246	5,050	- 3.7%
UK	4,375	4,661	+ 6.5%
France	4,236	4,459	+ 5.3%
Italy	3,740	3,800	+ 1.6%
Netherlands	3,450	3,350	- 2.9%
Ireland	2,144	2,101	- 2.0%
Denmark	1,302	1,300	- 0.2%
Sweden	1,224	1,150	- 6.0%
Portugal	1,070	1,060	- 0.9%
Belgium	1,046	1,063	+ 1.6%
Finland	664	654	- 1.5%
Austria	304	327	+ 7.6%
Top new members			
Hungary	641	686	+ 7.0%
Czech Rep.	577	498	- 13.7
Slovakia	291	281	- 3.4%
Poland	195	230	+ 17.9%
Cyprus	157	159	+ 1.3%
Slovenia	80	75	- 6.3%

Table 3 - EU Pig compound feed production (x 1000 t)

Country	2002	2003	Increase/decrease in percentage
Spain	8,137	8,235	+ 1.2%
Germany	7,291	7,444	+ 2.1%
France	6,964	6,814	- 2.2%
Netherlands	5,250	4,700	- 10.5%
Denmark	3,702	3,500	- 5.5%
Belgium	3,509	3,447	- 1.8%
Italy	2,700	2,450	- 9.3%
UK	1,836	1,598	- 13.0%
Portugal	1,260	1,225	- 2.8%
Ireland	748	687	- 8.2%
Sweden	500	530	+ 6.0%
Finland	318	349	+ 9.7%
Austria	218	216	- 0.9%
Top new members			
Hungary	2,613	2,275	- 12.9%
Czech Republic	1,411	1,475	+ 4.5%
Poland	1,300	1,410	+ 8.5%
Slovakia	614	603	- 1.8%
Cyprus	230	232	+ 0.9%
Slovenia	152	145	- 4.6%

(Sources: FEFAC, ZMP) (2003 estimated by FEFAC

Hungary

This country was the leading compound feed user among the accession lands until last year when the collapse of Magyar livestock markets let Poland slip into the top slot. Thus the official Hungarian production of 5.6 Mt in 2002 slumped by some 400,000 t last year. The top five compounders supply 45% of the market in this country and this line-up includes Nutreco, Cargill and Provimi. Meanwhile in the premix market 85% of the market is supplied by Balbona, the Provimi daughter Agrokomplex CS, Cargill's Agribrands and Nutreco's Kornye KFT with an amazing 750 companies fighting for the remaining crumbs from this table.

Expansion of the multis

Of the main producers in Europe, Nutreco (total turnover last year: €3,671 m) is represented in Spain, Portugal, Germany, France, Belgium, UK, Poland and Hungary as well as in its base the Netherlands. Cargill is hard to miss too, with feed companies in Spain, Portugal, UK, Italy, the Netherlands, Poland and Hungary.

Cargill Animal Nutrition took over Agribrands in Spain, Italy and Portugal as well as the Agribrands Karcag and Kapsovar plants for dairy, pig and poultry feed production in Hungary. In Poland the company's 6 new mills produce compound feed under the Nutrena label for

Table 4 - EU poultry compound feed production (x 1000 t)

Country	2002	2003	Increase/decrease in percentage
France	9,443	9,238	- 2.2%
UK	6,230	6,148	- 1.3%
Germany	5,068	5,075	+ 0.1%
Italy	4,800	4,440	- 7.5%
Spain	4,559	4,425	- 2.9%
Netherlands	3,250	2,600	- 20%
Belgium	1,436	1,318	- 8.2%
Portugal	1,400	1,280	- 8.6%
Denmark	650	600	- 7.7%
Sweden	491	520	+ 5.9%
Ireland	493	485	- 1.6%
Austria	386	394	+ 2.1%
Finland	295	307	+ 4.1%
Top new members			
Poland	3,390	3,660	+ 8.0%
Hungary	2,142	1,980	- 7.6%
Czech Rep.	1,090	1,038	- 4.8%
Slovakia	424	377	- 11.1%
Slovenia	284	270	- 4.9%
Cyprus	120	118	- 1.7%

(Sources: FEFAC, ZMP) (2003 estimated by FEFAC small and medium farming businesses and under the Cargill name for larger farms and distribution networks. In the UK, Cargill is present within the Banks Cargill Agriculture conglomerate.

Levelling the playing field

In February of this year the European Compound Feed Manufacturers' Federation (FEFAC), which represents 22 national compounders' associations in Europe, warned the Council of Europe of a potentially explosive situation within the EU livestock sector through high input costs and low producer prices exacerbated by continued tariffs against importation of much cheaper feed products from world markets.

Increased feed security towards a field to fork food safety policy is also high on the list of targets through FEFAC's international feed safety alliance (IFSA) for a single international standard in feed quality assurance.

FEFAC and four major European feed/food quality organisations the British AIC, the Belgian OVOCOM, the Dutch Product Board Animal Feed and the German QS quality programme, are currently creating a common standard to be governed by the IFSA. Other aims:

- a common standard for feed ingredients globally;
- establishment of an international feed ingredient programme to ensure consistency, control, certification and auditing within the IFSA programme;
- fostering of close collaboration with all supplier partners in the preparation of the IFSA programme;
- commitment to achieving this aim cost-effectively;
- phased replacement of individual feed safety standards starting from January 2005. ●

Deuka: no buying-up of market shares in the east

Deuka, Germany's largest private feed producer, plans no joint manufacturing ventures or new plants in the EU accession countries in the immediate future.

SOUND FEEDING ADVICE AND CAREFUL SERVICING OF SUPPLY NETWORKS FOR SPECIAL PRODUCTS WILL REMAIN THE BACKBONE OF ACTIVITIES IN THE ACCESSION LANDS BY GERMANY'S LARGEST COMPOUND PRODUCER, SAYS DR HEINRICH KLEINE KLAUSING.

After three-quarters of a century of output with nine mills now producing an annual 1.8 mt feed, the Düsseldorf-based concern, a daughter of the international Cremer Holding since 2003, will continue to concentrate on its main home market, explains feed development and marketing specialist Dr Heinrich Kleine Klausing.

"In the foreseeable future there will be no new Deuka mills in countries such as Poland, Hungary and the Czech Republic – nor will we be buying-up market share for our basic feeds in these countries," he adds. "What we will be doing, though, is continuing our policy of selling competence and quality in these countries too. This means special products will be intensively marketed with a high degree of advisory backup."

After all, he explains, there's little economic sense in shipping conventional feeds right across Germany and into eastern Europe. But what does make sense is shipping high-performance products such as the company's new "optigrain" cooked cereal product for weaners or "deukalac UDP 39" rumen-protected protein feed for dairy cows into these lands.

Stand by the farmers

"We do not see a great danger to our business from the current EU reform and other developments springing from WTO negotiations," he argues. "Protection for products is certainly being reduced. So in many cases we'll see lower producer prices."

"But in fact this may well help sales of our products. Basic feed," he adds, "is almost a fixed cost with dairy cows, for example. It's the specialised products that squeeze that extra 1000 kg milk out of the beast and actually earn a margin."

But these planned EU reforms did bring their dangers, continued Dr Kleine Klausing speaking to *EuroTier innovations* with his management colleague Dr Dietrich Schwier. The two feed experts point out that unequal production conditions for the farmers exist already within the Union. This is because some countries adopt EU support measures quickly and almost completely while others create different regulations within the same framework. "We are left with trade distortions and farm feed suppliers are affected by this immediately," notes Dr Kleine Klausing.

"This is why we stand by the farmers and do all we can to help them lessen the financial damage caused by such distortions which, unhappily, remain very much an aspect of economic life within the EU."

Internet contact "live"

One ace Deuka has up its sleeve for its concept of Europe-wide information support for farmer-customers features one of the most comprehensive Internet presences for German-speakers in the feed sector. The latest available animal nutrition news coupled with direct advice to livestock producers and a worldwide farming news section - all with almost daily updating throughout the year - make the Deuka presentation one of the most-visited sites in the industry.

"We work very hard to keep this presence not only highly informative but also 'live' – that is changing almost every day with interesting ideas, product information and latest news," explains Dr Kleine Klausing. "We want plenty of visitors to our sight to help develop farmer contact Europe. And if you want traffic on a website you have got to offer content!"